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Article

Analysis of The Current State of Strategic Cost Management

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Abstract: This paper examines the current state of Strategic Cost Management (SCM) practices across various industries and enterprise sizes, highlighting the transition from traditional cost accounting systems to strategically driven cost frameworks. The article explores both the theoretical foundations of SCM and its practical applications through a comprehensive review of the literature and a comparative analysis of real-world company case studies. Drawing from academic research, industry reports, and cross-industry comparisons, the analysis digs into how widely advanced costing methods—such as activity-based costing (ABC), target costing, and value chain analysis—are being adopted. It also looks at how digital tools like ERP systems, cloud technologies, and AI-powered analytics are being woven into cost strategies. Finally, the study highlights key challenges that companies face, such as outdated technology, poor alignment with business strategy, and gaps in employee skills.

Keywords: Strategic Cost Management, Cost Accounting, Activity-Based Costing, Value Chain Analysis, ERP Systems, Decision-Making, Enterprise Efficiency

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1. Introduction

In today's volatile and competitive business landscape, effective cost management is no longer limited to expense tracking or budget control. Enterprises must align cost structures with strategic objectives to optimize resource use, maximize value creation, and sustain long-term competitiveness. This need has given rise to strategic cost management (SCM) — a forward-looking approach that links cost data to strategic planning and decision-making.

While traditional cost accounting emphasizes operational efficiency and financial reporting, strategic cost management focuses on identifying cost drivers, optimizing value chains, and leveraging cost data for competitive advantage. Despite its proven benefits, SCM adoption remains uneven across enterprises, especially in developing economies.

This article aims to examine the current practices, challenges, and opportunities in implementing SCM in modern enterprises.

2. Materials and Methods

Strategic Cost Management (SCM) has emerged as a multidisciplinary field that intersects accounting, strategy, operations, and information systems. Numerous scholars have contributed to shaping the theory and practice of SCM. Below is a review of influential contributions that highlight both foundational theories and recent developments.

Economists Shank and Govindarajan (1993) who are pioneers of the SCM concept, they introduced the integration of value chain analysis, strategic positioning, and cost driver analysis to align cost structures with strategic objectives [1]. Their approach emphasizes that cost systems should support sustainable competitive advantage.

Kaplan and Cooper (1998) who are known as creators of Activity-Based Costing (ABC), they reshaped how indirect costs are allocated. The model which helped managers understand how specific activities drive costs, thereby aligning resources with value-creating operations [2].

Porter (1985) introduced the Value Chain Framework, urging managers to view cost structures within the broader scope of primary and support business activities. His strategic lens helps firms locate sources of cost advantage across their processes [3].

Johnson and Kaplan (1987) criticized traditional cost systems in Relevance Lost, arguing they were obsolete for modern management. They advocated for systems that capture strategic performance metrics, leading to innovations like Balanced Scorecards [4].

Ittner and Larcker (1998) investigated that effective SCM involves non-financial performance indicators and alignment with business strategy. They stressed that overly narrow cost metrics can undermine long-term goals [5].

Chenhall and Langfield-Smith (2007) explored how strategic alignment and organizational structure influence the success of cost management systems. They found that cultural fit and managerial support are key to SCM implementation [6].

Horngren, Datar & Rajan (2002) advanced modern cost accounting theory, integrating concepts like kaizen costing, target costing, and just-in-time (JIT) systems. Their work is essential for understanding how cost control and continuous improvement contribute to strategic success [7].

Merchant and Van der Stede (2003) studied management control systems and emphasized that SCM must be part of a broader framework that includes motivation, culture, and organizational learning—not just financial control [8].

Gosselin (2006) provided insights into why firms adopt ABC systems and how organizational context—such as decentralization, size, and structure—influences the success of strategic costing tools [9].

Malmi and Granlund (2009) studied ERP systems and management control, showing that technology enhances SCM only when paired with process reengineering and cultural adaptation [10].

Atkinson et al. (2011) promoted the integration of customer profitability analysis and lifecycle costing into SCM. They advocated that cost management must be customer- and product-centric, not just process-centric [11].

Drury (2013) focused on practical applications of SCM tools in various industries, highlighting implementation issues. He emphasized that firms often struggle to embed advanced cost systems due to operational inertia [12].

Dr. Abdul Rehman (2023) emphasizes the importance of SCM in navigating the complexities of globalization. He integrates theories such as Porter's Five Forces and Transaction Cost Economics to highlight how firms can achieve cost competitiveness through value chain analysis, supply chain optimization, and cultural adaptability [13].

3. Results and Discussion

Strategic Cost Management (SCM) practices vary significantly across industries, shaped by the sector's digital maturity, cost structure, and strategic priorities. Below is a comparative analysis, including real-world examples and visual data [13].

Table 1. Strategic Cost Management Across Industries.

Sector	SCM Strategy	Cost Reduction (%)	Digital Maturity Level (1–10)
Manufacturing	Lean, Digital Twins	30%	9
Logistics	Predictive warehousing	12%	8
Energy	Forecasting, smart grids	20%	9
Retail	VMI, real-time POS data	25%	7
SMEs	ERP adoption (gradual)	15%	4
Public Sector	E-procurement, centralized contracts	10%	6

Source: https://www.weforum.org/, https://www.oecd.org/, https://www.cimaglobal.com

The Chart on Digital Maturity of Strategic Cost Management (SCM) by Sector visualizes how different industries rate in terms of their technological integration and readiness to implement advanced SCM practices on a scale from 1 (low maturity) to 10 (high maturity) [14].

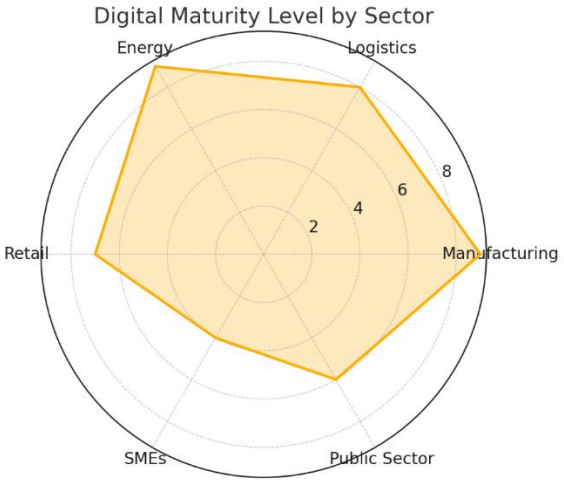


Figure 1. Digital Maturity of Strategic Cost Management (SCM) by Sector.

Strategic Implications:

1. High Maturity Sectors (Manufacturing, Energy): Should focus on predictive modeling and AI-driven optimization to push efficiency further.
2. Mid-Level Sectors (Retail, Public): Require standardization and inter-system integration to reach higher SCM maturity.

Low Maturity (SMEs): Need access to low-cost digital tools, training, and government-backed incentives to scale SCM practices sustainably.

Table 2. Maturity Scores by Sectors and Their Descriptions.

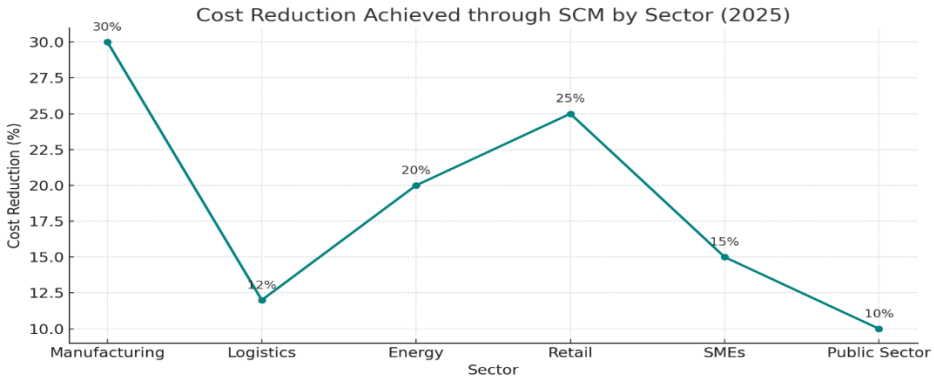
Sector	Maturity Score	Interpretation
Manufacturing	9	High maturity due to deep integration of ERP, IoT, and real-time cost analytics. Leaders like Toyota and Siemens use digital twins and AI for SCM decision-making.

Energy	9	Strong digital presence driven by smart grid tech and AI forecasting tools (e.g., GE, CSPG). SCM is essential for cost predictability and efficiency.
Logistics	8	Logistics players like DHL and Amazon rely heavily on AI for fleet routing and warehouse automation. Digital SCM supports their dynamic and fast-paced environments.
Retail	7	Retailers like Walmart and Zara utilize real-time POS systems and demand forecasting. Maturity is improving, but still challenged by fragmented supply chains.
Public Sector	6	Government agencies (e.g., NHS UK) are increasingly adopting centralized procurement and digital tendering, but are limited by bureaucratic inertia and funding constraints.
SMEs	4	The least digitally mature. Small and rural enterprises often lack access to digital SCM tools, skilled staff, or strategic awareness. Adoption is growing slowly via government support.

Source: https://www.weforum.org/

The Shape Reveals:

1. The wider the area, the more digitally advanced the sector is.
2. Manufacturing and Energy form the most expansive parts of the radar, indicating high strategic integration of digital SCM.
3. SMEs' segment is the narrowest, signifying low digital maturity, and hence the largest opportunity (and challenge) for future SCM advancement.
4. Public Sector occupies a mid-tier space, reflecting incremental digital reforms.



Source: https://www.cimaglobal.com/, https://www.imanet.org/

Figure 2. Cost Reduction Through SCM by Sectors.

This line chart illustrates the percentage of cost reduction realized by various sectors in 2025 through the implementation of Strategic Cost Management (SCM) practices. Strategic implications:

1. Manufacturing leads in SCM adoption and ROI due to its structured cost control environment and history with lean strategies.
2. Retail and Energy sectors show high agility and digital readiness, leveraging real-time data to optimize operations.
3. SMEs and Public Sector have room for improvement. Public sector especially needs policy-driven digital transformation to unlock SCM potential.
4. Logistics, while digital, faces physical and global constraints (e.g., geopolitical events, fuel costs) that limit further cost reduction despite smart systems.

Table 3. Cost Reduction by Sectors and Their Descriptions.

Sector	Cost reduction (%)	Interpretation
Manufacturing	30%	Highest cost savings due to extensive use of lean manufacturing, digital twins, and AI-driven SCM.
Retail	25%	Strong savings from fast inventory turnover, vendor-managed inventory, and demand forecasting.
Energy	20%	Efficient through smart grids, AI forecasting, and energy load balancing strategies.
SMEs	15%	Moderate gains despite limited resources; early ERP adoption and procurement streamlining contribute here.
Logistics	12%	Lower-than-expected savings due to complex routing and dependency on external systems. Gains mostly from AI route optimization.
Public Sector	10%	Least savings due to slower digital transformation, bureaucratic processes, and limited procurement reform scope.

Source: https://www.cimaglobal.com/

Strategic Cost Management (SCM) is a vital tool for enhancing efficiency and sustaining competitiveness in global manufacturing. Leading firms like Toyota and Siemens have shown how lean methodologies and digital twin technologies can drive significant cost reductions. GE Aviation's adoption of additive manufacturing highlights how innovation can simultaneously cut costs and improve product performance. Tata Steel effectively manages commodity price volatility through integrated supply chain and ERP strategies [15], [16].

Table 4. Strategic Cost Management Strategies Across Companies.

Company	Region	SCM Strategy	Result
Toyota	Japan	Lean systems, JIT, supplier costing	Inventory -70%, waste minimized
Siemens	Germany	Digital twin, cost forecasting	R&D costs -40%, better simulation accuracy
GE Aviation	USA	3D printing, lifecycle costing	Parts reduced 300:1, huge CAPEX savings
Tata Steel	India	Raw material SCM, ERP	Input cost stability, procurement speed
Nestlé	Switzerland	Portfolio cost optimization	$1.9B saved globally, faster innovation
Foxconn	Taiwan/China	Labor efficiency, low-cost scaling	Lowest unit costs, global SCM coordination

Source: Data taken form official websites of companies

Nestlé's approach to portfolio optimization demonstrates the strategic use of SCM for simplifying complexity while maintaining product diversity. Foxconn exemplifies cost leadership at scale through labor optimization and efficient supply chain execution. Across all cases, digital tools, real-time analytics, and supplier collaboration are common success factors. These firms prove that SCM is not just about cutting expenses but about creating long-term strategic value [17], [18].

While large manufacturers lead in SCM maturity, there is a pressing need for SMEs and public organizations to follow suit. Overall, strategic cost management is evolving into a cornerstone of sustainable, value-driven global manufacturing [19].

Strategic Cost Management (SCM) is no longer just a financial tool—it's become a vital part of how modern businesses think, plan, and grow. From global giants like Toyota and Siemens to tech-driven innovators like GE Aviation and Nestlé, companies are showing that managing costs strategically can unlock real value, not just savings. These

leaders are using digital tools, real-time data, and smarter planning to drive efficiency and stay competitive [20], [21], [22].

4. Conclusion

Our analysis makes clear that success in SCM isn't just about technology—it's about alignment. When strategy, operations, and cost systems work together, the results are powerful. High-performing sectors like manufacturing and energy have embraced this fully, but others—like small businesses and the public sector—are still catching up.

The charts and case studies highlight both progress and challenges. While some companies are leveraging AI, ERP systems, and advanced costing methods, others face real barriers like limited budgets, skills, or outdated systems. Bridging this gap is essential for creating more inclusive and competitive economies.

In the end, SCM is about more than cutting costs—it's about making smarter choices that support long-term goals. As global markets evolve, companies that view cost management as a strategic partner—not just a reporting function—will be best positioned to thrive.

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