

Research on Strategic Cost Management of Enterprises Based on Porter's Value Chain Model

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Abstract. With the increasing competition among enterprises, modern enterprises are facing a complex internal and external situation, which requires enterprises to strictly control their own cost management. The cost management activities of enterprises have great potential. Through effective cost control, we can strictly control the cost management of each link, which can reduce our own costs and improve their competitiveness. Through Porter value chain model, enterprises can control their own strategic cost, which caters to the competitive environment of enterprises. Through the value chain analysis tool of strategic management, we can better calculate the cost management of value chain, which can break through the limitation of traditional cost management. Through the whole life cycle, we can save production, R & D and design, raw material procurement, production and processing costs, which can complete the whole process control of the value chain. Firstly, this paper analyzes the concept of Porter's value chain model. Then, this paper analyzes the strategic cost management based on value chain. Finally, some suggestions are put forward.

Keywords: Cost Management, Porter Value Chain Model, Enterprise Strategy

1. Introduction

Under the background of global economy, the competition among enterprises is gradually intensified, which requires us to manage the strategic cost of modern enterprises based on the value chain, which is the main way for enterprises to grow[1]. There are many uncertainties in the value chain, which requires enterprises to choose a reasonable cost management method. By establishing the expectation based on the cost driver of value chain, we can establish the interaction model of strategic cost management, which will reduce the risk cost of value chain competition[2]. By striving for the cost control of value chain, we can realize the long-term cost advantage of enterprises, which is an important issue to be solved[3]. Through cost control based on value chain, SMEs can form their own strategic cost management mechanism, which will guide the integration of modern activity-based cost and cost planning cost management methods[4]. Through the establishment of Porter value chain model, we can break through the limitations of traditional cost management, which will be conducive to the vision of strategic cost management of growing enterprises[5]. By breaking through the short-sighted behavior of internal value chain strategy, enterprises can establish a correct concept of strategic cost, which will effectively predict the risk cost.



2. Relevant concepts of Porter's value chain model

2.1. Porter's value chain model theory

In 1985, Professor Michael Porter of Harvard University published the book *competitive advantage*, which is the first time to put forward the concept of value chain. The value chain model is a kind of model to determine the competitive advantage and find the competitive method, which is a basic application tool to enhance the strength of enterprises[6]. An enterprise with core competitiveness must establish its own efficient value chain, which is the inevitable development trend of the whole value chain competition. Through the comparison of value chains of competitors, we can determine the differences of competitive advantages. Porter's value chain analysis distinguishes nine kinds of activities related to strategy, which are a collection of activities of design, production, marketing, delivery and opposite products. Porter's value chain model divides value activities into two categories: basic activities and auxiliary activities. In enterprise value activities, cost control can be carried out in every link, which requires strategic discussion.

2.2. Porter competitiveness model

Porter's competitiveness model is a model used by Porter to analyze the competitive strategic links of enterprises, which has a profound impact on the formulation of enterprise strategies. Porter believes that the five forces will be the embodiment of the whole competitiveness, which will affect the profit change of the whole industry. Porter's competitiveness model is shown in Figure 1.

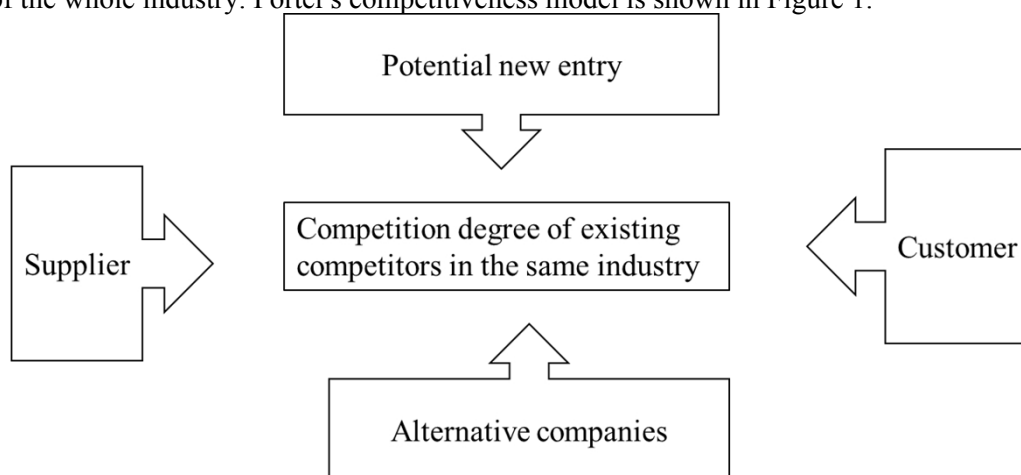


Figure 1. Porter's competitiveness model

2.3. Value chain analysis model

In *competitive advantage*, Porter first proposed the concept of value chain based on strategic management. In the value chain analysis model, the value chain of each enterprise is composed of a series of activities that can create value, are interrelated and independent of each other. Therefore, the value chain is the combination of a series of value-added activities from suppliers to customers. The "value chain model" combines the basic and auxiliary activities of internal and external value activities of an enterprise, which together constitute the value-added chain of an enterprise, as shown in Figure 2.

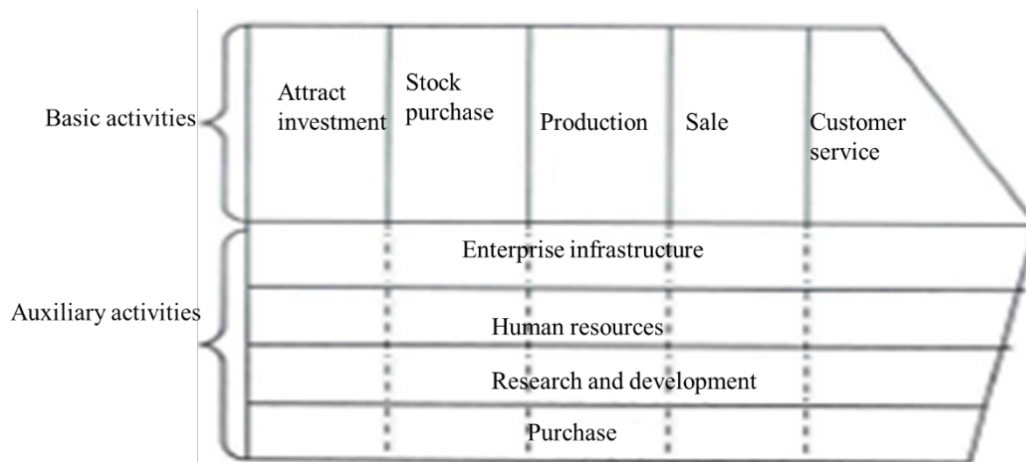


Figure 2. value chain analysis model

3. Strategic cost management based on value chain

3.1. Value chain cost calculation

Value chain analysis can reduce cost or increase customer value. Therefore, enterprises must calculate value chain cost, which is the relationship between production process and value chain. Through the discovery and improvement of cost management, we can more scientifically and reasonably provide the core enterprise with self-made or purchased products. The production value of products must consume the resources of enterprises. Therefore, each value creation corresponds to the relevant cost loss, which will be reflected in the value operation of asset allocation. Through the data of profit and loss statement, cost report and budget report, we can understand the cost calculation of value chain. The input cost of outsourcing operation is various raw materials, reserve materials and low value consumables put into production. Customer service cost is a kind of service cost that enterprises provide to attract customers in the process of product or service sales. Human resource cost is the expenditure of human resource, such as employee acquisition cost, development cost, maintenance cost and resignation cost.

Assets are charged to cost in installments by way of depreciation or amortization, which is not immediately charged to operating cost. Such as fixed assets, intangible assets, long-term unamortized expenses, etc.

Enterprises must allocate the above costs to various value activities in the value chain, which will form a value chain reflecting the cost distribution. Asset allocation can be determined by book value or replacement value, which will adjust the cost-benefit principle.

After calculating the cost of value chain, enterprises need to determine the value of each activity. If the customer pays more than the cost of various activities, we will form a profit. Therefore, we need to calculate the value chain from the customer's payment price, which will better determine the value of each operation. Through the distribution of activity value, enterprises can determine whether the activity creates value and the efficiency of asset utilization, which will determine the conditions for the creation of competitive advantage.

3.2. Formation of value chain interaction model

In the value chain, the growth enterprises will have the flow of cost and value with the value chain. Value chain plays an important role in the formation of strategic cost of growing enterprises. The value chain of mutual trust helps to promote the communication of strategic cost, which will reduce the risk of uncertainty and transaction costs. The competitive advantage of value chain is the relative advantage in the competition with other value chains. Under the interactive game, high-quality cost resources and strategic cost control are the source and foundation of sustainable competitive advantage

of growing enterprises. Therefore, the value chain model is based on the strategic cost management of growth enterprises, which will have a complex degree of calculation. Therefore, the more binding the organization is on the existing value chain. The basic technical route of strategic cost control is the activity-based cost control method considering the importance index, which is determined from the perspective of contribution rate and relevance of production process activities.

4. Ensure the implementation of strategic cost management

Strategic goal is a kind of general goal, task and requirement. Its implementation needs a scientific and systematic procedure. Strategic execution is the most important link in strategic cost management. If the enterprise does not have good executive ability, scientific strategic theory will not help the enterprise to achieve its goals. In the process of strategy implementation, we must do a good job in goal decomposition and goal confirmation, which is that each unit must be clear about its own importance and necessity. By ensuring sufficient human, material and financial resources, enterprises can ensure the strategic cost control of value chain activities. By continuously optimizing the activities of enterprise value chain, we can improve the cost control level of enterprises. Enterprises must do a good job in strategic control, which is an important way to improve the feedback and evaluation in the process of strategic management. By establishing a strategic control system that is consistent with the corporate culture and strategy, the enterprise can ensure the effective implementation of the target plan.

5. Conclusions

After entering the 21st century, the high degree of market freedom has promoted the rapid development of small and medium-sized enterprises. In the face of the rapid development of economic globalization, the early traditional cost management focuses on a single link of production, which can no longer meet the needs of society. Through highly standardized production, we can improve our work efficiency, which will create the most favorable conditions and reduce product cost management. Strategic cost management will enhance the core competitiveness of small and medium-sized enterprises in China, which will promote the sound development of enterprises.

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