



WHITHER COST SYNERGY!



The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

Mission Statement

The CMA professionals would ethically drive enterprise globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.



Vision Statement

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

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Government of India
Ministry of Corporate Affairs
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Foreword

I am pleased to note that the **Institute of Cost Accountants of India** is bringing out its publication on the theme “**Whither Cost Synergy**”. I congratulate the Institute for selecting such a well-timed and important topic for the publication.

In the globalized world, companies seek new strategies to ensure corporate success. The cost management models aid the planning and management of such corporate operations, effectiveness of which depends on their alignment with the overall corporate strategy. The key element of any corporate strategy is competitiveness. All competencies must, therefore, be considered in the formulation of such strategies including costs strategy.

Costs Strategic Management concerns costs management, whether it is for the financial and profitability analyses of the products, or for verifying and assessing the short and long-term business profitability. To attain these objectives, effective cost management is necessary, and should be coordinated with the business strategies, so as to provide sustainable competitive advantage. Strategic Costs Management also significantly contributes to efficiency in analyzing value for the stakeholders, in a possible alteration of organizational behavior and to minimize the risks for the company. Companies which fail to update their cost systems in the competitive environment, or use outdated methods to assess, are doomed to fail sooner than later.

The focus of Cost Synergy is towards achieving synergic cost combination. The idea is not to look at any of the Cost Management Activities in isolation. Rather, an integrated approach that would reap the benefits of synergy from such a combination must be targetted.

I am sure that this document will serve as a base for understanding the concept of Cost Synergy and its implications. I compliment the efforts of the Directorate of Studies of the Institute for bringing out this important publication. I hope that the readers of this document will find this useful. I wish them happy reading.


(Tapan Ray)





CMA Manas Kumar Thakur
President
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MESSAGE

I am pleased to publish this timely issue on "Whither Cost Synergy".

We are observing our 'Cost Consciousness Week' and on behalf of my Institute I pay my sincere thanks to the Hon'ble Secretary of the Ministry of Corporate Affairs, Shri Tapan Ray for helping us by releasing this Knowledge Study.

Cost Synergy is the savings in operating costs arising out of a situation wherein cost management activities compliment each other's strengths collectively. Accordingly Cost Synergy is conceived to reflect the Synergic Impact arising from the chain of Cost Management Activities carried out during the course of Value Addition. The focus of Cost Synergy is towards achieving synergic cost combination. The idea is on looking beyond any of Cost Management Activities singularly; and targeting for an integrated unidirectional approach that would foster a synergic impact from the combination.

As a premier professional body the Institute of Cost Accountants of India and its members always think positively and have full faith in the dynamic leadership of India's beloved Prime Minister and on his mission. We are determined that India will make his mission of 'Make in India' successful and our Cost Accountant fraternity will play a major role in it.

I must applaud CMA (Dr.) Sreehari Chava, a senior member of our Institute and a resourceful person for helping us to carry out this consequential study.

Last but not the least, I must congratulate the Director of Studies and his team for bringing this knowledge study.

Cost Synergy is an invisible fact that remains under-tapped. It is, still, in the process of evolution. By the publication of this study we have tried to send the message to all the strata of the society and I hope the readers will enjoy their reading.


CMA Manas Kumar Thakur



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CONCEPT

01.00 Synergy

Synergy is the creation of a whole that is greater than the simple sum of its parts. Synergy symbolizes 'The Additional Value Created' on account of an integrated approach. Synergy is where $1+1=3$.

Synergy is defined as "the simultaneous action of separate individual parts, which together produce a greater effect than any one of the parts alone."

A team is defined as group of individuals who are committed to achieving common goals; who meet regularly to identify and solve problems; who work and interact effectively together; and who produce optimal economic and motivational results. Impact of Synergy is visible when a group of players with mediocre talent outperforms a team of superstars.

Synergy is created as a result of working together. The migration south by a flock of geese is a typical example of synergy. Geese flying in a "V" formation, with "Flocked Mind," can fly 72% further than a single goose by himself. "Flocked Mind" is the focus on the common purpose of the team. It's not what you get from the team, it's what you give for the benefit of team and the purpose. You've heard it before, there is no "I" in team. The focus is on the common goal or purpose, "The Flocked Mind." In other words, Synergy is the Power of Flock.

Corporate Entities aim to achieve synergic advantages by means of mergers and acquisitions, adding substantial new products and / or service lines, geographical expansions, franchising, extending into a new complementary or related business, and so on.

It is a fact that the rate of technological and human physiological change in the 20th century has been remarkable. Beyond that, the perception could be - a synergy between the improved technology and physiology is more

than the simple addition of the two.

Synergic impact is best explained by two simple algebraic formulations of 'a' and 'b'. When 'a' is multiplied by 'a' the result is a^2 ; when 'b' is multiplied by 'b' the result is b^2 ; and both of these derivations together add up to $(a^2 + b^2)$. But when $(a + b)$ is multiplied by $(a + b)$ the result is $(a^2 + b^2 + 2ab)$; the additional value being '2ab'. Obviously, the gain of '2ab' is the outcome of synergy.

02.00 Cost Synergy

The costnomic definition states that Cost is a Resource consumed in the process of Value Addition. Accordingly Cost Synergy is conceived to reflect the Synergic Impact arising from the chain of Cost Management Activities carried out during the course of Value Addition.

Cost Synergy is the savings in operating costs arising out of a situation wherein cost management activities compliment each other's strengths collectively. Cost Synergy, thus, implies the most efficient utilisation of the input resources whereby the matrix of the Least Cost Combination is achieved. Corporate expansions carried out with the objective of vertical and horizontal integrations do provide an example that highlights strategy formulations towards cost synergy. In the ultimate, Cost Synergy leads to competitive advantage.

Cost Synergy may broadly be classified into:

- 1) Merge Synergy accruing on account of combination of business entities;
- 2) System Synergy arising due to integration of multiple cost systems; and
- 3) Compliance Synergy springing up as an added advantage wherever records maintained to comply

Cost Synergy is the savings in operating costs arising out of a situation wherein cost management activities compliment each other's strengths collectively.



with regulatory provisions are put to prudent utilization.

Cost Synergy is the core avenue wherein CMA fraternity all over the world has been playing a predominant role. The tools and techniques are many, some are traditional and so many advanced. To name a few, the list begins with Traditional Cost Controls and keeps moving yonder the modern Cost Leadership, Activity Based Management, Balanced Score Card, Lean Management and so on. The outcome depends upon the ability to identify the best of

the feasible practices suitable to the entity and adopt them. Inventions and innovations can keep happening perpetually. The focus of Cost Synergy is towards achieving synergic cost combination. The idea is on-looking beyond any of Cost Management Activities singularly; and targeting for an integrated unidirectional approach that would foster a synergic impact from the combination.

03.00 Tail Lead

Bonded Sticks are branded stronger



MERGE SYNERGY

01.00 Economies of Scale

Economies of Scale refer to the cost advantage that arises with increased output of a product.

Adam Smith identified the division of labour and specialization as the two key means to achieve a higher return on production. Through these two techniques, employees would not only be able to concentrate on a specific task, but with experience, improve the skills necessary to perform their jobs. The tasks could, then, be performed better and faster. The resultant efficiency would enable savings in time and money apart from higher quantities of output.

Alfred Marshall made a distinction between internal and external economies of scale. Internal economies refer to economies that are internal to the individual firm. Internal economies of scale are perceived to have been achieved when a company reduces costs and increases production on account of the factors exclusive to it such as the size of the individual firm. External economies of scale occur outside of a firm, but within an industry from extraneous factors such as the size of the industry. Thus, when an industry's scope of operations expands due to, for example, the creation of a better transportation network, resulting in a subsequent decrease in costs for all the firms working within the ambit of that industry, external economies of scale are said to have been achieved. External economies would benefit all firms within the industry.

The primary rationale for the accrual of economies of scale emanates from the behaviour of fixed costs. The total fixed costs tend to remain fixed for a relevant range for any given period because of which, increases-in-scale tends to reduce per-unit fixed costs, i.e. the larger the quantity of a good produced, the lower the per-unit fixed cost; on account of the fact that economies of scale enable spreading out the fixed costs over a larger number of goods. The evident fact is that quantity produced bears an inverse relationship with per-unit fixed costs. Further, economies of scale may also reduce per-unit variable costs because of operational efficiencies and synergies.

The concept can be demonstrated through a simple example of a printer's quotation for marketing brochure. The printer quotes a price of Rs.50,000 for 500 brochures, and Rs.1,00,000 for 2,500 copies. While 500 brochures will cost Rs.100 per brochure, 2,500 will cost, only, Rs.40 per brochure. In this case, the printer is passing on part of the cost advantage of printing a larger number of brochures. The said cost advantage arises because the printer has the same initial set-up costs, which are fixed in nature, regardless of whether the number of brochures printed is 500 or 2,500. Once the set-up costs are covered, there is only a marginal extra cost for printing each additional brochure.

Apart from the advantages of the division of labour and specialization, there are number of in-house avenues wherein cost reductions take place owing to economies of scale. The examples can include:

- Lower input prices arising from higher negotiating power and volume discounts.
- Improved techniques resulting in higher efficiency.
- Better organizational skills such as a clear-cut chain of command, multi tasking, etc.
- Higher learning curve enabling lower per-unit costs.

Economies of scale can arise in several areas within a large enterprise. The benefits of this concept in areas such as production and purchasing are obvious. However, economies of scale can also impact other areas like finance. For example, larger companies often have a lower cost of capital than small firms because they can borrow at lower interest rates. As a result, economies of scale are often cited as a major objective whenever two companies announce a merger or takeover.

External economies of scale can also be realized from the above-mentioned inputs as a result of the company's geographical location. Thus, all fast food chains located in the same area of a certain city could benefit from lower transportation costs and a skilled labour force. Moreover, support industries such as dedicated fast food potato and/or cattle breeding farms may, then, begin to develop.

External economies of scale can also be reaped if the

Merge Synergy is the impact of economies of scale and economies of scope that arise from vertical and horizontal integrations as also from vertical and horizontal expansions.



industry lessens the burdens of costly inputs, e.g. by sharing technology or managerial expertise. This spillover effect can lead to the creation of standards within an industry.

There is a finite upper limit to how large an organization can grow to achieve economies of scale. After reaching a certain size, it becomes increasingly expensive to manage a gigantic organization for a number of reasons, including its complexity, bureaucratic nature and operating inefficiencies. This undesirable phenomenon is referred to as “diseconomies of scale”.

02.00 Economies of Scope

Economies of scope refer to the concept that the average total cost of production decreases as a result of increasing the number of different goods produced. For example, McDonald's can produce both hamburgers and French fries at a lower average expense than what it would cost two separate firms to produce each of the goods separately. This is because McDonald's hamburgers and French fries are able to share the use of food storage, preparation facilities and so forth during production.

Specifically, economies of scope describe situations in which the long-run average and marginal cost of a company, organization or economy decreases, due to the production of similar complementary goods and services. The output of item A, therefore, reduces the price of producing item B.

Proctor & Gamble is another good example of a company that efficiently realizes economies of scope, since it produces hundreds of hygiene-related products, from razors to toothpaste. The company can afford to hire expensive graphic designers and marketing experts who can use their skills across all of the company's product lines, adding value to each one. If these team members are salaried, each additional product they work on increases the company's economies of scope, because the average cost per good decreases. Additionally, the company is able to consolidate and streamline its production process, making it easier to produce both a razor and a tube of toothpaste, further decreasing average unit costs.

Economies of scope are important for any large business, and a firm can go about achieving such scope in a variety of ways. First, and the most common, is the related diversification whereby operational efficiency is gained. This is a similar strategy to that of McDonalds and Proctor & Gamble. Kleenex, using another example, has achieved economies of scope through the diversification of its simple tissue paper. The company expanded its product line to service numerous, unrelated end users, such as consumers and hospitals, all of which required a unique type of paper product.

Merging with or acquiring another company is another a way to achieve economies of scope. Two regional retail chains, for example, may merge with each other to combine different product lines and reduce average warehouse costs.

Finally, a company that wants to achieve economies of scope can link its supply chain through vertical integration. The ownership of a supply chain, from raw materials to the point of sale, allows many companies to consolidate the logistical process by combining multiple products into one production process, thus reducing costs.

03.00 Vertical integration

Vertical integration refers to the act of an entity expanding its business operations into different steps on the same supply chain; viz. owning its upstream suppliers and its downstream buyers. It happens when the entity assumes control over several production or distribution steps involved in the creation of value for its products or services.

Vertical integration can be carried out in two ways: backward integration and forward integration. An entity expanding backwards in its production path into manufacturing is carrying out backward integration while a company expanding forward on its production path into distribution is conducting forward integration.

Apple Inc. is one of the best-known companies for perfecting the art of vertical integration. The company manufactures its custom A-series chips for its iPhones and iPads. It also manufactures its custom touch ID fingerprint sensor. Apple opened up a laboratory in Taiwan for developing LCD and OLED screen technologies in 2015. It also paid \$18.2 million for a 70,000-square-foot manufacturing facility in North San Jose in 2015. These investments allow Apple to move along the supply chain in a backward integration, giving it flexibility and freedom in its manufacturing capabilities.

The company has also integrated forward as much as backward. The Apple retail model, one where the company's products are almost exclusively sold at company-owned locations, excluding Best Buy and other carefully selected retailers, allows the business to control its distribution and sale to the end consumer.

Vertical integration can help companies reduce costs and improve efficiencies by decreasing transportation costs and reducing turnaround time, among other advantages.

04.00 Horizontal integration

Horizontal integration refers to the act of an entity acquiring additional business activities that are at the same level of the value chain in similar or different industries. This can be



achieved by internal expansion through a reinvestment of operating profits or by external expansion through a merger or acquisition (M&A).

Examples of horizontal integration include an oil company's acquisition of additional oil refineries or an automobile manufacturer's acquisition of a light truck manufacturer. A good example of a horizontal integration is Disney's acquisition of Pixar Studios. Disney, facing market saturation with its current operations, was looking for ways to expand and increase profits.

Disney had started out as an animation studio that targeted families and children. Pixar Studios also operated in the same space as Disney, but it had more cutting-edge technology when it came to digitally animated movies. To grow its market share, strengthen its product line, reduce its competition and access new markets, Disney acquired Pixar Studios.

Since the different firms integrating are involved in the same level of production / operation, horizontal integration allows them to share the resources at that level thereby leading to several advantages; including favorable economies of scale, economies of scope, increased market power, and reduction in production costs.

05.00 Merge Synergy

Merge Synergy reflects the Cost Synergy accruing in an event of any two entities that compliment each other's strengths come to join together. Merge Synergy is the impact of economies of scale and economies of scope that arise from vertical and horizontal integrations as also from vertical and horizontal expansions.

Merge Synergy is often the driving force behind a merger. The term is used to refer to the financial benefits perceived through the process of corporate mergers and acquisitions. The concept highlights the fact that the value and performance of the two entities merged together will be greater than the sum of the value and performance of the individual entities. The expected synergy achieved through the merger can be attributed to various factors such as increased size & scope, combined talent and technology, and the enlarged market share.

Mergers and acquisitions are made with the goal of improving the company's financial productivity. Two business entities join together to merge into a single entity that is capable of generating more revenue than either of the two could have

been able to do independently thereby achieving significant cost reduction. Thus, if two entities come to merge to create greater efficiency or scale, the result is what is sometimes referred to as a synergy merge.

For example, when the Proctor & Gamble Company acquired Gillette in 2005, a P&G news release cited that "The increases to the company's growth objectives are driven by the identified synergy opportunities from the P&G/Gillette combination. The company continues to expect cost synergies of approximately \$1 to \$1.2 billion...and an increase in the annual sales run-rate of about \$750 million by 2008." In the same press release, the then P&G chairman, president and chief executive A.G. Lafley stated, "...We are both industry leaders on our own, and we will be even stronger and even better together." The evident strategy is that by combining two companies the financial results are greater than what either could have achieved alone.

Merger enables the combined entity to increase the operating income from existing assets, increase growth or both. The potential avenues include Economies of Scale, Economies of Scope, Integrated Functional Strengths, Financial Synergy and Enhanced Value of the entity. Potential sources of cost synergies include:

- ◆ Headcount reduction through the termination of redundant positions
- ◆ Elimination of surplus facilities such as closing one corporate headquarters, shutting redundant stores, etc.
- ◆ Reduced overheads resulting from consolidate functions such as accounting, IT and marketing
- ◆ Increased purchasing power arising from greater bargaining power with suppliers due to greater combined size

In the ultimate, they generally show up as higher expected cash flows.

06.00 Tail Lead

Merge Synergy is embedded in the principles of size economies, differentiation economies and market penetration. In an era of Globalisation 'Merge Synergy' is slated to doctrine the Corporate Cost Strategies.



SYSTEM SYNERGY

01.0 Cost Systems

01.01 Traditional Cost Accounting

As the enterprises began to take to production activities, an immense need was felt to understand the product costs in detail. As a result, the accounting records of the manufacturing operations were recast and the concepts were extended to formalise into the principles of cost accounting for manufacturers.

As the industry managers started realising the importance of recording and tracking costs, cost accounting took to faster strides in its evolution and development. At the initial stages, absorption costing and its alternative, variable costing were developed as the primary methods of accounting for product costs.

Cost Accounting takes forward the financial analysis by introducing cost classification and segregating costs into convenient categories. The enshrined objective is ascertainment of the unit costs with reasonable accuracy for the purpose of cost analysis and cost control.

Over the decades, various methods of cost computing were evolved with a view to ascertain the costs with more and more accuracy. The list reads on like Job Costing, Batch Costing, Contract Costing, Process Costing, Operating Costing, etc. Different methods are adopted for different industries. Even a combination of the methods is chosen at times.

01.02 Activity Based Costing

Activity Based Costing (ABC) is a Technology Trigger Cost Accounting that has gained popularity from around the mid nineteen eighties. ABC was aimed to improve the accuracies in the absorption of overheads adapted in traditional costing systems.

The activity based costing system assumes that products consume activities and activities consume costs. Activity-

based costing provides a means to pool the indirect costs in multiple categories of activities and then apportion the costs individually to the products and services on the basis of Cost Drivers. By using multiple overhead pools and cost drivers, activity-based costing can provide more accurate cost figures for costing and pricing the products and services. Activity may be considered as the cost pool of convenience; and Cost Driver is the factor that impacts the cost of activity.

The focus of ABC is on accurate information about the true cost of products, services, processes, activities, distribution channels, customer segments, contracts, and projects.

ABC can help managers make better decisions about what they offer. This process also encourages continual operating improvements. Once business process costs are known with reasonable accuracy, activity-based budgeting can set realistic goals for improving the processes and for identifying those processes that are no longer needed or are unprofitable.

ABC is a cost accounting concept that views costs through a prism of organizational activities; and not through organizational departments, as was the tradition. ABC's ability to reveal the distortions inherent in traditional cost accounting systems enabled changes in strategy processes, operations and in turn improved competitive posture. ABC is being nurtured as an ongoing technology with incessant inputs from continuous research. Today, ABC is considered as the foundation of performance management.

Technological advancements in Information Technology facilitated convenient application of the ABC in a cost effective manner. New methods are evolved that reduced the cost of implementation and operation of ABC systems. ERP systems and BI tools made it easier to build and modify advanced ABC models and report the information to management. Enhanced functionality and reduced cost opened up entirely new applications for ABC.

*System Synergy
may be perceived to
reflect the add-on
system-productivity that is
generated when Systems,
Sensors and Strategies
integrate themselves
into one whole.*



ABC has emerged as an integral component of a new generation of business performance management solutions. These new solutions include profitability management, performance measurement, financial management, sustainability and human capital management.

The activity-based costing system can be extended to the administration overheads and the marketing and distribution overheads allocation amongst the products for customer profitability analysis and channel analysis. The introduction of ABC system in an organization can be either supplementary to the traditional cost accounting system as an offline system or it can be fully integrated with the decision support systems such as ERP.

Application of activity based costing has resulted in changes in various management decision areas, prominent among them, being focus on profitable customers, pricing strategies, and sourcing decisions.

02.00 Cost Sensors

02.01 Marginal Costing

Cost Managers adopt the technique of marginal costing for a sweeping number of strategic and financial applications. The technique is extensively used all over the world. It is built up around the fundamental principle that other things being equal, the fixed costs will, in total remain fixed within a relevant range regardless of the changes in the level of production and that the fixed cost per unit will constantly vary; whereas variable costs will remain constant per unit of production, and vary in total.

The technique considers the variable costs as the marginal costs and charges them off to the cost objects directly whereas fixed costs are considered as period costs and are written off in full against the contribution for that period. Being constant per unit variable costs tend to be linear with the level of activity. Variable costs are direct costs that can be traced to the cost objects conveniently. They are engineered costs that are, generally, prone to controls at the operational level.

On the other hand, fixed costs are indirect costs that are difficult to be identified with the cost objects and hence are to be addressed with a long term strategic approach. The relevant range for fixed costs may differ from situation to situation. The relevant range could assume the character of a time frame, specified capacity, or any commitment driven by a policy.

Fixed Costs per unit, in a relevant range, bear an inverse relationship with the capacity utilisation. The unit costs would come down with increases in capacity utilisation and would go up if the utilisation dips down. Control of fixed costs, therefore, primarily aims at maximisation of capacity utilisation.

In a broader sense, Marginal Costing is the technique of presenting cost data wherein variable costs and fixed costs are shown separately for managerial decision-making. It is simply a method to find out the impact of changes in the volume of output on profit.

Marginal costing technique has given birth to the concepts of Contribution Analysis and Break Even Analysis which have become invaluable tools for various strategic decisions concerning Profit Planning, Product Pricing, Key Factor Analysis, and so on.

02.02 Budgetary Control

Be it a big corporate or a small proprietorship, Budgeting plays an important role in the deployment and utilization of the available resources efficiently and effectively. The process of budgeting is a familiar activity to even the smallest of the economic units, i.e. the family household.

Budgetary Control is the process that facilitates effective implementation of the budgets. The process allows continuous monitoring of actual results versus budget, either to secure by individual action the budget objectives or to provide a basis for budget revision. Budgetary control refers to how well managers utilize budgets to monitor and control costs and operations in a given budget period. In other words, budgetary control is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as it is needed.

Budget Centres provide a convenient means to exercise control on budgets. Budget Centre is often a responsibility centre where the manager has authority over, and responsibility for, defined costs and (possibly) revenues.

Budgetary Control is the process whereby Budgets enable in authorising expenditure, communicating objectives and plans, controlling operations, co-coordinating activities, evaluating performance, planning and rewarding performance. Often, reward systems involve comparison of the actual with the budgeted performance.



02.03 Standard costing

In standard costing system, the standard costs for the standard and the actual output for a particular period are traced to the functional managers who are responsible for the various operations of a responsibility centre. The actual costs for the same period are also traced to the same responsibility centre. The two costs, the standard and the actual, are then compared and the variance between the two is analysed and reported to the cost controllers. The designated controllers keep initiating corrective actions, wherever needed on a continuous basis. The system, thus, facilitates not only concurrent monitoring, but as also concurrent control of costs whereby competitive advantage is gained.

A standard costing system consists of the following four key elements:

1. Setting standards for each of the operations.
2. Comparing the actual performance with the standard performance.
3. Analyzing and reporting variances arising from the difference between the actual and the standard performance.
4. Investigating significant variances and taking appropriate corrective action.

Standard costing is considered as aptly suitable in operations, where activities consist of a series of common or repetitive operations. In manufacturing organisations the processes, often, are of a repetitive nature and therefore standard costing is relevant in these kinds of organisations. Standard costing procedures can also be applied to non-manufacturing activities where operations are of a repetitive nature.

03.00 Cost Strategies

03.01 Target Costing

In a competitive economy, product markets influence the determination of the price of the product and the financial markets influence the determination of the cost of capital. Cost of the capital infused by the enterprise sets the benchmark for the quantum of the profit to be achieved. Thus, price of the product as also the quantum of the profit are market driven. The end result is that the product cost boundaries are set by the difference between the price and the profit.

Target Costing is considered as a philosophy in which product development is based on what the customer wants and is willing to pay for and not what it costs to produce. Hence it starts with the market determined price; then deducts the desired profit margin; and works back the target cost. Peter Drucker calls this “price-led costing.” And that is how the formulation: “Target Cost = Target Price – Target Profit” in place of the traditional approach of “Cost + Profit = Selling Price”.

Born out of the market-driven philosophy, target costing is based on the price-down & cost-down strategy, which enables companies to win considerable share of their product markets. In companies where target costing is used, there seems to be a different culture and attitude. They place more emphasis on their relative position in the market and product leadership.

Target costing, although its concept is used throughout the product life cycle, is primarily used and most effective in the product development and design stages. As a sequel, target costing is developed as a multidisciplinary approach to managing costs from the earliest stages and was complemented by techniques such as process re-engineering and total quality management.

03.02 Yield Management

Yield Management is a set of revenue maximization strategies and tactics meant to improve the business profitability. It is a technique that determines the best pricing policy for optimising profits. It adopts the principle of pricing the products and services at what the market can bear. In the process, it facilitates optimum utilisation of the resources.

Yield management was devised as the scientific way of dynamically managing prices, inventories, and capacities of perishable services. It is a scientific technique that combines Operations Research, Statistics and Customer Relationship Management (CRM); and categorizes customers into price bands. It is the process of understanding, anticipating and influencing consumer behaviour in order to maximize revenue and profits from fixed and perishable resources such as airline seats, hotel rooms, hospital beds, etc. The underlying challenge is to sell the right resources to the right customer at the right time for the right price. The process may lead to price discrimination wherein an enterprise charges different prices to different customers for identical goods or services.

Yield Management is the art and science of price-driven and capacity based profit maximization. It is a proven technique



that helps service industries, in particular aviation, to maximize revenue.

Yield Management Strategy is being used by many a sector such as Aviation, Hospitality, Health Care, Power Distribution, Telecommunications, etc. The demonstrative examples include lower tariffs for advance reservation by airlines; weekend discounts by hotels; time sensitive tariffs by power generation & distribution companies; the differential pricings adopted by Telecom Services, Broadcasting Media, Railways, and so on.

03.03 Lean Manufacturing

Lean was evolved from the manufacturing philosophy of the Toyota Production System. The cornerstone of lean is the elimination of waste from processes with a mindset of continuous improvement. In its most basic form, Lean Manufacturing is the systematic elimination of waste by focusing on production costs, product quality and delivery, and worker involvement.

Largely, Lean Manufacturing represents a fundamental paradigm shift from traditional “batch and queue” mass production to production systems based on product aligned “single-piece flow, pull production.” Whereas “batch and queue” involves mass-production of large inventories of products in advance based on potential or predicted customer demands, a “single-piece flow” system rearranges production activities in a way that processing steps of different types are conducted immediately adjacent to each other in a continuous and single piece flow. If implemented properly, a shift in demand can be accommodated immediately, without the loss of inventory stockpiles associated with traditional batch-and-queue manufacturing.

While Japanese manufacturers embraced Lean as their biggest hope in recovering effectively from a war torn economy in the 1950's, today companies embrace Lean Manufacturing for three fundamental reasons. First, the highly competitive, globalized market of today requires that companies lower costs to increase margins and/or decrease prices through the elimination of all non-value added aspects of the enterprise. Second, meeting rapidly changing customer “just-in-time” demands through rapid product mix changes and increases in manufacturing velocity in this manufacturing age is the key for survival. Finally, goods must be of high and consistent quality. Lean manufacturing facilitates these

three goals.

Lean is centered on preserving value with less work. Lean manufacturing is a variation on the theme of efficiency based on optimizing flow; it is a present-day instance of the recurring theme in human history toward increasing efficiency, decreasing waste, and using empirical methods to decide what matters, rather than uncritically accepting pre-existing ideas. As such, it is a chapter in the larger narrative that also includes such ideas as the folk wisdom of thrift, time and motion study, Taylorism, the Efficiency Movement, and Fordism. Lean manufacturing is often seen as a more refined version of earlier efficiency efforts, building upon the work of earlier leaders such as Taylor or Ford, and learning from their mistakes.

04.00 System Synergy

Cost Systems enable ascertainment of cost; Cost Sensors facilitate analysis and control of cost; and Cost Strategies pave the path towards the long term cost goals. Scientific integration of systems, sensors and strategies into a formal routine is envisaged to propel multiple operational efficiencies as in the case of century old ‘Purta System’ of Birlas.

Purta system warrants evaluation of every business activity by eliciting an answer to a simple, but diligent, question “Purta Hai Kya?”; meaning “Is it Viable?”. The fundamental understanding is that ‘Viability is the first step towards Prosperity’. As a result, Purta is designed as a means of establishing Return on Investment by inculcating the Principles of Cost Management. In the process, Purta has turned out to be a system of accounting that is extended to accountability.

System Synergy may be perceived to reflect the add-on system-productivity that is generated when Systems, Sensors and Strategies integrate themselves into one whole. System Synergy remains internal and exclusive to an entity. The outcome is that of Synergic Goal Congruence.

05.00 Tail Lead

There are some more cost systems, many more cost sensors and ample cost strategies that are in being practiced by the corporate entities. In an era of Automation ‘System Synergy’ is a boon bestowed on every Strategic Business Unit to garner Cost Competitive Advantage.



COMPLIANCE SYNERGY

01.00 Financial Accounting

Financial accounting may be considered as a specialized branch of accounting that keeps track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement.

The basic financial statements include

- A balance sheet that lists the assets and liabilities at any given point of time
- A profit & loss account that charts the performance for any given period
- A cash flow statement that depicts the movements of operating, investing and financing activities

Companies keep issuing external financial statements on a time to time basis for the information of stakeholders.

It is important to point out that the purpose of financial accounting is not to report the value of a company. Rather, its purpose is to provide enough information for others to assess the value of a company for themselves.

Because of the fact that external financial statements are used by a variety of people in a variety of ways, financial accounting has common rules known as accounting standards and as generally accepted accounting principles (GAAP).

Appropriate books of accounts, in the mandated manner, are required to be maintained for the purpose financial accounting. These are the records that enable the tracking the financial transactions from the inception to the culmination. Financial Accounting Records, thus, form the nerve system of any business entity.

02.00 ISO Series

The ISO 9000 family of quality management systems stand-

ards is designed to help organizations ensure that they meet the needs of customers and other stakeholders while meeting statutory and regulatory requirements related to a product or program.

The series are based on seven quality management principles, viz. Customer Focus, Leadership, Engagement of People, Process Approach, Improvement, Evidence-Based Decision Making and Relationship Management. Documentation needs for ISO 9001:2015 include maintaining proper records in relation to the Context of the Organization, Leadership, Planning, Support, Operation, Performance Evaluation and Improvement.

ISO 9000 deals with the fundamentals of quality management systems and ISO 9001 deals with the requirements that organizations wishing to meet the standard must fulfill. Third-party certification bodies provide independent confirmation that organizations meet the requirements of ISO 9001.

9001:2015 requires the organization to document the procedures required for its effective operation. The standard also requires the organization to issue and communicate a documented Quality Policy, a Quality Manual and numerous records, as specified throughout the standard. An ISO 9001 certificate is not a once-and-for-all award, but must be renewed at regular intervals recommended by the certification body, usually once every three years.

Evidently, the ISO records are designed to set the predetermined bench marks, maintain quantitative and qualitative records covering the whole of the process module, keep monitoring actual vis-à-vis the bench marks, and have independent evaluation by a certified auditor at periodical intervals.

It is widely acknowledged that proper quality management improves business, often having a positive effect on investment, market share, sales growth, sales margins, competitive advantage, and avoidance of litigation. Implementing ISO

*Compliance Synergy
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often leads to several advantages. Nearly 11.5 lakhs of organizations worldwide are independently certified, making ISO 9001 one of the most widely used management tools across the globe today. With about forty one thousand certifications India ranks fifth from the top after China, Italy, Germany and Japan.

The global adoption of ISO 9001 may be attributable to a number of factors. A number of major purchasers require their suppliers to hold ISO 9001 certification. In addition to several stakeholders' benefits, a number of studies have identified significant financial benefits for organizations certified to ISO 9001, with a 2011 survey from the British Assessment Bureau showing 44% of their certified clients had won new business

3.00 Cost Accounting

Cost Accounting is perceived as the need based resource accounting. Its goal is to advise the management on the most appropriate course of action based on the cost efficiency and capability. Cost accounting provides the detailed cost information to the management for controlling the current operations as also to plan for the future course. The primary function of Cost Accounting is to aid the managers in making decisions. As such, Cost Accounting provides the systematic base for Strategic Cost Management.

Cost Records enable Cost Governance that construes the Key Success Factor for Competitive Advantage. Cost Records are partly quantitative and partly financial. Whatever be the systems; be it be the traditional Absorption Costing or the Modern Activity Based Costing; the source documents for the quantitative part of the cost data are the same or similar to those of the ISO records; and the source documents for the financial part of the cost data are the same or similar to those of the financial records.

The formulation may be articulated as:

Cost Records = ISO Records + Financial Records

04.00 Compliance Synergy

In a situation where ISO Records and Financial Accounting Records are integrated, Cost Records can turn out to be the synergic bonus. The traditional emphasis has been for the integration of financial accounts and cost accounts, which is assumed to be an additional workload. With the ISO concept creeping in and forming the roots; the need could be to integrate ISO records and financial records and draw the inputs for the cost accounting as well.

Compliance Synergy may be perceived as the incremental outcome cropping up from any records maintained or the activities undertaken to satisfy any of the regulatory compliances. It springs up as an added advantage wherever records maintained to comply with regulatory provisions are put to prudent utilization.

Financial Accounting is a mandatory compliance directed towards the interests of stakeholders. ISO series facilitate quality branding. Cost Accounting, which can be structured on the integrated data base of ISO records and financial records, can add accreditation to the ISO quality performance as also the financial performance. Cost Accounting could, thus, be the result of synergy generated out of the compliances relating to financial accounting and ISO series. It can be a Value Creation at no extra cost.

05.00 Tail Lead

The concepts, that hold good for ISO records and financial records, can as well be extended to many other records such as indirect tax records, direct tax records, labour regulation records and so on. In an era of Digitalization 'Compliance Synergy' is an untapped potential that can help reducing the Compliance Costs.



MEASURES OF COST SYNERGY

01.00 Measurement

Measurement, appraisal and control of performance have been the forte-ante of CMAs all over the world. Selection of appropriate measure is very important for any meaningful appraisal. Synergy may be tangible or intangible. The factor of intangibility makes it difficult to be measured, at times, and appraised. Many a time the impact of synergy may become visible, only, over the long run. As such Synergy measurement and appraisal could be quite challenging.

The Cost Synergy Posture of any entity may, perhaps, be visualised by analyzing the trend of key performance measures, over a period business cycle, in relation to capacity utilization, revenue yields, productivity and brand image. The suggested measures of performance could include Capacity Utilisation, Revenue per Unit, Conversion Margin per Unit, Operating Productivity, Employee Productivity, Factor Cost Cover and Brand Premium per Share. A prudent caution is that these measures are demonstrative in nature and cannot be construed as exclusive indicators.

02.00 Capacity Utilisation

Capacity is created by an enterprise through investments in assets. The process, mostly, leads to the commitment of long term fixed costs. Optimum utilization is the essential prerequisite, if the fixed costs per unit of output are to be minimized. Higher capacity utilization signifies lower fixed costs per unit of production and vice versa.

Capacity Utilisation = Quantity of Production / Feasible Capacity

03.00 Revenue per Unit of Production

Revenue per Unit of Production reveals the operating income generated per unit of production. A higher numeral reveals better performance and a lower numeral pinpoints a concern. Similarly an increasing trend indicates growth and any decreasing trend projects a recession.

Revenue per Unit of Production = Value of Production / Quantity of Production

04.00 Conversion Margin per Unit

Conversion Margin is the residue of Operating Income as reduced by Raw Material cost. Conversion Margin per Unit of Production quantifies the amount of operating revenue generated after providing for the cost of raw material. Higher margin indicates better performance whereas a lower margin means a cause for concern.

Conversion Margin per Unit = Conversion Margin/ Quantity of Production

05.00 Operating Productivity

In terms of financial numbers, output can be represented by operating income and input can be represented by operating expenses. The operating productivity, thus computed, indicates the operating income achieved for every rupee of the operating resources consumed. A higher ratio of the operating productivity indicates better utilization of the operational input resources and a lower ratio indicates under utilization.

Operating Productivity = Operating Income/ Operating Expenses

06.00 Employee Productivity

Employees are ought to be perceived as the human capital that forms part of the basic infrastructure. Apart from traditional quantitative and qualitative elements, monitoring the financial performance of every employee is also crucial in achieving the targeted growth momentum. One simple way to measure the performance of employees could be by computing the operating income per every rupee spent as employee cost. The resultant multiple reveals the employee productivity - higher the multiple higher the productivity and so on.

Employee Productivity = Operating Income/ Employee Cost

07.00 Factor Cost Cover

Factor Costs refer to the remuneration payable to the traditional factors of production which consists of land, labour and capital. The respective elements of cost consist of Rent,



Employee Cost, Depreciation and Interest. In general, the factor costs are pre-contacted / pre-committed in character and are fixed by nature. Factor Cost Cover (FCC) is the numerical derived by dividing the Gross Value Added (GVA) with Factor Cost. A higher numerical indicates higher quantum of the GVA available to cover the commitments towards factor costs whereas a lower numerical is indicative of a difficult situation.

Factor Cost Cover = Gross Value Added / Factor Cost

08.00 Brand Premium per Share

Brand Premium per Share connotes the additional amount

that an investor is willing to pay over and above the book value of an equity share. Premium amount is to be perceived as a symbol of confidence that a shareholder holds for the enterprise.

Brand Premium per Share = Market Price per Share – Book Value per Share

09.00 Tail Lead

Good performance is the criterion whereby an organization determines its “Cost Synergy” to prevail. Reasonable period for any fair evaluation should spread over at least one business cycle.

COST SYNERGY POSTURE OF JET AIRWAYS

01.00 The Company

Jet Airways (India) Limited (JAIL) is a major Indian Aviation Company based in Mumbai. Its main hub is Mumbai, with secondary hubs at Delhi, Kolkata, Chennai, and Bengaluru. It has an international hub at Brussels Airport, Belgium.

Incorporated in 1992 as a private limited company, Jet Airways commenced operations as an Air Taxi Operator in 1993 with a fleet of four leased Boeing 737 aircraft. The company was granted scheduled airline status in January 1995. The Company became a Public Limited Company in December 2004. Over the years, it has grown to be the second largest airline in India, both, in terms of market share and the number of passengers. As on 31st March, 2015, the Company had a fleet of 116 aircraft, with an average fleet age of 5.6 years, and, thus, is stated to possess one of the youngest aircraft fleets in the world.

Jet Airways was founded by Mr. Naresh Goyal, a Non Resident Indian. It is inspiring to note that Naresh Goyal had to walk for a few miles every day to school as his parents could not afford a bicycle for him, and that he started his career as a cashier at his maternal uncle's company at a starting salary of Rs. 300 a month. Today, the net worth of the Jet Airways promoter makes him one of the richest Indians. Goyal is known to be open to all new trends and willing to grab the opportunities coming his way.

02.00 Synergy Initiatives

Apart from its Public Issue in 2004-05, two strategic factors that merit mentioning in relation to Jet Airways (India) Limited are: (a) Acquisition of Air Sahara in April 2007-08 and (b) Etihad deal in 2013-14.

In April 2007 JAIL acquired 100% of the shares in Air Sahara. The acquisition was intended to deliver potential cost and efficiency gains through network optimisation, operational

rationalisation and fleet simplification. JAIL had rebranded Air Sahara as JetLite and started operating it as a value-based carrier, offering reduced frills, but positioned above the other low cost carriers.

During the Financial Year 2013-14, the promoter of JAIL, Mr. Naresh Goel, off loaded an equity stake of 24% in JAIL to Etihad Airways for a strategic investment of Rs. 2,058 crores. An additional amount of Rs. 859 crores

was also invested by Etihad Airways towards a 50.1% equity investment in JAIL's Frequent Flyer Program- JetPrivilege.

This strategic partnership between the two airlines is considered to be mutually beneficial across all areas, including network growth, revenue enhancement, operational synergies and cost improvement. The underlined objective was aimed at seeking revenue and cost synergies by leveraging the partnership.

The alliance with Etihad Airways, enhanced international connectivity of JAIL with addition of new destinations and additional flights to various countries in the Gulf Region. JAIL operates more flights to the Gulf Region than any other Indian carrier. Jet Airways and Etihad Airways together operate over 4,300 international flights a month connecting India to the world via the Abu Dhabi gateway. The partnership of JAIL and Etihad Airways is stated to be growing by leaps and bounds. Passengers and revenues delivered by Etihad Airways and its partners to JAIL rose by 427% and 363% respectively, in the financial year 2014-15 as compared to the financial year 2013-14.

03.00 Analysis

03.01 Key Measures: The Cost Synergy Posture of JAIL may be gauged by analyzing its performance with the help of seven key measures, viz. Passenger Load Factor (PLF), Revenue per Passenger Km., Fuel Margin per Kilo Litre of Aviation Turbine Fuel, Operating Productivity, Employee Productivity, Factor Cost Cover and Brand Premium.

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Any ten year period can be construed as a fair business cycle for any given business. The analysis of JAIL has, therefore, been done considering the ten year period from 2005-06 to 2014-15. The key measures for each of the years are furnished in the table which is enclosed as Appendix 1 to this section. The computations have been derived from the data drawn from the annual reports of the company. Apart from the key measures, the appended table also includes decadal average, standard deviation and coefficient of variation with respect to each of these measures.

03.02 Passenger Load Factor (PLF): In the case of aviation, airline seats are the capacity created with the objective of providing the service of commuting the passengers from the origin to the destination. Air carriers adapt the parameter of Passenger Load Factor (PLF) to measure the flight seat occupancy rate. The PLF of JAIL shows a gradually improving trend, with a 'U' shape. The note worthy factor is that the PLF of the company has gone up considerably from 72.00% for 2005-06 to 82.40% for 2014-15. The capacity utilization may be rated as very good by all means.

03.03 Revenue per Passenger Km (RPkm): Revenue per Passenger Kilometer is the primary unit of product in relation to aviation industry. It is calculated by multiplying the number of revenue paying passengers aboard the aircraft by the distance traveled. RPkm of JAIL shows fluctuating trend for period under review with a decadal average of Rs.4.35, the standard deviation being 0.50 and the coefficient of variance being 11.53. The evidence is that of turbulent times.

03.04 Fuel Margin per Kilo Litre of Aviation Turbine Fuel: The term "Fuel Margin" connotes the excess of 'Income from Operations' over 'Fuel Expenses'. The quantum of fuel consumption bears a direct relationship with the kilometers travelled by an aircraft. Fuel Expenses, being the key element of the variable expenses, Fuel Margin forms an important tool to monitor the performance. Uncertain Fuel Prices and Fluctuating Fuel Margins happen to be the basic constraint of the Aviation Industry all over the world. In the circumstances, 'Fuel Margin per Kilo Metre of Travel' may be adopted to serve as an excellent parameter to monitor the operational efficiency. JAIL has been able to post an impressive average of Rs.90286/- for the period, the standard deviation being 18208 and the coefficient of variance being 20.17. The trend is that of increasing, but with volatility.

Uncertain crude prices and fluctuating foreign exchange rates have been the peril of the Indian Aviation Industry. Adverse fluctuations in fuel prices have been putting more pressures

on the costs. Volatile Indian Rupee has a significant bearing on the Revenues and Costs of Indian Operators. Weakening Indian Rupee against the US Dollar has been a key concern for the past many years.

03.05 Operating Productivity: The company has been able to post a decadal average of 0.93 with a standard deviation of 0.06 and coefficient of variation of 6.67. The picture is that of struggling for operational sustainability.

03.06 Employee Productivity: The company has been able to manage a decadal average of 8.87 with a standard deviation of 1.10 and coefficient of variation of 12.35. As in the case of operating productivity, employee productivity too reflects a battle for survival.

03.07 Factor Cost Cover: The decadal average for the Factor Cost Cover works out to 0.83 implying that the Company is able to service only 83% of its committed costs. The standard deviation of 0.36 and coefficient of variation of 42.79 pin point the harder patches with jerking vibrations.

03.08 Brand Premium: It is creditable that JAIL has been able to maintain a positive Brand Premium except for the years 2007-08 and 2008-09. The average for the decade works out to Rs.309.71 with a standard deviation of 333.22 and coefficient of variation of 107.59. It turns out to be a decade of ups and downs with varying levels of confidence being displayed by the marketeering stakeholders.

03.09 Inference: The obvious inference is that the key measures of performance have been volatile throughout the span of the ten-year-cycle commencing from April 2005 which we may interpret as a period of uncertainty. The mixed trend is also reflective of multiple initiatives taken by the company directed with a view to overcome the difficult situation.

04.00 Initiatives of Performance

Scanning through the annual reports of the Company, we come across many initiatives taken by JAIL in the direction of sustaining the performance in times of turbulence.

04.01 Capacity Utilisation: In making use of its capability potential, the Company is reported to have resorted to several ways and means which include Rationalisation of Route Net Work, Enhancing Codeshare Relationship, Employee Rationalisation, Improving Aircraft Utilization, Product Innovation, and so on.



The Company continuously ventures to rationalize its route network in response to industry conditions and traffic evolution. For instance, in the financial year 2014-15, the Company moved some of its domestic capacity (in terms of ASKM) from Domestic to the International market. While the Company increased its international capacity by 15.6%, it reduced its consolidated capacity in domestic market by 6.1%.

The Company keeps on enhancing its codeshare relationship with new as well as existing partners with a view to bring significant guest benefits such as seamless connectivity, frequent flyer accrual and redemption opportunities etc.

The Company is continuously improving aircraft utilization by adding more red-eye flights & early hour departures, thereby continuing to stay relevant for multiple customer segments. Many of the Boeing 737 aircraft are deployed both on the domestic routes and on flights to the Gulf countries and South East Asia, thereby achieving higher utilization of the fleet. Traffic for international operations is supported by ensuring connectivity with domestic network and shorter haul network.

The Company kept on continuously focusing on improving and enhancing direct touch points with the guests. An example that can be quoted is the “single brand” and “full service” product launched in December 2014 with an objective of delivering consistent, premium service across its entire network. This was further supported by the launch of “Guest First” program to enhance Ground and In-flight service, increase guest engagement, and increase dedicated facilities at the airports check-in counters and bag drop counters.

On the commercial front, the Company keeps on venturing towards increasing corporate penetration and improving ‘Premiere’ Loads. There is a dedicated team put in place to focus solely on global key accounts.

04.02 Revenue Monitor: The profitability of every route is monitored closely and immediate remedial measures are taken wherever necessary. In relation to domestic operations, JAIL keeps on reacting rapidly to trends and market shifts almost on a daily basis. These involve adjustments to capacity and schedules, incentive programmes, dynamic pricing and the sale of group travel and tour packages.

04.03 Ancillary Revenues: The Company is known to have kept a relentless focus on improving ancillary revenues in terms of enhancing penalty and cancellation charges and excess baggage revenues. The Company has also been focusing on exploring various other avenues such as seat

select, prepaid meals, paid lounge access, unaccompanied minors, etc. to name a few. The silver lining is the fact that quantum of ancillary revenues has been increasing on a consistent basis.

04.04 Price Sensitive Product: A new product called “Jet Airways Konnect” was introduced in May 2009 to serve routes where the traffic is predominantly price sensitive and where there is very little demand for a product that offers a high level of service. These are for the most part, regional and non-metro routes. Boeing 737 and ATR aircraft, both with all-economy seating configuration, are deployed on Jet Airways Konnect routes. On these flights, in-flight service is limited. Passengers have to purchase meals on board.

Jet Airways Konnect supplements the operations of JAIL subsidiary, Jet Lite, and offers a comparable product on many additional routes, thus effectively competing with low-fare, no-frill carriers. The strategy of switching a select number of full service flights to Jet Airways Konnect is reported to have enabled JAIL to increase the amount of revenues per flight on the relevant flights by between 5% and 10%.

04.05 Cost Reduction: The Company asserts that dedicated teams have been put together to design and implement programmes to reduce, rationalize and monitor every element of cost and improve efficiencies and productivity. Major technical and non-technical contracts are re-negotiated on a continuous basis towards reducing costs.

One of the key elements of the business strategy of JAIL hinges on operating limited types of aircraft, with each type having similar equipment. Operating a fleet of similar aircraft with similar equipment leads to cost savings because maintenance issues are simplified, spare parts and inventory requirements are reduced, scheduling is more efficient and training costs are lowered. Operating limited types of aircraft also allows the employees to become knowledgeable about the airframe and engine, thereby increasing their efficiency and productivity.

The average age of the Company’s aircraft currently approximates to 5.6 years requiring comparatively less maintenance. Company has also adopted the practice of minimizing the maintenance costs by entering into multiyear warranties for some of the aircraft parts.

Labour Costs in India continue to be lower than those of the developed countries. JAIL continues to pursue the policy of attracting and retaining qualified and skilled employees at a reasonable cost. However, the airline Industry as such, from



time to time, has experienced a shortage of personnel, especially pilots, aircraft maintenance engineers, technicians, and in-flight crew leading to higher attrition rates and impairing the cost quality balance.

The Company has been continuously looking at cost reduction initiatives, discontinuing loss making routes, renegotiating major contracts including aircraft maintenance costs and other efficiency enhancement measures.

04.06 Annual Theme Liners: The company has been pursuing inspiring 'Annual Theme Liners' in tune with changing times. It is noteworthy that despite turbulent performance on all the fronts, the Company continues to garner premium for its shares

05.00 Observations

In relation to the Indian Aviation Mr.Goyal highlights the fact that it is essential to collectively address the challenges and high input costs faced by the industry in order to achieve self-sustaining and profitable growth that will nurture our economy and nurse the Indian aviation sector back to health.

Obliviously, the Company has been making serious efforts to tap its capabilities to the maximum extent. The key avenue that can be highlighted here is Passenger Load Factor which has moved up significantly by 4.20 percentage points from 78.20% in 2013-14 to 82.40% in 2014-15 which has enabled reduction of losses considerably. Going by the technique of Yield Management, each point of improvement in PLF can augment the revenues of JAIL by about Rs.200 crores.

However, the company's bottom line has been fluctuating up and down. It had posted a Profit Before Tax (PBT) of Rs.738 crores for 2005-06; suffered a loss of Rs.1814 crores for 2014-15; and turned around with a PBT of Rs.1202 crores for 2015-16.

Evidently, the Cost Synergy posture of the Company may be appreciable, but appears to be not adequate to surmount the perils of the Indian Aviation. In order to crystallize the turnaround the key measures of cost synergy would need consistent and significant improvement.

06 .00 Tail Lead

The Cost Synergy Posture of JAIL presents a complex mix of Strategy Driven Capability Engineering, Market driven Revenue Management, Productivity driven Cost Synergy, and Confidence driven Brand Management. The company has been able to survive through the difficult times because of its Cost Synergy. The benevolent learning is "Cost Synergy is also helpful for tiding through the turbulence"

Appendix 1

Jet Airways (India) Limited: Measures of Cost Synergy

Year	Passenger Load Factor (%)	Revenue per Passenger Km (Rs.)	Fuel Margin per Kilo Litre (Rs.)	Operating Productivity	Employee Productivity	Factor Cost Cover	Brand Premium (Rs.)
2005-06	72.00	5.00	84721	1.05	10.04	1.59	691.21
2006-07	69.50	4.82	78509	0.96	7.52	1.05	334.75

Whither Cost Synergy!



Year	Passenger Load Factor (%)	Revenue per Passenger Km (Rs.)	Fuel Margin per Kilo Litre (Rs.)	Operating Productivity	Employee Productivity	Factor Cost Cover	Brand Premium (Rs.)
2007-08	69.20	4.40	73117	0.90	7.31	0.86	-37.23
2008-09	67.70	4.40	71555	0.86	8.14	0.51	-227.64
2009-10	77.40	3.54	92407	0.93	8.45	0.86	158.09
2010-11	78.60	3.64	89930	0.97	9.39	0.98	141.58
2011-12	79.30	3.86	76381	0.90	9.24	0.66	180.52
2012-13	78.80	4.64	99491	0.94	10.87	0.87	577.68
2013-14	78.20	4.66	105973	0.83	9.06	0.24	430.11
2014-15	82.40	4.54	130779	0.92	8.72	0.74	848.06
Average	75.31	4.35	90286	0.93	8.87	0.83	309.71
SD	5.18	0.50	18208	0.06	1.10	0.36	333.22
CV	6.88	11.53	20.17	6.67	12.35	42.79	107.59



THE PATH AHEAD

In the words of Mark Twain “Synergy is the bonus that is achieved when things work together harmoniously”. Synergy comes out of synthesis.

In relation to the integration of business entities, cost synergy is churned by economies of scale and economies of scope. The vital learning that may be taken from this phenomenon is that wherever there is a way for economies of scale or scope, there comes cost synergy.

In relation to the integration of the complimenting cost management systems, cost synergy is generated by evolving goal congruence. The note worthy lead is that where there is goal congruence, there appears cost synergy.

In relation to the integration of interwoven records, cost synergy comes out of the prudent utilization of the related records. The obvious inference is that if there is a will for utilization of any of the regulatory records, there lies cost synergy.

Could it be a Business Entity; could it be a Cost System, Cost Sensor or Cost Strategy; or could it be a Regulatory Record; the key to germinate Cost Synergy is ‘Integration’ complimented by ‘Unidirectional Goal’ and ‘Prudent Utilisation’.

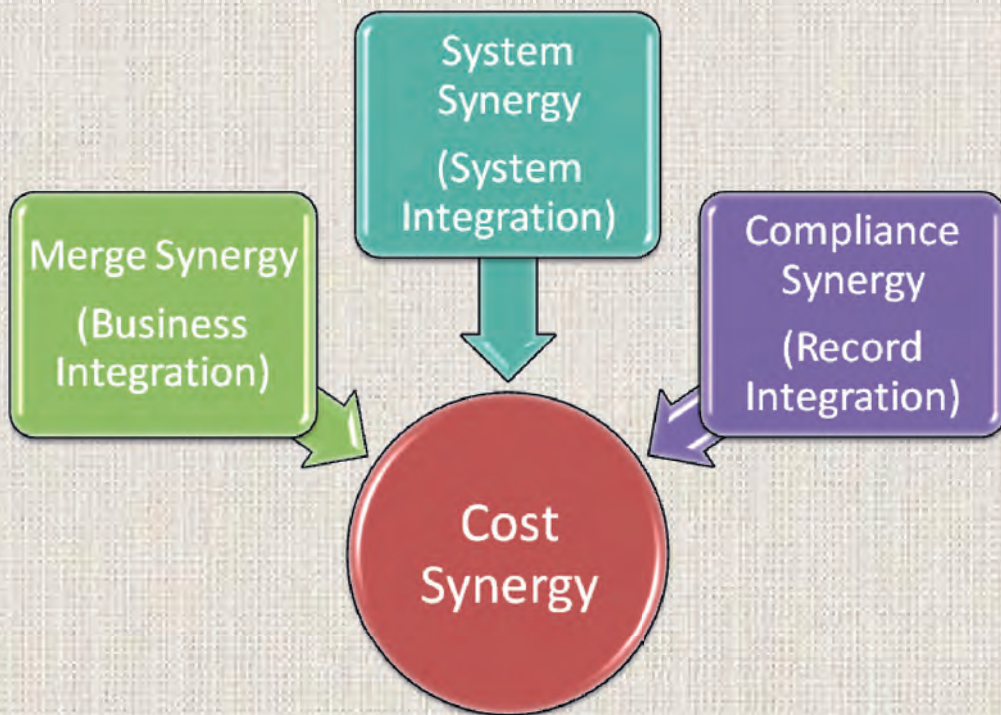
Cost Synergy is an invisible fact that remains under-tapped. It is, still, in the process of evolution. The concepts and modules veered out, here, are simply indicative. They can be extended to any sphere that is prone to give out synergy benefits.

Cost Synergy fosters a win-win platform for each and every activity of a supply cum value chain. It is a potion that can be administered through the texture of cost behaviour and team efficiency. The end result is ‘Competitive Cost Advantage’.

It is time for the researchers and entrepreneurs to delve in further and uncover the ‘Value Proper’. As Henry Ford puts it, “Coming together is a beginning; keeping together is progress; working together is success”.

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COMPETITIVE COST ADVANTAGE





The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute, as a part of its obligations, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to students, organises professional development programmes for members and undertakes research in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and a structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing to the management of scarce resources like funds and land and take decisions that are strategic in nature. This has given cost accountants in India and abroad further scope and tremendous opportunities.

After an amendment passed by Indian Parliament, the institute was renamed as 'The Institute of Cost Accountants of India' from 'The Institute of Cost and Works Accountants of India'. This was aimed at synergising with global management accounting bodies and sharing best practices. It was also useful to a large number of transnational Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources coupled with the specialized knowledge of evaluating operating efficiency and strategic management, Cost Accountant professionals are now known as 'Cost and Management Accountants (CMAs)'. The institution operates through four regional councils in Kolkata, Delhi, Mumbai and Chennai and 95 Chapters situated in important cities in the country as well as 9 Overseas Centres. The Institute is head-quartered in Kolkata. It is under the administrative control of the Ministry of Corporate Affairs, Government of India.

The Institute, apart from being a member of the

International Federation of Accountants (IFAC), South-Asian Federation of Accountants (SAFA), Confederation of Asian & Pacific Accountants (CAPA), National Advisory Committee on Accounting Standards (NACAS), and National Foundation for Corporate Governance (NFCG) is also a member of the Government Accounting Standards Advisory Board (GASAB)

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The CMA professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

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