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INDEX

Sr. No.	Title	Author	Subject	Page No.
1	Antipyretic Activity Of Tagetes Patula	K.Shakila, D.Sukumar, G.Madhubala	Chemistry	1-2
2	Benefits Derived From Warehouse Management System By Small Manufacturing Firms	Dr. Vipul Chalotra, Prof Neetu Andotra	Commerce	3-4
3	Women Welfare Through Prime Minister Rozghar Yojana At Coimbatore District	Swapna Kurian	Commerce	5-7
4	Sources Of College Funds In Assam-An Overview	Dr. Niranjan Kakati	Commerce	8-9
5	Mgnarega- For Socio-Economic Transformation Of Rural Society In J&K	TARSEM LAL	Commerce	10-11
6	Performance Appraisal And Career Growth	Dr. J.K. Sehgal	Commerce	12-13
7	Corporate Governance Practices - Emerging Trends	Dr. V.Rajendran	Commerce	14-16
8	A Text Mining Framework: Promises And Challenges	Prof.Sangeeta Mahesh Borde, Prof.Bareen Kayyum Shaikh	Computer Science	17-19
9	Effects Of Infant Mortalty Rates On Fertility	Mrs. Nazia Ansari, Mrs. Aqsa Khatri	Economics	20-21
10	Social Entrepreneurship Initiatives In India	Dr. Shradha H. Budhedeo, Parinda Doshi	Economics	22-25
11	Economics Of Corruption	Prof. Dr. K.J. Thankachan	Economics	26-27
12	A Study On Attitude Of High School Students Towards Physics Lessons And Physical Experiments	Dr. Kotreshwaraswamy A. Surapuramath	Education	28-30
13	Utilization Of Science Laboratories At High Schools	Dr. Praveena K. B.	Education	31-33
14	Mutidimensional Techniques For Mathematical Operations	M.Kavitha , Dr.AR. Saravanakumar	Education	34-36
15	Scientific Approach of Communication Theory	Dr. Mujibul Hasan Siddiqui	Education	37-38
16	Design And Implementation Of Ethernet Controller On Fpga	Jesika Benani	Engineering	39-41
17	Development of Control Algorithm to Reduce Harmonic in Boost Converter	Mitulkumar R. Dave, Prof. K.C. Dave	Engineering	42-43
18	Development Of Control Algorithm To Reduce Harmonics In Buck Converter	Vipul C. Rajyaguru, Keerti S.Vashishtha, K. C. Dave	Engineering	44-46
19	Gandhian Principles And Women Empowerment Through Self-Help Groups	Dr. Chetankumar N. Trivedi	English	47-48
20	Kathal- its medicinal uses	Dr. Sneh Harshendra Sharma	Environment	49-50
21	Extemporize Employee Engagement: Challenges.	Dr.Pooja Arora	Management	51-53
22	Conceptual Study To Understand The E-Governance Prestige Values Associated With Nagar Nigam	Dr.Murlidhar Panga , Mr.Arpit Neema	Management	54-56
23	Impact Of Globalization On Environment	Ankita Soni	Management	57-58
24	A Study On Strategic Cost Management Of Tanishq	Mr. Suresh A.S, Mr. Bharath R	Management	59-61

Sr. No.	Title	Author	Subject	Page No.
25	Impact Of Soap Operas Among The Housewives And Working Woman Of Silchar Town	Dr Partha Sarkar	Mass Communication	62-64
26	A Tool For Sex Identification	Dr. Renuka B. Adgaonkar, Dr. M. P. Ambali	Medical Science	65-67
27	Ideal characters in Sanskrit literature	Dr. Labhuben Maldebhai Karavdara	Sanskrit	68
28	Progresive life in vaidik life	Dr. Labhuben Maldebhai Karavdara	Sanskrit	69
29	Familisation or family in Vaidik Literature	Dr. Labhuben Maldebhai Karavdara	Sanskrit	70
30	Morden Moral Of Modern Environment In Nature's Description Of Vishnupuran	Dr. Labhuben Maldebhai Karavdara	Sanskrit	71-72
31	India's Small Holder Dairying In Liberalized Era	Dr Ashish.K.Makwana	Science	73-74
32	Common Man And The Uncommon Law : An Overview	Dr. Shereen Sadiq	Social Science	75-77
33	Perspectives Of Counselling	Dr, R.DhakshinaMurthy	Social Sciences	78-80
34	Sri Sri And His Literary Works: Some Social Reflections	Dr. M. Sreedevi Xavier	Social Sciences	81-83

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Research Paper

Management

A Study On Strategic Cost Management Of Tanishq

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ABSTRACT

The justification of existence of any company is determined by performance. Performance evaluation is necessary from the point of view of the investors, creditors, public, government and organization. Why a company does not perform well for years? Why net profit has tremendously increased over the years? Where the raised funds are invested? What about liquidity and solvency position of the company? The pressure of the company to perform well in the face of severe competition has pressurized them to decrease the margin. How to increase the margins? All these questions require a depth study. Strategic cost management is cost analysis in a broader context, where the strategic elements become more explicit and formal. Strategic cost Management involves usage of cost data to develop superior strategies to gain sustainable competitive advantage. A holistic understanding of a firm's cost structure can go a long way in search for sustainable competitive advantage. Thus, SCM is the managerial use of cost information explicitly providing strategic perspectives.

KEYWORDS: Government, liquidity, Performance, solvency, strategic cost management.

INTRODUCTION

Cost analysis is traditionally viewed as the process of assessing the financial impact of alternative managerial decisions. Strategic cost management is cost analysis in a broader context, where the strategic elements become more explicit and formal. Strategic cost management involves usage of cost data to develop superior strategies to gain sustainable competitive advantage. In the past, the application of cost data in strategic planning has not received attention it deserves. A holistic understanding of a firms cost structure can go a long way in search for sustainable competitive advantage. Thus, Strategic cost management is the managerial use of cost information explicitly providing strategic perspectives.

The process of Strategic cost management includes the following:

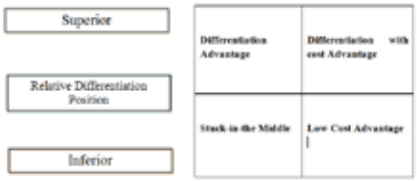
- Value chain analysis
- Activity Based costing
- Target costing
- Quality costing and
- Life cycle costing

This study concentrates on the value chain analysis and activity based costing followed in Tanishq.

VALUE CHAIN ANALYSIS

Value Chain is the linked set of value creating activities from the basic raw material sources from suppliers to the ultimate end use product delivered into the final customers' hands. No individual firm is likely to span the entire value chain. Each firm must be understood in the context of the overall value chain of value creating activities. The value chain requires an external focus, unlike conventional management accounting in which the focus is internal to the firm. According to Michael Porter, a business unit can develop a sustainable competitive advantage based on cost or on differentiation or on both, as shown in the following diagram.

Figure 1: Developing Competitive Advantage



In TANISHQ they follow differentiation strategy. The differentiation strategy consists in differentiating the product by creating something perceived as unique. Product differentiation can be achieved through brand loyalty, superior customer service, dealer network and product design and features. In TANISHQ they always try differentiating their product from rivals. They succeeded in bringing in 100 percent pure products which is not followed by others. Competitors charge customers less but their products purity level is less when compared to TANISHQ. Every week TANISHQ comes up with new design which is a point of differentiation.

Typically, a firm is only a part of the larger set of activities in the value delivery system. The value chain concept highlights four profit improvement areas:

1. Linkage with Suppliers.
2. Linkages with customers.
3. Process linkages within the value chain of a business unit.
4. Linkages across business unit value chain within the firm.

Link with suppliers:

- There are around 800 suppliers for TANISHQ. The contract period varies from supplier to supplier.
- In order to create value, TANISHQ encourages them to bring in new ideas as to where it leads in reduction of cost. Every 6 months they will have a meet wherein TANISHQ Quality Technicians help the suppliers in explaining about the quality concept and ways to improve quality which reduces the inspection involvement.
- Vendor Rating is also done every 6 months in order to work on the drawbacks if any.

Link with Customers:

- TANISHQ gives high priority to customers. In order to create value, they ask suggestions from customers before making a product. If their suggestions are preferable then TANISHQ appreciates them with some offers.

ACTIVITY BASED COSTING

Applying overhead costs to each product or service based on the extent to which that product or service causes overhead cost to be incurred is the primary objective of accounting for overhead costs. In many production processes overhead is applied to products using a single

predetermined overhead rate based on a single activity measure. With Activity-Based Costing (ABC), multiple activities are identified in the production processes that are associated with costs. The events within these activities that cause work (Costs) are called cost drivers. Examples are machine set-ups in a manufacturing process. The cost drivers are used to apply overhead to products and services when using ABC.

The following 5 steps are used to apply costs to produce under an ABC system:

1. Choose appropriate activities.
2. Trace costs to activities.
3. Determine cost drivers for each activity.
4. Estimate the application rate for each cost driver.
5. Apply costs to products.

Table 1: Overall overheads costs of different products manufactured by Tanishq

Description	Studded (Rs.)	Plain (Rs.)	Coins (Rs.)
Direct Overheads	178533409	5557785	35977437
Allocated Overheads (Indirect)	34609157	2705780	26959574
Total	**213,452,566**	**8,263,565**	**62,937,011**
Less: Income	-4380817	-136376	-882807
Net Overheads	**212,259,759**	**7,380,758**	**62,054,204**

Table 2: Computation of Overheads rate (Sample from Apr 11 – Dec 11)

Prod. Qty's for 2011-12	No. of Notional Products	Plain Products-grams	Coin-gram
Apr-11	42920	9799	618694
May-11	68711	16908	240212
Jun-11	96398	26691	250688
Jul-11	89836	18863	210037
Aug-11	91671	23158	441259
Sep-11	64162	19617	405101
Oct-11	50534	15545	715352
Nov-11	61193	23256	126742
Dec-11	84378	27137	161155
Total Till Dec-2011	649804	180974	3169240
Overhead Rate	321.27	44.91	19.58

Table 3: Total Cost involved for Studded Jewellery (Sample taken from January 2011)

Cost of Total Ingredients	1340.9
(Less) Cost of By-Products	604.23
Material Cost	**736.67**

Overheads		
		Amount (Rs.)
Notional Product (NP)	1	
Rate per NP	321.27	
Total Overheads		321.27
Add: Material Cost		736.67
Total Cost of the Product		1057.94

Table 4: Total Cost Involved in Plain Jewellery (Sample taken from January 2011)

Ingredient Cost	**111209.28**
Overhead Rate*	44.91
Overhead Value	1,918
Total Cost	**113126.855**

Table 5: Total Cost Involved in Making Coins (Sample taken from January 2011)

Ingredient Cost	**2554.96**
Overhead Rate*	19.58
Overhead Value	19.58
Total Cost	**2574.540**

There are various expenses which come under overheads. They are as follows:

Depreciation
Employee Costs
Insurance
Other Overheads
Power, Fuel and Water
Rates and Taxes
Rent, Maintenance and Upkeep
Telecommunication
Travel

Working of Cost System in TANISHQ

- In TANISHQ there is no much manual calculations done. The costing Department will take the previous year's cost and feed it in to ORACLE 12 software. Then the software will take in average weighted method to estimate the future cost.
- The Software will take in various overhead items mentioned above and will add them to total overheads and based on that the entire costing is done.
- TANISHQ manufacture three different products. They are plain, studded jewellery and coins.
- For calculating overheads in case of studded jewellery overheads are done based on Notional Product.
- In case of coins it is in grams. It remains same for plain jewellery as well.

Findings:

- The company is not able to control the current liabilities even when they are making huge profits year by year still the current ratio is not showing any improvement.
- The company's capital turnover ratio, inventory turnover ratio and fixed assets turnover ratio is showing a positive growth. It is a good sign for the company
- The balance sheet shows that the company is interested in satisfying lenders of secured loan in the previous year.
- The sales of TANISHQ are increasing over the years. The increasing sales means the profit of the company is also increasing in that period.

Suggestions:

- It is advisable for the company to reduce their current liabilities as much as possible, since by doing that the company can improve on their working capital requirements.
- Company must also try to reduce the provisions. With the increase in current assets there is always increase in current liabilities and provision.
- It is been recommended that the focus should be given to utilizing human resource on a wider scale to improve the company.

- It is advised to the company to still increase its fixed assets in order to maintain good financial position.
- The company can improve its profitability by increasing its sales value through the production level.
- The company can implement various techniques of modern way of doing business which increases the overall efficiency of the firm.
- The company is maintaining a perfect cost system, but they can still reduce the cost by reduction on employee expenses.

Conclusion:

TANISHQ, India's largest, most trusted and fastest growing jewellery brand, offers traditional as well as trendy designs in gold, diamond and platinum. With retail sales of over Rs. 3000 crores last financial year, TANISHQ has delivered value to its customers and shareholders. Backed by in-depth research in the jewellery space, the production and sourcing units of TANISHQ create exquisite designs with faultless finish and is equipped with the latest and most up-to-date technology and tools.

Stringent quality standards ensure that every product at TANISHQ is crafted to perfection with unmatched finish. With innovations like the karat meter - the only non-destructive means to check the purity of gold - TANISHQ introduced technology-backed challenge in the category completely governed by individual trust. The brand propagates ethical practices and provides the customer a certification of purity of material and reselling policies.

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