

VPM's
Programme: PGP (2014-15)
Second Semester Examination July 2015 PGP – II (Finance)

Subject	Strategic Cost Management		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages		Date	12-07-2015

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) Case Study - 20 Marks (Compulsory)

A specialty chemicals manufacturer based in North America struggled to respond to a significant drop in volumes in Q4 2008. All business units experienced volume drops of at least 20 percent and several saw declines of more than 40 percent. The CEO knew that a significant reduction in functional costs was required immediately to augment a focused effort that he launched in Q3 to conserve cash and minimize working capital. The company faced some difficult decisions, but knew that inaction was not an option. The client decided to request assistance to complete an analysis of the company's cost structure to identify areas where the company could reduce costs in the short run without jeopardizing their ability to grow and prosper when the economy returned to more normal conditions.

The client initially defined the scope as including only people costs in the G&A functions. An initial analysis revealed that the company had an equal portion of its cost structure in the Sales, Marketing and R&D functions, and that all of the functions collectively spent as much with third-party suppliers as they spent on people. The broadened assessment reviewed the organizational structure, levels, and spans of control, organizational fragmentation and structural cost drivers. The assessment identified specific improvement areas and developed a business case that quantified the improvement potential at \$60 million based on the existing organization and our experience helping clients address similar challenges.

A working team of functional managers met three days each week for eight weeks to analyze the existing cost structure and organization and to develop recommendations for streamlining the cost structure. The team found significant differences in functional costs and resources across business units and locations. An Executive Steering Team assembled to review the strategic cost analysis results and develop a vision for the new organization. The team produced a clear and concise vision and from this, developed the design principles that would guide the design of the new organization and cost structure. The working team and functional leaders developed a new organizational structure, roles and responsibilities. The end result was the creation of a focused and lean organizational structure with clear accountabilities and reporting lines, and implementation of a series of measures to more effectively manage and control costs and spending.

While it took a few months to get through all of the transition issues, the company was well on its way to a step-change performance improvement. By the end of Q1 2009, the company was operating at a sustainable run rate well below the original cost base. The additional margin dollars generated from the strategic cost management implementation are being used to ensure that the company meets its earnings targets. And most importantly, the cost reductions were achieved without impacting the people and resources that will be required to fuel future growth and profitability when the global economy returns to more normal conditions.

Questions:-

1. What was the result by end of 2009 and what way company operates the rate below the original cost?
2. What way management finds the solution to plan the organization profit development?
3. What was the volumes fall drop in 2008-Q4, declines and what were the reasons?
4. Why the organization finds for streamlines the cost structure?
5. How organization changed and restructures in its management structure?

Attempt Any FOUR from the Remaining SIX Questions

Q2) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Difference between actual cost and budget cost.
- b) Define Strategic Cost Management. Explain its importance in business.
- c) What is the important of cost cutting in a business?

Q3) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Difference between Cost and Management audit.
- b) What is the importance of ABC analysis in maintaining the stock in manufacturing company?
- c) What are benefits of cost audit in business?

Q4) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Explain the standard costing in profit planning in business.
- b) What is budget? Explain the cost budget.
- c) Explain about budgeting planning and budgeting control systems in business.

Q5) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) What are the methods applying as quantitative analysis in strategic cost management?
- b) Explain the importance of wastage and disposal control management in business.
- c) What is the inventory control? How it can be controlled and effective results to business.

Q6) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Explain the concept of and scope of strategic cost management.
- b) Explain importance of Control of total Distribution Cost & Supply Cost-Cost Reduction.
- c) Briefly describe Long Term Cost Management planning in business.

Q7) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Explain the importance of balance scored card system in business organization.
- b) Explain the Value Chain Analysis.
- c) Explain the importance of maintenance and energy control in business.
