



TARGET COSTING IN THE TEXTILE COMPLEX

Helmut Hergeth
North Carolina State University

ABSTRACT

Cost as well as product innovations have always been very important to the textile and apparel industries. The survival of any company within the pipeline depends on offering the right product at the right price.

The traditional approach has been to develop a product and then approach the market with a price that was based on a cost-plus calculation. Target costing turns the process around by starting at the market price of the product and subtracting a target profit from this price to arrive at a target cost. Product development then takes place in an environment where the market price and the allowable cost components for a product are known.

The process of target costing for the integrated textile complex is described and its implications discussed. Forces that move textiles and apparel towards target costing are analyzed.

Keywords: Costing, target costing, target cost, market, product development

1. Introduction

Since their industrial beginnings, textiles and apparel have been leaders in terms of cost awareness as well as product innovations. For the apparel industry, development of innovations and fashions has long been the driving factor of growth, and the textile industry has reinvented itself again and again through new products and new markets. From early on, the industries utilized emerging costing techniques to control manufacturing costs and to determine product costs (Szepesi, 1922, Hergeth, 1996). With better and more cost effective transportation options and faster communication, competition has become fiercer and in many cases more cost oriented. Timing in product development has become an even bigger factor than it

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used to be, and companies cannot afford to introduce products at the wrong price or quality level. Target costing is one of the tools available to the industries that may prevent pricing errors and aid in faster and more focused product developments.

2. Traditional Pricing and Costing

Traditional product development typically starts with a basic product design developed in the Research and Development branch of a firm. This may be a design group, a research lab, and engineering team, or any other group of people in the company that is responsible for developing new products. The initial idea for the product may have come from the market, or it may have originated in development efforts inside the company. After the basic product design has