

Cost Intelligence®

DNA of Business



Indian Society of Management Accountants



Young Entrepreneurs Network

www.yenonline.org

CMA Pankaj Jain

 *Adding value to business*®

pjainonline@gmail.com

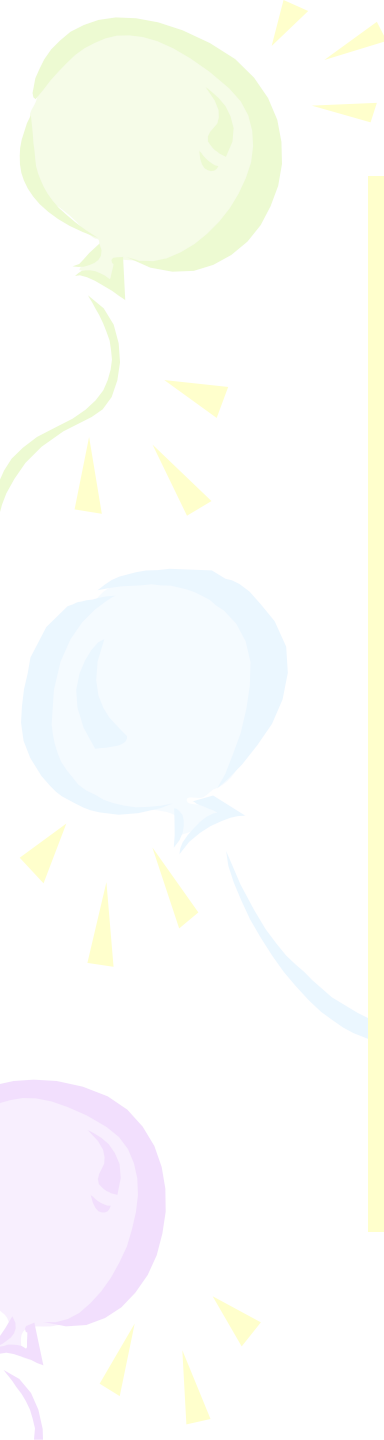
9312213765

www.linkedin.com/in/pjainonline

Founder & Mentor

www.cmaonline.in

Program at IMT, Nagpur on 11.8.13



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9 Rules for SMILE!

1. This learning experience belongs to YOU and its success rests largely with you
2. Participate in discussion ENTHUSIASTICALLY!
3. SHARE FREELY your experiences
4. CONFINE your discussions to the theme of Program
5. Use your DISCRETION in seeking clarifications
6. Only ONE PERSON should talk at a time
7. Avoid PRIVATE CONVERSATION while someone else is speaking
8. LISTEN ALERTLY to the discussion
9. APPRECIATE the other person's point of view

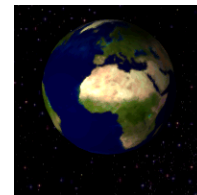


Program Coverage

- ✓ Global Financial Crisis-Opportunities for India
- ✓ Changing Business environment
- ✓ New Business Drivers
- ✓ Today Business Scenario
- ✓ Comparative to Competitive Advantage
- ✓ The China Factor
- ✓ Sustainable Competitive Edge
- ✓ Profit Dynamics Vs. Cost Dynamics
- ✓ The Market Perception About Cost
- ✓ Key Cost Intelligence areas
- ✓ Some Success Stories...

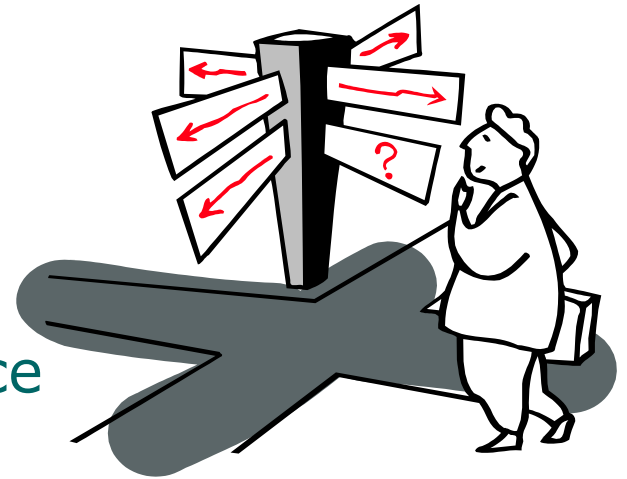
Global Financial Crisis

Opportunities for India in Crisis



Opportunities for India in Crisis

- ✓ Tapping NRI's
- ✓ Young Demographic Profile
- ✓ Rural Development
- ✓ Saving Contribution
- ✓ Poor Infrastructure
- ✓ Domestic Dependence
- ✓ SME Sector
- ✓ Investment Opportunity





Changing Business Environment

The business environment is changing rapidly because of multifaceted changes taking place around the world. The impact of such changes has led to world wide competition for business as shown below:-

Phases of Business Environment

Monopoly

Quality

Competition

Decisive Factors

Quantity

Quantity + Quality

Quantity + Quality + Price

Competition =>Challenging Business Environment

"There is no security on this earth. There is only opportunity."

New Business Drivers

Cost	<	<	<	Down
Quality	>	>	>	Up
Delivery	=	=	=	On time



- ✓ The level of competition has been transformed from local to global due to advent of WTO agreement.
- ✓ Globalization has opened the door for a host of new opportunities.
- ✓ At the same time, they place new demands of performance and challenges on the organization.

Today Business Scenario

- ✓ Globalized Economy
 - ✓ Customer Driven Markets
 - ✓ Cost & Quality Competitive Products
-
- To Survive & Succeed in current Business world it has become imperative for all organizations to develop their Core Competency.
 - And one such competency is the lower cost of their products and services.





Comparative to Competitive Advantage

- ❖ Traditionally, the competition in India is based on natural resources and labour.
- ❖ But if we see the India's share in global business, it comes to meager % ???
- ❖ Further, it is based on making primary commodities.
- ❖ Only 5% of our exports are based on high technology.
- ❖ Hence, the so-called comparative advantage is not reflected in India's share in world trade.
- ❖ In the same way, the labour based advantage is also not correct, due to low productivity of labour.



Comparative to Competitive Advantage Contd...

- ❖ For instance, the labour cost in India is about 15% of that in U.S.A.
- ❖ But the productivity of labour in India is just 14% of that of the U.S.A.
- ❖ As a result, labour cost per unit of output in India is more than in U.S.A.
- ❖ Therefore, in order to grow our share in global business, we have to change our focus from comparative advantage to competitive advantage.

The China Factor



- ¶ India is facing fierce competition in the global market place from other countries mainly from China.
- ¶ There has been much debates in recent time about our slipping competitive strength in manufacturing, with comparison to China.



The China Factor Contd...

- ¶ Some times back, The CII invited Mckinsy & Co. to evaluate the real strength of China's manufacturing sector and suggest ways to improve Indian Industry's own competitiveness.
- ¶ The Mckinsy report, titled "Learning From China To Unlock India's Manufacturing Potential", is eye-opener for assumptions about the reasons for China's manufacturing advantage.



The China Factor Contd...

- ¶ We assume that China's growth has been driven more by investment than productivity increases.
- ¶ Not true. As per study, while the average Indian worker in a fan assembly unit produced 35 fans, his Chinese counterpart was 50% more productive by producing 53 fans a day.
- ¶ Similarly, a Chinese worker in footwear industry was 3.6 times more productive and produced 11 shoes per day as against only 3 produced by an Indian worker.



The China Factor Contd...

- ¶ There is general perception that China's industry is primarily driven by exports.
- ¶ According to report, domestic demand is an equally powerful force and two-thirds of China's advantage comes from domestic consumption.
- ¶ We think that Chinese goods are cheap because of government subsidies and marginal cost prices.
- ¶ Contrary to Indian assumption, these lower prices are not the result of higher state subsidies or poor cost accounting.



The China Factor Contd...

- ¶ Mckinsey says that the lower prices are based on sustainable economic factors.
- ¶ For instance, a 48 inches, three blade ceiling fan in China, priced at Rs. 710 is 32% cheaper than the Indian price of Rs. 1050/-.
- ¶ Almost half of this price difference, 14.5% comes from lower indirect taxes.
- ¶ Among other key factors, higher labour productivity further lowers price by 5%, while lower raw material prices account for another 4% and lower capital cost for 2.5%.



The China Factor Contd...

- ¶ Many people in India believe that the Chinese produce cheap but lower quality products.
- ¶ Mckinsey says that twin force of low tariff protection and large amount of Foreign Direct Investment (FDI) ensure that Chinese manufacturers face competition from world class players.
- ¶ Consequently, while some Chinese manufacturers produce goods of inconsistent quality, several others manufacture world class products.
- ¶ This is evident by the fact that China has been securing a large share of the original equipment manufacturing (OEM) business of global players.



Sustainable Competitive Edge

- ✓ When we focus on competition, we have to target sustainable competitive edge i.e. competitive advantage over longer period of time.
- ✓ Cost Intelligence plays significant role to attain this objective because price is now a very important factor.
- ✓ Gone are the days when the price was fixed by cost plus profit approach.
- ✓ Now, the prices are fixed by the market which means that after deducting targeted profit from the market determined price, one has to focus on costs.



Sustainable Competitive Edge Contd...

In simple words

Earlier was

Selling Price Approach i.e. $\text{Sale Price} = \text{Cost} + \text{Profit}$

Now transformed into

Cost Approach i.e. $\text{Cost} = \text{Market Determined Sale Price} - \text{Targeted Profit}$



Profit Dynamics



- ❖ Selling Price
- ❖ Cost
- ❖ Profit

“Optimize Cost to increase profit”

➔ What is Cost???



The Market Perception About Cost

Traditionally, the cost is considered as sum of expenses incurred.

Now, *Cost is not what we are incurring.*

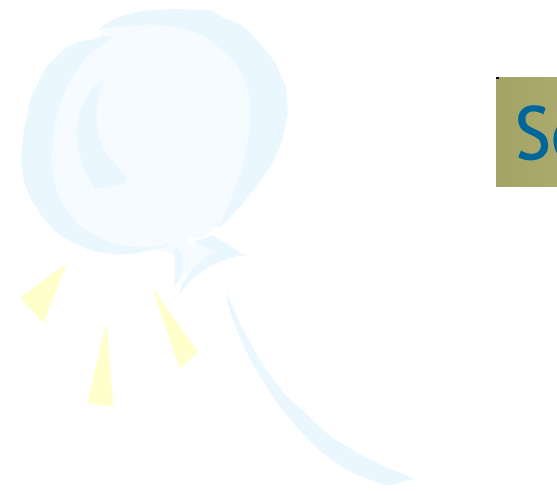
It is what the customers are willing to pay and the competitors allow.



Key Cost Intelligence Areas

- ✓ Input Costs
- ✓ Conversion Costs
- ✓ Other costs





Some Success Stories . . .

Three balloons (green, light blue, and purple) are positioned vertically on the left side of the slide. Each balloon has a string and several small yellow triangular flags attached to it.

Super Seals India Limited

My Experience



Company Profile, Growth Strategy & Market Changes

- ✓ A well established company since 1957 engaged in manufacturing of automotive oil seals and industrial and automotive hose pipes with consistent track record of good profits until the year 2000
- ✓ Company expanded hoses division in the year 1999 to increase the capacity in multi folds with the help of term loan from financial institutions.
- ✓ Import market of company products liberalized in the year 2000 resulting decrease in average capacity utilization to 35%



Effect of Market Changes on Company

- ✓ Cash flow crunch across the Board and frequent exit of finance heads.
- ✓ Non payment of creditors and service providers on due date.
- ✓ Piling up of inventory levels of finished goods.
- ✓ Delay in salary payments to employees.
- ✓ Pressure on company by customers to reduce selling price thereby increasing the pressure on margins.
- ✓ Development of overall negative atmosphere and attitude in the company.

>Challenging task ahead...₂₆



My Position and Motivation

- ✓ Was working as head of costing department.
- ✓ Looked upon success of turning around the financial position of company as an enrichment of career.
- ✓ An opportunity to get unique professional exposure.
- ✓ A challenge to prove the worth in extraordinary circumstances and difficult situation.
- ✓ A question of survival of families of over 500 employees.

DARE To DREAM
>Those who dream the most.. Do the most<

A decorative graphic on the left side of the slide featuring three balloons in green, blue, and purple, each with yellow triangular streamers attached to its string.

Key Measures Undertaken In General

- ✓ Creation of positive atmosphere in the company.
- ✓ Formulation of Cost intelligence Program in order to initiate measures to reduce costs and thereby increase the profitability of company.
- ✓ Discussion with Top Management and Approval of cost intelligence program.
- ✓ Circulation of program among all concerned department heads.

Three balloons (green, blue, and purple) with yellow triangular streamers are positioned on the left side of the slide.

Key Measures Undertaken Material Costs

- ✓ New suppliers were identified for better credit terms and lower prices.
- ✓ The high cost material was replaced with low cost material of the same specification.
- ✓ The consumption of materials was reduced through change in manufacturing process, value engineering and re-use of wasted materials.



Key Measures Undertaken Personnel Costs

- ✓ The workers' incentive scheme was re-structured with the assistance of National Productivity Council (NPC), in order to ascertain the correct productivity levels.
 - ✓ The raise under workers' agreement was negotiated on the basis of assured increase in productivity levels.
- > Driving out Cost towards Value enhancement



Key Measures Undertaken Energy Cost

- ✓ The energy saving instruments were installed.
- ✓ The machine power consumption was reduced.
- ✓ The high cost fuel was replaced with low cost fuel.
- ✓ The other energy saving measures were introduced.

A decorative graphic on the left side of the slide featuring three balloons in green, light blue, and purple, each with yellow triangular streamers attached to its string.

Key Measures Undertaken Packing Costs

- ✓ Evaluation of packing system done based on replacement cost model.
- ✓ Payback period of new investment arrived.
- ✓ The mode of packing was changed from card board based packing to flexible packing.



Key Measures Undertaken Insurance Expenses

- ✓ The insurance tariff classification was restructured thereby reducing approximate 40% insurance premium paid on account of fire insurance.
- ✓ Various possible discounts were availed by incurring some nominal related expenses.



Key Measures Undertaken Working Capital Requirement

- ✓ Suppliers were re-negotiated to extend credit period by including some extra cost in their price for interest.
- ✓ Customers were asked to make payment before due dates at nominal finance charges.
- ✓ Inventory levels were controlled by fixing optimum inventory level for high value items, disposing off non-moving items and aligning production line with sales/ demand.

A decorative graphic on the left side of the slide featuring three balloons in green, blue, and purple, each with yellow triangular rays emanating from it. A blue line connects the blue balloon to the text '>Integration of Strategy, Costing & Finance'.

Key Measures Undertaken Financial Restructuring

- ✓ Strategic Financial Planning
- ✓ Re-scheduling of Term Loan
- ✓ Capitalization of Expenses
- ✓ Aggressive Valuation of Inventories

>Integration of Strategy, Costing & Finance



Important Lessons I Learnt

- ✓ Life is the most important aspect of any human being and its survival is must for all.
- ✓ Business is all about People, People and People.
- ✓ Therefore, in order to achieve success in your life, you must have right attitude and mindset to work for the people, to work with the people and to get work done from the people.
- ✓ We are here not to please the persons but to protect business interests of the company.



Reward I Got

- ✓ Gold medal for best performing manager.
- ✓ One of the rare lifetime experiences i.e. turning around the financial position of the company.
- ✓ Earned respect from all stakeholders of the company.
- ✓ Developed holistic approach of managing business.
- ✓ Elevated from Manager (Finance & Costing) to the position of CFO on accelerated basis.



Summation



- ✓ The quoted instances, as discussed are only elaborative ones and not exhaustive.
- ✓ There can be numerous means and methods of cost intelligence but the objective is one i.e. to achieve Sustainable Global Competitive Edge.
- ✓ It is must for any business organization, in today's era of intensive competition.



My Mantra!

- ✓ Think Positive!
- ✓ Act Proactive!
- ✓ Never be Complacent!

> We can do some changes not wonders, everyday

Three balloons (green, blue, and purple) are positioned on the left side of the slide, each with yellow triangular streamers trailing behind them.

My Driving Force

*If anybody can do it..... We will do it faster,
better and at lowest possible cost.*

>Close Alignment with Business Purpose



Thanks!

About CMA Pankaj Jain

Seasoned CMA with spirit of entrepreneurship, having over 24 years of rich and diversified experience across wide spectrum of industries while working at India and overseas with proven track record of aligning strategies with business, building trust based relationships globally and having funds raising experience of projects having cost of over Rs. 9,600 crores.

Have successfully played pivotal senior management leadership role in core management team at top corporate level to lead the cross functional team consisting of CMA's, CA's, MBA's, CS, Law Graduates, Engineers and closely worked with business owners to provide insights on how business decisions impact profitability and cash flow and helped them to develop effective plans to achieve their business goals.

Have managed numerous strategic business initiatives involving Venture Formation, Business Modelling, Strategic Financial Planning, Corporate Alliances, Mergers, Demergers, Acquisitions, Divestments, Cost Optimization, Business Restructuring, Capital Structuring, Corporate Governance and Corporate Financing for successful businesses with global foot prints and hold distinction of turning around the financial position of company through dynamic initiatives.

Have published several articles in premier professional journals and is visiting faculty to leading business schools and professional bodies. Have also conducted number of programs on various forums.

A post graduate in commerce from CCS University and has affiliations with leading professional bodies such as Institute of Cost Accountants of India (ICAI), Institute of Company Secretaries of India (ICSI), Institute of Directors (IOD), All India Management Association (AIMA), Institute of Internal Auditors (IIA), Computer Society of India (CSI) and is also founder of Young Entrepreneurs Network and Indian Society of Management Accountants.