

Analysis of Cost Control Mode Based on Enterprise Value Chain

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Abstract. Cost control is a systematic project, which can directly reflect the level of enterprise management. It is an important indicator of the core competitiveness of enterprises. Along with the further development of the globalization, the competition between the enterprises become more fiercely. Enterprises should take the whole consideration of cost control in the enterprise value chain, properly deal well with the relation between suppliers, customers and competitors, make full use of enterprise resources, focus on the own value chain of the industry in order to promote healthy development of the enterprises.

Keywords: cost control; value chain; Competitiveness.

1 Introduction

Cost control is a long and important new topic in enterprise management. The effectiveness of cost control is an important indicator of the level of enterprise management, while it is also a key factor in the core competitiveness of enterprises. Enterprises in any stage of development stressed that cost control will not become obsolete, it is a need to constantly grasp, persevere, and constantly improve the process of improvement.

With the development of economic globalization, the market competition of enterprises is becoming more and more intense. Many products have serious excess capacity. The competition among enterprises is not only more than the cost, but also the comprehensive strength such as quality and related services. In this business environment, the traditional cost control model is too extensive, the drawbacks are mainly as follows: 1. From the quality of products and services, as well as the development of enterprises on the cost of the strategy, the result of damage to the core value of the product and reduce customer satisfaction, affecting the core competitiveness of enterprises; 2. Ignore the management of intangible costs, including corporate culture, brand building, information technology and so on. Although these inputs may be difficult to bear fruit in the short term, but the long term to enhance the core competitiveness of enterprises play a crucial role; 3. Only consider from the enterprise's internal value chain on how to strengthen cost management, did not consider from outside the enterprise value chain to strengthen cost control. 4. The company and the departments of the cost control responsibilities are not clear, leading to cost-control-related information feedback and delivery channels are not smooth. In addition, due to the relevant incentive and restraint mechanisms are not established, the ultimate cost control strategy cannot really landed.

The traditional cost control for the above problems, we need to consider the value of the enterprise from the perspective of solution. According to Michael Porter's value chain theory, the value chain is a series of regular activities to create value chain, that is, each enterprise business activities aimed at creating value for customers. If the value created exceeds the cost, the firm can make a profit; if it exceeds the value created by the competitor, it will have more competitive advantage. This is precisely the starting point of enterprise cost control is the same, that is the essence of cost control is how to make full use of the limited resources of enterprises to create more value for customers.

Therefore, in the enterprise value chain based on the construction of cost control system, better reflect the nature of cost control.

Therefore, the modern cost control system should be built on the basis of the enterprise value chain, that is, the enterprise value chain is divided into three parts: the internal value chain, the vertical industry value chain and the competitor horizontal value chain, thus forming the value of internal and external value chain Network (see figure 1). On this basis to develop and adjust the cost control

strategy to determine the focus of cost control, and from the company and department two levels were clear responsibility and the right cost control, the establishment of the corresponding cost control operation mechanism, the cost control to achieve the real focus of control, Clear responsibility and responsibility, continuous improvement, optimize the allocation of enterprise resources, enterprise efficiency and core competitiveness of the rising goal. Among them: 1, the internal value chain is all from within the different but can create value for the business activities constitute the specific decomposition of research and development, procurement, production, marketing four key areas. 2, the industry vertical value chain is the value of the entire industry as a part of the production industry, it is the upstream suppliers, downstream sales channels are businesses and customers (consumers). 3, the competitors of the horizontal value chain is itself and competitors in product cost, price and marketing services, and other aspects of comparison. To understand their own advantages in cost control (including absolute advantage and comparative advantage) and shortcomings to take the appropriate competitive strategy process.

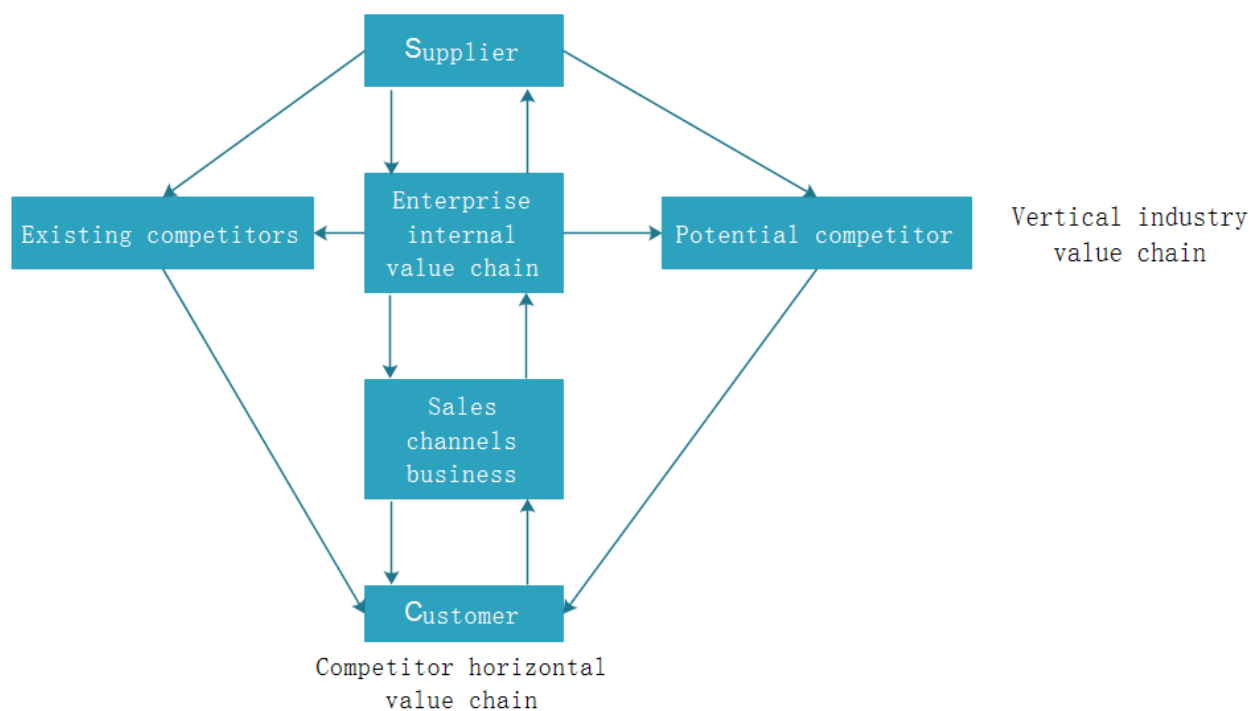


Figure 1: Value network

2 Cost Control Mode

The cost control system based on enterprise value chain is divided into three aspects: cost control mode based on vertical value chain of industry, cost control model based on horizontal value chain and cost control model based on internal value chain.

2.1 Cost Control Mode Based On Vertical Value Chain of Industry

The enterprise as an individual in the whole industry chain to observe and study, put the enterprise cost control model extended to suppliers and customers, and then all aspects of the industrial chain cost, profit estimates, the final evaluation of enterprises in the industrial chain comparative advantages and disadvantages, and ultimately make scientific decisions. Specific control measures are:

1. Cooperation with the upstream and downstream win-win situation. According to their own situation, with suppliers and customers in the mutual benefit and win-win basis for communication and coordination, with a view to achieving cost management synergies. For example, enterprises to achieve JIT real-time production system, reduce inventory costs, suppliers need to meet the quality and delivery on time.

2. Establish the concept of extended cost control. To help suppliers reduce costs than simply asking suppliers to lower prices more effective; to strengthen customer training and services to enable customers to improve profitability is more important than simply raising prices, allowing companies to continue to maintain customers and markets.

3. The use of industry chain integration strategy. According to their own situation to consider through mergers and acquisitions, cooperation, etc., to achieve the integration of resources on the downstream, that is, suppliers or sales channels from outside the enterprise into an enterprise to reduce the cost of materials and sales costs, enhance the competitive advantage. For example: "Apple" smart and terrible, not only because it is ahead of the technical design, but also in its global industrial chain, the full use and effective integration.

Based on the vertical value chain of the industry is to control the cost of the enterprise as a whole to look at, belong to the scope of the company's strategic cost control, so the specific implementation of the scope of responsibilities belonging to the company level.

2.2 Cost Control Model Based On Horizontal Value Chain

The market position of an enterprise depends on the result of comparison with its competitors. That is, through their own value chain business activities and competitor value chain business activities compared to clear the relative position of the cost of enterprises to adjust or determine the future focus of cost control, focusing on the development of the core business, and strive to enhance the core business Competitiveness. Specific ideas are:

1. Outsource non-core business. The limited resources of enterprises determines that the enterprises should put their resources into the core business which they are good at, rather than waste resources on non-core businesses which are not good at them, resulting in inefficient utilization of resources and cost control disadvantages.

2. Different cost competitors to take a different competitive strategy. Through the calculation and analysis of the cost of competitors, to clarify the causes of their cost differences, to take the appropriate competitive strategy. Such as the face of high cost and strong competitors, low-cost strategy can be used to avoid weaknesses and strive for cost advantages, so that companies in the pressure to survive the development of strong opponents, while the relatively low-cost competitors can use differentiation Strategy, focus on improving product quality and service levels, to avoid the blind price war, in order to maintain their competitive edge.

3. To establish strategic alliances with competitors to achieve complementary advantages, win-win cooperation. Strategic alliance is spontaneous, the parties maintain the original business of the original business independence, with a border fuzzy, efficient operation, flexibility and other characteristics. Strategic alliance has changed the traditional competition with the disappearance of competitors as the goal of competition, competition and cooperation in the alliance go hand in hand, for cooperation and competition to seek competitive advantage through cooperation. For example, in the current real estate to the stock context, the recent two hundred billion real estate and real estate Poly Real Estate powerful combination, in Foshan and other South China region to develop cooperation, and further the formation of regional market monopoly.

Cost control based on horizontal value chain is also regarded as a whole, it belongs to the scope of strategic cost control, so the specific implementation belongs to the scope of corporate responsibility.

2.3 Cost Control Model Based On Internal Value Chain

Enterprise internal value chain is a process from raw material processing to produce products with market value.

The four key research and development activities, procurement, production, marketing and other value chain involves a direct impact on product quality and customer satisfaction.

Through the internal value chain analysis, we can find ways to reduce costs and maintain and enhance competitive advantage. Therefore, in the enterprise's value network, the enterprise's internal value chain is at the core of basic status. From the internal value chain can be found, the product is finally sold to customers, recognized by customers, so that the consumption of enterprise value can be compensated, otherwise, the enterprise will not function properly. How to organize production

efficiently and timely allocate the resources of people, finance and material according to the market situation and control the cost under the premise of satisfying customers, which is the best goal of cost control. To achieve this goal, enhance the ability to respond to market changes is the key, because the foresight of those who will get greater economic benefits.

Therefore, based on the internal value chain of the cost control model is bound to involve the company level and departmental level issues. At the corporate level, the main responsibility lies in the decision-making, while the sector-level responsibilities are mainly based on the implementation of scientific and rational decision-making and effective implementation of cost control is an inevitable requirement. Company management should be based on changes in the environment to determine and adjust the direction of cost expenditure and control of the focus. Departmental level to seriously implement the requirements of management, from top to bottom unity of thinking, co-operation, the division of their duties, will achieve the goal of maximizing business value. Specific ideas are:

1. Establishment of enterprise information processing system. Modern enterprise decision-making is inseparable from the information support. Therefore, enterprises should establish internal and external intelligence agencies. The marketing department directly faces the customer and acts as the external intelligence agency of the enterprise. It is responsible for transmitting the information of customer feedback to the decision-making layer of the company and guiding the business activities of R & D, purchasing, production and other functional departments. The Ministry of Resources and the Ministry of Finance should be as the internal intelligence agencies, from the human and financial aspects of the company's various departments of information collection and analysis, the information processing results back to the company's decision-making level. The company's decision-making level according to the information feedback from various departments to adjust the internal business activities, the enterprise limited resources for the creation of greater value to the activities.

2. To establish and improve the company's budget management system, internal control system and build corporate culture system. Enterprise management and department level to achieve the strength of the team, cannot do without two basis, one is the material basis, and the other is the power of culture. The material base means that the company should be properly coordinated to solve the interests of the upper and lower and the various departments, which requires the establishment of a resource deployment mechanism, pay incentives and self-correcting mechanism, the specific tool is to establish a reasonable pay system, the implementation of comprehensive budget management and Improve the internal control system. Because more management initiative of the budget and internal control has become the promotion of Chinese enterprises financial management system modernization of the two main engine. The material basis is money-related, and the power of culture is about spirituality, compared to the longer-lasting cultural power.

3 Conclusions

Cost control is not a financial department or a department of several things, it should be seen as a systematic project, into the overall consideration of the enterprise value chain. Properly handle the relationship between internal and external value chain, make full use of their resources, give full play to their advantages, and effectively enhance the core competitiveness of enterprises, the only way companies can continue to grow in the market competition.

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