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STUDY ON STRATEGIC COST MANAGEMENT IN FAST MOVING CONSUMER GOODS COMPANY

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Abstract *The present paper shall primarily focus upon the strategic management of the selected FMCG companies. The problems faced, basically due to the cost factor and the market structure, and the solutions thereafter in the form of strategies to find a way out are discussed. Light has been thrown on its practical implications and suggestions.*

This paper is based upon the financial comparison of five Indian FMCG companies on certain preset parameters and thereafter analysing what should be their apt strategies for cost management to compete in market. Basically, the financial statement figures such as balance sheet, profit & loss statements, and the quarterly statements shall be taken as a secondary data and thereafter through findings and conclusion, we shall be suggesting the apt strategies that should be implemented. Few ratios have been picked up upon the basis of "cost" parameter since this research is primarily focusing upon the strategic cost management of the FMCG companies. The data are compared via tables and graphs.

Keyword: *SCM, NOPAT, OPM, EOQ*

INTRODUCTION

Fast moving consumer goods (FMCG) are such goods that are sold instantly and at relatively lesser prices. Examples are non-durable goods such as soft drinks, toiletries, cosmetics, and grocery items. The absolute profit made on FMCG products is relatively small, but it sells in large quantities, so the cumulative net profit is substantial. In financial terms, we call it as NOPAT (Net Operating Profit after Tax).

Strategic cost management is a programme established businesses use in order to regularly identify and analyse cost drivers to lower costs and maximise its total value. This type of programme is necessary for creating budget parameters and a structure for purchasing. By implementing a strategic cost management programme, businesses can not only lower their costs but also create a strategic competitive advantage.

Applications of this type of management programme include creating a strategic plan, setting priorities in operations and ensuring it is using limited resources appropriately. Developing strategies based on a cost management programme helps businesses achieve its objectives while saving on costs. It also provides management enough information to determine if a new business model should be implemented.

Framework of strategic cost management programmes generally includes three components which shall be analysed. The first component includes its core functions in which management mandatorily defines the nature of the business and its courses of actions for planning, product development, and research and development. The next component focuses on the added value of activities such as customer service, technical support, marketing, sales, and manufacturing. The last component of the framework is the activities that support the core activities. These include IT, human resources, general administration, accounting, and finance.

Steps for strategic cost management include reviewing the strategies of the business to develop a plan to encourage increased internal communication and identify any performance gaps. Afterwards, management should train team members to implement the strategic management plan. The management team should then dive into fact finding by gathering data, interviewing employees, conducting surveys and developing benchmarks. The findings should then be analysed and recommendations for changes to be made. If changes are necessary, an employee should be made accountable for overseeing each change with responsibilities clearly defined, as well as for making sure there is a system in place for continuous improvement.

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Manufacturing strategy has attracted serious research attention in the recent past. In this paper, an attempt is made to review the status of literature in manufacturing strategy. A literature classification scheme is suggested. A total of 260 articles from 31 referred journals and international conferences are classified into content (manufacturing capabilities, strategic choices, best practices, trans-national comparison, literature survey, and performance measurement) and process-related issues. We have categorised the methodology used in the literature into conceptual, descriptive, empirical, exploratory cross-sectional and exploratory longitudinal approaches. Based on this, some possible research issues are also identified, viz., resource-based operations strategy, sector specific manufacturing strategy, relevance of manufacturing strategy to small and medium enterprises, manufacturing strategy in the context of green manufacturing, effect of organisational culture on formulation of manufacturing strategy, and performance measurement.

Chandler emphasized that the determination of long-term goals and objectives as being central to strategic management. He also identified the capacity to decide courses of action and allocate the resources necessary to achieve them, as being crucial to the overall strategic process. Consequently, Chandler (1962) defined strategic management as "...the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." Some studies argued that strategic planning has a major influence on strategy literature. They stressed that strategic planning integrates an organisation's major goals, polices and action sequences into a cohesive whole.

To be a constant process of adjustment and proactive responses to real and anticipated changes in the environment, this point is emphasized by Donaldson and Lorsch (1983) who defined strategic management as "a stream of decisions over time", and by Pettigrew (1985) who stated that "strategy is realised in practice through consistency in a stream of actions and decisions over time".

Small business owners, chief executive officers, presidents, and managers of many for-profit and non-profit organisations have recognised and realised the benefits of strategic management. Research studies indicate that organisations using strategic-management concepts are more profitable and successful than those that do not. For example, Robinson (1982) concluded that businesses using strategic-management concepts show remarkable improvement in sales, profitability, and productivity compared to firms without systematic planning activities. Other studies stated that a significant improvement in a firm's profitability is achieved through changes in strategic direction. Companies with planning systems more closely resembling strategic-management theory generally exhibit superior long-term financial performance relative to their industry. For example, Smith and Ferris (1986:454) reported that the practices of high-performance companies reflect a more strategic orientation and longer-term focus.

OBJECTIVE

To compare the above set of FMCG companies taking into account their balance sheets and ratios.

The five FMCG companies shall be compared upon few preset parameters.

To formulate apt strategies after analysing the facts from its financials.

The strategies shall be formulated and discussed after financial statements analysis.

HYPOTHESES

H1: Cost management strategy totally depends upon total cost and no other factor.

The dependence of the cost factor has been dealt with. It has been assumed that the total cost is the only parameter upon which management of cost is dependent. No other factor affects its management. This hypothesis shall now be analysed and there after conclusion shall be made about its acceptance or rejection.

H2: Strategic cost management shall help FMCG companies to grow in tune with speed of change which is led by hyper-competition and longer product life cycles.

The market competition has been taken along with the company's product life cycle. It has been assumed that SCM helps for both of the above mentioned factors. This hypothesis shall now be analysed and thereafter conclusion shall be made about its acceptance or rejection.

COMPARISON OF BALANCE SHEET

Balance sheet comparison shall be made upon following parameters:

Total Current Liabilities

Current liabilities are a company's debts or obligations that are due within one year, appearing on the company's balance sheet and include short term debt, accounts payable, accrued liabilities and other debts. Essentially, these are bills that are due to creditors and suppliers within a short period of time.

Table 1: Total Current Liabilities

	Mar-11 Rs. Crores	Mar-12 Rs. Crores	Mar-13 Rs. Crores	Mar-14 Rs. Crores	Mar 15 Rs. Crores
Company I	6,620.07	6,448.70	7,655.86	8,603.84	8,782.82
Company II	770.47	796.03	1,053.15	1,452.02	1,529.91
Company III	796	905.95	905.95	705.48	705.48
Company IV	271.82	398.94	389.9	502.1	715.67
Company V	1,158.44	1,136.68	1,136.68	1,259.03	1,259.03

Source: Dion Global Solutions Limited

The data shown in Table 1 has been graphically represented in Fig. 1.

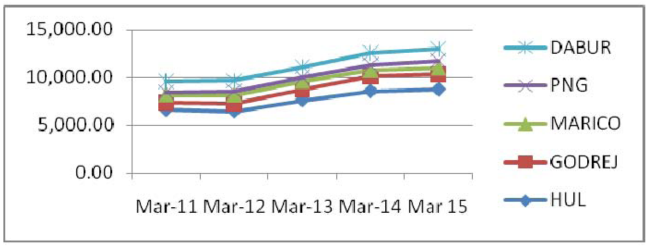

Fig. 1: Graph for Total current Liabilities

As reflected in Table 1 and Fig. 1, it is concluded that all the five FMCG companies show an increasing trend which reflects that all of them have higher current liability year on year basis. Company V is depicting a higher current liability followed by Company IV. Company I stands at the bottom which is not that good.

Strategy

Current liability should be on a higher side because the term itself means the cash shall go out soon towards the payment to suppliers and all the outstanding expenses. In accounting, one should delay the payment as long as possible so a larger current liability is better, the cash outflow reduces. Quarterly payment can be made to suppliers and labourers and other expenses can also be delayed to increase current liability as far as Company I is concerned.

Inventories

Table 2: Inventories

	Mar-11 Rs. Crores	Mar-12 Rs. Crores	Mar-13 Rs. Crores	Mar-14 Rs. Crores	Mar 15 Rs. Crores
Company I	2,810.77	2,516.65	2,526.99	2,747.53	2,602.68
Company II	306.37	433.04	536.37	493.57	489.51
Company III	708.98	663.96	663.96	791.59	791.59
Company IV	65.33	92.27	118.9	118.52	119.07
Company V	499.74	558.2	558.2	550.6	550.6

Source: Dion Global Solutions Limited

The data shown in Table 2 has been graphically represented in Fig. 2.

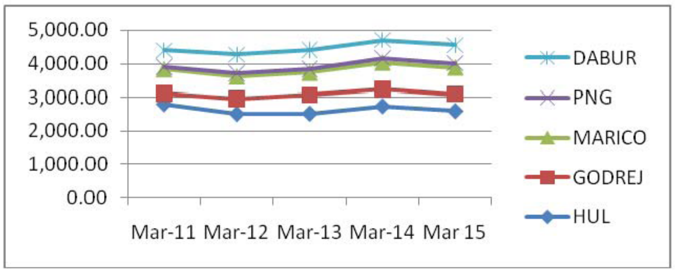

Fig. 2: Graph for Inventories

The data in Table 2 and Fig. 2 has been picked from the balance sheet whereby we are trying to compare the inventory levels of all the five companies over a period of last five financial years. As we can see from the above graph that Company V is depicting a higher inventory followed by Company IV. Company I stands at the bottom which is not that good. Inventory also known as stock or goods, should be on a higher side because the term itself means that better the stocking level, better shall be the sales.

Strategy

No doubt inventory is followed by cash outflow but the company strategically can delay the outflow to their suppliers, thereby increasing the stock without reducing the cash (working capital) immediately. Raw material is a part of inventory which forms the largest part of cost of any product for any FMCG. So, we can depict from above that the strategic cost management for Company IV and Company III can be same but strategic cost management for Company I shall be altogether different. Moreover, for a quick outflow of inventory the company can adopt various sales promotional schemes. Second, taking "ageing" factor into account, companies can design strategies such as older the stock lesser the price so that at least the cost can be recovered through it. Third, companies can follow JIT (just in time) approach for more stock and lesser warehouse space. Fourth, obsolete stock should be disposed off. Fifth, companies must ensure that WIP is processed and not stocked. Sixth, EOQ (Economic Order Quantity) should be followed.

Total Current Assets

"Total current assets" is the sum of cash, accounts receivable, inventory, and supplies. Other assets that appear in the balance sheet are called long-term or fixed assets because they are durable and will last more than one year.

Table 3: Total current Assets

	Mar-11 Rs. Crores	Mar-12 Rs. Crores	Mar-13 Rs. Crores	Mar-14 Rs. Crores	Mar 15 Rs. Crores
Company I	6,974.25	7,798.62	7,569.99	8,852.47	9,263.55
Company II	569.05	953.59	1,203.90	1,048.70	1,358.78
Company III	1,326.03	1,291.71	1,291.71	1,428.71	1,428.71
Company IV	594.42	769.28	840.7	1,012.43	1,357.11
Company V	1,737.39	1,881.82	1,969.85	1,572.32	1,572.32

Source: Dion Global Solutions Limited

The data shown in Table 3 has been graphically represented in Fig. 3.

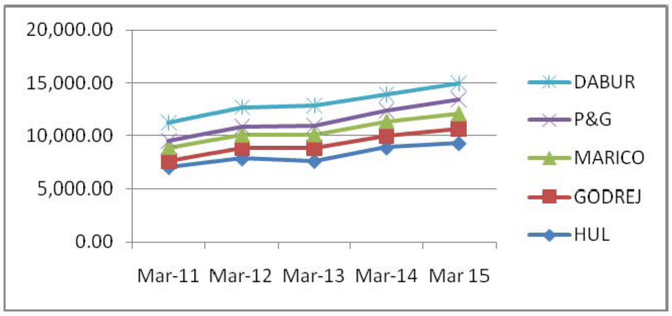

Fig. 3: Graph for Total current Assets

As we can see from Fig. 3 that Company V is depicting a higher current asset followed by Company IV. Company I stands at the bottom which is good. Current asset should not be on a higher side because the term itself means the cash shall go out. Therefore in ratios also we say ideal current ratio is 1:2 which means current asset should be half of current liabilities.

Strategic cost management is basically dependent upon raw materials which are a major part of current asset. In all the five cases, we see an increasing trend which reflects that all FMCG companies have more outflows in form of current asset which shall lead to higher requirement for working capital.

Strategy

The company should adopt an ageing policy so that the goods shall not be stocked up and hence the current assets shall reduce. Moreover, LIFO or FIFO methodology can be adopted for a successful stocking policy and maintenance of store. Another strategy could be apt debtor management policy such that credit time period allotted to debtors is less which can reduce current assets to an extent. Cash should maintain at an optimal level.

Raw Materials

A raw material, also known as a feedstock or most correctly unprocessed material, is a basic material that is used to produce goods.

Table 4: Raw Materials

	Mar '11 Rs. Crores	Mar '12 Rs. Crores	Mar '13 Rs. Crores	Mar '14 Rs. Crores	Mar '15 Rs. Crores
Company I	1,246.19	740.66	717.96	735.98	827.62
Company II	145.56	278.99	287.07	191.54	185.65
Company III	149.22	140	140	155.85	155.85
Company IV	103.45	129.72	146.85	162.21	193.37
Company V	22.43	23.63	23.63	26.4	26.4

Source: Dion Global Solutions Limited

The data shown in Table 4 has been graphically represented in Fig. 4.

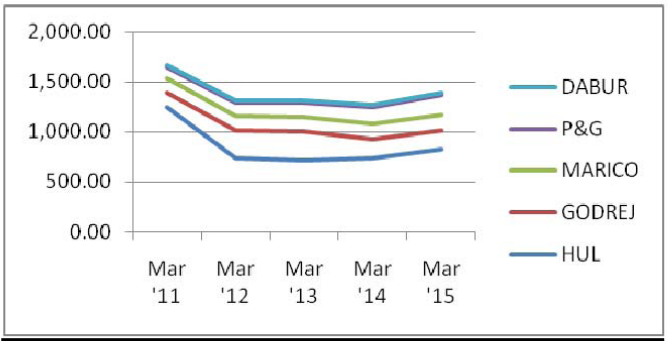

Fig. 4: Graph for Raw Materials

As we can see from Fig. 4 that Company V is depicting a higher raw material expense followed by Company IV. Company I stands at the bottom which is not good. In all the five cases, we see an overall decreasing trend which reflects that all FMCG companies are spending lesser on raw materials or the other scenario may be that the raw material is available at a cheaper rate. The overall economy is growing at a good rate but still the trend above is not increasing. Strategic cost management is dependent upon raw material cost because of its weightage in the total cost.

Strategy

EOQ (economic order quantity) policy should be maintained so that over stocking can be avoided.

COMPARISON OF RATIO SHEETS

Ratio comparison shall be made upon following parameters:

Operating Profit Margin (%)

Operating margin or operating profit margin measures what proportion of a company's revenue is left over, after deducting direct costs and overhead and before taxes and other indirect costs such as interest. Operating margin is used to measure company's pricing strategy and operating efficiency. It gives an idea of how much a company makes (before interest and taxes) on each rupee of sales.

Table 5: Operating Profit Margin

Operating Profit Margin (%)	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores
	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15
Company I	13.57	14.88	15.51	15.97	16.9
Company II	20.05	19.29	17.59	18.31	18.95
Company III	14.74	13.74	15.32	15.16	14.14
Company IV	16.3	15.43	14.85	20.51	20.75
Company V	19.8	17.47	17.34	16.95	17.27

Source: Dion Global Solutions Limited

The data shown in Table 5 has been graphically represented in Fig. 5.

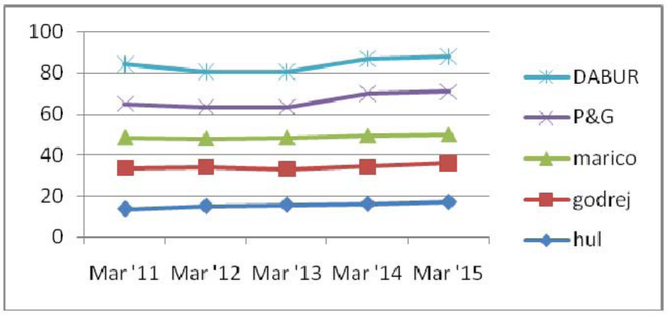

Fig. 5: Table for Operating Profit Margin

As we can see from Fig. 5 that Company V is depicting a higher operating profit margin followed by Company IV. Company I stands at the bottom which is not up to the mark. High or increasing operating margin is preferred because if the operating margin is increasing, the company is earning more per rupee of sales. Operating margin can be used to compare a company with its competitors and with its past performance. It is best to analyse the changes of operating margin over time and to compare company's figure to those of its competitors.

Strategy

Cost reduction tools need to be adopted along with increase in sales revenue.

Financial Charges Coverage Ratio

The fixed-charge coverage ratio is a ratio that indicates a firm's ability to satisfy fixed financing expenses, such as interest and leases. It is calculated as the following:

$$= \frac{\text{EBIT} + \text{Fixed Charge (before tax)}}{\text{Fixed Charge (before tax)} + \text{Interest}}$$

Finacial Charges Coverage Ratio

(EBIT stand for Earnings Before Interest and Taxes)

EBIT, taxes, and interest expense are taken from the company's income statement. Lease payments are taken from the balance sheet and are usually shown as a footnote on the balance sheet. The result of the fixed charge coverage ratio is the number of times the company can cover its fixed charges per year.

Financial charges coverage ratio of different companies are being shown in Table 6.

Table 6: Financial Charges Coverage

Financial Charges Coverage Ratio	Mar '11 Rs. Crores	Mar '12 Rs. Crores	Mar '13 Rs. Crores	Mar'14 Rs. Crores	Mar '15 Rs. Crores
Company I	12,296.96	2,878.75	183.33	141.45	346.41
Company II	93.39	37.19	43.95	20.43	24.3
Company III	11.66	16.2	13.1	26.09	47.3
Company IV	7,652.12	7,629.30	31,752.00	92.93	97.74
Company V	56.35	50.49	45.72	48.34	108.83

Source: Dion Global Solutions Limited

The data shown in Table 6 has been graphically represented in Fig. 6.

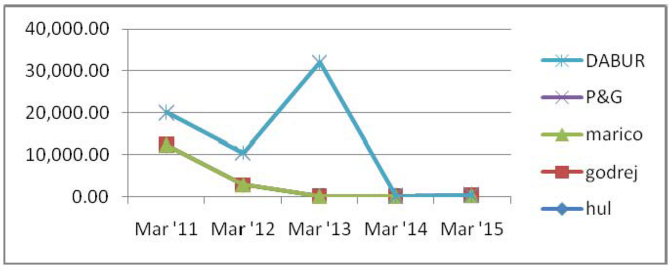

Fig. 6: Graph for Financial Charges Coverage

All the companies are overlapping in the graph shown in Fig. 6 while Company I is fluctuating.

Inventory Turnover Ratio

Inventory turnover is a ratio showing how many times a company's inventory is sold and replaced over a period. The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days."

It is generally calculated as:

Inventory Turnover = Sales / Inventory

However, it may also be calculated as:

Inventory Turnover = Cost of Goods Sold / Average Inventory

Inventory turnover ratios of different companies are shown in Table 7.

Table 7: Inventory Turnover

Inventory Turnover Ratio	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores
	Mar '11	**Mar '12**	**Mar '13**	**Mar '14**	**Mar '15**
Company I	7.34	9.21	10.8	10.76	12.57
Company II	8.33	7.26	6.68	8.71	9.61
Company III	5.18	5.6	4.81	5.56	5.92
Company IV	15.91	14.13	14.29	17.44	19.82
Company V	7.19	7.18	8.8	8.83	10

Source: Dion Global Solutions Limited

The data shown in Table 7 has been graphically represented in Fig. 7.

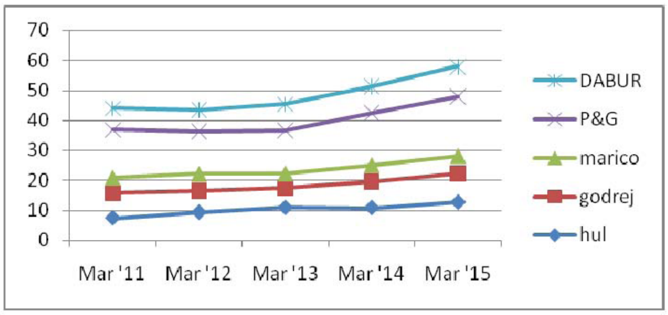

Fig. 7: Graph for Inventory Turnover

As we can see from Fig. 7, Company V is depicting a higher inventory turnover followed by Company IV which is good. Company I stands at the bottom which is not up to the mark.

Strategy

Higher the turnover lower shall be the cost. It shall help strategize strategic cost management.

Material Cost Composition:

Expense ratios are calculated to ascertain the relationship that exists between operating expenses and volume of sales.

Expense ratios are calculated by dividing each item of expense or group of expenses with the net sales so analyse the cause of variation of the operating ratio.

It indicates the portion of sales which is consumed by various operating expenses.

Material cost composition is shown in Table 8.

Table 8: Material Cost Composition

Material Cost Composition	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores
	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15
Company I	53.28	52.9	52.82	52.18	50.93
Company II	47.57	52.81	50.93	46.27	45.59
Company III	61.19	60.84	58.58	54.04	60.32
Company IV	39.4	42.16	44.19	39.84	39.85
Company V	53.05	55.89	52.92	53.2	52.94

Source: Dion Global Solutions Limited

The data shown in Table 8 has been graphically represented in Fig. 8.

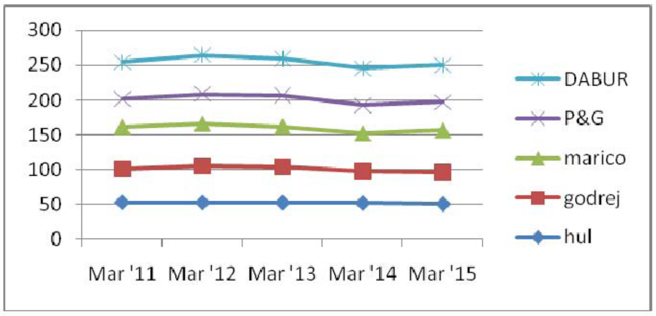

Fig. 8: Graph for Material Cost Composition

As we can see from Fig. 8, Company V is depicting a higher expense ratio followed by Company IV which is not good. Company I stands at the bottom which is good.

Strategy

Unnecessary product feature should be reduced. Second, negotiation could be brought into force. Third, offer quick payment for lower cost.

Imported Composition of Raw Materials Consumed:

Imported composition of raw materials consumed is shown in Table 9.

Table 9: Imported Composition of Raw Materials Consumed

Imported Composition of Raw Materials Consumed	Mar '11 Rs. Crores	Mar '12 Rs. Crores	Mar '13 Rs. Crores	Mar '14 Rs. Crores	Mar '15 Rs. Crores
Company I	19.13	12.53	10.59	8.07	9.28
Company II	17.17	23.45	20.73	14.02	10.69
Company III	5.26	8.99	8.48	10.39	11.4
Company IV	43.64	38.94	29.23	30.45	33.5
Company V	0.93	0.91	1.47	0.86	1.95

Source: Dion Global Solutions Limited

The data shown in Table 9 has been graphically represented in Fig. 9.

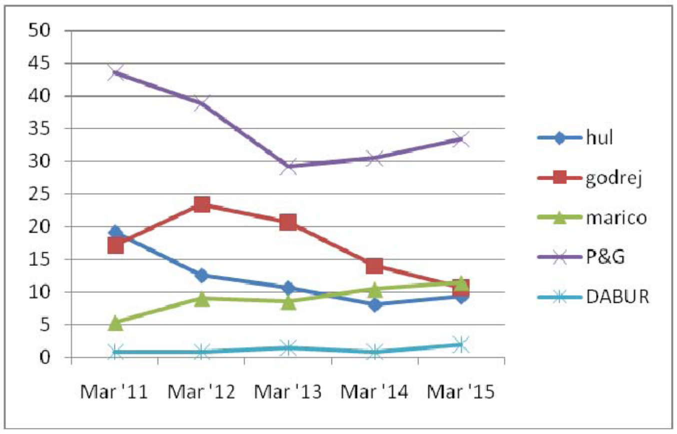

Fig. 9: Graph for Imported Composition of Raw Materials Consumed

Imports means taking product from foreign country and paying in foreign currency which leads to unhealthy economy and results to inflation. It is evident from Fig. 9 that Company V is the least raw material importer while Company IV is on the highest slab followed by Company II. While formulating strategic cost management Company IV shall face the greatest challenge because of its import figure. Larger the imported raw material less shall be the command on its cost and supply thereby making the company more dependant and less flexible to changed strategic cost management.

Strategy

As the graphs depicts, Company I's import is on a rising trend which is quite unhealthy for it, while the other companies stand either at a constant level or are showing a downward trend. So Company I's strategy should be to compare the goods and thereafter enter into purchasing from where the goods are available at a cheaper rate.

Expenses as Composition of Total Sales

The above ratio expenses/total sales shows how much the company is spending as a part of sales.

Table 10: Expenses as Composition of Total Sales

Expenses as Composition of Total Sales	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15
	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores
Company I	7.23	2.24	2.53	1.95	1.86
Company II	8.17	12.5	5.73	4.18	3.96
Company III	6.57	7.57	4.93	10.17	6.61
Company IV	0.56	0.65	1.11	1.28	0.39
Company V	4.08	4.44	5.47	4.51	3.68

Source: Dion Global Solutions Limited

The data shown in Table 10 has been graphically represented in Fig. 10.

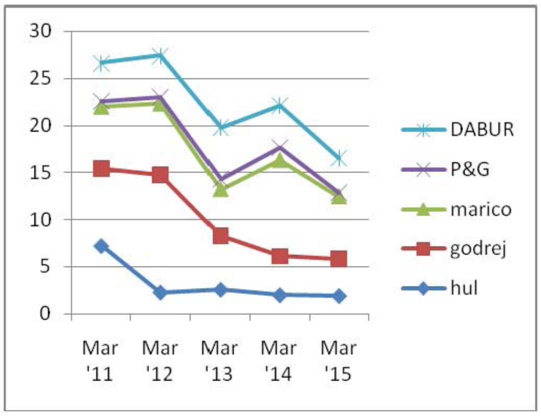

Fig. 10: Graph for Expenses as Composition of Total Sales

Source: Dion Global Solutions Limited

Company V spends the most while Company I is at the bottom with the least spending. We have a five year figure whereby we can see a downward trend in spending composition which shows a positive sign. Highest fall in spend is of Company V while Company I was more or less constant.

Strategy

Logistics expenses also forms an important part of expenses column so the warehouse should be at nearest location from where raw materials are procured and at same time the outlet should be aptly connected to the market place.

FINDINGS

The data collected from the secondary sources (through various websites and printed materials) are being analysed here by highlighting the possible strategic options that the company can follow practically.

Balance Sheet

A larger current liability is better, the cash outflow reduces.

Strategic option: In accounting one should delay the payment as long as possible. Quarterly payment can be made to suppliers and labourers and other expenses can also be delayed to increase current liability as far as Company I is concerned.

Immediate cash reduction

Strategic option 1: No doubt inventory is followed by cash outflow but the company strategically can delay the outflow to their suppliers, thereby increasing the stock without reducing the cash (working capital) immediately.

Strategic option 2: Moreover for a quick outflow of inventory the company can adopt various sales promotional schemes.

More stock piling and huge current asset.

Strategic option 1: Taking "ageing" factor into account, company can design strategies such as older the stock lesser the price so that at least the cost can be recovered through it.

Strategic option 2: Company can follow JIT (just in time) approach for more stock and lesser warehouse space.

Strategic option 3: Obsolete stock should be disposed off. Fifth, company must ensure that WIP is processed and not stocked.

Strategic option 4: EOQ (Economic Order Quantity) should be followed.

Strategic option 5: The Company should adopt an Ageing policy so that the goods shall not be stocked up and hence the current assets shall reduce.

Strategic option 6: Moreover, LIFO or FIFO methodology can be adopted for a successful stocking policy and maintenance of store.

Strategic option 7: Another strategy could be apt debtor management policy such that credit time period allotted to debtors is less which can reduce current assets to an extent.

Strategic option 8: Cash should maintained at an optimal level.

Analysis of Ratio Sheet

Analysing the ratio sheets of the sample, the outcomes are supported by the right strategies are being discussed below:

High or increasing operating margin is preferred because if the operating margin is increasing, the company is earning more per rupee of sales.

Strategic option: Operating profit margin involves a relationship between the money flowing into your company from your sales and the money leaving it for your day-to-day expenses. Improving operating profit margin can involve either bringing in more money or spending less. Often these two approaches to improving profit margins are interrelated. Increasing sales can enable a company to achieve efficiencies through economies of scale, lowering production costs while simultaneously bringing in extra revenue.

Cost reduction tools need to be adopted along with increase in sales revenue.

Strategic option 1: To reduce costs does not mean only the reduction of specific expenses. You can achieve greater profits through more efficient use of the expense rupee. Some of the ways you do this are by increasing the average sale per customer, by effectively using display space and thereby increasing sales volume per square foot, by getting a larger return for your advertising and sales promotion rupee, and by improving your internal methods and procedures.

Strategic option 2: Higher the turnover lower shall be the cost. It shall help strategize SCM.

Strategic option 3: Unnecessary product feature should be reduced. Second, negotiation could be brought into force. Offer quick payment for lower cost.

Larger the imported raw material less shall be the command on its cost and supply thereby making the company more dependant and less flexible to changed SCM.

Strategic option: Reduce import and increase usage of domestic substitutes. Goods' quality and prices should be compared from all ends and thereafter the company should enter into purchases from where the goods are available at a cheaper rate.

Logistics expenses also forms an important part of expenses column.

Strategic option: The warehouse should be at nearest location from where raw materials are procured and at same time the outlet should be aptly connected to the market place.

Quarterly Statement

Analysing the Quarterly Statement of the sample the outcomes are supported by the right strategies are being discussed below

Higher the income from operations more smoothes SCM shall be framed. Company V is at the best place and the poorest is of Company I.

Strategic option: Avoidable expenses should be curtailed.

Raw material consumption is more or less constant over past 5 quarters as per the quarterly statements.

Strategic option: Consumption shall increase only when more sales is done. So focus should be upon to increase turnover.

We can see a slight uptrend in expense over labour because of expensive labour available nowadays, so the company has to pay more for the same labour work.

Strategic option: Hire labour at cheap rate and provide them training instead of hiring expensive trained ones.

Company V which consumes highest raw material is taking highest labour work and same applies to Company I.

Strategic option: Consuming high material and labour does not make sense if the profit is not the highest. So, the company should focus on its revenue and profitability instead on high consumption.

High administration and selling expenses.

Strategic option: It should be as low as possible because it is an expense which is invisible. It is a semi-variable cost.

Remarks

In marketing world, it is said that the consumer is the king. The CEO has to bow his head in front of its consumers' demand and their approach. More the cost, less competitive shall be the price and lesser the number of consumers shall approach towards it. Everything works in the opposite direction until there is some exception. Lesser the cost, more the consumers shall purchase. For an effective cost management strategy the company should focus on its overall cost reduction techniques followed by delay of cash outflow (like outstanding expenses, suppliers/vendors) and stress upon the quick recovery of all the cash inflow tools (like debtors, accrued income, and prepaid/advances). The strategy should be focused on cost consciousness and not upon cost cutting. The suppliers need to be negotiated for a reasonable cost but no cutting of materials should be made. Reduce Import and increase usage of domestic substitutes. Goods should be compared and thereafter purchased from where the goods are available at a cheaper rate. Moreover inward transportation costs may be reduced to avoid adding up to the raw material total cost. It can be done by reducing the distance between suppliers and warehouse and the production house. All other expenses should be as low as possible, the company can think of the better substitutes if available. To reduce costs does not mean only the reduction of specific expenses; uunnecessary product feature should be reduced. Second, negotiation could be brought into force. Offer quick payment for lower cost. The company can achieve greater profits through more efficient usage of the expense per unit of rupee value. Some of the ways to do this are by increasing the average sale per customer, by effectively using display space and thereby increasing sales volume per square foot, by getting a larger return for its advertising and sales promotion rupee, and by improving their internal methods and procedures. Since it is a long run investment, therefore to shift to a new strategic system is a constraint to many companies especially in FMCG.

The basic reason of increasing costs was raw materials. Rules need to be reviewed for labour unions such that they do not demand higher wages unnecessarily. Just like humans, a business too has a lifeline and a cycle. Booms and depressions form a cycle. The company's strategy should be to take extraneous advantage during boom period and to compensate the losses incurred during depression. Raw material warehouse should be near to the production house and the finished goods warehouse should also be near to the distribution house such that the overall logistics cost is reduced. Company must have a back up policy to handle high variance. Since in FMCG market consumers get attracted towards lower prices so the foremost thing that needs to be strategised is the cost factor which can be reduced by inching down all the relevant cost overheads such that total cost reduces and operational profit increases. Patience and long-term thinking is the way out. Cost should not be thought of as an expense rather it should be considered as an investment with future benefits.

SUGGESTIONS

After analysing the primary and secondary data, the following suggestions have been made.

Demand

The CEO has to bow his head in front of its consumers' demand and their approach. More the cost, less competitive shall be the price and lesser the number of consumers shall approach towards it. Everything works in the opposite direction until there is some exception.

Cost

Lesser the cost, more preferably consumers shall buy. For an effective cost management strategy the company should focus on its overall cost reduction techniques followed by delay of cash outflow (like outstanding expenses, suppliers/vendors) and stress upon the quick recovery of all the cash inflow tools (like debtors, accrued income and prepaid/advances). The strategy should be focused on cost consciousness and not upon useless random cost cutting.

Suppliers

The suppliers need to be negotiated for a reasonable cost but no curtailing of required materials should be made. For example, "Patanjali" a Baba Ramdev unit of FMCG consumer products has local suppliers for its raw materials which are domestically made or grown as per need. It is challenged to be made out of 100% pure and natural raw materials. So the MNCs such as Company I , Company IV or Company II should also adopt this policy whereby the products are natural and home-grown and will result into less costing as well.

Import

Reduce Import and increase usage of domestic substitutes. Goods should be compared and thereafter purchase from where the goods are available at a cheaper rate. For example. "Patanjali" a Baba Ramdev unit of FMCG consumer products and "Shri Shri Ayurveda" by Shri Shri Ravi Kissan Ji have restricted import policies; so the sample taken under study should also follow such policies so that the import figure reduces substantially.

Transportation and Warehousing

Moreover inward transportation costs may be reduced to avoid adding up to the raw material total cost. It can be done by reducing the distance between suppliers and warehouse and the production house. Raw material warehouse distance should be near to the production house and the finished goods warehouse should also be near to the distribution house such that the overall logistics cost is reduced.

Price Negotiation

All other expenses should be as low as possible; the company can think of the better substitutes if available. To reduce the costs does not mean only the reduction of specific expenses rather it indicates elimination of waste and avoidable expenses. Unnecessary product feature should be reduced. Second, negotiation could be brought into force. The company can offer quick payment for lower cost.

Sales Promotion

One can achieve greater profits through more efficient use of the expenses. Some of the ways you do this are by increasing the average sale per customer, by effectively using display space and thereby increasing sales volume per square foot, by getting a larger return for your advertising and sales promotion per rupee, and by improving your internal methods and procedures.

Raw Materials

Since it is a long run investment, therefore to shift to a new strategic system is a constraint to many companies especially in FMCG. The basic reason of increasing costs is raw materials.

Labour Unions

Rules need to be reviewed for labour unions such that they do not demand high wages unnecessarily. Since labour is one of the implicit content of the manufacturing process so a special focus need to be maintained by the HR manager to handle such.

Business cycle

Just like a human life, a business too has its lifeline and a cycle. Booms and depressions form a cycle. The company strategy should be to take extraneous advantage during boom period and to compensate the losses incurred during depression.

Back up policy

Company must have a back up a policy to handle high variance. Since in FMCG market consumers get attracted towards lower prices so the foremost thing that needs to be strategised is the cost factor which can be reduced by inching down all the relevant cost overheads such that total cost reduces and operational profit increases. Patience and long-term thinking is the way out. Cost should not be thought of as an expense rather it should be considered as an investment with future benefits.

CONCLUSION

For an effective cost management strategy the company should focus on its overall cost reduction techniques followed by delay of cash outflow (like outstanding expenses, suppliers) and stress on quick recovery of all cash inflow tools (like debtors, accrued income and prepaid). To reduce costs does not mean only the reduction of specific expenses. You can achieve greater profits through more efficient use of the expense rupee. Some of the ways you do this are by increasing the average sale per customer, by effectively using display space and thereby increasing sales volume per square foot, by getting a larger return for your advertising and sales promotion rupee, and by improving your internal methods and procedures. All other expenses should be as low as possible; the company can think of better substitutes if available. Focus should be mainly upon apt utilisation of raw material and productivity of labour part because that forms the main ingredient of cost sheet. Logistics and promotional tools forms secondary in cost sheet.

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