Analytical Study on Strategic Cost Management of Selected Automobile Companies in India

Dr. Sadyojathappa S
Associate Professor, Dept. of Studies in Commerce, Vijayanagara Sri Krishnadevaraya University, Ballari

Abstract-The strategic management of the chosen automobile firms will be the primary emphasis of the current study. The issues encountered-primarily as a result of the cost factor and market structure and the subsequent solutions in the form of alternate routes are discussed. Its applications and recommendations have been clarified.

This research compares the financial performance of five Indian automobile companies using predetermined metrics before evaluating the most effective cost-management tactics for each company to use in the marketplace. The financial statement data, including the balance sheet, profit and loss statements, and quarterly statements, will essentially be used as secondary data, and via discoveries and conclusions, we should suggest the appropriate methods that should be put into practise. Since this research is largely focused on the strategic cost management of the automobile businesses, few ratios have been selected based on the "cost" criteria. Tables and graphs are used to compare the data.

Keyword: Strategic Cost Management, Operating Profit Margin and Economic Order Quantity

INTRODUCTION

A system called strategic cost management is used by well-established firms to constantly identify and evaluate expense drivers in an effort to reduce costs and increase overall value. This kind of system is required for setting purchase guidelines and a framework. Businesses can reduce their expenses and gain a strategic competitive advantage by setting up a strategic cost management strategy.

The use of this type of management program which includes developing a strategic plan, determining priorities for operations, and making sure that the company is making the most use of its limited resources. Creating strategies based on a cost management system assists firms in accomplishing their goals while reducing costs. It also gives management enough data to decide whether a new business model has to be adopted.

Three components that are often present in the framework of strategic cost management strategies will be studied. The first component of the system consists of the management's fundamental duties, which include mandatorily defining the nature of the company and its strategies for planning, developing new products, and conducting research and development. The value that operations like customer service, technical assistance, marketing, sales, and production add is the subject of the next component. The activities that support the core activities make up the framework's last element. These consist of information technology, human resources, general management, accounting, and finance.

Reviewing the company's corporate strategy in order to create a plan to promote improved internal communication and pinpoint any performance gaps is one step in the strategic cost management process. Management should then instruct team members on how to carry out the strategic management plan. The management team should next get to work gathering information by conducting surveys, employee interviews, data collection, and benchmark development. Following an analysis of the results, suggestions for modifications should be offered. If modifications are required, a worker should be held responsible for managing each change with clearly defined responsibilities and ensuring a framework is in place for ongoing improvement.

OBJECTIVES OF THE STUDY

1. To compare the selected automobile companies, taking into account their balance sheets and ratios.
2. To formulate apt strategies after analysing the facts and its financial statements.

Comparison of Balance Sheet: Balance sheet comparison shall be made upon following parameters:

a. Total Current Liabilities

On a company's balance sheet, current liabilities—which include short-term debt, accounts payable, accrued liabilities, and other debts—are debts or obligations that are due within a year. These are essentially bills that must be paid quickly to creditors and suppliers.

Table -1: Total Current Liabilities

Sample Units	2018	2019	2020	2021	2022
Tata Motors	24,218.95	22,940.81	25,810.82	26,251.55	26,992.81
Bajaj	4,111.29	4,873.68	4,253.21	5,643.21	4,689.44
Ashok Leyland Limited	8,819.50	8,788.96	6,998.93	8,273.84	9,547.29
Mahindra & Mahindra Limited	13,323.21	14,334.07	10,972.82	15,133.17	18,820.29
Maruti Suzuki India Limited	15,442.10	14,150.30	11,294.80	16,106.70	17,013.70

Source: Secondary data.

The data shown in the table 1 has been graphically represented in Fig. 1.

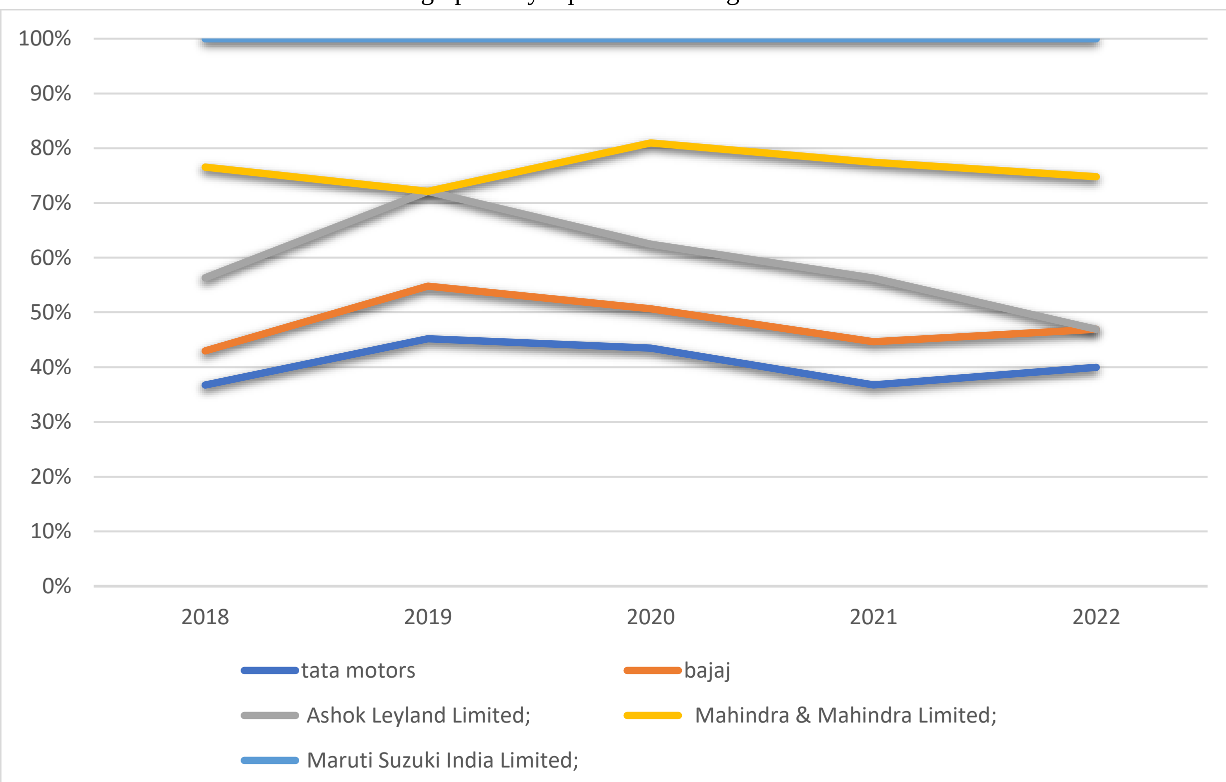

Fig. 1: Total current Liabilities

As shown in the table 1 and Fig. 1, it is revealed that all the five automobile companies show an increasing trend which reflects that all of them have higher current liability year on year basis. Tata motors is depicting a higher current liability followed by Mahindra & Mahindra Limited. Bajaj ltd, stand at the bottom which is not that good.

Strategy:

Current liability should be on a higher side because the term itself means the cash shall go out soon towards the payment to suppliers and all the outstanding expenses. In accounting, one should delay the payment as long as possible so a larger current liability is better, the cash outflow reduces. Quarterly payment can be made to suppliers and labourers and other expenses can also be delayed to increase current liability as far as Bajaj Ltd is concerned.

b. Inventories

Table-2 Inventories

Sample Units	2018	2019	2020	2021	2022
Tata Motors	5,670.13	4,662.00	3,831.92	4,551.71	3,718.49
Bajaj	742.58	961.51	1,063.50	1,493.89	1,230.51
Ashok Leyland Limited;	1,758.33	2,684.67	1,238.00	2,142.29	2,075.20
Mahindra & Mahindra Limited;	2,701.69	3,839.27	3,400.91	3,955.47	5,882.85
Maruti Suzuki India Limited;	3,160.80	3,325.70	3,214.90	3,050.00	3,533.10

Source: Secondary data

The data shown in Table 2 has been graphically represented in Fig. 2.

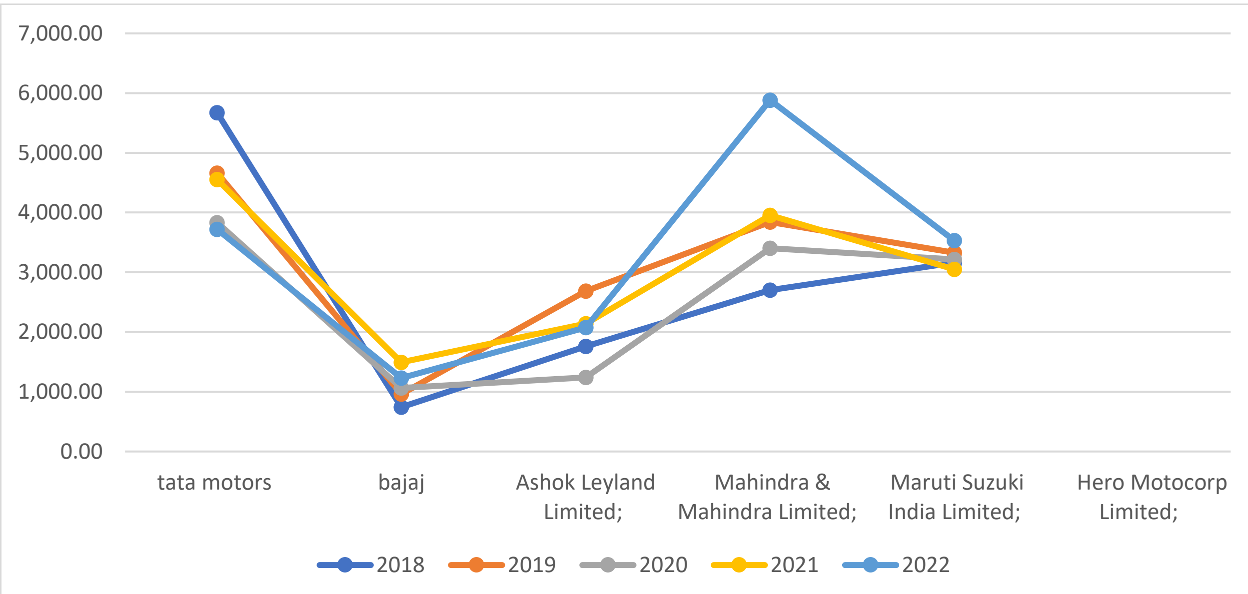

Fig. 2: Inventories

Table 2 and Fig. 2 has been taken from the balance sheet of the sample units, whereby we are trying to compare the inventory levels of all the five companies over a period of last five financial years. As we can see from the above graph that Mahindra & Mahindra Limited is depicting a higher inventory followed by Tata Motors. Bajaj Ltd. stands at the bottom which is not a good sign. Inventory also known as stock or goods, should be on a higher side because the term itself means that better the stocking level, better shall be the sales.

Strategy

No doubt inventory is followed by cash outflow but the company strategically can delay the outflow to their suppliers, thereby increasing the stock without reducing the cash (working capital) immediately. Raw material is a part of inventory which forms the largest part of cost of any product for any Automobile companies. So, we can depict from above that the strategic cost management for Tata Motors and Maruti Suzuki India Limited can be same but strategic cost management for Bajaj Ltd. shall be altogether different. Moreover, for a quick outflow of inventory the company can adopt various sales promotional schemes. Second, taking “ageing” factor into account, companies can design strategies such as older the stock lesser the price so that at least the cost can be recovered through it. Ashok Leyland Limited can follow JIT (Just In Time) approach for more stock and lesser warehouse space. Moreover, obsolete stock should be disposed of. Mahindra & Mahindra Limited must ensure that WIP is processed and not stocked. Sixth, EOQ (Economic Order Quantity) should be followed.

c. Total Current Assets

"Total current assets" is the sum of cash, accounts receivable, inventory, and supplies. Other assets that appear in the balance sheet are called long-term or fixed assets because they are durable and will last more than one year.

Table-3: Total current Assets

Sample Units	2018	2019	2020	2021	2022
Tata Motors	14,971.66	13,229.30	13,568.76	15,854.59	15,619.61
Bajaj	9,235.63	7,062.66	6,596.96	14,175.13	9,994.47
Ashok Leyland Limited	8,063.47	8,186.34	5,423.49	7,451.53	9,521.81
Mahindra & Mahindra Limited	16,474.47	18,071.06	15,141.49	20,312.30	25,917.70
Maruti Suzuki India Limited	7,921.40	12,361.60	8,427.40	18,526.70	16,781.20

Source: Secondary data

The data shown in Table 3 has been graphically represented in Fig. 3.

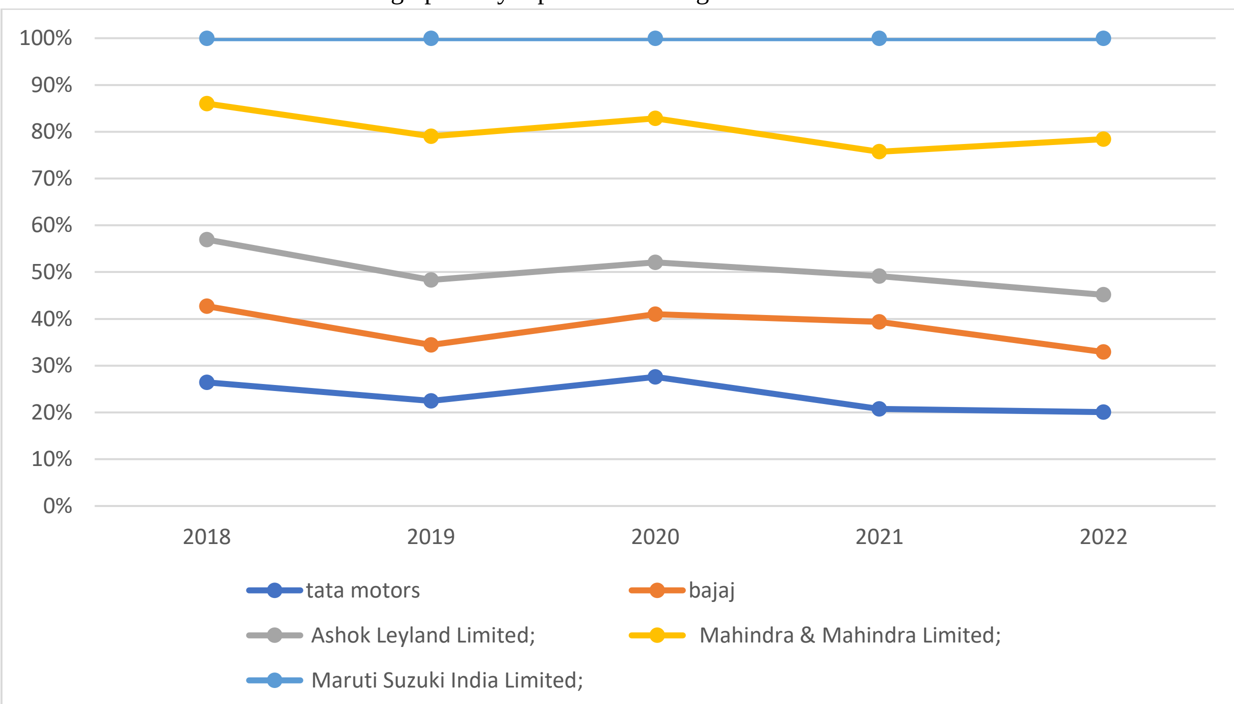

Fig. 3: Total current Assets

As we can see from Table 3 and Fig. 3 that, Mahindra & Mahindra Limited is depicting a higher current asset followed by Maruti Suzuki India Limited. Ashok Leyland Limited stands at the bottom which is good. Current asset should not be on a higher side because the term itself means the cash shall go out. Therefore, in ratios also we say ideal current ratio is 1:2 which means current asset should be half of the current liabilities.

Strategic cost management is basically dependent upon raw materials which are a major part of current asset. In all the five cases, we see an increasing trend which reflects that all Automobile companies have more outflows in the form of current asset which shall lead to higher requirement for working capital.

Strategy

The company should adopt an ageing policy so that the goods shall not be stocked up and hence the current assets shall reduce. Moreover, LIFO or FIFO methodology can be adopted for a successful stocking policy and maintenance of store. Another strategy could be apt debtor management policy such that credit time period allotted to debtors is less which can reduce current assets to a certain extent. Cash should maintain at an optimal level.

Comparison of Ratio Sheets: Ratio comparison shall be made upon following parameters:

d. Operating Profit Margin (%)
Operating margin or operating profit margin measures what proportion of a company's revenue is left over, after deducting direct costs and overhead and before taxes and other indirect costs such as interest. Operating margin is used to measure company's pricing strategy and operating efficiency. It gives an idea of how much a company makes (before interest and taxes) on each rupee of sales.

Table-4: Operating Profit Margin

Sample Units	2018	2019	2020	2021	2022
Tata Motors	5.62	7.13	-1.48	4.81	3.17
Bajaj	19	16.46	17.03	17.76	15.86
Ashok Leyland Limited;	11.24	10.79	6.71	3.49	4.58
Mahindra & Mahindra Limited;	12.78	12.38	12.74	14.44	12.25
Maruti Suzuki India Limited;	15.12	12.78	9.65	7.6	6.45

Source: Secondary data

The data shown in Table 4 has been graphically represented in Fig. 4
Fig. 4: Table for Operating Profit Margin
Table 4 and Fig. 4 states that Bajaj ltd is depicting a higher operating profit margin followed by Mahindra & Mahindra Limited. Tata Motors stand at the bottom which is not up to the mark. High or increasing operating margin is preferred because if the operating margin is increasing, the company is earning more per rupee of sales. Operating margin can be used to compare a company with its competitors and with its past performance. It is best to analyse the changes of operating margin over time and to compare company's figure to those of its competitors.

Strategy
Cost reduction tools need to be adopted along with increase in sales revenue.

e. Inventory Turnover Ratio
Inventory turnover is a ratio showing how many times a company's inventory is sold and replaced over a period. The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days."
It is generally calculated as: Inventory Turnover = Sales / Inventory
However, it may also be calculated as:
Inventory Turnover = Cost of Goods Sold / Average Inventory
Inventory turnover ratios of different companies are shown in Table 5.

Table – 5: Inventory Turnover

Sample Units	2018	2019	2020	2021	2022
Tata Motors	10.52	14.84	11.46	6.63	12.71
Bajaj	34.42	31.46	28.13	18.57	26.94
Ashok Leyland Limited	15.15	10.82	14.11	7.14	10.45
Mahindra & Mahindra Limited	18.3	13.96	13.38	11.39	9.76
Maruti Suzuki India Limited	25.94	25.87	23.52	23.06	24.99

Source: Secondary data
The data shown in the table 5 has been graphically represented in Fig. 5

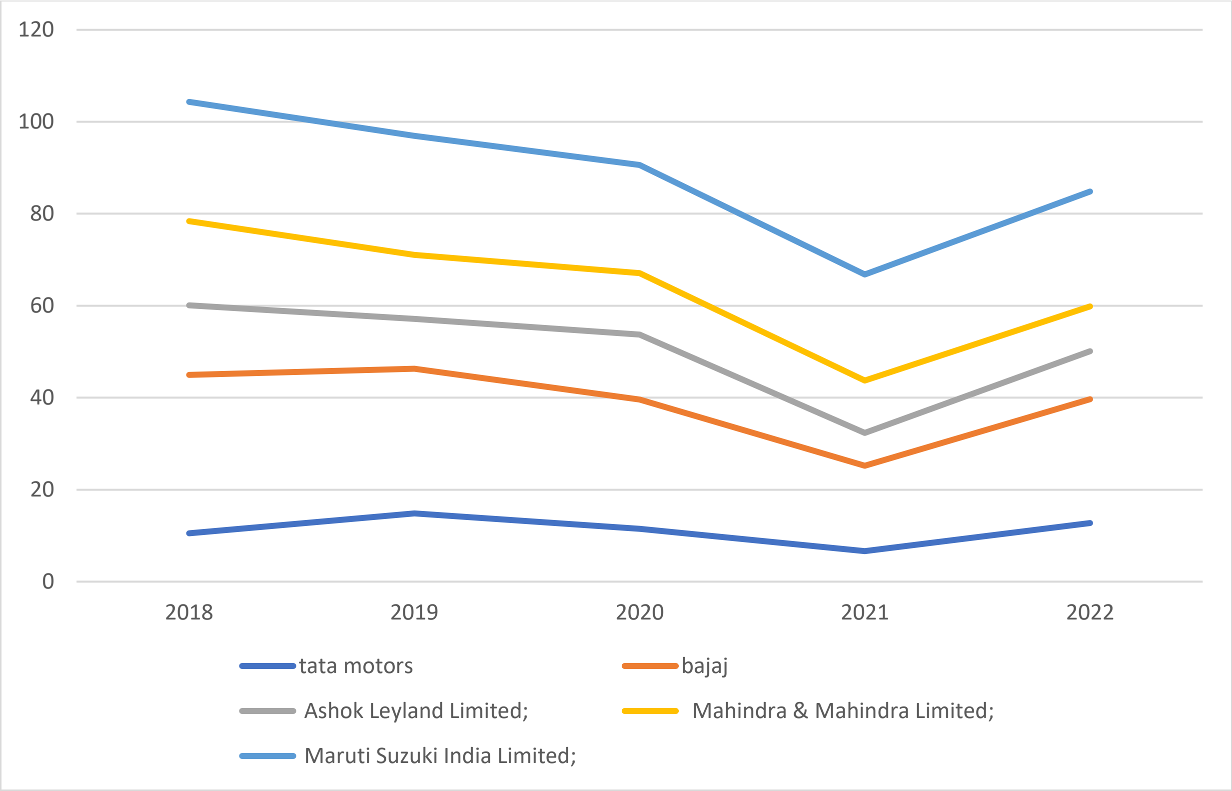

Fig. 5 Inventory Turnover

Table 5 shows that, Bajaj Ltd., is depicting a higher inventory turnover followed by Maruti Suzuki India Limited, which is good. Mahindra & Mahindra Limited stands at the bottom which is not up to the mark.

Strategy

Higher the turnover lower shall be the cost. It shall help strategize strategic cost management.

f. Material Cost Composition:

Expense ratios are calculated to ascertain the relationship that exists between operating expenses and volume of sales. Expense ratios are calculated by dividing each item of expense or group of expenses with the net sales so analyse the cause of variation of the operating ratio.

It indicates the portion of sales which is consumed by various operating expenses.

Material cost composition is shown in Table 6.

Table – 6: Material Cost Composition

Sample Units	2018	2019	2020	2021	2022
Tata Motors	72.21	73.82	73.55	74.62	78.55
Bajaj	70.68	73.95	72.11	73.21	74.87
Ashok Leyland Limited	65.5	74.92	64.31	77.9	77.82
Mahindra & Mahindra Limited	70.08	73.49	68.88	70.95	74.98
Maruti Suzuki India Limited	69.16	70.04	70.84	72.1	75.13

Source: Secondary data

The data shown in Table 6 is also presented in Fig 6.

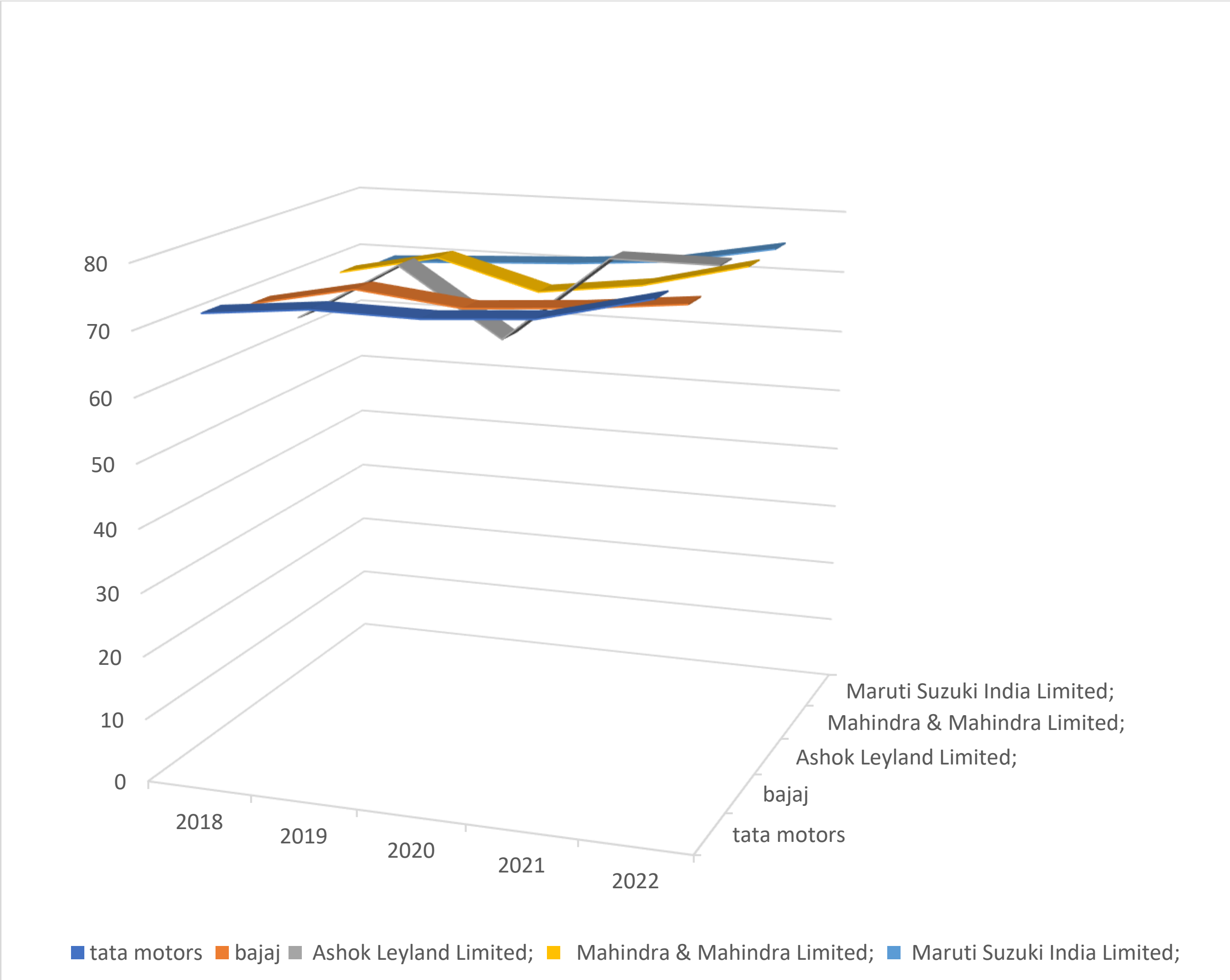

Fig. 6: Graph for Material Cost Composition

Table 6 indicates that, Tata Motors is depicting a higher expense ratio followed by Ashok Leyland Limited which is not good. Maruti Suzuki India Limited stands at the bottom which is good.

Strategy:

Unnecessary product feature should be reduced. Second, negotiation could be brought into force. Third, offer quick payment for lower cost.

g. Expenses as Composition of Total Sales

The above ratio expenses/total sales show how much the company is spending as a part of sales.

Table 7: Expenses as Composition of Total Sales

Sample Units	2018	2019	2020	2021	2022
Tata Motors	9.21	0	7.15	7.23	8.47
Bajaj	36.88	37.79	39.68	43.91	49.11
Ashok Leyland Limited	7.94	5.37	7.95	0	6.64
Mahindra & Mahindra Limited	5.14	5.71	4.91	4.44	5.73
Maruti Suzuki India Limited	6.84	6.06	7.17	6.52	12.53

Source: Secondary data

The data shown in Table 7 has been graphically represented in Fig. 7

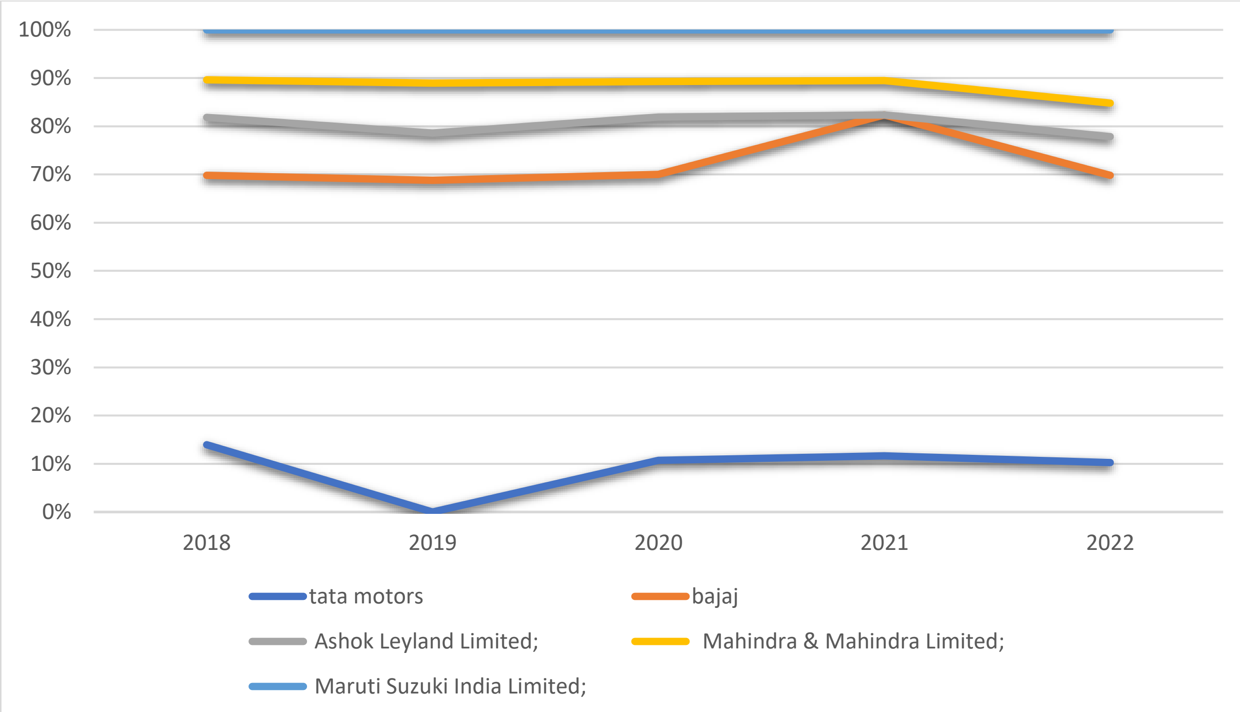

Fig. 9: Expenses as Composition of Total Sales

Bajaj ltd spends the most while Mahindra & Mahindra Limited is at the bottom with the least spending. We have a five-year figure whereby we can see a downward trend in spending composition which shows a positive sign. Highest fall in spend is of Bajaj ltd while Mahindra & Mahindra Limited was more or less constant.

Strategy

Logistic expenses also forms an important part of expenses column so the warehouse should be at nearest location from where raw materials are procured and at same time the outlet should be aptly connected to the market place.

CONCLUSION

For an effective cost management strategy, the company should focus on its overall cost reduction techniques followed by delay of cash outflow (like outstanding expenses, suppliers) and stress on quick recovery of all cash inflow tools (like debtors, accrued income and prepaid). To reduce costs does not mean only the reduction of specific expenses. One can achieve greater profits through more efficient use of the expense rupee. Some of the ways we do this are by increasing the average sale per customer, by effectively using display space and thereby increasing sales volume per square foot, by getting a larger return for your advertising and sales promotion rupee, and by improving your internal methods and procedures. All other expenses should be as low as possible; the company can think of better substitutes if available. Focus should be mainly upon apt utilisation of raw material and productivity of labour part because that forms the main ingredient of cost sheet. Logistics and promotional tools forms secondary in cost sheet. Moreover, some advanced strategic cost management techniques like Activity Based Costing, Target Costing, Life cycle costing, etc., can be used to minimise the cost and enables the firm to achieve competitive advantage.

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