

CHAPTER I

INTRODUCTION

1.1 Research Background

Within global trading, export and import plays a big role in supporting economy of the countries involved. The increasing number of export and import transaction due to globalization had created many opportunities to the logistics and shipping business. The awareness that businesses nowadays have the goals to continually expand and extent its market and business territory, make logistics and shipping business sounds promising. New businesses arise, more of the old one thrive and spread more branches. The existence of logistics and shipping business complements the links of the companies' global supply chain to deliver its product until it is received by the consumers.

Export enables Indonesian businesses to broaden their market to various countries. By expanding the market, companies are pushed to increase the production. The increase of aggregate production volume encourages aggregate economic growth. Sound aggregate production means that the country is productive and it is represented by the increase of GDP (Gross Domestic Product). Export is one of the important benchmark to determine economic growth in a country. By exporting, the production of goods is not only rotates in the domestic country, but also rotates in international trade. However, according to BPS Indonesia (Statistic Institution), Indonesia's total value of export during 2014 was

decline by 3.43% from US\$ 182.55 Million in 2013, to US\$ 176.29 Million in 2014.

The declining export performance in Indonesia affects the logistic business. According to Kody Lamahayu as the Chief of the Inland Transportation Organization (ORGANDA) in Tanjung Perak Port Surabaya, out of 9,000 units of the 316 company-owned truck of Tanjung Perak Organda members, during 2014 40% trucks ceased to operate which means that only 60% or around 5,000 trucks are able to operate in daily basis. Under the already competitive forwarding and logistic market, along with the phenomenon occurred, the company must offer the right products with the right prices and manage their cost and profit to remain profitable. The competitive environment between logistics and forwarding companies raised the question to the customers of what companies would provide better services in most affordable prices. The ease of gathering product information by internet or another telecommunication media nowadays, provides the customer myriad options to choose which forwarding company is suitable to their budgets and service preferences. This exposure triggers the companies to be more responsive to the market. Most of the times, the exporters deliver goods in large quantity which requires the exporters to book more than one container. In this case, to be efficient, the exporters need to find the most competitive forwarding service and shipping price.

The most common pricing method applied is using cost based approach that determines the price after identifying the amount of profit to the cost expensed. Cost based approach however, does not provide competitive strategy. One costing

method to consider in highly competitive market is target costing. Hansen and Mowen (2012:598) declared that target cost is the difference between the sales price needed to capture a predetermined market share and the desired per-unit profit. The sales price reflects the products specifications or function valued by the customer. If the target cost is less than the costs incurred, cost reductions need to be implemented to move the actual cost below the target cost. To achieve high cost efficiency is to reduce operational cost needed to deliver products. Finding those cost reductions are the principal challenge of target costing.

To achieve target cost, the company could consider the implementation of activity analysis, which is a process to identify, describe, and evaluate activities performed in a company to classify whether the activities are value added, or non value added. Activity analysis enables the company to identify cost inefficiency attached to the activities. Therefore the company will be able to reduce cost to increase cost efficiency. The company needs to maintain the activities which brought value and deliberately select, reduce, share, or eliminate activities that do not bring value to the production and delivery of product or services. Implementations of efficient operations enable each company to be more competitive in the market. Time efficiency also allows the company to be able to produce more output, resulting on more revenue to be obtained.

PT Guna Lintas Sarana is a forwarding company headquartered in Surabaya and has several branch offices in Jakarta, Semarang, Denpasar, and Medan. PT. Guna Lintas Sarana acts as a behalf of the sender to handle all of the legal procedures and documents for export and import their commodities. The reason to

choose Guna Lintas Sarana as the subject of this research is because this forwarding company is one of the forwarders whose export activities are substantial part of the business. For export transportation, PT. Guna Lintas Sarana utilize sea transportation in delivering the goods. PT. Guna Lintas Sarana does not own any vessel, it acts as an agent to the actual shipping line or shipping agents whose responsible to deliver the goods. Every country has different set of regulations regarding the customs. To achieve export clearance, the exporter has to file the necessary paperwork, customs, and legal documents to comply with the destination as well as origin country's regulations. It needs certain level of expertise to handle the documentation and in managing the movement of goods.

This company offers service to handle all of the documentation and legal procedures needed in order to ship, handling, stuffing, and receiving the goods using ships, or inland transportation. Freight forwarders play role as an agent to manage the physical movement of goods and handle the documentation. Freight forwarders offer the core functionality and expertise in handling domestic and international freight as well as offering documentation expertise. Primarily for export activities Guna Lintas Sarana would offer service for inland transportation, sea freight, and custom clearance. Yet, the customer is not always going for this integrated solutions offered by Guna Lintas Sarana. The services employed by the exporter to Guna Lintas Sarana is flexible and vary depends on the requirement of the exporters. But to achieve export clearance, almost all of the exporters account their custom clearance to Guna Lintas Sarana. Activities carried out for custom clearance is completing customs documentations and complementary customs

documents, completing the documents relating to the Bill of Lading and certification of the commodities, as well as handling of commodities at the container yard and port, until it is loaded to the ship.

The increasing number of forwarding companies challenges PT. Guna Lintas Sarana to become more competitive, regarding its service quality and price of custom clearance to the customer. In order to come up with competitive price, PT. Guna Lintas Sarana needs to reduce the operational cost of delivering export custom clearance services. Target costing implementation here is expected to offer solutions and alternatives in managing costs resulted on activities performed, reduce cost inefficiency due to non added value activities, as well as increasing the value of service delivered to the customers.

1.2 Research Problems and Formulation

Based on the stated research background, the research problems and formulation would be, “How the implementation of target costing with the adoption of activity analysis could increase cost efficiency on delivering export custom clearance service in PT. Guna Lintas Sarana”

1.3 Research Objectives

Based in the background and research problems above, the objective of this research includes:

1. To determine the cost needed to achieve by Guna Lintas Sarana to increase profitability without sacrificing market competitiveness by using target costing
2. To analyze and evaluate the costs expended to deliver export custom clearance
3. To implement activity analysis in purpose of improving the process and minimalize activities contribute to the cost inefficiency, as an attempt on achieving target cost.

1.4 Research Contribution

a) Contribution for PT. Guna Lintas Sarana

The result of this research is expected to become one of consideration for the company to increase cost efficiency and increase market competitiveness by using target costing and activity analysis.

b) Contribution for the author

With this research, the author could obtain new insight about business dynamic in forwarding company, fundamental knowledge in export custom clearance procedures, as well as cost reduction strategies utilizing target costing method and activity analysis.

c) Contribution for the faculty

This research is expected to contribute new insight about target costing implementation in export custom clearance within the forwarding company. This research could contribute as reference and material consideration for the upcoming research with similar interests.

1.5 Research Systematic

This undergraduate thesis consists of five chapters related to each other. Below are the summary of each chapter.

CHAPTER 1: INTRODUCTION

This chapter is aimed to elaborate the background, problem formulation, objectives and contributions of this particular research to study the adoption of target costing with activity analysis by assessing the cost exempted by Guna Lintas Sarana to deliver export custom clearance.

CHAPTER 2: LITERATURE REVIEW

This chapter is committed to provide theoretical framework as a basis of research analysis, to gain in depth understanding to the theory applied, as well as a tool of comparison with the business in practice. Theories are collected from several books, journals, thesis, and other sources relevant to support this research.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter is intended to elaborate research method and approach used in this research, scope of research, types and source of data gathered, techniques of data collection procedures and data analysis. This research used qualitative method with case study and descriptive method adhered. Data were collected by obtaining documents and interview with the internal personnel in Guna Lintas Sarana.

CHAPTER 4: RESULTS AND DISCUSSION

This chapter attempted to depict general condition of the company and the market to comprehend the company's position in the market related to its service price as well as processing and analyzing the data gathered through the use of activity analysis to arrive at target cost arranged. This chapter also explains the limitations encountered by the author during the research.

CHAPTER 5: CONCLUSION AND SUGGESTION

This chapter enclosed the conclusions obtained from the previous chapter and suggestions expected to be considered for the company to improve company's performance, cost efficiency and market competitiveness.

