Logistics Cost Control Method of the Core Enterprise of the Supply Chain

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Abstract. In view of the huge and complex supply chain system, this paper analyzes the main problems of insufficient cost control of supply chain and puts forward the theory that the core enterprise of supply chain should lead the whole supply chain cost control process. Firstly it analyzes the significant disadvantages on cost control for each stage in supply chain at present in our country, then based on these cost control defects, puts forward a method which the core enterprises of supply chain could apply to cost control process. Finally in combination of actual practice of different nodes in supply chain enterprises the paper extracts its cost control key points, and further explains that the core enterprise of supply chain should adopt this target cost control method, analyze all sections covering each node in supply chain, sort out its process with established standards, in pursuit of achieving cost control for each stage with strengthened interconnections and performance evaluation, to ensure sustainability and continuous improvement of the cost control method.

Introduction

In the era of economic globalization and information technology, competition between enterprises has been transformed into competition between supply chains. Products are sold, but profit is largely determined by supply chain operation level [1]. The competitiveness of products comes from the competitiveness of supply chain, and the management of supply chain cost is the main driving force to obtain the competitive advantage of supply chain.

General supply chain structure is a network led by manufacturer, supplier or retailer in the center of the supply chain (aka. the core enterprise), like the "nucleus" of the enterprise group, and other "satellite" enterprises around the core enterprise. The main body of enterprises on the supply chain node is not the same, and the cost control theory of enterprises with different attributes is also different. The focus on cost control, accounting examination methods, supplier quality index, and sales strategy together with product standardization of core enterprise in supply chain, will directly affect its direct purchasing cost, production cost, inventory management cost and sales cost, at the same time, these factors also could impact the management, costs and strategies of upstream and downstream enterprises on the supply chain [2]. In this large and complex structure of supply chain, starting from supply chain core enterprise as the origin, it’s critical to establish a comprehensive cost analysis model covering complete sections of the supply chain that would help clarify cost control key nodes of different enterprises on the supply chain with specific cost control approaches. This kind of cost control model analysis is the key to enhance modern enterprises management capability, and contribute to improvements in operational profits and competitiveness.

At present, many scholars at home and abroad have done a lot of research on supply chain cost from various aspects. J. Chen (2002) summarized the supply chain structure from three aspects: single-stage production-inventory system, multi-stage production-inventory system and supply chain process reorganization; and proposed that future supply chain research should focus on supply chain reorganization and its uncertainty. M. H. Yu (2008), aiming at optimizing the total inventory cost of supply chain core enterprise, using upstream supplier and downstream distributor’s number as constraint conditions, adopted the simulated annealing algorithm to optimize the structure of supply chain, trying to find out optimum supplier and distributor numbers for core enterprise in
supply chain when the total inventory cost is minimum. Y. J. Hu (2015) studied the signal game model to determine the transaction cost in the supply chain; with this quantitative analysis of transaction costs in the supply chain, combined the results of the qualitative analysis with quantitative analysis, an incentive mechanism model was established to constrain information sharing of supply chain enterprise, to control and eventually reduce the transaction costs in the supply chain. Through the research and practice of domestic and foreign enterprises, the website of Kuaijitong.org demonstrated and put forward the method of establishing scientific supply chain cost control system for supply chain enterprises, which is more valuable than asking suppliers for lower price [3].

In the past 20 years, scholars from various countries have studied many aspects of supply chain, including supply chain structure, cost control method of a single enterprise, supply chain enterprise collaboration and cost control simulation model of the core enterprise etc. However, there’s not much research which offers a comprehensive analysis including focuses on critical cost control points of key nodes enterprises on supply chain, clears up each link of the supply chain, and determines the cooperative elements between supply chain core enterprises and the node enterprises, and then to build coalitions and performance evaluation system to support cost control practice.

Current Situation of Supply Chain Cost Control

Confusion on Supply Chain Cost Control

In China, traditionally, most people talk about logistics cost control when it comes to the supply chain cost control. According to huanqiu.com, Liming He, President of the China federation of logistics and purchasing, in his report "China logistics industry 2016 development review and 2017 outlook", the logistics cost in China accounted for 15% of the GDP in 2016, the ratio in developed countries was 8%-9%, among which the logistics cost in the United States was about 8% of the GDP in that year. Logistics cost in Japan was about 11% of its GDP in 2016. As a result, many studies have pointed out that although China has lower labor and transportation costs, compared with developed countries such as Japan and Germany, China's supply chain costs are much higher than the average level in developed countries.

As a matter of fact, the high cost of supply chain cannot simply be said to be the result of the high cost of logistics because in different industrial structures, the proportion of different enterprise types and the accounting methods are not the same. When enterprises are measuring their supply chain cost control effects, they should select benchmark enterprises in the same industry, rather than an over generalized level. The wrong enterprise supply chain cost target is inevitably not suitable for the enterprise's own supply chain optimization [4].

According to the survey data of Japanese manufacturing industry by Japan logistics system association, in 2013 alone, the logistics cost of ceramic, earth, stone, glass and cement industries accounted for the highest proportion of product sales volume, is 8.69%. The second is the cold chain food transport industry, accounted for 8.57%; Room temperature food transport industry accounted for 6.01%. The composite level is close to 8%. According to the survey of China federation of logistics and purchasing, as shown in Fig. 1, the logistics cost ratio of China's manufacturing industry in 2014 was 8.9%, similar to that of Japan.

It can be seen from the above analysis, although logistics cost accounts for the largest proportion in the supply chain cost, the ratios numbers are similar in China to the numbers in countries with higher development level. Supply chain cost control is not the same as logistics cost control, and from the practice of lean production theory in Japan, it can be known that the key of supply chain cost control is the unrepeatable cost control mode formed in the whole supply chain coordination.
Insufficient Coordination among Node Enterprises and Departments in the Supply Chain

In supply chain, upstream and downstream enterprises could negotiate when both are strong enough, and if not, the weak one will be exploited by the other side; there’s only weak and superficial binding from contracts between enterprises without deep information sharing and performance correlation mechanism, in essence coordination is insufficient in the supply chain. Node enterprises of supply chain in China have not yet formed an integrated mechanism of cooperation, lack of necessary trust between partners involved in supply chain, information distortion in supply chain management, and lack of reasonable performance and incentive measures in node enterprises of supply chain are not uncommon issues.

For node enterprises in the supply chain, there are also some problems such as unprofessionally sound personnel, independent management, discrete organizational structure, and un-uniform assessment indicators of various departments, all lead to weak integrity and coordination.

From intra-enterprise to inter-enterprise, supply chain cost management of many manufacturing enterprise lacks the overall consciousness of supply chain management, and the necessary coordination among various enterprises and departments is limited within the boundaries of the enterprise itself. For example, the price of raw materials and the purchase price of third-party logistics service are determined through direct bargaining with suppliers and purchasers, rather than through a mechanism that improves the efficiency of mutual communication between node enterprises of various alliances in the supply chain, and insufficient attention is paid to the overall efficiency of the supply chain system. It is difficult to find a way to reduce the overall cost of the entire supply chain if cost control is not determined by co-using the cost reduction collaborative activities of the supply chain [5].

Incomplete and Unscientific Supply Chain Cost Control

Confusion of Supply Chain Cost Control Methods for Different Types Of Enterprises. Lions should not give up hunting leopards because of the weak hyenas. In each node of the supply chain, different enterprises will have different ways of cost control positioning and focuses. Among the node enterprises in the supply chain, the cost control methods of the strong and the weak are of course very different, and that of the leading enterprises and their followers are also different.

A typical supply chain consists of five operating entities: supplier, manufacturer, distributor, retailer and customer. In addition to hidden and common inventory costs and management costs, suppliers pay more attention to procurement costs, manufacturers look at production costs, and wholesalers and distributors think more about sales logistics costs. Different node enterprises have different cost control perspectives and methods. Each enterprise’s standard differs; their methods also cannot be treated as interchangeable.

Enterprises in the Supply Chain have Different Cost Accounting Methods. Each node
enterprise in the supply chain has different main cost composition, different accounting methods and different performance assessment methods. In the process of comprehensive supply chain cost control, it is necessary to establish a common cost accounting language for enterprises on different nodes. However, under the current isolated accounting method, cost control cannot be effectively quantified. Thus, it is necessary to establish a unified accounting method for different cost structures in node enterprises, organizations and departments involved in the supply chain. Meanwhile, it is required that their cost accounting structures cover all node enterprises of the supply chain.

**Unscientific Method of Supply Chain Cost Accounting.** In the enterprise cost accounting, logistics does not establish a separate accounting project in the enterprise accounting system, and all costs are listed in the expense column, so it is difficult to have a clear understanding of enterprise logistics costs. Therefore, business operators do not pay much attention to the problem of logistics costs. It is more difficult to go one step further to carry out cost composition analysis and establish an accounting model of the whole process to help determine focuses for optimization.

**Incomplete Cost Composition of Supply Chain.** As mentioned above, supply chain cost is often regarded as logistics cost in traditional measurement method, which is very one-sided. In the supply chain cost control, the traditional accounting method can only calculate the production cost, distribution cost and storage cost from the perspective of one enterprise. However, from the perspective of competitiveness of terminal products, the product supply cost actually includes production (service) cost of upstream suppliers, profit level and various costs of the enterprise [6]. Starting from a product itself, it is difficult to calculate how much raw materials it contains, how much labor it consumes, how much equipment depreciation is allocated and how much circulation costs are spent before it reaches consumers. At the same time, in the supply chain cost, the hidden inventory holding cost, information communication cost, collaboration cost, etc. are unified into the operation and management cost, and their level is not linked with the quantification of real supply chain cost. This one-sided accounting method of supply chain cost composition also limits the improvement of supply chain management cost control level.

**Lack of Information Sharing Platform**

In supply chain management, cost control needs information of inventory, production and other aspects of each enterprise. Even in the same enterprise, market demand, production, transportation and other aspects of information are also needed. Since information exists in different enterprises or in different links of one enterprise, it is difficult to realize information sharing. In order to improve the performance of supply chain operation, it is necessary to quickly achieve information resource sharing. However, as far as the current situation is concerned, there is no corresponding information sharing platform in China, and there is no unified operating mechanism for different systems, which makes the information flow of enterprises trapped in a closed circle.

In addition, enterprises with intentions of information sharing cannot do it efficiently among upstream and downstream enterprises because other parties do not have the same ideas and real alliances are not established yet, a high level of mutual trust that could contribute to internal friction reduction and management level management enhancement is yet to be achieved.

**Supply Chain Cost Control Thoughts and Methods**

**Establish Correct Concepts of Cost Control**

**Cost Control does not Mean Spending no Money.** Cost control does not depend on technical methods, but on the determination of enterprise managers. Complexity means cost. Therefore, reduction of supply chain cost cannot blindly start from the direct supply chain links, it must go up. The complexity of marketing and product design can be reduced by adopting standard components as much as possible, and then the process and structure can be simplified, so that the supply chain cost control would not at the expense of service. Firstly, the design or product development planning department should do a good job in product management, and secondly, the sales
department should do a good job in customer management. These two items seem to be out of the scope of supply chain, but together with the supply chain they form the three core departments of the enterprise, and they are the source of supply chain cost control. Complex products must be met with complex supply chain. The higher the complexity of the product is, the higher the complexity of customer demand must be, it will require complex supply mode to deal with such demand. Then the economies of scale of the supply chain are unable to be guaranteed, cost control will be out of control. Supply chain departments are always trying to achieve the balance between cost and service, but there is no very standard measurement, different enterprises have different focuses. For most domestic enterprises, supply chain department is a support department. In enterprises with strong sales priority, supply chain department can only stand behind the sales demand, desperately trying to meet all kinds of complex needs, and the cost control is insufficient.

**Low Cost is not the Purpose of Cost Control.** There’s a misunderstanding that should be cleared and what should be correct is: low cost is not the purpose of cost control. Cost on the surface depends on the labor, machine, materials, material consumed, i.e., with the supply of a product how many working hours are involved, what equipment, how much energy and raw materials are used, but for this same product, materials and energy consumption control are very limited, China's low cost may now be more dependent on big policy factors such as demographic dividend [7]. Just like the high inventory in supply, the demographic dividend covers up the coarse management problems and the lack of necessary procedures, which weakens the determination of enterprises to study cost control. The competitiveness of Chinese products is not sustainable, because we are not confident enough to be able to produce products with simpler processes, higher productivity and lower waste. In addition to the labor dividend, the supply chain cost control should go beyond the chain itself. Product design should be optimized, product success rate rather than number of products should be emphasized, and standardized products should be designed. Product innovation links should avoid affections on the whole chain as much as possible, personalized mass production at some relatively flexible links; Coordination of sales and operation should be installed to reduce high inventory to ensure sustainable supply and service quality. The important thing is that the enterprise needs to improve its planning ability rather than firefighting ability. With more choices of supplier service, any link can fill the gap, and this is not conducive to the outbreak of problems that could wake up the determination of enterprises for improvements.

**Establish the Management Concept of Optimal Total Cost of Logistics Supply Chain.** Supply chain cost control should focus on controlling overall cost rather than partial cost. The lowest cost of local scope, single part or even single enterprise cannot represent the optimal cost of the whole supply chain. In the short term, enterprises in the supply chain rely on their own cooperation advantages to squeeze their upstream or downstream suppliers’ logistics costs and obtain short-term and obvious cost advantages. However, in the long term, different costs of suppliers objectively present different service levels or supply quality. If by continuous price reduction, online bargaining, transparent operation and other ways to suppress suppliers’ profits to make it barely profitable, putting a key supplier in that position can risk making the supply chain vulnerable, especially if you treat those suppliers as strategic partners. Don't push strategic suppliers too hard. Instead, understand the total cost of your suppliers, such as different cost control methods for transportation and inventory. It makes more sense by understanding than by asking for lower prices alone.

If suppliers of each node only tries to minimize its own cost, with strong ones of the supply chain oppressing the adjacent weak counterparts, the quality at each stage from the very beginning of the raw material supply, to product design, production, logistics and service cannot be safely guaranteed, the quality of the final products do not have sustained competitiveness, thus impairing the interests of all parties involved. And in this whole process, the enterprise at the core of the supply chain will lose the most. So supply chain core enterprise needs to fully clarify each cost control node of supply chain and its correlations, link the cost control nodes effectively, give full play to its dominance in the supply chain cost management, and set up the optimal total cost management of the logistics supply chain with the overall target being improved competitiveness of the enterprise.
Establish a Scientific Supply Chain Total Cost Control System and Clarify its Components

Establish a Scientific and Targeted Cost Control System. The cost control methods mainly include target cost method and activity-based cost method, which will be introduced in the following chapters. As analyzed above, supply chain cost control needs to be led by core enterprises. In the process of actual cost control practice, the enterprise needs to determine its strategic management objectives of the supply chain first. There should be a clear direction that the purpose is to constantly optimize the supply chain operating cost under the win-win situation, so as to improve the competitiveness of terminal products.

First, cost is formed in the whole process of product production, expense occurs in every link of the enterprise, and income is generated along with sales activities. From the perspective of different node enterprises, the income of the upstream enterprise is the expense of the downstream enterprise, so the cost shall be decomposed layer by layer, and the cost attached to the final product shall be decomposed into each node enterprise and each major operation.

Second, when developing the cost control methods, the core enterprises of the supply chain should determine the cost control system based on the different organizational structures and management requirements of the industry and the enterprise, and strengthen the cost budget of production, logistics and transportation, to make the cost budget of each link has scientific rationality.

Third, the core enterprise of supply chain based on their cost management target should assist other upstream/downstream enterprises to establish cost control key processes. All work together through various approaches like establishing strategic alliance, determining the most cost-effective but not the fastest service standards, setting up product standardization, boosting information transparency to reduce the bullwhip effect etc. in cost control.

Fourth, core enterprises in the supply chain are repositioned from caring about the quotation of their affiliated enterprises to caring about their costs. The cost control plan should be specific to every enterprise, every department and even every person. At the same time, after the cost plan target plan is determined, when there are changes in the surrounding environment or the internal environment of the enterprise, appropriate adjustments should be made to ensure its effectiveness.

Make Clear the Composition Analysis of Supply Chain Cost. As for the content and organization methods of supply chain cost, different scholars have different perspectives. It is not comprehensive to classify supply chain cost as logistics cost. Logistics costs generally refer to the costs incurred in the process of moving a product from one place to another in order to meet the needs of production or customers. Supply chain costs, on the other hand, defined in terms of end products, they refer to the costs incurred by all activities from the beginning of raw materials to the delivery of products to customers.

From the very beginning of the terminal product to its delivery to the end customers, it can be roughly divided into the following stages: product design, product production, product distribution, product sales, and all kinds of information flow and management activities. According to enterprise nodes, a typical supply chain is composed of five operating entities: supplier, producer, wholesaler, retailer and customer. In pull supply chain operation, customer demand acts as the starting point, manufacturers make production preparation and place orders to suppliers, information transfer in this process is usually reverse and end customer demand is the leading factor; but supply chain cost accounting are internal management accounting activities mainly done by manufacturers or retailers, which are generally supply chain core enterprise, acting as the leading factors to collect each node enterprise, especially its key neighboring node enterprise's product cost information, for the purpose of supply chain cost optimization as a whole.

Considering enterprise nodes and different operations of node enterprises comprehensively, in full-link supply chain cost control, the core enterprise should take the lead, and the core enterprise and node enterprise should work together to determine the composition of node enterprise supply chain activity cost. Internally, the cost structure should be clarified comprehensively, and the strategic supply chain should be established externally, and the core enterprise should assist/guide the overall cost management of upstream and downstream suppliers thus to optimize the whole chain cooperation.
Clarify the Composition of Supply Chain Costs. To control the total cost of the whole supply chain, the key is to list the components of the supply chain cost of enterprises at different nodes. For these different enterprises in the supply chain, their cost accounting methods and elements are different. Fig. 2 shows a typical supply chain structure.

In practice, the core enterprises of the supply chain focus on collaboration with their direct upstream suppliers and downstream users. Then a simplified supply chain cost control chain evolves into the structure shown in Fig. 3.

According to the three main supply chain stage model of "supply-production-distribution", supply chain operations are divided into four categories: purchasing operations, storage operations, sales operations and information management operations [8]. Here enterprises that include production and sales operations are treated as the core enterprises.

In "supply - production" stage, operations happen between the supplier and the manufacturer. And it could be divided into three categories: the first is that manufacturers purchase raw materials from suppliers in order to replenish raw material inventory, the second is production and sales enterprises purchase third-party logistics warehousing and distribution services, the third category is production and sales enterprises make procurement on marketing plans and execution and alike, which are collectively known as value-added services to boost sales.

In the "supply - production" stage, the cost analysis is as follows. In the first type of supplier procurement, from the time the order is placed by production and sales enterprises to delivery time of goods on schedule, aka the procurement process, certain manpower is needed to manage and
control the procurement of raw materials, to collect and analyze procurement information and maintain the information management system. Therefore, purchasing management cost, information system maintenance cost and information cost are generated accordingly. The cost of purchasing management will increase with the increase of purchasing quantity; while there is little correlation between information cost, information system maintenance cost and purchase volume. When a purchase order is launched, the ordering cost will be incurred. The higher the order frequency, the smaller each order batch, the higher the cost will be. The distribution of purchased materials will produce corresponding handling and transportation costs; Warehouse management cost and inventory holding cost will occur after raw materials are put into storage. In the second type of supplier procurement, it is mainly the third-party logistics cost of finished and semi-finished product logistics service procurement. In the procurement of third-party logistics, there are corresponding procurement management cost, information system maintenance cost and information cost. The actual cost of third-party logistics mainly includes transportation cost, storage cost and inventory holding cost. A higher optimization degree of supply chain network will produce lower transportation cost; the less non-value-added activities in the logistics chain are involved, the lower the logistics cost will be; a higher storage utilization could be achieved with more standard storage parts, yielding lower the storage cost. The higher the vehicle load ratio, the lower the transportation cost; The lower the warehousing holding inventory, the higher the operating level of the enterprise will be if it can complete the same business with fewer fixed assets. In the mode of third-party logistics outsourcing, logistics companies and enterprises should cooperate to establish their respective goals and responsibilities based on the principle of mutual benefit, adjust and control each other to reduce logistics costs, so as to optimize the total cost of the supply chain, and shift from internal coordination to overall coordination of the supply chain. The third type of procurement is similar to the first two, with slightly simpler content.

For "production - distribution" stage, a specific business scenario occurs between the producer and its direct customer.

The cost analysis in the "production-distribution" stage is as follows. When a manufacturer receives an order from a customer, it needs to process the order and make corresponding production arrangements. As a result, the cost of order processing occurs, and this cost would increase as the number of order types go up. Under the production mode based on market forecast value, the manufacturer needs to collect and analyze corresponding information and conduct information interaction activities, this would incur the cost of information system maintenance and management. Under the production and operation mode based on the forecast system, the manufacturer needs to prepare the corresponding inventory for the customer, thus comes the inventory management and holding cost. According to the requirements of the order, the goods need to be properly packaged, hence packaging costs occur; when the goods are delivered, they must be delivered to the warehouse designated by the distributor, resulting in equipment costs, transportation costs and handling costs, all three of which are proportional to the volume of transportation. In the production-distribution stage, the demand forecasting department and client should strive to improve the accuracy of the goods required, and meet the market demand through relatively low inventory holding level without lowering the service standard. The establishment of strategic alliance between production and client is conducive to finding a balance between cost and service, reducing the delivery time to a reasonable level by adopting different service standards and selling prices, and optimizing the procurement cost of third-party logistics.

In the process of "supply, production and distribution", the third-party logistics cost in manufacturers' procurement is also the logistics cost of manufacturers' distribution to distributors (that is, customers). In the actual analysis, it should be decomposed layer by layer and be careful not to double calculate.

As analyzed above, in "supply, production distribution" process the main supply chain logistics cost is: ordering cost, transportation cost, handling cost (loading and unloading), equipment cost, the purchase management cost, inventory cost, picking cost, storage cost, warehouse management cost, order processing cost, packing cost, information collection cost and information system maintenance cost.
Technical and Management Support for Implementation of Supply Chain Cost Control Strategy

Supply chain cost management is the core component of enterprise strategic management. In addition to clarifying the links of the supply chain cost control, it is also necessary to cultivate the cultural awareness of cost control in the node enterprises of the supply chain, and establish measures such as horizontal integration mechanism, trust and cooperation mechanism, information sharing mechanism, performance assessment and incentive mechanism, so as to effectively promote the specific cost control plans and implementations of these plans.

**Determine the Scientific Method of Cost Accounting For Enterprises at Each Node of the Supply Chain.** To carry out a comprehensive supply chain cost control process, it is necessary to set up a good enterprise logistics cost management mechanism, and each link of the supply chain system should be consistent, otherwise it is impossible to measure and control related logistics activities. The enterprise logistics cost should be analyzed carefully to realize the accurate accounting and management of logistics cost. Activity-based costing can be used to calculate the product costs in each activity center of logistics, so as to find out the overconsumption or non-value-added activity center, and then take corresponding measures to control the activities, so as to achieve the effect of optimizing resource allocation [9].

**Establish Uniform Cost Accounting Methods Among Enterprises through Training.** Supply chain cost control first requires the establishment of a binding agreement so that upstream and downstream partners in the supply chain agree to use the information reflected in responsible accounting management to remove excess costs and reduce the total cost attached to the end user.

Enterprises which having dominant roles of supply chain cost control, in addition to unify with the upstream and downstream enterprises on cost control, also need to provide its suppliers and customers cost accounting and control related training, and encourage each enterprise on the supply chain to adopt this process, with the target of trying to reduce the cost of whole supply chain segment while achieving the optimization of various enterprises’ own costs.

**Establish the Cross-industry Alliance Organization Structure to Support the Cost Accounting of the Whole Supply Chain**

With the increasing collaboration between manufacturers, suppliers and end customers, many companies have realized that they can work together to reduce excess costs in the supply chain, but before this type of collaboration can work, companies must trust each other [10].

![Figure 4. Theoretical Model of Supply Chain Transportation under Cross-industry Alliance.](image_url)

Jim Gibson, partner at PricewaterhouseCoopers, said, "A fundamental way to increase the level of trust between partners in the supply chain is to establish responsibility accounting management (ABC/M). By using accurate cost accounting data to manage a synchronized supply chain, companies can greatly reduce suspicion and enhance cooperation.” Sections above supplement the specific elements of responsibility accounting management and unify the methods.

Enterprises are encouraged to establish a product-oriented supply chain accounting method, to
optimize the overall cost of the supply chain as the goal, clarify the process, work together, and eliminate waste to increase the competitiveness of products [11]. Through the cross-industry alliance initiative, thoughts are unified; common trusts are strengthened throughout the supply chain [12]. As shown in Fig.4, cross-industry alliance changes the supply structure from a chain into a network, effectively increasing the information exchange between nodes.

The realization of overall cost target of the supply chain as a whole, is not done through the extrusion of cost on disadvantaged suppliers in order to shift market pressure by downstream entities (generally strong supply chain entities), but coordination of all node enterprises of supply chain; it emphasizes the importance of established long-term supplier relationships, so that each enterprise on the basis of maintaining its profitability, reaches the final common goal of supply chain cost control.

Establish Performance Appraisal and Incentive Mechanism

The performance evaluation index is used to check and evaluate the operation performance of node enterprises in the supply chain. According to this standard, the actual operation situation and deviation of the standard are measured to facilitate the improvement and adjustment of the next steps and future work. The assessment of the cost index is mainly through the comparison method which compares the actual cost with the target cost, finds out the deviation, analyzes the reasons for its occurrence, and makes reasonable improvement methods so as to adjust the implementation of the operation. After the assessment is completed, the contribution rate and value of all member enterprises to the whole supply chain are calculated according to the assessment, and then a fair and reasonable distribution standard is worked out according to the calculation results, and profit distribution is carried out on the results, so that the problem of uneven profit distribution can be improved.

Conclusion

Problems such as lack of understanding of supply chain cost structure and weak concept of supply chain cost control and alike are not uncommon in Chinese enterprises. This paper mainly analyzes the current situation of supply chain cost control, and then sorts out its cost control ideas and methods for core enterprises of supply chain to address low level of supply chain management, complex structure and single cost accounting method issues. Based on analysis of cost control characteristics for each node enterprise of supply chain, it presents a performance evaluation system covering all supply chain sections, in which cost control of the core enterprises of supply chain acts as the goal, and alliance of the node enterprises of supply chain is built, with core enterprise of supply chain coordinating each node enterprise according to their cost characteristics to determine cost control methods; optimization of the evaluation system will also be led by core enterprises on the supply chain to ensure continuous enhancements of enterprise supply chain cost control process.

References


