

# Target costing

Finance



Target Costing s s April 18 Target Costing The aim of each and every business is to make profit once commenced. One factor that affects the profit margin of an enterprise is the concept of costs and many firms are fully aware of the concept. Target costing is a tool that is employed to assist in cost reduction in a particular undertaking once the maximum profit is determined hence the firm is capable of managing its costs. Cost reduction means that the profit margin shows positive progress. The essay will focus on how target costing improves profitability of an enterprise once implemented via assistance of expertise that have knowhow on how to handle the tool. One of the ways is that there is proactive focus on cost. The strategy once applied effectively, some of the unnecessary costs are thereby eliminated. The strategy determines in advance the costs to be incurred in a production process. Once they are determined, some of the costs that may have been incurred in a firm hence interpreted as loss are dropped. The firm will not incur the costs and will save the funds for other profitable ventures. Many firms obviously view the concept of cost as a very complex one as it is what reduces the profit. However, they strategize by first formulating the design hence work out the cost later. Target costing works from the selling price backwards to the cost hence the firm's profit margin is unaffected therefore; the targeted profit of the firm will still be obtained. The profitability of the venture will continue being derived. The second way in which profitability is ensured is that with target costing there is the aspect of the production processes improvement. The tool operates with inclusion of teamwork. A team dedicates its own effort towards achievement of the outlined goals and objectives. The tool assists in considering the cost of material that are used in production, human resource processes and <https://assignbuster.com/target-costing-article-samples/>

requirements. With an effective teamwork, most of the loopholes are discovered and consequently dealt with thereby leaving no room for capital leaking to unprofitable ventures. The recommendations that are given by such teams assist in reduction of costs because such recommendations are given after further scrutiny has been done to the production process. Some of the recommendations are given after study by the expertises that have adequate knowledge in the production process. Once they are put in place, the firm will thereby not incur the costs hence it will operate within the required margin of profitability. Implementation of the tool requires attention of different departments in an organization hence collaboration. The concerned departments thereby produce their different personnels as representatives so that they can collaboratively work to ensure the success of the tool. Once they work as a team, the representatives of the different departments leads to social cohesion of the different departments. The team also realizes how their different actions affect other successive departments in a production process. The representatives will thereby enlighten their respective department personnels on the effects the certain actions to other departments. Afterwards, no action whatsoever will be done that can negatively affect other departments. The collaboration will lead to mutual benefit of the different departments. At the end of the day, no department will take an action that will negatively affect others as it is not the department that is affected but the firm in itself in terms of revenue. Such a firm will be in a position to eliminate such costs brought about by the negligence of the department after collaboration is achieved. The profit margin of the firm will improve as a result. The last but the least way of enhancing profitability is through creation of a competitive atmosphere.

Target costing as the study had earlier mentioned is that it works backwards right from the market to production. For the tool to be effective, the firm is required to come up with competitive criteria that will ensure that it gets a greater segment of the market. The move will ensure that more sales are made from the particular firm yielding more profit. Market share determines the sales of a firm where as market share is directly related to profitability. The firm that will thereby, yield more profit accruing from the accumulated sales. In conclusion, target marketing ensures that all means that lead to cost increase are cared for. Some of the ways are through Proactive focus on cost, team spirit, competition and improvement in production process. Such a firm will be able to make more profit with cost reduced. Work Cited Tad Leahy. “ The Target Costing Bull’s Eye.” Business Finance Magazine 6 January 2007: 1-9. Print.