



THE ROLE OF STRATEGIC COST MANAGEMENT IN RATIONALIZING PRODUCT COSTS APPLIED RESEARCH IN THE GENERAL COMPANY FOR DAIRY PRODUCTS

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Article history:	Abstract:
Received: June 14 th 2022 Accepted: July 14 th 2022 Published: August 26 th 2022	The target cost technique is one of the modern techniques that are used in determining the target selling price of products, as well as its role in rationalizing product costs through the correct use of available resources. Therefore, the research aims to clarify the role of the target cost technology in rationalizing the cost of the product and the research was based on the premise that the company's application of the target cost technology leads to rationalizing the cost of the product and achieving competitive advantage. market and openness to each other

Keywords: Target Costing, Cost Rationalization

INTRODUCTION:

The industrial sector faced major and accelerated developments in the business environment which led to the necessity to adopt target cost technology that keeps the company's share at markets while serving products that meet consumers' wishes and demands. A target cost strategy is a major approach that assists the companies' boards, which helps them in perfectly utilizing the resources and to reach their aims.

The methodology of the research:

1- the research issue:

The main issue arises from the fact that the typical cost target technology that the products prices are determined by the expenses, which leads to raise in the prices of the products unlike the competing products that utilize the new and modern technologies.

2- the Importance of the research:

The adoption of the new and modern approaches in products cost management can leads to rationalizing the cost while making profit and differentiation.

3- the Research aims:

1- identification of the strategic cost management.

2- identification of cost targeting technology.

3- the hypothesis of the research:

The research would be based on the hypothesis that utilizing the cost targeting technology will help to rationalize the costs while achieving competitive advantage.

Section one: the strategic cost management and products cost rationalization:

First: the strategic cost Management:

the strategic cost Management is the concept that tries to ensure to continuous success by managing the cost of products in the correct manner, there are many definitions to that concept. One of them states that:

"it's about implementing cost management technology, with the aim of enhancing the strategic situation for institution with reducing the cost at the same time. (Eldenburg Wolcott: 2011, 9).

And the other states as follow:

"its technology that depends on integrated method and modern which has many effective tools which based on use of the precise information by the higher board of the organization, and that tool can help the boards to take the correct decision based on its strategies and the expenses of its products. (salih:2014,29)

Second: the Aims of the strategic cost Management:

Utilizing it as strategic introduction aids to achieving multiple aims: (fawda:2007,201)

1- the strategic cost management achieve raised production, performance development and quality improvement.

2- it aids in rationalizing the cost without having major drawback in the quality of the products.

3- achieving the suitable location in competition.

4- increased profitability and improving resource efficiency management.



Third: The strategic cost management tools:

the strategic cost management tools contain many tools that help in achieving its aims, the tools would be clarified below:

table 1, it will clarify the technologies of the cost management.

Technologies	Acronym	The Concept
Activity Based Cost	ABC	Approach that allocate the resources to the activity then allocate the cost of the expenses according to its use of this activity. (abw maghli:2008,12)
Activity Based Management	ABM	All the Actions which are token by the Institution in order to improve the activity and the efficiency of the organization. (De Ronger: 2013,318)
Activity Based Balancing	ABC	Quantified expression on the activity which the Organization take which reflect foreseeing the business and the financial requirement for archiving strategic goals. (Siegel& Shim: 2008,309)
Total Quality Management	TQM	Consistent compatibility of the products and the services with requirement of the clients, for enhancing this requirement through the control over institution activity. (Boyer 2005 :121)
Target Cost	TC	A technology that reduces the total cost of the products through the product life cycle. (Feil & kim 2004 :11)
Balancing Score Card	BSC	Tool that is used to evaluate the organization's performance while translating the target strategy.
Just in Time	JIT	An approach to enhance to overall productivity, dispose the waste resources, in order to achieve products with the minimum costs. (Amghar:2008,85)

Prepared by the researcher

Fourth: The concept of target cost technology:

after viewing the tools of the target cost technology, there would be more focusing on it in order to implement it in the practical fields.

The target cost is tool for managing the strategic cost, it is defined as (the technology that focusing on managing the cost from the planning and the design phase by determining the cost for the products. (Drury, 2011: 55)

And they also defined as (the organization approach which suits the customer demands while reducing the costs and achieving the profits) (HILTON &etal :2000,52)

Fifth: the features of target cost technology: (aldaaeur:2002,30)

Using the target cost technology achives multiple features:

1. it is used from the planning and the design phase.
2. it is not observing costs approach like the conventional approach, it tries to reduce the costs.
3. Utilizing this approach needs coordination inside the organization.
4. Utilizing this approach clarify and explain the development plan.

Section two: practical aspects for the research:

Identification the research sample: the state's company for the dairy production:

Its public company that produce many dairy productions.

First: the Rafidain's factory for the dairy productions: its nominal capacity 8815 ton per year: - - its products:

- sour milk filed in plastic packets.
- cream filed in plastic packets.
- butter 82% filed in paper box.
- all sorts of processed cheese.
- soft cheese filed in poly- ethylene packages.

Second: the tigers factory for cheese triangles and rectangles: it's factory that is specialized in producing cheese triangles and rectangles which are packed in metal or glass cans, it's one of the leading factories in Iraq. It was retrieved back 2002 according to memorandum of understanding. The company worked toward accomplishing the mechanical, electrical and civic tasks that they consider as necessary to the induction of the factory through the investment plan supplementary budget for 2008, in 2013 the company started its productions. The company worked in 2011 to import packed cheese filed in glass tans according to the investment plans of the same mentioned year.

Third: the Euphrates factory: it's a factory that produce flavored and purified milk filed in plastic tans.

Implementing the target cost technology on the research sample:



Step 1: set the target price for selling: we took the the Rafidain’s factory for the dairy productions to implement the target cost technology, we took the price of the Rafidain’s factory competitors, as we will show that below.

Table number 2: the competitors prices:

Competitors prices	The prices
Sour milk filed in plastic packages (Turkish) .	1250 IQD
Sour milk filed in plastic packages (Iranian)	1000 IQD

Step two: set a profit’s margin:

After we have set the target price, we shall set the profit’s margin which would be around 11%.

Table 3: the profit’s margin:

Competitor’s products	The profit’s margin
Sour milk filed in plastic packages (Turkish)	$1250 \times 11\% = 138$
Sour milk filed in plastic packages (Iranian)	$1000 \times 11\% = 110$

Step three: set the target cost:

We can set the target cost through the next formula:

Target cost= target selling price – the profit’s margin

Competitors product	Target cost
Sour milk filed in plastic packages (Turkish)	$1250 - 138 = 1112$
Sour milk filed in plastic packages (Iranian)	$1000 - 110 = 890$

Step four: the current price for the sour milk is 4250 IQD.

Step five: set the discount price for the sour milk:

We shall set the discount price for the sour milk by comparing it with actual and target cost.

The Turkish Sour milk filed in plastic packages= $4250 - 1112 = 3138$

The Iranian Sour milk filed in plastic packages= $4250 - 890 = 3360$

Table 4: the Ratio of the actual cost to the target cost:

Competitor s prices	The curren t cost	The cost with implementin g the target cost technology	the target discount	the Ratio of the actual cost to the target cost
The Turkish Sour milk filed in plastic packages	4250	1112	3138	74%
The Iranian Sour milk filed in plastic packages	4250	890	3360	79%

We conclude from comparing the actual cost to the target cost for the sour milk, that the discount for the Turkish product was 74 % and with the Iranian product it was 79, which in fact does mean that the prices for the national product are very high, which necessitates implementing the target cost technology, because it leads to rationalize the price of product, by utilizing the products in correct manner and minimize the waste in the productions phase,

CONCLUSION:

- 1- the conventional methods are inappropriate with current developments in markets.
- 2- using the conventional cost systems will lead to minimize the companies profits because it is built on the concept of setting the cost then determine it’s the profit’s margin.
- 3- the company’s current policy is the same conventional system which determine the cost + the profit’s margin which leads to raising in the products costs.
- 4- the company’s employees do not have clear concepts about the new technologies in managing the products cost.

Recommendations:

- 1- the necessity of adopting cost systems, which could be suitable with current production environment



and will lead to rationalize the cost through utilizing the resources in the correct manner.

2- adopting the technology will lead to increase the profits, rationalize the costs and gaining competitive advantage.

3- utilizing this technology means having the ability to control the sale price which will lead to decreasing the cost price.

4- the necessity of training the company's employees by courses and seminars for gaining the sufficient knowledge for adopting the modern target cost technologies.

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