

## CRITICAL REVIEW OF STRATEGIC COST MANAGEMENT OF FMCG COMPANY

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### **Abstract:**

*Cost management is the process of planning and controlling the budget of a business. Being a form of management accounting cost accounting allows a business to predict impending expenditures which shall help reduce the chance of going above the preset budget. Implementing a cost management structure for projects can help a business keep their over-all budget under control. Several business intelligence (BI) programs, such as Oracle Hyperion, offer cost management software to help businesses monitor costs and increase profitability. While the software may help, it is not imperative that software is used when executing a cost management plan. We shall go through hypothesis testing with the help of primary data collected via FMCG companies.*

### **Keywords:**

*SCM, variance, YOY, cost-benefit, strategy*

### **Strategic Cost Management (SCM) - A Bird's Eye view**

Strategic cost management is a program established businesses use in order to regularly identify and analyze cost drivers to lower costs and maximize its total value. This type of program is necessary for creating budget parameters and a structure for purchasing. By implementing a strategic cost management program, businesses can not only lower their costs but also create a strategic competitive advantage. Applications of this type of management program include creating a strategic plan, setting priorities in operations and ensuring it is using limited resources appropriately. Developing strategies based on a cost management program helps businesses achieve its objectives while saving on costs. It also provides management enough information to determine if a new business model should be implemented.

Framework of SCM programs generally include three components which shall be analyzed. The first component includes its core functions; in which management mandatorily define the nature of the business and its courses of actions for planning, product development, and research and development. The next component focuses on the added value of activities such as customer service, technical support, marketing, sales and manufacturing. The last component of the framework are the activities that support the core activities. These include IT, human resources, general administration, accounting and finance. Tips for having an effective strategic cost management program include having the full support of top management, integrating information systems to streamline processes and implementing effective cross-functional teams. Management should understand the importance of the program and how their role adds value, otherwise they may be reluctant and uncooperative during the implementation and continuous improvement stages. Information systems are used

for quickly gathering and analyzing data, as well as for making sure that the right information gets to the right people at the right time. Using cross-functional teams is beneficial when cost drivers affect more than one department, as these departments must work closely together to regulate them.

Hypothesis of the study :

1. Cost is basic reason for SCM.
2. SCM varies when executed and it cannot be easily changed.
3. SCM is basically affected by cost.
4. Consumers run after price
5. SCM is affected by internal and external barriers.

Parameters affecting Cost of the company:

Below are few parameters taken which can affect the cost of the company:

(a) Materials Cost:

- Materials purchased
- Materials from Stores
- Primary packing materials – cartons, wrapping, and cardboard boxes

(b) Direct Wages

(c) Direct or Chargeable Expenses

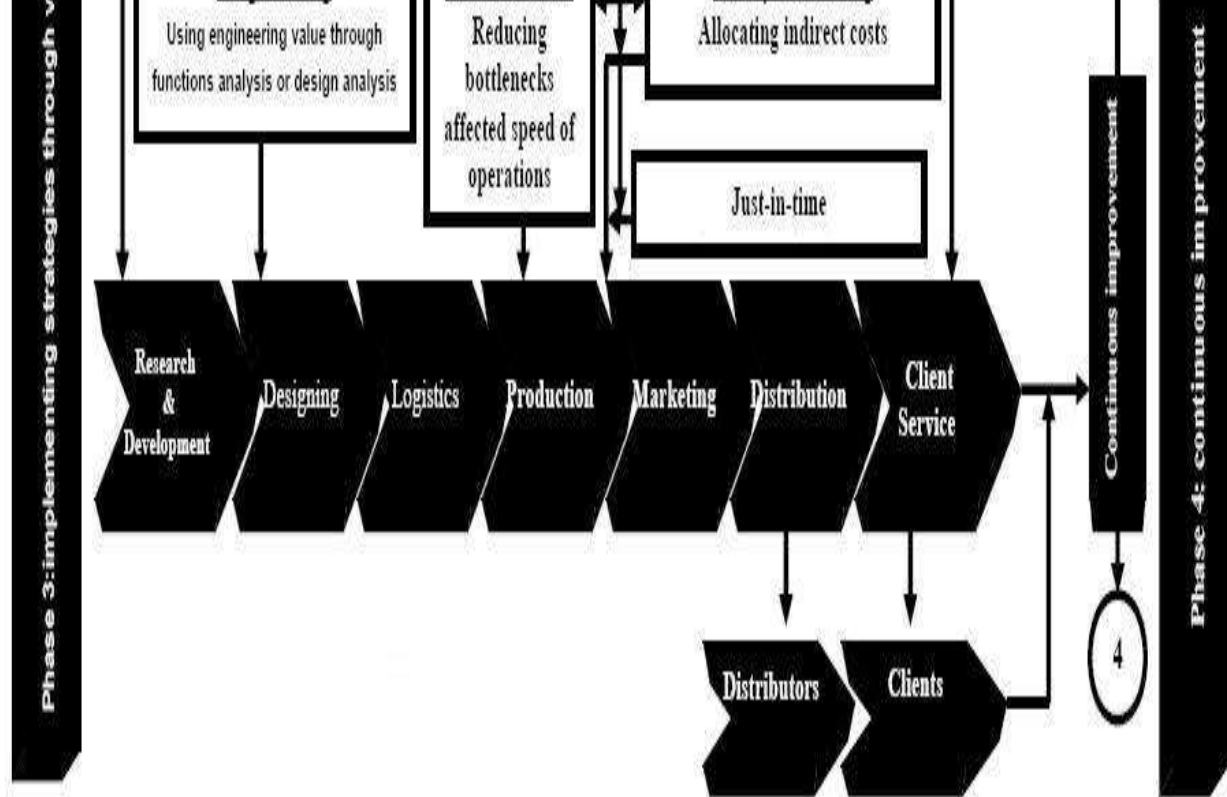
(d) Factory Overheads:

- Expenses incurred on processes and operations
- Indirect materials
- Indirect wages
- Factory expenses
- Depreciation on factory assets
- Welfare expenses of employees

(e) Administrative Overheads:

- Expenses on formulating policies, directing organization and controlling the operations
- Office expenses
- Salaries
- Legal expenses
- Depreciation on Office Assets
- Printing and Stationary

(f) Selling Overheads:



### PRIMARY DATA COLLECTION:-

The primary data has been collected via questionnaire taking five samples from FMCG sector. They are:

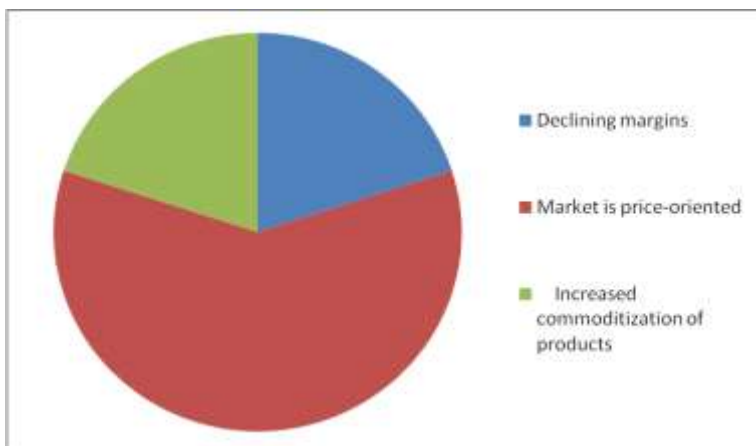
- 1) HUL
- 2) MARICO GROUP
- 3) GODREJ CONSUMER PRODUCTS LTD.
- 4) DABUR
- 5) PROCTER AND GAMBLE

Below are certain questions which were taken under primary source of data by way of questionnaires.

#### QUESTION 1

What is the basic purpose of SCM?

- a) Declining margins
- b) Market is price-oriented
- c) Increased commoditization of products



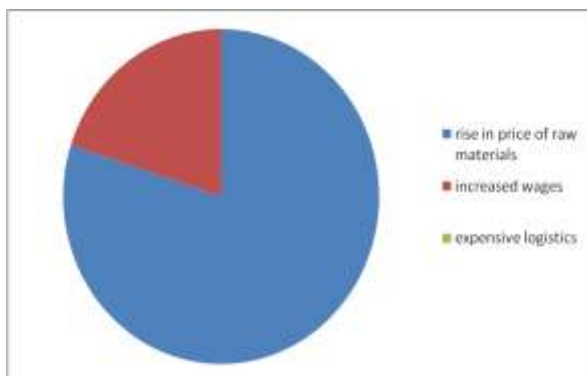
To set the stage for this research, I began the interviewing process by asking the above question. Not surprisingly, all of the organizations studied identified cost management as

extremely important and growing in importance within their organizations. The rationale for the growing importance of cost management varied among the firms studied. During the interviewing process, it became clear that all of the organizations studied had cultures of cost consciousness, permeating from the top of the organization through all levels and functions of the organization, and touching their suppliers as well.

## QUESTION 2

What is the basic reason for increasing cost?

- a) Rise in price of raw materials
- b) Increased wages
- c) Expensive logistics

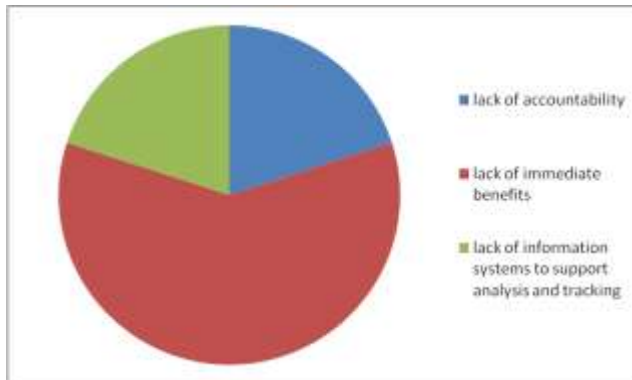


As the above chart reflects rise in price of the raw materials was found to be the prime reason for rise in cost management. Other factors were also voted but since raw material forms the basis and forms more than 70% of the total costs so a little rise in its prices would adversely increase the price at the end of the process.

## QUESTION 3

Which among the following is the key internal barrier to SCM?

- a) Lack of accountability
- b) Lack of immediate benefits
- c) Lack of information systems to support analysis and tracking

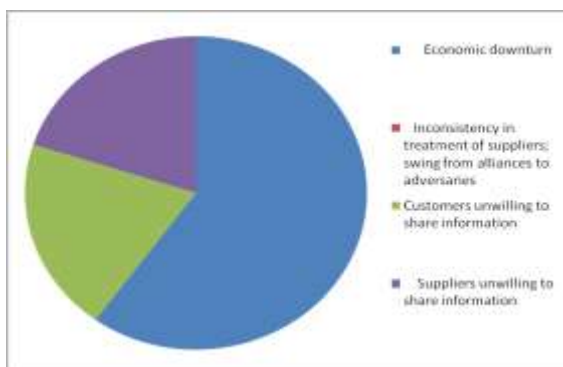


A number of barriers that organizations had to overcome, to be successful in strategic cost management, or are still working to overcome are listed in the chart above. The list of internal barriers outweighs the list of external barriers. It is hard to gain leverage when the demand is constantly changing that too in such a hyper-competition. So the prime reason voted was lack of immediate benefits which is quite impossible to gain in such an industry. So it has proved to be the biggest hurdle.

#### QUESTION 4

Which among the following is the key external barrier to SCM?

- Economic downturn
- Inconsistency in treatment of suppliers; swing from alliances to adversaries
- Customers unwilling to share information
- Suppliers unwilling to share information

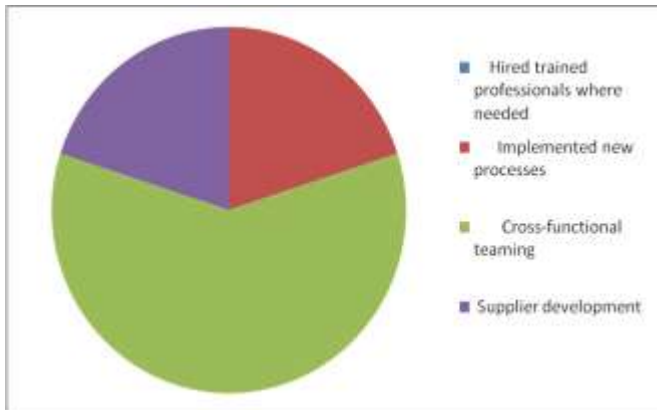


The key external barrier to SCM is economic downturn. It may be related with India or with any foreign downside which shall obviously affect the Indian Industries. Economic downturn or depression we can call it adversely affects the cost and profits of any company. It is not about only FMCG but majority of the companies. Also every company here gets affected through downturn which is a business cycle.

#### QUESTION 5

What is the key success factor for SCM?

- a) Hired trained professionals where needed
- b) Implemented new processes
- c) Cross-functional teaming
- d) Supplier development

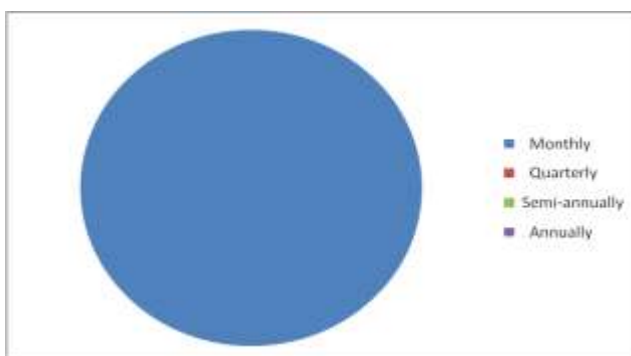


SCM success depends upon plethora of factors which are listed above. As per our primary data the cross functional teaming function has proved to be the key enhancer for SCM. Three out of five companies said cross functional teaming has proved to be the top factor.

#### QUESTION 6

SCM is reviewed at what interval?

- a) Monthly
- b) Quarterly
- c) Semi-annually
- d) Annually



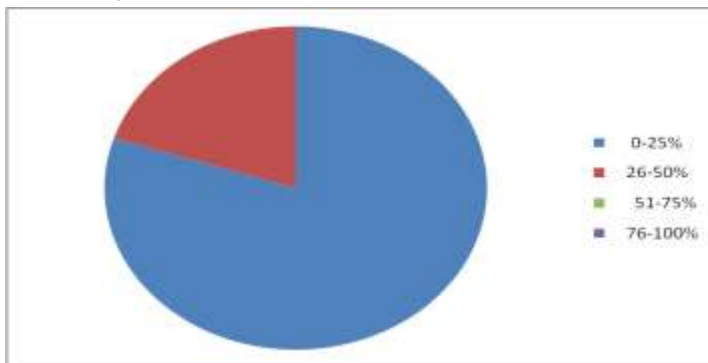
100% of the companies said that they review their SCM strategies on a monthly basis.

Reviewing it quarterly or annually may hamper the company because of the stiff competition present in the current market. Reviewing the strategy at such a span edits the criteria and makes it more strong and valid. In such a process SWOT analysis also plays a vital role.

#### QUESTION 7

What is the probability of variance in the set SCM technique?

- a) 0-25%
- b) 26-50%
- c) 51-75%
- d) 76-100%



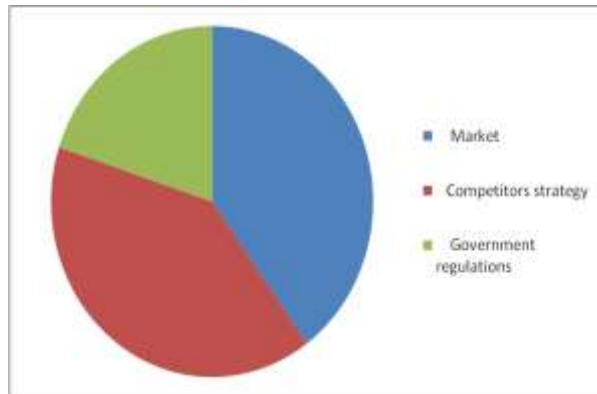
The probability of variance in SCM is somewhere between 0%-25% as per our primary data. Four out of five companies revealed as per our primary data.

Variance is the difference between the set benchmark and the execution. If the Executed strategy may vary from the actual set strategy some may be due to unavoidable situations and some which are purposely done due to lack of apt responsibility. That variance is measured by standard deviation.

#### QUESTION 8

What is the basic cause of SCM variance at the implementation stage ?

- a) Market
- b) Competitors strategy
- c) Government regulations

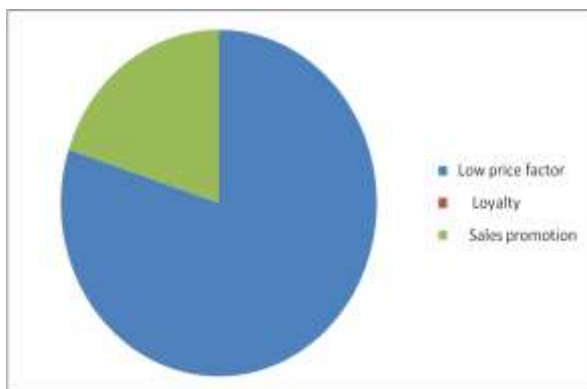


In the question 9 we have seen that 90% companies said the variance is somewhere around 0%-25% . In this question we shall deal with its cause; the cause of the variance. Two out of five have said competitors strategy is the reason while the other two have said that the basic reason is the market in which they operate.

#### QUESTION 9

Consumers buy fmcg products basically due to which reason?

- a) Low price factor
- b) Loyalty
- c) Sales promotion



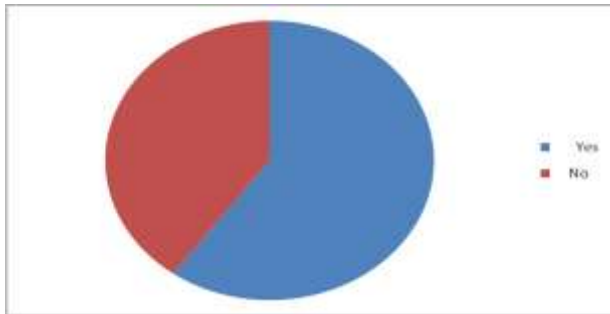
Four out of five have reported that low price factor is the basic reason that consumers buy FMCG products. Consumers basic human nature is to get attracted towards low price available in the market. One has said that sales promotion is the factor. Sales promotion may be in the form of advertisements or free gifts or luring customers externally in some way or other.



### QUESTION 10

Is the cost system a long run investment?

- a) Yes
- b) No

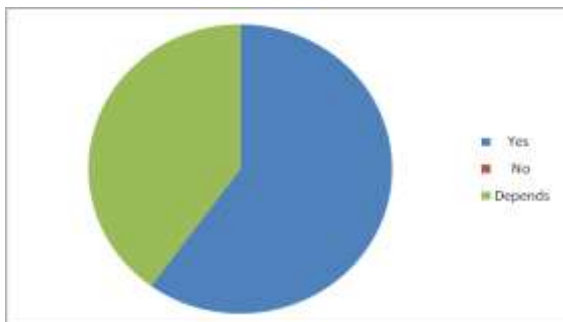


60% of the sample data revealed that SCM is a long run investment. The companies who believe this is running on a right track because every activity should be focused upon long term.

### QUESTION 11

It is a constraint for your company to shift to a new cost system.

- a) Yes
- b) No
- c) Depends

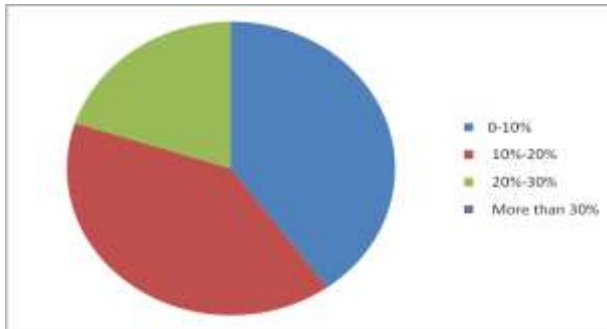


To shift to a new strategic system is a constraint to many. Company is not ready to change its track of strategies because that shall lead to wastage of time and money. Two out of five have said that it depends upon the situation.

### QUESTION 12

How far your total cost has increased on YOY comparison?

- a) 0-10%
- b) 10%-20%
- c) 20%-30%
- d) More than 30%

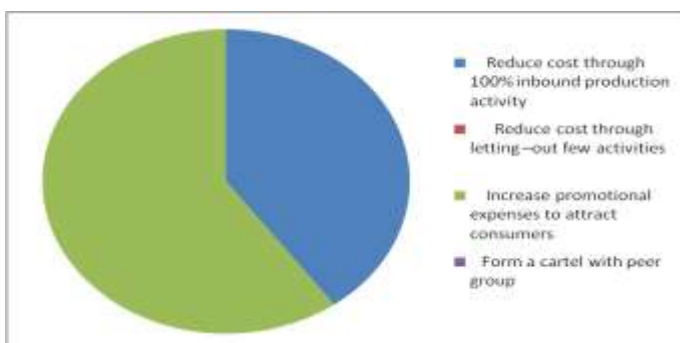


company	Mar-15	Mar-16	variance
hul	25,900.89	26,578.18	2.614929448
dabur	4,117.60	4,568.64	10.95395376
marico	3,199.59	4,090.96	27.85888192
p&g	302.02	346.14	14.60830409
godrej	3,406.85	3,668.72	7.68657264

QUESTION 13

What is your long term perspective to fight against hyper competition?

- a) Reduce cost through 100% inbound production activity
- b) Reduce cost through letting –out few activities
- c) Increase promotional expenses to attract consumers
- d) Form a cartel with peer group



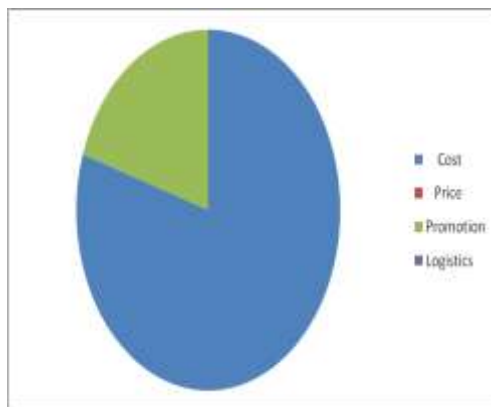
Three out of five have said that they shall invest upon promotional activities to attract consumers in form of advertisement or free gifts. Consumer's basic nature is simple that it

gets attracted towards external factors like promotion. People become aware of the product and the repeated advertisements lure them. More over schemes like buy one get one free and get 50% extra is another luring factor.

#### QUESTION 14

The strategy of your company is basically dependent upon which factor?

- a) Cost
- b) Price
- c) Promotion
- d) Logistics



The strategy of FMCG basically is dependent upon the cost factor. More the cost. Less competitive shall be the price and less number of consumers shall approach it. Everything works in the opposite direction. Less the cost more the consumers.

#### Key findings:

- During the interviewing process, it became clear that all of the organizations studied had cultures of cost consciousness, permeating from the top of the organization through all levels and functions of the organization, and touching their suppliers.
- It is hard to gain leverage when the demand is constantly changing that too in such a hyper-competition. So the prime reason was lack of immediate benefits which is quite impossible to gain in such an industry. So it has proved to be the biggest hurdle.
- Economic downturn or depression we can call it adversely affects the cost and profits of any company. It is not about only FMCG but majority of the companies. Also every company here gets affected through downturn which is a business cycle.
- Consumers basic nature is simple that it gets attracted towards external factors like promotion. People become aware of the product and the repeated advertisements lure them. More over schemes like buy one get one free and get 50% extra is another luring factor.

- More the cost. Less competitive shall be the price and less number of consumers shall approach it. Everything works in the opposite direction. Less the cost more the consumers.

### **Conclusion:**

Hence we conclude that all the assumed statements are right. Hypothesis 1-5 are accepted.

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