

Cost leadership business strategy



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Cost leadership is a business strategy developed by Michael Porter. It helps the organization create competitive advantage. Cost leadership refers to provide lowest cost of operation in the industry and it is different from price leadership. It's often driven by organization efficiency, size, scale, scope, technology and experience. A cost leadership strategy use to exploit scale of production, producing highly standardized products by using high technology. An organization could be the lowest cost producer, but not offer the lowest-priced products or services to customer. Therefore the organization would have a higher than average profitability. However, cost leader organization will compete on price and are very effective at such a form of competition, having a low cost structure and management.

The organizations can increase the market share by appealing price-sensitive customers. This is achieved by having the lowest prices in the target market segment to appealing price-sensitive customer while the organization still profitability and a high return on investment. The organization must be able to operate at a lower cost than its rivals.

Organization can achieves this by achieving a high asset turnover, low direct and indirect operating costs, and control over the supply/procurement chain to ensure low costs.

The company choose are London Biscuits Berhad Group, Oriental Food Industries Sdn Bhd and Apollo Food Industries Sdn Bhd. London Biscuits Berhad Group is a manufacturing and marketing cakes and snack food which score high in terms of product safety and quality based in Malaysia. It is listed in the main market of Bursa Malaysia. The reason our group chosen this company is in the annual report 2010 the company outlook and prospect

mention about the cost effective. Besides, the company strategy for go also show they march toward cost leadership. It relate to assignment topic which is compete on a cost leadership strategy.

Oriental Food Industries Sdn Bhd is the food manufacturing industry, today holding the leading position in the snack food and confectionery industry in Malaysia. It also listed in the main market of Bursa Malaysia. One of the aim for research and development team is to reduce cost and wastage while increasing productivity and maintaining standards. This strategy shows the company trying to achieve cost leadership. Apollo Food Industries Sdn Bhd is the manufacturing compound chocolate confectionery products and layer cakes based in Malaysia. The company also listed in the main market of Bursa Malaysia. One of the company strategies is implementing and maintains the quality management system and continually improves its effectiveness. This strategy shows the company is towards to cost leadership.

Body

London Biscuits Berhad

The first company is London Biscuits Berhad. From annual report, they mention that the company is toward cost efficiency by few strategies. The first and foremost, London Biscuits Berhad have implement the low cost in the main raw material. The company bought Lay Hong Berhad to assure has a continuous and adequate supply of quality liquid eggs at reasonable price. Liquid egg is one of the main raw materials in manufacturing of cake product. After, the company have take up a controlling stake in TPC PLUS

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BERHAD(TPC) at a reasonably cheap entry cost. TPC is a company also listed in the main market of Bursa Malaysia, mainly involved in producing chicken eggs for industry, commercial and consumer use. TPC is also a supplier of London Biscuit Berhad. The action help the company have own supplier of egg with assured quality and cost-effective to the company.

The second strategy they implement is mass production, it can help the company to reduce the average cost. The reason is that, mass production can reduce the wastage in raw material as well as achieve cost-effective at long range perspective. In the annual report, they mention they are commissioning of new cake production line which to be the single biggest production line in South East Asia. The line wills more than double of the company existing production capacity.

The third strategy implement is upgrade technology to improve production efficiencies, reduce wastage and reduce manpower requirement. In annual report, the company mention about older machines and facilities in snack manufacturing division are upgrading to custom design and built machines. For long term, this will help the company save production cost and lead to cost leadership in the industry.

The last strategy implement is directors' training. In annual report, the company mentions certain directors have attended training and seminar whether in-house or external in various areas to enhance their skills to contribute more effectively to the company. This action will help the company running with more efficiency, implement useful strategy and reduce the mistake in decision making by director.

Oriental Food Industries Sdn Bhd

The Second Company is Oriental Food Industries Sdn Bhd. From the annual report, the group's pre-tax profit grew faster at 37.5%. It's driven principally by a better sales mix as well as a more efficient cost structure. From the statement, we can know the company is a cost leadership company.

The first strategy the company use to achieve cost leadership is director's training, it can find in the group annual reports. This will improve the ability and efficiency of the director in making decision. This will reduce the wrong decision making, indirect reduce the loss in making a wrong decision.

Besides, in the annual report mention the company provide on-job-training and external courses for relevant departments to ensure the sufficiently skilled to perform effectively and efficiently. This strategy can help the company reduce the manpower require and save cost pay for Over Time.

The second strategy implement is reducing cost and wastage and increasing productivity. From the company websites, the R&D team engages in various research methods in order to improve the production process to achieve the strategy. This will lead the company to cost leadership.

The third strategy implement is technology. From the company website, they mention the company abreast with the latest technology developments. The company produces the products with modern machinery for increase the productivity and efficiency to achieve economic of scale. It also can help the company reduce the manpower using.

The fourth strategy implemented is the relationship with suppliers and customers. In the annual report, the company mentions Mr. Son Chen Chuan as a Managing Director in the company, he had a close relationship with the supplier and customer. With the relationship with the supplier, they can get the material with quality and lower price. This will reduce the cost for the company.

Apollo Food Industries Sdn Bhd

The third company is Apollo Food Industries Sdn Bhd. From the annual report, all the directors have completed the Mandatory Accreditation Programmed (MAP). The aim of this training is to enhance their skills and knowledge. It can help the directors in decision making to reduce the error and risk. When wrong decision making, the risk and cost for the company is high, it can help the company save cost.

The second strategy implemented is training provided to employees. From the annual report, the company mentions the employees are provided with necessary training in various job-related areas organized by external parties to enhance the skill and knowledge. This will help the company reduce the manpower and pay for Over Time.

The third strategy implemented is reducing wastage. From the annual report, the company mentions operation and office resources are being utilized without much wastage and recycling are being encouraged at all times. This strategy will save the cost for the company and lead the company towards cost leadership.

The fourth strategy implemented is continuous improvement in production planning. From the annual report, the company invests in newer and modern production machineries to increase production and reduce costs.

These companies have implemented several similar strategies such as mass production, technology upgrade, and director and employee training.

These strategies will help the companies to achieve economies of scale, reduce manpower and other expenses in order to achieve cost leadership in the industry. Besides, these companies also implement different strategies to lead the industry. The London Biscuits buy their supplier to reduce raw material costs and ensure the quality of raw material. This strategy is not implemented by the two companies, it becomes a superiority for London Biscuit Berhad. The Oriental Food Industries Sdn Bhd implement different strategies but the same aim is to get the material at a reasonable price. This company achieves this by having a good relationship with the supplier to increase bargaining power with the supplier.

3.0 Conclusion

The three companies' uses for research are from the same industries that compete with each other in the same market. These three companies use their cost leadership strategies in the confection industry in order to reduce costs and keep their prices low to compete with others and increase market share to survive. Most of the strategies are similar but implemented in different ways to achieve cost leadership strategies. Besides, there are some different strategies used that are different from others. These help the company have superiority when competing with others.