CHAPTER VI
FINDINGS FROM CASE STUDIES
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6.1 INTRODUCTION
The researcher has selected case study method for this particular research. The researcher has studied a variety of cases of strategic cost management from published information as well as from selected small scale units. This case study relates to Indian as well as Foreign organisation. The researcher has also collected the information from 25 small scale units. For the purpose of stating some case studies of small scale enterprises that strategic cost management is important and considered as a part of business activity. The strategic cost management has nothing to with the size of business. The case study also conclusively proves that costing techniques are also applicable in variety of situations and benefits are available on the basis of competency of entrepreneurs. Therefore, as elsewhere stated in the thesis that dedicated cost department is to be established for achieving the result of strategic cost management.

6.2 CASES FROM LITERATURE REVIEW
The following are the few important cases –
The Micro small and Medium Enterprises are a vital part of the Indian economy contributing to over 45% industrial production and around and 40% of the total exports. There are about 30 million MSMEs in India employing about 31 million People. It is the single largest contributor in terms of employment generation in the manufacturing sector. The future of MSMEs will depend upon overcoming the challenges thrown in a liberalized world and by enhancing their competitiveness in an increasingly global economy. Lean Manufacturing Scheme has been finalized by the Ministry of Micro Small Medium Enterprises. This scheme is one of the ten components
proposed under the National manufacturing competitiveness programme (NMCP) by the Government of India in the XI th 5 years plan. The objective of the scheme is to enhance competitiveness of MSMEs by application of Lean Manufacturing Techniques. The scheme is going to benefit about 100 clusters on pilot basis. On achieving success, the scheme will be implemented for more clusters in the country.

Case Study - 1

**Lean Manufacturing – A successful case of Foundry**

**Introduction**

ABC Auto Components Limited was established in the year 1995. The company is engaged in the manufacturing and marketing of S.G. (Ductile) iron, and Grey cast iron castings and components especially meant for the automobile sector. The present manufacturing capacity for casting components is 4080 MT. Per annum.

**Product Range**

Automobile Castings, Pipe Fittings, Engineering Castings

**Objectives**

- To develop the quality culture throughout the organization.
- To reduce high cost of poor quality and customer complaints.
- Optimum utilization of resources in terms of space, manpower, material, equipment utilization and energy consumption.

**Methodology Adopted**

- Formation of Quality Improvement Teams.
- Mapping the Business Processes
Major Findings and Diagnosis

- After achieving growth of 82.2% in sales over a period of 6 years since its inception, ABC was incurring heavy losses.
- Rejection in different components was to the tune of 12% with a maximum of 20-30% in some product categories.
- Major rejections in castings were found due to non-detection of exact metal composition before pouring the metal. This is due to adoption of conventional methods of testing the metal composition taking 2-3 hrs duration.
- Low material yield in major product category and was found in order of 40-60%.
- Average power consumption per ton of good casting produced was Rs. 5670/- per ton, which was quite high.
- High Work-In-Process Inventory with average of 40 days.

Implementation

- Identification of seven deadly wastes throughout the organization and its minimization within the span of one year.
- Installation of spectrometer, which analyzes the material composition instantly within 2 minutes.
- From conventional gating to direct pouring system.
- Development of multi cavity system.
- Installation of Cupola furnace for duplexing of liquid metal.
- Application of quality tools and techniques such as Failure Mode and Effect Analysis (FMEA), Cause and Effect Diagram etc. in Product realization process.
Key Benefits

Financial
- Reduction in Product cast by Rs. 1.0 to Rs. 1.5 per kg. of casting.
- Reduction in rejection level is reduced to 8% resulted in cost savings of Rs. 0.60 to Rs. 0.80 per Kg. of casting.
- Reduction in Work-in-Process level inventory from 40 days to 20 days resulted in savings of Rs. 0.20 per Kg. of casting.
- Reduction in energy input in melting section from Rs. 5670 ton to Rs. 4800 per ton.

The total amount of savings from the above benefits is Rs. 40 lacs per annum.

Non-Financial
- Reduction in lead-time of product development by 40%.
- Direct supply of 45 components to machining vendors of its major customer.
- Better space utilization in storage area and shop floor area.

Projected Benefits
- Organization planning to go for Business process outsourcing for the support processes such as core manufacturing, fettling etc. and strengthen its activities in the areas of core competence i.e pattern development and castings processes.

(Prepared by U.S. Singh, Deputy Director General, National Productivity Council, New Delhi)
Case Study – 2

Lean Manufacturing Implementation in a Machine Shop

Introduction
XYZ Auto Component Ltd was an ancillary unit of one of the large Auto Manufacturing Company receiving critical components from the foundry unit for machining to be supplied to the Auto Manufacturing Company in a Just-in-time mode. The XYZ Auto Component was selected for implementation of Lean Manufacturing at the initiative of the Auto Manufacturing Company.

Major Findings and Diagnosis
A diagnostic study was carried out to determine the approach to be adopted for Lean Manufacturing. The unit had an inventory of around 50 days and was supplying the components to the store equivalent to the order of about 7 days. It was dispatching the component in an auto and was spending about a day at the gate and for inspection in the store. There was no standard operating procedure. Housekeeping was poor; both work-in process and raw components were lying on the floor resulting into unsafe working condition and unnecessary material movements. Rejection rate of finished components were around 10%. The company did not have any Quality Management System in existence. The management had entered into a contract for cost reduction at the rate of 5% every year.

Methodology Adopted
- Formation of Quality Improvement Teams
- Mapping the Business Processes
- Organization-wide training on
  - 5S and Housekeeping and its implementation
  - Waste Elimination
- Visual control for Tools and Others.
- Meeting with customers to reduce delay at the gate and inspection store and agreeing to supply on line.
- Introduction of control chart and to reduce rejection rate.
- Introduction of suggestion schemes.

**Key Benefits**
- Certification to ISO 9001 : 2000 and subsequently to QS:9000;
- Improvement in Layout resulting in better and safe working condition;
- Reduction in material handling by about 40%;
- Inventory reduction to about 20 days;
- Customer inventory reduction to 3 days from 7 days.
- Rejection rate came down to 3%.
- Better industrial relation.
- Able to achieve 5% cost reduction as agreed to the customer.
- Improved customer – supplier relationship.
- Empowerment of employees.

**A Guide to Lean Manufacturing Scheme**
Take care about the following seven wastes and avoid the losses
- Over production
- Unnecessary stock
- Inefficient transportation
- Unnecessary motion
- Waiting Times
- Rejects and Defects
- Inappropriate processing

*(Issued by Development Commissioner (MSME) Government of India, New Delhi)*
Case Study - 3

Strategic Cost Reduction – Case Study

For this particular purpose case study is to be divided into three parts

Part 1

1. Organisational Analysis and Restructure
   - Organisation Chart
2. Profit and Loss Account
   - Macro Analysis
   - Micro Analysis
3. Department-wise analysis
4. Measurement – Rupee per employee
5. Work Sampling or studying / observing various methods
   - The procedure
   - Probability Theory
   - Methods for all types of shops / departments

Part II

6. Setting priorities and ranking of activities
7. Setting targets
8. Ranking of activities
9. Six costs reduction techniques (Survey)
   - Methods improvement should be undertaken
   - Value analysis
   - redesign
   - Work sampling
   - Ratio Analysis
   - Time and Motion Study

Part III

10. Areas of concentration
    - Emphasis on Purchasing
    - ABC Inventory Control
    - Product Re-design
- Sales Forecasting
- Pricing
- Labour Costs and New Industrial Revolution

Consider cost drivers for Labour cost such as quality tooling and equipments, quality and training of supervisors, changes in up keep procedures etc.

Case Study – 4

Recession

Recession comes, it will come – and it will tell us all what we should have been doing, instead of what we were doing.

Managing in a recession is all about being in control.
If you are not in control, then get in control.
If you are in control, then stay in control.
To survive in a recession one must be ingenious, eccentric, different. Senior management must be committed to Costs Reduction Programmes and check whether:
- all cost centres are necessary.
- all costs are essential.
- they can afford a department.

In UK, during recession (1994 – 1997) most of the businesses saved themselves by undertaking the following activities:
1. Cut fixed costs / overheads
2. Cut labour costs
3. Delayed payment to creditors
4. Pressurized debtors to pay more quickly
5. Introduced new services and products
6. Expanded into new markets
7. Introduced new equipments
8. Introduced new working methods
9. Reduced marketing and /or advertising expenditures
   or

9. Depending on the kind of product/s, increased marketing and advertising expenses.

10. Reduced borrowing
   or

10. Depending on the kind of business, increased borrowing.

Case Study – 5

**Customer Care and Cost Control**

**Caring for Customer Benefits – Directly and Indirectly**

Directly because he brings us his custom.
Indirectly because he brings in other’s custom.
He talks to potential customers, and recommends us to them;
And his word counts much more than ours.

**Why Care for the Customer?**

If there is no customer, there is no business.
The customer is CENTRAL to business.

“The absolute fundamental aim is;
*To make money out of satisfying Customers*”

- John Egan of Jaguar Car

“The only PROFIT CENTRE is the CUSTOMER”

- Peter Drucker
Cost of Loosing the Customer:
Once we loose him, its just impossible to get him back. And loosing a customer is doubly expensive. When he goes, he does not go alone. He takes other customers away – potential, if not existing.

Why Customers are Important?
- Customer means Business
- Customer means Profit
- Customer means Cash Flow
- Customer means Growth

Also

Profit Contributed by
- Price premium
- Referrals
- Reduced costs
- Increased volume
- Reduced cost of acquiring the customer
- Market share

All Profits Come from Customers
No Customers  =  No Business
No Business   =  No Profit
No Profit     =  No Business

Example: Costs reduction should also help in customerising five general paths you can follow to bring efficiency in your customer.
i. Lower the price, they pay for your product
ii. Reduce the comparative cost of ownership for your product.
iii. Avoid future costs
iv. Make their business process more efficient by reducing waste
v. Help them make more efficient use of their assets.

Encourage complain. If they don’t complain, you don’t get effective feedback.
Conclusion:

It is sound to spend on customerising the organisation for the growth of the business. A really well-run customer service department is a joy to behold. Too many companies hire poorly and pay badly for customer service positions. The long-term cost of that is expensive. Satisfying customers at low cost is a matter of Foresight – Effective Planning – Optimizing Systems and Processes continually – and Careful Budgeting. It is more a matter of cost containment than cost cutting.

Ref: Costs Reduction Strategies published by Ahmedabad Management Association

The above cases are taken from published information and reference books. The researcher has considered 25 small scale units. Following are few of the examples where cost reduction techniques are used by SMEs. The details of the case with fact and figures are explained as under. This particular trend shows that SMEs are also using these techniques of Strategic Management and ultimately either reducing the cost or absorbing the inflated rates of material and other overheads.

6.3 CASE STUDY FROM SMES UNDER RESEARCH

Case Study - 6

Pioneer Engineering Industries – Manufacturers of Wheels and Castors, the entrepreneur has given a few examples of cost reduction programmes. Without disturbing the quality of the product they are trying to control the cost by saving or effective utilisation of material, using modern tooling, technology, avoiding unnecessary operations etc.
Case Details -

Earlier we were using Hard Bush 10.2 x 15.88 x 47 L bush in castors 77 x 32, 100 x 32, 125 x 32
Functionally, hardened bush is not required and hence from today we will be using m.s. bush 10.2 x 15.85 x 42 L in above said castors.
Hard bush 10.2 x 15.88 x 47 L manufactured from φ16.1 Bar.
M.S. Bush 10.2 x 15.8 x 42 L manufactured from φ13.9 bar.
In year 2009 – 10, we sold 44000 nos of hardened bushes.

Cost Saving (Per bush)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Cost (Suyog)</td>
<td>0.55</td>
</tr>
<tr>
<td>Material Cost</td>
<td>0.07</td>
</tr>
<tr>
<td></td>
<td>0.62</td>
</tr>
</tbody>
</table>

Annual Cost saving Rs. 27280.00

Case Study – 7

Relating to operations involved in process

Nylon wheel 77 x 32. ID of Nylon wheel 77 x 32 x 15.0 has been increased to 16.00 (Finish). Earlier, we were doing long drilling operation on lathe, now from today, we are going to make champer on drilling machine.
By increasing hole size 6 gm material saves. currently nylon is @ Rs. 190.00 per Kg.
No. 1 wheels sold in year 2009 – 2010 = 9096 Nos.

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Saving</td>
<td>0.006 x 190 1.14</td>
</tr>
<tr>
<td>Labour Saving</td>
<td>0.75 1.89 per wheel</td>
</tr>
</tbody>
</table>

Annual Cost Saving – Rs. 17191.44
Turning operations saved and productivity increased. Today, there is a shortage of turners and in that case saving in turning operation is a good achievement.

Case Study - 8

**Change in Material Composition of the BRT Wheels**

This case is related to BRT compound (used for BRT wheels) In last one year, we have received 3 complaints from our customers, that hardness of BRT wheel is less and wheels are getting compressed under load. We checked the hardness of wheel and continued them that hardness is as per our standard mentioned in catalogue. But still as we got complaints, we started increasing hardness of BRT wheel to 85 shore ‘A’ from existing 70 shore ‘A’.

We conducted no. of trials to finalise the new formula for rubber compound. The main parameters checked hardness and resistance. After no. of trials, we finalised the formula. By doing this, compound hardness of wheel increase to 85 shore A from 70 shore A but at the same time resistance reduced by almost 20% as per test carried out).

Cost of previous compound = Rs. 104.88 per Kg
Cost of new compound = Rs. 85.86 per Kg
Cost saving Rs. 19.02 per Kg.

Compound consumed in year 2009 – 2010 = 2240.55 Kg
Cost Saving per year = Rs. 42615.26

In certain cases the entrepreneur has the process of manufacturing of king pins and able to save a good amount annually.

In case of UHMW, wheels where wheels as manufactured by compressor molding process. Till today there was no complaint regarding the same and not taking the load mentioned in our catalog. These wheel are actually fitted in medium duty castors. So ultimately load carrying capacity of castor is maintained by reducing weight of
block we are adjusting load bearing capacity of wheels as well as brackets. In this particular case also, there is cost saving by 2.5.

**Case Study – 9**

**The reducing running time**
The UHMW wheels are manufactured by compression molding process on hydraulic heating process (90 min curing time and then after 90 min cooling time) Till today, we are giving 90 min curing time 101 blocks of 50 mm width and also 90 min curing time for blocks of 32 mm width (which is not needed).

Hence we started trials from the particular wheels for four days and after that these blocks are machined and inspected critically for any improper curing. It was found that all the blocks are cured properly and not a single block is rejected because of improper curing by reducing curing time and the cost reduction per annum is approx. Rs. 20,000/-

**Case Study – 10**

**Relating to PU wheels**
Earlier we used to manufacture PU wheels by casting process (outsource). The cost charged by them was Rs. 180/- per wheel and also transportation was with us. Hence net cost was Rs. 182/- per wheel for PU molding.

As this cost was quite high, we started manufacturing of PU wheels by injection molding process. The material cost and injection molding cost resulted into Rs. 74 per wheel.

Net saving per wheel Rs. 106

No. of wheels manufactured in 2009 – 2010 = 1066 Nos.

**Net saving per year** = Rs. 1,12,996.00
Case Study – 11

Steps towards paperless office

Now a days few of the small scale units understudies have started using computerized system in routine administration. The following are the few examples of the same.

1. Purchase order – Earlier we were printing two copies of purchase order. One copy for Supplier and one copy for office record from January 2011 and we are printing only one copy of purchase order that is for supplier, as all records of purchase order are on line. We are not printing P.O. for office. As all details can be seen on line. By doing this we are saving a lot of papers, printing cost, manpower etc.

2. Purchase requisition – Earlier we were using purchase requisition for items to be purchased and to authorized purchase to be done. Even for a single item we make purchase requisition on A4 paper. From January 2011, purchase requisition is replaced by purchase requisition register. Purchase requisition register is having 30 lines on each page. By doing so, we have saved at least 20 pages per month and also printing and other allied cost.

3. Issue of consumable material - Earlier we are using material issue request for issuing of material. Even for a single item, we have to complete the process. From January 2011 onwards we have started to maintain the register. As a result a lot of papers, printing cost and other allied cost are saved.

By doing all these things administrative overheads are reduced.

Case Study - 12

Making payment to supplier immediately and managing our sundry debtors properly.

By making the immediate payment the cost per Kg of steel is reduced by Rs. 10 per Kg approximately. Earlier we were making the payment
within 60 to 90 days. Even after considering the interest factor, the immediate payment has different impact. Cost is reduced as well as proper services are delivered by the suppliers in time due to attraction of early payment. On the another side, we have started to follow our receivables as per terms agreed and even in case of early payment we have transfer the benefits to our customer by giving additional discount to the customers. It results into increasing quantum of business and even health relations among us. This case was explain by Arjun Wadkar Associates.

Case Study – 13

**Putting the capacitors in the factory**

To maintain the voltage of electricity at particular level, we have placed capacitors in our factory. The capital expenditure incurred for this is Rs. 35,000/- whereas our electricity bills are reduced by Rs. 6,000 – 8,000 per month. The life of the capacitor is normally 8 to 10 years. In the long range, such type of installation saved minimum 50 to 55 thousand per annum after apportionment of capital expenditure over 3 to 5 years.

The same type of case was explained by one of the entrepreneurs by setting the electric motor at particular voltage depending upon the object and usage. This also results into reduction in monthly bills.

Considering the above cases from literature as well as practical implementation by the entrepreneurs with their own experience as explained in the conference shows that they are also trying to use these techniques for reduction in cost. This trend shows the ability of the entrepreneurs and marching towards facing the competition in the National as well as International Market. It is suggested that this type of trend is to be developed amongst all the SMEs scientifically. So that cost reduction programme will be more effective.
The entrepreneurs has given us the details of cost reduction summary as example which is as under –

### Table 6.1

<table>
<thead>
<tr>
<th>Date</th>
<th>Cost Reduction</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.07.2010</td>
<td>27280.00</td>
<td>27280.00</td>
</tr>
<tr>
<td>19.07.2010</td>
<td>47700.00</td>
<td>74980.00</td>
</tr>
<tr>
<td>01.08.2010</td>
<td>15680.00</td>
<td>90660.00</td>
</tr>
<tr>
<td>04.09.2010</td>
<td>17191.44</td>
<td>107851.44</td>
</tr>
<tr>
<td>10.09.2010</td>
<td>29264.80</td>
<td>137116.24</td>
</tr>
<tr>
<td>20.09.2010</td>
<td>42615.26</td>
<td>179731.50</td>
</tr>
<tr>
<td>06.10.2010</td>
<td>20003.00</td>
<td>199734.00</td>
</tr>
<tr>
<td>13.10.2010</td>
<td>33289.20</td>
<td>233023.70</td>
</tr>
<tr>
<td>18.10.2010</td>
<td>112996.00</td>
<td>346019.70</td>
</tr>
<tr>
<td>19.10.2010</td>
<td>3563.70</td>
<td>349583.40</td>
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<td>31.10.2010</td>
<td>26037.64</td>
<td>875621.04</td>
</tr>
<tr>
<td>30.11.2010</td>
<td>54264.00</td>
<td>429885.04</td>
</tr>
<tr>
<td>22.01.2011</td>
<td>55722.56</td>
<td>485607.60</td>
</tr>
<tr>
<td><strong>Total Rupees</strong></td>
<td><strong>485607.60</strong></td>
<td><strong>3537093.66</strong></td>
</tr>
</tbody>
</table>

The above chart shows the awareness of cost reduction programme among the SMEs. This approach will lead to Strategic Cost Management

### 6.4 TIME MANAGEMENT OF SMES

As a part of case study these units must have the time management scientifically. It includes the following few important factors –

Time Management, put in a nut shell, is the art of getting things done faster, effectively and efficiently thereby getting more precious time for yourself.
How true is the saying, “without the management of time, you will soon have nothing left to manage.”

The place to start is with this list. Check the ones on which you should concentrate to improve the management of your time.

- Think of procrastination as your worst enemy.
- Develop daily, weekly, monthly, and yearly lists of goals.
- Draw up a plan each day of what you want to accomplish.
- Set priorities, and learn to weigh yours against those of your boss/colleagues/family. Don’t passively accept a deadline you can’t meet.
- Schedule hours for quite work and other times when you will be available to other people.
- Use technology – computers, calculators, phones
- Cut down on business reading. Learn to skim.
- Attend only the most important meetings.
- Delegate. Use your time and effort for those tasks that only you have the authority or skills to handle.

How should we manage time?

Managing Time by the three – P’s technique is by far the simplest method

Plan –

Your hour should be measured by the day, by the week or by the month and audited at the end of the period. Understand where you could have saved time and take action to remedy the situation immediately.

Prioritize –

Your activities or events by the word;

“Kal Kare so aaj kar, aaj kare so abh”.

Protect –
Your time by doing things right the first time, so that more energy is not wasted on re-doing it.

Also remember that of all the time saving techniques ever developed, the most effective is the use of the word ‘NO’. You cannot protect your priorities unless you learn to say ‘NO’ diplomatically, tactfully but firmly.

During the conference, the above discussion was carried and the firm opinion was to form about the effective time management by the entrepreneurs.

6.5 COST REDUCTION STRATEGIES SOME PROVED APPROACHES

Cost reduction, like quality, is not an accident but needs efforts and strategies. Like quality movement, it is not a one time exercise and/or action but a continuous campaign sustained over a long duration. It is a slow march towards world class and globalization. Cost reduction actions is not being miserly. With export potential and domestic demand going up for quality articles and OEM supplies that have to be just right in cost and quality, systematic and holistic approach by large industries and particularly by SMEs will go a long way. Innovation and wider approach is the key to success – not just cost reduction.

How to Strategize

Any strategy demands knowledge and data, the very first step of strategy will therefore be building data. All those SMEs who need to take up cost reduction exercise must first collect data about their cost. While streamlining cost data, collection can take months and years. One method of avoiding time loss to get going will be to ask operations, processes, department to make an estimated cost budget
for the year. This exercise should be done separately for revenue and capital expenditure.

The typical areas of SMEs hidden and unknown cost pockets will be rejection, spoilage, obsolescence and river cost. It is better to go systematically in the matter rather than assumption.

**Creating an atmosphere**

Creation of a sense of ownership is the first step. Fare practices does not matter the “Apparent” high cost of “Fairness” – must prevail. It is cheaper in the long run. Each SME champion must understand his unit and people well and he must take part and care personally in tailoring a programme. e.g. taking ISO certification is one such example of a subtle campaign.

**Partnership Approach**

The large industries who depend on the SMEs fully realise the approach of partnership. The SMEs must take this process further by involving their own suppliers/partners on ‘respect for each other basis.’ Every respective person must be rewarded for his efforts.

**Cost Budgeting and Control**

Based on the type of the industry, continuous production or batch, each SME should develop a system budgeting cost and control of cost. This will improve the ability of the unit quote more sharply than just quote by hunch.

During the discussions, in the meeting of entrepreneurs especially on this issue some of the good examples were discussed regarding cost reduction strategies. The following are few of the examples given in brief and names and other details of the organisation are not given to protect privacy. Desirous organisation will have to tailor their own cost reduction programme taking clue from these examples.
The listing of the examples is done generally in order of typical or costs incurred in an organisation. However, only salient headings are examined as otherwise this will turn out to be a separate treatise.

**Capital Expenditure**

Some HBE (Harvard Business Review) authors advise organizations to choose “shoe string budgets” for capital expenditure. Hiring and outsourcing strategically is ideal. Where you must spend on buying equipment, it will be a good idea to budget systematically using technological approaches rather than depending only on business acumen. In an engineering manufacturing unit, the press shop was to be expanded. The list of presses to be bought included a 450 T press besides a few 250 T presses. On analysis it was found that someone mechanically listed jobs to be produced and assigned tonnages. Only 10% of total volume was needing 450 T press which was to be loaded only 25%. A 450 T press costs 60% more than a 250 T press. Finally it was decided to off-load those 10% volume jobs which could be farmed out cheaper than in-house manufacture and also saved a massive capital expenditure. Some “guage” like this can be applied almost to all capital items.

One more example - In a company where a sizable number of computers was to be bought, a good saving was achieved by avoiding CD drives on all computers and not taking FDD on quite a few. Organizations are known to have a more of an emotional approach rather than a scientific one while investing in computers, lest they are called as backward. The obsolescence rate of computers being high, the payback for such investments should be maximum 1-2 years and sharing possibilities should be examined thoroughly.

**Raw Material Costs**

Since this forms 60% or more of total cost of most engineering industry, this is ‘A’ category item for cost reduction strategy. Global
sourcing and review of supply standards are the areas which can achieve good savings. In an example of a company, the higher supply specification of raw material would have jacked up the cost of raw materials by 5% (5% of 60% would mean 3% of total cost). It was found that allowing a less stringent supply specification (standard) on raw material and segregating and rejecting lower quality sub-assemblies was increasing cost by 1% on total i.e. a saving of 2%. We cannot write exhaustively about this area as the variety of industries use their own type of raw materials but suffice it may to say that raw materials attract many peripheral costs which add a sizable number. Examples – scrap page, obsolescence, storing, packing, transportation, cleaning (example: oiled steel sheets attract degreasing costs) etc. Scientific approach combined with a strategy is a must.

**Manufacturing / Processing Costs**

Here again a generalized discussion is not meaningful as a unit has its own pattern of costs. Study, analysis, arranging costs in order of priority and assessing potential of each heading must be done. Electric power, lubricants and other fuels will rank higher in the order. Here technological approach will help. The equipments must be examined and improved. Ultimate saving by adding some capital budget may help. Power saving devices, switch-off mechanisms etc. must be used. Use only high efficiency electric motors and heating/power devices. In case of a moulding machine, it is possible to switch off main motor when pressure is locked for a longer duration. Soft start/ static control drives for power equipment will help. Study and tailoring is required. Solar devices should be examined for their application and utility. The key to success lies in knowing and analyzing costs with an X ray.
**Product Design Costs**

The Japanese have proved that the ultimate operating costs of those companies are lowered by spending more time on product and manufacturing process design.

A German industrial products manufacturer found that 80% of the exotic product features were useful to only 20% of the customers. This means that 80% of the customers were willing to drop a few product features if it meant lower price. This company saved substantially for the customers and for themselves by simplifying the product design-making it easy for manufacturing. They say that 80% of product production cost is committed by the design/designer and lot of efforts at simplifying designs before and after a product launch is a good way to remain cost competitive.

**Labour Costs**

This can be separate subject in itself. I have seen examples where good, simple productivity devices and low cost automation has gone a long way in reducing ultimate labour costs. Workers need to be made aware and trained on how to reduce costs. It may be a wrong assumption that workers do not care for costs and are callous. Awareness sessions, frequent but regular flashing of data on information boards, Kaizen movement and an atmosphere of trust helps always.

**Logistics / Packaging / Handling Costs**

Sky is the limit for variety encountered in this area. Modern techniques and outlooks like “handle, if you must, but with care and least cost” will help to reduce ultimate costs. There are many examples of cutting down number of FG stores/depots, JIT manufacturing, having suppliers nearer to your own base having yielded good cost cutting visible examples are those of Car and scooter manufactures having devised special packing and
transportation methods obviously to cut costs of logistics. The classic example is Japanese oil tanker ships having taken sweet water to Middle East from Japan while on forward journey to Middle East to collect crude is a guiding light of innovative thinking though not directly applicable.

**HR / Personnel / Administration Departments**

This is an area of CR which has a good potential but is tricky to tackle and implement as this area touches the softer part of the employees. Cutting costs without harming any section of employees is a tough job and should be done with a lot of care, feedback, trials and the like. No rushing through to be done. If done wrongly, it can put all other CR efforts topsy-turvy. Travel and telephone costs provides excellent scope for savings. But here also it is necessary to bring in systems approach rather than just apply some cuts or do some adhoc new rules. Not having transit houses but booking annual hours in reasonably priced hotels is a good way of saving staff expenses on travel, Again the calculation should be for ultimate expenses and not just short time savings. Only two classes of travel and stay to be permitted rather than a cadre-wise complex arrangement is expected. Telephones is an area where a phenomenal expenditure can take place if not controlled. A training of how to combine e-mail, fax and phone usage to curtail STD phone expenses will help.

**Finance / Accounts Functions**

This is a highly specialized area and usually handled by the top most management echelon. Since our stress is in preparing employees at large to join the main stream of CR, I am not spending much time in this area. But suffice it may to take some examples and to cover a few points of strategy.
Marketing / Sales Departments

Here again since businesses have their own specific requirements, generalization will not be apt. Distribution channels sharing is one example quoted by some experts. This is again a specialized area and is not discussed here in details.

There is no function or a department which does not have a scope for savings – however small it be. A departmental head to have CR activity as a part of his personal appraisal without creating a fear in the minds of the people that this will be a cane to beat them. The Department heads to deploy the CR targets to their juniors, not forgetting the basics of motivation is vital.

On the whole an organization should make CR activity as a matter of happiness, achievements and enjoyment and not a drudgery or a matter of hate. The skills of the senior management are at test here but the rewards will be fulfilling.

“Here is a piece of advice
That is work kings crown
To hold your head up,
Hold your overhead down”

- Ruth Boostin

“The Only effective way to cut cost is to cutout an activity altogether
To try to cut back costs is rarely effective. There is a little point in trying to do cheaply what should not be done at all.”

- Peter F. Drucker
6.6 OUTCOMES FROM SMES CONFERENCE

Outcomes of Conference of SMEs held on Sunday 8th May 2011

The researcher has applied this technique of conference to know in detail about the cost management awareness, strategic cost management, recent trends in materials and stores management and how the strategic cost management is pathway to improve profitability and productivity. The object is to exchange ideas, expert views and opinions and practical difficulties in routine business management. The following are the few selected importance points

1. To enhance cost awareness among the entrepreneurs and employees by implementing various functional strategies for saving Time, Money and Energy.

2. To change the approach of Management from Traditional to the Professional Management. e.g. existence of separate purchase department for effective buying.

3. Debtors and Creditors Management i.e. making payment to the suppliers as per the terms agreed for the benefit of the organization, recovery from customers effectively in time, managing the bank account accordingly.

4. Application of Inventory Control Techniques, to save Money and optimum utilisation of resources, application of recently developed inventory management techniques such as ABC analysis, Just In Time Technique as well as simultaneously use recently developed storage systems for safeguarding of material.

5. To control the cost of tooling using the modern technology and recent tooling system, for this purpose entrepreneurs must take the review of Production Process continuously and constantly.

6. Manpower planning and management of human capital i.e. proper work for proper person and proper persons for particular work.
7. Concept of paperless office by using mechanism, use of computerised systems and ultimately to reduce the administrative cost.

8. Association with Mahratha Chamber of Commerce, Small Scale Industrial Association and concerned Government department to know the various schemes from Government of India, Financial Institutions etc.

9. Establishment of own design department suitable for products, creating substitute to imported products, establishment of research and development activities within the organisation, outside the organisation as per the requirements.

10. Effective communication systems within the organisation (internal communication) as well as external communication.

11. Compliances of legal provisions applicable to the organization such as submission of returns, various reports, tax payment, renewal of licenses etc. by proper planning and understanding the latest changes in the provision.

12. Training and Development activity for the staff, Staff welfare programmes etc.

13. SMEs need to be more competitive, aligning themselves to new ideas, process and acquire a professional approach by adopting the best management practices and change the ways of managing business.

(For further details refer Annexure No VI)