

## The Effect of Using Cost Policy in Improving the Pricing Efficiency in Food Industrial Sector

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### Abstract

The cost system of enterprise is considered very crucial in determining the pricing of good in enterprises. The objective of this paper is to investigate the effect of using the cost as a tool to determine the final price of products. To accomplish the objectives of this research questionnaire was used as a tool to collect data. Four items were included: the effective costs, control of costs, providing data for planning and support management decisions and its effect price effectiveness. Comprehensive survey was used to collect data. The results showed that the cost policy can be used as a tool to determine competitive prices.

**Keywords:** Cost; Price; Competiveness

### Introduction

The high competitiveness among companies in food sector makes the prices a good determinant of market share as the price is considered one of the important components of the marketing mix. The good prices determine the extent of sales and the cash flow of the company. These factors will determine the ability of company to develop its products as well as to make balance between productivity and returns [1]. Local markets affected directly by the exports competitiveness. The prices of local prices goods will determine the ability of these goods to compete the exported ones [2].

The strategic cost management considered one of the modern applications that depend mainly on analyzing the cost and using its information to draw and execute strategies. The enterprise manages its sources and activities that uses those sources through the concentration on events and conditions that direct these activities. So, the cost management concerns with all activities related to planning and controlling the cost to use different sources economically taking into consideration the interests and preferences of customers [3]. In this aspect, the determination of all processes considered crucial in industrial company to find out those with high cost to minimize the cost with the reservation of the quality of the final product.

Cost management provides the top management of information about the percentage of use of sources per product. To accomplish that effective measurement tools should be used to reach comprehensiveness [4]. Cost management passes through three stages according to the context and as a response to changes [5]. First stage represents the stage of recording all information to prepare reports and estimate the production cost. This stage is very important in reserving cost and keeping quality. The second stage concentrates on sharing the benefit information to prepare the financial reports. The third stage concentrates on cost management through the high concern of the current expenses to help in decision making to reduce the costs. The different cost activities can be collected to form the strategic cost management as a part of product management in the enterprise.

Correct and effective use of strategic cost management becomes very crucial in the enterprise as the response to the age environmental changes increase including the global competitiveness, technological development, care of customer, developing the managerial systems, and political, social and economic considerations [6]. Shank and Govindarajan reported that strategic cost management concentrates

on managing operations, activities, performance and customer satisfactions, choosing the proper cost compared to competitors, determining the tools to support the excellence of the enterprise [7]. Finally, the strategic cost management will be used to measure the extent of achieving the strategic goals, supporting the competitiveness experience, and the care of performance efficiency through financial indicators. Different criteria should be available to reach effective strategic cost management including the flexible cost management and continuous change, using strategic analysis to evaluate the extent of executing strategies using financial ratios, well understanding of activities, cost and income.

Goods pricing affected by different factors including the cost, competitors, and demand [7]. The cost can be used to manage on the short or long run [8]. Cardinals et al. studied the effect of additional costs and indirect costs on goods prices [9]. It was reported that the income and prices are highly affected by the cost related to the type of product quality. The precision of the cost reports will affect directly the effectiveness of pricing. Deo and Penkar studied the effect of structure of cost on the pricing in large enterprises [10]. They found that the enterprise control the prices which covers the constant cost. Buchheit indicated that the constant cost affect the pricing efficiency [11-15].

### Methodology

Companies competitiveness affected by different factors including prices and quality. The study objective is to figure out the effect of using costing policy on improving the financial ratios, increasing returns, opening new markets, and increasing market share. To accomplish the objectives, questionnaire was prepared composed of three parts. The first part was concerned to collect demographic and experience information about accountant in the food companies, while the second part concerned with collecting data about the effective cost

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of products, controlling costs, providing information for planning, and using cost to draw policies and decision making. The third part of the questionnaire concerned with collecting information about the market share, opening new markets, increase returns, and improving the competitiveness. Lickert's five scale used ranging from highly agree (5) to high disagree (1). Comprehensive survey conducted for the food industrial companies. Table 1 shows the distribution of respondents.

Reliability of the collected questionnaire was tested using Cronbach's alpha. The results of reliability varied from very good to excellent, which indicates that the questionnaire is reliable to be used for analysis (Table 2).

## Results

### Increase market share

Table 3 shows that effective pricing contributes in product preference based on price (3.91), also the results showed that effective pricing facilitate the circulation of product in the market (3.69). Moreover, effective pricing increase the demand on the product in the market (3.67), increase the sales and reflects the product quality (3.29).

Sample components	Number of questionnaires
Accountant	46
Financial manager	15
Managerial	15
Total	76

Table 1: Sample Structure.

Variables	Cronbach's Alpha
<b>Cost policy</b>	0.932
Effective cost of product	0.815
Cost observation	0.803
Providing data for planning	0.840
Using cost to draw policies	0.856
<b>Pricing Efficiency</b>	0.944
Improve market share	0.849
Open new markets	0.822
Increase returns	0.789
Increase competitiveness	0.888

Table 2: Cronbach's Alpha of reliability analysis.

Item	Mean	Std. Dev
Increase market share	3.64	0.89
Effective pricing facilitate the selection of products as alternative based on price	3.91	0.62
Effective pricing facilitate circulation of product in markets	3.69	1.06
Effective pricing increase the demand on product	3.67	0.99
Effective pricing increase the sales	3.64	0.91
Effective pricing reflects the products quality	3.29	1.14

Table 3: Means and standard deviation of the effect of effective pricing.

Item	Mean	Std. Dev
Open new market	3.65	0.81
Pricing efficiency facilitates the reach of new markets	3.98	0.98
Pricing efficiency increase competitiveness in the new markets	3.78	1.09
Price efficiency facilitates the distribution of the enterprise products	3.62	1.02
Price efficiency facilitates the export of the products	3.53	1.19
Pricing efficiency helps in determining the targeted markets	3.33	1.19

Table 4: Means and standard deviation of the effect of pricing on opening new markets.

### Open new markets

Results show that the effective pricing would affect the opening of new markets (3.65). The results also showed that the effective pricing facilitate the reach of new markets (3.98), increase competitiveness in the new markets (3.78), contribute in creating harmonization between the products and its distribution (3.62), increase the exports of the product (3.53), and determining the targeted markets (3.33). These results even it has positive effect but still this effect varied according to targets needed (Table 4).

### Increase the returns

The results showed that price efficiency will increase the returns (3.65) through increasing the sales (3.91), improve the opportunity to market more than one product at the same time (3.87), decrease the cost (3.87), increase profits (3.65), and increase the offers introduced by the company (3.49) (Table 5).

### Increase competitiveness

Effective pricing increase the competitiveness of the product (4.07). The highest contribution to competitiveness through the improve of the quality (4.31), followed by the higher care given for the major activities to improve the quality (4.11), and showing the product quality (4.06). Lower agreement was given for the increase of attractiveness to the products (3.87). The results showed that the pricing play effective role in improving the competitiveness of the products (Table 6).

### Attitudes to use the cost as a tool for pricing

**Determination of effective cost to improve price efficiency:** The general attitude for the effect of determining the effect cost to improve price efficiency was moderate (3.6). The highest agreement was for considering the competitors prices when determining the product cost (3.8) and the study of cost is considered in determining the products costs (3.8). Less agreement was given for the effect of the determination of the original cost of product on improving pricing efficiency (3.7) and the search for alternatives for inputs to decrease the cost (3.7) (Table 7).

The least agreement was given for the consideration of cost of other products to determine the cost of one product (3.6) and studying the cost of production stage to decrease the cost and improve pricing efficiency (3.5). The last agreement was for the effect of the cost studies for the indirect cost to improve the efficiency (3.2).

Item	Mean	Std. Dev
<b>Increase the returns</b>	<b>3.65</b>	<b>0.71</b>
Price efficiency increase the sales	3.91	0.62
Price efficiency improve the opportunity to market different products per once	3.87	0.60
Pricing efficiency decreases the cost and increase the profits	3.65	0.79
Effective pricing increases the offers introduced by the enterprise	3.49	0.72
Price efficiency increase the profit margin		

**Table 5:** Effect of price efficiency on increasing the returns.

Item	Mean	Std. Dev
<b>Increase competiveness</b>	<b>4.07</b>	<b>0.541</b>
Effective cost estimation improve the quality of the product and competiveness	4.31	0.77
Pricing according to activity increase the care for the major activities that increase the competiveness	4.11	0.88
Effective pricing reflects the product quality	4.06	0.93
Pricing according to activity increase the quality and competiveness	3.98	0.84
Effective pricing increase the attractiveness to the product	3.87	0.69

**Table 6:** Effect of price efficiency on competiveness.

Item	Mean	Std. Dev
<b>Effective cost to improve price efficiency</b>	<b>3.6</b>	<b>0.9</b>
The enterprise take into consideration the competitors prices when determining the product cost	3.8	0.9
The final price is determined through detailed study of the costs	3.8	1.1
Original cost estimation increase pricing efficiency	3.7	1.3
Search for alternatives to decrease the cost	3.7	1.2
Take into consideration the cost of other products in determining the cost of the product	3.6	1.2
Studying the cost of production stages decrease the costs and improve pricing efficiency	3.5	1.2
Cost studies decrease the indirect cost and improve pricing efficiency	3.2	1.2

**Table 7:** Attitudes for the effect of determination of effective cost on improving price efficiency.

Item	Mean	Std. Dev
<b>Cost control to improve pricing efficiency</b>	<b>3.7</b>	<b>0.8</b>
Follow up the cost to improve the pricing of products	4.0	1.1
Finding special division for cost management contributes in improve pricing	3.9	1.1
Designing systems to supervise the cost of different products	3.8	1.0
Assigning staff to study the cost compared to competitors	3.6	1.2
Adjusting cost according to market research	3.6	1.2
Studying the competitors cases to price products and increase competences	3.3	1.1
Executing studies for the effectiveness of prices	3.0	1.2

**Table 8:** Trends for cost control to improve efficiency.

### Cost control to improve pricing efficiency

The trend for cost control to improve pricing efficiency was moderate (3.7). The highest evaluation was for the follow up of the cost to improve the pricing of products (4.0). The trends started to decrease when the activities needs from the enterprise extra cost to find specialized divisions and systems to control the cost in the company. The trend decreased for finding a division care for cost management helping in improving the price index (3.9), also the trend dropped more for findings system inside the company helping in price control (3.8). The least trend recorded for executing studies that helps in improving the pricing effectiveness (3.0) (Table 8).

### Providing data required for planning

Table 9 shows that the agreement of providing data for planning cost was moderate (3.8). The highest agreement was for providing data for the changes of cost to improve pricing with mean (4.1), followed by executing studies about cost effectiveness, modifying the cost based on final price, providing data about competitors concerning the cost with mean (3.9). The third order was for finding division for cost management and assigning the experts to manage the cost data (3.8).

The least and negative trend was for designing systems to control the cost (2.9). The lack of systems to control cost in companies indicates the extend of extra efforts to provide data to control the cost.

### Using cost data for planning and decision-making

Table 10 shows the usage of data for planning and decision-making. The results showed that the trend for using data for planning and decision-making was moderate (3.04) and the positive moderate trend was recorded for using experts in cost management to improve pricing (3.5). The trend of using historical electronic records for costing and using records for production inputs and output was moderate. The trends of studying the price, cost and quality was negative (2.9), also the trend for studying the price reasonability was negative (2.8).

### The effect of cost management on prices efficiency

**The effect of cost policy on market share:** The results showed that different parameters of using cost in pricing explain only 23% of the market share justification. The highest significant effect was for controlling cost to improve pricing, while the least effect was for using cost to draw policies to improve competiveness (Table 11).

Item	Mean	Std. Dev
<b>Data provision for planning cost</b>	<b>3.8</b>	<b>0.9</b>
Providing data for the changes of cost to improve pricing	4.1	1.1
Executing studies about cost effectiveness	3.9	1.0
Modifying the cost based on final price	3.9	1.0
Providing data about competitors concerning the cost	3.9	0.8
Finding division for cost management	3.8	1.1
Assigning experts to manage the cost data	3.8	1.1
Designing systems to control the cost	2.9	1.3

**Table 9:** Means and st. dev. for the trends of providing data required for planning.

Item	Mean	Std. Dev
Using cost for planning and decision making	3.04	1.1
Using experts in cost management to improve pricing	3.5	1.2
Using historical electronic records for cost	3.0	1.3
Using records for production inputs and outputs	3.0	1.2
Studying the price, cost and quality	2.9	1.1
Studies about price reasonability	2.8	1.1

**Table 10:** Means and st. dev. for using cost data for planning and decision making.

Source of variation	t value	Probability
Constant	0.113	0.056
Determining the effective cost to improve pricing	0.197	0.001
Controlling cost to improve pricing	0.343	0.001
Providing data to minimize cost and improve pricing	0.191	0.001
Using cost to draw policies to improve competitiveness	0.076	0.139
Adj R-square	0.23	
Model probability	0.001	

**Table 11:** The effect of cost policy on market share.

Source of variation	t value	Probability
Constant	0.115	0.101
Determining the effective cost to improve pricing	0.289	0.001
Controlling cost to improve pricing	0.247	0.001
Providing data to minimize cost and improve pricing	0.171	0.001
Using cost to draw policies to improve competitiveness	0.015	0.739
Adj R-square	0.331	
Model probability	0.001	

**Table 12:** Linear regression for the effect of cost policy on competitiveness.

### The effect of cost policy on competitiveness

Cost policy explains 33.1% of company competitiveness. The highest effect was for the determination of the effective cost to improve pricing, while the least effect was for using cost to draw policies to improve competitiveness (Table 12).

### The effect of cost policy on maximizing returns

The cost policy justified only 28.8% of return maximization. The highest effect was for the determination of effective cost to improve pricing, while the least effect was for using cost to draw policies to improve competitiveness (Table 13).

### The effect of cost policy on opening new markets

Cost policy explains 39.5% of opening new markets. The highest effect was for determining the effective cost to improve pricing, while the least effect was for using cost to draw policies to improve competitiveness (Table 14).

## Discussion

The results showed that cost policy usage to accomplish

competiveness is high significant. This may resulted of considering of other food producing companies and reflect these prices to minimize the cost of product to improve competitiveness. Moreover, the results showed the cost policies improve competitiveness through defining the final price of products according to market studies and competitor's prices.

The food companies search for alternatives to minimize the cost of its products, which improve the pricing efficiency. The policy used in these companies depend on collecting information about the competitors prices to improve the cost to accomplish good profit bases on goods final price. The results showed that studying the cost of each production stage will help he companies to minimize the cost. The care of the companies to minimize the indirect cost is low. This is because the companies considered the indirect costs less important to improve the pricing of the products and they concentrate on the original cost that affect the pricing directly.

Food companies concern with the costs as a tool to improve the competitiveness in the market. They do that through the concentration on follow up of the cost changes to improve the pricing. Furthermore, some companies concern with finding specialized division to

Source of variation	t value	Probability
Constant	0.249	0.114
Determining the effective cost to improve pricing	0.304	0.001
Controlling cost to improve pricing	0.273	0.001
Providing data to minimize cost and improve pricing	0.188	0.001
Using cost to draw policies to improve competitiveness	0.050	0.307
Aduj R-square	0.288	
Model probability	0.001	

**Table 13:** Linear regression for the effect of cost policy on maximizing returns.

Source of variation	t value	Probability
Constant	0.212	0.061
Determining the effective cost to improve pricing	0.312	0.001
Controlling cost to improve pricing	0.129	0.002
Providing data to minimize cost and improve pricing	0.223	0.001
Using cost to draw policies to improve competitiveness	0.129	0.007
Aduj R-square	0.395	
Model probability	0.001	

**Table 14:** Linear regression for the effect cost policy on opening new markets.

minimize cost and increase profitability. On the other hand, the care for competitors considered crucial tool to determine the prices and minimize the cost accordingly.

## Conclusions and Recommendations

The objective of this research is to test the role of cost on improving the efficiency of pricing in food companies. To accomplish the objective of this research, the questionnaire used as a tool to collect data. The study targets the accountants and managerial staff in these companies. The results showed that the care of companies for market studies is not enough to use it as a tool to improve competitiveness and improve pricing. The food companies should improve their care for creating databases for costs and pricing to improve the performance of the company. The case for establishing databases will improve the search for alternatives to minimize costs.

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