

CHAPTER 4

PROBLEMS AND CAUSES OF COST CONTROL IN X PHARMACEUTICAL COMPANY

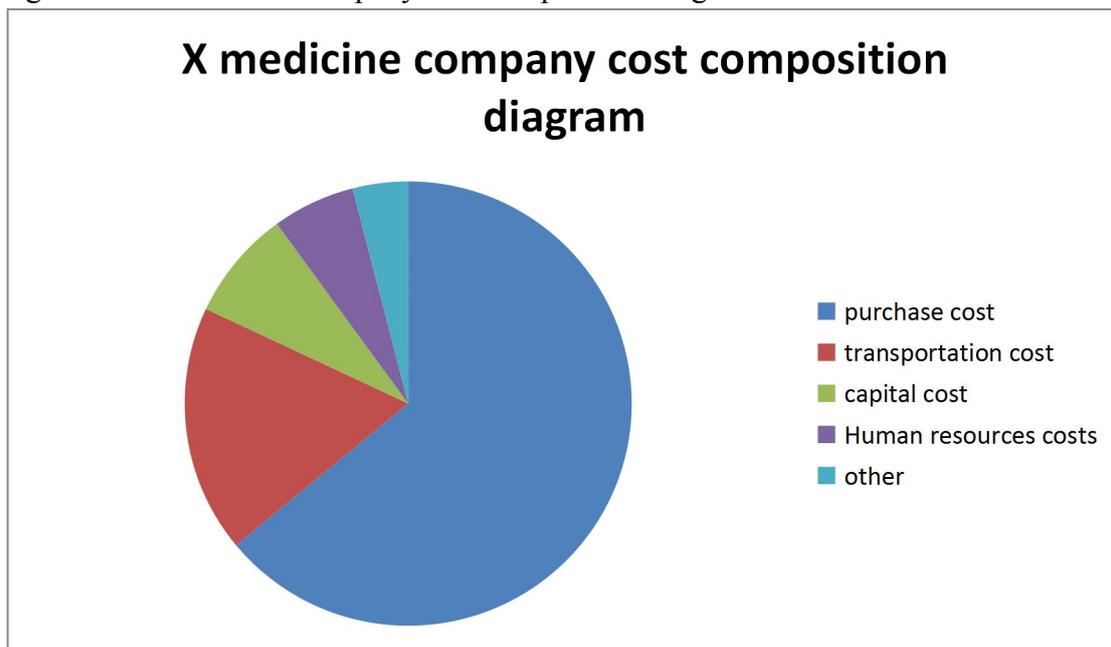
4.1 X Pharmaceutical Company Cost Control Issues

4.1.1 Purchase Cost Control Issues

X Pharmaceutical Company. is not a self-manufactured pharmaceutical company. All medicines require the Procurement Department to purchase in advance. Therefore, the procurement process is the company's most important cost-saving task. From Figure 4-1, we can see that in 2015 the cost of the company's procurement process accounted for 64% of the company's total cost, and there is still an upward trend. The rise in the cost of procurement has not only led to a serious phenomenon of capital occupancy, but has also had a direct impact on the price of products and the profits of the company. X pharmaceutical company's current procurement system is not sound enough, the procurement method is not scientific enough, and the procurement system is not strict enough. And at present, the company's management of the procurement process, the purchase price is only audited by the financial department. Because the finance department is not a direct purchasing department, it is inaccurate for details of the procurement, information on the supply company and market changes. Therefore, the review is not scientific enough and perfect. The company currently purchases products mainly from supporting companies and original customers. It did not review the original customers, did not incorporate market changes, and made new replacements in a timely manner. It did not find products with a real price advantage, resulting in a single product and lack of products. , causing costly waste.

X Pharmaceutical Company. is still a traditional supply system. Products originate from suppliers at the beginning of the establishment of the company. Although the cooperation relationship is stable, the market is changing rapidly. The immutable supply system is not in line with the development of the market, so it is urgently established. New supplier partners, establish a new supplier system, make full use of competition mechanisms, choose to provide the best quality, affordable products supplier. At present, the procurement department has not formed the habit of consciously saving costs. It is considered that the cost control is the work of the Finance Department and has no connection with the Purchasing Department. In addition, the company does not have a clear system of cost control and no penalty mechanism, which creates a sense of irrelevance. These factors lead to the high cost of procurement.

Figure 4-1 X medicine company cost composition diagram

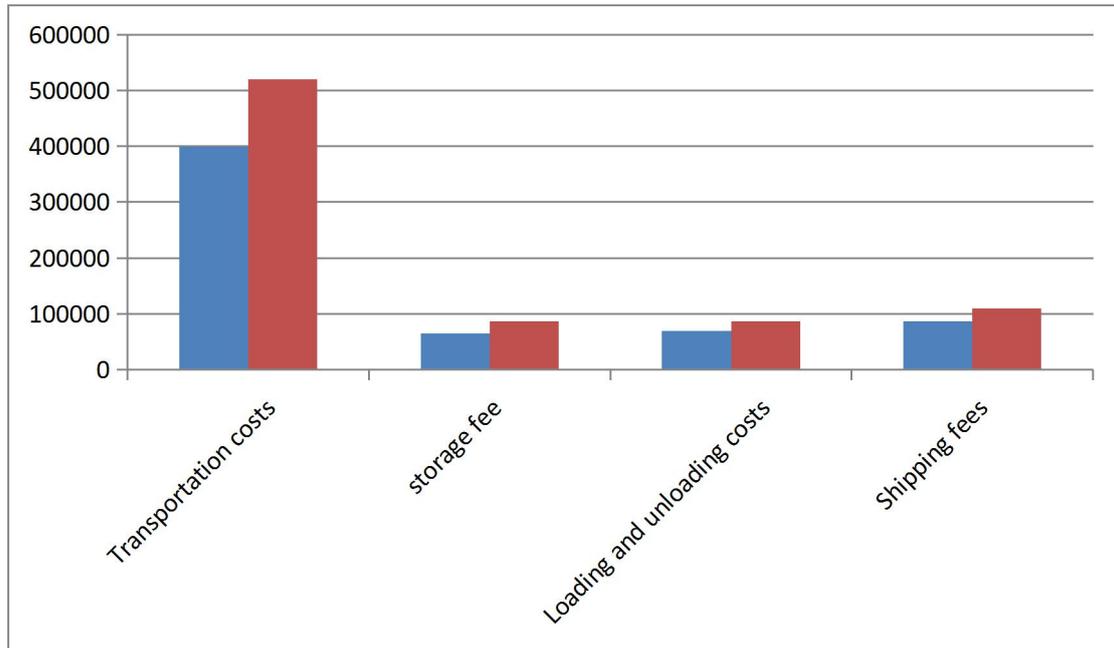


4.1.2 Transportation, Storage, Handling, Distribution Cost Control Problems

X Pharmaceutical Company. Most of the transportation methods are automobile transportation, and transportation costs are extremely high. Judging from the external environment, the oil price is unstable, and the increase in expressway tolls and bridge tolls has increased transportation costs. From the analysis of the company itself, the waste of transportation resources is rather serious. Often due to unclear consultations between companies and customers or inadequate coordination of departments, the phenomenon of roundabout transport and even repeated transportation is serious. This undoubtedly greatly increases transportation costs. As shown in Figure 4-2, we can see that the transportation fee in 2014 was 400,000RMB, and in 2015 it has risen to 520,000 RMB, an increase of 30%. In addition, during the process of product distribution, distribution, loading, and delivery, the management of fees for loading and unloading costs, storage fees, distribution fees, and personnel wages is incomplete, and these costs result in high costs for transportation, warehousing, handling, and distribution.

As a logistics, system can be considered as an industrial enterprise, territorial production complex, and commercial enterprise. The purpose of the logistics system delivery of goods and products in a given place, in the right quantity and variety, as much as possible prepared for production or personal consumption for a given level of costs. Logistics system - a relatively stable set of links (structural / functional units of the company, as well as suppliers, customers and logistics intermediaries), interconnected and integrated unified management of the corporate strategy of business organization.

Figure 4-2 X medicine company transportation cost chart



4.1.3 The problem of capital cost control

In the process of fund settlement, most customers of X Pharmaceutical can pay on time during the contract period. However, there was a gap between the times before and after the payment and the interruption of the capital chain caused the phenomenon that the purchase price could not be recovered in time. In addition, during the sales process, part of the stock of goods was held down in the warehouse, resulting in the occupation of funds. In 2015, the average inventory balance of the company was 3 million RMB. In addition, the company's investment promotion department operates in the form of a provincial agency. The superior is major pharmaceutical company, and the downstream is distributor. The occupation of funds will lead to the circulation of funds and poor turnover, which will easily lead to increased costs in all aspects. In order to ensure the normal operation of the company and the capital chain continues, external financing (bank loans) is used to allow the company to operate normally.

4.1.4 Human Resource Cost Control Issues

As labor costs increase year by year, staff salaries also increase, and social insurance costs must increase at the same time. In 2014, the labor cost was 2.16 million RMB, and in 2015 it was 2.4 million RMB. In 2015, it increased by 11% compared with 2014. The significant increase in operating expenses was caused by the increase in travel expenses of salespersons. In 2015, the annual increase in travel subsidies was 30 RMB per person compared with 2014, and the annual increase in costs was 200,000 RMB. In addition, in order to improve the enthusiasm of the salesman, the company also invests commercial insurance for the salesperson according to the working ability. This undoubtedly increases the company's operating costs and ensures that the company can reasonably control the

company's operating expenses under the normal operation of the company. The company urgently needs to solve the problem.

Calculating each of these tasks and relating them to a cost factor in relation to a company operating budget is how we should determine the cost of HR. However, what is more difficult to determine are the costs related to answering employee questions, handling management issues and The viability strategic partnerships with managers and employees. The real problem lies in the fact that none of these activities actually makes a dime for the company. Having little visible revenue generating potential. From a business perspective it is an expense item not a revenue generator and must be controlled.

4.2 Causes of Cost Control Problems in X Pharmaceuticals Company

X pharmaceutical company's current procurement system is not sound, the procurement method is not scientific, the procurement system is not strict enough, transportation, warehousing, loading and unloading, distribution costs management is not perfect, capital costs and manpower costs continue to rise, resulting in the cost control of the X pharmaceutical company above There are many influencing factors, but the main reasons for this are as follows:

4.2.1 The system of cost control responsibility is not perfect

Cost management has a comprehensive principle, so each production and business activity will have an impact on the cost of the company. In order to achieve the target cost control, the cost control responsibility system should be applied to every link, every task, every production and management element, and every department of a company. Strive to fully cover all participants. At the same time, every business activity should have a responsible person. When problems arise, the person directly responsible can be identified in a timely manner, and the mistakes can be identified and resolved quickly. The problem of the cost control responsibility system of X Pharmaceutical Company. Mainly includes the following two aspects:

(1) Although X Pharmaceutical has initially established a cost control responsibility system, the cost control liability system is not perfect. The company's current main cost management department is the Finance Department, and other departments cooperate with the Finance Department. Did not achieve cost control indicators and requirements for each department, did not achieve full participation in cost control, and did not explain the responsible person, the idea of cost control is only an exaggeration and it is not implemented in every department, every employee, every business activity. Even if there are cost control methods and theories, there is no theory linked to reality.

(2) X Pharmaceutical Company did not adopt the value chain theory and cost driver analysis theory in the modern cost control method, so the cost control target cannot be

determined. The cost control of two important aspects of procurement and transportation did not attach importance to, did not establish a procurement system, there is no reasonable procurement methods, resulting in no decline in the purchase price; ignore the cost control of human resources, With the expansion of the company's scale, the team of employees is also growing. However, the company did not provide timely training for newly recruited employees. The company's old employees did not publicize the company's cost control concept. The job division is not clear. Many people are doing such a waste of human resources. Less training for employees and unclear employee incentive mechanisms all result in insignificant cost control. X Pharmaceuticals Company did not establish a complete cost control responsibility system and further improvement was needed.

4.2.2 Inadequate cost control supervision

The improvement of the cost control responsibility system, if there is no guarantee of the supervision mechanism, is empty talk. At present, X Medicine Company has incomplete measures of cost control measures and performance evaluation. No specific department or person evaluates and supervises the performance and indicators of cost control. After the establishment of the cost control responsibility system, it is necessary to clarify the responsibilities of each department, evaluate the current status of cost control in each department, evaluate the cost control issues, and finally form an assessment report. In conjunction with the assessment report, a reward and punishment mechanism should be established to achieve remarkable results in cost control. Only by doing so can we fundamentally make the entire company realistically improve the cost control mechanism. The lack of a regulatory mechanism has led to an inconspicuous effect of cost control. This is an important reason why the establishment of a cost control accountability system still fails to improve the effectiveness of cost control.

4.2.3 Awareness of employee cost control is weak

X pharmaceutical company more than 10 years of development history, the profitability is better, have not experienced a period of poor efficiency, employees are in the status quo, do not seek change in stability, staff awareness of the crisis is weak. The company's camp is in a stable condition with excellent employee benefits. No matter how high or low the work efficiency is, the employees receive the same income. As a result, employees believe that cost control is a matter of leadership, and they are not related to their own interests. Cost control awareness is weak and results in cost control not obvious.

The Procurement Department only considers whether the quality and the lowest price of the product meet the company's specifications when purchasing, ignoring the cost of the product, and ignoring whether the product will bring profit to the company; The

sales department is very concerned about the sales channel and market coverage, ignoring the cost of sales, especially during business trips, eating and drinking, and spending irrelevant to the company also get reimbursed; The cost control of the warehouse department, human resources department, etc. is considered even less. It is considered that the cost control is the work of the financial department, and the profit or loss has nothing to do with other departments, causing the X medicine company to urgently want to control the cost, but in the implementation process However, it hindered. The financial department cannot control all the company's production and business activities from time to time, nor can it control every department unit. The Finance Department only acts as a leader and supervisor of cost control and co-ordinates all departments to control costs.

The total cost of the company's costs is derived from each department and each position, so the cost control is also the responsibility of each department. This requires all departments to work together to complete the task of controlling costs, and give full play to the team spirit of each department unit. . The completion of cost control is inseparable from the immediate interests of every employee. Only the full participation of the staff, all the staff consciously controls the cost, then each post and department can also be an effective cost controller. Only when all employees participate in the cost control of the business process, can we fundamentally implement cost control management and achieve the best results.

4.3 Summary of this chapter

This chapter describes the main problems and causes of X pharmaceutical company. The four major problems in the cost control of the company, especially the cost of the procurement and transportation, are not paid attention to. These two links account for a large proportion of the total cost of the company and play an important role in the level of the cost control of the company. Due to the non-standard coordination, the problem of overstocking of goods and funds in the sales process is relatively large, resulting in a low level of capital cost control; changes in the market environment, the traditional cost control methods can no longer meet the requirements of the company; employee cost control awareness Weakness leads to low cost control efficiency; the cost control responsibility system is not perfect, and lack of supervision mechanism guarantee.