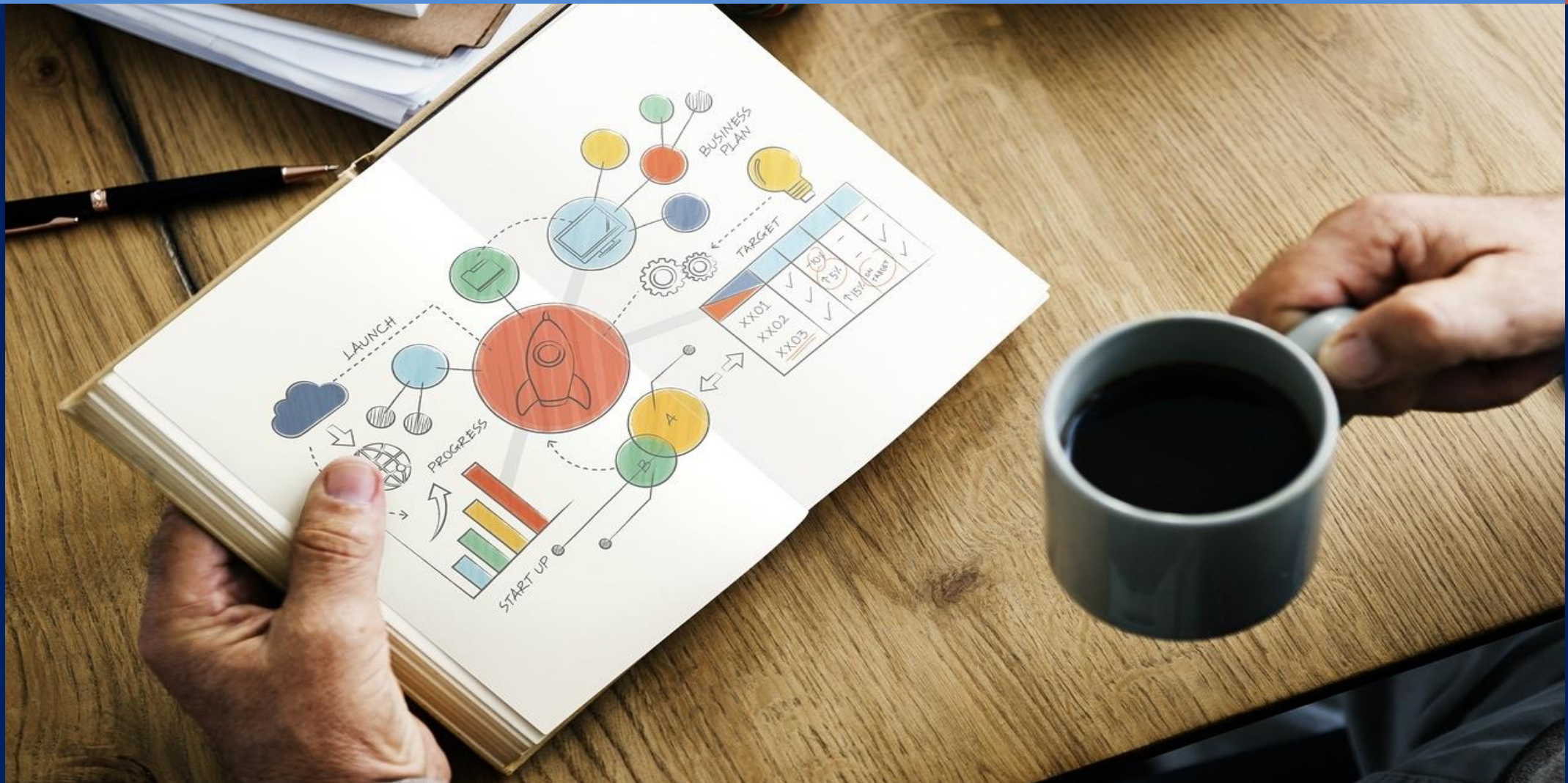


Business Transformation through Cost Management



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In the evolution of global market in the 21st century, businesses need to constantly cope with changes while ensuring proper management of Cost. This is an important factor that plays critical role in business dynamics and ensures **business continuity and sustainable profitability**. Lack of proper cost management can adversely impact profitability and business processes. Businesses should use best practices and take critical decisions efficiently as far as managing cost is concerned.

Some of the common issues faced by companies are:

Are my costs managed effectively?

Answer: Effective Cost management can lead to major benefits for an organization. A cost-effective process helps a business generate large savings and sets a benchmark.

Is my Profit right?

Answer: Identifying hidden profit zones in the guise of Non-value Adding Activities (NVAs).

Am I able to utilize resources optimally?

Answer: Idle resources and / or ineffective / improper utilization of existing resources have often been found to be a reason behind downfall of businesses.

Am I balancing well Growth and Profitability?

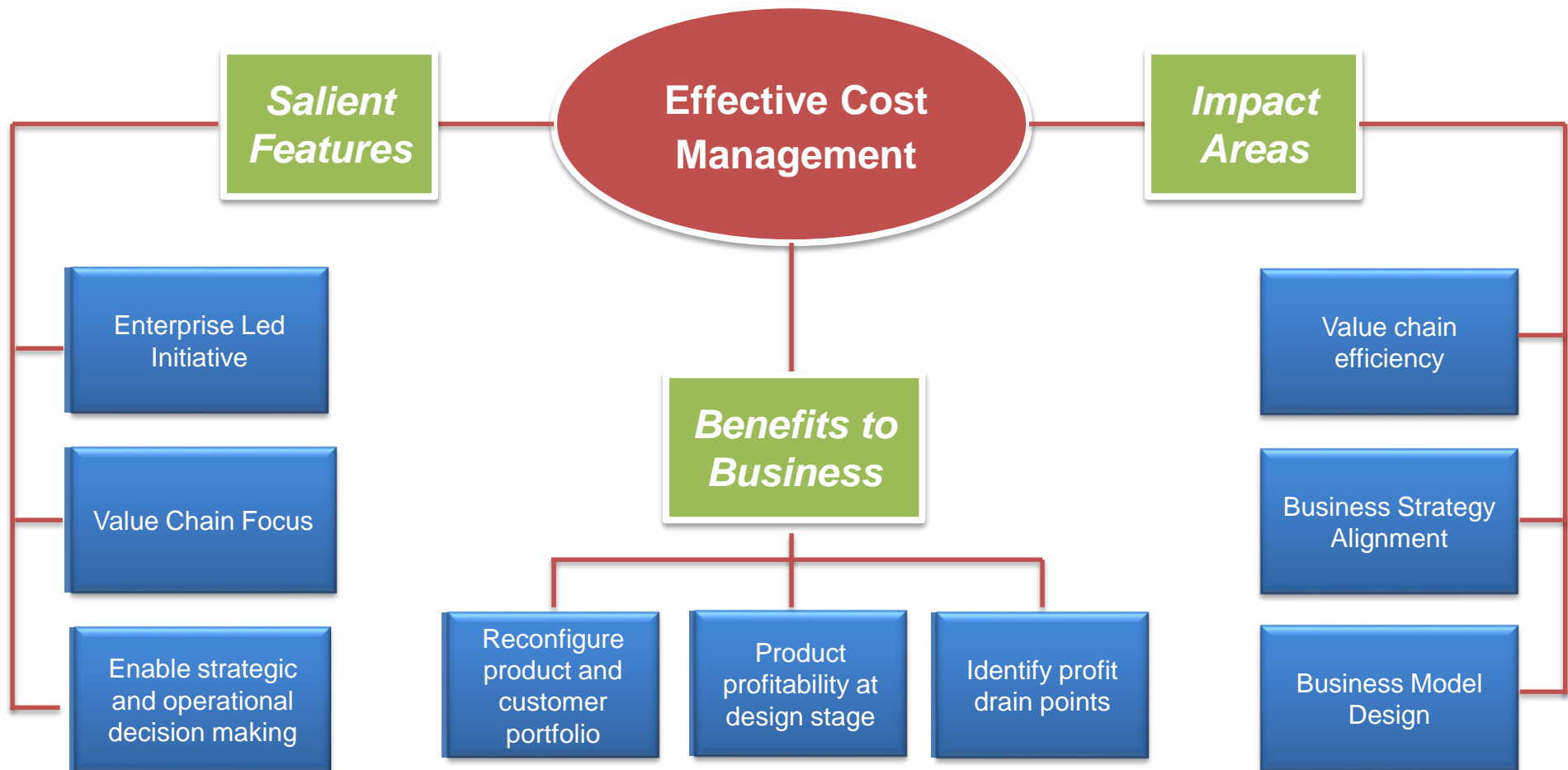
Answer: High Growth companies are always more valued than the others. At the same time, Profitability is the fuel for running a business. If revenue and profit are disproportionate, business is on risky path.

Given the importance of Effective Cost Management in day to day running of any business, this write-up seeks to capture some of the principles of Effective Cost Management.



What is Effective Cost Management?

An Effective Cost Management is a company-wide systematic and structured approach, which provides a framework to identify, control, reduce and eliminate undesirable costs throughout the value chain. The process of managing the financial outcome of activities encompasses all operations, both internal and external.



Why is Effective Cost Management essential?

1. To Manage Cost Effectively

Effective Cost management can lead to major benefits for an organization. At the same time, improper cost management can lead to dire consequences for the organization.

A cost-effective process helps a business generate large savings every year. It also allows effective use of resources for optimal results. Cost management involving 'should-be-cost' analysis can help an organization determine cost of different products and services. This type of analysis is used for purchases of all types, from commodities to capital equipment and new products.

The 'should-be—cost' figure becomes a benchmark for whether a supplier quotation or bid is reasonable or not, as well as for understanding potential improvement opportunities. Therefore, it increases the organization's overall understanding of costs. It is used as a tool to work more closely with suppliers and to help support evaluation of other cost analysis approaches, external data and bids.

2. Measurement of Performance

Through cost management, companies are enabled to determine the 2 major factors which make up the value of the firm: Risk and Profitability. Maintaining the right equilibrium between Risk and Profitability is an extremely important factor in achieving long-term growth for a business. At the end of the day, an effective cost management will allow organizations to make good financial decisions which either has an impact on Risk or Profitability in 1 or the other way.

3. Optimal Utilization of Resources

Idle resources and / or ineffective / improper utilization of existing resources have often been observed to play a major role behind downfall of businesses. With a performing cost management structure, organizations can make optimal use of their resources. Effective cost management plays an important tool in the maximum exploitation and utilization of an enterprise's resources. Good utilization and control over financial resources is of great importance. It gives maximum returns by increasing the productivity of capital funds.

4. Effective Project Cost Management

Implementing a cost management structure for projects can help a business keep their over-all budget under control. It includes activities and tools that allow the project to be completed within the approved budget. The 3 key processes to manage costs in project management are:

- **Project cost estimation:** When developing a cost estimate, one needs to consider all of the resources that will be used by the project. For example: labor, materials, equipment, services and facilities.
- **Project cost budgeting:** Once the business has estimated the costs for all of the project activities, one will have the information he / she needs to create the project's cost baseline. The approved cost baseline forms the budget for the project. The cost baseline for the complete project is made by combining the cost estimates of the individual activities over the life of the project. The project's expenditure is measured against this baseline through the life of the project.
- **Project cost control:** After the approved budget and cost baseline, the project is ready to enter the execution phase. During the execution phase, status of the activities needs to be monitored on regular basis against the baseline and corrective action taken wherever required

Use of Cost Management by Businesses to achieve long-term goals

Organizations usually seek increased profitability through cost reduction as this is a vital factor for competitive advantage and strategic positioning in the market. To ensure sustainable development of business, an effective cost management strategy is required. A good cost management system allows companies to predict expenditure in advance and minimize the risk of over-run of budget. The main objective of effective cost management is to reduce costs while strengthening strategic position of the firm.

Some organizations use cost management plans for specific projects or sometimes for the overall business. Lack of effective cost management can adversely impact profits and business processes to a large extent. To prevent such occurrences, businesses need to ensure that their employees / consultants have the required skills for an effective cost management plan. This represents a key component of business operations to ensure that the overall budget is kept under control.

A variety of aspects need to be considered while dealing with cost management. This is where we step-in to develop a robust Cost Management System for our clients, led by a team of experts.

How KrayMan Can Support

We advise our clients in planning, developing and implementing an effective cost management structure by providing following services:

- ✓ Financial Planning & Analysis
- ✓ Cost Control Techniques
- ✓ Budgeting & Forecasting
- ✓ MIS Reporting
- ✓ Inventory Management
- ✓ Profit Centre Analysis
- ✓ Data Analysis & Dashboards



***For any assistance, please feel free to contact us at harpreet.singh@krayman.com
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