

CHAPTER I

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Nowadays, people's purchasing power is increasing which happens to bring a great impact on the company's sales volume. Due to the increment in sales volume, the profit of the company will also increase. However, the increment in profit is also followed by the increment in cost.

Meanwhile, every company has one main purpose, which is to gain higher income which is stated in the company's income statement. It is due to keep the company growing and becoming better. However, it could only happen when the company is able to manage its cost utilization. By managing its cost utilization, the company could set a better selling price which could increase the sales volume. In order to control the cost utilization, company needs to utilize its available resources efficiently without reducing, but to improvise the quality of the products manufactured. And as the result, the company's profit will increase.

On the other hand, before taking any step, it is important for a company to properly plans and decides its target cost utilization, sales volume, and profit as the foundation of the company's successfulness. The reason is because without a great foundation, the possibility for the company to be successful is lower. One of the indicators for a successful company is the ability of the company to increase its profit. So, in this research, break-even point analysis is applied in planning the company's cost, volume, and profit and helping management in making decision. Break-even point analysis shows the point where company neither gaining any profit nor suffering from loss. So, it is considered as a suitable tool for planning and making decision.

Break-even point analysis is effective for manufacturing company to not only plan the cost, volume, and profit but also help the company in setting the price of the products, considering sale or discount for certain products, increasing sales, raising prices to increase profit margins, reducing profits to generate more gross profits or reducing expenses. Moreover, potential investors would like to know not only the return on investment but also the duration, because some companies take years before they are profitable. After the company is profitable based on its operations, investment money or cash reserves are not needed to continue its operations. However, the company might still have the investment money that needs to be paid back. Therefore, the company has not made a profit for its investors. Investors would want to know the break-even points of the company to consider about investing in the company.

In a research by Nurhayati and Rivai (2017) about implementing break-even point analysis in deciding the tariff of transportation and it was proven that this method is effective in solving the problems occurred related to the transportation tariffs and number of passengers. In addition, Wiwit Muliono (2018) have also done a research on the implementation of break-even point analysis as a tool in profit planning, which was also proven effective since break-even point can be achieved by the company even though the sales volume and costs went up and down.

Manufacturing company is the company that turns raw materials into finished products. Generally, the finished products are directly sold either to customers or other manufacturing companies to produce different products. The manufacturing company's costs include raw materials, direct labor, and factory overhead. Raw materials are the materials used to manufacture the products. Direct labor is the labor of the employees who convert the raw materials into finished products. Factory overhead includes all items other than raw materials and direct labor, which are also necessary in manufacturing the product, such as indirect materials, indirect labor, utilities, depreciation, insurance, taxes, and fringe benefits.

In this era of globalization, market is getting more competitive, which happens to be a challenge for the go-public company to achieve target profit. Therefore, in order to achieve the target profit, a good planning is needed and break-even point analysis is the method in profit planning that base the analysis on sales and costs, which happens to be a great method for short-term profit planning.

From the description above, the reason to conduct this research is because writer would like to do the research on a multi-product manufacturing company, since most manufacturing companies do not apply break-even analysis method in doing its planning and PT Charoen Pokphand Indonesia Tbk (Medan Branch) happens to fail in meeting the target profit set by the management due to the competition. Moreover, writer would like to implement break-even point analysis in planning not only profit, but also the cost and volume. Therefore, writer decides to do the applied research project of this title, which is “**The Implementation of Break Even Point Analysis towards Cost, Volume, and Profit Planning on PT Charoen Pokphand Indonesia Tbk (Medan Branch)**”.

1.2. PROBLEM FORMULATION

The problem formulations of this research are: How does the implementation of break-even point analysis as a tool in cost, volume, and profit planning on PT Charoen Pokphand Indonesia Tbk (Medan Branch)?

1.3. RESEARCH FOCUS

This research focuses on:

1. Indicators: Sales, Cost, Profit, Break-even point
2. Conducting the research on multi-product manufacturing company, PT Charoen Pokphand Tbk (Medan branch)
3. Using the company's financial statement in 2017 and 2018 in implementing break-even point analysis towards cost, volume, and profit planning from January 2019 to March 2019.

1.4. RESEARCH OBJECTIVE

Based on the problem formulation, the objectives of this research is: The impact of implementing break-even point analysis in planning cost, volume, and profit of PT Charoen Pokphand Indonesia Tbk (Medan Branch).

1.5. BENEFIT OF THE RESEARCH

1.5.1. THEORETICAL BENEFIT

The theoretical benefit from this research is to broaden writer's knowledge about implementing break-even point towards cost, volume, and profit planning. Moreover, this research may also provide some information for readers to improve their knowledge about break-even point analysis and as a reference for the related research.

1.5.2. PRACTICAL BENEFIT

The practical benefit from this research are to show company the importance of implementing break-even point analysis in planning its cost, volume, and profit, and as a recommendation for the company to apply break-even point analysis to improve the company's performance.

1.6. SYSTEMS OF WRITING

In accordance to the requirements stated, this research consists of five chapters and each chapter has some sub-chapters, such as:

Chapter I: Introduction

In this chapter, writer includes the background of implementing break-even point analysis in planning cost, volume, and profit, the reason to conduct the research, problem limitation, problem formulation, and objectives of the research. Moreover, this chapter also includes the theoretical and practical benefits for public and the company.

Chapter II: Literature Review

In this chapter, writer provides the theories obtained from the previous researches and academic literatures related to the title, and the framework of thinking.

Chapter III: Research Methodology

In this chapter, writer describes the research design, the research object, the method used in collecting and analyzing data.

Chapter IV: Data Analysis and Discussion

In this chapter, writer describes the research object, data analysis, and discussion.

Chapter V: Conclusion

In this chapter, writer concludes the research, implicates the result of the research, and recommends the method applied in this research to the company.

