Chapter 9

An Approach to Business Strategy

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ABSTRACT

This chapter introduces role of activity based costing system in the present business environment where businesses are under threat from corporate restructuring, technological innovations, customer expectations, de-regulations, and opportunities by way of collaboration, outsourcing and integration. Strategies of a business provide road map to organization and have multiple options. In a business, cost is the basic attribute in decision making process and drawing strategy. ABC provides a better approach to understand business process in relation with cost incidence. A business process is made up of activities which are performed by resources. These resources are responsible for expenditure and contain cost. ABC uses two stage cost assignment system for accurate and informative cost. ABC allows a better visualization of use of resources and explanation to understand where, why and how costs are being incurred. ABC is dynamic in nature, provide real cost and proactive in approach to simulate quantitative and qualitative measures of the process.

INTRODUCTION

In the present era of information technology, business has become very challenging in the boundary less environment. There is a constant pressure on the business due to globalization, corporate restructuring, enlargement of customer expectations, technological innovation and advancement of manufacturing technology, whereas a wide spectrum of opportunities, new management concepts, world wide – deregulation are at the disposal of business organization. On the other end of business organization, consumers has a wide range of choice with variants of existing products or break through products and is not willing to compromise on quality and functionality.

A decision in a business organization which affects its long term competitive position, must explicitly consider the strategic objectives. The important strategic objectives for a business organization have to align with its growth and its long term survival. In the current hyper competitive business environment,
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there is a need of business strategy which can sustain changes and consumer dynamic behavior by integrating them with business process.

A re-invention of Business strategy has become the need of the time. The strategy is basically an approach to simulate various parametric requirements to meet the business objectives. Business strategies need to be simulated, shaped and formulated to drive all time solution and have an edge in competitive world. Major variables having impact on Business strategy formulation are:

- Customers,
- Geographic Market,
- Products / Services,
- Technology,
- Concern of survival / Growth / Profits,
- Philosophy (values, ethics, beliefs),
- Distinctive Competence.

It is important to understand these variables, individually for establishing relationship between them. Each variable is closely linked to other. Any outward change in the business environment does not affect any particular variable in isolation. The effect due to change of any variable has two phases. In first phase a change makes effect of different magnitude and direction on few or all variables and in second phase contributes consequences of the effect of the first phase.

In a business organization cost is basic parameter and everything hovers around it. In general a business organization has two main broader objectives – profit and expansion. In the business process both the objective - profit and expansion are governed by multi facet activities. Every activity of a business process has very specific contribution and adds a cost to the overall cost of the process. Any change or moderation in the activity qualitatively or quantitatively makes alteration in the process cost. It is the gap between cost and price (realization) which directs the business. The fulfillment of any one or both of these objectives can takes place in various ways. In a business environment, objective can be achieved by one or the combination of more than one out of the following options –

- Profit by increasing volume,
- Profit by premium pricing,
- Profit by change in process,
- Profit by operational cost reduction,
- Profit by change in customer segment,
- Profit by change in product mix,
- Expansion in assets,
- Expansion of production capacity,
- Expansion in product range,
- Expansion in business volume,
- Expansion in goodwill.

An approach, in which business process can be related to activities at grass root level, can assist in evaluating activity incidence both quantitatively and qualitatively. The quantitative evaluation of change (through activity) signifies the resource requirement and contribution to the product cost. The qualitative
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