

Cost management case study example

Business, Company



Cost management is a major concern for many companies. There are different techniques that companies implement. However, some companies believe that the techniques of reducing cost can only occur at the design phase. According to Cooper and Slagmulder (2004), cost management techniques can be applied during different stages of a product's lifecycle. The study was based on Olympus Optical Co. Ltd. Research on Olympus showed that the company reduced most of the product's cost during the manufacturing phase.

An assumption is held that 80 to 95 percent of a product's cost is determined in the design phase. Research according to Cooper and Slagmulder (2004), shows that a company like Olympus has managed to implement techniques to manage costs during the entire life cycle. There are five techniques the company employs: target costing, product-specific kaizen costing, general kaizen costing, product costing, and functional group management. Target costing takes place during the design phase. Engineers re-design the product to reduce the final cost. They also ensure that the product's functionality and the quality are maintained. In the case of Olympus, the company applied cost reductions in four areas. It decreased the number of parts in the product and got rid of expensive processes. It also replaced metal and glass components with those made of plastic and asked its suppliers to reduce their costs.

Product-specific kaizen costing involves redesigning the product when it is in the early stages of manufacturing. General Kaizen costing concentrates on how a product is manufactured. The company's management sets goals and the workforce works towards achieving them. Functional group management

breaks down the production process and focuses more on profit instead of cost. As such, the throughput of the production processes increases. Product costing enables the rest of the techniques by providing the relevant, up-to-date information.

Four of the mentioned techniques reduce costs while one helps to contain them. Integrated cost management is a program where a number of techniques are put into use. There are benefits for doing this. The cost during the entire life cycle reduces. In addition, many products are launched on time because a company does not have to delay to adjust the costs to the selling price. It also reduces the number of product introduction cancellations. There are different ways to integrate the cost management techniques. Different integrations at various levels of a product's lifecycle may result in different outcomes in a company. General Kaizen costing and functional management can be integrated. Functional group management will help workers come up with ways to reduce cost. Also, functional management will require relevant information from product costing to generate statements useful to the workers. General Kaizen can work with product costing to ensure costs are kept below previously achieved levels. The company can come up with strategies to keep the costs low.

In my opinion, cost management is important for all companies. The techniques a company can implement are also many. I agree with the research that cost management is not only effective when implemented during the design phase. The implementation of these techniques in other phases of a product's lifecycle will result in more reduction of costs. However, different companies should use different techniques. For instance,

the length of a product's lifecycle is different for various companies.

Companies with a longer phase may consider integrating the techniques differently than those with a shorter manufacturing phase.

References

Cooper, R., & Slagmulder, R. (2004). Achieving Full-Cycle Cost Management. MIT Sloan Management Review, 45-52.