

# An Analysis of the Application of Target Cost Management in Enterprise Economic Management



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**Abstract:** Target cost management, as an important management method, can optimize the effect of economic management through effective systematic management procedures and structures in enterprise economic management, to strengthen cost control and promote the effective improvement of enterprise management level. The purpose of this paper is to discuss the application of target cost management in enterprise economic management, by analyzing the importance of target cost management, application dilemma, and application strategy, put forward the key points that need to be paid attention to in the implementation of the target cost management, the enterprise should set up an effective goal-setting mechanism, strengthen the cost control and efficiency enhancement, and strengthen the performance evaluation and incentive mechanism, to realize the cost control and efficiency enhancement, and to improve the enterprise's competitiveness and profitability.

**Keywords:** target cost management; enterprise; economic management; application strategy

## Introduction

Target cost management, as an important management tool, plays an important role in enterprise economic management, however, in the process of implementing target cost management, enterprises often face many challenges and dilemmas. Therefore, in the current economic context, the application of target cost management in enterprise economic management needs to be analyzed, to provide effective management strategies and methods for enterprises.

## 1. The Importance of Target Cost Management in Enterprise Economic Management

### 1.1. It is conducive to promoting cost control and efficiency improvement

Target cost management plays a key role in the economic management of enterprises, its role in cost control and efficiency improvement is particularly prominent, target cost management through the clear setting of cost control objectives and standards, provides a clear direction for the enterprise, these objectives and standards are not only figures but also enterprises in the realization of the cost control process to achieve the desired effect of the specific

embodiment of the cost control process, through the target cost By setting the target cost as a reference index, the enterprise can manage the cost more accurately and avoid cost overruns and unnecessary expenditures, thus controlling the cost-effectively. At the same time, the target cost management prompts enterprises to continuously optimize the production process and management mechanism, in the pursuit of the target cost of the process, enterprises will continue to seek ways to improve production efficiency, optimize the production process, improve production equipment, improve staff skills and other measures will be implemented one after another, through these initiatives, the enterprise can reduce the cost of production, improve production efficiency, to reduce the cost of the same level of quality and service, enhance the competitiveness of enterprises. Enhance the competitiveness of enterprises. In addition, the target cost management also stimulates the enterprise's sense of innovation and competitive drive, enterprises to achieve the target cost, often need to carry out bold reform and innovation. This kind of innovation is not only limited to the technical level but also includes the management model, marketing strategy, and other aspects, through the continuous pursuit of the target cost, the enterprise will compete to obtain a stronger ability to survive and develop (Tan, 2023).

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### **1.2. It is conducive to strengthening budgeting and decision-making support**

Target cost management plays a crucial role in enterprise budgeting and decision support, target cost management for enterprise budgeting provides a solid foundation and a reliable basis, through the setting and analysis of the target cost, the enterprise can comprehensively understand the cost of the various business activities required, to reasonably formulate the budget, which is no longer simply customized based on experience and subjective judgment. Rather, it is based on the actual situation and the results of data analysis, more scientific and operable, the enterprise can be based on the guidance of the target cost, to determine the spending plan of the various business activities, the rational allocation of resources to ensure that the business activities of the enterprise can be carried out smoothly. In the decision-making process, target cost management also plays a key role, enterprises in the face of a variety of business decisions, often need to comprehensively assess and compare the cost-effectiveness of different programs, target cost management for enterprises to provide a scientific method and tool, so that enterprises can more objectively assess the costs and benefits of different decision-making programs, through the comparison and analysis of the target cost, enterprises can more accurately assess the advantages and disadvantages of various decision-making programs. By comparing and analyzing the target cost, enterprises can more accurately assess the advantages and disadvantages of various decision-making programs, choose the optimal program, reduce the risk of decision-making, and improve the scientificity and effectiveness of decision-making. In practice, enterprises can make use of the methods and techniques of target cost management to analyze the costs and benefits of various business activities and projects, providing powerful support for decision-making, at the same time, enterprises can also continuously optimize the methods and processes of target cost management to improve the efficiency and quality of budgeting and decision-making support, to provide a solid guarantee for the sustained development of enterprises.

### **1.3. It is conducive to optimizing performance evaluation and incentive mechanism**

Target cost management plays a vital role in enterprise performance evaluation and incentive mechanisms, target cost management for enterprises to provide scientific and objective performance evaluation standards, through the comparative analysis of the actual cost and target cost, the enterprise can comprehensively assess the performance of each business unit or individual performance, this evaluation is no longer dependent on subjective judgments or a single indicator, but based on specific data and the actual situation. This evaluation is no longer dependent on subjective judgment or a single indicator, but is based on specific data and the actual situation, more objective and accurate, the enterprise can be based on these evaluation results, timely discovery of business units or individuals in the cost control problems and room for improvement, to provide an important reference for the sustainable development of the enterprise. At the same time, the target cost management for the enterprise to establish a set of perfect incentive mechanisms, through the setting of reasonable target cost, and will be combined with the performance appraisal and incentive mechanism, the enterprise can effectively stimulate the enthusiasm of the staff and the work motivation, in practice, the enterprise can take a variety of incentives, such as the provision of bonuses, promotion opportunities, staff training, etc., to incentivize the staff to actively participate in the cost management activities, improve the Work efficiency and quality, this incentive mechanism can not only enhance the staff's work motivation and sense of responsibility, but also promote teamwork and common development, improve the overall performance level, and lay a solid foundation for the enterprise to achieve long-term development goals. In practice, enterprises can establish a performance appraisal system and incentive mechanism, the target cost management and employee performance directly linked to the employee's performance and the overall objectives of the enterprise to maintain consistency, at the same time, the enterprise can also continue to improve the incentive mechanism, according to the actual situation and the needs of the employees, the flexibility to adjust the incentive policy, to ensure that incentives to the effectiveness and sustainability of the incentive measures (Wang, 2023).

## **2. The Application of Target Cost Management in the Enterprise Economic Management Dilemma**

### **2.1. Uncertainty and variability**

Uncertainty and variability are important dilemmas faced by target cost management in enterprise economic management, and its influencing factors cover market environment, technology, raw material prices, policies and regulations, etc. Uncertainty in the market environment is one of the main challenges faced by target cost management, and the vagaries of the market, the dynamic adjustments of the competitive landscape, and the fluctuations in consumer demand make it difficult for enterprises to accurately predict the future cost level, and this uncertainty makes it difficult to accurately predict the future cost level. This uncertainty makes it difficult for enterprises to grasp accurate data and reference points when setting target costs, resulting in the setting of target costs deviating from the actual situation, which affects the implementation effect of target cost management. At the same time, technological changes and advances have also brought challenges to cost management, with the continuous development of science and technology, production technology and management methods are constantly updated and improved, which may lead to the original cost management methods are no longer applicable, requiring enterprises to constantly adjust and update the strategies and methods of target cost management. In addition, the fluctuation of raw material prices is also a factor that can not be ignored, the rise or fall of raw material prices will directly affect the enterprise's production costs, thus affecting the development and implementation of target cost, in addition, the adjustment of policies and regulations may also have a significant impact on cost management, government policy adjustments, changes in tax policy, etc. will have a direct or indirect impact on the production and operation activities of enterprises, increasing the enterprise's uncertainty and variability in target cost management (Gou, 2023).

### **2.2. Difficulty of information acquisition and calculation**

Information acquisition and calculation difficulty is an important challenge of target cost management in enterprise economic management, within the enterprise, poor information communication often becomes the main obstacle to

constraining the target cost management, due to the poor information transfer between the departments within the enterprise, the communication channel is not smooth, resulting in the accuracy and timeliness of the cost data is affected, for example, the production department and the financial department of the information flow between the department is not smooth, which may lead to delayed or distorted data transmission of production costs, thus affecting the formulation and implementation of target costs. In addition, there may be bias in the way different departments understand and collect cost data, further increasing the difficulty of information acquisition. Externally, enterprises face the challenge of obtaining market information. Market opacity and information asymmetry make it difficult for enterprises to accurately obtain market prices, competitors' cost information, etc. Due to the uncertainty and instability of market information, it is often difficult for enterprises to keep abreast of the changes in market prices and competitors' behaviors, which makes it impossible for them to accurately assess the reasonableness and validity of the target costs, especially in industries Especially in the case of fierce competition and information occlusion in the industry, enterprises need to support the implementation of target cost management through the acquisition of market information, but in practice, they face greater difficulties and challenges.

### **2.3. Management constraints and implementation difficulties**

Management constraints and implementation difficulties are some of the important challenges faced by target cost management in enterprise economic management. Target cost management requires enterprises to establish a set of perfect management systems and implementation mechanisms to ensure the effective formulation, monitoring, and adjustment of target cost, however, in practice, due to the constraints of several factors, it may be difficult for enterprises to successfully implement target cost management. Organizational structure and management hierarchy within the enterprise may cause some obstacles to the implementation of target cost management. Complex organizational structure and long management hierarchy may lead to poor information transfer and a prolonged decision-making cycle, which may affect the implementation effect of target cost management,

especially in large-scale enterprises, coordination and communication between different departments may be more difficult, and implementation of target cost management is restricted. Employee awareness of the concept of target cost management and implementation will also have an important impact on the implementation of its effect, target cost management requires the active participation and cooperation of all employees, but if the employees lack understanding of the concept of target cost management or there is resistance, it may lead to target cost management is difficult to implement smoothly, for example, some employees may worry that the target cost management will lead to increase the burden of work or affect personal interests, and therefore the implementation of target cost management will be difficult. or affect personal interests, and thus have a skeptical attitude towards it, in this case, even if the enterprise has formulated a reasonable target cost, it is difficult to effectively implement in practice, thus affecting the implementation effect of target cost management (Liu, 2023).

### **3. The Application of Target Cost Management in the Enterprise Economic Management Strategy**

#### **3.1. The establishment of an effective goal-setting mechanism**

The establishment of an effective target-setting mechanism is a key step in the implementation of enterprise target cost management, this mechanism not only needs to scientifically and reasonably estimate the cost of products or services but also needs to take into account the market demand, competitors' prices, expected profit margins, and other factors to ensure that the target cost formulated has the feasibility and effectiveness. Enterprises need to determine the pricing level of a product or service through an in-depth analysis of market demand and an understanding of competitors' prices, which requires the enterprise's sensitivity and insight into the market, as well as a full understanding of competitors, to be able to determine a pricing level that both meets the market demand and maintains competitiveness. At the same time, enterprises need to take into account the expected profitability of the factors to ensure that the target cost setting not only covers the production costs, but also achieves the expected profitability of the enterprise, which

requires an accurate grasp of the enterprise's own profitability and market positioning to ensure that the target cost set to ensure that the enterprise's economic efficiency, but also in the competition in the market to gain a foothold. In addition, the enterprise also needs to be based on the characteristics of different products or services, and the development of the corresponding target cost, for example, for high-value-added products or services, the enterprise can consider setting a relatively high target cost, to ensure product quality and service level, to win the trust and recognition of consumers, and thus increase market share and profitability, and for low-value products or services, the enterprise can set relatively low target cost, to better control costs. target cost to better control costs, improve market competitiveness and attract more consumers to choose their products or services. Therefore, enterprises need to flexibly set target costs according to their own product mix and market positioning to realize optimal economic benefits and market competitiveness. In the process of establishing the target-setting mechanism, enterprises also need to continuously analyze and evaluate the data to ensure the accuracy and rationality of the target cost (Luo, 2023). By comprehensively analyzing and comparing factors such as product cost, market demand, and competitors' prices, the enterprise can find problems and adjust target costs in time, thus improving the profitability and market competitiveness of the enterprise. In addition, the enterprise can establish a set of scientific target setting and monitoring systems with the help of information technology and management tools to realize real-time monitoring and adjustment of target costs, thus ensuring the target cost management is smoothly implemented and effectively operated.

#### **3.2. Strengthening cost control and efficiency improvement**

In the implementation of target cost management, strengthening cost control and efficiency improvement is one of the key steps for the success of the enterprise, the enterprise should focus on a series of measures to control and reduce costs, to achieve the target cost. Optimizing the production process is one of the important ways to achieve cost control and efficiency improvement, enterprises can simplify the production process through lean production, supply chain optimization,

and other methods to reduce unnecessary links and waste, improve production efficiency, reduce production costs, in addition, reduce production costs is also one of the important means to achieve the target cost management, enterprises can optimize the procurement cost, the replacement of production equipment, Energy consumption reduction and other measures to reduce production costs, to achieve the target cost control and management. Improving the efficiency of resource utilization is also the key to achieving cost control and efficiency enhancement. Enterprises can maximize the use of limited resources by optimizing human resources, improving the utilization rate of the equipment, reducing waste and loss, etc., to improve the efficiency of resource utilization and reduce the cost of production, at the same time, the enterprise can also adopt advanced technology and management tools to improve the efficiency of production and management level, to realize cost control and efficiency Enhancement, for example, information technology can help enterprises realize the automation and intelligence of the production process, improve production efficiency and product quality; refined management can help enterprises better monitor and manage the production process, find problems and adjust measures promptly, and improve production efficiency and management level (Xu, 2023). From this level, strengthening cost control and efficiency improvement is one of the key strategies for enterprises to implement target cost management, through optimizing the production process, reducing production costs, improving the efficiency of resource utilization, etc., enterprises can control and reduce costs, to achieve the target cost, and at the same time, the use of advanced technology and management tools, such as information technology, refined management, etc., can help enterprises to improve production efficiency and management level, reduce production costs, and realize the control and management of target cost. Therefore, enterprises should focus on strengthening cost control and efficiency enhancement in the implementation of target cost management to improve the competitiveness and profitability of enterprises.

### **3.3. Strengthen performance evaluation and incentive mechanism**

In the implementation of target cost management, strengthening the establishment of

employee performance evaluation and incentive mechanisms is one of the key factors for the success of the enterprise, the enterprise should be based on employee performance evaluation of the realization of the target cost, and take corresponding incentives to motivate employees to actively participate in cost management activities, the establishment of this performance evaluation and incentive mechanism not only promotes the recognition of employees on the target cost management and support, but also enhances the sense of responsibility of employees. The establishment of this performance evaluation and incentive mechanism can not only promote the recognition and support of employees to the target cost management but also enhance the sense of responsibility and work enthusiasm of employees, thus improving the overall performance level of the enterprise. The establishment of a performance evaluation system is one of the important links in the implementation of target cost management, the enterprise can be based on the actual situation of the target cost, the development of appropriate performance evaluation indicators and scoring standards, the staff's cost management ability and contribution to the objective assessment, this performance evaluation system should be comprehensive, scientific, taking into account both the staff's performance in the cost control, but also take into account the other aspects of the performance, such as product quality, customer satisfaction, etc., to ensure the fairness and accuracy of the evaluation (Zhu, 2024). The establishment of incentive mechanisms is another key step in the implementation of target cost management, companies can take a series of incentives based on the results of employee performance evaluation, such as the provision of bonuses, promotion opportunities, employee training, etc., to motivate employees to actively participate in the cost management activities, this incentive mechanism not only improves the motivation and enthusiasm of the employees but also strengthens the sense of identity and sense of belonging to the target cost management, which will promote the smooth implementation of the cost management and the implementation of the target cost management. Thus promoting the smooth implementation of cost management and effective operation. In addition, the enterprise can also establish a reward and punishment mechanism to

further motivate employees' enthusiasm and sense of responsibility, for those employees who excel in cost control, the enterprise can give appropriate rewards and honors to encourage their continued efforts; and for those who do not perform well or do not actively participate in the cost management activities of the employees, the enterprise can also take appropriate punitive measures to promote its improvement and enhancement. Comprehensive view, strengthening the evaluation of employee performance and the establishment of incentive mechanisms is the implementation of target cost management is an important initiative, through the establishment of a scientific and reasonable performance evaluation system and incentive mechanisms, enterprises can better stimulate the enthusiasm and sense of responsibility of the staff to promote the smooth implementation of cost management work and the effective operation of the cost management work, to improve the economic efficiency and competitiveness of the enterprise, therefore, enterprises should pay attention to the evaluation of employee performance when the implementation of the target cost management. Therefore, enterprises should pay attention to the evaluation of employee performance and the establishment of incentive mechanisms to achieve the long-term development goals of enterprises (Huang, 2024).

### Conclusion

In summary, target cost management has an important application value in enterprise economic management, through the establishment of an effective target-setting mechanism, strengthening cost control and efficiency enhancement, strengthening performance evaluation and incentive mechanism, and other strategies, enterprises can effectively control and manage costs, and improve the competitiveness and profitability of enterprises. However, it should be noted that the implementation of target cost management may face some difficulties and challenges in the process, such as uncertainty, difficulty in obtaining information, and management constraints. Therefore, enterprises need to flexibly apply target cost management tools according to the actual situation and continuously improve the management mechanism to maximize economic benefits.

### Conflict of Interest

The authors declare that they have no conflicts of interest to this work.

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