

Cost reduction analysis

Business



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As playing the part of Steve, I would first like to thank you for the opportunity to take on this important task that will help to shape the future here at Futronics. This analysis will bring you the different benefits for outsourcing weighed against those for maintaining our current central stores. It will also, in turn, provide you with the disadvantages for each option. We can first start with the option of outsourcing. We have collected proposals from five different companies who are willing to take on our requirements for cost reduction by way of outsourcing our tasks to them.

Some of the benefits to outsourcing are illustrated below in a general outlined table.

Futronics Central Store	Issue	Outsourcing
500	Items on Hand	600
Delivered to dock or receiving area	Delivery	Delivered to Secretaries' desk
Must wait on dock to process order and then deliver it to secretaries	Expedition Time	There is no wait from the dock as the outsourced company will deliver to secretaries' desk
There is a considerable amount of paperwork as well as management required to run the receiving area	Paperwork and Management	No management required and less paperwork associated with the reception of products
We will remain obligated to pay for our workers working the receiving area	Labor Cost	Will no longer have to pay salaries of dock workers as work is outsourced to an outside company
Will still require the space and equipment needed to properly operate the receiving area	Facility Maintenance	No longer required to maintain a facility or equipment. These tasks will be allocated to the outsourced company

After viewing some of the key points to our dilemma, it is now time to look at some benefits to maintaining our central stores and keeping the system that have in place currently. This will again be illustrated

in the table below. Futronics Central Store| Issue| Outsourcing| Still maintain a degree of control over the stock and delivery options available| Control| Will have less say and control about stock and delivery options, as it pertains to products received| Presently there are no additional cost perceived | Cost| Will incur cost initially and may not see any return on this investment for a few years| Consistent knowledge of product costs and desirable amount of control over price.

As we have options on where to get product| Pricing| Very little control over price of products and the price jumps that may occur with outsourced company| We currently have no contract and can bounce between suppliers as desired| Contract| We will be locked into a contract for up to 3 years and could be susceptible to price jumps| Now that we have explored the advantages and disadvantages for both options, I would like to explain cost reduction measures for both possibilities. Let's first look at how to reduce cost by outsourcing. This information will be given in writing and again on a table for an easier and better to understand illustration. By continuing our current status, we can reduce costs by searching for different vendors to buy our products from, and help secure long lasting relationships with the cheaper vendors to ensure that we get top quality merchandise as well as lower prices. We can also revamp our receiving personnel by moving some of the workers to a part-time or seasonal position that will alleviate any dead times when we are not needing any extra help.

We can also work out some type of schedule that allows the receiving employees a chance to work in shifts where we may have some full-time employees for a certain number of days per week and then rotate them out

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with the part-time employees. This will allow us to possibly work everyone by part-time standards, maintain the same amount of production hours and pay everyone for part-time work. Such payments will help those who need the hours to maintain a relative salary to what they make now, but require less for the company in having to pay overtime or even full-time benefits to the employees, as they are considered part-time. Idea| Benefit| Feasibility| Locate different vendors for supplying merchandise| Will help us to lower costs of supplies and lower costs in general| Very feasible to locate different vendors in our market to supply our needs| Shift some workers to part-time| Allow us to cut labor costs almost in half without actually losing someone| Feasible and ideal for the costs reduction that is trying to be attained| Make all workers part-time and put them on a rotation that will allow them to all work between 30 and 39 hours per week| Allow us to cut labor costs considerably and also will cut in our benefit funding to these employees not classified as full time| Feasible to attain and will cut costs greatly, but may need some adjustment based upon need for benefits by employees| By outsourcing, as discussed earlier, we have many ways in which to cut costs, by no longer having to pay for the facility we are currently using for our receiving area. No longer having to maintain and operate our equipment that is used in the receiving process, and also will not have to pay the salaries for the workers required to operate our receiving operations. Not only will we be able to cut costs with facilities maintenance and labor costs, but also in regards to the products themselves.

When outsourcing we have found that 90% of the products that we currently have in stock can be found at lower prices. This will drive our costs down and

save us an average of 6%. Also with outsourcing we will still maintain our 500 item stock and also gain an additional 100 items for a total of 600 total items for our use and distribution. Outsourcing Issue| Benefit| Concern| Equipment and Facility Loss| No longer have to pay cost of building or equipment| Will lose asset value thus causing overall value of company to lower| Futronics Employees| Labor costs will be alleviated and help to lower costs for company| Will have to lay off workers and help to find them positions with outsourced company or pay unemployment benefits| Product Pricing| Product pricing will drop and give a 6% reduction| Not sure as to how long the reduction in price will last. Will be locked in contract for 3 years and could face price increases with no way to recover| In the final stages of the decision process and after evaluating many different options, my team and I have come to the conclusion, based on the facts given here that it would be more advantageous to the company to maintain the process that we have now.

By doing this we do not run the risk of getting locked into a contract that could surpass the amount of time required to cut costs. Also we will maintain our amount of control that we currently have over our delivery and pricing options. This will also help keep all employees in good morale, because we are not firing anyone from our team here at Futronics. We are simply reducing the work load on some individuals while also cutting costs which will be beneficial to all parties considered. As we continue on the path that we are on now, and reducing the work capacity and saving in costs, we may be able at some point later in the future consider the option of changing the way we operate.

As for today and the road we are currently on, it is beneficial to the company to cut costs in this manner, as opposed to operating under an outsourced business unit.