

Analysis on Lean Management of Real Estate Projects Oriented by Target Cost Management

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Abstract. At present, the state has more and more regulatory policies for the real estate industry, and the regulatory intensity is also greater. With the introduction of national policies and the impact of the downturn in the real estate market, industry competition has become increasingly fierce. Under this situation, if real estate companies want to avoid being eliminated by the market, they must rely on their own efficiency levels and management capabilities. Therefore, strengthening cost control on projects is an inevitable choice and important means for real estate companies. In recent years, with the slowdown of economic growth and the state's regulation of the real estate industry, the sustainable development of the real estate industry has faced increasing challenges. This article is oriented by target cost management and focuses on the lean process of real estate development projects. The key points of management and its management strategies are discussed to provide industry reference.

Keywords: Cost Management; Real Estate Development Projects; Cost Control; Lean Management.

1. Introduction

Under the guidance of the policy tone of city-specific policies, regulation of the real estate market has become stricter, and competition in the industry has become increasingly fierce. Since the country's land demand exceeds supply, land transaction costs have increased, coupled with rising costs in the real estate cooperation industry and rising financing costs, the profit margins of real estate companies have declined. The "housing is for living, not for speculation" policy has slowed down the withdrawal of funds by real estate companies, lacked guarantee of capital chain and increased demand for cash flow. How to enable real estate companies to survive and gain profits in the environment of "housing is for living, not for speculation", effective cost management has become particularly important. Cost management is an essential link in the operation process of real estate enterprises. Its purpose is to reduce cost levels and maximize profits. Cost control is the way to carry out cost management. How to effectively carry out cost control is a problem that every enterprise needs to face. Therefore, exploring the current target cost management model of real estate enterprises aims to discover and solve problems to control costs and increase profits.

2. Target Cost Management Concept and its Process

2.1. Target Management Cost Concept

Target cost refers to an estimated cost set by an enterprise to achieve target profits within a certain period of time. The target cost is equal to the difference between the sales price and the target profit. The target cost of a project is usually based on the cost information and completion data of previous projects, combined with the current project's own situation and market conditions, to predict the project's sales revenue and profit margin, thereby determining the target cost. During this process, certain management measures need to be taken to ensure the achievement of target costs.

The target cost management of the project is a management activity that takes all participants in the enterprise as the main body, with the project manager as the core. The purpose is to form a cost management system that integrates responsibilities, rights, and benefits: First, it is necessary to clarify

the work responsibilities of each functional department and form a standardized Work process; secondly, supporting incentive mechanisms and reward and punishment measures should be formulated to fully consider people's initiative and improve employee enthusiasm; finally, according to the cost composition of the project, the costs should be decomposed into various departments in the form of responsibility costs to improve the project The utilization rate of funds ultimately achieves the purpose of controlling project costs and maximizing project benefits. Applying target cost management theory in projects can help improve the work efficiency of the enterprise. The clear form of rights, responsibilities and benefits also facilitates the implementation of cost management responsibilities to people, avoiding the situation of shirking responsibility, resulting in failure to solve problems in time or causing increased costs.

2.2. The Process of Target Cost Management

2.2.1. Determination of Target Cost

The determination of the target cost needs to be based on a full understanding of the company's operating conditions and the basic situation of the project, and on the premise of a full investigation of industry policies and the surrounding environment of the project, a comprehensive analysis of the project cost and a sales revenue forecast, and based on the expected. The target cost amount is determined based on the sales revenue and expected profit.

2.2.2. Breakdown of Target Costs

The decomposition of target costs is divided into horizontal decomposition and vertical decomposition. Horizontal decomposition refers to decomposing the target cost to each functional department and employee, forming the responsibility cost of each department and individual, making each employee's job responsibilities more clearly, and responsible for the cost management of cost accounts within their respective scope of responsibility. Vertical decomposition refers to decomposing the target cost layer by layer, first dividing the cost categories into major cost categories, and then decomposing the major cost categories into specific cost accounts, and performing cost control on each cost account.

2.2.3. Target Cost Control

Target cost control includes pre-event analysis, in-process process control and post-assessment assessment control. It runs through the cost management of the entire project process. Through data statistics, deviation analysis and deviation correction of costs, the target cost is achieved. Effective supervision and control.

2.2.4. Target Cost Assessment

The basic process of implementing bid cost management is shown in the figure below.

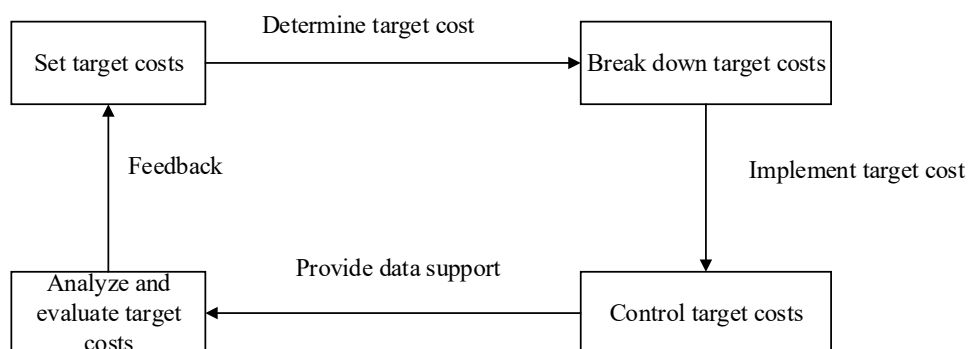


Figure 1. Target cost management implementation process

After the project is completed, it is necessary to compare the deviation value between the target cost and the actual cost at each stage of the project implementation, compare the deviation value between the target cost and the actual cost of each cost account, analyze the reasons for the large cost deviation and propose improvement measures, and adjust the corresponding goals. The cost-responsible departments and responsible persons conduct assessments, and implement reward and punishment measures based on the assessment results.

3. Problems Existing in Target Cost Management of Current Real Estate Companies

3.1. Target Cost Execution Process Can be Changed at Will

During the implementation of target costing, costs increased due to arbitrary design changes and excessive visa changes, reflecting certain problems in the implementation of target costing.

During the construction process of a construction project, Party A needs to subcontract the project to Party B and sign a contract for entrusting the construction. In the contract, there will be a jointly determined amount for the total cost of the project. Party B completes the construction tasks according to the contract, and Party A pays Party B according to the cost agreed in the contract. But during the actual construction process, there will be many changes outside of the contract. These changes will have an impact on the cost of the construction unit, and these impacts are not due to the construction unit itself. In order to protect the interests of the construction unit, Party B will be compensated for the above losses through the visas of the supervisor and Party A. These compensations are in addition to the total contract amount.

3.2. Lack of Measures for Cost Management

Due to the long construction period of the project and the complex business environment during the implementation phase, many unforeseen and uncontrollable factors will be encountered, which will cause cost fluctuations. This part of the fluctuating costs is dynamic cost.

The current cost department of the project conducts monthly cost review, compares the actual settlement cost of the month with the estimated target cost, finds the difference between the two, analyzes the reasons for this result, and reports the reasons for approval. After reporting, the leadership generally All of them will be approved. Although the excess costs will be dealt with in the future, no measures will be taken to remedy or adjust the overrun costs, and the excess costs will be allowed to be exceeded.

This way of handling cost differences ignores the increase in costs to a certain extent. There are no measures to control the excess costs, which will only cause more and more dynamic cost overruns to accumulate. It is not practical for the company's target costs and subsequent cost management work. significance. As the project progresses, dynamic cost overruns accumulate more and more, eventually leading to the failure to achieve expected profits.

3.3. There is a Large Difference Between Target Cost and Actual Cost

The purpose of setting the target cost is to have an upper limit on the cost amount, so as to strengthen the management of costs and make the costs controllable. However, by comparing the current target cost of the project with the actual cost of the settlement version, you can find the difference between the actual cost and the target cost. Larger, which defeats the purpose of setting target costs. According to the different calculation methods of each cost item, it is divided into two categories: one is the estimated budget item, and the other is the direct estimate item.

After the target cost is established, cost management during subsequent project construction should be strictly carried out in accordance with the target cost. Only by conducting limit management according to the target cost can the actual cost be controlled within the target cost. If the difference

between the overall target cost of the project and the actual cost is large, the target cost will lose its management significance and have an adverse effect on the project's profits.

4. Target Cost Management Improvement Measures

4.1. Target Cost Responsibility Process Control

After clarifying the specific responsibilities and target cost amounts of each department, each department manager will organize the next step of responsibilities decomposition to ensure that all personnel can participate in the target cost management work.

The entire project construction process has a long period and there are many subcontracting units. Therefore, more attention should be paid to the management of external construction units during the project construction process. For outside units, including construction units, supervision units and external consulting units, relevant supervision procedures should be formulated. The main content should be summarized based on the actual situation of previous projects to prevent the construction team from speculating. Therefore, regular maintenance of machinery and equipment should be carried out to see if it exceeds the limit. The service life or the machine is still in use if it breaks down, etc. During the construction process of the project, we regularly clarify the rights and obligations of both parties with the cooperating units, and evaluate the construction team accordingly. The units with the highest evaluation results will be given priority in future project cooperation, thereby motivating the construction units to strengthen internal management and achieve mutual benefit between both parties. A winning situation.

4.2. Clarify Cost Responsibilities and Targets

According to the cost responsibility decomposition method, distribute it to each responsible department, organize the personnel in charge of each department to learn the principles of target cost management, and make them realize the importance of target cost management to the enterprise, the responsibilities of their own departments, and the process of target cost management; The department head will decompose the responsibility cost again according to the actual situation of the department, and decompose it to individuals for cost control. The decomposition process should be fair and impartial, and the results agreed to by all employees should be reported upward to confirm the final responsibility cost.

Finally, the cost department reviews and supervises the work of each department. Only when those directly responsible for various costs begin to take responsibility and all employees become cost managers can target cost management maximize its value.

4.3. Establish Dynamic Cost Control Methods

A single target cost management model cannot perfectly achieve the goal of cost control, nor can it make target costs fully play their role. Dynamic cost management is based on target cost management to control the fluctuation of dynamic costs. Enterprises need certain basic conditions to assist in dynamic cost management. Only in this way can target cost management be effective.

In principle, once the target cost is set, it will not be changed. However, during the actual implementation of the project, under certain circumstances, the target cost should be updated in a timely manner so that the target cost can accurately and comprehensively reflect the cost upper limit, thereby completing cost control.

By combining target cost with dynamic cost management, the cost of construction projects of real estate enterprises can be effectively controlled and the probability of economic risks is reduced. Dynamic costs are susceptible to fluctuations due to certain factors. Dynamic cost management tracks the fluctuations of dynamic costs, compares and analyzes them with target costs, finds out the reasons for the differences, and takes corresponding measures to reduce costs based on dynamic cost

fluctuations. The amount incurred is controlled within the target cost, which provides a basis for cost management in the later stages of the project, ultimately achieving the role of setting target costs and maximizing the economic benefits of the enterprise. Therefore, the application of target cost needs to be combined with dynamic cost management to achieve its purpose of cost control.

5. Conclusion

The strategic cost goal of real estate enterprises is to have strong competitiveness in the future and obtain maximum profits with the least money. Target cost management is exactly in line with this goal. The overall cost upper limit is calculated during the project design stage, and then the top-down It is decomposed to each responsible person, not only the management of the cost department, but also requires the joint participation of all functional departments in management, the cooperation of all departments, and the participation of all employees in cost control, so as to better manage costs from the source and the entire process, and ultimately achieve cost control. strategic goals.

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