
Sales Growth Through Quality Cost in Increasing Profit in Micro, Small and Medium Enterprises (MSMEs)

Rustan ¹

Abstract:

This study aims to determine and analyze sales growth through quality costs in increasing profits in micro, small and medium enterprises (MSMEs) in Makassar City. The approach in this study is a qualitative approach. The type of data used in this study is primary and secondary data. The objects in this study are sales growth, quality costs and profits. The data collection technique used is the method of interviewing several MSMEs regarding sales growth through quality costs. The analysis technique used in this study is descriptive analysis and qualitative data analysis techniques. The steps for data analysis techniques are data reduction, data presentation and drawing conclusions. The results showed that the cost of quality can help increase sales growth in SMEs and significantly affect the lab.

Keywords: Sales Growth, Quality Cost, Profit, MSMEs

1. Introduction

In today's globalized world, every Micro, Small and Medium Enterprise (MSMEs) wants to always compete in product competition to achieve maximum profits, but the various problems faced by MSMEs are high production costs, lack of resources, lack of access to markets, competition tighter prices and products, and a lack of product and service development. In addition, the phenomenon of declining product sales can be a big problem for MSMEs and cause a decrease in profits. Decrease in sales can be caused by various factors, such as decreased market demand, intense competition, or difficulties in product marketing.

With the growth and competition in today's business world, companies are required to look far ahead in order to continue to survive in the market. Moreover, the greater the development of technology, communication and transportation which makes competition more competitive. One way that can be taken is to improve the quality of the products produced (Collins et al., 2010). The complexity of competition in an industry causes every company to always try to improve its quality so that customer satisfaction can be realized. MSMEs carry out various ways to develop their companies to overcome these problems, such as innovating their products to increase the competitiveness of the products (Hamdani & Wirawan, 2012).

¹Departement of tax, Universitas Muhammadiyah Makassar, Indonesia. rustan@unismuh.ac.id

Sales growth and increasing profits are the two main goals of business, including MSMEs. To achieve this goal, MSMEs need to consider factors that can help them increase sales and reduce production costs.

One of the key factors that can help MSMEs increase sales and profits is the cost of quality (Desai, 2008). Quality costs refer to costs associated with improving the quality of products or services offered by SMEs (Masoudi & Shahin 2021). By improving product or service quality, SMEs can improve their brand reputation, increase customer satisfaction, reduce reprocessing costs, increase efficiency, and increase their competitiveness in the market. All of these factors can help increase the sales and profits of MSMEs. However, quality costs can also be an additional burden for MSMEs if not managed properly. Therefore, MSMEs must consider the benefits and risks of quality costs before making decisions to improve the quality of their products or services.

Quality costs can be interpreted as expenses to control, improve and maintain product quality and are a financial indicator of quality performance for companies (Czajkowski, 2017). Companies can carry out various activities that will have an impact on improving production quality to produce products that are in accordance with the quality expected by customers so that they will increase market share and sales value (Lina, 2022; Pambreni et al., 2019). Quality costs are divided into four categories: prevention costs, appraisal costs, internal failure costs, and external failure costs. These costs are the cost of conformance and the cost of nonconformance.

2. Theoretical Background

Sales Growth

According to the Indonesian Accounting Association (IAI) in SAK No. 23 (2003) Sales of goods include goods produced by the company for sale and goods purchased for resale such as merchandise purchased by retailers or others. According to Covin et al., (2006) Sales growth is an important indicator of market acceptance of the company's products and/or services, where the income generated from sales will be used to measure the level of sales growth.

Quality Cost

According to Khaled & Murgan (2012) costs are expenditures or sacrifice values to obtain goods or services that are useful for the future, or have benefits that exceed one accounting period. Wang et al., (2021) states that costs are sacrifices of economic resources, measured in units of money, that have occurred or are likely to occur for a particular purpose. Rust et al. (2022) Quality costs are an attempt by a company to realize changing customer expectations, through goods and services, processes and the resulting environment. An activity that has to do with quality is an

activity carried out because there is an indication or bad quality has occurred. Meanwhile, according to Baiman et al. (2000) prevention, detection and other activities related to defective products cost money which is often referred to as quality costs. Activities related to quality are activities carried out because there may be or has occurred poor quality. The costs for carrying out these activities are called quality costs. Lundahl et al., (2009) reveals that quality costs can be classified into observable or hidden costs.

- a) “Observable Quality Cost
Observable Quality Cost is a cost available in the company's accounting records. The observable cost of quality is easily measured by looking at evidence of transactions and accounting records.
- b) Hidden Quality Cost.
Hidden quality cost is the opportunity cost or lost income due to a bad product. Hidden costs will not be recorded in accounting records. Examples of hidden costs resulting from poor product quality are lost sales, customer dissatisfaction, and loss of market share. Meanwhile, to measure hidden quality costs is rather difficult

Optimum Quality Cost Concept

Basically companies want to keep quality costs low, but be able to achieve higher ones, at least up to a point. Basically there are two paradigms regarding the concept of optimum quality costs, namely the traditional paradigm and the TQM (Total Quality Management) paradigm (Kara, 2005). Companies that intensively follow quality improvement programs are more likely to follow the TQM paradigm. This paradigm assumes that the lowest total cost of quality is achieved at the zero defect level.

3. Methodology

This research is a descriptive research with a qualitative approach, namely an approach by presenting data in the form of written or spoken sentences, actions, events, sciences, or study objects that can be studied by researchers without conducting a statistical test. This study aims to find out how quality costs in Small and Medium Enterprises (MSMEs) which are informants in this study.

The type of data used in this research is primary and secondary data. The objects in this study are sales growth, quality costs and profits. The data collection technique used is the method of interviewing several MSMEs regarding sales growth through quality costs.

The data analysis techniques are descriptive analysis and qualitative data analysis techniques. The method used in this research is descriptive analysis method with a case study approach. The descriptive analysis method is research that is intended to

investigate the circumstances, conditions or other things that have been mentioned, the results of which are presented in the form of a research report. While qualitative analysis techniques are an approach used in qualitative research to understand and explore complex and subjective phenomena. This technique is carried out by collecting, analyzing, and understanding data that is descriptive and not measurable. Qualitative analysis techniques carried out various steps, namely data reduction, data presentation and drawing conclusions.

4. Empirical Findings/Result

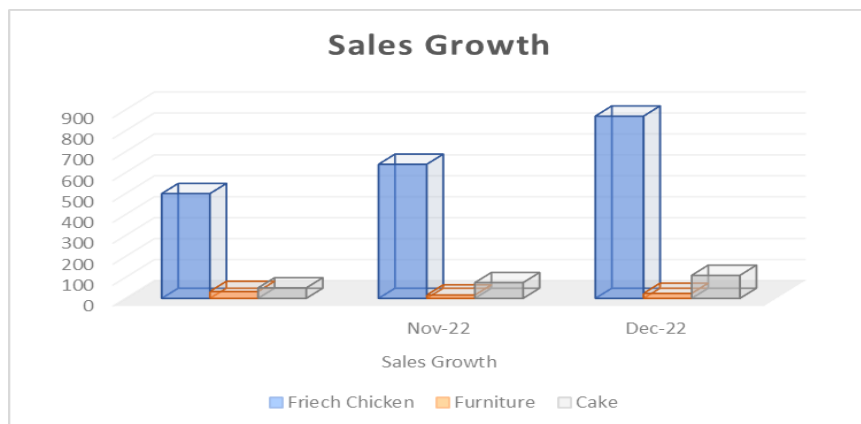
Characteristics of Respondents

This study uses qualitative research. The general description of the respondents from this study includes age, gender, strata, type of lecture and the sample used is 5 people/respondent MSMEs.

Tabel 1. Respondent Demography

Demography	Kategori	Frekuensi	Presentase
Type of MSMEs	Friech Chicken	3	60%
	Furniture	1	20%
	Cake	1	20%
Gender	< 20 Years old	1	20%
	21-30 Years old	2	40%
	31-40 Years old	1	20%
	> 40 Years old	1	20%
Gender	Men	3	60%
	Women	2	40%
Programme	SMA	3	60%
	D3/S1	2	40%
	S2	0	0%

Sources : Data Processed (2023)



Picture 1. Graphich of Sales Growth

Based on the graphic image above, it can be seen that sales growth in fried chicken SMEs and cake SMEs has increased. Meanwhile, MSMEs in furniture experienced a decline in sales in November 2022, this was due to the high production of goods and low consumer demand and the lack of optimal management of quality costs which is a challenge in these MSMEs.

Quality costs play an important role in increasing profits in Micro, Small and Medium Enterprises (MSMEs) by minimizing costs arising from defects in products or services provided. Quality costs include prevention costs, appraisal costs, internal failure costs, and external failure costs.

Based on the results of field observations, it shows that quality costs can help increase sales growth in MSMEs and significantly affect MSME profits. This means that MSMEs manage quality costs well in economic growth. SMEs manage quality costs by conducting internal audits to identify sources of quality costs (including production costs, inspection costs, testing costs, repair and replacement costs for defective products, and warranty claim costs). After identifying sources of quality costs, SMEs can improve processes to reduce these costs. For example, by improving production processes, SMEs can reduce the number of defective products and the costs associated with repairing and replacing defective products. However, SMEs have a challenge in managing quality costs, namely SMEs face difficulties in bearing high quality costs due to limited resources, SMEs may not have sufficient human, financial or technological resources to manage quality costs effectively.

MSMEs always try to do various ways to overcome these challenges. The way to do this is that SMEs find ways to reduce quality costs without sacrificing product or service quality, SMEs look for the right metrics to measure product or service quality. This can include customer surveys, quality testing, or more specific operational performance measurements, as well as MSMEs looking for additional resources that can assist MSMEs in managing quality costs.

5. Discussion

Quality costs affect product sales growth in SMEs and ultimately increase their profits. Management of quality costs can increase production efficiency and effectiveness, increase customer satisfaction, and improve the brand image of MSMEs (Kristianto et al., 2012). This will ultimately help increase the sales growth and profits of MSMEs. Customers are usually more inclined to buy products or services from brands that are known to have good quality, where quality costs play an important role in strengthening the brand's image. In the context of MSMEs, improving product quality and brand image can help them attract new customers and retain existing customers, which in turn can affect increased sales (Zineldin, 2006).

Quality costs incurred to reduce defects and improve products or services can also help MSMEs retain existing customers, attract new customers, and improve

operational efficiency. By improving the quality of their products or services, MSMEs can reduce unnecessary additional costs and improve their operational efficiency, which in turn can lead to increased profits. However, it is important for MSMEs to take into account the quality costs incurred with the benefits obtained to achieve optimal results. Spending too much on quality can reduce SME's profits, and conversely, if MSMEs spend too little on quality, they may lose customers and affect their brand image. Thus, MSMEs need to carry out a cost-benefit analysis and consider investing in quality costs incurred to achieve optimal results in product sales growth and profit increase.

Ningtyas (2018) research test results. shows that the cost of quality simultaneously (F test) has a significant effect on the number of sales. However, this is not the case when tested partially (T test), the test results show that the cost of quality partially (T test) does not have a significant effect on the number of sales. With the adjusted R square it is known that quality costs have an effect of 78.9% on total sales. The results of this study are in line with Adiningrat, et. Al. (2023), which states that sales growth (Growth of sales) has a significant influence on the company's capital structure as indicated by a tcount of 2.244 with a significance of 0.029

6. Conclusions

Based on the results of the research and discussion, it can be concluded that the cost of quality has a positive influence on sales growth for MSME products and can increase their profits. Good quality cost management can improve product quality, reduce production costs, and minimize additional costs such as product repair or replacement costs. In addition, good management of quality costs can also increase customer confidence and the competitiveness of MSMEs in the market. However, MSMEs often face challenges in managing quality costs, such as limited funds and a lack of trained human resources. To solve this problem, MSMEs need to improve their operational management, improve employee skills, and seek help from business or training experts. In order to achieve sustainable sales growth and increase profits, MSMEs must pay attention to quality cost management as one of the key factors in their business strategy

References:

- Adiningrat, A. A., Nur, M., & Aisyah, S. (2023). Pengaruh Sales Growth Terhadap Struktur Modal Yang Terdaftar Pada Perusahaan Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Ilmiah Manajemen Emor (Ekonomi Manajemen Orientasi Riset)*, 6(2), 273-247.
- Baiman, S., Fischer, P. E., & Rajan, M. V. (2000). Information, contracting, and quality costs. *Management Science*, 46(6), 776-789.
- Czajkowski, M. (2017). Managing SME with an innovative hybrid cost of quality model. *Measuring Business Excellence*, 21(4), 351-376.

- Collins, J. D., Worthington, W. J., Reyes, P. M., & Romero, M. (2010). Knowledge management, supply chain technologies, and firm performance. *Management Research Review*, 33(10), 947-960.
- Covin, J. G., Green, K. M., & Slevin, D. P. (2006). Strategic process effects on the entrepreneurial orientation–sales growth rate relationship. *Entrepreneurship theory and practice*, 30(1), 57-81.
- Desai, D. A. (2008). Cost of quality in small-and medium-sized enterprises: case of an Indian engineering company. *Production planning and control*, 19(1), 25-34.
- Hamdani, J., & Wirawan, C. (2012). Open innovation implementation to sustain Indonesian SMEs. *Procedia Economics and Finance*, 4, 223-233.
- Kara, A. (2005). A concept of optimal quality and an application. *Total Quality Management and Business Excellence*, 16(2), 243-255.
- Khaled Omar, M., & Murgan, S. (2014). An improved model for the cost of quality. *International Journal of Quality & Reliability Management*, 31(4), 395-418.
- Lina, R. (2022). Improving Product Quality and Satisfaction as Fundamental Strategies in Strengthening Customer Loyalty. *AKADEMIK: Jurnal Mahasiswa Ekonomi & Bisnis*, 2(1), 19-26.
- Kristianto, Y., Ajmal, M. M., & Sandhu, M. (2012). Adopting TQM approach to achieve customer satisfaction: A flour milling company case study. *The TQM Journal*.
- Lundahl, B. W., Kunz, C., Brownell, C., Harris, N., & Van Vleet, R. (2009). Prison privatization: A meta-analysis of cost and quality of confinement indicators. *Research on Social Work Practice*, 19(4), 383-394.
- Masoudi, E., & Shahin, A. (2021). The influence of the quality criteria on the quality cost of suppliers in SMEs. *Benchmarking: An International Journal*, 29(7), 2313-2333.
- Ningtyas, H. (2018). *Pengaruh Biaya Kualitas Terhadap Jumlah Penjualan Pada PT. Fajar Agung Medan* (Doctoral dissertation).
- Pambreni, Y., Khatibi, A., Azam, S., & Tham, J. J. M. S. L. (2019). The influence of total quality management toward organization performance. *Management Science Letters*, 9(9), 1397-1406.
- Rust, R. T., Moorman, C., & Dickson, P. R. (2002). Getting return on quality: revenue expansion, cost reduction, or both?. *Journal of marketing*, 66(4), 7-24.
- Wang, T., Abdallah, M., Clevenger, C., & Monghasemi, S. (2021). Time–cost–quality trade-off analysis for planning construction projects. *Engineering, Construction and Architectural Management*, 28(1), 82-100.
- Zineldin, M. (2006). The royalty of loyalty: CRM, quality and retention. *Journal of consumer marketing*.