

Cost Management and Strategy: **an overview**



Grown from a discount store in 1962 to become world's largest Retailer

How did it happen?



- ❖ Constant focus on Customer Service
- ❖ Extensive use of technology
- ❖ Management Structure that welcome change
- ❖ Opportunity Oriented Management
- ❖ Extensive effort to Grow business Globally
- ❖ Setting Ambitious Goals
- ❖ Sales from \$44 billion in 1992 TO \$312 billion in 2006

the wall mart story-one instance

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**Now, I want you to raise your right hand..... I want you to repeat after me:
from this day forward I solemnly promise and declare
that every time a customer comes within 10 feet of me
I will smile,
Look at him in the eye and greet him,
I am **Sam** May I help You**



Wal-Mart

"To give ordinary folk the chance to buy the same thing as rich people."

Success Comes from developing & implementing an effective **Strategy** aided by Management Accounting Methods

**Wal - mart could not have achieved success
without Strategic Cost Management**

- **1 Use of Cost Information in 4 Managerial functions**
- **2 Strategic Management & Strategic Cost Management**
- **3 Contemporary Business Environment- influence on CM**
- **4 Strategic Focus on Cost Management**
- **5 How a firm succeed- competitive cost management strategy**
- **5 Developing Competitive Strategy for Success**

1 Use of Cost Information

The most successful man in life is
the man who has the best information

Benjamin Disraeli, a 19th Century PM of England

The most tradeable item in the 21st century
would be data & the information

Paul Kennedy

Preparing for the 21st century

**What Information may be required by
an organisation to manage Cost?
&
What may be their uses?**

CMI is the information the manager needs to effectively manage the firm and includes both **financial**, about costs and revenues, as well as relevant **non financial information** about productivity, quality and other success factors for an organization

CMI

FMI

**Usefulness
&
Timeliness**

**Accuracy &
Compliance**

4 functions of Management

4 functions of Management

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graph TD; A[4 functions of Management] --> B[Planning & Decision Making]; A --> C[Management & Operational Control]; B --> D[Strategic Management]; C --> E[Preparation of Financial Statements];
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Strategic Management

Planning &
Decision
Making

Management
&
Operational
Control

Preparation
of
Financial
Statements

functions of Management

Strategic Management

A strategy is a set of goals and specific Action plans that, if achieved, provide the desired competitive advantage

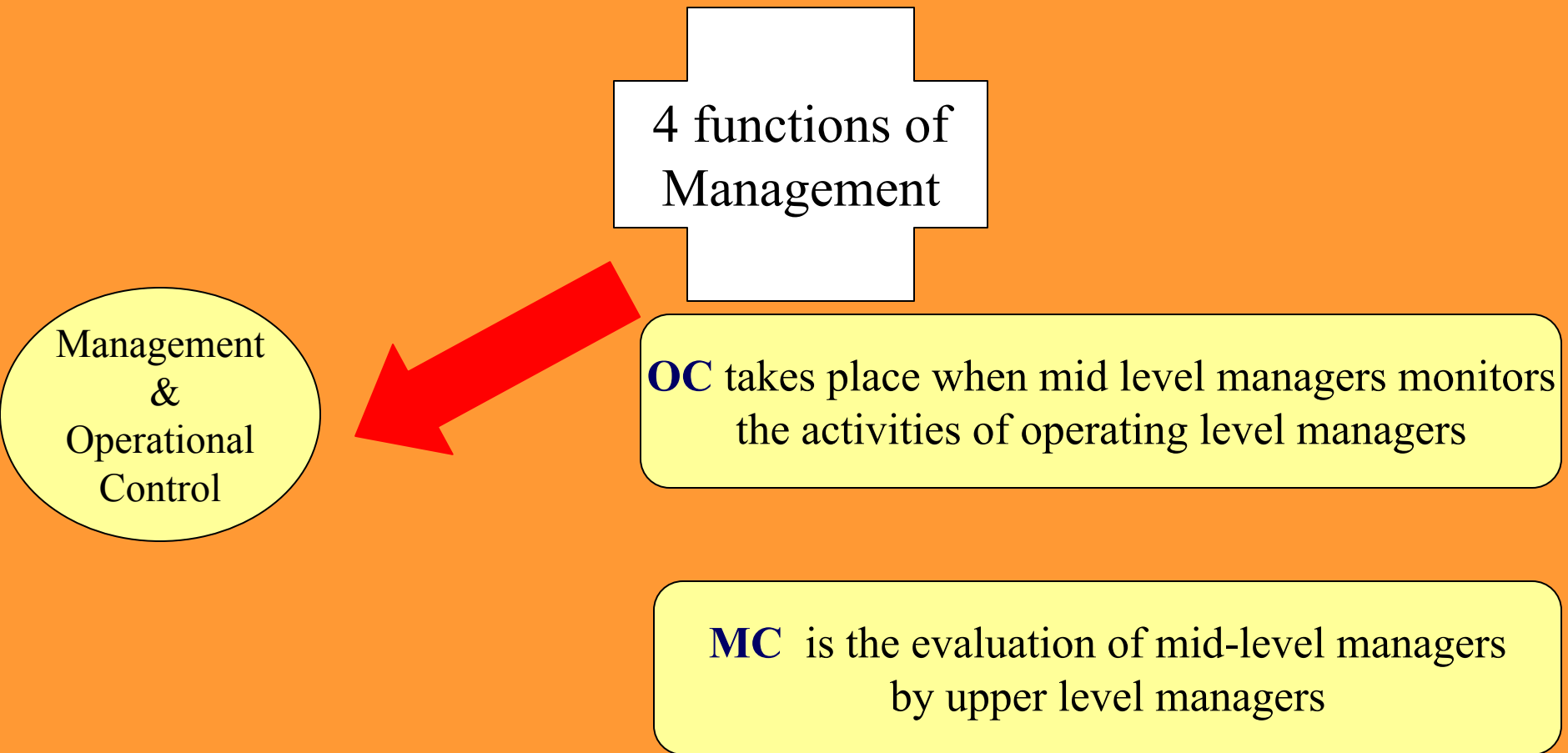
SM involves identifying and implementing these goals and action plans



4 functions of Management

Planning &
Decision
Making

It involves budgeting, profit planning, cash flow, others decisions related to firm's operations, such as deciding when to buy or lease a facility, when to repair or replace a piece of equipment, when to change a marketing plan and when to begin new product development



4 functions of
Management

Management complies with
financial reporting requirements
as per law

Preparation
of
Financial
Statements



1 Strategic
Management

CMI

is needed to make sound strategic decisions regarding choice of products, manufacturing methods. Marketing techniques & channels and other long term issues



**2 Planning &
Decision Making**

CMI

is needed to support recurring decisions regarding replacement of equipments, managing cash flow, budgeting RM Purchases, scheduling production and pricing



3 Management &
Operational Control

CMI

is needed to provide a fair and effective basis for identifying inefficient operations and to reward and motivate the effective managers

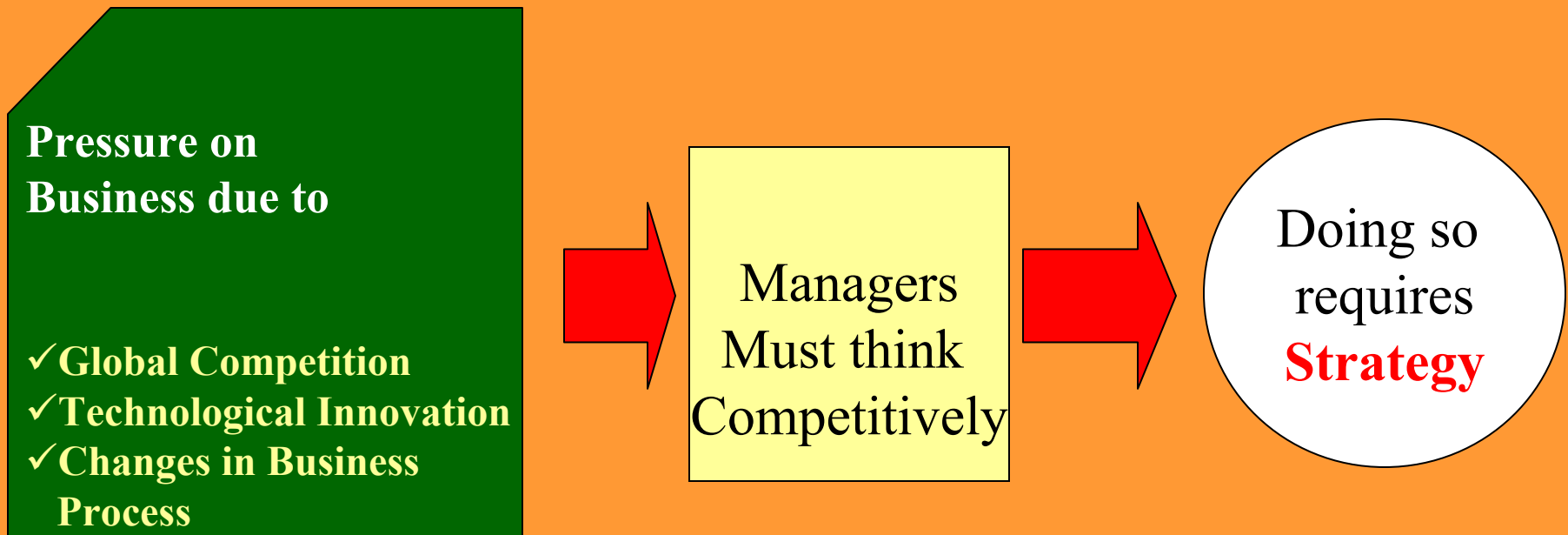
4 Preparation of Fin Statements



CMI

is needed to provide accurate accounting for Inventory and other assets, in compliance with reporting requirements, for the preparation of financial reports and for use in the three other management functions

2 strategic management and strategic cost management



strategic thinking

- Anticipating changes
- Product and production designed to accommodate expected changes
- Flexibility
- Ability to make quick changes
- Speed to market
- Agile manufacturing
- Driving firm by using windshield not the rear view mirror
- Creative and integrative thinking.....

Strategic issues are gaining importance

More cost Information is Required

Focus on Strategic Cost Management

SCM is the development of cost management information to facilitate the principal management function, **strategic management**

Organizational Strategies

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Mergers & Acquisition— tata steel

Issue of IPO

-Reliance Power

India as a Market

-Pepsi appointing Indira Nooyi

Less Cost at other Plant----Bajaj Scooters

Selling Shampoo in Pouch—Cavin Kare

3 Contemporary business environment- influence on cm

Changes in Business Environment which influenced Modification in Cost Management Practices

- 1 Increase in Global Competition**
- 2 Advances in manufacturing technologies**
- 3 Advances in information technologies**
- 4 Greater focus on customer**
- 5 New forms of business organizations**
- 6 Changes in Social, Cultural, Political Environment**

Increased Competition
Economic interdependence
WTO
NAFTA
SAFTA
European Union
Other Alliances
High Value Low Cost

Global
Business
Environment

Increase need of CMI to compete
In other countries

New
Manufacturing
Technology

Speed To Market
Flexible manufacturing
Statistical Quality Control
Target Costing
JIT

Internet

E-commerce

Amazon. com

Information
Technology

Quality
Service
Delivery
Features of products
Short PLC
Low cost high value

Focus on Consumer
Expectations for
product functionality
& Quality

Customer Based
Non Financial Measures
Quality
Time to delivery
Service
Flexible Structure

New Form of
Management
Organization

Work Force
Ethical Responsibility
Flexible and adaptable
Increased deregulation

Social
Political
Cultural
Considerations

4 Strategic Focus on Cost Management

CM focus is not on measurement per se
but on identification of those measures
that are **Critical** to the firm's success

Sheep Story

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Paramjit Sharma

Critical Success Factors (CSF's) are measures of those aspects of the firm's performance that are essential to its **competitive advantage** and therefore, to its success

Bench
Marking

Total
Quality
Management

Continuous
Improvement

Activity Based
Costing &
Management

Reengineering

Theory of
Constraints

Just in Time

Mass
Customization

Computer aided
Design &
Manufacturing

Target Costing

Value Chain

Balanced
Score card

5 How a firm Succeeds:
the competitive Cost Management strategy

A strategy is a set of goals and specific action plans that, if achieved, provide the desired competitive advantage

A strategy is set of policies, procedures and approaches to business that produces long term success



A strategy is set of policies, procedures and approaches to business that produces long term success



Re-engineering Operational Processes,

Downsizing the workforce

Outsourcing Service Functions

Developing smaller, efficient Organizations

Societal Organizational Policies & Structures

Mergers & Acquisitions

Mission Statements

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Ford Motor (ford. com)

Provide personal mobility for people around the world

United Parcel (ups. com)

To move at the speed of business

Walt Disney (Disney. com)

To make people Happy

Financial Measures of Success

Sales Growth
Earning Growth
Dividend Growth
Bond & Credit Rating
Cash Flow
Increase in Share Price

Strategic Measures of Success

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Non Financial
Measures of
Success

Customer Measures

Market Share
Customer Service
Delivery
C Satisfaction
Brand Recognition
Market Position

Internal Business Process

Product Quality
Mfg.Innovation
Productivity
Cycle time
Reduction in waste

Learning & Innovation

Competence
Integrity
Education & Training
Motivation
Innovation

- **Decision making based on guess and intuition**
- **Lack of clarity in direction and Goals**
- **Lack of clear perception by customers & suppliers**
- **Incorrect investment decisions**
- **Ineffective to benchmark competitors**
- **Failure to identify most profitable**

Products

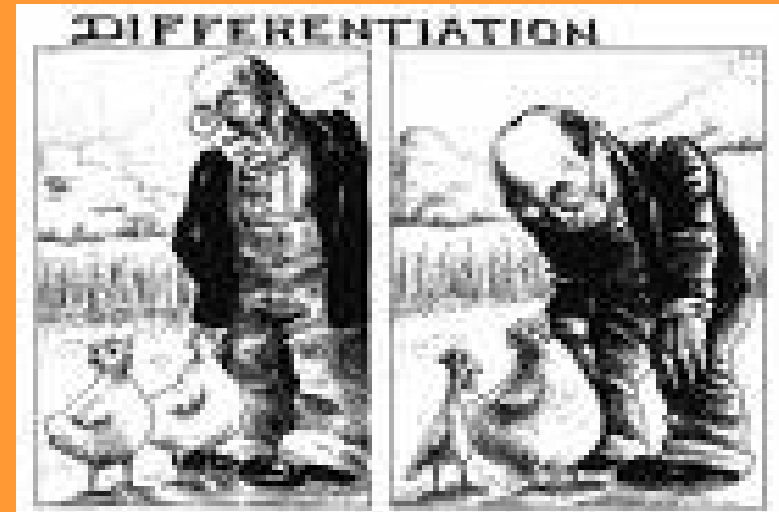
Customers

Markets

6 developing a competitive strategy

developing a competitive strategy

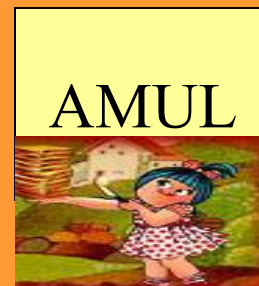
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developing a competitive strategy



Cost Leadership is a competitive Strategy in which a firm succeeds in producing products or services at the lowest costs in the industry





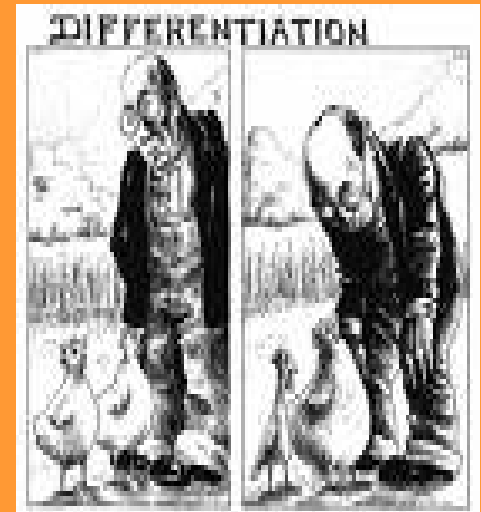
Cost Leader

remains only so long
as the consumer sees that product
or service is at least nearly
equivalent to competing product
that cost some what more

developing a competitive strategy

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Differentiation is a competitive strategy in which a firm succeeds by developing and maintaining a unique value for the product as perceived by consumers



Focus Strategy concentrates on narrow segment and within that segment attempts to achieve either Cost advantage or differentiation



Porter's Generic Strategies

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	Advantage	
Target Scope	Low Cost	Product Uniqueness
Broad (Wide Segment)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (Low Cost)	Focus Strategy (Differentiation)



Marketing Differentiation



8 ways to create extra Value for customers

Cost Reduction through higher Yield

Reduce Inventory

Just in time

Reduce cycle time

Red. in Adm. Cost

Improving Safety for Customers

Reducing Suppliers Cost

Reduction Through Substitution



Milind Lele

5 Dimensions(Maneuverability)

1. Target Market

2. Product

3. Place

4. Promotion

5. Price

Product

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Form
Features
Performance
Conformance
Durability
Reliability
Reparability
Style
Design



Services

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Ordering Ease
Delivery
Installation
**Customer-
Training**
**Customer-
Consulting**
**Maintenance &
Repairs**
Miscellaneous

Personnel

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- **Competence**
- **Communication**
- **Courtesy**
- **Credibility**
- **Reliability**
- **Responsiveness**

Channel

▪ COVERAGE



▪ EXPERTISE



▪ PREFERENCE



IMAGE

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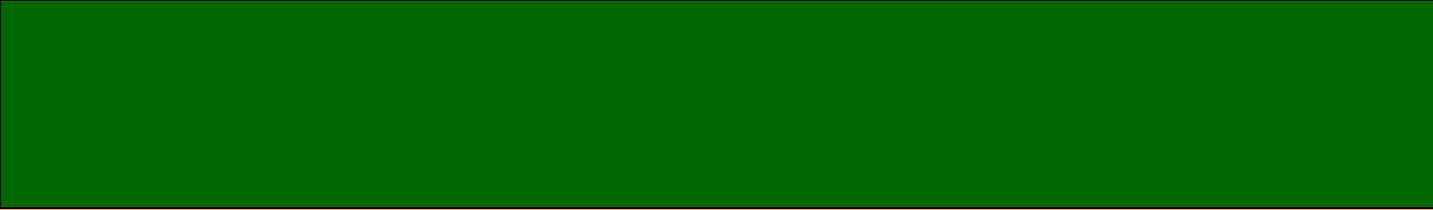
Symbols

Media

Atmosphere

Events





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