

Country Management Development Program

Day 3



Cost Management



MODULE 1

Fundamental Financial Management for Functional Leaders





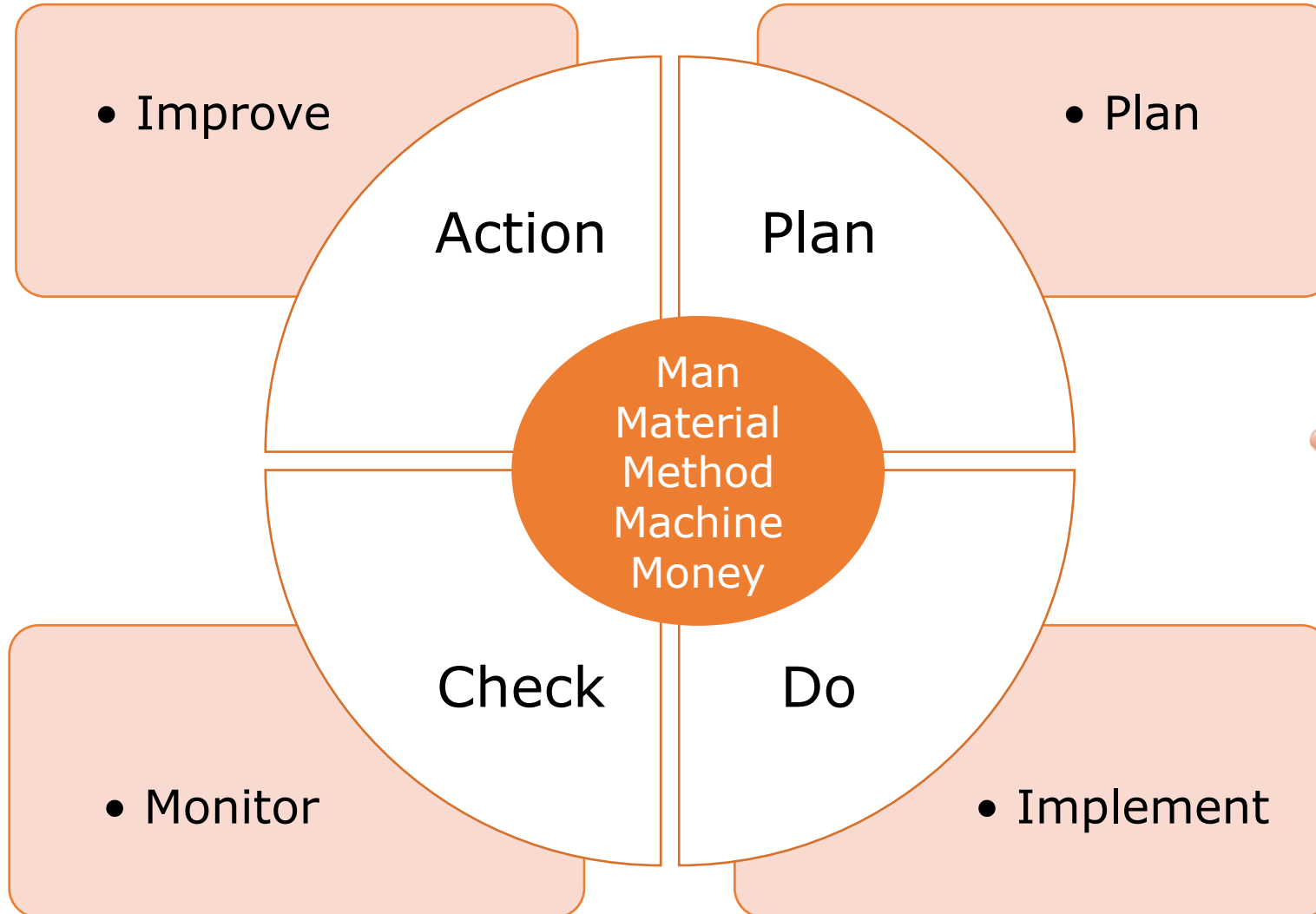
What is Management?



Management is the process of planning, organising, leading, and controlling resources to achieve organizational goals **EFFECTIVELY** and **EFFICIENTLY**



Management Process



WHO ARE THE STAKEHOLDERS OF A BUSINESS?





How to be a sustainable business?



- **Get supports from the stakeholders**
- **Attractive to stakeholders**



“Attractive” criteria for stakeholders

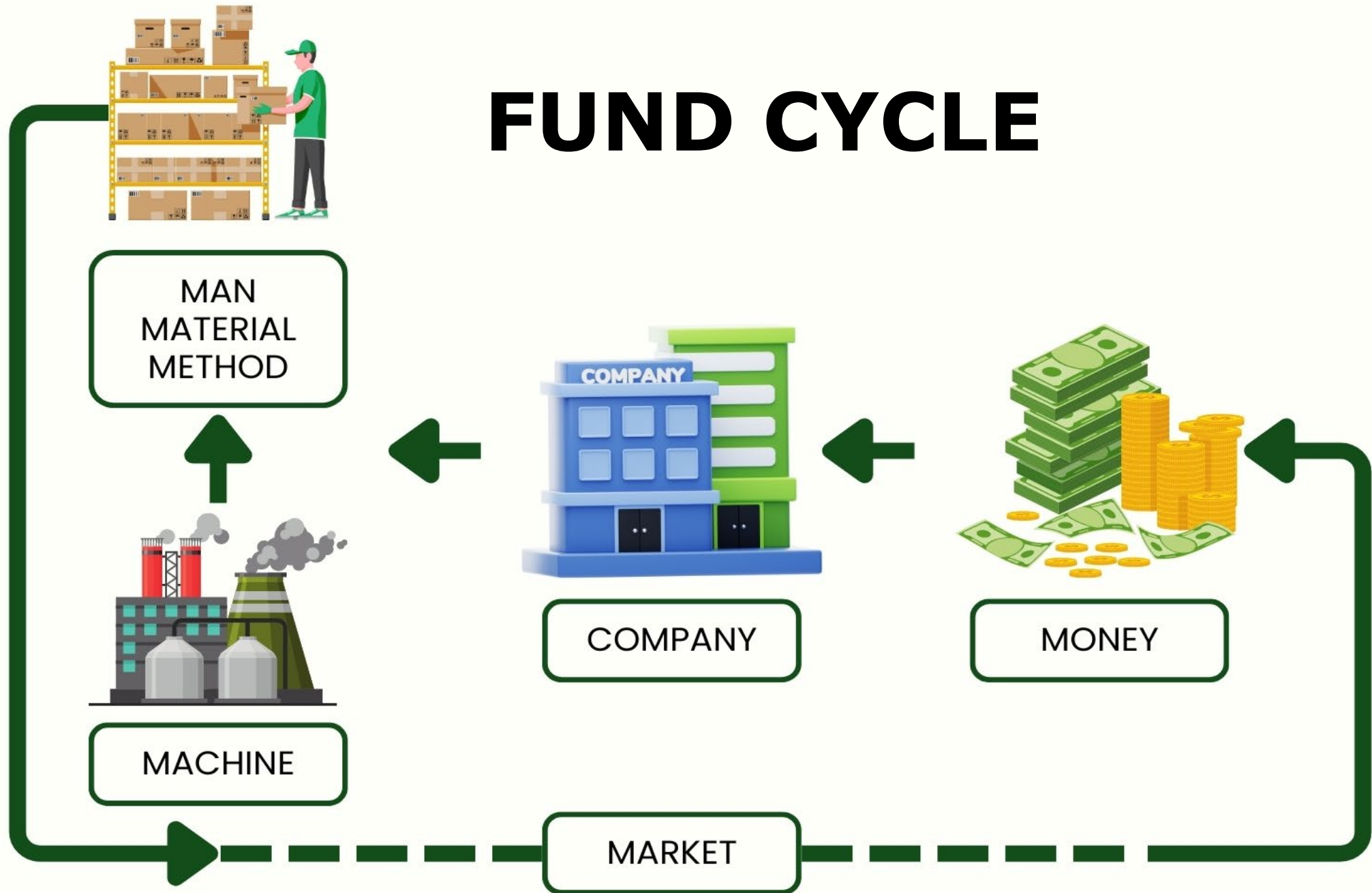


- **Obtain more benefit than cost**
- **Better than other alternatives**
- **Further benefits in the future**

Financial Management



The process of planning, organizing, controlling, and monitoring the company's financial activities to ensure that it has sufficient funds to operate effectively and to achieve its long-term goals



INTERNAL FUND CYCLE



- Funds come from external sources
- Funds allocated to projects and/or assets
- The funds are then transferred back to the source of funds

PROFIT CONCEPT

In general, the definition of profit is :

Positive difference between the amount generated and the amount disbursed / sacrificed

Profit =

SALES - COST

(VOLUME x PRICE/UNIT) - (VOLUME x COST/UNIT)

VOLUME x (PRICE/UNIT - COST/UNIT)



Types of Profits

- 1. Gross Profit**
- 2. Operasional Profit**
- 3. EBITDA (Earning Before Interest,
Tax, Depreciation & Amortization)**
- 4. EBIT (Earning Before Interest, Tax)**
- 5. Net Profit**





Profitability Concept

Profit should be compared to :

a. Sales Revenue:

➤ Return on Sales

$$ROS = \frac{\text{PROFIT}}{\text{SALES REVENUE}} \times 100\%$$

Company	Profit	Sales	ROS
Co A	Rp. 10 mio	Rp. 100 mio	10,0 %
Co B	Rp. 10 mio	Rp. 80 mio	12,5 %





Profitability Concept

Profit should be compared to :

b. Capital Employed by the company

➤ **Return on Capital Employed**

$$\text{ROCE} = \frac{\text{PROFIT}}{\text{CAPITAL EMPLOYED}} \times 100\%$$

Company	Profit	Sales	ROCE
Co A	Rp. 10 mio	Rp.200 mio	5,0 %
Co B	Rp. 10 mio	Rp. 250 mio	4,0 %





Group discussion: How can we improve our company's profitability?

.....

.....

.....

.....

.....

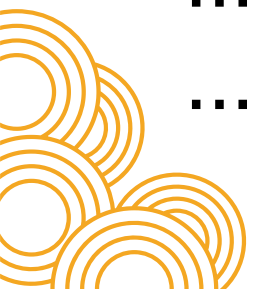
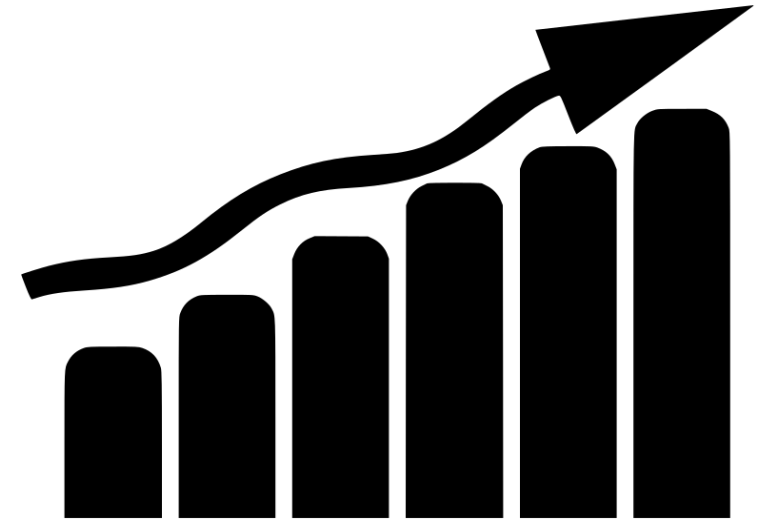
.....

.....

.....

.....

.....





Financial Statements



Financial Statements provide information about financial position, results of operation and cash flow of a company



3 Basics Financial Statements



Balance Sheet

- List of assets, liabilities and company's equities at a particular point in time



Profit and Loss Statement (Income Statement)

- a financial report that summarizes a company's revenue, expenses, and profits or losses over a specific period



Statement of Cash Flow

- Measures the movement of cash in and cash out of a company over a specific period



MODULE 2

Working Capital Management





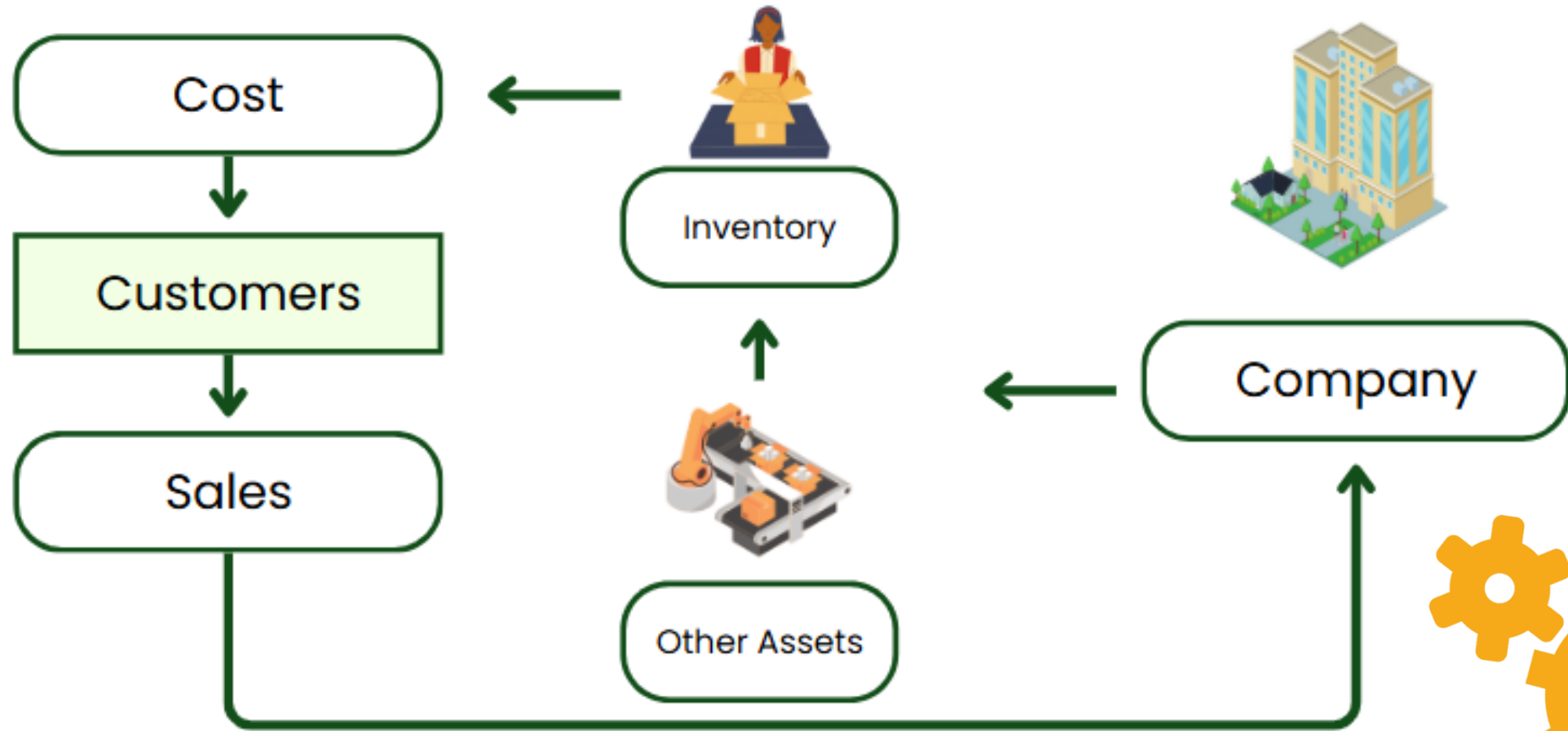
Working Capital



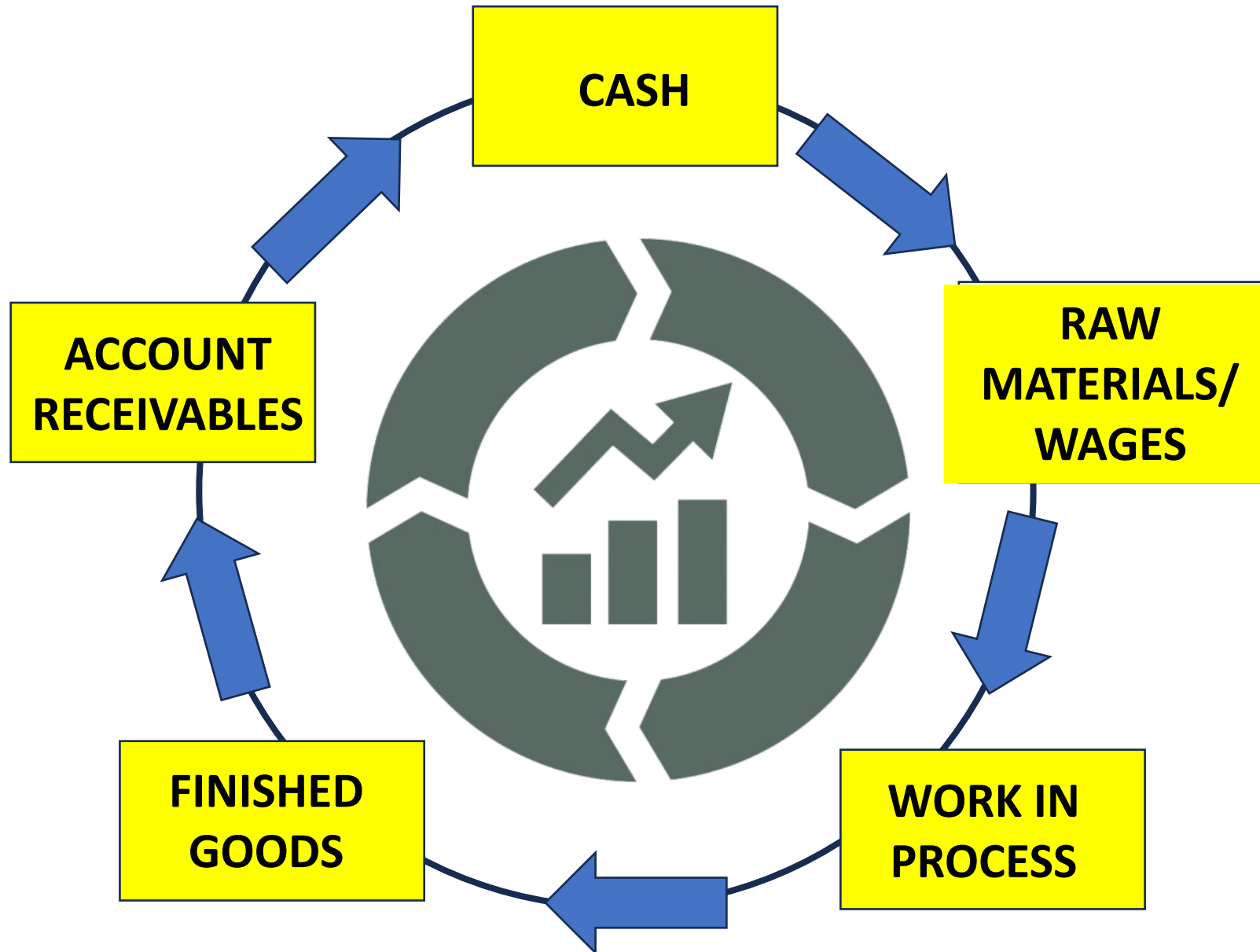
It represents the amount of liquid resources a business has available to cover its day-to-day operations and short-term obligations



Operational Business Cycle



Working Capital Cycle



Company Assets

CURRENT ASSETS

- Cash
- Accounts receivable
- Inventory (Raw Materials, Work In Process, Finished goods)
- Others

FIXED ASSETS

- Tangible Fixed Assets
- (land, buildings, machinery, etc.)
- Intangible Assets
- Others



Working Capital Management

Why is it so important?

- Consumed a lot of time in managing working capital
- A big investment
- Investment in working capital (cash, inventory, and trade receivables) is unavoidable





Working Capital

How much working capital is required, depending on:

- The size of the business
- Type of business
- Sales volume
- Technologies
- Management's attitude





Working Capital Management

- Cash/bank management
- Accounts receivable management
- Inventory management





Group discussion:

Examples of working capital in my work area :

.....

.....

.....

.....

.....

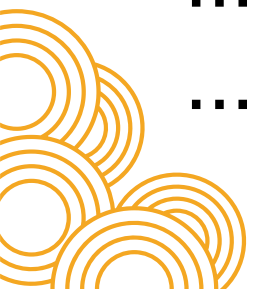
.....

.....

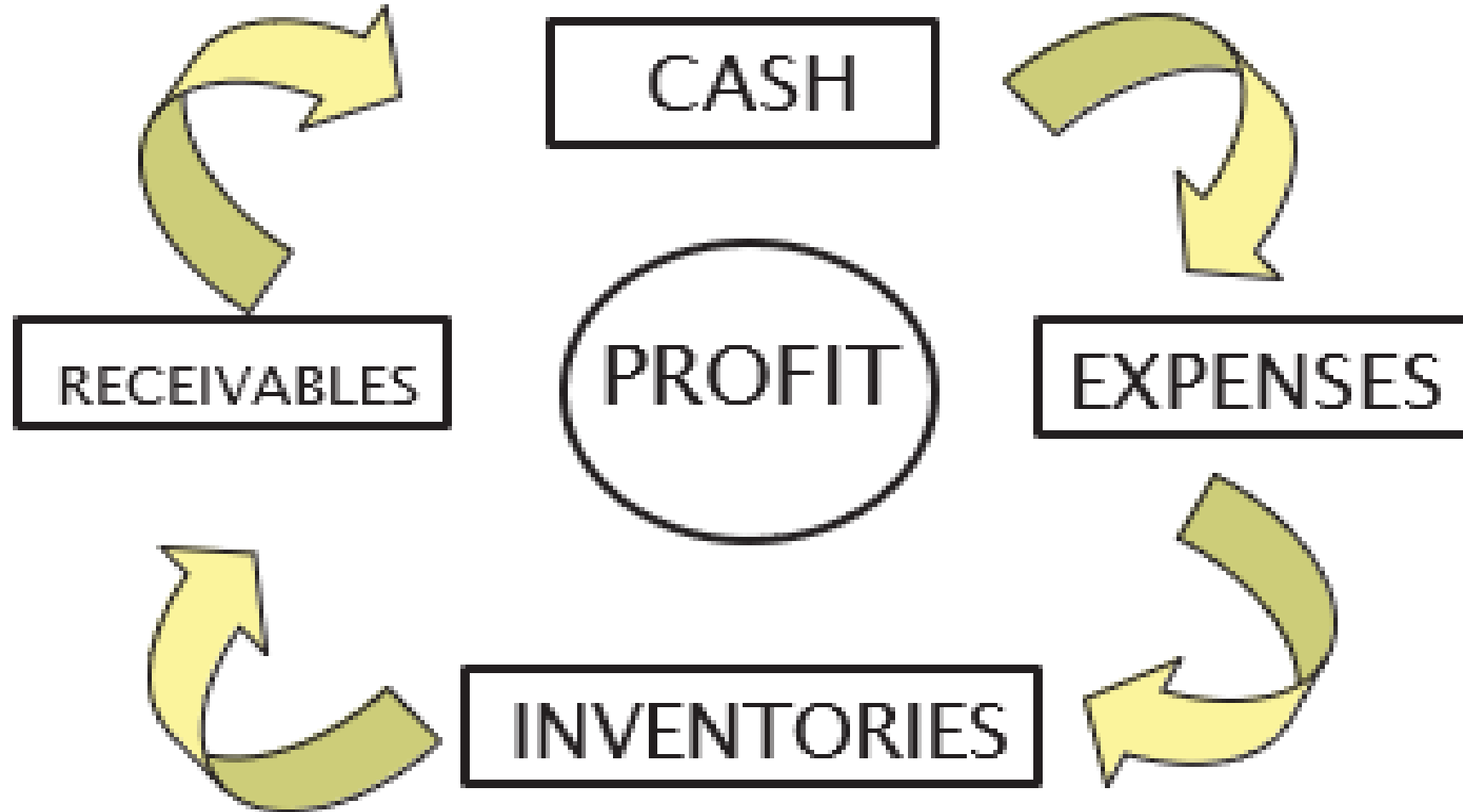
.....

.....

.....

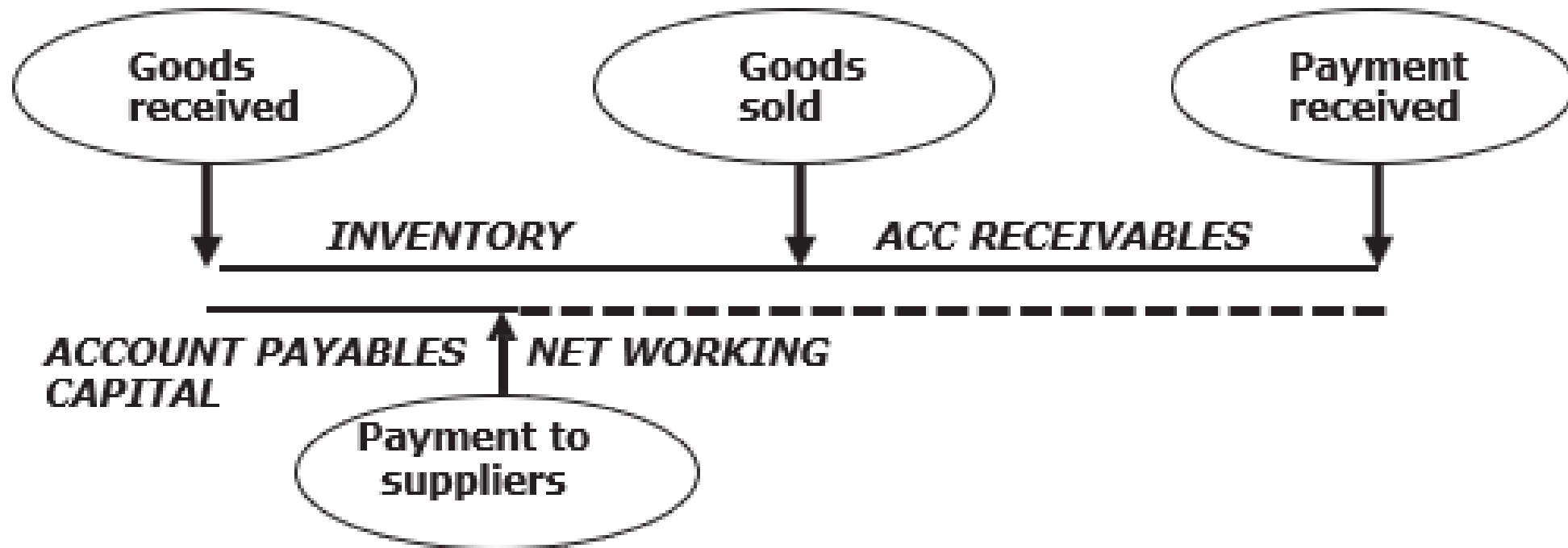


Working Capital Cycle





NET WORKING CAPITAL



NET WORKING CAPITAL

**NET WORKING CAPITAL =
CURRENT ASSETS – CURRENT LIABILITIES**



Group discussion: How I can better manage working capital in my work area?

.....

.....

.....

.....

.....

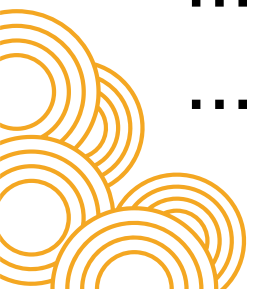
.....

.....

.....

.....

.....



MODULE 3

Cost & Behavior Control



Cost Concept



A resource sacrificed or forgone to achieve a specific objective or to obtain future benefits from the activities carried out



Cost Concept

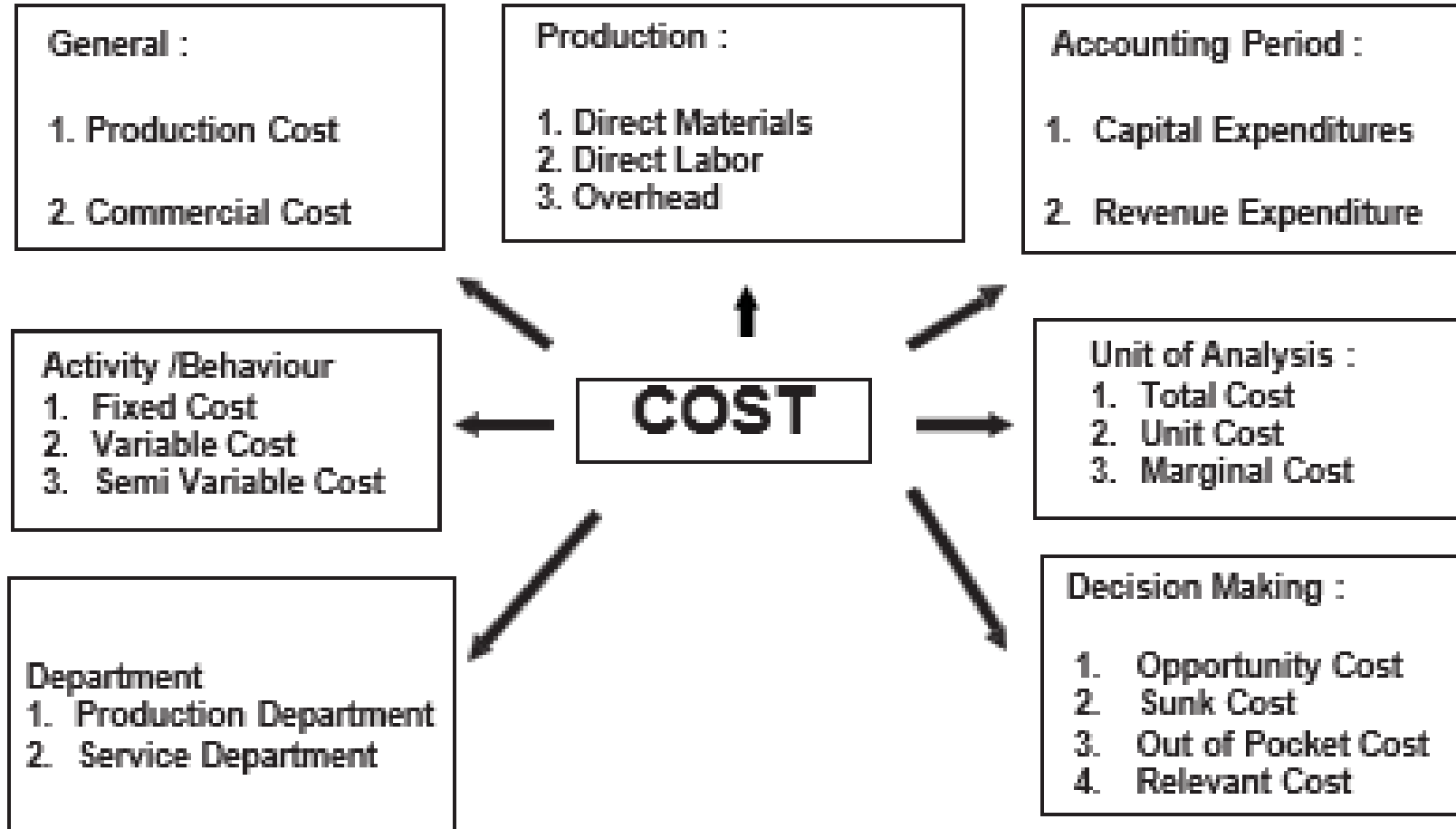
COST has future benefit
Balance sheet

EXPENSE has no future benefit
Profit & loss Statement





Cost Classification





Cost Consciousness

Being aware of the costs involved in a project or careful consideration of expenses or costs in order to make informed decisions and manage resources efficiently





Cost Analysis

Variable Costs:

- Costs that change proportionally with changes in company activity

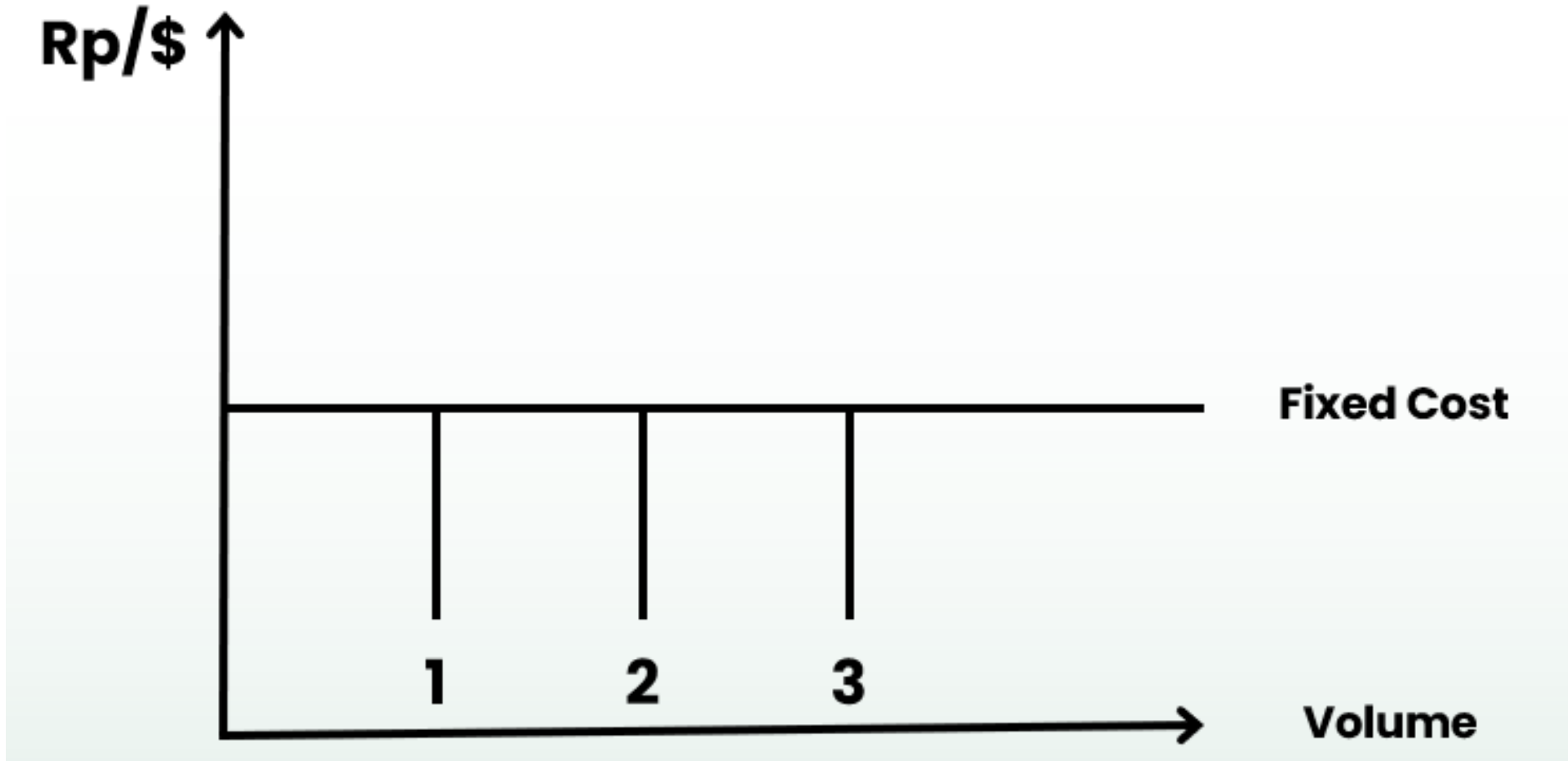
Fixed Costs:

- Costs that are not affected by company activities



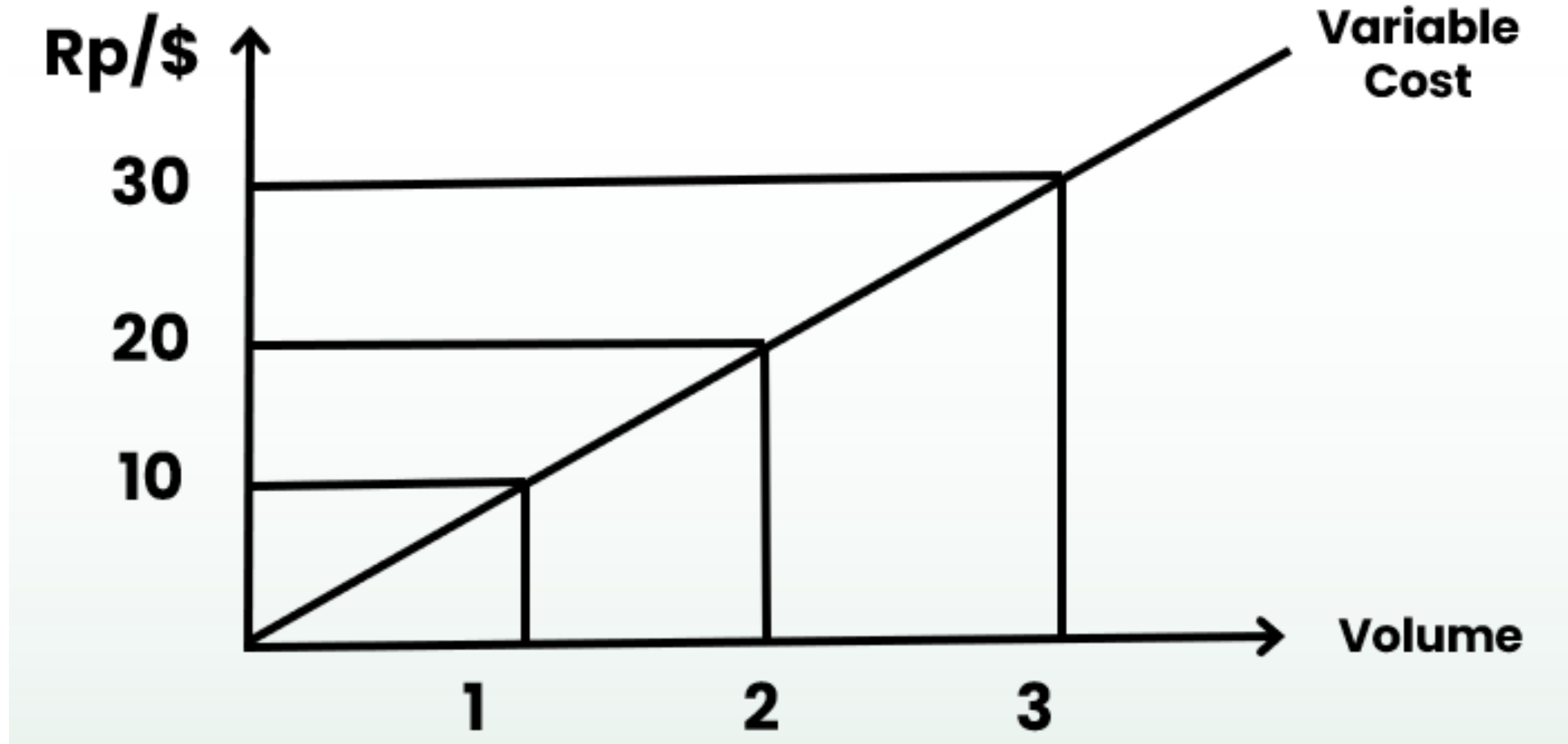


FIXED COST





VARIABLE COST





Group discussion:

Examples of fixed and variable costs in my actual work area

Examples of Fixed Costs	Examples of Variable Costs





Wood Cost Template

Description	UoM
Variable Cost	
Felling & Extraction	Rp/Ton
• Debark	Rp/Ton
• Bark on	Rp/Ton
Loading to Truck	Rp/Ton
Loading to Logpond	Rp/Ton
Logpond Activity	Rp/Ton
Government Levy (PSDH)	Rp/Ton
PHBM Fee	Rp/Ton

Description	UoM
Fixed Cost	
Road Maintenance	IDR/Ton
Road Fee	Rp/Ton
Overhead	Rp/Ton



Individual Exercise:

Estate A - Wood supply operation May 2025

Harvesting & Hauling Volume	10,000	Ton / month
Felling & Extraction Cost	200,000	Rp / Ton
Loading to Truck	14,000	Rp / Ton
Haluing	100,000	Rp / Ton
Log Pond Operation		
- Lansir	10,000	Rp / Ton
- Bangau Rental	475,000	Rp / HM
- Bangau Rental minimum charg	200	HM / month
- Bangau BBM	18	Lt / HM
- Price BBM	11,000	Rp / Lt
Road Maintenance	250,000,000	Rp / Month
Overhead	800,000,000	Rp / Month

Calculate Variable and Fixed Cost Rp / ton

Planning and Managing Costs



HAVE YOU EXPERIENCED THESE SITUATIONS?

1. Your division/department's operational costs getting fatter?
2. The cost efficiency program has been carried out with maximum effort but the results are not satisfactory?
3. Operational and general costs are out of control?



TYPE OF COSTS

1. Based on behavior:
 - a. Variable costs
 - b. Fixed costs

2. Based on usage :
 - a. Value added cost
 - b. Non value added cost





VARIABLE COST vs FIXED COST

Variable costs are costs that change following the activities of the company/division/department

Example: Paper usage cost

Fixed costs are costs that tend to remain constant or unchanged even though the activities of the company/division/department change within the relevant range

Example: Building depreciation costs, rental costs





VALUE ADDED vs NON-VALUE ADDED COST

Value added cost is a cost that provides added value to the company so that it is necessary for the company

Non-value added cost is a cost that does not provide added value to the company so it is not actually necessary but always exists





Group discussion: Examples in my actual work area

Value Added Costs	Non Value Added Costs



COST EFFICIENCY STRATEGY STEPS

1. Make a list of all the expenses in your company/division/department
2. Analysis of existing cost types: variable or fixed; value added or non-value added
3. Root Cause Analysis
4. Internal Control
5. Implement a cost-reduction strategy



COST-SAVING SMART TIPS

1. Create a budget
2. Eliminate/reduce non-value added costs
3. Optimize the role of technology
4. Reduce energy costs (Go Green)
5. Improve work processes
6. Capex: Fixed Asset: Lease vs Buy
7. Reduce unproductive assets
8. Focus on the little things





WHAT CAN YOU DO?





Discussion:

What can I do in my work area?

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....



MODULE 4

Financial Aspects in Decision Making (Capital Budgeting)





Budgeting



The financial expression of an agreed plan for a given future period; A systematic and quantitative translation of work programs, usually in monetary units for a certain period of time



BUDGETING

WHAT IS BUDGETING ?

It is a process of

1. preparing a comprehensive financial plan
2. collecting relevant data and information
3. distributing the planning task
4. developing a plan
5. implementing a plan
6. controlling and evaluating the implemented plan





Benefits of Budgeting

1. Systematic Planning

Blue print of activities the company will perform in the future

2. Implementation Guidance of Company's Activity

Internal communication tool which links various units in organization and links lower and upper management levels (clear authority and responsibility)

3. Work Coordination Tool

Tool to influence and motivate managers and employees to continuously act efficiently and effectively in accordance to the company's objectives

4. Work Controlling Tool

Standard performance to analyze actual performance

5. Activity Evaluation Tool

Tool for improvement and enhancement



BUDGETING

DISADVANTAGES OF BUDGETING :

- Inaccurate estimates
- Needs to be adjusted to changing situations
- Implementation is not automatically
- Does not replace management judgment



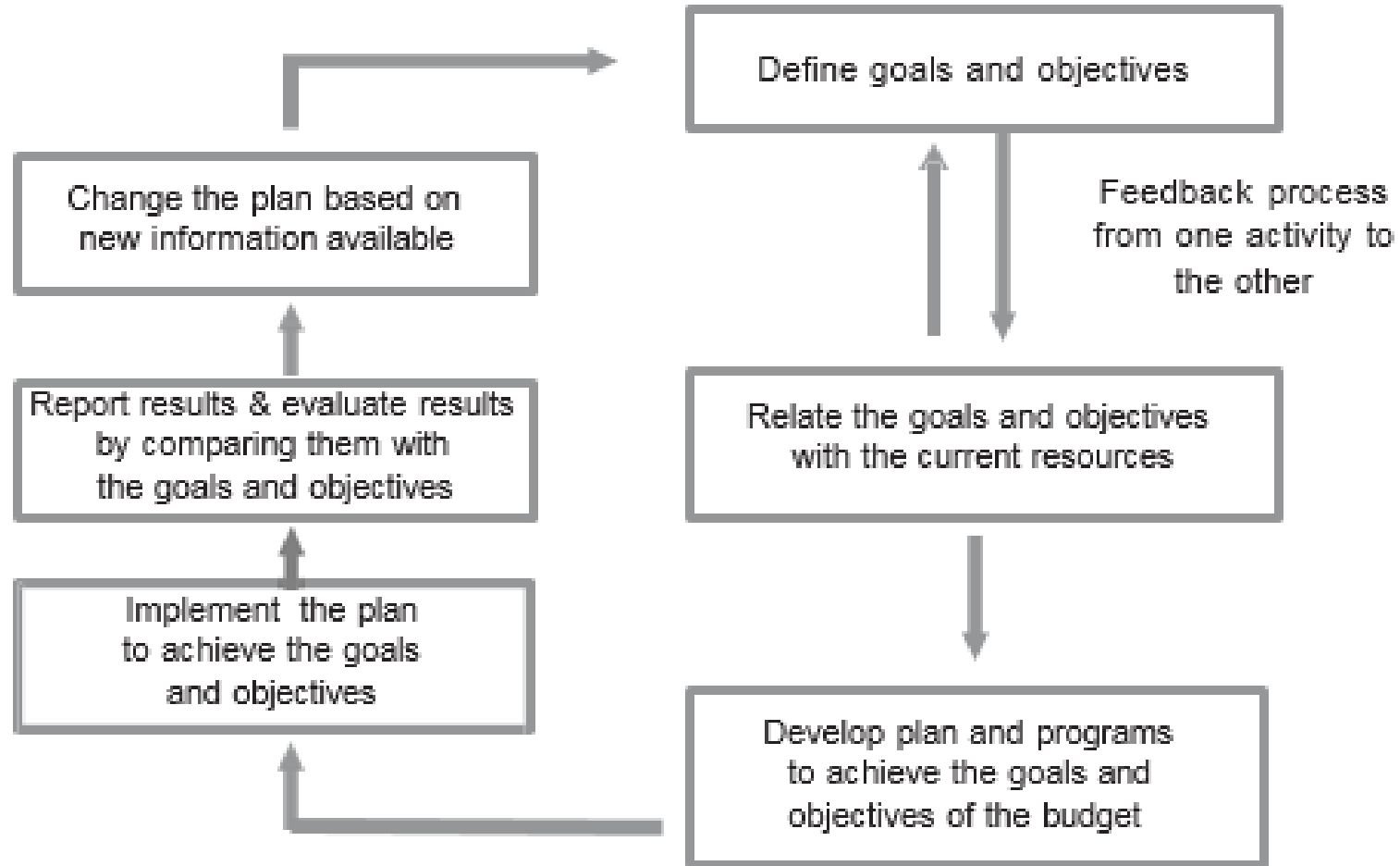
AN EFFECTIVE BUDGET

- Strong support from top management
- Clear authority and responsibilities
- Responsibilities (and authority) for the preparation, implementation and supervision of a clear and formally stated budget
- Relationship between budgeting and accounting
- Budget socialization
- Awareness of the usefulness and limitations of budgeting
- Length of budget period
- Clear goals of the budget





THE BUDGETING CYCLE





Type of Budgeting



Operational Budget

Capital Budgeting





Capital Budgeting

the process of evaluating and selecting long-term investments, particularly those involving large capital outlays, to determine which projects will add value to a company



CAPITAL BUDGETING

Why Capital Budgeting is needed?

- Resources are limited, and once committed to a fixed investment, they generally cannot be released
- There may be alternative options.
- The need to identify the real worth of future benefits





TYPES OF INVESTMENT

➤ Replacements

- Replacement for process improvement
- Replacement for cost reduction or efficiency

➤ Expansions

- Expansion of existing products
- Launching of a new product

➤ Others

- Buildings
- Other facilities





Type of Capex

- **Must to Have**

- Will affect production volume if not spent;
- Safety / Regulatory / Legal Compliance (e.g. environmental, safety)

- **Need to Have**

- Improve volume / quality or reduce cost (less than 24 months payback*);
- Long term social capital / reputation (Corp Image)

- **Nice to Have**



CAPITAL BUDGETING PROCESS

Step 1 :

Determine the initial outlay of the investment

Factors to be considered :

- Cost of investment
- Expenses such as installation, shipping and insurance
- Residual value of the replaced asset
- Tax from selling the replaced asset



CAPITAL BUDGETING PROCESS

Step 2 :

Determine the sources of financing

There are 3 alternatives :

- Own equity
- Borrowings
- Combination of equity and borrowings



CAPITAL BUDGETING PROCESS

Step 3 :

Determine the cash flow pattern of the proposed investment

Consider all cash inflows and cash outflows affected by the investment

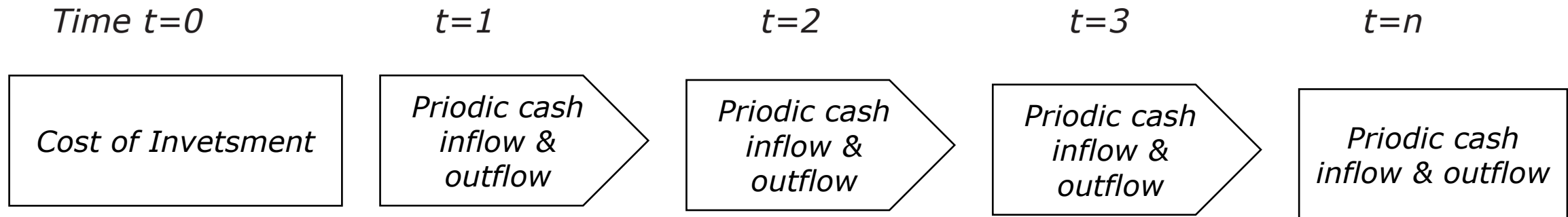




CAPITAL BUDGETING PROCESS

Step 4 :

Calculate cash inflows and cash outflows in step 3



- Net cash flow is the difference between cash inflow and cash outflow
- Time is based on years of economic life of investment



CAPITAL BUDGETING PROCESS

Step 5 :

**Evaluate the investment feasibility
by using the appropriate**

capital budgeting methods





I. PAYBACK PERIOD

Determines how long it takes for an investment to recoup its initial cost
(Net Cash Flows)





PAYBACK PERIOD

Example:

Initial investment = Rp. 100 million

Net cash flow = Rp. 40 million/year

$$\frac{100 \text{ million}}{40 \text{ million}}$$

$$(1 \text{ year} + 1 \text{ year} + \frac{1}{2} \text{ year})$$

$$\text{Payback period} = 2.5 \text{ years}$$





PAYBACK PERIOD

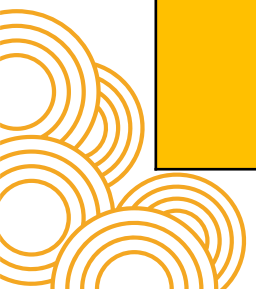
<p>Payback Period of the proposed Investment (A)</p>	<p>Compared to with</p> <p style="text-align: center;">↓</p>	<p>Maximum acceptable Payback Period (B)</p>
---	---	---

<p>(A)</p>	<p>Shorter than</p>	<p>(B)</p>
-------------------	----------------------------	-------------------

→ Proposed Investment **accepted**

<p>(A)</p>	<p>Longer than</p>	<p>(B)</p>
-------------------	---------------------------	-------------------

→ Proposed Investment **rejected**





ADVENTAGES OF PAYBACK PERIOD

- Simple; easily calculated
- Useful to analyze investment with rapid cash return
- Analysis on investment return, time risk indicator for management
- Quick analysis method, better than judgment





DISADVANTAGES OF PAYBACK PERIOD

- Ignores the timing of future cash flows
- Ignores the total profitability and cash flows anticipated after the period calculated as
 - payback period
- Ignores project risks





PAYBACK PERIOD

Example:

Initial investment = Rp. 100 million

Net cash flow = Rp. 40 million/year

Investment period = 5 years

Interest rate 24% (Discount rate = 24%)

PVA from Cash Flow 40 million for 5 years is:

$2,745 \times 40 \text{ million} = 109.80 \text{ million}$

$NPV = -100 \text{ million} + 109.80 \text{ million} = 9.80 \text{ million}$

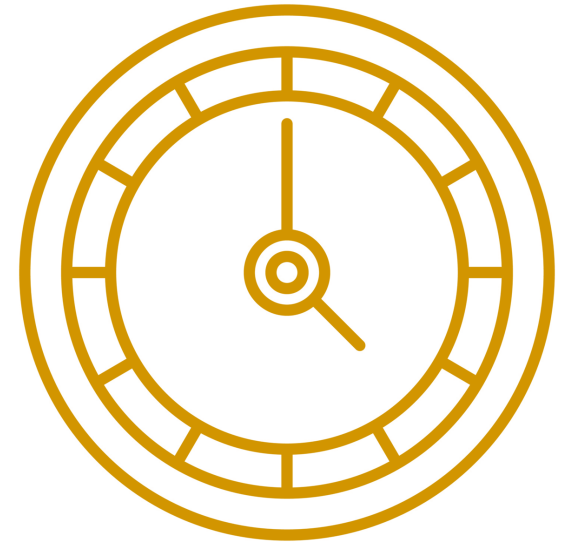


TIME VALUE OF MONEY

Comparing present cash outflow
with future benefits

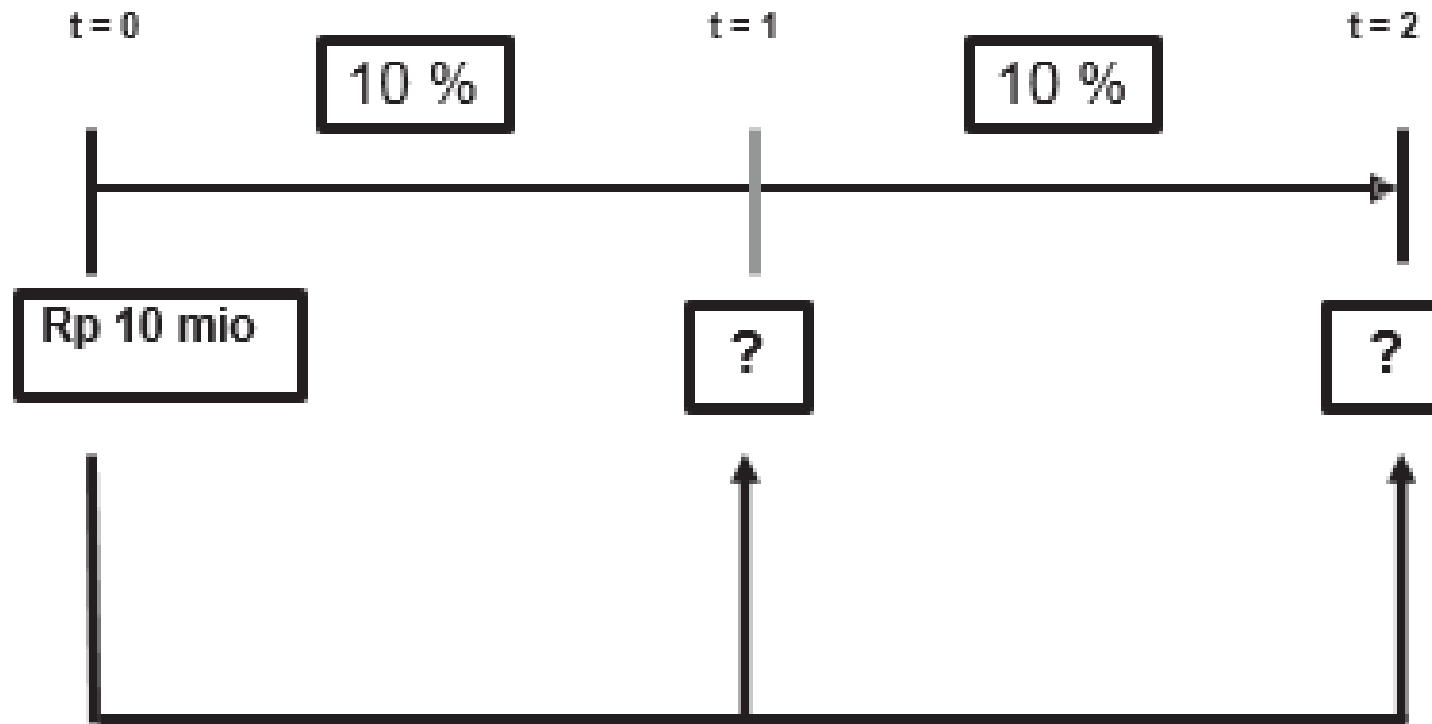
Or

Comparing Present Value with
Future Value





Future Value Process



Future Value

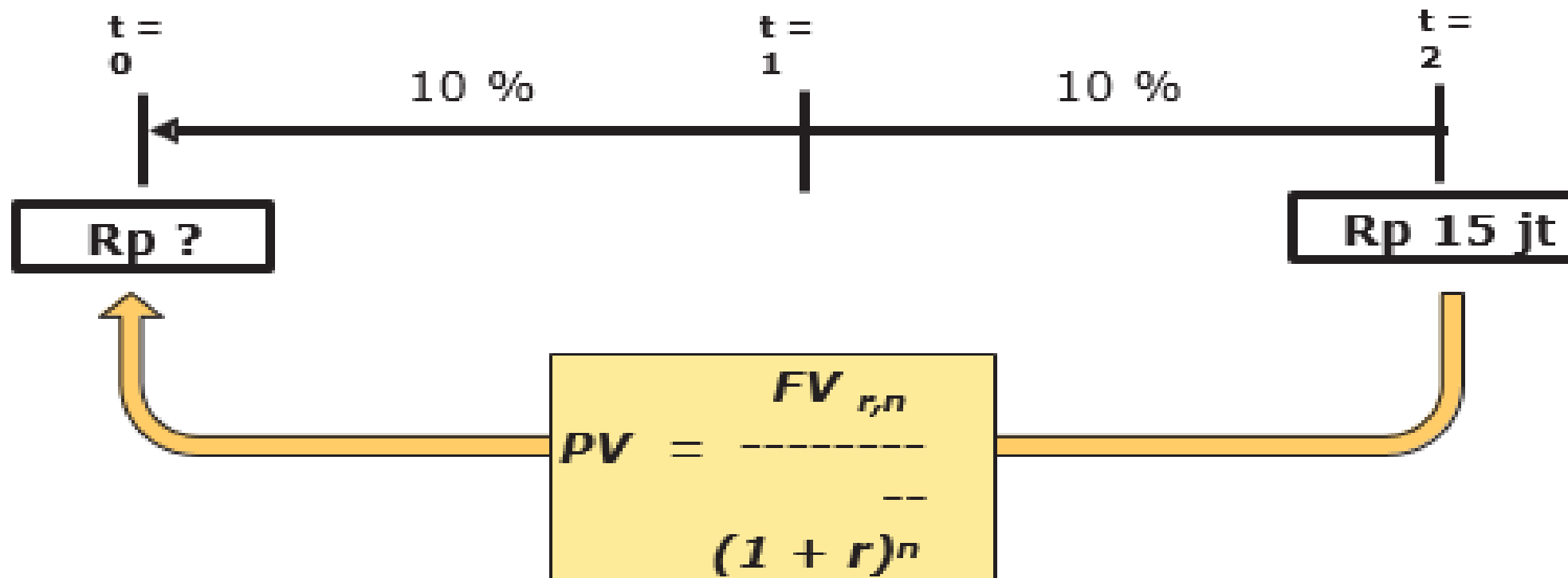
$$FV_{r,n} = P \times (1 + r)^n$$

P = initial value
 r = interest rate
 n = period

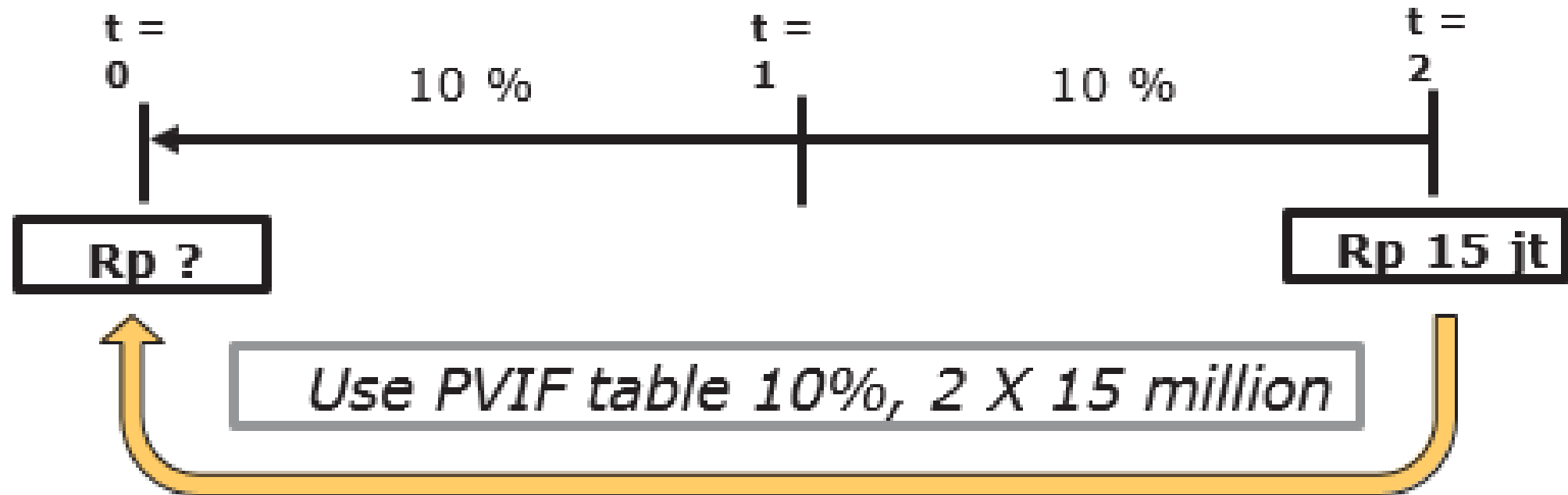
$$FV_{10\%,2} = 10 \text{ mio} \times (1 + 10\%)^2$$



Present Value Process (Discount Process)

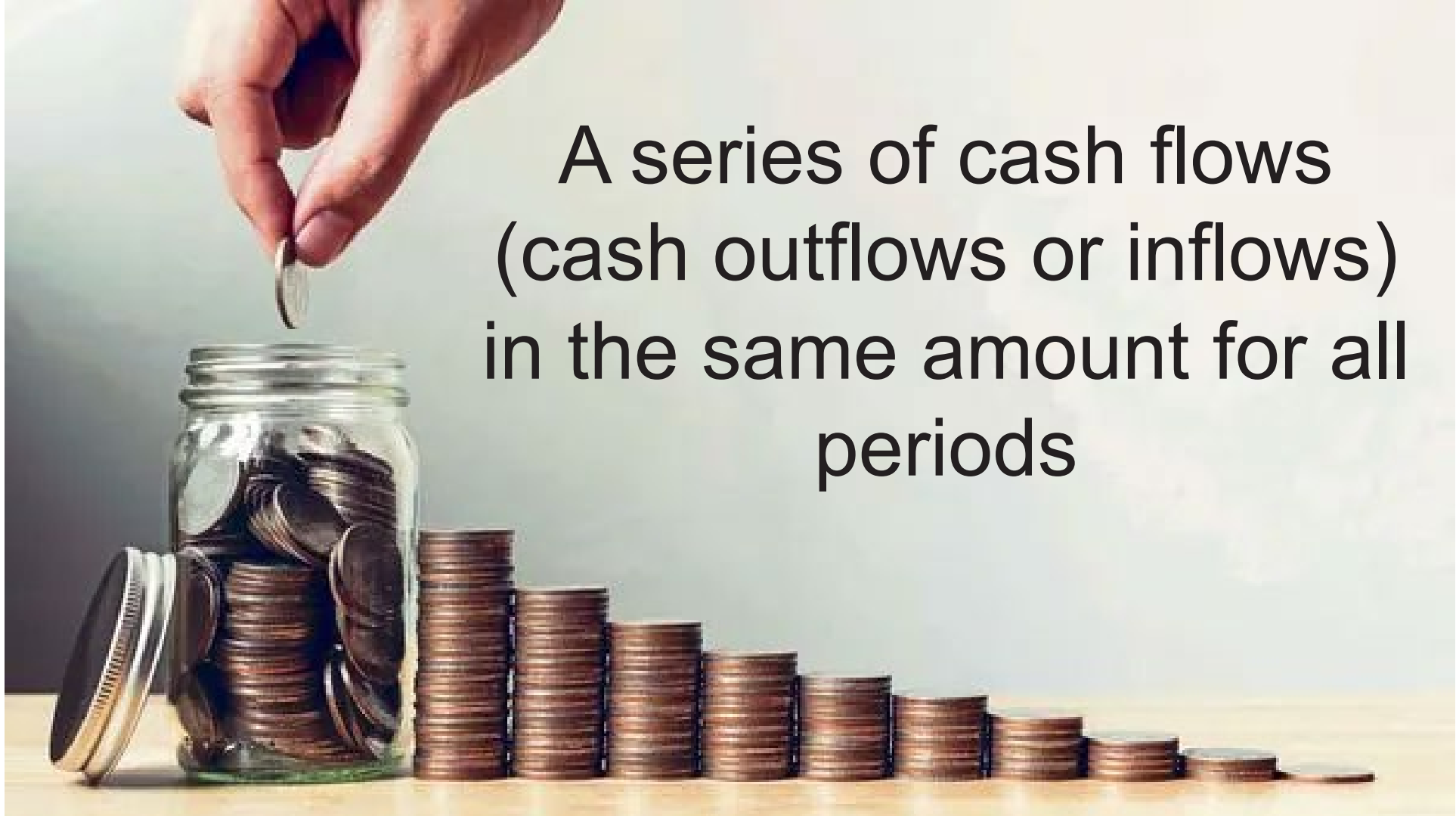


Present Value Process (Discounting Process)



ANNUITY

A series of cash flows
(cash outflows or inflows)
in the same amount for all
periods





Present Value of Annuity

