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APPLICATION OF TARGET COSTING METHOD IN HOSPITALITY INDUSTRY

KONAKLAMA ENDÜSTRİSİNDE HEDEF MALİYET YÖNTEMİ UYGULAMASI

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ABSTRACT

With the development of technology, transportation possibilities have been diversified and the communication network has expanded considerably. Service companies that want to stand out in the global competition and provide better quality service have also had to change their production and sales policies. In hospitality indutry, which have an important place among service businesses, maintaining customer satisfaction and providing higher quality service has become one of the most important success factors. The sustainability of the services provided and the sustainability of customer satisfaction required cost management systems to be handled from a more modern perspective and supported the cost reduction efforts of the enterprises. In this article, the effect of target costing, which is one of the contemporary cost approaches, on the hotel companies and their effects on pricing policies are examined and practical issues are mentioned.

Keywords: Cost Management, Target Costing, Hospitality Industry

JEL Codes: M40, M41, M49

ÖZ

Teknolojinin gelişmesiyle birlikte taşımacılık olanakları çeşitlenmiş ve iletişim ağı önemli ölçüde yaygınlaşmıştır. Küresel rekabette öne çıkmak ve daha kaliteli hizmet sunmak isteyen hizmet işletmeleri de üretim ve satış politikalarını değiştirmek zorunda kalmıştır. Hizmet işletmeleri arasında önemli bir yere sahip olan konaklama endüstrisinde müşteri memnuniyetini sağlamak ve daha kaliteli hizmet sunmak en önemli başarı faktörlerinden biri haline gelmiştir. Sunulan hizmetlerin ve müşteri memnuniyetinin sürdürülebilirliği maliyet yönetim sistemlerinin daha modern bir perspektiften ele alınmasını ve işletmelerin maliyet azaltma çabalarını desteklemesini zorunlu kılmıştır. Bu makalede, çağdaş maliyet yaklaşımlarından biri olan hedef maliyetlemenin otel işletmeleri ve otel işletmelerindeki fiyatlama politikaları üzerindeki etkileri incelenmekte ve pratik konular ele alınmaktadır.

Anahtar Kelimeler: Maliyet Yönetimi, Hedef Maliyetleme, Konaklama Endüstrisi

JEL Sınıflandırması: M40, M41, M49

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1. INTRODUCTION

Cost management in business is one of the most important factors in the success and continuity of activities. In addition, constantly changing costs and trying to reduce costs in the changing and developing management approach necessitate new regulations and perspectives for the system. Reorganizing and designing cost processes are among the important factors in obtaining and using cost information. One of the most important steps to be taken to ensure cost control with contemporary management approach is to handle and design the entire cost process. Elimination of the deficiencies in the existing system, improvement of processes and accurate data and information flow in cost management will bring significant gains to the business in terms of cost reduction (Cadez and Guilding, 2008, s.77). In addition, it will increase productivity through process controls, budgeting, planning and pricing policies, and bring strategic cost management approach. Therefore, in order to keep the business in a competitive environment, make it more attractive to its competitors and attract more customers to the hotel, all costs need to be effectively controlled. This is because the success of hotel businesses in minimizing costs through control will give them a competitive advantage (Vasile and Croiteru, 2013, s.48).

2.TARGET COSTING

2.1. Target Costing Method and Its Importance

The rapid development in technology, the change in customer expectations, the short product life and the increase in global competition have led the companies to target low price, short time and high quality. Therefore, businesses have started to use modern techniques to achieve these goals. One of the most important of these techniques is target costing. The inadequacy of traditional costing methods does not give the desired results in the enterprises with different service production methods and restricts its applicability. The fact that cost reduction techniques are different in each service business directly affects the success and profitability of the policies implemented. Therefore, in the changing and developing world, the lack of cost plus methods has become more important than the necessity of contemporary cost methods. In this context, one of the modern cost methods applied by Japanese enterprises in the 1960s is Target Costing (Feil vd., 2004, s.90). This method focuses on the design and planning stage of the goods or services to be produced, but manages the costs before they occur. Therefore, target costing takes the costing process at the design and development stage and analyzes the entire value chain to be formed (Vasile and Croiteru, 2013, s.101). In target costing; when the product is in the design stage, it is planned what the future cost should be and the cost of the product that is targeted to be produced is controlled at the design stage. Therefore, target costing is a long-term costing method (Ansari vd.1997, s.44).

In today's intense competitive environment, hotel business wishing to maintain their competitiveness and make them sustainable have to make their activities market-based and cost-oriented. Applications to reduce costs should be based on customers' ability to pay and their expectations. In order to ensure the continuity of their activities, companies must make profit and develop strategies suitable for competition in the market. Businesses need to apply the target costing technique to produce lower priced and higher quality products (Ansari vd. 1997s. 45). In summary, the target cost; subtracts the profit margin determined by management from the sales price determined by the market and shows the cost that enterprises should reach. The target selling price is the estimated price that potential customers are prepared to pay to have a product or service. Target profit margin; depending on the cost of the product that is thought to be produced in the future, the desire of the enterprise to reach is profit. Target Cost is; is the value obtained by subtracting the profit margin from the target sales price in order to reach the desired sales volume in the market (Cooper and Slagmuder, 2002, s.64).

2.2. Objectives and Implementation of Target Costing

Target costing has led to the realization of two important facts about costs and marketing. The first is that most businesses realize that they do not have much control over prices. The second is that a large part of the cost of a product occurs when the product is in the design stage. In target costing practice, it means defining a product or product as a whole with target cost (Ansari vd. 1997, s.50). Product functions are determined according to customer requirements and the resulting product parts are integrated. Finally, with the value analysis, costs are reduced according to the function of the product.

The main objectives of the target cost are as follows (Ansari vd. 1997, s.52):

- Customer-oriented, competitive and vendor-oriented,
- Forcing design and improvement in design to reduce costly and customer-related costs in connection with value engineering
- Forcing full-time inspection at all production levels,
- Forcing concurrent engineering in connection with capacity planning and planning,
- Forcing value analysis required for product preparation, product marketing and product inactivation,
- Target cost planning for the market,
- Full integration of internal accounting and target cost planning,
- Consistent and practical application of target costing management in product development process,
- Systematization of all cost reduction activities,
- Organizing cost planning under the scope of value engineering,
- To realize the costing opportunity during the dynamic product life cycle,
- Consistently oriented towards the market in all thoughts about planning,
- To be market oriented within the cost accounting system,

The implementation steps of the target costing method are as follows (Cooper and Slagmulder, 1997, s.71):

1. Determination of product functions,
2. Determination of weights of functions,
3. Determination of the components of the product,
4. Estimating the cost of product parts,
5. Determination of the weight of product parts,
6. Creating target cost indices of parts,
7. Improving the target cost index,
8. Other cost savings are realized.

The target costing process can be addressed at three basic levels. These levels are; market level costing is target costing at product/service level and target costing at part level. Market-level costing stage with long-term business plans, target price, target profit and target cost elements are determined. Target Costing at Product/Service Level the product/service is designed in line with the target cost and the parts that will form the product/service. It is determined. Functions of the product/service at the Part Level Target Costing stage design of the related parts and suppliers are managed are included (Cooper and Slagmulder, 1997, s. 79).

The success of the service defined by the market is the main starting point of target costing. Since success is determined by the functions the service performs, each function expected from the service must be defined (Ghassan vd., 2016, s.55). In general, service functions are divided into two as functions related to the basic features of the service and functions related to the features desired by the consumer like comfort and prestige (Vasile and Croiteru, 2013, s.43).

3.COST MANAGEMENT IN HOSPITALITY INDUSTRY

3.1. Importance and Objectives of Cost Information in Hospitality Industry

Regardless of the field and purpose for which an entity operates, it effectively uses cost information to determine its profit target. Effective use of costs as a competitive advantage in hotels is only possible by identifying and controlling costs. However, for the success and continuity of the event, redesigning cost information according to developing technology and changing management approaches is important. Therefore, it is an important problem area to obtain and evaluate cost information in the existing system. In the classical sense, cost information and reports are prepared for business managers to (Cooper and Slagmulder, 1997, s.82):

1. Determination of periodic profit/loss,
2. Cost control,
3. Pricing policy and strategy,
4. Daily implementation of plans and policies.

The product offered for sale in hotel companies generally consists of a mix of goods and services. Such product or service may be combined to meet requirements such as accommodation, food and beverage, and may be

offered as a single product, combination of products or independently. Since the origin and occurrence of the cost elements of the components that make up the product or service mix differ, this complex structure is more difficult than other types of business to charge costs to the relevant products. Effective cost control helps management in the following ways (Cooper and Ernst, 1999, s.103):

- Information may be gathered to assist management in preparing reports to ensure control.
- The sales policy of the entity can be determined
- Managers can be provided to classify and analyze costs.
- Food and beverage expenditures to be made within certain periods can be determined in advance.
- Except for the all-inclusive system; total room sales revenues can be determined by determining the cost of food in business providing bed and breakfast, half and full board accommodation.
- Since the costs of the meals sold will be known one by one, the company can determine the selling price of each dish by adding the profitability rate that it wants above the costs.
- Personnel can work efficiently and willingly.

The uncertainty and risk factor in hospitality industry are quite high. However, customer behavior is also variable and unpredictable (Koçsoy vd., 2009, s.47). Although the reasons that affect customer behavior are very diverse, price, firm image and service quality are the leading factors in terms of hotel businesses. In addition, considering that customers use the internet channel well, the ability to see and compare many businesses and information about them together reduces the firm loyalty. In addition, the intensity of competition, different production types and processes, the emergence of costs and the difficulties in the follow-up make the cost management more difficult than the other types of companies in the hospitality companies where service and image factors are in the foreground (Filomena, 2009, s.69).

From advanced technology designs to food and beverage service production in hospitality industry. Although it is not possible to mention food and beverage service product development, design and design does not mean that it is not done. Because most of the food and beverage service product produced a small change is very large in customers' expectations of price, quality, reliability and taste may cause changes. As advanced technology in hotel business, the most important difference of product / service design is that the design cost is low and it takes very little time. In other words, knowledge, thought and experience are more important in the design of food and beverage service product (Makrigiannakis and Soteriades, 2007, s.79). As long as there is an idea, the cost of implementing it is low and in a short time new food and beverage service product can be defined. Food and beverage in hotel business, considering these characteristics of the design, the customer is one of the objectives of target costing expectations can be met (Pellinen, 2003, s.64).

3.2 Target Costing and Control Types in Hospitality Industry

In recent years, especially the developments in the tourism sector have made it important to determine the contribution of the new cost systems to the cost reduction activities in the hotel business where high costs are involved. As a result of all these developments, business managers see that the most important variable that can be played on is the costs. The departments within the hotel business generally offer a mix of goods and/or services as a whole. Although these products are often priced as a composition of goods and services, it is inevitable that costing will usually require a more detailed study on a product-by-product basis (Sevim and Korkmaz, 2014, s.14).

Since the price is determined by the market in hospitality industry, the target cost can be achieved by reducing the profit margin. Customer demands and expectations in hotel business product/service development activities carried out simultaneously with customer thoughts are constantly considered. Also in hospitality businesses being very design-oriented is very important because the investment costs are too high problems can be encountered in advance. Production in hotel business and the necessity of simultaneous consumption related to the service product inside and outside the enterprise. it requires everyone to work together (Makrigiannakis and Soteriades, 2007, s.37). This requirement also to ensure the continuity of the service product to reduce costs and quality and functionality is not to compromise. Last but not least products, suppliers, travel agencies, tour in terms of continuity and creating value in the market operators, partners, service manufacturers to develop good relations with all members of the value chain of great importance (Avlonitis and Indounas, 2006, s.54).

Cost control types are divided into three types in hotel business. These; food and beverage cost control, labor cost control and control of other cost elements. In order for these control procedures to be carried out effectively, the control elements should be examined in detail (Okumuş ve Ergül, 2015, s.101).

3.2.1. Food and Beverage Cost Control

It is necessary to control the food and beverage costs in the hotel business in order to measure the direction of development, to follow the developments and to determine whether the costs are within the pre-determined and acceptable limits. Food and beverage cost control, food and beverage activities with the lowest cost to achieve satisfactory profit is called arrangements made. The aim of food and beverage cost control is to provide the highest profit from the food and beverage sales to the companies, to reduce the cost and increase the profit to make income and expense analysis with the food and beverage cost control system, to set standards, to protect, to make pricing, to provide protection from waste and theft and to inform management (Makrigiannakis and Soteriades, 2007, s.67).

3.2.2. Labor Cost Control

Hotel businesses are businesses that host many services under the same roof. Because of these characteristics, there is a linear relationship between the total bed capacity and the number of personnel that are planned to be employed in order to increase the service quality in hotel business. The cost of this employment intensity, which is expressed as labor cost, should be controlled just like food and beverage costs. In the most general sense, labor costs are labor-intensive industry in the hotel business is the monetary expression of the sacrifices incurred in return for the labor of staff. (Pavlatos and Paggios, 2009, s.89). Labor costs are important due to the fact that labor-based services are produced in the hotel business and the basic element of this production is human. Because, compared to other sectors, the labor costs in each stage of production based on labor force in tourism companies are visual and multi-dimensional (Okumuş ve Ergül, 2015, s.94).

3.2.3. Control of Other Costs

Such costs can be expressed as cost elements that arise due to the provision of services and vary in proportion to the amount of services provided (Pellinen, 2003, s.87). The management expenses of the companies, marketing expenses, cleaning expenses, the losses that occur in warehouses, such as broken and waste costs can be shown as examples of other cost elements. In order to realize the main objective of the business, these costs should be controlled at least as much as food and labor costs. The most significant feature of these costs is determined by the degree of capacity utilization, which requires control from the moment of service (Pavlatos and Paggios, 2009, s.90).

4.CONCLUSIONS AND RECOMMENDATIONS

With the increase in competition as a result of global developments, business have entered into new searches to maintain or improve their positions in the hospitality industry in which they are located. Today, businesses in competitive markets, where prices are determined by the sector, have come face to face with the fact that setting prices according to their costs may cause them to lose their position in competition. Due to their easy replicable and non-stockable structure, hospitality companies cannot make a difference in the services they offer. Therefore, hospitality companies can use profit margins as a tool or to reduce their costs in order to make a difference against their competitors.

When the sales price of a product is determined by the market, that is, the firm cannot influence the price, it is natural for the manager to turn his eyes to costs. As an alternative to setting the sales price by adding a certain profit margin to the unit cost of the product, the firm may set a cost target for realizing that profit margin. All the processes applied to achieve this cost target are called “target costing”. This is not just a matter of “preventing waste”. It is also an issue that can be raised with the assumption that there are no wastes, and this process may coincide with the behavior of developing a new product or developing a different version of the product. In general, it can be thought that when the cost is reduced, the quality may also decrease. But of course, if the cost can be reduced without a reduction in the quality acceptable to the customer, then a significant cost reduction can be mentioned. For this reason, this process, which we have stated to coincide with product design, is a process that requires a lot of care. The issue becomes more complex, especially in the case of companies with multi-products and consequently concerns about which costs are associated with products.

Target costing is an important cost management technique used in developing new products and services, and in developing existing services and product processes. Although the target costing method seems to be conceptually simple and easy, it can be used in marketing, engineering, cost control and so on. It has a complex and multi-

faceted structure due to the difficulty of ensuring the wide participation and harmonization of the departments. In the hospitality industry, customer demands and expectations are changing on a customer basis, hotels want to provide competitive advantage by reshaping the services they offer to meet the changing customer demands and expectations. Hotel companies operating in the tourism sector compete by diversifying the services they offer to both domestic and foreign competitors and adjusting their concept to customer expectations.

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