Blocher et al
Chapter one : COST MANAGEMENT AND STRATEGY

Suggested solutions to some of the questions

1-3 Cost management information is a broad concept. It is the information the manager needs to effectively manage the firm or not-for-profit organization -- both financial information about costs and revenues and relevant non-financial information about productivity, quality, and other key success factors for the firm. Typically, cost management is the responsibility of the Chief Financial Officer (CFO) who often delegates much of this responsibility to the Controller.

1-5 The Certificate in Management Accounting (CMA) is the most relevant certification program for management accountants since it focuses on the types of skills that are most in demand for management accountants: economics, finance, and management, financial accounting and reporting, management analysis and reporting, and decision analysis and information systems. Another relevant certification is the Certified Public Accountant (CPA).

1-6 The four functions of management are:

1. Strategic Management -- information is needed by management to make sound strategic decisions regarding choice of products, manufacturing methods, marketing techniques and channels, and other long term issues.
2. Planning and Decision Making -- information is needed to support recurring decisions regarding replacement of equipment, managing cash flow, budgeting raw materials purchases, scheduling production, and pricing.
3. Management and Operational Control -- information is needed to provide a fair and effective basis for identifying inefficient operations, and to reward and support the most effective managers.
4. Preparation of Financial Statements -- information is needed to provide accurate accounting for inventory and other assets, in compliance with reporting requirements, for the preparation of financial reports and for use in the three other management functions.

1-7 Strategic management is the most important management function since it most directly relates to the overall success of the firm. In strategic management, top managers determine how the firm is to compete and what specific goals it must set and achieve to be successful. The determination of these strategies and goals drives all other activities in the firm.

1-10 As firms move to the Internet for sales and customer service it is likely that strategies will change. For some firms, a popular web site can be an important differentiating factor. Firms such as Amazon.com, Etrade and eBay have achieved powerful competitive advantage through the strength of their web sites. Other firms might use the Internet to achieve cost advantage, by using Internet based systems for transactions processing, production scheduling, purchasing, employee recruiting, etc. It seems that the Internet could be effectively used to enhance either a cost leadership or product leadership strategy.

1-12 The factors in the contemporary business environment that affect business firms and cost management are:

1. Increased global competition, which means an increasingly competitive environment for all firms and thus the need for cost management information to become more competitive; the need for competitive non-financial information in addition to financial information in cost management reports;
2. Changes in manufacturing and information technologies, and thus the need for cost management information to facilitate the introduction of new manufacturing and product technologies (e.g., determining which technologies will most contribute to profitability), and to incorporate in cost management reports the information needed to manage the new technologies effectively; the importance of life cycle costing -- considering the total costs of the product or service over its entire cost life cycle, from raw materials to sales and service;
3. A focus on the customer, which requires cost management reports to include critical information about customer satisfaction, changing customer preferences, etc.;
4. Changes in management organizations, new reporting practices to recognize the new focus on cross-functional teams in which employees from all areas of the firm work together to make the firm successful;
5. Changes in the social, political, and cultural environment of business, which requires an expansion of cost management reporting to include critical success factors related to the expectations of those beyond the ownership of the firm including employees, local government officials, and community leaders.

1-13 Refer to Exhibit 1-3 in the text, reproduced here.

Comparison of Prior and Contemporary Business Environments

	The Prior Business Environment	**The Contemporary Business Environment**
MANUFACTURING		
Basis of Competition	economies of scale, standardization	quality, functionality, customer satisfaction
Manufacturing Process	high volume, long production runs, significant levels of in-process and finished inventory	low volume, short production run, focus on reducing inventory levels and other non value-added activities and costs
Manufacturing Technology	assembly line automation, isolated technology applications	robotics, flexible manufacturing systems, integrated technology applications connected by network
Required Labor Skills	machine paced, low-level skills	individual and team paced, high-level skills
Emphasis on Quality	acceptance of a normal or usual amount of waste	strive for zero defects
MARKETING		
Products	relatively few variations, long product life cycles	large number of variations, short product life cycles
Markets	largely domestic	global
MANAGEMENT ORGANIZATION		
Types of Cost Management Information	almost exclusively financial data	financial and operating data, the firm's strategic success factors

Needed		
Management Organizational Structure	hierarchical; command and control	network-based organization forms; teamwork focus -- employee has more responsibility and control; coaching rather than command and control
Management Focus	short term: short term performance measures and compensation; concern for sustaining stock price; short tenure and high mobility of top managers	long term; focus on critical success factors, commitment to the long term success of the firm, including adding shareholder value

1-14 The thirteen contemporary management techniques are:

1 The Balanced Scorecard (BSC) and the strategy map. The BSC is an accounting report that includes the firm's critical success factors in four areas: customer satisfaction, financial performance, internal business processes, and innovation and learning (human resources). The Strategy Map is a method, based on the balanced scorecard, which links the four perspectives in a cause-and-effect diagram.

2.. Value-Chain Analysis, a tool that helps the firm identify the specific steps required to provide a product or service

3. Activity-based Costing and Management: Activity-based costing is used to improve the tracing of manufacturing costs to products and therefore the accuracy of product costs. Activity-based management (ABM) uses activity analysis to help managers improve the value of products and services and to increase the firm's competitiveness.

4. Business Intelligence is an approach to strategy implementation in which the management accountant uses data to understand and analyze business performance.

5. Target Costing, a management method that determines the desired cost for a product upon the basis of a given competitive price, such that the product will earn a desired profit.

6. Life-Cycle Costing, a management technique used to monitor the costs of a product throughout its life cycle.

7. Benchmarking, a process by which a firm identifies its critical success factors, studies the best practices of other firms (or other units within a firm) for these critical success factors, and then implements improvements in the firm's processes to match or beat the performance of its competitors.

8. Business Process Improvement, a management technique in which managers and workers commit to a program of continuous improvement in quality and other critical success factors.

9.Total Quality Management, a technique in which management develops policies and practices to ensure that the firm's products and services exceed the customer's expectations.

10. Lean accounting uses value streams to measure the financial benefits of a firm's progress in implementing lean manufacturing.

11. The Theory of Constraints, a strategic technique to help firms to effectively improve the rate at which raw materials are converted to finished product.

12. Enterprise Sustainability means the balancing of the company's short and long term goals in all three dimensions of performance – social, environmental, and financial.
13. Enterprise risk management is a framework and process that firms use to managing the risks that could negatively or positively affect the company's competitiveness and success.

1-16 This question is set to get a positive response and that is usually what I get. It is important to understand why a strong ethical climate would be beneficial, and note the increasing importance of an ethical climate since the Sarbanes-Oxley Act. Also, a helpful resource is the article in the July 2005 Strategic Finance, "Is There Value in Corporate Values?" Reporting on a survey done by the Aspen Institute and the consulting firm Booz Allen Hamilton, the article notes that most respondents believe that strong corporate values builds strong relationships and reputations. The study also reported that nearly half of financial leaders survey said that strong corporate social and environmental values effect financial performance in the short run. The article notes, as do many other surveys, that the firm Johnson & Johnson is perhaps the best know example of a company that has high corporate values.

1-18 Like most beverage companies, there is a strong differentiation. Refer the students to the information in Problem 1-41 which shows Coke as having the highest brand value of any company. There is at least a perceived difference between a Coke and Sam's Club cola, for example. Ask the class if they can come up with an example of a cost leader beverage, and some will mention low priced brands of cola or beer.

1-19 A commodity is a product or service that is difficult to differentiate from competitors: gasoline, paper products, are some examples. You can ask the class to provide additional examples. The crucial point for a commodity: is there any reason you would pay more for this item? As such, commodities are natural cost leadership products or services.

1-21 Here are a number of possible answers here. The main point of the question is that the cost leadership or differentiation classification applies across different types of firms in different industries. There are some industries (particularly those with commodities) which tend to be characterized by cost leaders and others (biotech,..) which tend to be characterized by differentiators. Other industries may have a mix of different types of competitors. I ask them to consider the automobile industry and to identify cost leaders and differentiators.

1-22 It is certainly likely that a new product, with technologically advanced features, may begin as a differentiator and then as the market for the product matures and competitors enter the market for the product, then the industry as a whole moves to more of a cost leadership type of competition. Consider cell phones as an example.

1-23 Often people think of strategy as simply planning, or "long term" planning. In the broadest sense, this is correct, though the planning in strategy formulation and execution is somewhat more complex, including developing an understanding of the business environment in which the firm operates and of the resources available within and outside the firm to help it compete effectively. The steps in executing a strategic plan are considered in chapter 2.