

## IMPLEMENTATION OF TARGET COSTING IN TEGALSARI MSMEs, SURABAYA CITY

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### ARTICLE INFO

#### Keywords:

Target Costing,  
UMKM,  
Tegalsari,  
Surabaya

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### ABSTRACT

*Target costing* is a method that can be used to determine the target price and the maximum cost for a product to be able to achieve the expected profit. Target costing is the right method to use for businesses in the face of increasingly competitive competition. The purpose of this study was to find out whether target costing can be applied by MSMEs in Tegalsari District, Surabaya City, especially food and can increase competitiveness. The results showed that several MSMEs in Tegalsari District, especially food in Surabaya, had implemented target costing and had an impact on increasing competitiveness along with increasing profits earned.

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### 1. INTRODUCTION

In the midst of the flow of globalization, the competition faced by MSMEs has become getting tighter. To be able to survive, MSMEs are pressured to produce products with quality and prices that are acceptable to the market in accordance with the functions and features needed by consumers, but must still take into account the amount of profit that will be received. In addition, MSMEs also need to identify and understand market conditions and consumers. The increasing criticality of consumers and the variety of needs required is a challenge as well as an opportunity for MSMEs. For the sake of the survival of SMEs, it is better if it is necessary to control costs to be issued and reduce costs that are not effective in its activities.

Target costing concept very effective in line with increasing competition and the level of supply that far exceeds the level of demand, then market forces have an increasing influence on the price level. For this reason, target costing is needed to be able to achieve MSME goals in the context of production cost efficiency, especially in the food business, which will ultimately have an impact on competitive price levels. The better the implementation of target costing in MSMEs, the better the increase in production cost efficiency which will result in increased profits to be achieved.

In addition to the importance of standardization This activity aims to increase public knowledge about how to produce quality products by taking into account broader market demands, which require standardized products. So that they understand the meaning of the benefits for entrepreneurs if they create products that comply with quality standards, understand the process of producing products that meet standards even though it is still in a simple stage starting from the process of recording what will be done in the future.

Thus *target costing* is a common form of strategy in development when facing intense competition where very small differences in price can attract the attention of large consumers or buyers. For this reason, target costing is needed to be able to achieve the goal of reducing costs, which will ultimately have an impact on competitive price levels. Generally, a business operates by developing and producing goods/services first. Then start calculating the costs incurred for this type of production and determine the selling price for the product, after which the production is ready to be marketed.

After knowing the price to be charged to food products, a food business will begin to develop products that can be marketed profitably at predetermined price levels. It is hoped that this study will become a consideration for other MSMEs to apply target costing. one of the causes of the difficulty for SMEs to develop is that SMEs still use traditional methods in their operational activities, especially in the food business. Fitriyah et al, (2020) added that the use of traditional methods makes it difficult for MSMEs to maximize profits making it difficult to achieve the expected profit targets. Therefore, MSMEs need modern cost management methods that can help them face competition and achieve the goal of maximizing profits.

MSMEs are used as an object of study considering the importance of the role of MSMEs in the Indonesian economy, with this study it is hoped that it can help MSMEs to develop so that they can improve the Indonesian economy, especially in Surabaya for the better. So the author wants to know in general whether target costing can be used as an alternative for food SMEs, especially in the Surabaya area which has a strategic location and is close to office activities so that food businesses are the main choice.

## 2. METHOD

### 2.1 Type and Data Source

According to Sugiyono (2019:18), qualitative research methods is a research method based on the philosophy of postpositivism, used to research on natural object conditions, (as opposed to experiments) where the researcher is the key instrument, data collection techniques are carried out by triangulation (combined), data analysis is inductive/qualitative, and the results of qualitative research emphasize the meaning of generalizations.

### 2.2 Analysis Method

This study uses a narrative descriptive method with a qualitative approach. Data collection techniques through interviews, observation and documentation. The informants of this study are food MSME actors in the city of Surabaya which have a strategic location and are close to office activities so that food businesses are the main choice. With a qualitative approach, it is hoped that the situation and problems faced by MSME actors can be explained, especially regarding the results of production activities.

## 3. RESULT AND DISCUSSION

Target costing concept very effective in line with increasing competition and the level of supply that far exceeds the level of demand, then market forces have an increasing influence on the price level. For this reason, target costing is needed to be able to achieve MSME goals in the context of production cost efficiency, which will ultimately have an impact on competitive price levels. The better the implementation of target costing in MSMEs, the better the increase in production cost efficiency which will result in increased profits to be achieved. Application of the cost of goods manufactured as a basis for pricing so that the cost of goods manufactured as a basis for pricing so that the desired profit target will be achieved. The following are the steps that the researcher took to provide an understanding of implementing target costing, namely:

According to Rudianto, (2013:48) there are several stages that must be passed to implement target costing that is:

### 1. Setting Competitive Selling Prices

From the results of interviews with several key MSME informants in the Tegalsari District area, the selling price of MSME food varies from IDR 8,000 to IDR 15,000 (data taken from five meatball entrepreneurs who have the most customers). Currently the food business has several types of products, but in this study the researchers only focused on food products of the meatball type, because these products have the highest level of demand but these products experience problems in maximizing profits.

Table 1 Main Price of MSME Meatball Competitors

NO.	ENTREPRENEUR NAME	Selling Price (IDR)
1	Entrepreneur A	IDR 10,000
2	B businessman	IDR 8,000
3	Entrepreneur C	Rp. 15,000
4	Businessman D	IDR 13,000
5	Entrepreneur E	Rp. 12,000

From table 1 which explains Entrepreneur A Rp. 10,000, Entrepreneur B Rp. 8,000, Entrepreneur C Rp. 15,000, Entrepreneur D Rp. 13,000 and Entrepreneur E Rp. 12,000 so that the market price is the lowest price, namely entrepreneur B at a price of Rp. 8,000 and when compared to Entrepreneur C, there is a significant difference, namely Rp. 7,000

### 2. Set the expected profit target

The profit target expected by this meatball food MSME is::

$mark\ up = \frac{\text{highest profit} - \text{fixed and variable costs}}{\text{highest profit}} \times 100\%$

$mark\ up = \frac{IDR\ 15,000 - IDR\ 5,000}{IDR\ 15,000} \times 100\% = 67\%$

### 3. Set cost targets

Target costing method Production costs that should be met can be seen using the following formula:

*Target Costing* = selling price - desired profit

Where the Target Price or selling price is IDR 8,000 and the desired profit is 67% of the selling price so:

***Target Costing* = selling price - desired profit**

***Target Costing* = Rp. 8,000 - Rp. 5.360**

***Target Costing* = Rp. 2,640**

So that the difference between the production price and the target costing calculation is: Difference = Rp. 5,000 - Rp. 2,640 = IDR 2,360. So, MSMEs in the meatball business must be able to produce 1 portion at a cost IDR 2,360

### 4. Performing value engineering

Thus the costs incurred to process meatball portions using the Value Engineering method or the cost reduction method are as follows: Raw Material Cost = Rp. 2,500

Direct labor = Rp. 1,000 Overhead Costs = Rp. 1,000

With an amount of IDR 5,000 - IDR 4,500 = IDR 500

So that by using the MSME Bakso value engineering method can save as much as: difference = Rp. 5,000 - Rp. 500 = Rp. 4,500

So, MSME Meatballs can reduce costs by Rp. 4,500 after using the target costing method.

Based on the explanation above, it shows that there is an efficient influence on increasing MSME profits. According to Jaradat, et al (2018) that target costing can increase profits. In addition, in this study, MSMEs can achieve the desired profit target, reduce product selling prices, then reduce production costs. Therefore, researchers suggest that with the existence of target costing it can be implemented by MSMEs, especially food, especially meatballs in the city of Surabaya.

### 4. CONCLUSION

The application of target costing in an effort to reduce production costs is carried out by looking at the results of a comparison between the total costs incurred by food SMEs, especially meatballs using standard costs and according to target costing in the Teglasari District, which will show that the total costs incurred by food SMEs in the District Teglasari using standard costs is not efficient compared to target costing. Based on the results of research using target costing, it shows that the application of target costing to MSMEs in Teglasari District is more efficient when compared to the standard method carried out by companies, by implementing this target costing, companies can obtain cost savings so that they can achieve profit targets.

Based on all the conclusions, the authors suggest that MSMEs in Surabaya, especially in Teglasari District, can maximize the use of the target costing method. However, if you use the target costing method, MSMEs will get substantial cost savings and will achieve better profit targets. Then food SMEs, especially meatballs, need to pay attention to the problem of efficiency in the use of production costs. This is intended so that MSMEs in Teglasari District can be more aware in buying and using products that are raw materials for a product to be marketed.

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