

STRATEGIES

- **Product life cycle**
- **BCG Matrix**
- **Ansoff Matrix**
- **Acquisition and integration**

STRATEGIES: WHY AND EXAMPLE

- **Understand the thinking of the person who make the strategic decisions**
 - Know what information is relevant, obtainable, measureable
 - Even provide information that can provide insights / foresights as input for strategic decision process
 - Be able to act proactively for high value added by our information and services
- **Example: “Another” China electric car company but lithium**

• "Another" China electric car company but lithium

PESTEL

- P - china no more subsidy
- tariff if exported
- technology Huawei #2
- E - price high, economy good? global
- S - electric car food, china wealth status / symbol +/-
- show-off
- T - battery / self-driving*
- E - ✓ electric

elevator pitch
- venture capital
- start-up

- 5 forces
- internal rivalry - low power to price
 - entrance - medium high
 - substitute - super low earn profit
 - supplier - average
- customer - low



Disney
Supreme

红旗 flag

product life cycle -
introduction
- \$ for advert
- introduction

- SWOT
- S - lithium
 - W - high price / battery
 - O - money
 - O - global sales
 - lithium rocket
 - environment
 - T - better battery hydrogen

ASSIGNMENT 1

- Any group can add one more member?
- Assignment 1 – 7%

ASSIGNMENT 1 PRESENTATION

- **Prepare one page executive summary for distribution before presentation (have enough copies for everyone)**
- **Should have**
 - **Company name, what they do, size, history**
 - **Macro analysis – major threats and opportunities**
 - **Industry analysis – competitive situation**
 - **Firm analysis – SWOT, value chain ...**
 - **Current situation**
- **A few minutes to read**
- **Presentation / open discussion of 10 to 15 minutes**

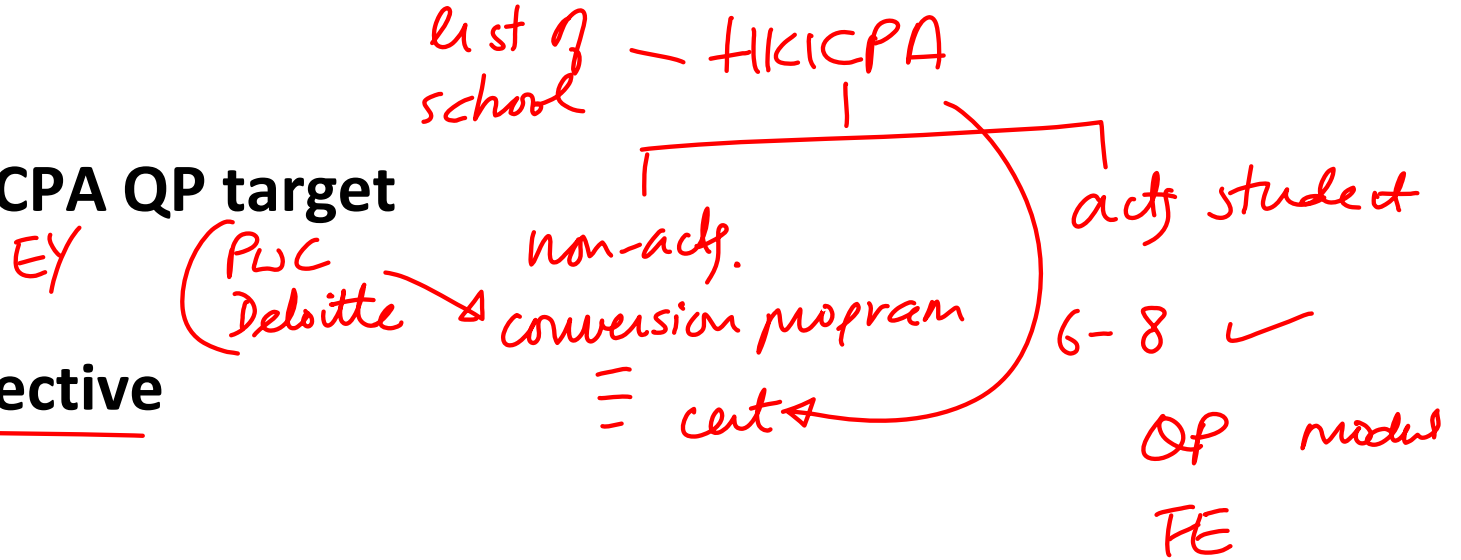
ASSIGNMENT 1 REPORT

- **Five pages or less**
- **Executive summary**
 - Half page summary of external and internal analysis and conclusion
 - Only major and most important information should be included
- **Report**
 - Describe the current situation of the firm based on importance of the factor
 - NOT by models like PESTEL, SWOT
 - Conclusion on current situation
- **Email both report and presentation summary to me separately**

REST OF COURSE

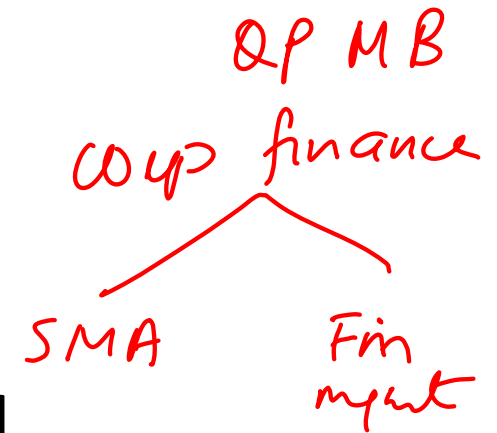
Kaplan

- Per program, HKICPA QP target
- June QP?
- HKICPA QP perspective
- BUT CPAA?
- My content is to prepare for these exams
- Reading packs focuses on what you should know for these exams



most material
for QP
CPAA

REST OF COURSE



- **Macro, big picture, see relationships not piece meal**
 - E.g. NPV expansion and need financing **but interest coverage breach covenant** *FM* *\$3B - calc debt level → WACC*
 - E.g. Story by founder son or sales director about new direction or product to increase sales **but in conflict with some important stakeholders**
 - E.g. Inefficient capital structure and high WACC **but can improve by rights issue, stock dividends, preferred shares, tax domicile, offshore bonds / bonds in foreign currency**
- **Must use BOSS / top management perspective = SAME HERE**

D/E

REST OF COURSE

- Meaning?
- Think big and inclusive *limitless*
- Think interactions
- Know when to use tools even if not explicitly stated (even misleading information might be provided)
- Focus of knowledge here on APPLICATION within Big Picture

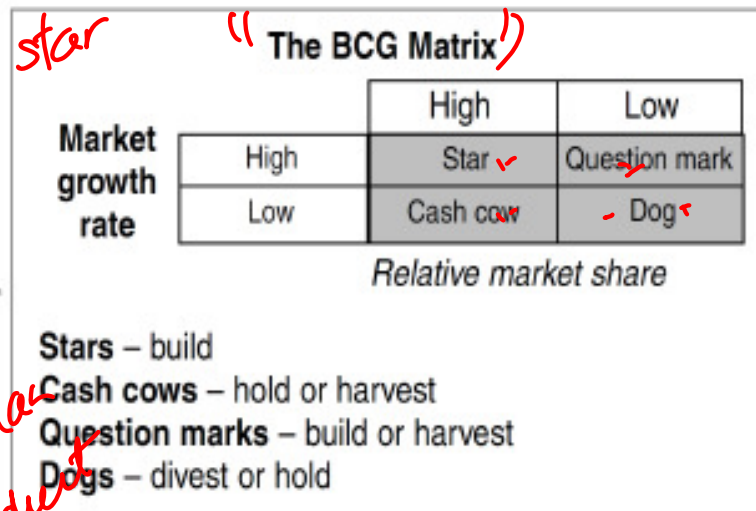
COMPANY ANALYSIS BCG MATRIX

Portfolio analysis is applicable to products, market segments and Strategic Business Units (SBUs). There are four basic strategies:



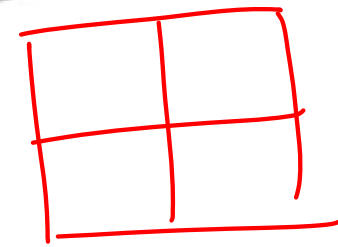
TicketTalk

Disney
 - theme park
 - movies
 - Disney + star
 product mix
 model
 - more than one product



Problems with the BCG matrix

- Simplistic.
- Strong brand may give competitive strength despite relatively low market share.
- Ignores innovation.
- Dogs and question marks may be needed to complete a range.
- High market growth assumed to be attractive. But will require significant investment which may not be available.
- Ignores competitors other than market leader.
- Does not indicate overall best mix or how to build stars and question marks



products
 manning

Importance of having a balanced portfolio:

- ▶ stars to assure the future
- ▶ cash cows to supply funds to support future growth
- ▶ question marks to be converted into stars.

Parallels with product life cycle:

- ▶ stars – growth phase
- ▶ cash cow – mature phase.

COMPANY ANALYSIS

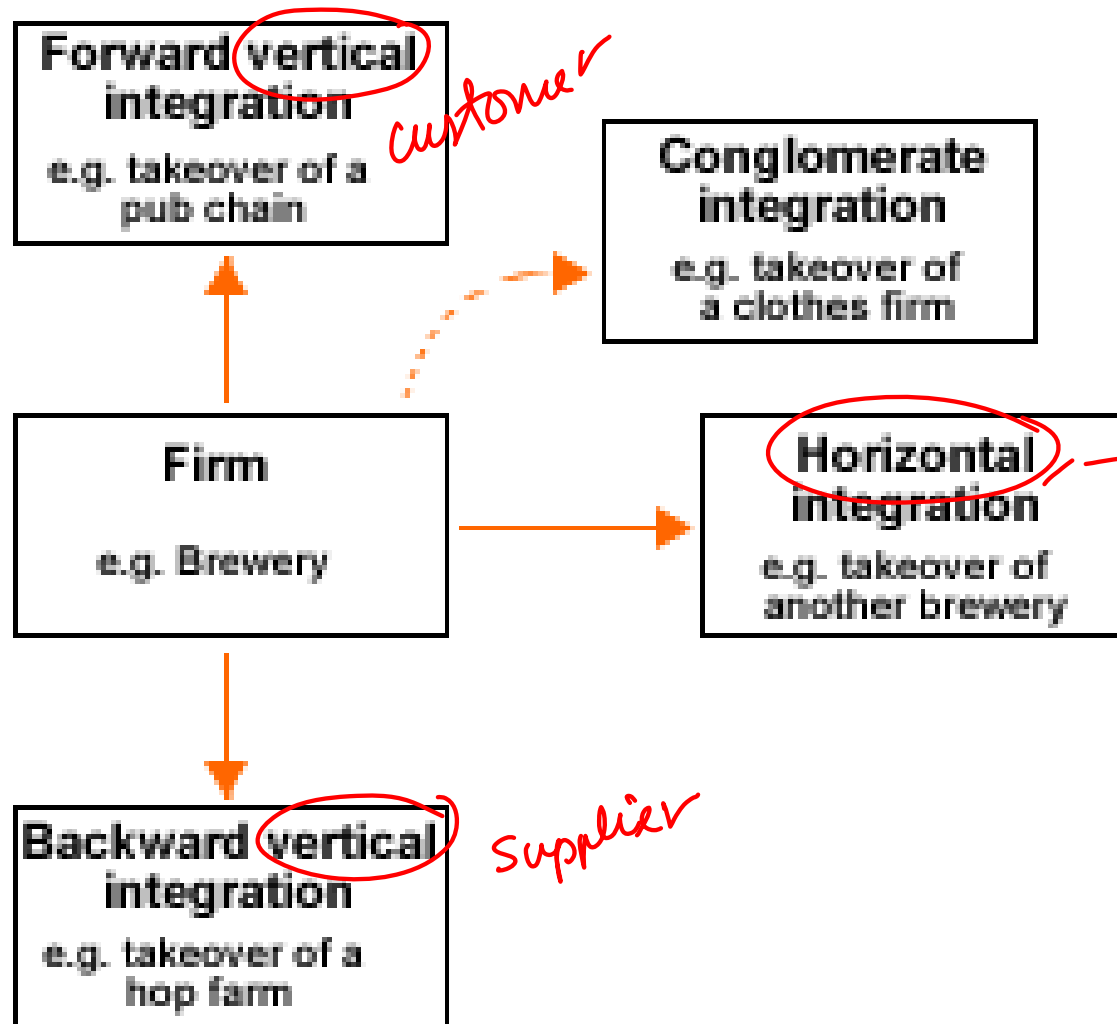
ANSOFF ANALYSIS (ORGANIC GROWTH)



COMPANY ANALYSIS

GROWTH VIA ACQUISITION

Types of merger



- good - fast
- ↓ competitors
- lock up supplier / customer

- competitor
- bad - costly
- integration

COMPANY STRATEGY

COST LEADERSHIP VS DIFFERENTIATION

Developing a business strategy (Porter, 1980)

Toyota
Cost leadership

*cheaper
analogy*

Texaco
Differentiation

*Apple ip**

aims to be the lowest cost producer in the industry as a whole.

aims to exploit a product perceived as unique within the industry as a whole.

Aspects of cost leadership

- Economies of scale.
- Use the latest production technology (capital investor) or cheap labour.
- Productivity improvement.
- Minimisation of overheads.
- Favourable access to inputs.

FOCUS

satellite, folded phone

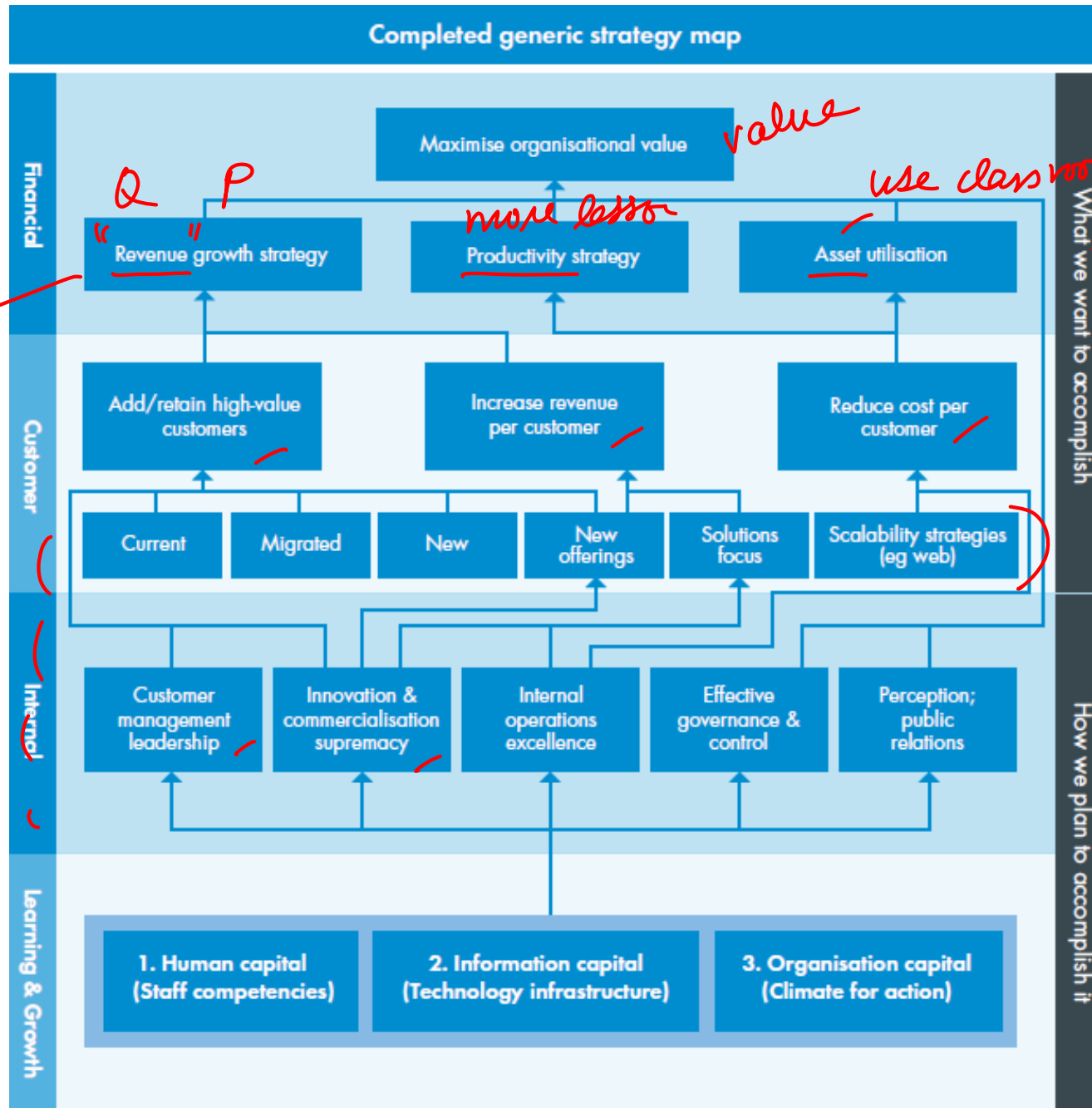
Aspects of differentiation

- **Breakthrough** products – radical performance advantage.
- **Improved** products – superior performance at a competitive price.
- **Competitive** products – unique combinations of features:
 - Brand image.
 - Special features.
 - Unique combination of value activities.

Activity is restricted to a particular **segment** of the market. Either a cost leadership or differentiation strategy is then pursued. Such concentrated effort can be more effective, but the segment may be attacked by a larger firm.

STRATEGIC POSITIONING

future potential more in strategic class



*provide english lesson
fa*

BASIC MA TOOLS

CMA syllabus

- cvp ch 4 ?
- relevant ch 14
cost ?

MANAGEMENT ACCOUNTING TOOLS

- **Cost allocation – fixed and variable cost, relevant costs**
- **Absorption costing**
- **Job order costing**
- **Process costing / Throughput accounting**
- **Activity based costing (“ABC”)**
- **Time driven ABC (“TDABC”)**

BASIC COSTING

multi-product
CVP
CVP
- break-even \$/unit

• Cost can be classified various ways but total should be the same

• Why costing important?

• How to classify?

- Direct versus indirect
- Product versus period
- Prime versus conversion
- Fixed versus variable

- if private co
- own company
- tax
- make sure a profit

• Garrison chapter 2

cost - - parts
chip - - non
antenna - - board
- - memory
- -

no sale
ip 5E 3600
3
6 price
5 cost

ch 2
factory
manager
more sale than want
ip 11 no max
14,400 price
12
12 price
10 cost

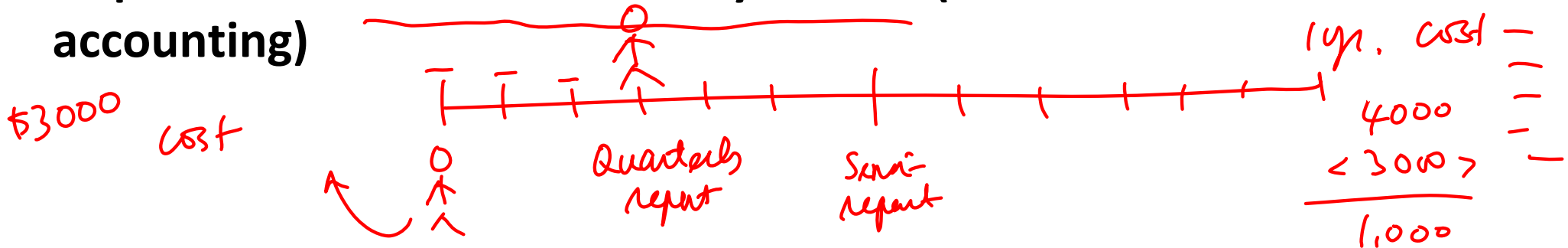
assume next cost
20% profit
need full cost to price
must be above cost to make \$

15

ABSORPTION COSTING

GAAP ~~IFRS~~ exchange
audit / shareholder

- Garrison Chapter 5
- Must be used for financial accounting reporting and tax filing
- Cost of goods sold include all product related variable and fixed cost (allocated) *allocated*
some indirect/overhead cost *direct material/labor*
- Use of predetermined usage rate to cost items during year, then year end will have variance to adjust for *variance analysis* *standard cost* *OHR*
- While not optimal for decision making (vs variable costing), it is required and more theoretically correct (accrual basis of accounting)



✓ JOB ORDER COSTING

- Garrison Chapter 8
- Many different products
- Made to order
- Trace costs order to order basis
- Suits higher priced / costs / value unique products

tech + robotic
+ individual
order

house 737 Man

↑ diamond

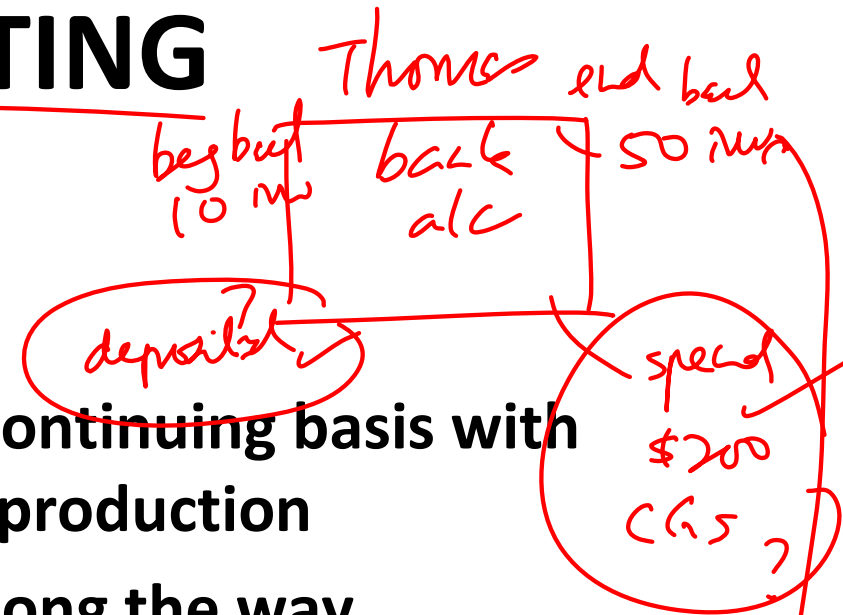
painting

custom-made car

PROCESS COSTING

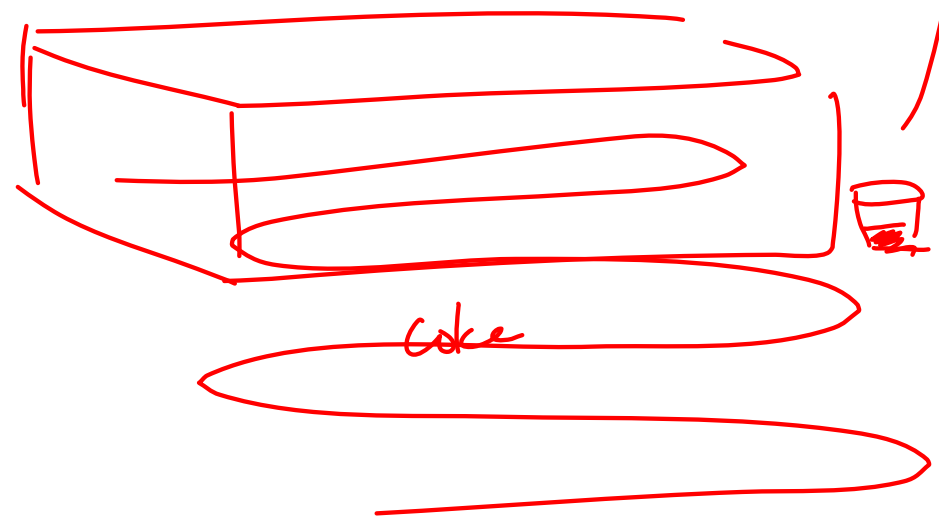
- Garrison Chapter 9
- Single homogeneous product produced continuing basis with uniformly applied process on all units of production
- Record input material and process lost along the way
- Calculate cost of equivalent units of production for unfinished products at period end
- Back out cost of production

$$\begin{array}{r}
 240 \\
 + 10 \\
 \hline
 - 20 \\
 \hline
 240
 \end{array}$$



inventory /) how much?
CGS

$$\begin{array}{r}
 \text{beg inv} \\
 + \text{new cost} \\
 - \text{end inv} \\
 \hline
 \text{CGS}
 \end{array}$$



ACTIVITY BASED COSTING

"concept"

- An approach to the costing[?] and monitoring of activities which involves tracing resources consumption and costing final outputs. Resources are assigned to activities and activities to cost objects based on consumption estimates. The latter utilize cost drivers to attach activity costs to outputs.
- Garrison Chapter 7
- Direct materials, direct labor, and other direct cost same treatment
- Uses various cost pools based on activities to allocate non-direct costs

oh cost only

ACTIVITY BASED COSTING

- Frequently used? *by company?*
- Activities can be defined clearly and distinctly?
- Benefits > costs?
- High costs to set up, if process change very quickly then much lower benefits compared to costs required
- Do not separate into variable, fixed, or relevant, had to back track to normal costing system for other analysis
- Required multiple costing systems
- If ABC info not updated, provides even worse results
- Slacks and down time not fully accounted for

*problems
companies
faces when
trying to
use ABC*

ACTIVITY BASED COSTING

- Modern manufacturing environment
- Short production runs and lots of variations (phones)
- Production changes specs frequently
- Production process changes frequently
- Multi-task of activities (machine & person)
- Some activities involves more than one cost and some cost involves more than one activity pool

reason why!

yellow/red

Δ in style

| logistic (delivery)

The following information is available for Dresden plc, which produces three products:

	A	B	C
Output (units)	20 000	25 000	2 000
	\$/unit	\$/unit	\$/unit
Sales price	20	20	20
Direct material cost	5	10	10
Labour hours/unit	2	1	1
Wages paid at \$5/hr			

Other information is as follows:

Total production overheads are \$190 000

	\$
Machining	55 000
Quality control and set-up costs	90 000
Receiving	30 000
Packing	15 000
	<u>190 000</u>

Cost driver data	A	B	C
Labour hours/unit	2	1	1
Machine hours/unit	2	2	2
No. of production runs	10	13	2
No. of component receipts	10	10	2
No. of customer orders	20	20	20

Required

Using ABC, show the cost and gross profit per unit for each product during the period.

Workings: recovery rates

1 *Machine cost* $\frac{\$55\,000}{40\,000 + 50\,000 + 4\,000} = \0.5851 per machine hour

2 *QC and set-up* $\frac{\$90\,000}{10 + 13 + 2} = \$3\,600$ per production run

3 *Receiving* $\frac{\$30\,000}{10 + 10 + 2} = \$1\,363.64$ per component receipt

4 *Packing* $\frac{\$15\,000}{20 + 20 + 20} = \250 per customer order

	A	B	C	Total
	\$	\$	\$	\$
Machining costs	23 404	29 255	2 341	55 000
Quality control & set-up	36 000	46 800	7 200	90 000
Receiving	13 636	13 636	2 728	30 000
Packing	5 000	5 000	5 000	15 000
Total overhead costs	<u>78 040</u>	<u>94 691</u>	<u>17 269</u>	<u>190 000</u>
Units produced	20 000	25 000	2 000	
Overhead cost/unit	\$3.90	\$3.79	\$8.63	
	A	B	C	
	\$/unit	\$/unit	\$/unit	
Direct materials cost	5.00	10.00	10.00	
Direct labour cost	10.00	5.00	5.00	
Production overhead cost	3.90	3.79	8.63	
	<u>18.90</u>	<u>18.79</u>	<u>23.63</u>	
Sales price	20.00	20.00	20.00	
Gross profit/unit	<u>1.10</u>	<u>1.21</u>	<u>(3.63)</u>	

TIME DRIVEN ACTIVITY BASED COSTING

- See reading pack

in both
TKICPA OP
CPAA



In the United States, health care costs in 2012 exceeded 17% of gross domestic product and are expected to rise to 19.6% by 2021. Several medical centers, such as the M.D. Anderson Cancer Center in Houston and Children's Hospital in Boston, are using time-driven activity-based costing (TDABC) to help bring accurate cost and value measurement practices into the health care delivery system.

TDABC assigns all of the organization's resource costs to cost objects using a framework that requires two sets of estimates. TDABC first calculates the cost of supplying resource capacity, such as a doctor's time. The total cost of resources—including personnel, supervision, insurance,

space occupancy, technology, and supplies—is divided by the available capacity—the time available for doctors to do their work—to obtain the capacity cost rate. Next, TDABC uses the capacity cost rate to drive resource costs to cost objects, such as the number of patients seen, by estimating the demand for resource capacity (time) that the cost object requires.

Medical centers implementing TDABC have succeeded in reducing costs. For head and neck procedures at the M.D. Anderson Cancer Center, the TDABC-modified process resulted in a 16% reduction in process time, a 12% decrease in costs for technical staff, and a 36% reduction in total cost per patient. Prior to implementing TDABC, managers did not have the necessary information to make decisions to reduce costs.

More broadly, health care providers implementing TDABC have found that better outcomes for patients often go hand in hand with lower total costs. For example, spending more on early detection and better diagnosis of disease reduces patient suffering and often leads to less-complex and less-expensive care. With the insights from TDABC, health care providers can utilize medical staff, equipment, facilities, and administrative resources far more efficiently; streamline the path of patients through the system; and select treatment approaches that improve outcomes while eliminating services that do not.

Dresden plc's receiving overheads for its production facility are \$30 000, of this, \$5 000 relates to non-receiving costs such as staff training and meetings. Each standard delivery takes 1 hour of receiving time, and each complex delivery takes 2 hours. Total receiving time available in the period is 200 hours. Product A entails 4 standard receipts and 6 complex receipts. Production is 20 000 unit of Product A.

Calculate:

- (a) The capacity cost rate for receiving.
- (b) The cost of each standard and complex delivery.
- (c) The receiving cost to be allocated to Product A.

$$\begin{aligned}
 \text{(a) CCR} &= \frac{\text{Total resource cost}}{\text{Total available capacity}} \\
 &= \frac{\$30\,000 - \$5\,000}{200 \text{ hours}} \\
 &= \$125
 \end{aligned}$$

$$\begin{aligned}
 \text{(b) Standard delivery cost} &= \$125 \\
 \text{Complex delivery cost} &= \$125 \times 2 \\
 &= \$250
 \end{aligned}$$

(c) Product A receiving cost	\$
4 standard receipts @ \$125	500
6 complex receipts @ \$250	<u>1 500</u>
	<u>2 000</u>
Receiving cost per unit of Product A	$\frac{\$2\,000}{20\,000} = \0.10

not examined here

OP/cpa

FYR

for your reference ONLY