

Value Added to Value Management
Role of CMA's

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The Business world is volatile and uncertain
Sustainability is a Challenge
Value Add is not enough

Value needs to be:



Emerging Trends

- There is a shift in managers needs – from just needing to know what things cost and what happened , to a need for detailed information about what their **future costs** will be and why.
- Historical cost information is used in combination with other **economic information** ,including forecasts and planned changes in order to facilitate value enhancing decisions.
- The output of a management accounting system is used as an **input for gaining insights** and strategically managing activities and operations.

Emerging Trends...

- Transition from management accounting for reporting costs and profits to managerial economics for **decision support and analysis** that support the future.
- **Customer life cycle value** – it is useful to know how profitable a customer has been, but in some cases the future potential profit levels are more relevant because customers go through life cycles

Emerging Trends...

- There must always be a balance between managing the level of customer service to earn customer loyalty and the impact it will have on **organizational value**.
- CMAs are **not scorekeepers** of the past but they are **designers of the organization's future**.
- There are obstacles to buy-in and acceptance to new progressive approaches. There is a need to improve **behavioral change management skills** and capabilities .

Organizational Value

The business environment demands relevant and real time cost and performance information on the organization's activities, processes, services and customers for **creating, preserving and enhancing value.**

Value Added Concept

- Value added is a measure of economic performance of an organization.
- Value added is a created utility in a product or service
- Value is added by bringing in some changes over bought-out material.

Net Value = Revenues – The price paid for material and services

Only ***Value add is not enough*** for building sustainable businesses.

Value Management Concept

Value Management is structured , consistent and conscious approach for planning, monitoring, and measurement of :

- Value creation
- Value preservation
- Value enhancement.

Key Dimensions of Value Management

- 1 • Develop strategy to minimize Risk / maximize Value

- 2 • Linking Value measures to Financial and Operational Drivers

- 3 • Measuring Shareholders Value

- 4 • Designing Performance Management Systems

- 5 • Communicating fundamentals of Value Management

- 6 • Evaluating Risk / Value Management Strategies

CMAs facilitate Value Management by

- Providing **timely and relevant information** with appropriate analysis for improvement of the productivity of all resources, resulting in optimum utilization of resources and minimization of wastages.
- Providing information for **strategic decision making**.
- Provide **segment and product wise** business profitability to enable effective decision making by management.
- Continuously monitoring and evaluating corporate performance and its **economic/operational efficiency**.

CMAs facilitate Value Management by...

- Setting **benchmarks** for various activities and processes both in cost and physical terms.
- Carry out **variance analysis** for monitoring operational costs and revenues for ensuring that the organization realizes its plans.
- Assisting organization in better corporate governance and **value creation** by focusing on efficient use of resources enabling the organization to effectively compete in the dynamic business environment.
- Providing product / activity wise cost details for **strategic decision making**.

Approaches to Value Management

1

- Moving from Product to Channel and Customer profitability analysis

2

- Implement Enterprise Performance Management

3

- Shift to Predictive Accounting

4

- Strategic use of Business Analytics

5

- Leveraging IT for analytical and real time Decision Making

6

- Behavioral Cost Management

7

- Focus on Efficiency, Time, Quality and Innovation

*Creating , Preserving and Enhancing
Value is the sole **Winning Mantra***

Opportunity & Challenge for the **CMAs** to
deliver...

CMAs are key pillars in organization helping to create and sustain value and growth.

Their ability to continue to fulfill these roles in the face of constant environmental changes is **vital** to their continued relevance

Role of CMAs in Value Management

Develop Value Management mindset

Develop Measures of value

Ensure Value drivers are consistent with financial , operational drivers and NVG

Provide assistance in evaluation of strategies for Value Management

CMA – The Value Integrator

- Help the company “**think as an overall business instead of individual areas**”.
- CMAs should lead the way in **creating value for their organizations**, rather than simply maximizing revenues or minimizing costs.
- Understand **how the company is creating value**, i.e., where exactly along the manufacturing or service chain it is adding or destroying value.

CMA – The Value Integrator...

- What are the competitive dynamics of each process? Can the value destroying parts be outsourced, or are there reasons to 'in-house' them like quality, on-time delivery, control of information, etc? **Areas adding maximum value** must be protected and grown.
- Quantify for the CEO how different decisions impact the **value creation chain**.

CMA – The Value Integrator...

- Shorter-term metrics (e.g., economic profit) should be used in conjunction with longer-term **performance indicators** — market share, for example — to avoid decisions which improve value temporarily, but destroy it in the long run.
- Create performance measurement system that entails a seamless **integration of financial and non-financial measures**.
- Develop performance metrics that tie management **behavior and actions more closely to value creation**

Measures of Value

❑ Economic Value Added

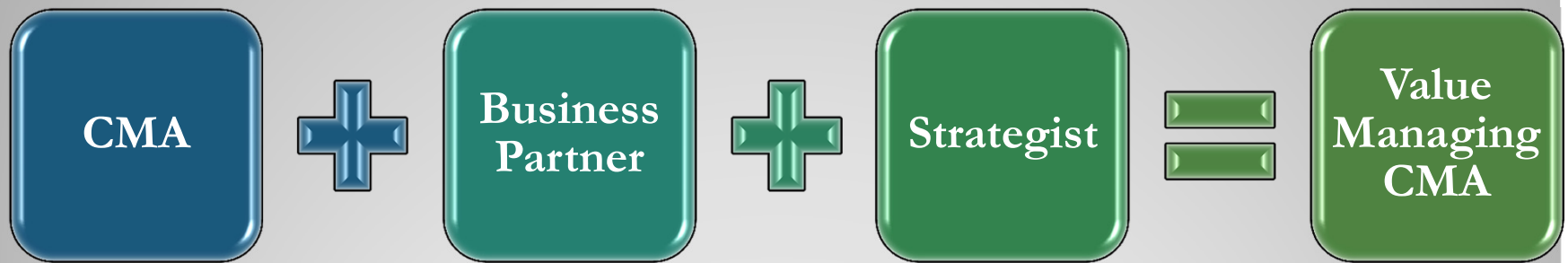
$\text{NOPAT} - \text{Capital Charge}$

❑ Market Value Added

$\text{Total Market Value} - \text{Capital invested}$

❑ Cash Value Added

$\text{NOPAT} + \text{Depreciation} + \text{Amortization} - \text{Finance Cost}$



Value Management – Case Studies

- DCM Group -destroyed value due to irrational split / restructuring
- Tata Corus deal – Acquisition overvalued
- Air Deccan – LCC – destroyed value
- AMWAY – has now opened stores for increasing value
- NANO – Advertising on TV / Redesign / re-launch
- Indigo – Improving TAT for enhancing value

Value Management – Case Studies...

- Jubong – Focus on customer service for value
- Airtel – Selling 3500 towers in Africa
- L&T - Getting split into 4 companies
- Mcdonald – Aloo Tiky Burger (GLOCAL)
- Parle - Cost rationalization (Tiger Biscuit)
- DMRC – Creating Value through efficiency
- Maruti - Strategic Product churning

Three Set of Professionals who can play a key role
In Value Management

CMA's

CMA's

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Thank you

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