

CHAPTER 3

X PHARMACEUTICAL COMPANY'S COST CONTROL STATUS.

3.1 X Pharmaceutical Company Profile

X Pharmaceutical Company. is a well-known pharmaceutical agent and pharmaceutical distribution company. The company was established in 2000 with a registered capital of 30 million RMB. It currently employs 187 people, including 101 sales and management personnel, 36 technicians, and 50 management and other personnel. Its marketing channels are spread all over the country. Its sales performance has been successively in private pharmaceutical companies. China is in a leading position. There are several departments within X Pharmaceuticals, with clear division of labor and clear responsibility:

(1) General manager:

1. Responsible for convening shareholder meetings; Implementing resolutions of shareholders meeting and reporting to shareholders' meeting.
2. Determine the company's production and operation plans and investment plans;
3. Determine the company's internal management organization settings.
4. Approval of the company's basic management system.
5. Hear the general manager's work report and make a resolution.
6. Formulate the company's annual financial forecast, final accounts plan and profit distribution plan.
7. Proposing the company to increase or reduce the registered capital, division, merger, termination and liquidation.
8. Appointment or dismissal of general manager, deputy general manager and head of financial department of the company, and decide their reward and punishment.

(2) Strategic Development Department:

1. It is mainly responsible for the investigation and research of the pharmaceutical industry and related industries.
2. Organize and revise the group's mid-to-long term development strategy and year-end development plan.
3. Review the ownership company's development strategy to ensure that the strategy is consistent with the overall strategy of the group.
4. Find new business development opportunities and conduct feasibility studies.
5. It is mainly responsible for the planning, evaluation and management of the group's brand construction.
6. It is mainly responsible for the management of the group's technology strategy and the demonstration and evaluation of the Group's major R&D projects.
7. Formulate and improve the group's medium and long-term IT plans and organize the implementation.

(3) Asset Management Department:

1. Implementation of property rights (equity) management of the Group's assets, timely understanding of the changes in the increase and decrease of assets, to ensure the integrity and effectiveness of the Group's assets and equity.
2. Responsible for the preparation, convocation and organization of the group company's asset management committee.
3. Responsible for organizing the capital operation plan of the group headquarters and formulating and implementing the fixed assets investment plan.
4. The audit right belongs to the company's capital operation plan, fixed assets investment plan, and supervision and implementation.
5. Formulate long-term investment and financing planning and investment promotion work for the group.
6. Responsible for the review of the Group external guarantees.
7. Conduct research, review, and argumentation on the investment and financing projects of property companies to provide support for the Group's board of directors.
8. Responsible for the supervision of the investment and financing project process and the evaluation of investment and financing results.
9. Organize the formulation and implementation of group headquarters financial policies and financial management systems.
10. Review and supervise the company's financial policies and financial management system.

(4) Audit and Supervision Department:

1. Audit and supervision of important economic activities such as financial management and major investments of the Group's headquarters and subsidiaries in accordance with legal procedures.
2. Group headquarters and subsidiaries conduct annual audit supervision.
3. Conduct timely audits of economic responsibilities, restructuring audits, and leaving audits.
4. The investigation and handling of the loss of assets of the Group.
5. Participate in the drafting and review of regulatory documents such as group rules and regulations.
6. Review of the ownership of the company's internal control system, the establishment of sound and follow the situation.
7. Study laws and regulations related to the management of enterprises, and participate in negotiations on major business decision-making activities, and provide them for the board of directors of the Group to make decisions.
8. Support the formulation of the group contract management system, supervise the conclusion, modification, execution of the contract, and terminate the entire process.
9. Group headquarters litigation and non-litigation legal affairs processing.

(5) Human Resources Department:

1. Organize the formulation of group headquarters human resources planning.
2. Responsible for the organization of the headquarters of the Group, and the

establishment of posts for each department.

3. Responsible for personnel recruitment, selection, position adjustment and salary level adjustment in the Group headquarters.
4. Formulate the group headquarters salary system, performance appraisal system, training plan, and organize implementation.
5. Responsible for the related work of personnel files management of the Group headquarters.
6. Organize the implementation of the selection of expatriate directors and supervisors, appointment, and removal of the work.
7. Formulate the remuneration system and performance appraisal system for expatriate directors and supervisors, and organize the implementation.
8. The audit right belongs to the company's management team.
9. The auditing rights belong to the company's general manager's salary system, performance appraisal system, and supervision and implementation.
10. To supervise and supervise the company's human resources management and to be responsible for the construction of the company's corporate culture.

(6) Department of Administration:

1. Responsible for the management of the group's external public relations.
2. Responsible for various reception activities of the Group headquarters.
3. Responsible for the group headquarters conference organization work.
4. Responsible for the organization and service of large-scale activities of the group.
5. Responsible for file management of the group headquarters.
6. Responsible for the management and use of the licenses, seals and letters of reference of the group headquarters.
7. Responsible for the secretarial work of the Group headquarters, handling official documents, assisting the group leaders in determining the work schedule and carrying out daily work.
8. Responsible for sending and receiving letters from the Group headquarters, procurement, storage and use of office supplies at the headquarters.
9. Responsible for group headquarters vehicle and fleet management.

(7) Business coordination department:

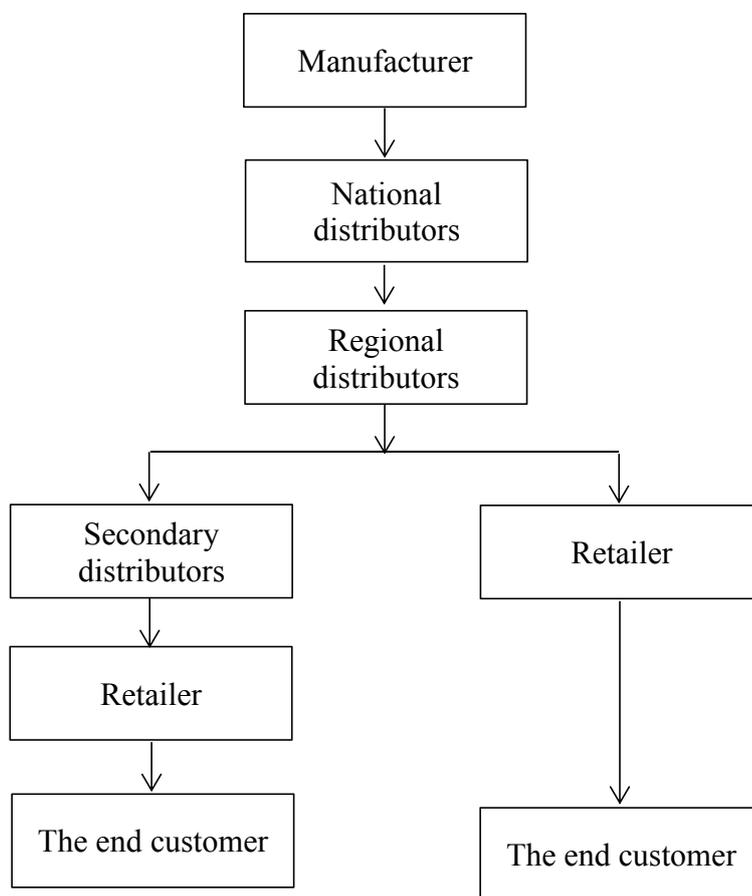
1. Review, coordinate and summarize the production plans of each subsidiary.
2. Coordinating subsidiary related transactions and arbitration of disputes.
3. To organize the group quality system certification work and implement the supervision function for the system operation.
4. Coordinate management of major issues arising in the daily production of subsidiaries.
5. Supervise and supervise the company's safety, measurement and equipment management, and coordinate and arbitrate disputes within the company's internal ownership companies.
6. Group companies' statistical analysis of industry and commerce, sorting and reporting work.
7. Organize the implementation of improvement and promotion of the management

system within the group.

8. Organize and implement the external declaration and management of management innovation within the group.

X Pharmaceuticals is a regional distributor in the industry value chain and an agent for Heilongjiang Province. From Figure 3-1 we can see that the business is mainly for secondary distributors and hospitals in the Heilongjiang region. The marketing channels of X Medicine are mainly network informationization of hospitals and pharmacies, and Scientific are the main business objectives of X pharmaceutical companies. Differentiated and refined marketing, caring and meticulous service concepts have won many Good hospital evaluation.

Figure 3-1 X medicine company industry value chain



3.1.1 National Pharmaceutical Industry Environment

At the level of macroeconomic regulation and control, the State has adopted the people's livelihood as a starting point, and has intensified its control over drug prices, drug management, drug recovery, drug marketing, and drug distribution chain. These macro-controls have, to a certain extent, constrained the development of private pharmaceutical companies. The pharmaceutical industry is in a downturn. In the

long-term sense, these macroeconomic controls that are taken into consideration for the people's livelihood are conducive to the regulation of the pharmaceutical market and refine the structure of the pharmaceutical industry, which will certainly have a positive effect on the development of the pharmaceutical industry. However, in the near term, with the gradual increase in control efforts, the impact in the short term is unavoidable. Enterprises need to adjust their internal management strategies in a timely manner in accordance with changes in national policies. The state's regulation is mainly reflected in the following aspects:

(1) The price of drugs has decreased. Since 2001, after the government began to implement national controls on drug prices, it has carried out 17 drug price cuts, designed more than 1,000 drug types, and reduced drug sales by more than 30 billion RMB, with an average drop of more than 15%. The current dissatisfaction with drug prices is still very high, so the state's control over drug prices will continue to strengthen. For private pharmaceutical companies, facing the gradual reduction of profits, improving the technological level and strengthening the management influence system has become the key to the development of the company.

(2) Drug classification management. The state has successively promulgated the catalogue of OTC drugs, prescription drugs, tender drugs, and social insurance drugs, which greatly strengthened the drug classification management policy. The implementation of this policy has strengthened the safety of the circulation of medicines. The people can have detailed instructions for purchasing medicines so that they can truly benefit the general public. However, this policy has also led to a substantial reduction in the profits of pharmaceutical production and distribution companies and hospitals. The pressure on drug sales companies, which are intermediate links, is particularly great. There are higher and higher drug prices on production companies, and there are more and more consumer segments such as hospitals. With low drug prices, drug sales companies are in a difficult position in the face of the great competitive pressure of hospital bidding.

(3) Prescription drugs "restricted sale". The state's supervision of prescription drugs is increasing. It clearly stipulates the methods of production and sales of prescription drugs. It also strictly requires hospitals to comply with prescription drug regulations and requires pharmacies to sell drugs strictly in accordance with prescriptions. With the increase in regulation, the scope of prescription drug supervision will increase. the greater its impact on private pharmaceutical companies.

(4) Supervision of medical advertisements. In recent years, the state has intensified efforts to standardize and rectify the pharmaceutical advertising industry, resolutely prevented the occurrence of misleading, deceptive, and infringement actions, greatly guaranteed the rights and interests of ordinary people, and purify the drug promotion market. The formulation of this policy makes it necessary for private pharmaceutical companies to correctly grasp the starting point and method when conducting propaganda.

This has a certain restrictive effect on the marketing of private enterprises.

(5) Combating gray medical income. In our country, the confusion in the pharmaceutical industry is largely attributed to gray medical income. For the fiercely competitive pharmaceutical industry, grey income has always been a secret weapon for pharmaceutical marketing and company competition. How to expand medical terminals has become the key to the development of enterprises. These grey incomes have also greatly increased the company's costs and become an important factor in high drug prices. The state has intensified efforts to combat the grey income of the pharmaceutical industry, purify the pharmaceutical market, and ultimately reduce the price of medicines. The formulation of these policies has also led to a huge shift in the marketing strategy of private enterprises. By increasing the level of technology, optimizing the management level of enterprises, and creating a good corporate image, the company's total marketing volume has been improved. How can we steadily pass this transition period and become private the key to the survival of pharmaceutical companies.

3.1.2 Internal competition environment in the industry

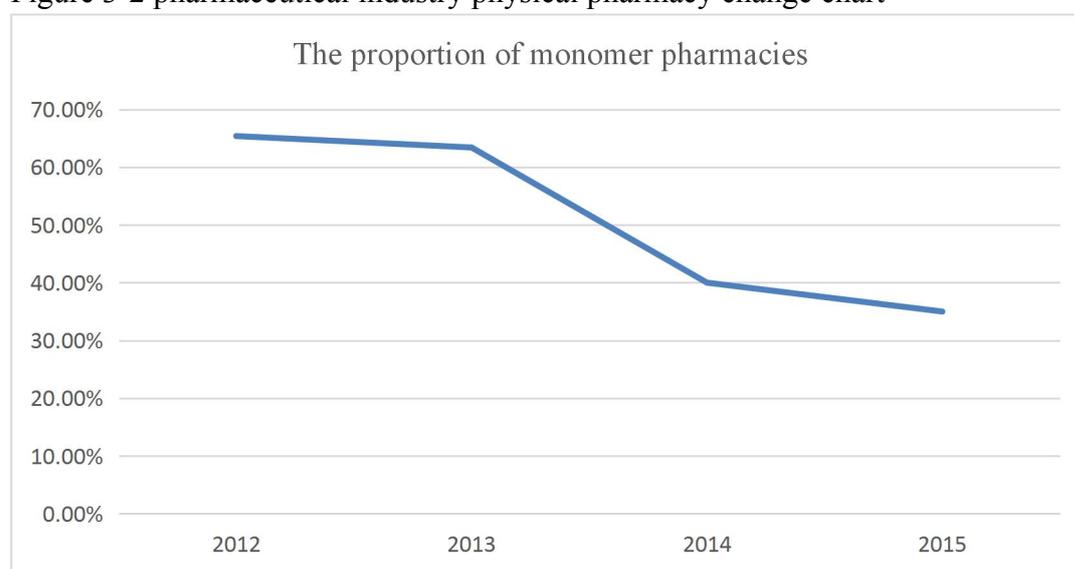
In the fiercely competitive environment, the domestic pharmaceutical industry has also responded to the situation that the survival of the fittest has emerged. The companies that can win in the competition will be strong and go to mergers and acquisitions to reorganize other eliminated companies. In this way, a large number of large companies and large groups have monopolized the pharmaceutical market. They have rich resources, good reputation, and well-known brands. Market share, profitability and market recognition are more promising than other companies. With the intensification of internationalization, China's pharmaceutical industry is severely affected by foreign capital. Advanced technology, high level of marketing management, and strong capital are the competitive advantages of foreign capital. In the near future, the reform of the pharmaceutical industry will conform to the laws of the market. The long-term and stable development of an enterprise depends mainly on the comprehensive strength of the enterprise. Only by improving the overall competitiveness and raising the level of cost management will it be prevented from being merged by other pharmaceutical companies or eliminated.

Industry rivalry usually takes the form of jockeying for position using various tactics (for example, price competition, advertising battles, product introductions). This rivalry tends to increase in intensity when companies either feel competitive pressure or see an opportunity to improve their position. In most industries, one company's competitive moves will have a noticeable impact on the competition, who will then retaliate to counter those efforts. Companies are mutually dependent, so the pattern of action and reaction may harm all companies and the industry.

The sales channels and changes in the pharmaceutical system are rapidly undergoing

qualitative changes. The diversified and three-dimensional sales model replaces the vertical sales channels of traditional production companies, large sales companies, small sales companies, and consumers. Large-scale pharmaceutical sales supermarkets and flat-rate supermarkets are being developed to scale and intensive, and small and medium-sized pharmacies have developed in a wide range, small-scale, and rapid expansion of the number of development models. With the development of science and technology, the network has improved the sales efficiency of pharmaceutical companies, the traditional sales model has weakened the coverage of the market, and the system of pharmaceutical sales has undergone fundamental changes. As shown in Figure 3-2, we can see a dramatic drop in the number of monomer pharmacies in 2015, accounting for 65.38% in 2012, 63.4% in 2013, 40% in 2014, and only about 35% in 2015. According to statistics, in 2015, the total number of Internet trading qualifications received by pharmaceutical companies was 829, an increase of 56.3% over the previous year. From the sales performance, the average growth rate of e-commerce sales revenue of such pharmaceutical companies exceeded 50%, far greater than traditional sales. With the combination of enterprises, hospitals, and drug supermarkets, the drug sales model is also moving towards diversification. Diversification of drug sales channels will increase sales risks.

Figure 3-2 pharmaceutical industry physical pharmacy change chart



3.2 Current Status of Cost Control of X Pharmaceutical Company

3.2.1 Content of Cost Control of X Pharmaceutical Company

The contents of cost control of X Pharmaceuticals Company are divided into the following three aspects: the control of drug sales, the control of the drug sales process, and the control of the drug transportation process. Each link plays a decisive role in the entire cost control process. With the goal of high-efficiency cost control of the company, and based on the coordination of various links in various departments, it strives to

establish a complete cost accounting management system. From the aspect of cost control, it is the entire process and all aspects of cost control for X pharmaceutical company. The control before drug sales mainly refers to the procurement cost control of pharmaceuticals. The procurement costs accounted for 64% of the total cost of X pharmaceutical company, which was the main target of cost control for X pharmaceutical company. The cost of procurement most directly affected the total cost of X pharmaceutical company. The control of drug sales mainly includes labor costs, sales expenses of sales personnel, capital costs, and management department's expenses. The cost control in the circulation of pharmaceuticals includes the packaging of medicines, the transportation of medicines storage loading and unloading, and distribution costs.

3.2.2 Has established a preliminary cost accounting management system

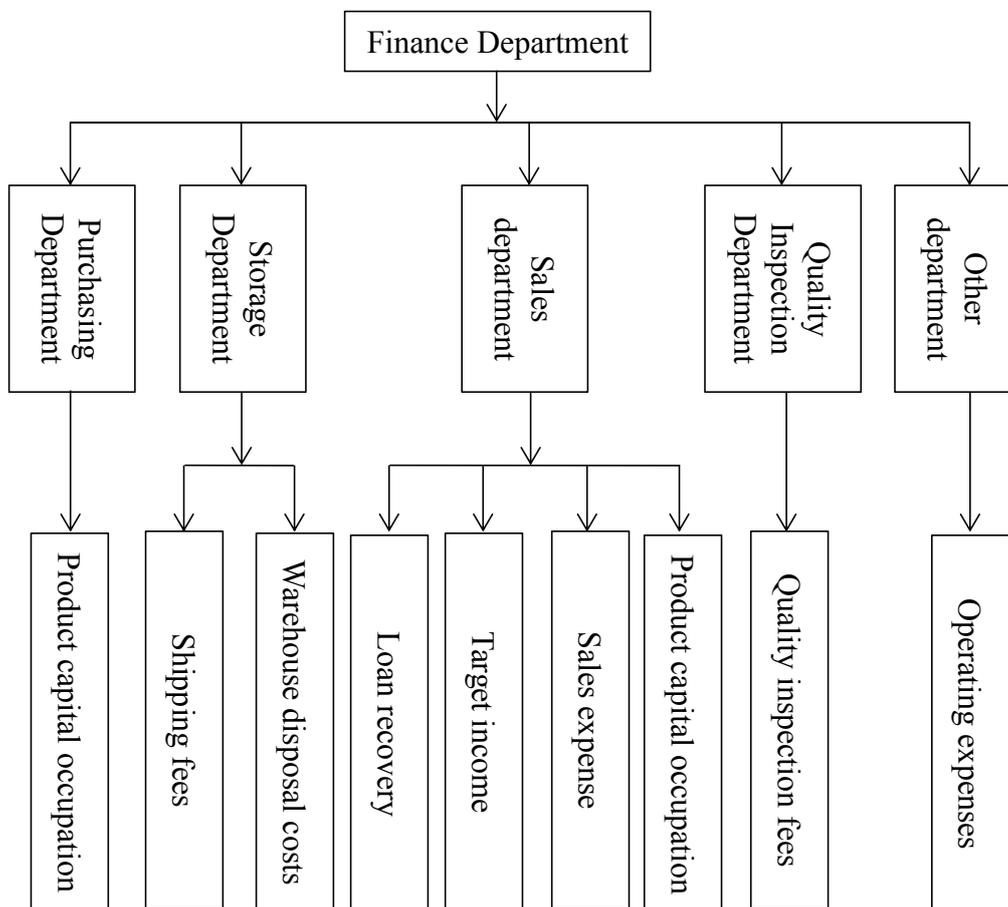
Establishing a complete product cost accounting management system is the basis for cost control. Cost accounting is a business tool that management uses to evaluate production costs, prepare budgets and take appropriate cost control measures to improve the company's profit margins. The purpose of cost accounting is to determine a company's production costs by examining direct and indirect costs involved in manufacturing the company's products. After more than 10 years of accumulation, X Pharmaceutical has initially established a basic system for product cost accounting management. Review all materials and conduct timely and accurate records, To inspect the daily activities such as internal transfer, entry and exit, etc. among the various departments, accurately measure energy consumption, etc., and conduct on-site inventory of the company's property and materials. The relevant functional departments of the company shall check and check the company's property and materials at specified time; according to market changes and price adjustments, the list of planned prices shall be unified, and all materials related to production and business activities shall be priced uniformly and updated annually. The parties concerned shall record, fill in, and keep up information concerning the distribution of materials, the receipt of materials, the use or loss of materials and equipment, the storage of products in warehouses, the time of overtime work, and the quality inspection of production and operations. Clearly stipulate the records of the responsible units and personnel, when problems occur, the direct responsible person and the parties to assume responsibility.

3.2.3 Initially established cost control

The establishment of the cost calculation management system is only basic for cost control. It is important to expect cost control to be effective, to solve the actual problems of the company, and to establish a supervisory mechanism and cost control responsibility system. Fixed costs plus variable costs make up the total ongoing expenses for a Company that is examined in cost accounting for management to analyze expenses in relation to revenues, with the goal of improving cost efficiency and profit margins. This is

an important method for achieving cost control. The sale of pharmaceuticals and medical devices is the main business of X Pharmaceutical Company. The financial department conducts unified and standardized management of the company's financial affairs. Currently, the cost control system of X Pharmaceuticals Company is centered on the financial department. From Figure 3-3, we can see that the Ministry of Finance carries out a preliminary budget for target costs based on past reference data, and the company's other rights departments (especially the Purchasing Department and the Sales Department) use cost indicators for cost control. According to the market competition status, it timely reports to the finance department, and adjusts the cost budget in time according to the size of the difference, and the financial department conducts macro-control so as to ensure the smooth completion of cost control indicators.

Figure 3-3 Cost control responsibility system of X pharmaceutical Company



3.2.4 Uses the fixed cost method to control the cost

The fixed cost method to control costs is the current method used by X Pharmaceuticals Company. Fixed costs are one of the two major inputs, along with variable costs, in cost accounting that are used by a company's management team to determine budgets and control expenses in relation to revenues. The finance department plans an annual cost plan for this year, based on the company's previous year's cost

control completion status. The company's sales revenue increases or decreases, and the profit increases or decreases. The company's cost control targets for the current year are formulated. Finally, the cost indicators (the breakdown of costs and the proportion of the total cost) are delivered to each company department. The Ministry of Finance shall. Based on the principle of not exceeding "the ratio of sales expenses to total sales revenue in the previous year", formulate the annual assessment standards and specifications. However, the target of current cost control for X Pharmaceuticals Company is mainly the general expenses of the company's basic business activities (mainly concentrated in procurement and sales). The normal operations of various departments and companies are inseparable from these general expenses. This part of the cost of the Ministry of Finance as the competent department, they conduct a unified supervision and inspection, supervision of each department is in accordance with the company's quota indicators for cost control, and supervision at the same time inspect the cost savings of various departments completed.

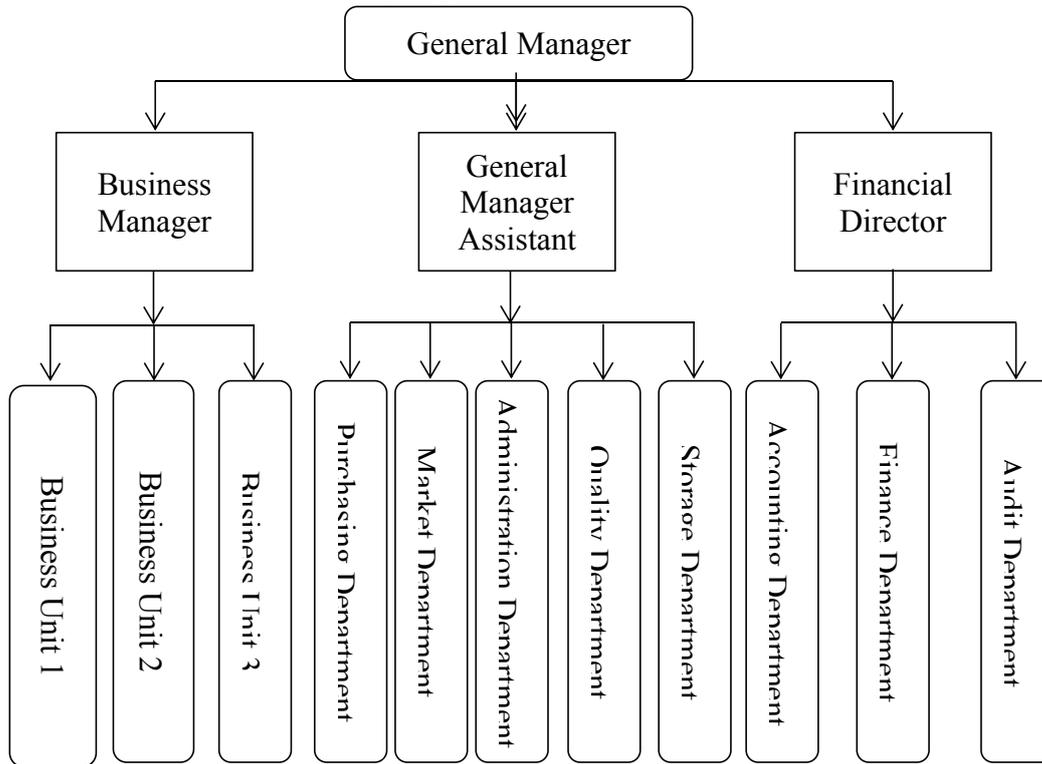
Sales and marketing play an important role in the pharmaceutical industry and are important barriers against entry of small firms. Sales and marketing activities are very costly, as advertising is highly restricted, and pharmaceutical companies have to approach hospitals and doctors by sales agents. It takes large fixed costs to cover the whole market by sales agents. Therefore, large pharmaceutical companies have competitive advantages compared to smaller firms as they have already covered most of the market, and they can add another drug to their product portfolio more cheaply.

The other major cost component that companies consider in cost accounting is variable costs. Variable costs are the direct production costs that, unlike fixed costs, do vary according to levels of production or sales. Variable costs are commonly designated as cost of goods sold, whereas fixed costs are expenses not usually included in. Fluctuations in sales and production levels can affect variable costs if factors such as sales commissions are included in per unit production costs.

3.2.5 Execution of Cost Control Measures

The "straight line functional system" model is the organizational structure adopted by X Pharmaceuticals Company. From Figure 3-5, the general manager is responsible for formulating the company's strategic cost planning. Each subordinate department formulates specific implementation strategies that match their own department's actual situation according to the strategic cost planning, and completes the company's cost control strategy. There are many company departments, and the organization is not coordinated, and the company management lacks awareness of prior cost control. It always adopts a planned cost model. It only calculates the cost after the project ends. The company staff also lacks a sense of cost control and is not active in cost control. Not taking the initiative, greatly reducing the cost control efficiency.

Figure 3-5 X medicine company organization chart



3.3 Summary of this chapter

This chapter describes the current status of cost control of X Pharmaceuticals Company. First of all, the system introduced the basic situation of the company, analyzed the pharmaceutical industry environment and the industry competition situation. Through the analysis, the current cost control status of X Pharmaceutical Company. Content of Cost Control of X Pharmaceutical Company. It has established a preliminary cost accounting management system. Initially established cost control. It uses the fixed cost method to control the cost. The status of implementation of cost control measures.