Cost Competitiveness

Organizations make every effort to achieve competitive advantage, but few truly realize what it is or how to achieve and retain it. A competitive advantage can be gained by offering the consumer a greater value than the competitors, such as by offering quality goods or services at an affordable price. Competitive advantage can also be viewed as any activity that creates superior value above its rivals. A company wishes the gap between apparent value and cost of the product to be greater than its competitors.

Again to ensure sustained competitiveness, strategic cost management balanced with growth and innovation is essential. Nowadays, competition is becoming more and more exigent. Industries are converging and new markets are emerging. Customers are different—they make markets, they don’t just follow them. Thus gradual investments in R&D, innovation and skill development are required to achieve the competitive edge and value maximization of the business.

I believe that a glance through the pages of this e-magazine will definitely enrich the knowledge base of the readers. Hope the readers would love to go through it.

CMA P.V. Bhattad
President
The Institute of Cost Accountants of India
It gives me a distinct honour to present before you the CMA e-Magazine of the Institute on “Cost Competitiveness”, Vol. II, No. IV February 2016 issue.

Undeniably, the capability to innovate and to bring innovation effectively to market is a vital determinant of the global competitiveness over the coming decade. There is rising awareness among policymakers that innovative activity is the key driver of economic progress and well-being as well as an impending factor in meeting up global challenges.

Innovation is a continuous process of discovery, learning and application of new technologies and techniques from many resources. Innovation can also take the form of organizational changes and new marketing strategies which spread out demand for products, support existing structures for new methods of production and amplify the efficiency of other types of innovative effort, leading to efficient productivity.

Innovation processes include idea generation, commercialization, entrepreneurship and business innovation. While these processes can be viewed as sequential steps in bringing new technologies to commercial execution, most often they are iterative and non linear.

Thus, my sincere gratitude for the praiseworthy effort of my fellow members of the Directorate of Research & Journal of the Institute and all the eminent contributors to publish such an e-Magazine in time.

CMA Avijit Goswami  
Chairman, Research, Journal & IT Committee  
The Institute of Cost Accountants of India
Editor’s Note

Dear Readers,

Greetings !!!


Effective Cost Management provides the competitive edge and has become the survival strategy for the industries at present. Cost management focuses on competency, reduction in wastages, framing efficient supply chain system and bringing about overall cost consciousness. A company must create clear goals, strategies, and operations to sustain its competitive advantage over time. The corporate culture and values of the employees must be in alignment with those goals, as well. This would enable the businesses to deliver quality products or services at reasonable prices to the customers and ensures business sustainability.

We look forward to queries and suggestions from our readers for the improvement of this CMA e-Magazine “Cost Competitiveness”.

Please send your mails at research@icmai.in. We appreciate the sincere efforts of all the contributors of this important issue and hope our readers are contented with it.

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Do you support Public-Private Partnership (PPP) for economic sustainability of the nation?

Public-Private Partnerships are becoming a common tool to bring together the strengths of both public and private sectors. In addition to maximizing efficiencies and innovations of private enterprise, PPPs can provide much needed capital to finance government programs and projects, thereby setting public funds free for core economic and social programs which can bring economic sustainability of the nation. PPPs are critically important in meeting the challenge of sustainable development.

How do you stay cost competitive abiding taxation and Government regulations?

The consideration of cost competitiveness starts in the market with pricing. While it is true that, in economic theory, price is set by the market, it is equally true that, in the real world, this is a dynamic dialogue affected by many variables. Achieving cost competitiveness requires, as a starting point, explicit management intent. Having the lowest costs is not a guarantee of market success. We see cost competitiveness as a level of operation that allows an organization to go on winning sales at a price that generates a sufficient level of return both for stakeholders and for the investment needs of the business.

What is the impact of FDI on Cost Competitiveness?

FDI will increase the competition in the market and will bring the prices down. The companies have to be very competitive to remain in the market. In order to stay in the market company has to be Cost Competitive as per the market norms. Thus it can be said that FDI has a direct and strong impact on Cost Competitiveness.

In what ways technology and productivity facilitate in improving Cost Competitiveness?

The technology and productivity both help to get a better cost analysis. The technology helps in getting the better cost break-ups to determine the cost at lowest point whereas the productivity helps in forecasting the cost of any number of units. Thus, technology and productivity both facilitate in improving Cost Competitiveness.

What is the impact of Cost Competitiveness for effective decision making?

Cost competitiveness is only possible through deep cost analysis which results the knowledge of the actual cost of each minor process in the business operation. This knowledge helps in taking the right decision about any process. Thus it is evident that Cost Competitiveness has a great impact for effective decision-making.

In order to obtain a fair view about the performance of the organization, how to position the cost aspect from the competitive point of view?

The cost aspect is very crucial from the competitive point of view in order to obtain a fair view about the performance of the organization. To be competitive in the market it is very important to keep the cost at the minimum level without compromising upon the quality aspect. Therefore, the cost analysis not only gives the fair view of the performance but also suggest the ways for improvement.

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Cost Competitiveness:
An Indispensable Key to Success

In today’s world of ongoing globalization and changing technologies, competition is becoming keener than ever. In order to survive and grow, every enterprise is forced to strategize competitive edges in some way or the other. The areas for such edging are essentially ‘quality’ and ‘cost’ of product, both inter-related and influencing ‘value’ of the product.

In this article, we will review cost competitiveness as one of the driving dimensions for long-run success of an enterprise.

Quality-Cost-Value: Facts underpinning long-run strategies

Need gives rise to ‘demand’ while satiation of such need is the function of ‘supply’. This fundamental fact of economics is well pronounced in viewing every enterprise as a supplier. As human needs or ends are unlimited warranting judicial use of limited means, every supplier is confronted with two basic challenges in a free and open economy viz. market acceptance and cost-effectiveness of supplies.

When we say ‘market acceptance’, it brings in its fold all efforts of an enterprise, from designing to sourcing & delivery, justifying value for money to customers. It is in this context that integrated management or total quality management (TQM) is gaining prominence with increasing use of information and communication technology (ICT). As success of an enterprise in the long-run is measured in terms of returns to capital, it goes without saying that ‘cost-effectiveness’ is another key area, often inseparable in integrated approach aforesaid.

It is important here to note that ‘value’ of a product is influenced not only by quality and cost of the product but also by competitors’ products. In the first place, it is the customers who evaluate a product as the supreme judge. Supplier’s evaluation of its product is based on financial performance of the product. Diagram 1 shows a bird’s eye-view of quality-cost relationship and their influence on ‘value’.

![Diagram 1 illustrating interplay of Quality-Cost-Value](image)
Competition – Its nature and implications
We can see from Diagram 1 that competition can limit procurement of resources much as it limits market share. Many enterprises tie up with key suppliers for technology-sharing as a part of competitive strategies. Big enterprises retain best talents. Thus, competition is everywhere and it is more substantial a threat to small and new enterprises. However, “it is not the big but the fast which survives and grows”. History reveals that many big and old enterprises perished with time as these could not adapt as much to changing situations as the small and new ones did. Therefore, agility has far reaching effects on an enterprise’s life. We will discuss relevant strategies later in appropriate places.

Overview of strategies for cost competitiveness
As seen above, cost is seldom isolated from quality for competitive strategies. Every quality-cost strategy is evaluated with respect to benefit or ‘value’. It is not that high quality means high cost. Rather, there is an optimum point in quality that yields maximum value due to differential behaviors of cost and revenue. This is explained in Diagram 2.
Quality-cost strategies can be summarized as follows:
- Quality remaining the same, cost is reduced.
- Quality is improved with additional cost – This is sustainable if selling price also increases with incremental profit.
- Quality is improved with reduced cost.
Sometimes, above strategies call for capital projects as in case of modernization, expansion, diversification, simplification, etc. These may even require research and brainstorming for finding out viable solutions to persistent problems or constraints including threats.

Areas for competitive edging in cost
An enterprise has several areas for cost competitiveness, depending on the nature of its business. Major areas are described below -

1. Product Design:
Carefully designed product creates a lasting mark in the minds of customers, reinforcing their preferences. Time-tested brands like Dettol, Cheriblossom, Nescafe,
Xerox, Microsoft, etc are inseparable from the products. At the same time, it is also true that even patented products are competed away in the long-run. Therefore, there is no substitute for continuous innovations.

Marketing function has to collect and analyze sufficient information on customers’ needs, market size, competitors, etc in designing a product to be developed by production function. Big enterprises have R & D unit for zeroing down to appropriate products and trying these out on small scales. Brain storming, benchmarking, collaboration and vendor partnering are other methods used for product designing & development.

Product design is the first source of cost. A design takes into account material properties of the product and processing requirements. We will review this further in the next point under ‘Technology’.

2. Technology:
Selection of materials and machineries for production has direct and long lasting impacts on both quality and cost of product. In adopting technology too, R & D and other methods mentioned above are applicable.

Cost-benefits of different technologies need to be evaluated for decision-making. Such evaluation normally requires detailed techno-commercial analysis.

Following two examples clarify the point:

- Bogie bolster for railway wagon can be produced by casting steel or by fabricating it by forging steel and welding the parts. In casting, gross steel weight will be more while fabrication requires additional weld material, though both methods must have same net weight after machining. Selection of the right technology would depend on the volume of production, plant & machineries cost, operating costs, quality of the parts produced (in terms of dimensions with tolerance, mechanical properties, etc) and other factors.

- Steel plant may have a captive coke-oven plant or it may blend imported and domestic coke. For coke-oven, it may own captive colliery or blend imported and domestic coal. Selection of the right option would depend on cost per unit of steel, assuming there are no qualitative differences amongst the options.

3. Plant location, layout & ergonomics:
Appropriate location of plant reduces inbound and outbound logistics costs (including inventory) whereas appropriate plant layout reduces in-house logistics costs (including materials handling which has determinate effects on work-flow). Ergonomic design of plant for ventilation/ air-handling, lighting, waste-disposal, noise suppression, etc reduces human fatigue.

4. Process planning & control:
Use of digital technology with computers and network has revolutionized automation and modern management. These are amply exemplified in NCM, PLC, GPRS, AutoCAD, Bar Coding, Audio-Visual sensors, etc. Such technology enables a manufacturer to control work-flow & inventory, monitor machine conditions, locate mobile equipments, develop product drawings, register employee attendance, etc. These reduce cycle-time and administrative costs considerably.

5. Supply-chain management (SCM):
SCM attunes an enterprise to internal and external realities of supplies with the help of ICT. It removes the barriers amongst erstwhile purchasing, storing, production, warehousing & dispatching and enables an enterprise to complement its resources
with vendors’ resources. Thus, while core activities receive greater focus for competitive edging, non-core activities can be outsourced. Again, core activities can be further strengthened by strategic partnership with key vendors. Further, in-sourcing is advocated wherever profitable and even for non-core activities. SCM results in agility, cost savings and improved competitive strengths.

6. Lean organization:
A tall organization is slow in decision-making and a flat organization suffers from difficulties in co-ordination. While a proper balance is desirable between the two, an enterprise today needs to address leanness of the organization for agility. Right sizing an organization can be done through O & M studies, given the right workplace environments. Modern trend is for multi-skilling which can be used for enlarged job for each employee with more empowerment and decentralization. Value-chain concept is also applied for segmenting value-creating functions and support services. Organizational age is another approach for leanness and agility by which average employee age is kept below a target (say 35 years) by infusing youths at grass root. Such approach requires goal-role clarities for employees, adequate training, remuneration & careers progression, regular performance evaluation and early retirement policies. (The approach may rouse organizational conflicts!).

Tools & techniques for strategizing cost competitiveness
Almost all tools & techniques that are available for effective management are applicable for strategizing cost competitiveness. Some of these follow from the paragraphs discussed above and many of these could overlap each other. Important tools and techniques are listed below:
- Engineering analysis of specifications for products, materials & production processes.
- Work study techniques and O & M studies.
- Quantitative techniques (Operations Research & Statistical Techniques)
- Qualitative techniques (Pareto analysis, cause-effect analysis, what-how analysis, etc)
- Systems analysis & integrated information.
- Techno-commercial evaluation of capital projects.
- Value engineering.
- Total Quality Management (TQM).
- Benchmarking (best practices, industry averages, etc)
- Business Process Re-engineering (BPR).
- Financial control
- Cost & Management Accountancy – This discipline can be used for integrating various information, whether financial or non-financial, and as an overall function drawing upon all other systems. The importance of it in analyzing income-expenditure from every angle, and serving as an information link between accounting and management, needs hardly any emphasis.

Conclusion
Cost competitiveness is a dynamic concept which has intimate relationship with quality and value of product. Thus, strategies for cost competitiveness take into account all aspects that affect quality and value right from product design to market performance. Almost all tools & techniques that are available for effective management are also used for strategizing cost competitiveness.

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Be Innovative Be Cost Competitive

Competitive advantage through Customer Relationship Management (CRM)

Backdrop:
In the commercial world, the significance of keeping hold of existing customers and expanding business is imperative. The costs allied with finding fresh customers mean that every existing customer could be vital. Customer Relationship Management, particularly on hotel chain level, is very challenging but also very important, as the hospitality industry deals with perishable goods and needs to manage supply and demand with a definite instinct. CRM is a crucial strategy for sustaining competitive advantage in the current marketplace to enhance guest loyalty and customer satisfaction.

Objectives:
- Better realization of customer’s behaviour
- Long-term relationships
- Improve product and service branding
- Implement cost-effective and efficient management and operational processes
- Collect and effectively use information to achieve a more holistic view of the customer.
- Customer Satisfaction
- Maximize profits by identifying profitable and unprofitable customer segments and taking appropriate action.
- Retain customer loyalty in a cost-effective manner by consistently delivering the right communications, incentives and opportunities that keep individual consumers committed to the organization’s brand

Methodology:
CRM links existing corporate capabilities and fill up the missing elements to move organizations to a customer-centred environment. CRM develops a customer data repository where the various fragments of customer data can be accumulated and improved into a valuable business asset. Yet, the success of a CRM strategy largely depends on the availability of complete and accurate information about individual customers and their relationship with the organization.

Applicability:
CRM is a powerful management tool that can be used to exploit sales potential and maximize the value of the customer to the hospitality industry. Hospitality sector’s greatest assets are knowledge of their customers. They can use this asset and turn it into key competitive advantage by retaining those customers who represent the highest lifetime value and profitability. They can develop customer relationships across a broad spectrum of touch points such their franchise branches. More importantly CRM optimization should be encouraged through the right practices, optimization of resources and the ability to adapt the change.
Be Innovative Be Cost Competitive

Activity-Based Costing: A Tool for High-Quality, Low-Cost Care

Backdrop:
One of the decisive challenges of healthcare profession is to measure actual costs in real time. All payers like the Centers for Medicare & Medicaid Services, employers, consumers/patients, etc. are willing to pay for healthcare services based upon real costs with a reasonable margin. Obviously, having clinical/business analytics to provide real time cost accounting information to all relevant providers, payers and managers with decision support alerts is essential to actively manage costs when it can do measurable good. Time-driven, Activity-Based Costing is here to stay, and with good analytic tools readily available to provide high quality but reasonable cost care.

Objectives:
- Improved decision making.
- It provides a strong link between organization’s operational performance and actual financial performance
- Enhances financial management;
- Provides better cost control and cost management;
- Offer better understanding of cost reduction opportunities
- More accurate information for product or service costing and pricing.
- Reduce or eliminate idle time
- Trim down or eliminate unused capacity
- Serve larger volumes of people with existing capacity

Methodology:
ABC method in healthcare service provider could bring a lot of benefits for an organization. ABC system involves identifying the major activities taking place in an organization then assigns costs to cost pools/cost centers for each activity. Determine the cost driver for every activity and allocate the costs of activities to products according to their individual demands on activities. In case of ABC implementation in hospital this step could be crucial, because the management have to decide, what the final product or cost object of the healthcare institution is.

Applicability:
Integrating ABC with case management, critical path analysis and other hospital control processes represents an exciting new development. It provides a structured approach to analyzing activities, costing services, reducing costs and improving quality. In addition, it brings to bear the skills of employers from different functional areas of the hospital and helps to generate ideas and innovative solutions to the problems at hand.
Be Innovative Be Cost Competitive

Application of Total Quality Management (TQM) in Food & Beverages Industry

Backdrop:
In the era of globalization, which is full of fierce competition, companies must be able to demonstrate its ability to meet market demands. The success in winning the competition is not only determined by the ability to manage and improve the company's resources, but also determine by the quality as the key factor that plays a very important part to achieve excellence. Moreover quality, nowadays, became the most reliable factor that a company must achieve to continue to fulfill consumer satisfaction.

Objectives:
- Quality improvement and customer satisfaction
- Waste reduction
- Enhance productivity
- Customer focus
- Leadership
- Sustainability and Competitive Advantage
- Increase market share and profitability

Methodology:
The management company should consider TQM practices variables in improving product quality performance such as leadership, strategic planning, customer focus, and process management in product quality. Superior quality product will boost up company's performance, sustainability and competitive advantage in long run. Using statistical tools, the provision of quality training to employees, creation of the task force and other quality instrument utilization must be optimized in order to deliver better results in supporting the achievement of best product quality performance.

Applicability:
Strong and consistent leadership with the successful implementation of TQM in the organization of the company has dominant effect in determining the performance of the quality of the product in food and beverage companies. Quality improvement programs that have been planned for the company within the framework of TQM practices would work well if managers are able to support it.
Be Innovative  Be Cost Competitive

MSMEs: An Engine of Economic Sustainability of the Nation

Backdrop:
The MSME sector in India continues to exhibit remarkable buoyancy in the face of trialing global and domestic economic circumstances. With its dexterity and dynamism, the sector has shown commendable innovativeness and adaptability to survive economic shocks, even of the gravest nature. MSMEs are vital to making India a manufacturing hub as they represent the "Made in India" section of industrialization. "Make in India" campaign encourages large-scale manufacturing and takes along the MSMEs to ensure the growth process more inclusive. The MSME sector is the backbone of the Indian economy and can help India cut its reliance on imports, spur jobs and raise the income of millions.

Objectives:
- Access to finance
- Redefining investment limits
- Encouraging technology adaptation
- Access to high quality raw materials at competitive prices
- Facilitative regulation

Methodology:
The globalization of businesses has ever more drawn SMEs into global value chains through diverse cross-border activities. Many entrepreneurs are recognizing the opportunities to access global markets for their further development. These prospects have arisen due to increased focus on the MSME sector, larger investments in research and development, technological upgradation, thrust towards international collaborations and measures to boost competitiveness and propel growth.

Applicability:
To alleviate the overall disease of lack of appropriate growth of Indian SMEs – Small and Medium Enterprises, adequate credit delivery to SMEs, better risk management and technological upgradation is a must. Among them, the major problem of inadequate financing to SMEs needs an urgent attention. The banks need to formulate their own model(s) or choose any intermediary for extending micro credit and formulate the criteria for selection of micro credit organizations. The banks should possess proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up. MSMEs function in a highly competitive environment and require an enabling environment to sustain growth. Well-rounded fiscal support, a strong policy framework, and incentives promoting innovation by financial institutions can significantly increase the penetration of formal financial services to the MSME sector.
Behind every successful business decision, there is always a CMA