

CONTEMPORARY COST MANAGEMENT

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3rd Directors' Leadership
Programme

Cost Management

- Cost management is a misnomer
- It is revenue and cost management
- The objective is to enhance value to the firm
- Price is external and cost is internal

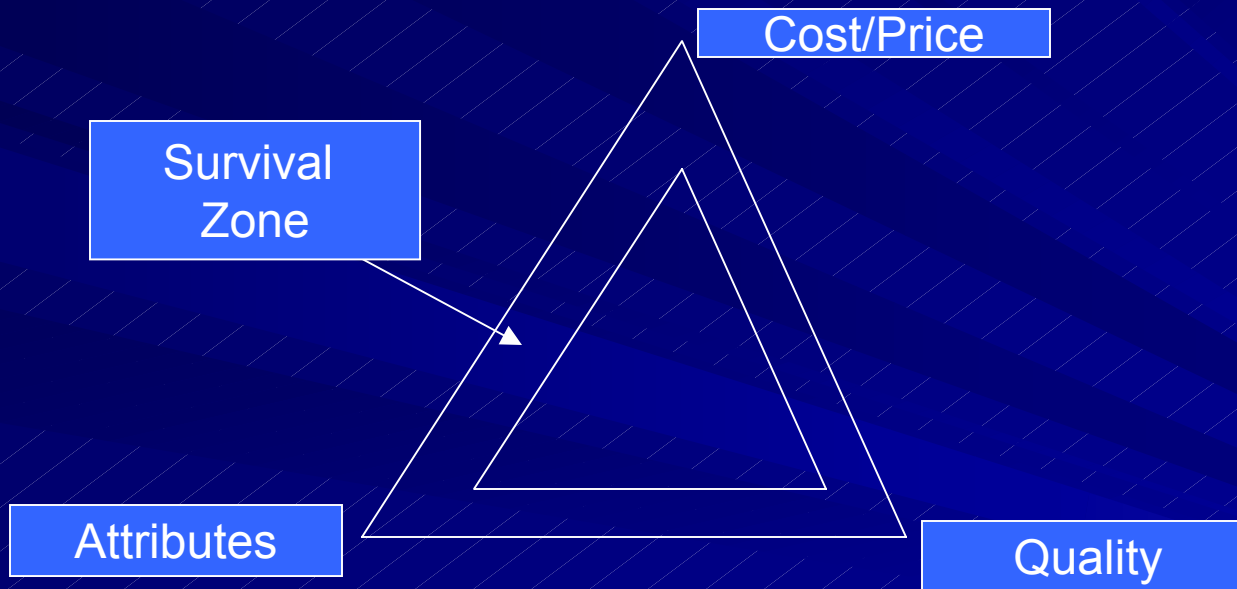
Contemporary Cost Management Techniques

- Manage cost at the point of commitment and not at the point of incidence
- Trace cost and revenue to cost objects as much as possible
- Cost management should be all pervasive
- Cost management should be made a culture within the organisation

Target Costing

- Target cost =
Estimated selling price – Target margin
- Intensive marketing research is a prerequisite
- Assign value to each attribute and quality
- Use 'value engineering' and 'value analysis technique'

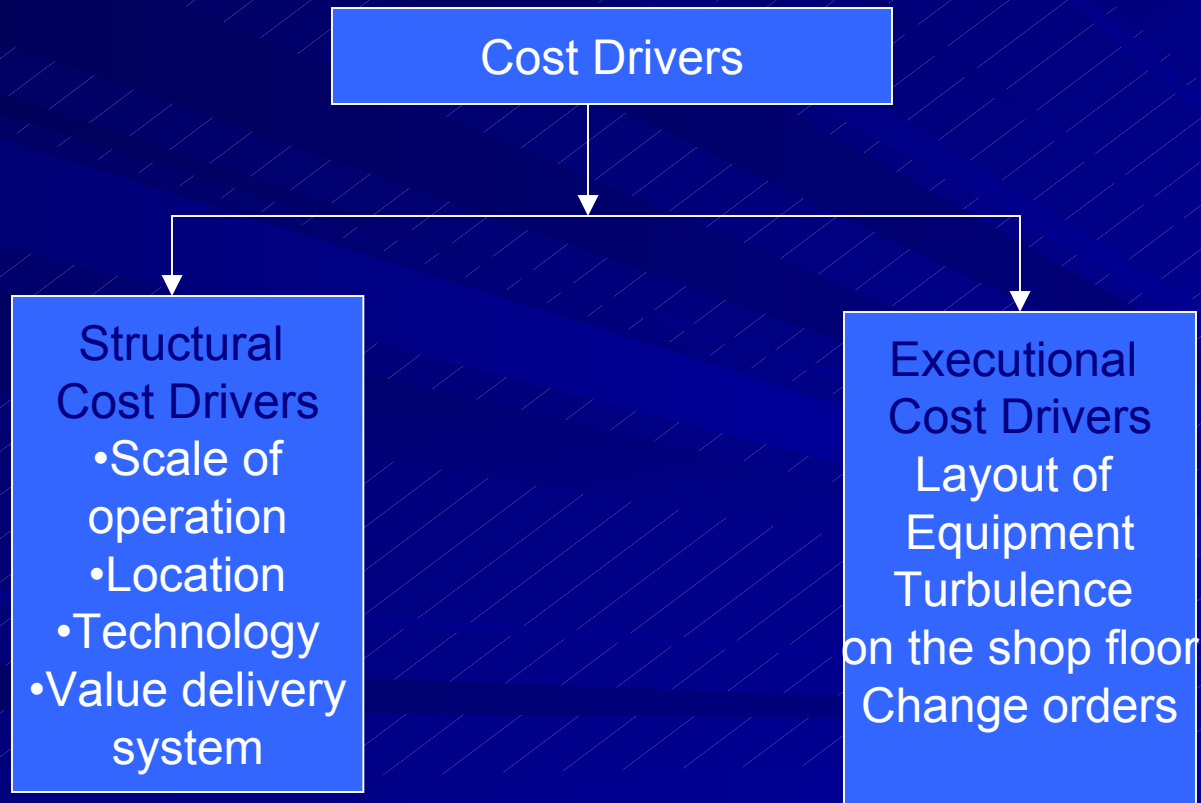
Survival triplet



Survival triplet

- When a firm creates sustainable competitive advantage, it earns above average profit
- When a firm is unable to create sustainable competitive advantage it maneuver within the survival zone for survival

Cost Driver analysis



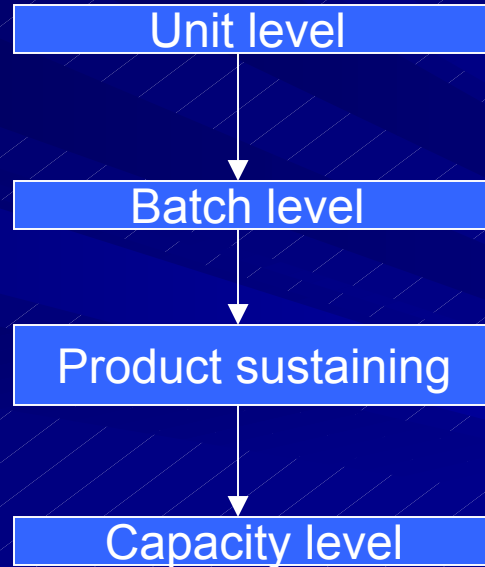
Cost Drivers

- Manage cost drivers to manage costs
- Location of cost drivers might be different from the location of cost incidence
- Map cost drivers

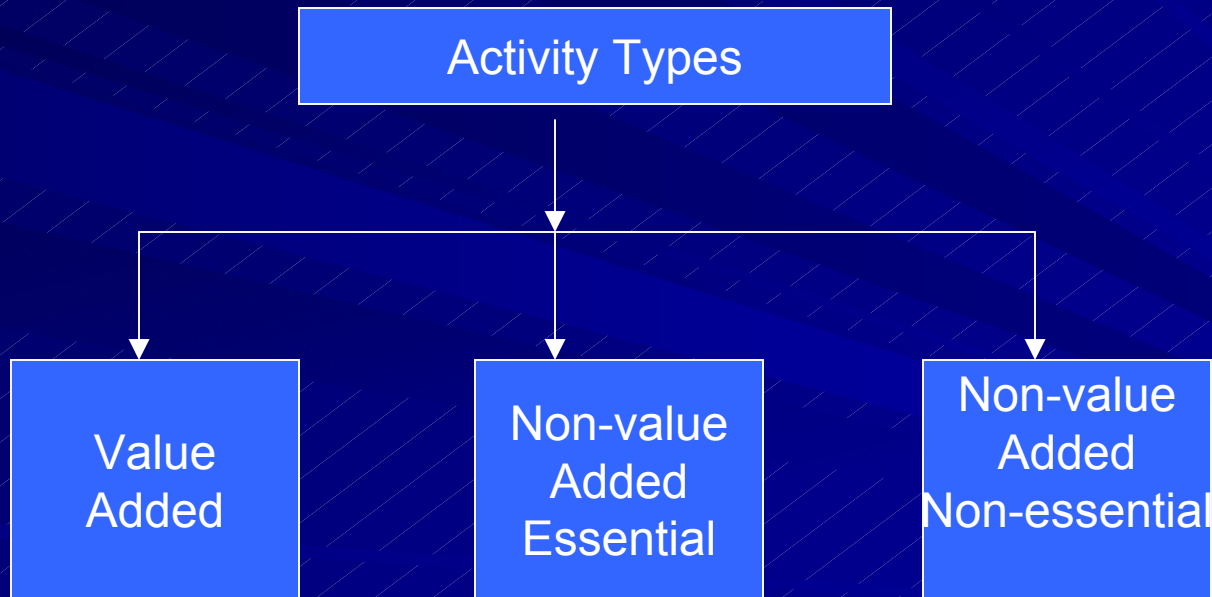
Activity Based Costing

- Products/customers/markets create demand on activities
- Activities create demand on resources
- Assign costs to activities and then to products/customers/markets

Cost Hierarchy



Activity Bases Management



Value Chain Analysis

- Map the value system
- Enhance the value in the value system
- Assess the profit pools at different linkages
- Enhance your share in the value system
- Reconfigure internal value chain

Life Cycle Costing

- Consider total ownership cost
- Ownership costs include cost of operation, maintenance and disposal
- Manage ownership cost and share value with customers