CHAPTER 6

FINDINGS, SUGGESTIONS AND CONCLUSION
6.1. Findings

The following findings have been derived from the study:

1) Average cost incurred by select companies consisting of Material cost, Labour cost and Administration cost was more in case of Nestle India Ltd, Colgate Palmolive Ltd, Asian Paints and Dabur India Ltd. Whereas it was less in case of ITC Ltd, HUL Ltd, Tata Coffee, Tata Global Beverages, Godrej Consumer Products and Marico Ltd Companies respectively. To specifically speak, the average cost incurred by Nestle, Colgate Palmolive, Asian Paints and Dabur India was more and it was less in case of HUL, ITC, Tata Global Beverages and Godrej companies respectively.

2) Average EVA by consumer product sector companies is more in case of HUL, ITC, Tata Global Beverages, Godrej Consumer Products and Marico companies. Whereas less in case of Nestle, Colgate Palmolive, Asian Paints and Dabur India companies during the study period.

3) HUL, ITC, Tata Global Beverages, Godrej Consumer Products and Marico. Companies have attained the Cost Optimization for the study period because proportionate change in EVA is more than that of Proportionate change in total cost though there was an Economic slowdown. With this we infer that efficiency is attained in using economic resources like material, Labour and manpower etc.,. In view of this, those companies have created economic wealth to share holders.

4) It was found that Cost Optimization is not attained in case of Nestle, Colgate Palmolive, Asian Paints and Dabur India.
Because proportionate change in EVA is less than proportionate change in cost for the study period.

5) It was found that Cost Optimization is still a hot topic for companies.

6) The most companies of the industry have not implemented Cost Optimization programme on input side systematically.

7) It was also observed that the zeal and interest to adopt Cost Optimization programme was slowly triggered by the financial crises.

8) The study revealed that the companies have neither adopted short run nor long run Cost Optimization plans.

9) No companies of the select pack have destroyed the value. Each and every company of consumer product sector have added value over the study period. When we look at average value addition to prove a point that the best performance with observed in case of during the study period. Highest Market Value Addition has happened to ITCL and HUL others. Whereas the least addition was to Tata Coffee and Tata Global Beverages Ltd respectively.

10) The net result from our study Asian Paints Ltd, Tata Global Beverages Ltd, ITCL, Dabur India Ltd, Godrej consumer products Ltd, Marico Ltd companies respectively have achieved Cost Optimity in adding MVA to their organizations. But Nestle India Ltd, HUL, Tata Coffee, and Colgate Palmolive (India) Ltd have not achieved the Cost Optimity in adding value. In case of HUL an exception is seen that HUL
has achieved cost optimity in Adding Economic Value. But in Market Value Addition, cost optimity is not seen.

11) Economic Value Added (EVA) and Market Value Added (MVA) have positive relationship with cost incurred in all most all companies in the select consumer product sector companies.

6.2. Suggestions

Based on the findings of the study, the following suggestions are offered:

1) Few companies have adopted Cost optimization Strategy and were able to create Value addition for shareholders. In order to ensure optimum benefits these companies should explore possibility of adopting using other techniques of measuring benefits of cost optimization strategies such as environmental value added, lean and green cost index, etc

2) The companies should develop a cost optimization policy/frame work for adoption.

3) The opportunity to cut waste was massive. Therefore, it is suggested to adopt advanced inventory management techniques.

4) Companies should identify new areas for potential cost savings.

5) To realize additional savings, companies should turn towards shared servicing and outsourcing. Which is considered as one of the best technique of cost optimization in the present business world and adopted by corporate entities around the globe.
6) The companies should explore possibility of adopting ICT in all their functional areas. This is an emerging area of cost optimization. The ICT is expected to benefit the companies i.e. a) Energy cost savings b) Reduced energy consumption c) Improved efficiency d) Maximized power consumption e) Managed capacity f) Shared resources g) Reduced complexity h) Lower unit cost i) Easy administration j) Fast response rate. These all benefits will leads to creation of value for shareholders.

7) The companies are suggested to develop training programmes to train its employees and educate them on Cost Optimization.

8) Implementing Cost Optimization programmes requires new structures; ways of working and processes, changing behaviors ensures buy-in from stakeholders and mitigates risk. The companies are suggested to look into these issues before launching Cost Optimization programme.

6.3. Conclusion

None of the sample companies had initiated any measures towards cost optimization with commitment and discipline. The reasons for the same may be: a) lack of awareness about the cost optimization concept as the concept was in nascent stage in India b) misunderstanding between cost optimization and cost cutting. The stiff competition prevailing in the CPSC sector demands the players in the market should adopt cost optimization mechanism, process and models in order to create value for shareholders and other stakeholders.
6.4.1 Framework for Cost Optimization

Framework for Cost Optimization to be achieved is as under.

1. Decide in advance Increment in Economic Value Addition (EVA) to be achieved.
2. Formulate the Cost Optimization strategies for the achievement of decided EVA.
3. Choose specific Cost Optimization strategy for adoption.
4. Implement the chosen Cost Optimization strategies by allocating resources like Men, Money, Materials and Management talent.
5. Monitor and review the Cost Optimization results with the target result.

The companies should also explore possibilities of adopting Gartner's Four Levels of Cost Optimization framework.

**Graph: 6.1 Gartner's Four Levels of Cost Optimization framework.**
The sample companies are also suggested to explore the possibility of adopting the IT Cost Optimization developed by Vineet Kapur and Akash Jain. The Framework developed by him is narrated below:

Graph: 6.2 Framework of cost optimization

6.5. Scope for Further Research

There is a lot of scope for further research in cost optimization as this is the emerging concept. Therefore, a further research can be conducted on cost optimization in relation to the following.

1. Cost Optimization and Risk
2. Cost Optimization and Growth
3. Cost Optimization and Market Performance
4. Cost Optimization and Environmental Value Added and
5. Cost Optimization and Information Communication Technologies (ICT)
GLOSSARY

- **Alpha:**
  It is the excess of average rate of return over required rate of return.

- **Asset class:**
  It represents a group of securities that have same underlying asset type, behave similarly in the market place and are subject to same laws and regulations.

- **Benchmark return:**
  It is a standard return against which the performance of a Security, Mutual fund or Investment can be measured.

- **Beta:**
  It measures sensitivity of a stock or portfolio as compared to the rest of the market.

- **Bottom-up investing:**
  It is a style of investing begins with micro analysis at company level and uses various filters such as management quality, track record and so on followed by industry prospectus and economic conditions to pick stocks for investment.

- **Cost Control**
  Cost control is compelling actual costs to confirm to planned costs. The Cost control is the function of keeping costs within prescribed limits.
• **Cost Reduction:**
  Cost reduction implies reducing the costs in a planned manner from, a given level to a lower level.

• **Cost Optimization**
  Cost Optimization means value achievement with minimum cost. Without sacrificing or compromising quality.

• **CPSC**
  Consumer Products which have a quick turnover, and relatively low cost are known as Consumer Product Sector Companies (CPSC).

• **Current P/E**
  It is computed by current market price divided by the sum of earnings per share for the most recent two quarters plus analyst’s estimates earnings per share for the next two quarters.

• **Contrarian investing**
  It is an investment style that attempts to make profits by going against the usual consensus in the market.

• **Cost of equity**
  It is the minimum rate of return that a company must earn on the equity share capital financed portion of an investment project so that market price of shares remains unchanged.
- **Debt-Equity ratio**
  It is a financial ratio used to map the leverage that an enterprise has in comparison to its equity.

- **Dividend yield**
  It is the earnings distributed to ordinary shareholders divided by the number of shares outstanding.

- **Dividend Per Share**
  It refers to dividends paid to the equity shareholders on a per share basis.

- **Durability of Competitive Advantage**
  It is a financial strength of a company in terms of consistent higher operating profit margin and higher inventory turnover ratio.

- **Earnings per share**
  It is ratio of net profit less preference dividend to the number of equity shares.

- **Earnings yield**
  It is the ratio used to evaluate the shareholders return in relation to the market price of the share.

- **Economic Value Added**
  It is the difference between Net Operating Profit After Tax (NOPAT) and overall cost of capital.
• **Enterprise value**
  It is the value got through adding debt to market capitalization and subtracting excess cash and cash equivalents.

• **Financial Breakeven point**
  It is the level of Earnings Before Interest and Tax (EBIT) at which Earnings Per Share (EPS) is zero.

• **Financial leverage**
  It is the capacity of a firm to use fixed financial costs to magnify the effect of change in operating profit (EBIT) on earnings per share (EPS).

• **Free float**
  It is the portion of total shares issued by the company that are readily available for trading in the market.

• **Impact cost**
  It is a cost where large orders can be executed without incurring a high transaction cost.

• **Index investing**
  It is merely investing in the stocks which form the index and also focuses on buying a stock when it is added to the index and selling it when it is removed.

• **Industry P/E**
  It is average price earnings (P/E) of all listed companies of the specific industry.
• **Margin of safety**
  It refers to excess of intrinsic value over the current market price of the stock.

• **Market Capitalization**
  It is the value got through current market price multiplied by number of equity shares outstanding.

• **Market value**
  It is the capitalization of operating earnings (EBIT) by overall capitalization rate, (Ko).

• **Market value added**
  It is the difference between Market Value and Value of Invested Capital.

• **Mid cap stock**
  It refers to a company having market capital of more than 10 cores and less than 50 cores.

• **Moving Average**
  It is the sum of closing prices over a certain number of time periods divided by the number of time periods to get an average price of the shares for that period.

• **Nifty**
  It is the stock index calculated by the National Stock Exchange with well-diversified sample of 50 stocks representing 21 sectors of the economy.
• **Open Interest**
  It refers to particulars of futures contract either the number of outstanding long position or outstanding short positions that remains to be settled and are not squared off.

• **Operating Breakeven point**
  It is point at which we find sales revenues are just equal to costs consisting of fixed and variable cost.

• **Operating leverage**
  It is the percentage change in company’s earnings before interest and tax due to change in sales.

• **Operating Profit Margin**
  It is the percentage relationship between operating profit and sales of a company.

• **Price to Book (P/B) ratio**
  This ratio is arrived at by relating the current market price of the share to the book value per share.

• **Price/Cash flow ratio**
  It is the value got through market price of the stocks divided by the cash flow of latest four quarters.

• **P/E ratio**
  It is calculated by dividing the current market price by the Trailing Twelve Months (TTM) Earnings Per Share (EPS).
• **Price to Sales ratio**
  It considers current market capitalization of a company and divides it by the historical revenues of the previous twelve months.

• **Pricing Power**
  It is the ability of a company to attract the same demand for the product even if there is an increase in price by the company.

• **Projected P/E**
  It is calculated by stock’s current price divided by analyst's forecasts of earnings per share for the next four quarters.

• **Return on Equity**
  It is a value got through net profit after taxes divided by shareholders equity.

• **Return on Net worth**
  It is the relationship between net profit and the total net worth of the company.

• **SENSEX**
  It is an index composed with 30 stocks representing a sample of large, well-established and financially sound companies selected from different industry groups.

• **Shareholders value**
  It is the difference between market value of the firm and market value of debt.
- **Small cap stock**
  It refers to a company which has market capital of less than Rs. 10 core.

- **Standard deviation**
  It is a representation of the risk associated with a given security (stocks, bonds, property) or the risk of a portfolio of securities.

- **Sustainable growth rate**
  It is the maximum rate at which the firm can grow by using both internal (retained earnings) as well as additional external sources of debt financing without increasing its financial leverage.

- **Systematic risk**
  Risk emanating from the system is called systematic risk which is not diversifiable and also not a company specific.

- **Tangible P/E**
  Inverse of the required rate of return is Tangible P/E.

- **Unsystematic risk**
  It is a form risk which is not diversifiable, means it is company specific and is the result of managerial inefficiency, technological changes/failures in production process, and so on.
• Volume of Trade
  It is the sum of total number of shares either purchases or sales that change hands in particular companies securities.

• Value investing
  The process of selecting the stocks on fundamental value basis is known as value investing.