DOI 10.70906/20231702015020

Article

Cost Management Practices in Manufacturing Sector: A Conceptual Study

Sujaya Kumar S*

Ravi B**

Abstract:

A b s t r a c t

The study aimed to explore the various cost management practices adopted in the manufacturing sector. Regardless of the nature of business operations, every company must make effective use of cost management and its practices in the manufacturing sector. Because the manufacturing sector involves various activities and operations, these operations consume resources, leading to cost generation. These costs always influence on Performance and efficiency of the manufacturing sector. The use of CM approaches to both reduce expenses and strengthen a company's strategic position is known as SCM. To complement the broader organizational plan, it also entails incorporating cost information into the decision-making framework. It extends beyond cost management to include cost data in managerial decision-making. In addition to focusing on cost reduction, management strategies should strengthen a company's strategic position. Strategic cost management's primary goal is to assist the organization in gaining a sustained competitive advantage through cost leadership and product differentiation. This study was purely based on a Secondary source of data.

Keywords: *ABC, Cost Management Practices, Just in Time, Manufacturing Sector, etc.*

How to cite: Sujaya Kumar S., & Ravi B. (2023). Cost management practices in the manufacturing sector: A conceptual study. Journal of Management and Entrepreneurship, 17(2), 15–20

DOI 10.70906/20231702015020

* Research Scholar, Department of Studies and Research in Commerce, Email: Shivapursujay@gmail.com

** Associate Professor, Department of Studies and Research in Commerce, Email: pragna192003@yahoo.co.in

Introduction

The modern business era and fast-changing technology influence the adoption of cost management and its practices influence manufacturing units to achieve competitive advantage and customer satisfaction. The analysis of various kinds of literature shows that cost management practices in the manufacturing sector provide more benefits to stakeholders, owners, and all levels of management. Many businesses adopted different cost management practices with specific purposes, such as Stability, Efficiency, Better performance, Profitability, Productivity, and many more.

The use of Cost Management (CM) approaches to both reduce expenses and strengthen a company's strategic position is known as SCM. To complement the broader organizational plan, it also entails incorporating cost information into the decision-making framework. It extends beyond cost management to include the use of cost data in managerial decision-making. In addition to focusing on cost reduction, cost management strategies should also strengthen a company's strategic position. Strategic cost management's primary goal is to assist the organization in gaining a sustained competitive advantage through cost leadership and product differentiation.

Strategic cost management (SCM) places a higher emphasis on ongoing development to provide customers with products of the highest caliber. A vital link in the value chain must be strategic cost control. All facets of production, buying, design, manufacture, delivery, and servicing must be covered. Early on in a product development cycle, strategic cost management must be addressed to prevent costly failures.

The objective of the Study:

This study is carried out to explore the various cost management practices adopted in manufacturing units.

Scope of the Study:

This study is focused on manufacturing units. To understand the various cost management practices adopted by the manufacturing units.

Importance of the Study:

Cost management and its practices provide more benefits to stakeholders like managers, owners, shareholders, customers, and so on. Many businesses adopted different cost management practices with specific purposes such as stability, efficiency, better performance, profitability, productivity, and many more. Cost management and its practices help managers and top management to take appropriate and effective decisions such as fixation of pricing, introduction of new products, modification or withdrawal of existing products, expansion of manufacturing units, and numerous others.

Research Methodology:

The researcher conducted this study with the aid of Secondary data sources such as Research papers, articles, journals, Books, and other materials.

Cost Management Practices:

Cost management practices are also called tools and techniques of CM. Companies are looking for more and more ways to match the realities of their business environment with CM systems.

Rapid technical breakthroughs, shorter product life cycles, and inter-organizational supply chains have all contributed to the emergence of fast-paced global competitiveness, which has greatly boosted the demand for more efficient methods of CM Following are the various CM practices adopted by companies.

Figure-1: Cost Management Practices

1. Activity-Based Costing:

In simple words, it means the cost will be allocated to the concerned product based on its related activity only. Here, if a resource is consumed by a particular product, that leads to activity, which generates the cost. It helps the cost manager to ascertain and charge that cost to the specified product.

2. Target Costing:

The present competitive era creates a company that needs to survive in the market by providing not only quality products but also price. But every company's price design is based on cost, if the cost is less, then they can fix less price. Otherwise, they lose the customers as well as the market.

To capture the market, Target Costing came into existence. Target costing is a market-driven approach and process that starts by determining the lowest price at which a product can be sold to achieve the desired sales volume. The target cost is then computed by abstracting the target price from the intended profit margin.

3. Total Quality Management:

TQM is a business philosophy that aims at installing a collective responsibility for maintaining impeccable quality standards in all personnel of business enterprises. It focuses on quality at every stage in the process but not just on the final stage of customers. This technique also assists the management in identifying the optimum level at which the total cost of quality is lowest and which ensures that the products and services meet or exceed the customer expectations. Modern businesses put more effort into gaining maximum benefits by adopting Total quality management in their business.

4. Bench Marking:

It is a technique to measure the company identifying its strong and weak areas against other similar companies in the industry to improve its performance continuously, improving the activities carried out and services rendered by it. It also represents the best performance level which may be found either internally or externally. Studying other companies helps to point out what it takes to enhance a company's efficiency and become a stronger and bigger company in their industry.

5. Just In Time Inventory:

It is an inventory management method in which production occurs only when the demand arises from the customer. Here, if there is demand from the customer for a product, the manufacturer purchases raw materials from the supplier, then it is converted into finished goods and immediately delivered to the customer without delay. The core objective of this technique is to reduce inventory holding cost, production cost, wastage and increase inventory turnover of the company. This technique also helps to company to maintain the quality of its products, enhances cash flow, and reduces the requirement of capital to carry out the business. This system is most suitable for businesses like on-demand publishing, automobile manufacturing, tech manufacturing, and restaurants.

6. Balance Score Card:

It is one of the techniques of SCM for communicating with and assessing the organization's strategy's success. This technique was propounded by Kaplan and Norton. Rapidly expanding firms have used this method as a tool for efficiently managing their performance and strategy. Four perspectives of the Balance Scorecard as developed by Kaplan and Norton, such as the viewpoints of the customer, internal business processes, learning and development, and finance.

It is a performance statistic exploited in strategic management to pinpoint and enhance different internal processes and their results in the outside world. It makes an effort to gauge an organization's performance and offer feedback to support the implementation of strategy and goals.

7. Kaizen Costing:

Instead of substantial or radical improvement achieved by invention or noteworthy investment in technology. Kaizen refers to prolonged and gradual improvement through minor betterment actions. It is the technique of cutting costs and producing an existing product. It resembles the adage "slow and steady wins the race". As per the Japanese, it refers to process modifications that are implemented gradually rather than utilizing bright new concepts. It is a type of manufacturing cycle planning that places a focus on bringing variables that are lower than in the base period in one period.

8. Business Processing Re-engineering:

It completely revamps organizational procedures and aims to significantly enhance crucial components, including production, service, speed, quality, and cost. It aims to cut business expenses and process duplication significantly. It aims to minimize process redundancies significantly and repeats organizational costs. In the 1990s, business process reengineering became increasingly popular. Michael Hammer's article, "Reengineering Work: Don't Automate, obliterate" from the Harvard business review, served as the inspiration for the idea's introduction.

Most commercial organizations were merging new technologies with their pre-existing, fundamentally inefficient procedures, which led him to propose this notion. Nobody even considered creating something original and unique with cutting-edge new technologies. For example, it involves looking at business workflows to spot wasteful or inefficient processes and coming up with strategies to get rid of or change them.

9. Six Sigma:

It was created at Motorola in the early 1980s due to a demand from the CEO to reduce product failure rates by ten times in just five years. It is a complex strategy for boosting earnings, cutting expenses, and improving processes. Six Sigma's primary tenet is to reduce defects to increase customer satisfaction; its ultimate performance goal is to have essentially defect-free processes and goods. The six-sigma process begins with process identification, followed by defining, measuring, analyzing, improving, and controlling.

10. Life cycle costing:

Every human being passes different stages in their life. Likewise, every product faces different stages, starting with Introduction to Decline. Each stage of the product generates cost, called Product Life cycle costing. A product's cost over its full life is calculated using a life cycle cost analysis. Costs for production, operation, maintenance, planning, research and development, replacement, disposal, and salvage are all considered in the analysis.

11. Theory of Constraints:

According to the notion of limitations, several restrictions prevent any management or production system from accomplishing more of its objectives. The theory of constraints employs five focusing steps to identify the limitation and then modify it so that it is no longer a bottleneck. There is always at least one constraint or limiting factor that results in a bottleneck.

Eliyahu Goldratt created the theory of constraints (TOC) in 1984 and introduced it to managers through his book "The Goal." One of the alluring characteristics of the TOC is its intrinsic capacity to prioritize improvement initiatives. Priority is always given to the current limitation. When improvement is urgently needed, TOC is a highly concentrated methodology for attaining speedy improvement.

12. Activity-Based Management:

It measures the profitability of each component of a firm so that its strengths may be built upon and its flaws can either be strengthened or eliminated.

The goal of ABM, which was initially created in the 1980s, is to draw attention to the areas where a company is losing money so that those processes can be modified or stopped to maximize profitability. It analyses the costs of labor, assets, facilities, distribution, overhead, and other business-related components to identify and disperse activity costs.

Conclusion:

Strategic cost management's primary goal is to help the organization achieve cost leadership to gain a long-term competitive advantage. The managers can realize the greatest benefit through direct savings thanks to a well-thought-out cost-reduction strategy. It is a practical method for lowering expenses, boosting revenue, and enhancing survival in a cutthroat environment. Every phase of a product's life cycle, including its conception, production, distribution, and use after purchase, should include strategic cost management.

Financial, cost, and strategic management are all intertwined in the process of strategic cost management. It incorporates cost optimization and the gathering of financial resources, which are necessary to secure the desired strategic market position affordably. Particularly amid the difficult economic conditions that businesses are currently experiencing, it is crucial to manage costs and align them with an organization's business strategy. Companies have historically faced pressure to make short-term cost reductions without properly considering long-term change, the impact on the people affected, or integration with the entire corporate plan. Successful businesses are altering their approaches to cost structuring and control in the contemporary business context of growing global competition, new markets, higher regulation, and changing demographics.

References:

Banker, R. D and et al. (2018). Cost management research. Journal of Management Accounting Research, 30(3), 187-209.

Ghoh, K. L (2013). Management accounting techniques and financial performance of telecommunication industry in Tunisia. Journal of finance. 7(3), 31-40.

González, M. and et al. (2022). Management and Accounting: A Review From The Perspective Of Costs. Journal of Positive School Psychology, 6(2s), 455-468.

Shank, J. K. (1989). Strategic Cost Management: New. Journal of management accounting research, 1, 47-65.

Whichmann, C. I., (2010). Cost accounting: A managerial emphasis. 13th edition, New Jersey, upper saddle River: Prentice Hall.