

Cost reduction and control in manufacturing sector



Cost Reduction There are right cost reduction techniques and there are wrong ones. Using the right strategies will result in a more efficient company spending. Using the wrong techniques will create a reduction of expenses required to maintain product quality and company value. It is a fine line sometimes, but a systematic approach can help managers avoid making serious mistakes in the rush to cut expenses. Cost management strategies should be utilized as components of a larger objective to maintain maximum profitability. As such, cutting expenses will be just one part of a plan that focuses also on maximizing revenue.

Effective techniques will begin with the setting of goals and objectives. There can be many reasons why a company might need to cut costs. * To create additional cash reserves * To reduce price of product or service * To bring expenses in line with revenues * To eliminate unnecessary expenses or wasteful spending * To increase company value * To increase competitive advantage * To move costs between departments Identifying the goal of the expense reduction exercise will assist with implementation of an effective plan. In other words, if you don't know why you are cutting costs, how are you going to know where to cut costs?

The purpose of expense reduction is to help the company towards long term survival. Purposes of expense reduction include: * Create cash for reinvest in research and development * Reduce manufacturing costs to stay competitive * Reduce costs as a non-profit so able to serve more people * Lower costs of service in order to provide additional services * To become more efficient * To prevent employee lay-offs * To prevent reduction in employee benefits

Cost reduction techniques should also be evaluated in terms of impact on the organization.

Prioritizing the goals of the cost cutting program will insure that the strategies are implemented appropriately. There are many different ways a company can institute a plan to reduce expenses. * Across the board reductions * Prioritized reductions * Departmental reductions * Reductions based on professional assessment * Budget reductions Cost reduction techniques can be an important strategy for another reason. They can teach a company to be economical, by forcing a regular review of spending at every level of the organization. It can keep a company vital and streamlined.

Cost Reduction News

Wilson's Leather Announces Aggressive Cost Reduction Initiative Wilson's The Leather Experts Inc. WLSN today announced that it will embark on a strategy aimed at reducing its mall store base, aggressive cost cutting initiatives, and the launch of a new accessories store concept. As part of this initiative, the Company plans to close up to 160 mall locations that do not fit its go forward strategy. Concurrent with these closures, all remaining 100 stores in the mall division will be re-modelled to a new " Studio" concept, which the Company has been testing since last fall in four different regions of the country.

This concept will be a brand driven store for women focusing on fashion accessories. Plans are to complete all 100 mall store remodels by August of this year. In this process, approximately 938 store-related positions will be affected. Wilson's Leather Outlet Division will not be affected by this new mall store initiative. " The decision to take these actions, while very difficult, is

the right move for the future of Wilsons Leather,” said Mike Searles, Wilsons Leather’s Chief Executive Officer. We expect the cost reduction initiative will enable us to reduce our working capital needs and strengthen our business, as well as provide capital for our remodel efforts to convert all remaining mall stores into our new “ Studio” concept. Initial test results for the Accessories business in our new concept stores are very exciting and we look forward to rolling out this concept soon. ” Wilsons Leather has begun discussions with landlords related to these store closings and anticipates the inventory liquidation process and resolution of lease termination costs to occur over the next 90 to 120 days.

The Company has retained a third-party liquidator and real estate firm to assist in the process. As part of the launch of the “ Studio” concept stores and ongoing cost reduction efforts, the Company will realign the organization to reflect its reduced store base. As a result, the Company will eliminate 64 positions at its corporate headquarters, overseas offices and distribution center in Brooklyn Park, Minnesota. Cost control boost for Zara owner Spanish retail group Inditex has reported a 28% rise in nine-month profits, helped by improved control over costs.

The group – which owns the Zara fashion store chain – recorded a net profit for the nine months to 31 October of 520. 5m euros (\$621m; ? 351m). This was ahead of the average market expectation of 497m euros. Revenues for the period rose 20% – again on a yearly basis – to reach 4. 65bn euros, in line with forecasts. The company’s costs have risen in recent years alongside its fast-paced global expansion, but chief executive Pablo Isla vowed back in September that he would address the issue. The firm said its fourth quarter, <https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

which includes the key Christmas trading period, had started in line with market expectations.

Standard Register Announces Cost Reduction Plan DAYTON, Ohio –(Business Wire)– Standard Register (NYSE: SR) today completed a restructuring action as part of an overall plan to reduce its annual operating costs by \$40 million. Earlier this year, the Company consolidated its manufacturing and warehousing operations in a move expected to save approximately \$5 million annually. Today's action eliminated approximately 250 positions, primarily in management and overhead, representing \$22 million annually in compensation and related costs.

Other new initiatives that target purchasing costs and other non-compensation expenditures are expected to lower costs by an additional \$13 million annually. These actions, including the earlier restructuring, are expected to reduce second half 2007 costs by \$15 million versus the levels incurred in the first six months of the year. The remaining balance of the \$40 million in annual savings is expected next year. Separation costs associated with today's restructuring are estimated at \$3.5 million, which will be recorded in the third quarter. Read More: Standard Register Announces Cost Reduction Plan

Revlon Accelerates Cost Reduction and Margin Improvement, with Implementation of Broad Organizational Streamlining Revlon, Inc. announced a broad organizational streamlining and consolidation that builds on the scope of the Company's restructuring actions implemented earlier in the year and meaningfully accelerates the Company's efforts to reduce costs

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

and improve profit margins. In connection with the announcements, the Company provided its outlook for 2007 and indicated that it plans to discontinue Vital Radiance, due to the new brand not achieving an economically feasible retail platform for future growth.

Revlon indicated that it expects these actions to accelerate the Company's path to becoming net income and cash flow positive. [Read More Cost Reduction News: Revlon Accelerates Cost Reduction](#) Sierra Announces Cost Reduction Initiative Sierra, Inc. announced that it is undertaking a corporate restructuring that the Company expects will reduce on-going annualized operating expenses by an estimated \$20 to \$24 million per year. The Company's decision to initiate cost reduction activities is part of its on-going effort to improve its corporate operating performance and boost productivity across the organization.

[Read More Cost Reduction News: Sierra Announces Cost Reduction Initiative](#) Averion to Increase Operating Efficiencies Cost Reduction Initiative to Improve Competitive Position and Drive Profitability in Second Half of 2007 BOSTON (February 20, 2007) - Averion International Corp. (OTC BB: AVRO), a clinical research organization (CRO) specializing in oncology, medical devices, dermatology and nephrology, today announced a cost reduction initiative intended to increase its operating efficiencies and improve its competitive position.

Averion's new cost structure is expected to support its business growth strategy and assist the Company in improving profitability. " The initiative is expected to reduce annual operating costs by approximately \$2.5 million. In

connection with the cost reduction initiative, we expect to record a non-recurring charge of approximately \$700, 000,” cited Averion Chief Financial Officer Christopher Codeanne. Read More: Averion to Increase Operating Efficiencies Cost Reduction is Key Supply Chain Strategy

In a ground-breaking global supply chain survey of 800 companies conducted by Manufacturing Insights, an IDC Company (Framingham, Mass.), results reveal a disconnect between business objectives and supply chain strategy. According to survey findings, the majority of respondents (71%) cited increased quality and customer satisfaction as their top business objective, followed by reducing overall cost and improving productivity (66%), and increasing revenues and exploiting new markets (62%).

Yet, despite the desire to improve service levels, almost half (48%) of respondents cited reducing material, manufacturing, and logistics costs as their top supply chain strategy. “ As a whole, it does appear that manufacturing firms surveyed are still looking at a cost strategy in their supply chains, as opposed to speed, flexibility, or service-enhanced supply chain strategies,” says Kimberly Knickle, program director and lead analyst on the survey. Read More: Cost Reduction is Key Supply Chain Strategy HALF

COST PRODUCTS

Cost reduction can result in significant product cost saving, manufacturing cost saving, and life cycle cost saving when companies interested in cutting cost implement all 8 the elements of the following cost reduction strategy: Article on recession strategies that improve cost, profits, and flexibility for immediate results with little capital cost. 1. Cost Reduction by Design Cost

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

Reduction Opportunities: * Product development determines 80% of product cost. The concept/architecture phase alone determines 60% of cost!

See how Design Determines Cost * New article on Designing Low-Cost Products shows the top 5 design strategies to lower cost: breakthrough concepts, designing out quality costs, eliminating change orders, vendor-partnerships, and designing to minimize part cost and material overhead. * Article shows why cost is very hard to remove later after products are designed The Results: * Significant cost reductions by design for parts, labor, material overhead, quality, and product development; designing for lean production can maximize lean savings (See # 2 Lean Production Cost Reduction below).

How to Reduce Product Cost by Design: * Practice Concurrent Engineering with early and active participation of manufacturing, purchasing, vendors, etc. * Implement Design for Manufacturability (DFM), Design for Lean, and Design for Quality * For dramatic cost reduction - half cost to order-of-magnitude - optimize the concept/architecture phase * To convert ideas, research, or prototypes into viable products, use commercialization techniques to ensure success. Activities Supportive to Low Cost Product Development: Co-locating Engineering with Manufacturing ensures the best teamwork; avoid distant outsourcing and offshoring * If outsourcing, choose local vendors which ensures early and active vendor participation in product development teams * Pre-select Vendor/Partners who will help develop products; avoid low-bidding so that vendors will help with design * Implement standardization and good product portfolio planning for the best

focus * Total cost measurements (#8) to quantify all costs affected by design
* Correcting Counterproductive Policies.

New ventures and startups will be able to implement these principles right away. Established companies may have to first correct counterproductive policies, by prioritizing portfolio planning, scrutinizing high-overhead sales, emphasizing thorough up-front work, quantifying all costs, and avoiding time-draining attempts to reduce cost after design, going for the low-bidder, or moving production offshore. See full article on counterproductive policies.

2. Lean Production Cost Reduction Cost Reduction Opportunities: Lean production benefits include doubling labor productivity, cutting production throughput times by 90 percent, reducing inventories by 90 percent, cutting errors and scrap in half errors The Results: * Significant cost reduction possible by raising labor productivity and eliminating waste * Even greater returns when lean is extended to a Build-to-Order business model (See # 3 Overhead Cost Reduction below) How to Reduce Manufacturing Cost: * Implement Lean Production Activities Supportive to Lean Production: Design product families for lean production * Concurrently Engineer flexible processes * Implement standardization (#4) to enable dock-to-line distribution * Rationalize products (#5) to eliminate the most unusual products with the most unusual parts and processes * Total cost measurements (#8) to quantify all costs related to manufacturing * Keep control of manufacturing in-house or with vendor/partners; avoid outsourcing for cost; avoid long and distant supply chains 3. Overhead Cost Reduction

See article on how to implement Mass Customization in the April 2011 issue of Mechanical Engineering, published by ASME Cost Reduction Opportunities:
<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

* Standard products can be build to-order without forecasts or inventory and specials can be mass-customized on-demand; see articles on Build-to-Order and Mass Customization The Results: * Inventory carrying costs can be eliminated * Procurement costs can be reduced with automatic, on-demand resupply * Better responsiveness leads to more sales

How to Reduce Overhead Cost: Implement Build-to-Order and Mass Customization to build products on-demand without forecasts or inventory

Activities Supportive to Build-to-Order & Mass Customization: * Implement lean production (#2) * Rationalize products (#5) * Total cost measurements (#8) to quantify overhead costs * Keep control of manufacturing in-house or with vendor/partners; avoid outsourcing for cost; avoid long and distant supply chains; avoid off shore manufacturing

4. Standardization Cost Reduction Cost Reduction Opportunities: Standard part lists can be 50 times less than proliferated lists; see Standardization Results * Standard parts are easier to get and fewer types need to be purchased; see Standardization Benefits The Results: * Economies of scale result from larger purchases * Material overhead of the standard parts can be one-tenth that of proliferated lists

How to Reduce Cost with Standardization: * Implement Standardization with a practical procedure has been developed to standardize part and materials for new designs

Activities Supportive to Standardization: Rationalize products (#5) to eliminate or outsource the most unusual products that have the most unusual parts and materials * Total cost measurements (#8) to justify standardization efforts and encourage picking standard parts * Don't merge acquired products into the same plant or build others' products; see article on Negative Effects of Mergers and Acquisitions

5. Product Line Rationalization Cost Reduction Cost Reduction Opportunities: Implement

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

Product Line Rationalization and focus on the most profitable products as discussed in the section: How Rationalization can Triple Profits! The Results:

- * Eliminate the “ loser tax” on cash-cows to subsidize low-margin products *
- Identify and remove products that are losing money on a total cost basis *
- Reduce overhead demands and costs for hard-to-build “ loser” products *
- Free up valuable resources to work on cost saving efforts in engineering (#1), operations (#2 and #3), and supply chain management (#6) How to Reduce Cost with Product Line Rationalization: Implement Product Line Rationalization to eliminate or outsource low-profit products that have high overhead demands and are not compatible with cost reduction strategies

Activities Supportive to Product Line Rationalization: * Product Portfolio Planning focuses new product development * Total cost measurements (#8) to identify opportunities and supports rationalization decisions

6. Supply Chain Management Cost Reduction Cost Reduction Opportunities: Supply Chain Simplification can greatly simplify Supply Chain Management *

Spontaneous supply chains can pull parts into production on-demand without forecasts or inventory The Results: * Material overhead can be reduced by a factor of 10 for standard parts and materials * Purchasing leverage results from high quantities of standard parts * Automatic resupply eliminates forecasts, purchase orders, inventory, and expediting costs

How to Reduce Cost in Supply Chain Management: Design products around standard parts to simplify Supply Chain Management * Standardize parts to focus Supply Chain Management on high-volume, easy to get parts * Rationalize away the most unusual products which have the most usual, hardest-to-get parts * Establish Vendor/Partnerships, which saves more money than low-bidding

Activities Supportive to Supply Chain Cost Reduction: * Total cost measurements (#8)

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

to encourage and justify standardization and rationalization * Don't merge acquired products into the same plant or build others' products; see article on Negative Effects of Mergers and Acquisitions . Quality Cost Reduction Cost Reduction Opportunities: * The Cost of Quality can be 15% to 40% of revenue; The Results: * Quality costs can be greatly reduced; in some cases reducing quality costs can double profits How to Reduce the Cost of Quality: * Eliminating quality costs starts with designing in quality * Quality costs in manufacturing can be eliminated with Six-Sigma programs * Rationalizing away unusual products raises net factory quality and avoids wasting quality resources on inherently lower quality products Activities Supportive to Quality Cost Reduction: Total cost measurements (#8) to quantify the Cost of Quality 8. Total Cost Measurement to Support All Cost Reduction Activities Cost Reduction Opportunities: * Total cost measurements are imperative to encourage and support the above activities to reduce all cost categories The Results: * All the above cost reduction activities are encouraged and supported; the results are quantified, thus encouraging more total cost reductions.

How to Reduce Cost with Total Cost Measurements: * Implement total cost measurement with the easy-to-implement cost driver approach Activities Supportive to Total Cost Measurements: * Until total cost can be quantified, everyone must make decisions based on total cost thinking * Senior management understands the importance of quantifying total cost, implements total cost measurements, and encourages all cost decisions to be made on basis of total cost

How Not to Lower Cost; Short-sighted attempts prevent real cost reduction

Don't try to remove cost after the product is designed because cost is designed into the product and hard to remove later; see article on How Not to Lower Cost Don't use low-bidding, which only appears to save one category of cost, but can substantially raise many less-obvious costs and compromise other important goals like quality, delivery, and missing out on the major contributions that vendor/partners can make when they help product development teams design products; see article on Low-Bidding.

Don't outsource or offshore manufacturing for cost, which will not result in a net cost savings because of hidden overhead costs and because it inhibits, compromises, or thwarts 6 out of the 8 cost reduction strategies (presented on the home page) due to the following reasons: Outsourcing or offshoring manufacturing separates manufacturing from engineering and thus thwarts Concurrent Engineering and compromises the 80% of the cost determined by the design.

Further, transferring, supporting, and dealing with quality and delivery problems of remote manufacturing absorbs many resources in engineering (in one case, 75%), manufacturing, and purchasing whose time would be better spent developing low-cost products. See Cost Reduction by Design summary and the article Design for Manufacturability Outsourcing or offshoring manufacturing to distant contract manufacturers increases the delivery time, which makes it hard to pull parts just-in-time and makes build-to-order impossible.

Further, parts may be batched for shipping, which is opposed to the one piece flow aspects of Lean Production. Finally, outsourcing or offshoring manufacturing removes production from the control of the OEM manufacturer. All of these effects conspire to:

- * Compromise Lean Production; see Lean Production Cost Reduction summary and the article on Lean Manufacturing
- * Make it impossible to implement Build-to-Order and Mass Customization; see Overhead Cost Reduction summary and the Build-to-Order article and Mass Customization article. Make it hard to implement standardization because contract manufacturers' preferred parts probably won't correspond to your standard parts, so, in order to realize the production benefits of standardization, part numbers may have to be changed, which may increase a company's part proliferation.
- * Make it hard to optimize supply chains; see Supply Chain Management Cost Reduction summary and details in the articles on outsourcing and offshoring.
- * Make it hard to maximize quality and implement Six Sigma without data and control over manufacturing; see Quality Cost Reduction summary and the article Designing in Quality.

Ten Cost Reduction Techniques That Increase Productivity by Lowering Supply Costs Reducing operating expenses and supply costs are essential elements of successful cost reduction plans. The amount of money the business spends on raw production materials directly affects their profit margin. It is cost efficient to develop a competitive cost reduction strategy rather than increase profits through front-end sales. Reducing supply costs requires common sense and a bargain hunter's ambition, and the process is relatively straightforward. What is Cost Reduction?

Cost reduction strategies are geared towards generating substantial revenue from preexisting elements without making additional sales. The process identifies profitable procedures already in place and optimizes procedures to maximize profitability. Cost reduction enables businesses to identify their current needs, forecast future sales, and understand the factors that help or prevent their products from selling. A successful cost reduction strategy includes the entire organization and all levels of management. #10 Cost Reduction Technique Analyze Supply and Demand

You need to analyze supply and demand in order to effectively lower supply costs and increase productivity in your organization. Work with the sales team reviewing sales figures from the past several years, forecasting sales for the next three months based on consumer confidence, past sales, acquisitions, and merges. Keep in mind external variables such as weather, the economy, holidays, and national events. Repeat the process each quarter, refining forecasts as necessary. A good cost reduction strategy requires businesses to stay one step ahead of the consumer. 9 Cost Reduction Technique Learn and Shop Smart Supply costs vary depending on the time of year, market demand, manufacturer supply, and industry variables. Reduce supply costs by shopping around to find the best deal on office supplies, production equipment, and raw materials. Utilize bargain hunter services to find the best prices on electronics and every day equipment. Consider hiring a procurement officer to monitor and maintain supply levels, as their training and knowledge are invaluable assets to your organization.

Ensure that the decision makers within the company know how to find the best prices by using a variety of tools and resources. Monitor changes in pricing, purchasing the products when the price is historically low. #8 Cost Reduction Technique Minimize Transactional Costs A great deal of business revenue is depleted by payment processing companies, such as PayPal and credit card companies. Encourage cash-based transactions such as check, money order, and cash. Form partnerships with processing authorities and choose a plan that is cost effective for your organization.

Streamline the purchasing process by using auto-generated purchase orders and advanced notification systems. Additionally, you can automate the shipping and receiving procedure by using electronic metered postage and bulk discounts when applicable. Review your PO history as part of your cost reduction strategy at the end of the year, creating notifications for the New Year regarding commonly ordered products. An example would be the acquisition of raw materials for a seasonal product. #7 Cost Reduction Technique Manage and Optimize Your Inventory

Enhance your cost reduction efforts by monitoring your inventory on a weekly basis, noting the exact supply levels of each item in the warehouse. Internal inventory management is cost efficient, however; larger companies may find external inventory management a viable option. Create an automated system to automatically order new supplies, which reduces back office labor expenses. Improve efficiency and maximize space by organizing inventory supplies and modifying the layout of the room or warehouse. Keep the aisles free of debris and narrow, with enough room for handcarts, forklifts, or other equipment.

Consider liquidating products that are expiring soon or have a history of poor sales. #6 Cost Reduction Technique Reduce Lead Times When a product arrives at the warehouse it inevitably takes several days for it to reach the customer. Review and refine your receiving protocols to ensure products hit the shelves with minimal delay by maintaining adequate order supply rates and throughput levels. Consider rationalizing SKUs by removing inappropriate products from the shelves. Maintain optimal levels by reducing safety stock inventory and increasing order fill rates. #5 Cost Reduction Technique

Utilize Bulk Discounts Contrary to some business sustainability policies, buying select materials in bulk reduces supply costs and increases productivity by lowering human interaction. Every company orders certain supplies more than other products. Consider purchasing non-perishable items with long shelf lives in bulk to reduce supply and labor costs. Ordering items less frequently reduces the costs associated with placing orders and saves money by lowering the cost per unit. Before placing the order, ensure the savings per unit are worth the risk, given current market demands.

Never purchase more than one year's worth of inventory at one time, ensuring the warehouse has the ability to hold the products without finesse. #4 Cost Reduction Technique Reduce Shipping Charges Cost reduction strategies require advanced planning and efficient spending; thus it is essential to order supplies well in advance to reduce shipping costs. Attempt to purchase items in large groups based on the manufacturer or vendor to save on freight charges, utilizing merge-in-transit techniques to reduce

transit times. When shipping to consumers, utilize bulk discounts by shipping multiple quantities of the same item.

Choose carriers and form partnerships with them to reduce shipping charges. Order inventory early to avoid rush-processing charges and expedited delivery fees, which add up quickly for bulk orders. #3 Cost Reduction Technique Collaborate with Suppliers Your vendors are your best allies when implementing cost reduction strategies within your organization. Consider a variety of programs, such as vendor managed inventory systems (VIM), vendor stocking programs (VSP), and common supplier joint procurement policies. Choosing a VSP reduces inventory costs for less popular items and increases supplier reliability and dependency.

Alleviate the nightmare of managing inventory by giving the responsibility to the vendor, which reduces your inventory and related expenses. #2 Cost Reduction Technique Ask for Employee Suggestions Employee suggestions play a vital role in cost reduction and increasing productivity because employees have more experience regarding daily operations in a business. Every suggestion that your business implements improves your business in some way. Performance may be improved, customer satisfaction may increase, costs reduce, or some other positive impact improves your business in some way.

The average employee suggestion saves the company \$6, 224 in operational expenses. The more ideas you implement the more your business will improve. These suggestions will add up over time and can be used as a competitive advantage. #1 Cost Reduction Technique Eliminate Paper Flow

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

Another great way to improve productivity while lowering costs is to eliminate paper flow. The average office worker prints 10, 000 sheets of paper a year. The best approach is to place all documents online for employees to download, read, and make changes to.

Also, instruct all employees not to print e-mails and other unnecessary documents that will usually end up in the trash upon a few quick glances. Have IT set all printers to print doubled sided. Cost Cutting Ideas for Businesses Today, in the times of economic recession, there are many different cost cutting ideas for companies that are being considered by the top management. Read on, to know more about some effective cost cutting ideas for small businesses. Now is the period of economic recession, and all the companies are searching for good and effective cost cutting ideas.

There are many companies who have suffered huge losses in terms of productivity just because they laid off employees, thinking that it will cut substantial amount of costs. However, laying off employees is the last resort, if none of the cost cutting measures seem to work. The loss of good employees and production may be more as compared to the loss due to the financial crises. Cost Cutting Ideas for Company Management Assess Your Company Finances One of the first cost cutting ideas in the office is to prepare a detailed record of the expenses.

Prepare a per month or quarterly income and expenses report that will include all details of what are the needs of the enterprise, how much is currently being spent, how much is the budget allocated for every section, and how much can be saved. This will give you a general idea as to which all

areas you should consider for cost cutting. **Best Personnel Management**
Instead of laying off employees, the management can stop hiring new employees, and utilize the services of the present employees to the fullest. Effective personnel management is the key to cost cutting. Assign tasks to employees who can do their best in those particular tasks.

Set targets and ask employees to meet them in the allotted time. Do not deal in consultants, since they have to be paid more as per their level of experience and expertise. If the work to be done is substantial and requires manpower, you can recruit talented and skillful freshers. These freshers need to gain more experience, thus doing both quality as well as quantity jobs. **Marketing Strategies and Plans** As marketing is a vital part of any business, a lot of finances is spend on it. Get the details of all marketing strategies and programs that are not giving good results.

Reinvent those marketing plans and relaunch them in a new and effective manner. If possible, you can even eliminate such ineffective and cost-consuming programs. Instead of spending much on advertising and marketing, use your past records and clients references to draw in more business. Eliminating unnecessary marketing will surely reduce the company costs substantially. **Administrative Expenses** Administrative costs also have a major part in the increase of the enterprise's operation costs. Instead of purchasing equipment and tools, a better cost control method is to take them on rent.

If you at all want to buy equipment, getting used but operational ones is a good idea to save on costs. In buying office equipment, opt for good

equipment with discount or search for a purchasing partner. Make sure that company employees use the office equipment to its fullest and do not waste any. Ensure that employees do not use office phones for personal purposes. Use electricity only if it is absolutely required. Make sure everything that is purchased is used in the best possible manner. These are few cost cutting ideas that can be used in offices and companies to reduce operational costs.

Remember that even the smallest possible saving steps taken on the expenses will certainly contribute to the cost cutting measure of the company.

Tools And Techniques Of Cost Reduction

The following are the widely used techniques of cost reduction:

1. Just-In-Time (JIT) System
The main aim of JIT is to produce the required items, at the required quality and quantity, at the precise time they are required. JIT purchasing requires for the items where too much carrying costs associated with holding high inventory levels. purchasing system reduces the investment in inventories because of frequent order of small quantities.
2. Target Costing
Target costing refers to the design of product, and the processes used to produce it, so that ultimately the product can be manufactured at a cost that will enable the firm to make profit when the product is sold at an estimated market-driven price. This estimated price is called target price.
3. Activity Based Management(ABM)
Activity based management is the use of activity based costing to improve operations and to eliminate non-value added cost. The main goal of ABM is to identify and eliminate non-value added activities and costs.
4. Life Cycle Costing

Life cycle costing estimates and accumulates costs over a product's entire life cycle in order to determine whether the profits earned during the

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

manufacturing phase will cover the costs incurred during the pre-and-post manufacturing stage. 5. Kaizen Costing Kaizen costing is the process of cost reduction during the manufacturing phase of an existing product. The Japanese word ' Kaizen' refers to continual and gradual improvement through small activities, rather than large or radical improvement through innovation or large investment technology. 6. Business Process-re-engineering

Re-engineering is a complete redesign of process with an emphasis on finding creative new ways to accomplish an objective. The aim of business process re-engineering is to improve the key business process in an organization by focusing on simplification, cost reduction, improved quality and enhanced customer satisfaction. 7. Total Quality Management(TQM) Under the TQM approach, all business functions are involved in a process of continuous quality improvement. 8. Value chain Value chain analysis is a means of achieving higher customer satisfaction and managing costs more effectively.

The value chain is the linked set of value creating activities all the way from basic raw materials' sources, component suppliers, to the ultimate end-use product or service delivered to the customer. 9. Bench Marketing Bench marketing is a continual search for the most effective method of accomplishing a task by comparing the existing methods and performance levels with those of other organizations or other sub-units within the same organization. 10. Management Audits Management audits, also known as performance audits, can be used to facilitate cost reduction in both profit and non-profit organizations.

Management audits are intended to help management to do a better job by identifying waste and inefficiency and recommending a corrective action.

Cost Reduction Strategies (manufacturing industry) In today's world when Corporate are struggling for profits and with fierce competition in the market, cost reductions, productivity enhancement and lean organizations have become today's mantras for survival. Following are the key areas where you can implement cost reduction methods with significant results.

Cost distributions are Raw material : 60% Fuel: 6% Manpower: 11%

Advertisement : 5% Logistic: 9% Taxes : 5% Maint ; others : 4% Following are

major areas of cost reduction in any manufacturing industry 1. Raw material

procurement: a) Bulk buying b) Opportunity buying c) Make or buy d) Annual

Rate contracts e) E-procurement 2. Logistics- Inbound and Outbound: a)

Route mapping b) Loadability 3. Warehouse and Stores: a) Low inventory b)

Space management c) EOQ 4. Manufacturing Process (Production) : a)

Manufacturing b) Automation c) OEE 5. Packaging 6. Energy, fuel ; Water a)

Motors b) Lighting c) Compressors d) Fuels e) Recycle) Waste water

management 6. Information Management Enterprise Resource management

7. Human Resources Out sourcing | | | Inventory Solutions Logistics Corp. has

a network of overseas manufacturers to provide you with the highest quality

products available, reduce your cost and improve your cash flow. We have

built a very highly qualified group of manufacturers in China, Mexico, Asia,

South America and Europe that can easily produce your goods at minimal

cost to you. Services include: | Manufacturing products to your specifications

with: | Wood| | Textile| Plastic| | Rubber| | | Kit / Component Building| |

Chinese Manufacturing| | Supply Chain Management| | Reduced Labor Cost| |

Reduced Raw Material / Purchasing Cost| | Import / Export Services| | Truck Transportation| | Distribution Centers| | | | Just-In-Time Manufacturing: JIT is a philosophy of continuous improvement in which non-value-adding activities (or wastes) are identified and removed for the purposes of: Reducing Cost| Improving Quality| Improving Performance| Improving Delivery| Adding Flexibility| Increase innovativeness| JIT is not about automation.

JIT eliminates waste by providing the environment to perfect and simplify the processes. JIT is a collection of techniques used to improve operations. It can also be a new production system that is used to produce goods or services. The American Production and Inventory Control Society (APICS) has the following definition of JIT: “ a philosophy of manufacturing based on planned elimination of all waste and continuous improvement of productivity.

It encompasses the successful execution of all manufacturing activities required to produce a final product, from design engineering to delivery and including all stages of conversion from raw material onward. The primary elements include having only the required inventory when needed; to improve quality to zero defects; to reduce lead time by reducing setup times, queue lengths and lot sizes; to incrementally revise the operations themselves; and to accomplish these things at minimum cost. When the JIT principles are implemented successfully, significant competitive advantages are realized. JIT principles can be applied to all parts of an organization: order taking, purchasing, operations, distribution, sales, accounting, design, etc. Elimination of Waste: JIT usually identifies seven prominent types of waste to be eliminated: Waste from Overproduction| Waste of waiting/idle

time| Transportation Waste| Inventory Waste| Processing Waste| Waste of Motion| Waste from Product Defects| |

Summary: Material related costs are reduced by reducing the number of suppliers a company deals with and developing long-term contracts through creative supplier networking, eliminating the need to count individual parts, reducing order scheduling, eliminating expediting, simplifying receiving systems, eliminating receiving inspection, eliminating most unpacking, eliminating the stocking of inventory, and eliminating excess material spoilage. Manufacturing related costs are reduced by design for manufacture and design for assembly techniques where unnecessary parts or processes are eliminated.

They are also reduced through the elimination of excess material handling, inspections, and storage of parts. The primary goal is to eliminate non-value adding tasks. Quick change over techniques replace long set-up times. Cells will replace traditional assembly lines. Visual controls are often used to schedule the production of parts in place of systems such as MRP. Statistical process control is used to assure that the outcome of production is consistently met with desired results. | | What is Inventory Control?

Inventory or stock represent a large portion of the business investment and must be well managed to maximize profits. The most common problems with inventory are that they are: | uncontrolled| | inefficient| | costly| | unreliable| Companies usually lean towards keeping inventory levels on the high side to insure stock is available when needed. However, this is a high investment which yields a lower return on the dollar invested. Inventory Solutions can

help you improve your inventory control so that you: | Maintain a proper variety of required items | | Increase inventory turnover | Reduce and optimize inventory and safety stock levels | | Obtain lower raw material prices through creative supplier networking | | Eliminate obsolete items| | Increase cash flow and working capital| | Reduce storage cost| | Reduce insurance cost| | Reduce taxes| | Reduce downtime| | | | MATERIAL FLOWEfficient and Stream-lined processes are required to remain competitive in today's marketplace. Material flow, distribution, logistics, purchasing and planning are all important factors for success and competitiveness.

Inventory Solutions can help you by optimizing your material flow. Material flow involves Production Planning, Purchasing, Just-In-Time (JIT), and Inventory Management / Inventory Control. Optimization of Material Flow can have the following benefits: | Improve Product Quality| | Reduce Purchasing Costs| | Reduce Freight / Transportation Cost| | Reduce Manufacturing Waste| | Increase Production| | Improve Customer Satisfaction| | Reduce Downtime| | Reduce Product Cost| | Increase Cash Flow|

Inventory Solutions can help to train the following personnel and help your company reduce costs: | Materials Planners| | Purchasing Agents| | Quality Assurance personnel| | Inventory Control personnel| | Production Engineers| | Materials Management Professionals| SOURCES: | American Production and Inventory Control Society| | | Inventory Solutions Logistic Corp. has 4 major distribution centers across the USA to provide you with optimal distribution services at lowest cost: | Storage & Warehousing| | Pick / Packing| | Shipping / Delivery| | Materials Management| | Real-time Status View On-line| <https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

| | Our distribution centers are strategically located in the following states to deliver your products: | North Carolina| | Texas| | California| | Illinois| |

Inventory Solutions Logistics Corp. can import your product through several port locations and expedite it to our distribution centers or to you directly as required. Our distribution centers can receive containers, store, pick-pack and distribution your products to any point in the United States. We also create and warehouse your optimal inventory stocking levels to minimize your cost and boost your cash flow. | Supply Chain Management: A supply

chain is the process of moving goods from the customer order through the following stages: Raw Materials -> Supply

-> Production

-> Distribution

-> Customer All organizations have supply chains of varying degrees, depending upon the size of the organization and the type of product manufactured.

These networks obtain supplies and components, change these materials into finished products and then distribute them to the customer. Managing this process is known as supply chain management. Effective management must take into account coordinating all the different pieces of this chain as quickly as possible without losing any of the quality or customer satisfaction, while still keeping costs down. In addition, key to the success of a supply chain is the speed in which these activities can be accomplished and the realization that customer needs and customer satisfaction are the very reasons for the network.

BENEFITS OF SCM: Customer Satisfaction| Reduced Inventories| Lower Operating Costs| Product Availability| Faster Delivery| Reduced Lead Time|

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

Flexibility| Competitiveness| KEY ELEMENTS OF SCM: Production| Supply| Inventory| Location| Transportation| Information| SUMMARY: Supply chain management (SCM) involves all of the activities associated with moving goods from raw materials stage through to the end user or customer. This includes procurement, production scheduling, order processing, inventory control, transportation, warehousing and customer service. It coordinates and integrates all of these activities into a seamless process.

It links all of the partners in the chain (departments, vendors, carriers, third-party companies, information systems). Sources: - American Production and Inventory Control Society - Rockford Consulting Group, Ltd. - Andersen Consulting - Supply Chain Management Review| | What is Master Production Schedule or MPS? A Master Production Schedule or MPS is the plan that a company has developed for production, inventory, staffing, etc. It sets the quantity of each end item to be completed in each week of a short-range planning horizon. A Master Production Schedule is the master of all schedules.

It is a plan for future production of end items. MPS INPUTS: | Forecast Demand| | Production Costs| | Inventory Costs| | Customer Orders| | Inventory Levels| | Supply| | Lot Size| | Production Lead Time| | Capacity| | MPS OUTPUT (production plan): | Amounts to be Produced| | Staffing Levels| | Quantity Available to Promise| | Projected Available Balance| | The Master Production Schedule gives production, planning, purchasing, and top management the information needed to plan and control the manufacturing operation. The application ties overall business planning and forecasting to detail operations through the Master Production Schedule.

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

The Master Production Schedule will drive detailed material and production requirements in the Material Requirements Planning module. Contact Inventory Solutions for help on implementing or optimizing a master production schedule for your company and realize the benefits today! | | | |

Material Requirements Planning: MRP calculates and maintains an optimum manufacturing plan based on master production schedules, sales forecasts, inventory status, open orders and bills of material. If properly implemented, it will reduce cash flow and increase profitability.

MRP will provide you with the ability to be pro-active rather than re-active in the management of your inventory levels and material flow. Implementing or improving Material Requirements Planning can provide the following benefits for your company: | Reduced Inventory Levels | | Reduced Component Shortages| | Improved Shipping Performance| | Improved Customer Service | | Improved Productivity | | Simplified and Accurate Scheduling | | Reduced Purchasing Cost | | Improve Production Schedules| | Reduced Manufacturing Cost| | Reduced Lead Times| | Less Scrap and Rework| | Higher Production Quality| | Improved Communication| Improved Plant Efficiency| | Reduced Freight Cost | | Reduction in Excess Inventory | | Reduced Overtime | | Improved Supply Schedules| | Improved Calculation of Material Requirements| | Improved Competitive Position| The consultants at Inventory Solutions can provide an un-biased review of your operations and make suggestions on how you can improve your process. If you want the productivity improvements that MRP can deliver, contact Inventory Solutions today. MRP uses the following elements to plan optimal inventory levels, purchases, production schedules and more: | Master Production Schedule

(MPS)| | Bill of Materials (BOM)| Quantity on Hand (QOH)| | Part Lead Times| | Sales Order Quantities / Due Dates| | Scrap Rate| | Purchase Order Quantities / Due Dates| | Lot Sizing policies for All Parts| | Safety Stock Requirements|

MRP will plan production so that the right materials are at the right place at the right time. MRP determines the latest possible time to product goods, buy materials and add manufacturing value. Proper Material Requirements Planning can keep cash in the firm and still fulfill all production demands. It is the single most powerful tool in guiding inventory planning, purchase management and production control.

MRP is easy to operate and adds dramatically to profits. | Leadership develops a Cost Reduction methodology | | | | PRICE - Immediate Operating Cost Reduction Program (Programa de Reducao Imediata de Custos de Exploracao)| Along with the challenge of continuously improving the quality of service delivery, cost reduction efforts should be an imperative for both public and private sector organizations, to be included in their list of priorities, regardless of economic cycles and contexts. However, a great number of public and private organizations find it very difficult to reduce costs.

In fact, the trend seems to be for costs to increase year after year. The reasons are simple - a great majority of organizations have not made a diagnosis of their cost structures nor have a systematized cost reduction program. These two simple tasks are crucial for an effective cost reduction process. Leadership Business Consulting has developed a methodology which addresses both imperatives in a simple way, without distracting

company heads and managers from their major concern, that is, quality of service delivery.

PRICE - Programa de Reducao Imediata de Custos de Exploracao, (Immediate Operating Cost Reduction Program). does not require changes in the organization's daily business operations nor any additional management resources. PRICE was designed to ensure short term impacts, allowing managers to achieve results in a prompt and relatively easy way, contributing therefore to eliminate resistance to change while creating a positive stimulus and more confidence in the cost reduction process. Where implemented, PRICE allowed Clients to fully recover the project's associated costs and to obtain real savings.

The Program includes three types of interventions: Quick Audit; Operational Efficiency; and Structuring Measures. | Quick Audit represents the first level of intervention in the scope of PRICE, representing the onset of a process with a high cost reduction potential. As shown in the table below, the focus of this intervention concerns areas with a higher potential for immediate cost reductions. | Leadership has recently developed the PRICE project for a public entity aware of its role as regulator and of its visibility at national level.

This entity has developed innovating projects to modernize its services and reduce costs, being thus considered as an example of best practices at national level. Cost Control TechniquesThe cost control techniques can help a company pose good financial results and overcome difficult situations with ease. Read on, to know more about the cost control definition and the cost

control methods. The cost control definition suggests that a company should investigate good procedures for finding out why the costs of the company are not as per the pre-decided or budgeted costs.

Thus, cost control can help a company determine, if it is really spending more than it should actually spend. Though it is not essential to be a finance expert to understand the definition of cost control, planning and actually implementing the cost control techniques can be quite a big challenge. It is essential for the senior level managers to have a good understanding of the cost control software which is a part of effective cost control techniques. The next few paragraphs will give you more information about the cost control management and the cost control techniques. Techniques and Ways for Controlling Costs

The first step in the cost control management is to find out the cost centers and arrive at a conclusion in how much percentage they differ or vary from the standards of the industry. It is also important to study how the close competitors of your company manage to control their costs and in turn, maximize their profits. Before discussing the cost control methods or the cost control techniques, it is very important to carry out a very proper cost analysis. The costs incurred by all the departments of the company should be considered so that, you can chalk out some smart cost control strategies to overcome these financial problems.

It is very important to find out the exact and relevant reasons for why the costs of the company are more than the standards adhered to by the industry. The most important of all the cost control techniques is to appoint a

small team of highly qualified and experienced people well versed in the financial management team to manage the daily finances of the company in a very professional and systematic manner. The finance team should take correct decisions in favor of the company and opt for less expensive materials and resources for the company without compromising on their quality.

You should be very clear about the number of employees you require for a particular project. There are many companies who find it difficult to earn decent profits as their employee count is way beyond the necessity. You can also consider the idea of recruiting employees on contract basis to cut down your costs. While deciding how much salary to pay to a particular employee, you need to be very careful. You should decide the salary strictly on the basis of overall performance. Instead of giving awards to the employees in the form of frequent salary hikes, you should give out bonuses to eligible employees.

Following practices recommended in cost method of accounting may benefit your company. The cost control software can be helpful in doing the work in comparatively less time and with more accuracy. In the times of recession, many firms resort to cost control techniques such as reducing the extra facilities to the employees such as the recreational facilities. The cost control techniques might also include cutting down the expenditure incurred on traveling by air and luxury hotel accommodations in order to harness the cash flow.

As a part of the cost cutting measure, few firms may postpone or cancel their plans of acquiring new companies, investing in new businesses and buying new machinery or systems. The cost control techniques should be utilized to save cash and bring back the financial strength of the company. The cost control techniques used by different organizations are different and are largely dependent on their business model and strength of their balance sheet. The better the implementation of these techniques, the better would be the future of the concerned organizations. |

Cost Control Methods Business managers throughout the world fight a never ending battle against rising costs. Cost control methods are constantly being derived, developed, deployed and discarded, in order to reduce the cost of all operations. The following article is a brief elaboration of cost control methods. To know more, read on... The cost of making a particular product or delivering a particular service is calculated by the finance and accounts department, with the help of a technique that is termed as Cost Accounting. The principle of cost accounting is very simple.

The total cost of manufacturing a set or lot of goods or services is added up together and divided by the number of units that have been produced, which gives the per unit production cost. Cost Accounting also reveals the unneeded expenditures that are titled as 'overheads'. The accounts department also derives some financial statements that give us a specified amount of overheads that are incurred. Also read more on cost control techniques and cost control strategies. **Cost Control Definition** There is no exact rule or definition of cost control.

The term, cost control, implies the usage of policies and internal rules that help you to reduce the cost of a particular management process. Cost control methods target the reduction of cost, and maintenance of quality and quantity of a particular production process or service generation. You may also read more on cost benefit analysis. Cost Control Methods Any business or corporation has to encounter difficulties, which are practical, financial as well as technical. The ones that survive these difficulties live to tell their stories of success.

The following are some simple successful cost control methods. Review and Modify Business Model: There is a great, economically and commercially successful business model, that is used to lay down the foundations of any company. The business model must be however subject to small and big changes. It means as a manager, you should subject the business model to changes according to your competitors actions and markets status. By the term change, I also mean that you should be upgrading and improving all possible business operations.

You need to come up with new process and procedures to reduce costs.

Daily Updates: One of the best ways to start controlling costs it to have daily updates of production, all possible long and short term expenditures. Divide all these expenditures, even the ones such cost of machinery or insurance, and sales, by the number of working days. This will give you a concrete figure of the total amount that has been spent. Similarly after sales of your goods or services, you may also divide the total amount of sales by the number of working days.

This will give you a micro figure about the daily expenditure and sales. It will definitely help you to zero down on all possible cost problems that you incur.

Uniformity: Cost control management is all about deriving the best outputs in a least cost. Hence, set up a highly efficient and specialized stores department which will oversee all purchases. You may also take a risk and make long term agreements regarding the quality and quantity of materials that are being supplied to your manufacturing process. This uniformity will ensure a timely, cheap and assured supply of raw materials.

Time Planning: Time is money! Well divide the amount of wages that you give out with the number of work hours per month. Explain to the employees per hour expenditures that you incur, and hence the necessity for time management. You may also install good cost control systems, in order to help your employees to manage their work hours well. A cost control software will also work wonders in the finance and accounts department. To know more about cost control methods, you may also read on: * Cost Method of Accounting * Cost Control Management

In order to have a set of good cost control methods at your disposal, you need to think creatively and effectively. You will also need to think about all the dimensions of expenditures such as time dimension, long and short term expenditures, per capita wage expenditure, etc. You can also consider all macro and micro costs. For example, the cost of running one team in comparison to the cost of all teams, or the cost of running one team compared to the revenue generated by the same team. **Cost Control Strategies** Every organization should have a few cost control strategies in place.

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

If the overall cost of working is controlled, then it is obvious that the overall earning for the company is increased. Read on to know more. Cost control strategies are a part of financial management. However, as a concept, you don't need to be a finance brainiac to understand it. Hence, here I am, a non-finance background entrepreneur, explaining to you about cost control strategies. I am not going to get into the detailed explanation of how these strategies work in synchrony with the economy. I am simply going to help my fellow entrepreneurs to control their cost, and the students, to understand the concept.

Cost Control Strategies : Cost Control Definition As per the business dictionary, cost control can be defined as, " Application of (1) investigative procedures to detect variance of actual costs from budgeted costs, (2) diagnostic procedures to ascertain the cause(s) of variance, and (3) corrective procedures to effect realignment between actual and budgeted costs. " In simple terms, cost control is a procedure to see if the company is spending more or less than its budgeted amount. If yes, then to know the reason behind the increase or decrease of expenditure.

Further, it works at finding a way to make the actual cost and the budgeted cost meet. Cost control management also takes care of the same arena of work. **Cost Control Strategies : Cost Control Methods** Now that we have seen the basic definition of cost control, how will we go about doing it. Such as, one can keep an eye over the numbers, but how can one go about controlling them? Here are a few cost control techniques and measures that one can use to keep the cost in control. Do not have a very big team overlooking the finances Why do most companies have small finance teams?

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

Because, the smaller the finance team, the lesser the disparities and misunderstandings. Make sure that all the checks are approved by one authority. This will help keep the expenses in control. Be frugal Frugality is often required. One needs to be wary of spending more than required. Make sure that you choose the least expensive option at all times. Make sure that when traveling, modesty is maintained. Control salaries and overheads Keep a tight reign over salaries and overheads. Review the monthly overhead expense in comparison with the budget. Promise bonuses rather than salary hikes.

Hire part-time personnel during summers and interns during internship seasons. Be creative Find different and less expensive ways to get certain jobs done. Get the suppliers involved in the cost cutting strategy. You can opt to team up with another friendly company in order to avail economy of scale. Sell excess supplies to smaller firms. This will help at reducing dumpster cost. Make use of cost control software to ensure more work in lesser time and man power. Read more on cost method of accounting. All these methods can help reduce the cost and maintain a higher profit margin.

However, there are a lot of indirect costs that also need to be kept in check. Mostly, miscellaneous expenses are ignored. However, if the management chooses to keep this miscellaneous expenditure in control as well, the overall difference on the cost will be much more. This is where I sign off!! Hope this article helped you understand the basics of cost control strategies. Cost Control Management What is cost control management? Here's an article which comprehensively talks about cost control management definition and the need for cost control management in businesses today.

<https://assignbuster.com/cost-reduction-control-in-manufacturing-sector/>

Cost control management is a particular branch of management which deals particularly with the control of the various costs associated with running a business. So how does a company control its costs? What are the various cost control methods and cost control systems? Here's an article which explains the subject of cost control management in sufficient detail. What is Cost Control Management? Cost control management includes a wide range of activities under its purview. The way I see it, cost control management has three basic aspects.

The first is to find out the cost centers and their variance (if any), with the industry standards. The second is to find out why we are incurring more costs than our competitors. And the third aspect deals with ways in which we can drive our costs to the level at which our competitors are, or lower. Here's the cost control definition: Application