

Techniques to reduce the cost of raw material and to gain the profits

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Abstract - In any organization or company, the main motive is to maximize the profit and deduct the manufacturing cost. But the very first and important conundrum which is faced by the institute is "How lower the manufacturing cost". The study basically aims to critically lower the production cost, how to make proper use of machineries, proper budget, strategies, automation, materials, utility, skilled labors, designs, supply chain management, quality than quantity, expanding networks, efficiency of machines, reuse of materials (waste), evaluating the business plans regularly.

Key Words: Organization or Company, Reduction of cost, profit, budget, reuse, strategies.

1. INTRODUCTION

Referring to the "environment is where we reside and buildout is what we all do in attempting to improve. The two are inseparable." This is the most common definition. The business environment today is very competitive, impacting every organization large or small. An impulsive reaction under the current circumstances is just to cut all costs to the minimum level. Every aspect of an organization's cost structure must be carefully examined to eliminate unnecessary discretionary and non-value adding costs, while yet retaining its competitive position.

In any business organization, the goal of most organizations is to achieve maximum profit. Since management is concerned with the profitability which is one of the tools to evaluate the business performance especially in a manufacturing company, the need of increasing sale will arise and this will eventually lead to increase in production capacity and as a result lead to increase in cost. Thus, the need for cost control and cost reduction is required to achieve maximum profit in competitive market where demand is affected by the price of goods and services.

Asaolu and Nassar (2007) define cost reduction as the term used for planned and positive approach to the improvement of efficiency. It can be viewed in many ways, such as increasing productivity, and elimination of waste. Lucey (1996) refers to cost reduction as concept which has the aim of reducing cost from a previously accepted norm or standard without reducing the effectiveness or performance of the project or services.

Dury (1985) defines control as the means of ascertaining that the activity of an organization follows

The standard plan and that its goal is accomplished. Sikka (2003) discussed that cost control system consists of ways and methods that are used to control the operating cost of a job and ensure that cost does not go beyond certain amount. Manufacturing cost reduction actually measures the company's performance against targeted cost, production, profit and employee's performance.

2. Benignity that require to deduct the quality cost

As cost reduction, using of prevention as well as concepts assessment which started trading in the basal industrial companies.

a. Reuse of Waste Material

Always consider the waste or the remaining unused materials to produce another product instead of sending it to recycling center. Try selling leftover materials like metals, cardboards, plastics.

b. Track and measure the operational efficiency

In order to maintain and hike the use of adjustable resources, set some parameters and goals, when achieved offer some incentive to the labors and colleagues. This will also increase the efficiency and can also help to track down the business growth in the industry.

c. Depress the financial expenditure

It's better to go through the financial policies and financial accounts once in a month to look for a place to save any amount of money. Also consolidate the financial accounts and policies if possible.

Make sure if the insurance policies are not over insured. When considering the business expansion goes through the cost benefits and for future augur.

d. Setting Goals

Hone the productivity efficiency deducts the cost of doing business. Long time ago a wise man said correctly "Wasted time equals to money". With reference to this statement always minimizes the time wasters. Take some effective and helpful task and seminar for workers to concentrate and focus to do work. Set some time limit to do complete a task

or work. If done in time offer incentive to that fellow workers.

e. Virtual technology

These kind of technology helps to take meetings and guide the workers whenever they are in some difficult task and the owner or the plant manager is out of town for a meeting or work. Of course no one wants to lose the customers, sometimes it is better to advertise about the organization by doing some small paid advertising and do make the e-mail list of all the customers. It will help to implement a referral program. Network more and advertise less should be the motto because clients do hire when they know the company or organization their face.

Increase the use of social media marketing instead of traditional marketing. It will surely gain more customers.

f. Maximize the employees' skills

If physical labor is the biggest expense in manufacturing your product, controlling labor costs will give you the quickest path to increased benefits. Labor cost reductions can be generated by lowering the money paid to factory workers or by making workers more efficient. Reduction in cost labor can be obtained by employing unskilled labor; other way is to increase the efficiency of the skilled labor. Try to avoid the unnecessary steps in the process. Limit the time required to manufacture an average unit by providing specialized training and seminars to the employees. Offer some cash-prize to the employees who produce any creative idea about reduction in cost.

g. Material Cost

When material cost dominates the product manufacturing expenses acquire materials for less money or amount or else find other ways to use the material less in the building process. Always try to buy the materials in large lots so that it will reduce the cost of the material. Try to find the right and proper material so that it will play vital role in cost reduction also in the production for quality purpose, if not then do not buy the goods.

To reduce the amount of discard materials always provide perfect training and tooling. Try to establish the lean manufacturing dynamism like for example TQM for savings.

h. Maximize the quality

In today's competitive industry, owners try to maximize the quantity instead of quality. Remember customers are satisfied when they get the quality in cheaper rates. Try to maximize the quality. Also satisfied customers help to increase the sales by referrals or by buying the products again and again. Good quality and solid reputation allows you to charge the rates higher, which results in higher income source.

i. Consumption of energy

The very first or second highest element of cost is energy consumption for any industry or organization. By making demand driven companies can slower the rates of production without interrupting the outputs to the customers. The other alternative to this to use the natural resources like wind energy, solar energy and many more for the power generation. This is because according to USA Today, "The world has left with only 53.3 years of oil". So this is the best alternative for generation of energy.

Also by conducting the HVAC maintenance, air compressors leakage repairing, scheduling the equipment starts-ups. Create an enter energy management team to look after the use of energy consumption. Every month try to conduct the energy assessment.

j. Offer quick payments at lower prices

For each and every organization the cash flow is very important, which some much crucial when it matters for buying the materials. It is more important than profits, when it is particularly for short term. During the stress financial conditions organization cannot afford to sustain the excess inventory or delay in payments. Always inform the supplier, company is expecting low prices in return of cash payments.

k. Try to eliminate unnecessary features of products

The cost of the custom product is much higher than compared to any standard product or mass produced in the company. Any other or non-standard feature to the product unnecessarily increases the product price as well as the production cost of that product.

Try to know the motives' of the customers who are willing to buy the product either they are buying the product by its high quality with low price or something else it is and try to attack on that element so maximize the production and increase in profit margin.

l. Change of design

For reducing the cost of the product, the effective way is to redesign it. Companies have to rectify the key characteristics of their products which are responsible the success in the competitive market. Other feature may add some cost but they are effective when dealing with the customers. Organization can redesign the products assuring the customers the high quality but at the lower rates compared to the earlier cost.

m. Capital investments

Organization should invest in the machineries which can work faster and also increase the production rate as well as the profit margin for long runs. Likewise machineries which

use materials less can also be effective when it comes for saving. Many times to save money is to spend it in proper ways and future plans.

n. Change of suppliers

Organizations should change their suppliers if they are not providing the materials at low price or reduction in percentage even slightly. Should always find any other alternative or any other supplier who is willing to give the company good quality raw materials at lower cost. Company should always try to find the sourcing from different suppliers. Likewise sourcing for three or more suppliers can lower the cost of expenditure.

o. Value Engineering

It is a systematic method to improve the quality of product by using an examination of function. The ration of function to cost is known as the value. Hence value can be increased by improving the quality or reducing the cost. It helps to identify and remove the extra expenditure occurring in the process. It has no adverse effect on the performance. Computational Fluid Dynamics is an example of Value engineering, which can benefit new and existing developments by avoiding unnecessary capital cost, reducing the production time, also in energy consumption and maintenance. Emission of CO₂ is also lowered.

p. Target Costing

It is also known as the product costing method in which the planning and development phase of a product life cycle to attain the specified cost decided by the management. This allows to lowers the cost of production by designing good quality product. This helps the organization to gain profit and attain cost management.

3. CONCLUSIONS

The relevance of this research is to analyze the importance cost reduction techniques on organizational performance in a highly competitive environment. For an organization to ensure more profit growth by producing quality goods and services with available resources on the ground there is a need to reduce cost to the acceptable limit as regard to control and reduction on wastage and loss. In the course of this research, it was discovered that cost reduction techniques seen to be very essential to the growth and survival of any organization in a highly competitive environment ranging from practical planning and setting standard, monitoring the standard till it is achieved and also strategically reducing cost expended during business activities. This all of this proves the essential need of cost reduction on organizational performance in a highly competitive market if well considered. From the finding of this research, it was evident that cost reduction has a positive impact on organizational performance. In order to

make it a success, there is a need for organization to apply cost reduction scheme in their operation and worker should be carried along and they must be motivated to achieve the desired goals and objectives. The absence of behavior control such as motivation, incentives and so on among employees will affect the success of cost reduction strategies in an organization. Element of cost such as material, labor and overhead cost worker behavior could also be strategically controlled. Also, budget must be used to monitor the operation in the organization in order to make sure that money and resources are not being wasted. Challenges of effective cost reduction could be solved by direct observation and supervision by management by taking note of the key non-performance indicator in any section or departments having challenges and as a result, finding ways of improving on it. As a result of this, if all the condition and measures can be taken significantly, organization can afford to overcome its competitors by producing quality product at lower price and become a market leader. Based on the research finding and hypothesis tested in the course of the research work, the following recommendation have been made not only for the company under case study but all manufacturing

Industry cost reduction scheme must be properly administered in an organization by setting realistic standard Cost reduction should be operated in every department in an organization especially the production department in other to make sure that the numbers of finished goods are properly accounted for. Target and standard should not be vague set as this will be unrealistic in the course of comprising planned cost in an organization. For effective cost control to be achieved there should be proper data collection, data analysis and control administration. The target fixed cost in an undertaken should not be treated as permanent form. They should be reviewed whenever necessary and should be revised when conditions change.

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