

## **CHAPTER 5**

### **THE COUNTERMEASURES OF COST CONTROL OF X PHARMACEUTICAL COMPANY**

The strategic goal of X Pharmaceuticals is to double its sales revenue within the next three years. In order to achieve strategic development, it is urgently necessary to implement cost control in a comprehensive and efficient manner. In order to achieve high efficiency in company cost control, first of all, we should use advanced cost control methods to find the main sources of influence on company costs and determine the object of cost control. We must fully consider the company's actual operations, establish a sound product cost target system, and strive to control costs. Full implementation in every aspect of the company will ultimately solve the cost control problem of X Pharmaceuticals Company.

#### **5.1 Establishing a Target Cost System**

In the production and business activities, the current cost control of enterprises is based on the fixed cost method and neglects the target cost method. The target cost method is a method that is in line with the actual development status of X Pharmaceuticals. This method is also more valuable than the current fixed cost method used by the company. The establishment of a target cost system by X Pharmaceuticals is also conducive to improving the effectiveness of the company's cost control. This method is based on the principle of target cost and combines the actual development strategy of X Pharmaceuticals, which is more conducive to the sustainable development of the company. The target cost method is to calculate the difference between the target cost and the actual cost, and to make a strict budget for the difference, effective control and supervision. Use effective means to minimize the occurrence of unfavorable balances, optimize business operations to minimize the difference, and reduce unnecessary costs in the company's operations and management activities. The method of controlling the actual cost of the enterprise in the target cost range.

##### **5.1.1 Establish product target costs**

###### **5.1.1.1 Set the target price of the product**

There are various kinds of pharmaceutical products sold by X Pharmaceuticals in the pharmaceutical market. Therefore, the market competition is fierce, and the products have more stable customers in the market. When formulating the target selling price of products, there are three questions to consider:

(1) Consider the needs of different regions. No matter whether it is hospitals at different levels, other pharmaceutical companies or pharmaceutical retailers, they all want to purchase at the lowest cost. However, the level of economic development varies from region to region, and there is also a difference in the demand for efficacy and quality of

medicines. Therefore, pharmaceutical companies should meet the demand. Determine the supply, specific analysis of the specific circumstances, combined with differences in the situation around the use of differential pricing methods.

(2) Consider the price of drugs from competitors in the same industry. In today's fierce pharmaceutical competition environment, some need to understand in real time the advantages and disadvantages of competitors in the industry compared with the company, and conduct comparatively comprehensive research on the company's pricing. Therefore, X Pharmaceuticals must grasp the real key information of its adversaries in advance to serve the decision. Our pricing can't be much higher than similar products, can't violate the laws of the market, blindly reduce the price, therefore, considering the price of competitors in the same industry under the premise of market dynamics, timely adjustment of the price.

(3) Consider the product purchase price. X Pharmaceuticals, a representative of distribution companies, is only responsible for sales and cannot produce drugs without authorization. You can only obtain products by purchasing medicines. Therefore, in formulating the target price, it is necessary to fully consider the purchase price and consider the cost input during the purchase process.

#### **5.1.1.2 Establish Product Target Profit**

The significant increase in profits and total sales in the coming years is a short-term goal of X Pharmaceuticals. Therefore, the business activities of X Pharmaceuticals must be based on complete product target profits. The higher profit targets are achieved through the sale of high-end products by the company. Appropriately reduce target profit of low-end products and try to control within 6 percentage points. The development of a reasonable product target profit will help improve the company's competitive advantage, thereby increasing the company's operating income and market coverage.

#### **5.1.1.3 Develop product target costs**

The difference between the target selling price and the target profit constitutes the target cost. X Pharmaceutical Company, as a pharmaceutical sales company, combines the company's upstream purchase price with the determined target price, and ultimately sets the target profit, and considers the company's cost composition as a whole. In order to determine the target cost.

#### **5.1.2 Implementation Target Cost Control**

(1) Calculate the cost gap. The marketing department, finance department, procurement department and other departments perform cost gap accounting at the

various levels under the direction of company leaders. Under the current market economy, the difference between the target cost and the actual cost is calculated, and guided by the theory of value chain and cost drivers. Ultimately, all organizational departments and all employees complete cost control objectives.

(2) Target cost dismantling. The total target cost is dismantled, and the various combined costs after dismantling are summarized and analyzed one by one. Corresponding measures and implementation plans are formulated for different cost elements, and finally the cost control effectiveness of each department is improved.

(3) After the follow-up investigation. Follow-up investigations are carried out after the implementation of the target cost control, before determining the target cost and product target price. It mainly investigates the following: Examines in advance whether other competitors' expected behavior is consistent with current behavior, whether adjusting the target selling price affects the achievement of the target cost and whether it affects the achievement of the target cost. Post-mortem tracking can make full use of the role of the market mechanism and make timely adjustments to the target cost as the external environment changes.

## **5.2 Improve procurement process cost control**

Procurement activities are an important activity of X Pharmaceuticals Company, improving the cost control of the procurement process and directly increasing the profits of the company. Products, company office supplies, fuel and other foreign purchases are the main forms of procurement activities. X medicine public can be used as a commodity circulation company. The procurement link is the logistics point of the company. The purchase price and purchasing time of the procurement time together becomes a comprehensive indicator of the purchase value. The satisfaction of the purchase value is in addition to the demand of the purchase buyer is the satisfaction of the purchase the measure of the goal. In order to make the cost of procurement evident, the following aspects must be achieved:

### **5.2.1 Improve the basic work of purchasing cost control**

X Pharmaceuticals Company has a wide range of operations. In order to prevent the behavior of gray transactions, it should have a sound procurement system and a standardized procurement process. This paper believes that perfecting the company's procurement system mainly includes:

(1) Establish a strict procurement system. Responsibility should be refined to every procurement process, and the efficiency of procurement should be ensured. This will help standardize company procurement activities and control procurement costs. The effective

prevention of inappropriate situations in the procurement process ensures that the interests of the company are not harmed. The procurement system includes the criteria for applying for procurement, authorization of the identity and rights of the purchaser, the price of the quoted price of the purchased product and the price of the final transaction, Establish criteria for departmental rights guidelines (guidelines for departments related to the purchasing department) and other details related to procurement. For example, unified management of suppliers and quotations, to verify the phenomenon of unprovoked high prices in the procurement process, the accounting department to calculate the purchase price, to the audit department for approval, Establish a comprehensive procurement system for the company and ensure that the system is effectively implemented at all stages of procurement.

(2) Establish supplier files and access systems. The supplier is the object that the purchase directly faces, and the supplier's selling price decides the purchase cost of the enterprise. Therefore, the enterprise with good reputation in the record and the number of cooperation in the real-time record should perform all kinds of information for the filed enterprise. Detailed records, can't ignore any supplier information, and supplier files to do every month to verify and update, and strive to grasp the latest first-hand information. The supplier access system is a necessary condition for guaranteeing the quality of suppliers. This requires all departments of the company (especially the purchasing department) to carry out the assessment of suppliers in a cooperative manner, and to approve those with high quality and low price for filing and establish a long-term cooperation relationship.

(3) Establish price file and price evaluation system. The establishment of a detailed price file mainly focuses on the company's main merchandise and commonly used materials, so that before each purchase, the previous price file is referenced. Based on the current actual market dynamics, the approximate price of the product can be easily determined. To a certain extent, it prevents the company from wasting a lot of unnecessary procurement costs. For some key procurement products, the company should establish a price evaluation system, and the company's relevant departments form an assessment team to conduct evaluations, collect supply price information and aggregate analysis, forecast current price levels, forecast future price trends, it Update the price of the archive at any time.

(4) Establish the standard purchase price of materials. The company provides the standard purchase price based on the previous price file, supplier profile, and market dynamics, which is set by the finance department before the quarterly procurement activity. The purchaser uses the standard purchase price as a reference to seek a better price. At the same time, establish a corresponding reward and punishment mechanism to encourage those who are lower than the standard purchase price, and according to the extent of reduction to give corresponding incentives, and vice versa to punish those who

are higher than the standard purchase price, also according to the extent of promotion given the corresponding punishment. Such a clear and rewarding mechanism can greatly mobilize the enthusiasm of the procurement staff and ultimately reduce the company's procurement costs.

(5) In accordance with the principles of the system approach, any system must first examine the relationship with the external environment, only in its internal structure. The principle of consistent progress should be achieved at the stage of creating the system to insist on designing the logistics information system. Information systems should be considered functionally and organizationally. The functional structure can be represented in the form of a pyramid on the basis of the pyramid functional logistics information. The system is a trading system between the logistics systems and determines the relationship between the company's functional departments.

### **5.2.2 Reducing Purchase Costs**

Procurement standards rank quality as a top priority, with the first option being price. The product must meet the manager's requirements, and the purchaser will then process the best price according to the intended quality. They will try their best to get the best price with the best quality. Purchasing personnel will try their best to strike a balance between price and quality, but “quality is the most important”.

(1) Change the payment method. Change the traditional way which they buy something on account, because this way can't win larger price concessions. When the company's funds are abundant, it can be paid in one lump sum or in direct cash settlement.

(2) Grasp the timing of price changes. The price is not static, and the price will change with changes in market supply and demand, climate, seasons and other factors. This is a test for the procurement personnel. The procurement personnel must accurately grasp the changes in the market environment and the nature of the procurement, in the most appropriate Opportunity to obtain the most favorable price concessions at the lowest purchase price.

(3) Change the supplier's selection method. Establishing a fair competition environment and selecting the most suitable supplier through tendering can not only select the best supplier, but also increase the intensity of competition among suppliers. Ultimately, the company must be the biggest beneficiary.

(4) Purchase directly from manufacturers. If the company can purchase from the manufacturer directly from the dealer when purchasing, it will save the middle dealership and save the profits earned by the seller, which undoubtedly reduces the purchase cost. Dialogue with manufacturers directly can also provide better communication

opportunities, better technical services and after-sales services.

(5) Choose a supplier with good reputation and sign a long-term contract with it. Enterprises should look for suppliers with similar brand reputation and high reputation. This will ensure product quality and ensure consumers' rights and interests. For the company itself, cooperation with reputable suppliers can also save a lot of unpleasant links and improve service efficiency. If we can maintain long-term and stable cooperation with such suppliers, we can get more preferential treatment.

(6) Survey the procurement market and collect information. Only by fully accessing the various procurement information of the market can we fully understand the trend of the market and the price, so as to formulate a sound procurement strategy to make this company in a powerful position for price, for which X Pharmaceuticals has specially set up personnel to conduct research. Periodically form a research report for reference.

### **5.3 Strengthen Transportation, Storage, Handling, Distribution Cost Control**

In order to optimize the results of external and internal impact assessments, the corporate environment must use critical information sources in the monitoring subsystem for the logistics system's logistics manager's behavior. Aspects to consider. First, use the company's information staff to assess the effectiveness of its logistics solutions. For example, financial information or the price of a competitor's finished product can provide comprehensive answers to the effectiveness of the management; the company's transportation department can use information about the size of the goods. Second, the logistics partners of the company, such as material resource suppliers, distributors, operators, and partners, finished products can also use the information subsystem to improve the joint role, coordinate and reduce their own costs. The original important place was to predict its baseline data collection and use the most effective forecasting methods.

#### **5.3.1 Transportation Cost Control**

The company's procurement, sales and other business activities are inseparable from the logistics support and protection, so transport plays an important role in the X pharmaceutical companies. In order to achieve optimal transport cost control, the company's logistics administration department should investigate some of the transportation-related costs (such as unit costs, motor vehicle costs, etc.) and conduct integration and analysis. The specific transportation tasks should be analyzed in detail, the optimal route selection, the use of specific vehicles, and the choice of load limits should be analyzed. Finally, a weekly sample transportation plan should be established. Based on the mathematical analysis method, the transportation cost is combined with the transportation plan, and the cost savings are maximized on the premise of accomplishing

the goal. To achieve the optimal vehicle scheduling program, the most reasonable vehicle scheduling time, the largest load and the most complete transportation route. Between production and transportation, transportation and consumers should always persevere in their age-appropriate facilities, aiming to eliminate unbalanced production, consumption and production cycle of various transport operations. In this regard, the material flow from the producers and consumers' logistics chains must be included in the overall promotion of networks with different storage systems.

### **5.3.2 Storage Cost Control**

To improve warehousing cost control, there must be a sound system guarantee. The logistics administration department and the financial department jointly implement and strictly monitor the storage, acceptance and accounting. Accurately calculate the difference between the actual cost of warehousing and the target cost, and control each activity within the target cost. In the premise of determining the target cost, we must also increase the mechanization rate of storage and improve work efficiency. We must use modern network systems to establish cash bar code identification systems and automated machinery platforms, reduce the workload of workers in warehousing, minimize human error, and reduce labor at the same time. In addition, warehouses should not be considered in isolation, but should be considered as an integral part of the supply chain. Only such a method can ensure the successful implementation of the basic functions of the warehouse and a high level of profitability.

### **5.3.3 Loading and unloading cost control**

Due to the different nature of goods, the equipment and methods of loading and unloading will change. The use of a reasonable loading and unloading scheme enables the orderly circulation of goods, avoiding unnecessary damage and causing losses to the company. For this reason, X Pharmaceuticals will improve the loading and unloading transport efficiency as its destination, effectively plan loading and unloading operations, eliminate the occurrence of invalid transport, and take effective measures to prevent the occurrence of product damage. Concentrated efforts will be made to adjust the transportation from fragmentation to intensification to improve the transportation efficiency.

### **5.3.4 Distribution cost control**

The distribution cost control mainly involves many aspects, including the selection of the location in the distribution, the preferred distribution method and the distribution route, the reasonable labor costs for the distribution staff, and other management costs related to the goods. Therefore, according to the analysis and research issues of the above-mentioned control content and seeking truth from facts, the leadership team

formulated targeted distribution strategies, implemented each distribution link, and improved the management level of distribution.

#### **5.4 Perfecting the control of capital cost**

##### **5.4.1 Strict control of payment recovery**

The majority of X Pharmaceuticals Company funds are in the operation of upstream companies and downstream hospitals. This part of the funds is an important part of corporate assets. If the purchase price is not recovered in time, it will have a significant adverse impact on the normal operation of the company. The auditing department of the financial department jointly compared the purchase prices one by one, reducing the incidence of non-performing loans. At the same time, establish an orderly rewards and penalties mechanism to reward employees with outstanding loan recovery, and to punish employees who have collected more bad loans, which is conducive to the improvement of employees' work efficiency.

##### **5.4.2 Strictly Controlling Product Funding**

As a distribution company X Pharmaceutical Company. has a considerable amount of funds for the backlog of products. The backlog of product funds has increased the company's operational risk. In order to allow this part of the capital to be controlled within the ideal range, the sales department and the finance department are required to conduct comprehensive control in conjunction with the user's needs and the transportation costs of the product to formulate detailed inventory plans, minimize risks, and establish strict Reward punishment system to ensure the smooth implementation of this control.

#### **5.5 Strengthen Human Resource Cost Control**

The human resources costs of X Pharmaceuticals are mainly reflected in the employees' salaries and bonuses, and the training fees required for the skills. X pharmaceutical companies are growing in size, the number of employees is also rising, and the cost of human resources will inevitably increase, which cannot be ignored. In order to achieve the long-term development of the company and achieve effective control over the cost of human resources, the most important thing is to improve the efficiency of the employees and keep the employees' salary bonuses and training costs increasing. Instead of blindly lowering employee wages, employees training costs are reduced. The company mainly implements human resource cost control from detailed salary standards and strict employee system.

##### **5.5.1 Formulate salary standards and distribution system**

Make the appropriate salary standard in time. On the one hand: domestic economic

inflation, prices rose significantly compared with last year. Only by increasing the amount of wages can we meet past needs and ensure the stability of employees' lives and mentality. On the other hand, considering the needs of employees, we must also consider the company's cost-receiving ability, and we must not blindly raise the wage standard. Organizational professional evaluation assesses the growth of the company's operating scale and the growth of company profits to obtain professional data to form a professional evaluation report. In combination with the company's current operating conditions and previous reference data, determine the salary standards for each position. The long-term development of the company should be considered in the process of formulating the salary index, and considering the company's target cost, profit cost, and sales income wage standards for the employees.

### **5.5.2 Strict staffing**

X Pharmaceuticals currently belongs to medium-sized companies and must strictly examine the number of company managers and temporary support personnel. When the actual requirement is less than the number of personnel in the staff, on the one hand, it will have an adverse effect on the company. Not conducive to the improvement of management level, is not conducive to the improvement of employee enthusiasm, on the other hand, will increase the company's wages and benefits of cost expenditures, beyond the company's cost acceptance ability, is not conducive to the company's long-term development. In this regard, the human resources department must do a good job in the market investigation of the previous period to determine the number of reasonable company managers and auxiliary personnel, strictly control the entry of new employees, and improve the management efficiency of the company while controlling costs.

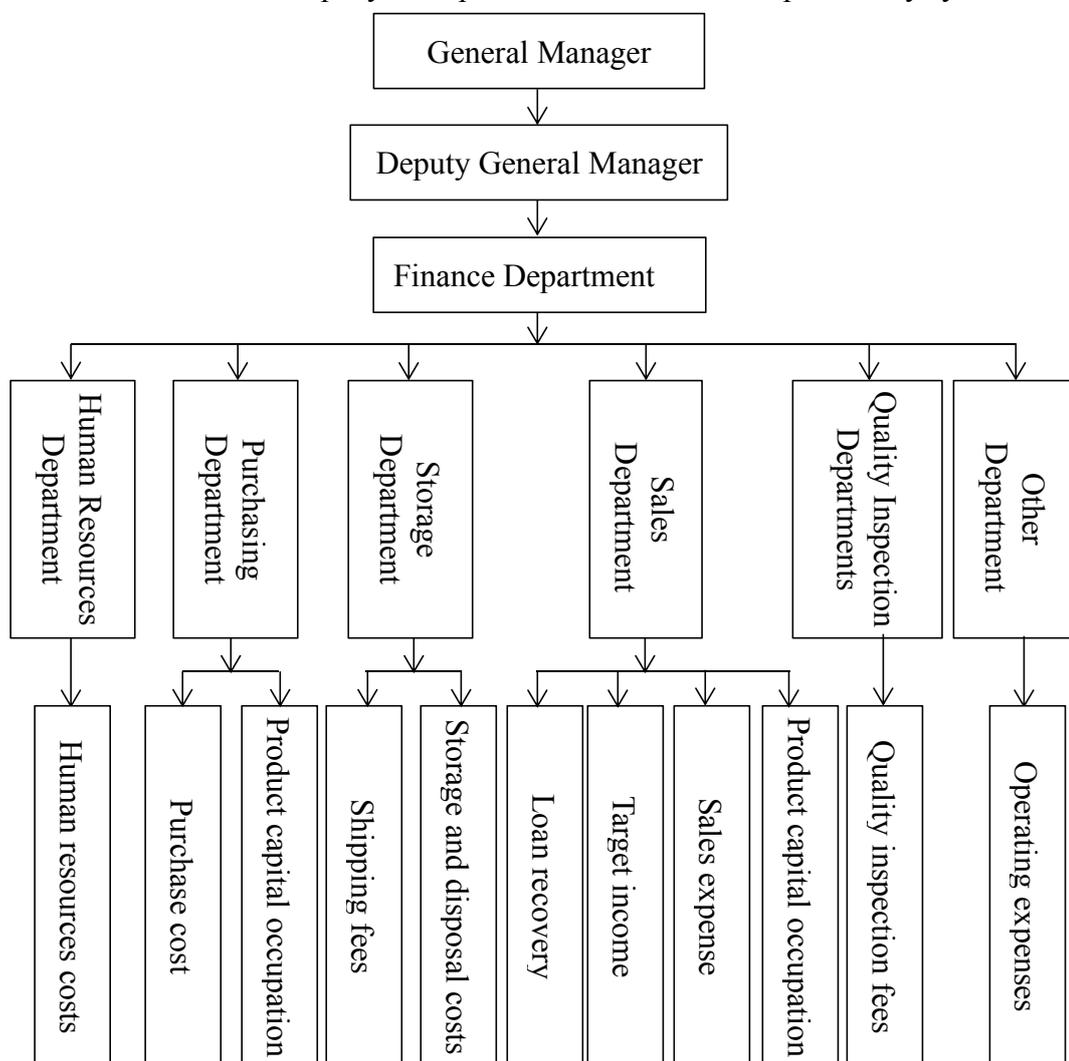
### **5.6 Improve Cost Control Responsibility**

After years of development and growth, the current cost control responsibility system has been initially established in X Pharmaceuticals. Now that this system is not perfect, it is urgent and necessary to improve the system and overcome the problems existing in the system. On the basis of cost driver analysis and value chain analysis, it is imperative to improve the cost control responsibility system of X Pharmaceuticals. Clear division of labor and clear responsibilities are the basic requirements of the cost control responsibility system. It is obvious that a dedicated department is responsible for specific cost control tasks. From Figure 5-1 you can draw:

The general manager of the company is the primary responsible person for the company's product cost control, and allocates the cost control work to each department. The deputy general manager of the company is the assistant to the general manager and helps the general manager to coordinate the cost control work; The Finance Department is the company's comprehensive management department. It not only manages to lead the main responsible persons of various functional departments, but also actively takes charge

of the cost control work of the department. The quality inspection department mainly controls the quality cost; The main control aspects of the sales department are whether the payment proceeds in time for the recovery of the standard income, whether the target income is up to standard, whether the surplus of finished product funds is used, and whether the sales cost is excessive or not. The human resources department is mainly responsible for the cost control related to human resources; The Purchasing Department is mainly responsible for the cost control of procurement, especially the control of the material's own possession. The warehousing department is responsible for the cost control that occurs during the storage of the goods, which mainly includes warehouse rental fees, delivery charges, and handling costs.

Figure 5-1 X Medicine Company to improve the cost control responsibility system

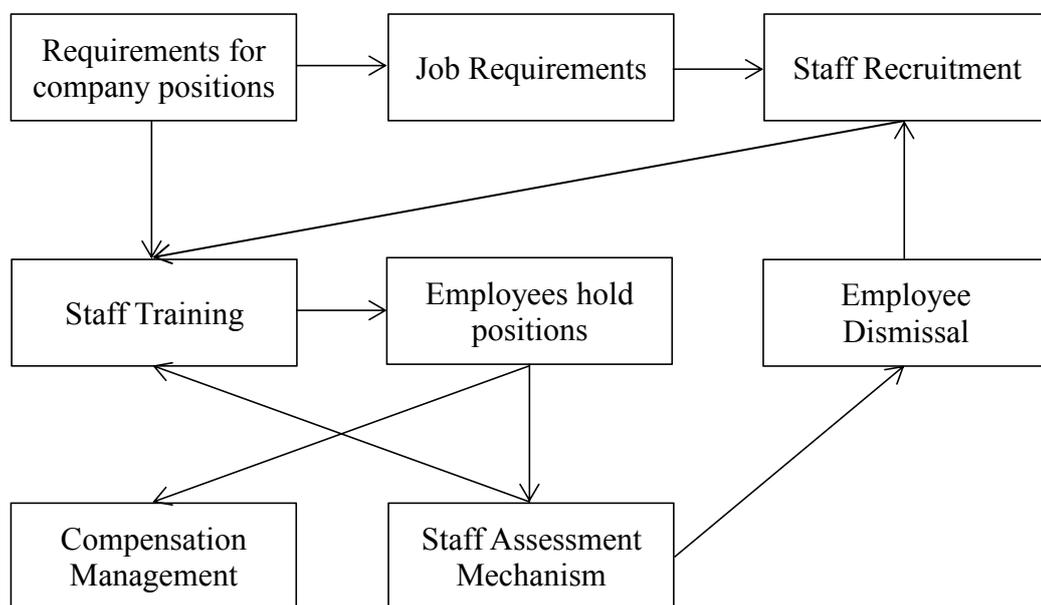


### 5.7 Strengthening Supervision and Management Mechanism

In order to make the cost control responsibility system more standardized, it is inseparable from the guarantee of the cost control supervision system and system. The

general manager will coordinate the leadership of various departments, clarify the responsibilities and obligations of the various authorities, and raise employees' awareness of cost control, as shown in Figure 5-2. We can see that X Pharmaceutical Company. conducts regular assessments and inspections on cost control objects and that each department must also restrict each other. Based on salary management, incentive measures are adopted to reward well-performed cost control and to fully mobilize the initiative of employees. Conversely, if cost control is not effective, criticism and education are conducted in a timely manner, and the cost control effect is severely substandard. Employee will be dismissed.

Figure 5-2 X Medicine Company human resource management flow chart



### 5.8 Improving employees' awareness of cost control

Improve employees' awareness of cost control and fundamentally improve employees' initiative to save costs. X Medicines has a low level of cost control, neglects the construction of corporate culture, lacks awareness of cost control, and believes that cost control is the task of leadership. Employees do not realize that their own interests are closely related to the level of company's cost control. To this end, we should adhere to the principle of comprehensive coverage, strengthen the ideological awareness of all employees, and eliminate the indifferent attitude of cost control, so that the cost control theory enjoys popular support. This article proposes the following to raise employees' awareness of cost control:

(1) Theoretical education. Regular lectures, lectures and other activities to promote the company's cost control concept. Each quarter, we conduct training and education (especially for newly recruited employees), communicate the company's cost control concept, direction, and regulatory requirements to the employees, and develop the habit

of conscious cost-saving. Enable employees to truly participate in the company's business activities and coexist with the company's interests.

(2) Reward system. Periodically summarize and integrate the cost control work of each department. According to the company's reward and punishment system, analyze and evaluate the amount of employees' cost control indicators completed. Each employee's income is linked to cost control. Each employee actively integrates into the cost control work to increase the employee's initiative and self-consciousness in cost control.

Improve the awareness of cost control for all employees, and shift the cost control work from “must do” to “consciously do it”. Through a good corporate culture atmosphere and the improvement of employees' awareness of cost control, employees' subjective initiative will be improved, and cost savings will be taken at all times. You own job to complete. This can ensure the far-reaching development of cost control of X Pharmaceuticals, and ultimately increase the company's core competitiveness.

## **5.9 Summary of this chapter**

This chapter presents the corresponding specific solutions based on the cost control issues of X Pharmaceuticals. First of all, establish a target cost system, determine the target cost as the standard system for cost control of the X pharmaceutical company, and determine the key research objects of cost control of the X pharmaceutical company. Finally, in combination with the actual operating activities of X Pharmaceuticals and the influencing factors of costs, a cost control strategy for the company's daily business activities, such as procurement costs, capital occupation costs, and transportation costs, is formulated. This paper proposes that while implementing the solutions to these problems, it is necessary to improve the cost control responsibility system, increase supervision, and raise employees' awareness of cost control.