



Cost Management Strategy: Application of Activity Based Costing Method to Optimize Cost Prices

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ABSTRACT

A shoe manufacturer is struggling with high COGS, making it less competitive due to inaccurate cost allocation from traditional pricing methods. This study explores the Activity-Based Costing (ABC) method as a more precise approach to assigning costs based on actual activities and resource usage. Comparing both methods, traditional costs for flat shoes and heels are IDR 64,195 and IDR 100,545, while ABC calculations show lower costs of IDR 62,958 and IDR 98,700 – resulting in savings of IDR 1,237 and IDR 1,845. These findings highlight how ABC improves cost accuracy, enhances efficiency, and supports a more competitive pricing strategy. Additionally, it helps identify non-value-added activities, ultimately boosting profitability and strengthening the company's position in the footwear industry.

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INTRODUCTION

The development of an increasingly competitive business world requires every company to continue to innovative and adapt to market changes. In this dynamic environment, effective strategy is the main foundation for ensuring company success. According to (Nadaf, 2014), Strategy is a series of decisions and actions designed to achieve organizational goals by exploiting opportunities in the market. With the right strategy, companies can identify consumer needs, respond to market trends, and create value that supports sustainable growth and profitability.

In the business world, a strategy is needed to achieve high profitability. One of these achievements is by meeting potential consumer demand. In research (Indrayani, 2023) says that business is all activities and efforts to seek profit by providing goods and services needed for the economic system, there are businesses that produce tangible goods, there are also those that produce services.

(Indrayani et al., 2023), In a business context, understanding consumer needs and preferences is the main key in creating effective strategies. Companies must be able to conduct in-depth market analysis to identify trends, consumer behavior and existing market opportunities. By

understanding potential demand, businesses can adapt the products or services they offer to suit consumer needs, thereby not only increasing customer satisfaction, but also creating a competitive advantage. Apart from that, continuous innovation in the provision of goods and services is an important factor in remaining relevant amidst ever-changing market dynamics.

So every business actor must be able to compete in obtaining consumers, so that business actors must have a competitive advantage (Farida & Setiawan, 2022). A company will have a competitive advantage if the company is in favorable conditions from five main competitive factors, namely the entry of new entrants, the threat of substitute products, the bargaining power of buyers, the bargaining power of suppliers, and competition between existing competitors (Indrayani, 2023).

In the business world, effective financial management is one of the key factors to ensure company sustainability and growth. One important aspect of financial management is determining appropriate product prices, which not only consider production costs but also the added value provided to consumers.

Apart from financial management, cost management also needs to be carried out. Cost management is a crucial element in ensuring operational efficiency and company competitiveness. By conducting a thorough cost analysis, companies can identify areas that require savings without sacrificing product or service quality. In addition, approaches such as activity-based costing allow companies to understand in more detail the allocation of costs in each business process, so that assist in strategic decision making. Through effective cost management, companies can optimize profit margins while offering competitive prices to consumers (R. A. Santoso et al., 2024)

Correct pricing is very important as it directly influences the product's attractiveness in the market, profitability and perception of value by consumers. According to (Wendy Kala Tikupadang dan, 2020), Value-based pricing strategies are increasingly becoming a trend, because consumers tend to prefer products that offer benefits or experiences commensurate with the price paid. This approach requires companies to understand consumer needs and preferences in depth, while taking into account competitors' positions in the market. By setting prices that align with perceived value, companies can build customer loyalty while strengthening their brand position.

(Handayani & Ghofur, 2019), Strategic pricing allows companies to compete in the market while creating optimal profit margins. Therefore, understanding cost components, including raw materials, labor, and overhead, is very important to ensure that the product cost can support achieving profitability targets.

Profitability is the company's ability to obtain profits related to sales, total assets and own capital (Y. Santoso & Priantinah, 2016). To obtain the desired level of profit, it is necessary to calculate the cost of products correctly. The price of this product will become the company's income. Before determining the selling price of a product, it is necessary to have a cost of production as a reference for the selling price with a determined profit.

Cost of production according to (Noviasari & Alamsyah, 2020) are the production costs collected for a particular order and the cost of production per unit of product produced to fulfill the order with the number of product units in the order concerned. Another thing according to (Batubara, 2013) which states that the cost of production is the amount of money that will be spent to obtain products or services that the company needs as a means of generating profits. Meanwhile, the cost of goods manufactured reflects the total cost of goods completed during the current period. The only costs charged to finished goods are direct materials, labor, and overhead.

Production costs function to determine the price of a product in a company and are also very important in providing an overview of the company's overall production costs. The cost of production has a large influence on the selling price of the product depending on the determination or calculation system.

This company is one of the business actors that runs its business in the world of fashion, namely shoes, where the selling price of dozens of shoes offered is Rp. 110,000, - for Flatshoes and

Rp. 130,000, - for Heels. The selling price is formed from the cost of production which is calculated by directly determining the overhead costs divided by two for the two products.

This is a big problem because of inaccurate calculations and unfulfilled demand from retailers. This company cannot compete in the market because it cannot meet this demand. The following is asking price data at one retailer.

From this table it can be seen that the price offered is still too high compared to the asking price, so demand cannot be met, even though demand from retailers is very large and will definitely be sustainable. This price is still too high because the company has difficulty determining the cost of production and still uses traditional methods.

Based on the problems faced, it is necessary to calculate the correct cost of production, so that demand can be met. Therefore, this research aims to help companies calculate the cost of production in determining the correct selling price. (Karras & Thrän, 2024), namely a cost information system that is oriented towards providing complete information about activities so that it makes it easier for company personnel to manage activities.

This information system uses activities as the basis and cost reduction and accurate determination of product or service costs as the goal. This information system is applied to manufacturing, service and trading companies. This method can be said to be accurate because it can accurately identify the activities carried out by humans, machines and equipment in producing a product or service (Sianturi et al., 2024).

Research (Kissa et al., 2024) states that Activity Based Costing (ABC) is a cost assignment system by first tracing activity costs and then to products. ABC uses more than one cost driver to allocate overhead costs to each product.

It is hoped that the Activity Based Costing method can be compared with the results of traditional or already used calculations and become a solution to meet retailer demands so that income can increase and have an impact on sales in a sustainable manner. It is hoped that the results of this research can be used as a step to increase awareness and motivation of business actors in evaluating competitive selling prices of shoe products can be implemented so that it can be used as the right strategy to attract consumers in Indonesia. in order to maintain its existence in the business world and advance the city's economy. especially Bandung.

RESEARCH METHOD

The method used in this research is a quantitative method, which aligns with the principles of positivism. A quantitative method is a research approach that utilizes numerical data or data that is converted into numerical form (Indrayani et al., 2023). In this study, researchers conducted direct research using observations and interviews to ensure the accuracy of the collected data.

Furthermore, to guarantee the validity and reliability of the research, all observations, measurements, and records were carried out systematically and cross-checked with actual field data. The data collection process was conducted carefully to minimize errors, ensuring that the recorded data accurately reflects real conditions in the field. By implementing data validation techniques, comparing findings with multiple sources, and using reliable measurement tools, the research results can be confirmed as consistent with actual conditions.

The data used in this study consists of primary and secondary data, both of which serve as essential sources of information for the research. According to Indrayani (2023), primary data refers to data obtained directly from sources, meaning it is collected firsthand by researchers. Meanwhile, according to Nuke Sri Herviana & Halimatusadiah (2022), secondary data refers to data obtained from existing sources that do not directly provide data to the researchers.

The following are the data obtained from field research, which were collected through direct observation, measurements, and interviews with relevant sources:

Table 1 List of Raw Material Costs

No	Product	Number of Product Produced	Material Cost (Rp)
1	Flat Shoes	204	8.280.000,-
2	Heels	476	32.460.000,-
TOTAL		680	40.740.000,-

Table 2. Labor Cost L

No	Part	Number of workers	Flat (Rp)	Heels (Rp)	Total labor costs (Rp)
1	Sol	4	1.632.000,-	5.712.000,-	7.344.000,-
2	Upper	4	1.632.000,-	5.712.000,-	7.344.000,-
3	Finishing	2	1.020.000,-	2.380.000,-	3.400.000,-
		Total	4.284.000,-	13.804.000,-	18.088.000,-

Table 3. List of Helper Fees

No	Product	Total Cost (Rp)
1	Glue	100.000,-
2	Nail	75.000,-
3	Upper Accessories	50.000,-
4	Thread	30.000,-
Total		255.000,-

Table 4. List of Miscellaneous Fees

No	Information	Total (Rp)
1	Cost of Auxiliary Materials	255.000,-
2	Electricity Cost	450.000,-
3	Fuel	300.000,-
4	Packaging Costs	1.122.000,-
Total		2.127.000,-

The calculation of cost price is one of the crucial aspects in determining the selling price of a product or service. Many companies still use conventional methods to calculate production costs, which include raw material costs, direct labor costs, and factory overhead costs. Although this system has been used for a long time, technological advancements and market competition demand a more accurate and efficient approach to cost determination.

So far, the calculations carried out by companies in determining the cost price still use the traditional system. This method often relies on historical data and standard cost estimation without considering real-time market fluctuations or advanced analytical tools. As a result, companies may face challenges in accurately determining their production costs, which can impact pricing strategies and overall profitability. From these data, the calculations carried out are as follows:

Table 5. Calculation of Cost of Goods Production Traditional Method

Information	Flat	Heels
Main Costs (Rp)	12.564.000,-	46.264.000,-
Overage Fees are Charged (Rp)		

(Rp11.078,13 × 48)	531.750,-	0,-
(Rp11.078,13 × 144)	0,-	1.595.250,-
Total Manufacturing Costs (Rp)	13.095.750,-	47.859.250,-
Divided : Producyion Unit	204	476
Cost Per Unit (Rp)	64.195,-	100.545,-

From the results of calculating the cost of production using the traditional system, it is known that the production costs for each unit are still very large, so this affects the selling price.

RESULTS AND DISCUSSIONS

Seeing these conditions, it is deemed necessary to use a certain method in determining the selling price. Researchers propose using the Activity Based Costing method. This method is expected to be able to produce relevant production cost calculations, so that the Company can fulfill orders from retailers. The following are the results of using this method:

Table 7 Calculation of Cost of Goods Production using the Activity Based Costing Method

No	Cost Elements	Flat Shoes (Rp)	Heels(Rp)
1	Main Cost/ Unit	61.588,24	97.193,28
2	Overhead Costs	1.370,72	1.507,13
	Cost of goods sold	62.958,96	98.700,40

From the calculation above, it is obtained that HPP flat shoes are IDR. 62,958.96 and heels amounting to Rp. 98,700.40 with overhead costs which include vehicle and equipment depreciation costs as well as the effectiveness of the production process and affect the calculation of COGS.

Table 7 Comparison of Traditional and Activity Based Methods Costing

No	Types of products	Cost of Traditional System Products per Unit (Rp)	Product Cost ABC Method per Unit (Rp)	Difference (Rp)	Condition Value
1	Flat Shoes	64.409	62.958,96	1.449,72	Overcost
2	Heels	100.820	98.700,40	2.119,15	Overcost

From this comparison, it can be seen that there is a difference between calculations using the traditional method and also the Activity Based Costing method with a difference for each product including flats shoes of IDR. 1,449.72 and heels amounting to Rp. 2,119.15 with the value of the two products being Overcost, which means that the price applied by the company is higher than the calculation using the Activity Based Costing method which causes a difference every month if multiplied by the number of production units, namely Rp. 1,304,460.00 which, if multiplied by the number of units per year, reaches Rp. 15,653,520.00. And if you calculate the selling price using formula (2.4) with a profit of Rp. 20,000.00/unit then the profit obtained is Rp. 14,904,460.00 every month.

Table 9 The price offered as a solution to the problem

No	Product	Prices are dozens (Rp)	Price Offered (Rp)
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1	Flat Shoes	Rp 110.000	Rp 82.959
2	Heels	Rp 130.000	Rp 118.700

From the table above, the Activity Based Costing Method is highly recommended by researchers, apart from being a solution because the results are more detailed, you can also see the effectiveness of the production process as an evaluation material for these activities.

CONCLUSION

Based on the theory that has been described, data collection and processing was carried out, and the results were analyzed and discussed. Conclusions can be drawn which include the following. The calculation results show that the COGS of flat shoes is Rp. 64,195.00 and for heels Rp. 100,545.00, not including vehicle depreciation costs and equipment depreciation. The HPP for flat shoes is obtained at Rp. 62,958.96 and heels at Rp. 98,700.40, with overhead costs including vehicle and equipment depreciation costs, as well as the effectiveness of the production process influencing the HPP calculation. The results of the comparison between the traditional system and the Activity-Based Costing (ABC) method show significant differences, confirming that the ABC method can be applied effectively, with a maximum difference for flat shoes of Rp. 1,449.72 and heels of Rp. 2,119.15, indicating an overcost condition. The price that can be offered from the results of this research suggests that the selling price at Fajira Workshop can be set at Rp. 82,959.00 for flat shoes and Rp. 118,700.00 for heels. The findings of this study provide valuable insights for businesses in optimizing cost calculations, improving pricing accuracy, and enhancing overall financial management. Furthermore, the application of the ABC method enables better decision-making, increases profitability, and supports the long-term sustainability of footwear businesses. This research also serves as a reference for other small and medium enterprises (SMEs) in similar industries, helping them adopt effective cost management strategies for business growth and competitiveness.

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