

What is Strategic Cost Management?

Worksheet

Strategic cost management is the use of cost information explicitly to develop and support business strategy, combining value chain analysis, cost driver analysis and competitive positioning analysis.

Questions

1. Strategic cost management is best described as:

- A) Cost data used to file taxes
- B) Cost data used to support competitive strategy
- C) A method for eliminating all support activities
- D) A synonym for budgeting

2. Which is a structural cost driver?

- A) Employee overtime
- B) Scale of production
- C) Machine downtime
- D) Quality control checks

3. Strategic cost management differs from traditional cost accounting mainly by:

- A) Ignoring costs entirely
- B) Considering the full value chain and strategy fit
- C) Using only historical costs
- D) Focusing solely on labor cost

4. Which is NOT one of the three pillars of SCM?

- A) Value chain analysis
- B) Cost driver analysis
- C) Strategic positioning analysis
- D) Depreciation analysis

5. A furniture maker cuts raw material costs by switching to a cheaper supplier, but product returns rise 12%. What does strategic cost management say about this decision?

6. Two firms in the same industry have identical direct costs, but Firm A has a low-cost strategy and Firm B has a differentiation strategy. Should they manage costs the same way?

7. A company identifies that 70% of a product's lifecycle cost is locked in at the design stage, before production even begins. What strategic implication follows?

8. Define: What is strategic cost management?

9. Define: What are the three pillars of SCM?

10. Define: Structural vs executional cost drivers?

Answer Key

1. B) Cost data used to support competitive strategy - SCM uses cost information explicitly to shape strategic decisions.
2. B) Scale of production - Scale is a structural (strategic) driver set early; the others are executional/operational.
3. B) Considering the full value chain and strategy fit - It extends analysis beyond the firm to suppliers, customers, and strategic fit.
4. D) Depreciation analysis - The three pillars are value chain, cost driver, and strategic positioning analysis.
5. Traditional view: lower material cost = cost savings Strategic view: check impact across full value chain, including quality and customer service costs Returns rose 12% added logistics, refund and reputation costs Conclusion: the 'savings' may be a net loss once downstream costs are included
6. Firm A (cost leadership): focus cost-cutting on all non-value-adding activities Firm B (differentiation): protect spending on R&D, design and service quality Strategic cost management ties cost decisions to the chosen strategy, not a single 'lowest cost' rule Conclusion: identical cost structure identical cost management approach
7. 70% of cost is 'structural' - determined by design choices (materials, complexity, suppliers) Only 30% remains controllable during production ('executional' costs) Implication: cost management must start at product design, not just the factory floor Action: apply target costing and design-for-manufacturability early
8. Using cost information explicitly to support and shape a firm's competitive strategy.
9. Value chain analysis, cost driver analysis, and strategic positioning analysis.
10. Structural = strategic choices like scale and complexity; executional = operational efficiency like workforce involvement.

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