Using Target Costing to Investigates Competitive Price

R. A. Sabir, X. Xinping, S.A. Sabr

Abstract—This paper has presented research in progress concerning the contribution of target costing approach to achievement competitive price in the Iraqi firm. The title of the paper is one of the subjects that get large concerns in the finance and business world in the present time. That is because many competitive firms have appeared in the regional and global markets and the rapid changes that covered all fields of life. On the other hand, this paper concentrated on lack knowledge of the industrial firms, regarding the significant role of target cost for achieving the competitive prices. The paper depends on the main supposition, using the competitive price to get the target cost in the industrial firms. In order to achieve competitive advantage in business world the firms should rely on modern methods to manage cost and profit. From strategic perspective the target cost achieves a so powerful competitive advantage represented in cost reduction. Nevertheless the target cost does not exclude the calculation and survey of costs during the production process. Products’ estimated costs are calculated and compared with the target costs.

Keywords—Target Costing, Competitive Price, Target Profit, Iraq Kurdistan Region.

I. INTRODUCTION

The globalization is forcing firms to be more careful about customer satisfaction and profit maximization. Therefore, firms must use different approach to develop loyal customers who are less sensitive to the product price increases and help the firms to make profit maximization. While numerous researchers have explored the fierce competition in today’s market is led by advances in industrial technology, increased globalization, and tremendous improvement in information availability [1] [2]. The Competitive priorities have forced firm to change dramatically due to rising customer expectations, continually increasing competition on a worldwide scale, time and quality based competition and mass customization [1] [3]. Recently, target costing has been recognized as an important tool for lowering costs and increasing competitiveness [4]. During the 1980’s and 1990’s the industrial development has changed the market conditions for industrial activities. Networks, strategic alliances and other form of quasi-integration are the words that are depicting most adequately the changed forms of industrial activities. In this era, the organizations are forced to rethink their operations, alliances, partnerships and strategies to cope with these and similar changes. The paper aims at finding appropriate solutions for the problems that the administrations are currently facing and maintain their market shares and stay in thereafter.

Rizgar Abdullah Sabir is with Huazhong University of Science and Technology, China, (e-mail: razzgir_jaf@yahoo.com)

To do so the administrations should out stand the role of target cost in the industrial companies to build up suitable competitive situations and approach competitive prices that show the impact of this advantage in the on going hasty changes. Having faced the environmental changes Japanese companies invented “genka kikaku” – a new method of cost planning at the design stage, before the beginning of manufacturing phase. The Japanese term “genka kikaku” was translated to English as “target costing” and this translation has been generally accepted in the western world. In 1995 the Japanese Cost Society recognized the term “target costing” as a mistranslation and recommended to use rather the term “target cost management” [5].

The competitive price is one of the important factors that specify the demand on products and revenue the companies and attempt to upgrade them and knowing ways of pricing used in competitive companies. The research is important because the application of target cost by the industrial companies in the IKR will lead to the competitive prices and then achieve the competitive advantage.

There appears to improve competitiveness, many firms have attempted to achieve a high level of quality, productivity, on time delivery, and flexibility simultaneously [6] [7].

The paper depends on the main supposition, using the competitive price to get the target cost in the industrial companies. The current economic flow movement in the Iraqi Kurdistan Region is one of the motives for building up suitable competitive environments for the industrial companies.

Facing intense global competition, firms have found it increasing difficult to rely on mass production with lower product costs as a competitive strategy. More companies are using superior product design to gain capability of directly addressing customers’ requirements in terms of quality, functionality, and costs. To help companies gain such capability, target costing has been frequently recognized as an effective tool [8].

Lockamy and Smith [9] agree target costing focuses less on cost and considers customer requirements to be the primary cost driver. Cost is seen as a result of the process whether focusing on a price-based approach, a value-based approach or an activity based cost management approach throughout the global supply chain [9].

This paper concentrated on lack knowledge of the industrial companies in Iraqi Kurdistan Region, IKR, regarding the significant role of target cost for achieving the competitive advantages. The fact is that the administrations of industrial companies in Kurdistan Region hardly have knowledge about the role that the target cost can play for achieving competitive advantages for their companies.

The Competitive advantages is obtainable through out adopting the target cost for competitive price making and make the situation ready for applying it in the business.
environment and make provision for information of market known for taking right decisions. The structure of the remainder of the paper is as follows: section 2 conceptual backgrounds, in section 3 determining competitive prices by using target costing, in section 4 industrial firms have to apply successfully target costing taking into considering the following problems. Section 5 industrial companies have to apply successfully target costing taking into considering the following problems. Section 6 the strategic importance of cost management. in section 7 application target costing to achievement competitive price of selected products of the locale firm (a) in section 8 concludes, finally section 9 recommendations for further studies.

II. CONCEPTUAL BACKGROUNDS

Firms are forced to implement a wide variety of develops innovative managerial approaches and philosophies to react to external and internal pressures. Target costing, a long-term comprehensive approach, can be implemented in various stages of product development including; product concept, product planning, and product design. Through inter-departmental integration, target costing can accomplish the goals of developing a new product with its functionality, quality, and competitive price acceptable to consumers [8][10][11][12][13][14].

The target costing concept grew out of a need for manufacturers to improve product cost management and product development. The traditional cost management, cost accumulation and allocation methods used for decades and still predominant in the manufacturing and services sectors have failed as tools for product development, planning, and cost management. This is because they focus on the product’s cost rather than on the expectations of customers and the product design itself. Furthermore, traditional cost systems inundate managers with accounting reports that routinely overstate the cost of high-volume, standardized products and underestimate the costs of low-volume, customized products [9].

The target costing approach was first developed in the Japanese automobile industry in order to help the decision of making and selling new products, as well as analyzing product costs and marginal returns. According to [15] Cooper and Kaplan the target costing essence can be divided in three main parts: (1) allow the market to establish the product competitive price (2) subtract the determined product margin required by the company and (3) resulting in the target costing [15].

Furthermore the main conception of target costing is concentrated in the competitive price-led costing, consumer focus, design emphasis, product lifecycle orientation, cross-functional structure, and value-chain involvement. [16].

In a broader sense by using this approach; the development of a customer desired product is planned in detail. In addition, a target cost, determined by subtracting the product’s target profit from its estimated competitive market price, is achieved through implementing a series of value engineering (VE) by the design department[10][12][13][14].

Some researches have been studying and applying target costing concepts in their works. [11] Dekker and Smith observed that many companies in different countries utilized managerial accounting techniques that contained target costing concepts that were developed independently of the Japanese context[17]. Because the different of cultures and components of the environment in the industrial business (resources and administrative methods and techniques used in the production and the needs of companies on the one hand the different desires and needs of customers on the other) between the countries of the world and therefore it can Iraqi companies the appointment of an independent formula for the implementation of the concept of target costing[18]. described the target costing implementation in a Steel Chinese Company.

Suleiman, Ahmad and Alwi (2004) showed evidence that target costing techniques have helped companies in Malaysia and India to obtain great results [19].

As a concluding remark the authors describe, selling the products in the markets which rule and assess competitive prices and demanded quantities for sale is the basic goal of the production in the competence environment between the companies. The industrial companies must have continuous prior knowledge of the competitive prices and the demanded quantities via their agents and/or representatives in the markets because any error or delay in competitive price and quantity specification will cause big financial losses to the company. Then the company should bear the production fixed and variable prices (marketing and administrative) of the goods. However, the production variable cost is avoidable with not producing such undesirable goods for their competitive prices, designations and qualities. And also the products prices, designations and qualities could be inquired about and compared to the competitive designation goods in shadow of specified cost structure on the bases of competitive price.

In the other hand, the process of target costing is consisting of a number of distinct activities and decisions. It begins with identifying the product and its characteristics and attributes, and the optimal selling price. This is probably the most important step in the process. The product itself will ultimately determine the costs required to produce and sell that product. As observed Subtracting by Butcher and Laker the first step as including: (1) Definition of the target segments, (2) identification of the competitive advantages and disadvantages, (3) positioning of the new product within the target segments, (4) fine-tuning the product design and competitive price, and (5) market simulations. [20]. Addition the Market research is an essential element of this first step. Whether done inside or outside the firm the focus should be on market research in order to achieve the desires and concerns of customers. What the customer wants? What design features the customer does not like or dislike, and the need or not need not. Customer perceptions regarding quality, price and value, are also important. Marketing research is used to determine the price customers are willing to pay for the product, due to its effectiveness, quality, and alternative products offered by competitors. Lockamy and Smith describe the information obtained from the customer will allow product designers to focus on those desired qualities and features. However, the product must be forward-looking and incorporate new features and salient product characteristics to assure product differentiation and a reasonable product life [9]. Cooper argues the competitive price is determined based on the
market for the product as designed. Obviously, when a manufacturer sells its products in more than one market or through different channels, it may sell the same product at different prices. In such case an average selling price should be used [21]. The second step in the process is the determination of the desired profit or target profit margin. Profits and profit margin should be reasonable and cover planned costs, additional required investment, and decommissioning or disposal costs over the product’s life cycle. Similarly, the profit margin should be sufficient to support continuing product research and development [9]. The third step in the process is Computation of the allowable product cost. The allowable product cost is the difference between the competitive price and the target profit margin. The objective is to meet the cost constraints placed on the company, or as Cooper and Slagmulder describe it, establishing the target cost reduction objective [21], determining the nature and amount of the product manufacturing and marketing costs and actually assuring itself that it can attain those target costs is the fourth step in the target costing process. These costs cannot exceed the allowable product costs, unless extenuating circumstances, such as a targeted product release date, dictate proceeding with the product before sufficient costs reductions are obtained. This part of the target costing process ends when the firm discovers a way to satisfy the customer requirements at the target cost or when the product is abandoned [9]. For more clear, target costing has been recognized as an important approach for lowering costs and increasing competitiveness.

The target costing process is identified by its famous formula as follows:

\[ \text{Target cost} = \text{Competitive Price} - \text{Desired profit margin} \]

Figure 1 summarizes the target costing process. Target Costing should be recognized as a totally new accounting philosophy. It concentrates on the competitive price of the product from the very beginning phase of the design process. Many firms, especially Toyota, reported successful application of the target costing process [22]. This part of the target costing process is iterative. Costs are estimated determined for the product as designed. It may be necessary to reconsider certain of the design features given the cost factors. A determination would then have to be made to delete the product feature or to revise it, which would require another review of the production and supply chain processes and costs. Authors describe, the target costing process requires monitoring to make sure the process has been effective. Products must be changed from time-to-time if the price is undesirable in market before resorting to alternative goods for the competitors. Thus, the new products must added to existing product lines, and these activities will require product and cost planning as well.

### III. Determining Competitive Price by Using Target Costing: [24]

In order to make using target costing for competitive pricing clear, we suppose that the firm intend to offer two new products and will take costing target to for this decision. And the current market price for these products ranges between:

- **First product (X):** price between $320$-$380$ per unit.
- **Scanned product (Y):** price between $750$-$850$ per unit.

The market studies show that if the firm can price (X) product with $300$ and (Y) product with $725$, it will obtain a big share in marketing product and the usual margin profit for the firm is ($25\%$) out of the gross cost for the unit. While the estimated costs associated for the producers as follows:

**Indirect cost rate include:**
- Activity Material handling: 1.30 dollar per dollar from the raw materials and each part buyer.
- Activity product: 3.50 dollar per hour of work machine.
- Activity delivery of the product: 24 dollar per unit of a product X.
Activity delivery of the product: 30 dollar per unit of a product Y
To determine the competitive price According the target cost approach we calculated the cost per product as follows:
TC = Competitive Price - Desired profit margin
Rate Margin profit =25% to cover both administrative and marketing costing in firm
Product X
TC=300-(TCX×0.25) = 240 $
Product Y
TC=$ 725-(TC×0.25) = 580 $

<table>
<thead>
<tr>
<th>Details</th>
<th>Product X</th>
<th>Product Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity expected demand</td>
<td>26000U</td>
<td>18000U</td>
</tr>
<tr>
<td>Data per unit $ includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of raw materials</td>
<td>25$</td>
<td>65$</td>
</tr>
<tr>
<td>Cost of parts purchased</td>
<td>15$</td>
<td>45$</td>
</tr>
<tr>
<td>Manufacturing wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hours</td>
<td>2.6 H</td>
<td>4.8 H</td>
</tr>
<tr>
<td>Hourly wage rate</td>
<td>12 $</td>
<td>15 $</td>
</tr>
<tr>
<td>Wages of assembly include:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hours</td>
<td>3.4 H</td>
<td>8.2 H</td>
</tr>
<tr>
<td>Hourly wage rate</td>
<td>14 $</td>
<td>16 $</td>
</tr>
<tr>
<td>Hours of rotating machines</td>
<td>12.8 H</td>
<td>28.4 H</td>
</tr>
</tbody>
</table>

From table II mentioned analyses we find that product (X) can be produced with a cost less than costing target, therefore, a decision should be taken to produce it. Concerning (Y) product, the costing target limitation can not be depend on to produce it with its current design. So revising its current design is needed or its production line should be stopped.

IV. INDUSTRIAL FIRMS HAVE TO APPLY SUCCESSFULLY TARGET COSTING TAKES INTO CONSIDERING THE FOLLOWING PROBLEMS

Research into the application of target cost in manufacturing industries has identified a number of issues in the successful implementation of the practice these include:
The need for detailed costing and monitoring reports, which works well in a manufacturing environment with appropriate management information systems in place, but less where detailed standard costing and budgeting systems are not so established. The planning, costing and monitoring aspects of management information systems in place, but less where detailed standard costing and budgeting systems are not so established. The planning, costing and monitoring aspects of target cost management have been seen as time-consuming, overly bureaucratic and too linear for more flexible modes of production for goods and services.

Target costing is often seen as a Japanese innovation [25]. Observe that the origins of target costing could be found in a number of countries including the US, if narrowly defined. However the Japanese characteristic lies in a high degree of vertical and cross-functional management where target costing acted as a common language for planning, and that the term in Japanese (‘Genka-Kikaku’) actually means cost planning. In order to achieve competitive advantage in business world the firms should rely on modern methods to manage cost and profit. From strategic perspective the Costing Target Approach CTA achieves a so powerful competitive advantage represented in cost reduction.

### Table II

<table>
<thead>
<tr>
<th>Details</th>
<th>Product X</th>
<th>Product Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost marital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of raw materials</td>
<td>25$</td>
<td>65$</td>
</tr>
<tr>
<td>Cost of parts purchased</td>
<td>15$</td>
<td>45$</td>
</tr>
<tr>
<td>total cost of raw materials and parts purchased</td>
<td>40 $</td>
<td>110$</td>
</tr>
<tr>
<td>Cost of wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing wages includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product X : 2.6 h ×12$</td>
<td>31.20$</td>
<td>72$</td>
</tr>
<tr>
<td>Product Y : 4.8 h ×15$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages of assembly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product X : 3.4 h ×14$</td>
<td>47.60 $</td>
<td></td>
</tr>
<tr>
<td>Product Y : 8.2 h ×16$</td>
<td>131.20$</td>
<td></td>
</tr>
<tr>
<td>Indirect industrials cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product X : 40 $ ×1.30$</td>
<td>52 $</td>
<td>143$</td>
</tr>
<tr>
<td>Product Y : 110 ×1.30$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activity product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product X : 12.8h×3.50$</td>
<td>44.80 $</td>
<td>99.40$</td>
</tr>
<tr>
<td>Product Y : 28.4 ×50 $</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activity delivery of the product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product X : 24×1 $</td>
<td>24$</td>
<td></td>
</tr>
<tr>
<td>Product Y : 30×1 $</td>
<td></td>
<td>30$</td>
</tr>
<tr>
<td>Total cost expected per unit</td>
<td>239.6</td>
<td>585.6$</td>
</tr>
<tr>
<td>Target Costing per unit</td>
<td>240</td>
<td>580</td>
</tr>
<tr>
<td>Different= Target Costing per unit</td>
<td>0.4 (5.60)</td>
<td></td>
</tr>
</tbody>
</table>

The target costing approach presents the industrial companies with expected costs, continuous improvement of goods, respective designing process, market focus on customers demand and the risks and threats of competitors. It has much to do with planning, coordination and improving in advance actual production (Ibid) and interestingly, [25]. Observe that ‘paradoxically, the removal of management accounting seems to characterise management and management accounting in Japan’ with target costing being implemented by teams led by engineers and designers.

The methodology was developed with new product management as its central activity and where competitive market prices needed to be set. Problems have arisen where prices are imposed on suppliers by large customers, where bespoke or ‘one off’ construction projects have been entered into, or where products are complex, including a number of components that themselves are subject to target costing. The setting of target costs requires expertise and input from multi-disciplinary teams, which may require a significant change in management and organisational behaviours.

Another perceived problem has been the tendency of the methodology to focus on cost drivers rather than revenue drivers. However, at its best, target cost management can drive innovation in both business operations which lead to cost reductions and to open up new sources of revenue in marketing [25].
When acquiring component parts or necessary services, supply management may find it necessary to work more closely with suppliers. Additional cost savings may be achievable by creating trading partner relationships with the suppliers. The manufacturer's chief engineer or product manager might try to assist or provide incentives for a supplier to redesign a part or production process to achieve cost savings. Moreover, the company and the supplier may collaborate to develop and improve products and enhance the value and satisfaction provided to customers [26], [9][27].

In order the providers offer necessary materials for production and the company to produce goods under the shadow of the new structured cost, the information exchange must exist between the overall administrations and personnel in the company. In addition the company has to operate an effective accounting system so that appropriate information is delivered in the right time. Then right decision is to be taken to deal with obstacles that idle the on going product improvement in the markets.

V. THE IMPORTANT BASIC PRINCIPLES OF TARGET COSTING

The competitive pricing under the target costing approach is a procedure to redesign the product cost structure in accordance with data set market prices for the products. If a company could reach the costing target before the real start of production process, it will be able to achieve the least cost advantage in the market.

Observed that applied Target costing approach, the properties of a product to be developed is determined from market analyses and, simultaneously, a hypothetical sales price is established that conforms to market conditions. If we subtract the planned profit from this price, we get the so-called target cost that provides the financial framework for the development process. This approach fundamentally changes the relationship between the manufacturer and the customer; it changed from a seller’s market to a buyer’s market. In the past, when manufacturers developed a new product they would ask: How much will this product cost? They could actually determine their price based on that in the market. Today, manufacturers are forced to ask the inverse question at the start of product development: How much is the customer willing to pay for the product? [28].

On the other hand, the Roslender and Hart, are argues the target costing is better seen as a broad-based management philosophy instead of management accounting technique, and is better designated by the phrase ‘target-cost management’. It is basically a market driven, rather than a cost centred approach. There are three stages to target cost management:

A- To establish a price that customers are likely to be willing to pay in the marketplace.
B- To factor in the profits or margin that the business is seeking, in the long term; this results in floating or target cost, an upper limit which the producer must seek to accomplish.
C- Redesigns value processes – sometimes referred to as ‘design to cost’. At this stage, managers aim to identify cost reductions in advance. If none can be identified, or it is impossible to achieve a margin on price, then the project could be abandoned at this stage. The aim is continual cost reduction over time [29].

The author argues the competitive price specification is made by customers and consumers under some quality requirements and delivery period. So responding to market demands the respective company role has to pay more concerns on the designations and product improvements. This response is mere imagination, unless some various specializations that capable to deal with market on going variables is grown. Furthermore, the company should be able to restructure the variable and fixed costs as much as possible. The company had better study developing new designs continuously or it neither obtain and maintain the competitive advantage nor get as large as possible market share. In addition it will not be able to pace with up to date requirements in competitive market.

VI. THE STRATEGIC IMPORTANCE OF COST MANAGEMENT

Many authors stress that the strategic importance of cost management has drastically increased in recent years due to intense competition. Strategic cost management is development of traditional cost management rather than its negation. This shift is the result of an increasing competitive environment due to the introduction of new manufacturing and information technologies, the focus on the customer, the growth of worldwide markets, and the introduction of new forms of management organization [30].

That strategic cost management has become a great weapon to reinforce cost management and gain competitive advantages. According to [10] customers in highly competitive markets expect that each generation of products presents improvements. These improvements may include; improved quality, improved functionality or reduced prices. Any of these improvements alone or any combination of them urges a firm to manage its costs to stay profitable. Furthermore, that highly competitive market is characterized by low profit margins, low customer loyalty and low first mover-advantages.

Not only customers ask for cost management, also the intense competition between well matched competitors increases the strategic importance of cost management. Cooper argues that in competitive markets where competitors are frequently technologically equivalent, that it becomes increasingly difficult to maintain a sustainable competitive advantage [31].

In Japanese competitive markets he found that even before a differentiator can teach its customers about the distinctive advantage of a new product, other firms launch me-too products at even lower prices. In the same way, cost leaders, offering products that are low in price, are leapfrogged by competitors, offering products at the same price but with a higher level of quality and/or more features.

This fact leads Cooper to conclude that in a world of non sustainable competitive advantage, a firm that fails to reduce costs as rapidly as its competitors will find its profit margin squeezed and its existence threatened. So, all firms have to manage costs aggressively in order to survive in today’s highly competitive markets [31]. Similarly, argues that while successful Japanese companies are all cost conscious companies, they also pursue differentiation strategies [13].
Also Monden and Hamada argues that in highly competitive markets - that are characterized by a shortening of product life cycles, diversification of demand and keen competition, - cost management is indispensable to introduce new products which meet customers’ demands at the lowest cost, and to reduce costs of existing products by eliminating wastes [32]. While, compares the strategic importance of cost management with that of quality management a few years ago and concludes that cost management has to become a discipline practiced by virtually every person in the firm [31]. Summarizing, in an environment of intense competition, all companies need to strive for cost management in order to survive.

This paper reported distinctive features in target costing implementation. There appears to be a tight linkage between supplier management and the design function in target costing implementation, which allows suppliers to become involved early in the process and thereby maximizes product value, shortens time-to-the-market and ensures manufacturability[12]

If firms attempt to adopt strategic management for costs successfully, they should study them well via following target cost program so that products remain qualitatively. And customers do not lose confidence in companies products then get reluctant to purchase them, thereafter. The companies had better not produce such products that make them loose their market reputation.

While the authors argue the Relying industrial firm on cost leading for its competitive advantage distinguishes them from their competitors, if they paced forward away from them. The cost leading must achieve parity or at least proximity on advantage bases. Since creating a competitive advantage is the first step, however, it is imitated as soon by the competitors and then this competitive advantage will vanish. However, large sums have been spent on reaching that advantage. The fact is that the amount of professions and resources the competitive advantage is built on will get the imitation be easy or difficult. So as far as imitation is difficult as longer the competitive advantage is lasting. The dependent large variety of professions and resources sophisticates the competitive advantage and make it too difficult to know the reasons behind it to imitate.

TABLE III

<table>
<thead>
<tr>
<th>Product Number</th>
<th>Current Cost $</th>
<th>Target Cost $</th>
<th>Different $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>14.571</td>
<td>13.2</td>
<td>1.371</td>
</tr>
<tr>
<td>2</td>
<td>11.691</td>
<td>12.0</td>
<td>0.309</td>
</tr>
<tr>
<td>3</td>
<td>5.286</td>
<td>4.08</td>
<td>1.206</td>
</tr>
</tbody>
</table>

VII. APPLICATION TARGET COSTING TO ACHIEVEMENT
COMPETITIVE PRICE OF SELECTED PRODUCTS OF THE
LOCALE FIRM (A)

An (A) firm has been taken as study case therefore personal meetings were made with people in charge in the company to get special costs for some competitive products with extra profit margin.

We can observe, the firm disclosed that it prices its products on the fixed and variable industrial costs plus an average margin from the industrial cost to cover the fees, administration and marketing costs in addition to ensuring the desired advantage requirements. Furthermore, generally the added margin percentage that covers administration, marketing and ensuring targeted advantage requirements is ≤25 of costing productions for the firm. Whereby, three competitive products have been chosen from (A) firm to compare with similar imported products from foreign companies. The comparable prices have been obtained from the local market. See table III.

As it shown in table 3, the price of second product, Menswear, for (A) company is higher in comparison with similar one of other company by $ 0.9 which consequently makes (A) company loose its competitive position for this product and eliminates its chance to advantage. If (A) company had that product costs revised for discounting with maintaining same margin advantage, advantage would have been achieved from it.

Concerning the first and the third products, (Kids clothing) and (Women swear) these two product have lesser prices comparing to their similar ones from other companies by (0.75 $, 1.20 $) respectively. So the (A) company can increase the price of the two latter products. Table 2 shows the comparison of the current gross cost of the chosen products with their target cost. Obviously, product 2 can not be produced with the current limitation of costing target since the costing target of it is not lesser than the current cost.

According to them, if (A) company can discount the current cost of this product to costing target, it will be able to discount its selling price which makes it obtain greater share from the market. The mentioned company has to revise the production mechanism and improve material provision in a way that it could put the competitive price to ensure providing it in time of production so that the company can get the cost of product (2) to the costing target. And it also has to substitute the specified technology for this product with other advanced ones or leaving its production plans. Consequently, as for products number 1&3 it is possible to continue producing them with their current costs because they are beneath the target costing as the costing target is 1.371$, 1.206$ amount higher than the current costs. And (A) company can price these two products with competitive prices accordingly.

TABLE IV

<table>
<thead>
<tr>
<th>Product Number</th>
<th>Product Name</th>
<th>Manufacturer</th>
<th>Price $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kids clothing</td>
<td>A: local firm</td>
<td>16.5</td>
</tr>
<tr>
<td>2</td>
<td>Imported Kids clothing</td>
<td>B: foreign firm</td>
<td>17.25</td>
</tr>
<tr>
<td>3</td>
<td>Menswear</td>
<td>A: local firm</td>
<td>9.0</td>
</tr>
<tr>
<td>4</td>
<td>Imported Menswear</td>
<td>C: foreign firm</td>
<td>8.1</td>
</tr>
<tr>
<td>5</td>
<td>Women swear</td>
<td>A: local firm</td>
<td>5.1</td>
</tr>
<tr>
<td>6</td>
<td>Imported Women swear</td>
<td>D: foreign firm</td>
<td>6.3</td>
</tr>
</tbody>
</table>
Target Costing Approach, is considered as one of the modern methods to reduce strategic costing that enables the applied it industrial company obtain competitive advantage that could overcome its competitors in the market. This can be done by reinforcing the industrial companies costing centre; then achieve continuous growth advantage and remain in the competitive market. Target costing in our country depends largely on the ability of the project team leader, and is said to be weak in the portion functioning as an organization. The strengthening of this point must be hurried. They must give more importance to determine the customer expectations before the product design, in order to fully provide the expected benefit from target costing. Their competitive pricing of the new products by depending on cost usually poses an obstacle to the successful application of target costing. 

Target Costing sample for competitive pricing products guarantee the product sale possibility and targeted market share. Meanwhile it requires information regarding the demanded quantity of product in accordance with the assessed product price and costing target procedure is considered for pricing to help companies remain and achieve their expected sale size. The firm implementing target costing or having a similar process have extensive market analyses and marketing information systems. Target Costing is a way to redesign product costing structure according to specified product price offered in the market. If a company could approach the costing target before the real start of production process, it will be able to achieve competitive advantage in the market.

The Administers have to coordinate and avoid their administrative conflicts to achieve their common goal. Some organizational changes in various post positions might be necessary for that, however, given priority to the common goal and work to achieve it for the welfare of the firm will ease the success of costing target application. We conclude that using Target Costing Approach as business management tool requires inclusiveness, confidence and seriousness. And all the variables have to be taken into consideration so that Target Costing Approach makes achieving its purpose possible efficiently and professionally. Trust and confident should be put on the costing target principles with providing appropriate supports to it. The company should not selectively apply Target Costing Approach then claim it has applied it because the process will be an inadequate one. The approach has to be applied with all its components.

Through achieving and improving one of the competitive strategies for their products within their industry, the companies could satisfy customers and remain competitive.

IX. RECOMMENDATION FOR FURTHER STUDIES

The obvious and most interesting thing the application of architectural value concept in the industrial companies generates many ideas and real opportunities for cost reduction of products. All those applicable opportunities should be exploited practically from economic perspective.

Consideration, the firms should pay necessary concerns to the internal and external variables of its competitive situation so that the strategies adopted is succeeded and to ensure its continuity and existence in the market.

Furthermore, the industrial firms are able to apply Target Costing Approach strategy to achieve the competitive price via supporting the senior administration. Since such strategies are disciplined by the senior administration to itself. And the responsibility of using Target Costing Approach does not limited to the senior administrations but the other administrative levels such as the medium administrations, supervisors and personnel have their considerable role for successful application of the costing target.

ACKNOWLEDGEMENT

This work was supported in part by Huazhong University of Science and Technology and in part by Chinese CSC; the authors will like to thanks both organizations for their support.

REFERENCES


Rizgar Abdullah Sabir Jaf was born in Kirkuk-Iraq, on August 15, 1971. He received his B.Sc. and M.Sc. degree in Accounting department, college of administration and economic in Salahaddin University/Erbil-Iraq at 1997, 2006 respectively. He is one of the teaching staff with title science lecturer in college of administration and economic, Accounting Department in Salahaddin University/Erbil and He is now a Ph.D. candidate in Huazhong University of Science and Technology (HUST), School of Management, China. His researches are specialist area of Management Accounting and Advanced Cost Accounting.