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OPTIMAL THEORETICAL APPROACHES OF COST REDUCTION IN EMERGING MARKETS

Abstract: In conditions of free competition, the price of products produced by enterprises (firms) is automatically leveled. It is affected by the laws of market pricing. At the same time, every entrepreneur seeks to obtain the highest possible profit. And here, in addition to the factors of increasing the volume of production, promoting it to unfilled markets, there is the problem of reducing the cost of production and sale of these products, reducing production costs. In the traditional view, the most important ways to reduce costs include the saving of all types of resources consumed in production — labor and material. Thus, a significant share in the structure of production costs is labor remuneration; therefore, the task of reducing the labor intensity of output, increasing productivity of labor, reducing the number of administrative staff is urgent.

Key words: economic sectors, cost reduction, cost management, innovative way of cost cutting.

Language: English

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INTRODUCTION

Reducing the complexity of products, productivity growth can be achieved in various ways. The most effective of these are the mechanization and automation of production, the development and use of advanced, high-performance technologies, the replacement and modernization of outdated equipment. However, some measures to improve the applied technology and technology will not give adequate returns without improving the organization of production and labor. Often, enterprises acquire or rent expensive equipment without being prepared for

its use. As a result, the utilization rate of such equipment is very low; the funds spent on the acquisition do not bring the expected result.

According to Forbes, 8 out of 10 small businesses fail within the first 18 months. While most entrepreneurs focus on increasing sales, lowering expenses is equally important when trying to achieve or maintain profitability [1]. So, it means only way of cost cutting is provide competitiveness of the entrepreneurship.

Asaolu and Nassar (2007) define cost reduction as the term used for planned and positive approach to

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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].

RESULTS

Proper organization is important for raising labor productivity: preparing the workplace, fully loading it, applying advanced methods and techniques of work, etc. Material resources take up to 3/5 in the cost structure of production. Therefore, it is clear the importance of saving these resources, their rational use. The use of resource-saving technological processes comes to the fore here. It is important to increase the demands and the widespread use of input control over the quality of raw materials and supplies, components and semi-finished products supplied by suppliers.

It is known that the larger the batch of purchased raw materials and materials, the greater the average annual stock and the greater the costs associated with the storage of these raw materials and materials (rent for storage facilities, losses during long-term storage, losses associated with inflation, etc.). However, the purchase of raw materials and materials in large batches has its advantages. The costs associated with placing an order for goods being purchased are reduced, the acceptance of these goods, control over the passage of bills, etc. Thus, the problem arises of the optimal volume of raw materials and materials procurement. In combination with traditional ways of reducing production costs, the newly emerged factors will allow the complex to bring production costs to the optimum level [3].

According to theories for developing cost plans are as follows:

- established by the tactical plan, the size of the profit, as well as the level of profitability of production or tasks to reduce production costs;
- indicators of production and sales of products;
- the effectiveness of measures in the section of the tactical innovation plan;
- progressive norms and standards of the relevant section of the tactical plan;

- rooms too much and not to lose energy, knowing the fact that additional energy means additional production cost[4].

The production of any product requires the expenditure of economic resources, which, due to their relative rarity, have certain prices. The quantity of any product that the firm seeks to offer in the market depends on the prices (costs) to reduce expenditures and the efficiency of using the resources necessary for its production, on the one hand, and on the price at which the goods will be sold in the market, on the other.

According to the World economic approaches energy resources are the main factor of the overall economic sector. From this point of view we trend following factors.

1. Using Passive Energy-Saving Measures

Organized program of passive energy-saving measures that reduce environmental control and manufacturing systems' workforce and workplace: double-pane Windows: Double-pane windows are better insulators than old-school, single-pane windows. Energy efficient engine consumption: Solar panel energy system and low cost electricity frequency interference system as a main factor of saving expenditure of the company.

2. Reduce Paper Use

As a reducing energy and water usage, cutting down paper waste is good for the company's low level line and the environment. Print and copy double-sided by default, secure electronic file exchange services, tighten margins and shrink fonts on printed reports.

3. Encouraging Telecommuting

For thousands of employers, telecommuting has tremendous cost-cutting potential. Unfortunately, that potential remains largely untapped due to unaffected using way from computer and internet services.

4. Using High-Tech Alternatives to Legacy Systems

If we look around facility there are many legacy technologies. That's likely to depend on what your company does, as is your ability to address the problem. Established manufacturing and light industrial companies are often saddled with dozens of old machines and systems that they lack the capital or will to replace.

5. Buying gently

Nowhere in company bylaws does it say that you must buy only shiny new equipment. In accordance with the profitability of the companies it is strictly supported by management. Office technology, such as printers and copiers, personal technology, such as refurbished smartphones, tablets, and laptops.

6. Social Media Advertising

Traditional advertising methods are extremely expensive. According to Advertisement Age, a prime-time broadcast TV commercial's average cost for the new emerging business getting huge amount of money.

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7. Supporting Word-of-Mouth Marketing

As for my own experience in the UK there are a lot of oral adverts in the street for attracting their services and goods for contributing saving money of the company. Organic social media conversation is but one form of word-of-mouth marketing, a cost-

effective and potentially powerful form of outreach that essentially outsources part of your marketing department to your customers.

8. Using Freelancers and Contract Labor for Non-core Work (self-employed-Pay as you earn)

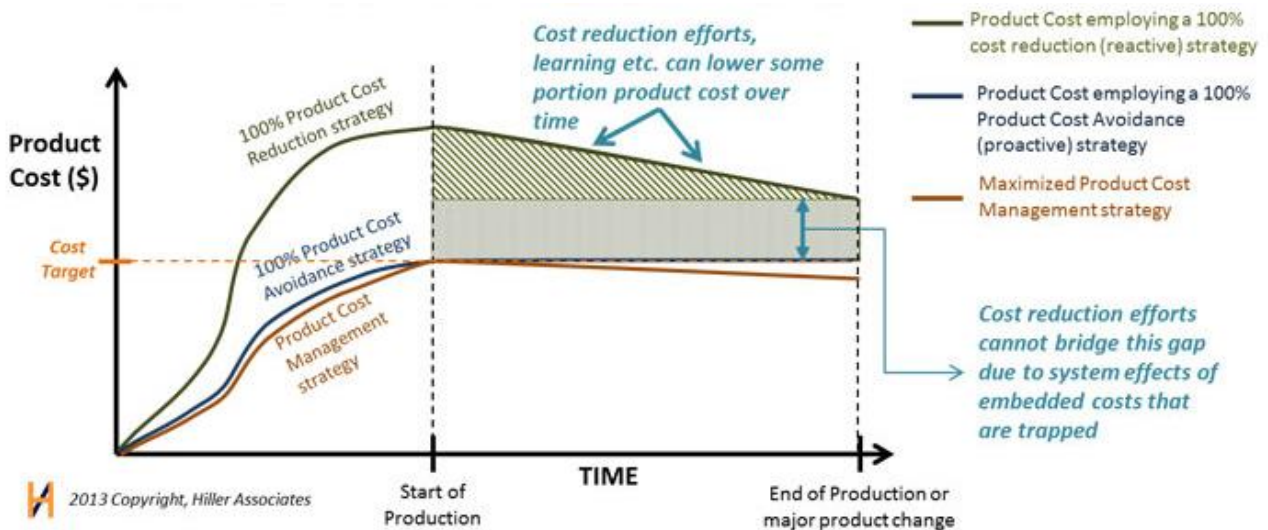


Figure 1. Maximizing profit with product cost management [5]

For reducing cost in business above factors really predominant and relevant implementation for economic development. Figure 1 shows that product cost changes in particular time of period. Cure states that cost reduction efforts able to lower the cost. While targeted cost remains stable in beginning of the project up to end.

Cost reduction strategies in manufacturing

The questions below can be used to evaluate the effectiveness of efforts to reduce production costs.

Rental payments:

- Company revise the terms of the current rental agreement;
- Company move to another building or premises;
- Company sublease a part of its area;
- More profitable for a company to buy out a rented premises.

Communal payments:

- Company introduce tighter control over energy consumption;
- Company introduces more economical processes;
- Company switch to new terms of payment for utilities.

Repair and maintenance of equipment:

- Company postpones for a long or at least a short time some work on the current maintenance of equipment;
- Profitable for a company to abandon contractor services and repair equipment on its own;
- Cheaper for a company to hire a specialized organization

Integration and disintegration:

- can the company reduce costs through vertical integration with suppliers or customers or through horizontal integration with other manufacturers;
- can a company reduce costs by expanding its business to other parts of the production cycle, refusing to cooperate with related companies.

Reducing the cost of advertising products:

- Company reviews its advertising budget;
- Bring additional income that exceeds the cost of it;
- Evidence that an increase in advertising costs is combined with an increase in sales;
- Possibility to pay for advertising services through barter transactions [6]

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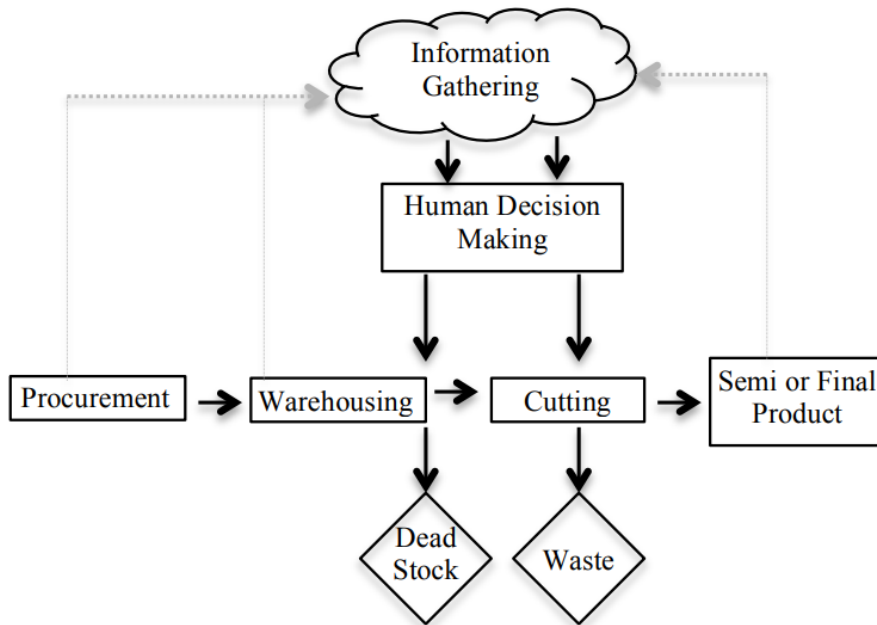


Figure 2. Traditional Supply Chain Model [7]

If changes in the value of costs in the analyzed period are not reflected in the above factors, then they are attributed to the rest. These include, for example, a change in the size or termination of various kinds of obligatory payments, a change in the value of the costs included in the cost of production, etc. Identified as a result of the analysis of factors of cost reduction and reserves must be summarized in the final conclusions, to determine the total impact of all factors on reducing the total cost per unit of output [8].

DISCUSSION

Reducing the cost of raw materials

To reduce the cost of purchasing raw materials and materials, the Company can do the following:

- Revise in their favor the terms of contracts with existing suppliers;
- Find new suppliers;
- Example: a company can replace imported materials with similar products of domestic production; establish direct relations with material manufacturers, or reduce the number of intermediaries; conclude contracts with suppliers offering the most favorable conditions;
- Use less expensive components where possible. The company may even make design changes to the products in order to be able to switch to new materials.

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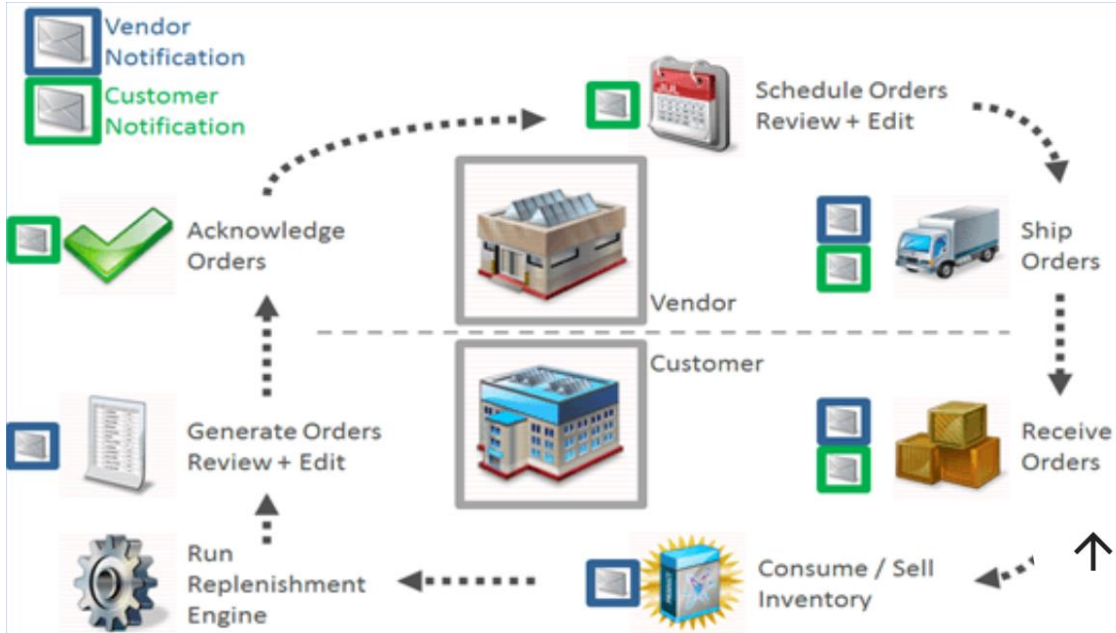


Figure 3. Reducing operating and administrative costs [9]

Additional cost reduction measures. Company reduce costs by following:

- For research and development work
- Maintaining a wide range of products
- Market research, advertising and promotion of goods or services
- Maintaining a wide range of clients
- Maintaining a certain quality of services

- Careful selection of raw materials with certain technical characteristics
- Staff development
- Mechanization of the production process
- Maintaining the flexibility of the production process
- Support for distribution channels of manufactured products

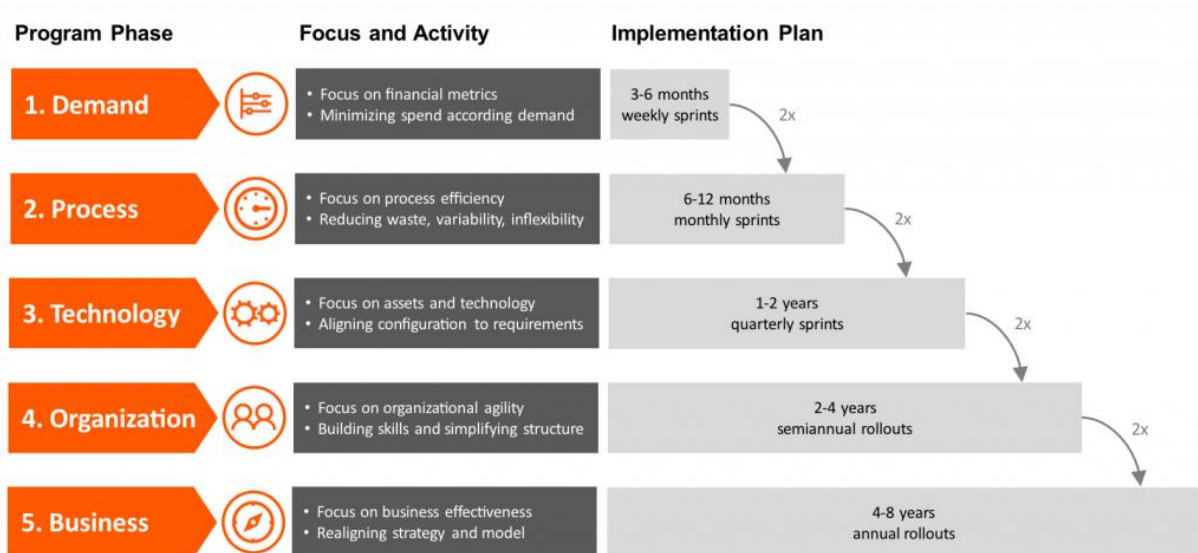


Figure 4. Reducing operating and administrative costs [10]

Freelancers and self-employed contractors are easier to hire and cheaper to keep employed than traditional employees, provided you have an enforceable freelance contract to set expectations and mitigate risk on both sides of the relationship.

According to the figure 5 6D process leads people systematically from initiation through improvement to the institutionalization of cost reductions.

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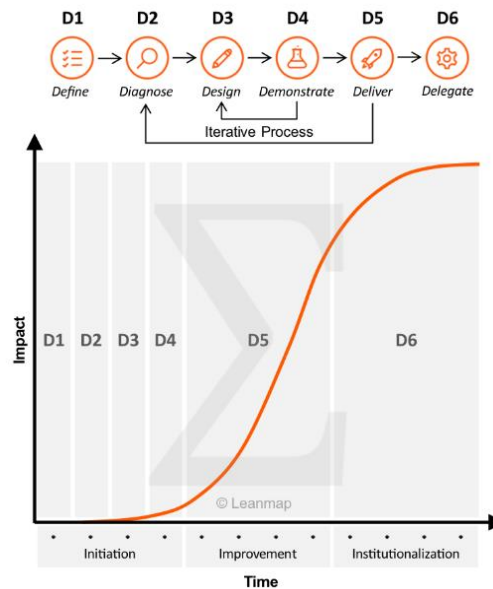


Figure 5. Cost reduction programs

D1 – Define: the first step delivers the project charter, specifying problem, approach, and sponsorship;

D2 – Diagnose: the second step delivers the current state analysis, specifying baseline and improvement potential;

D3 – Design: the third steps delivers the future state design, including target and implementation plan;

D4 – Demo: the fourth step confirms assumptions during the pilot run, while optimizing design parameters;

D5 – Deliver: the fifth step delivers the impact, while establishing ownership and accountability for results;

D6 – Delegate: the sixth step establishes standards, while training people in the new way of working [11].

Governmental management support

Can a company benefit from any state entrepreneurship support program by:

Lobbying for relevant local and federal legislation benefits and subsidies [12].

Another factor for saving business cost is cost saving instrument versus impact business period. Figure 6 explains beginning of the business influenced by good management system for saving money in various methods. Curve changes while cost savings reducing by negative production impact and finally achievement of 5-10percent of cost reduction in business.

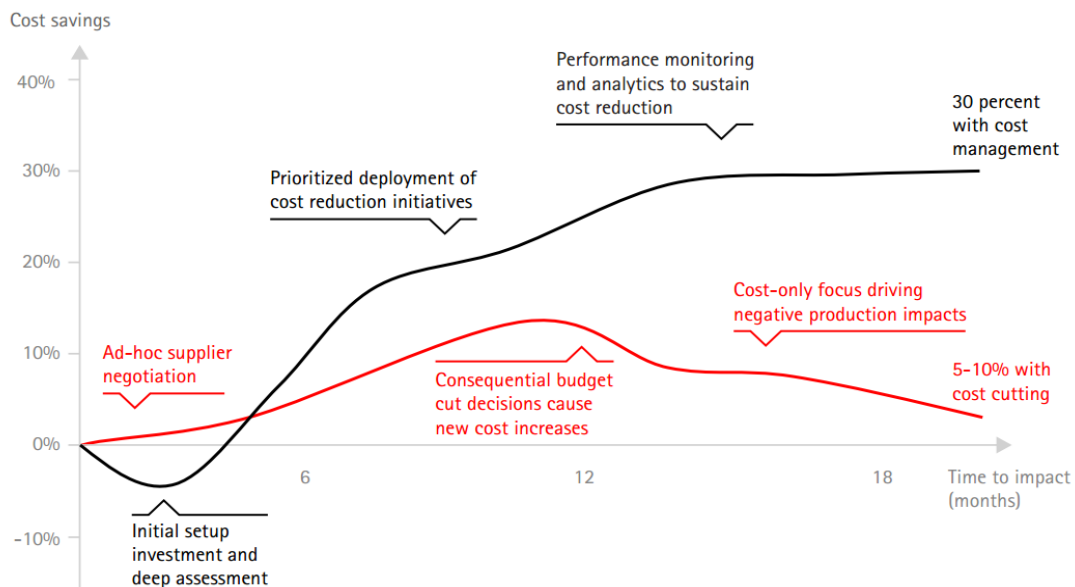


Figure 6. Cost management versus cost cutting [13]

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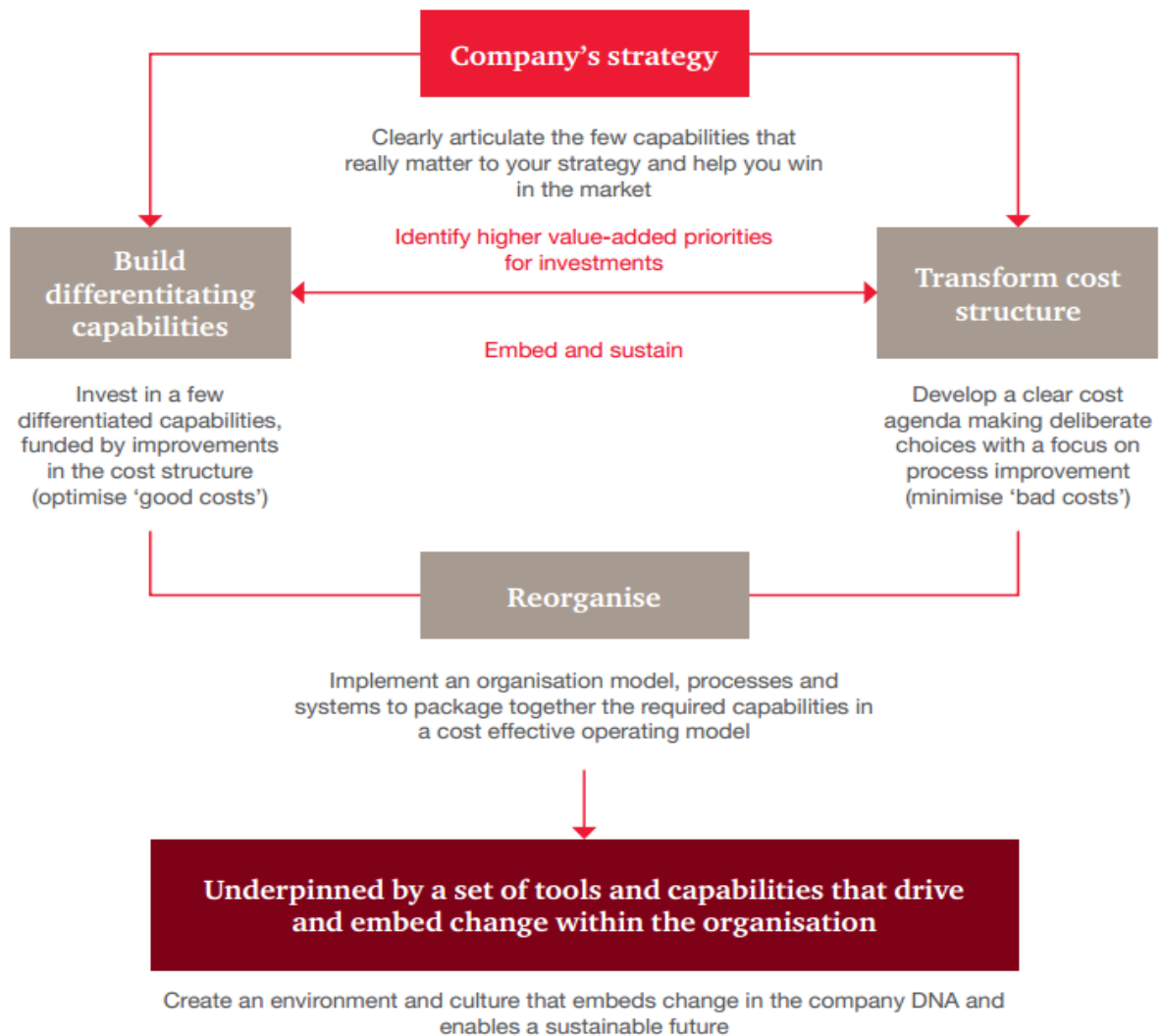


Figure 7. Cost reduction capability [14]

As PWC studied cost reduction mainly must be targeted by optimization of VAT priorities. By the company business strategy pushes transforms of cost structure and differentiae capabilities. Reorganizing business mainly responsible for the cost benefit is final stage as given figure7.

As for the theoretical approaches in above will affects following problems in companies in Uzbekistan.

- Focus on urgent problems and forget the rest
- It's not my problem
- It's "every man for himself"
- Unregistered and confused calculations
- Uninvolved administrative expenditures

Cost cutting methodology pushes forward following ways of solving them.

- Some easy savings
- Stay on time and on budget with involved in charge

- Avoid Leverage and Interest Charges Wherever Possible
- Weekly effective workstation reports
- Improve employees' IT knowledge and English proficiency
- Standardize equipment and software

FINDINGS

As a result of our research we can come to following achievements:

- a) Well organizing workstation in all sphere of the economy
- b) Razing competitiveness in manufacturing goods and involving services
- c) Reducing bureaucratic barriers by the way of electronic governance
- d) Advancement of export oriented goods in all economic sectors.

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Table 1. Innovations in cost reduction

N	Modern Manufacturing	Features
1	Lean Six Sigma System	clear direction of quality costs sustaine competitive advantage
2	Lean Process Principles	flow value and perfection of the process
3	Just-In-Time Production	production based on the forecast and actual demand
4	Total Quality Management	manufacturing process control, delivery, customer service, quality management

In accordance with the research objectivities Estonian researcher Stan Mărăscu Klein examined above cost reduction innovative development goal has been offered for sustainable economic saves in Uzbek business market. As table 1 states modern manufacturing systems where main cost of the business can be cut down:

Lean Six Sigma is improving quality and efficiency of processes based on a strong project and quantitative approach with clear target setting. For long-term success and sustainability of excellence inspirations, techniques must be supported by an organizational philosophy that complete context of transactions.

The principles of Lean Six Sigma:

- Thinking long-term emphasis on providing value to industrial society
- Make the correct process leads to desired results
- Developing staff and partners
- Solving the fundamental problems of the system as a key learning-improvement

Lean production is a production philosophy that reduces the time between customer order and manufacturing, delivering the required product by eliminating waste. Lean production uses less of everything compared with mass production or mass, half the manufacturing space, half the investment of equipment, design half hours a new product.

Principles of Lean process

- Perfect quality first
- Minimize losses by eliminating activities that do not add value
- Long-term relationships with customers and suppliers
- Focuses on the evolution and change and technological level

Just in time method (JIT)

Just in Time (JIT) is based on the idea that production activity must be calculated and designed with great precision so that inventories are minimized. It is a process-oriented and applied primarily to manufacturing firms, should occur only what sells and just in time.

The principle of method:

Reduction or elimination of stoks minimum raw materials, parts, subassemblies, finished products lead to lower overall costs, regardless of production volume Implementation method J.I.T. requires achieving the following fundamental actions:

- Location rational organizational links in order to reduce costs of operations that do not create value
- Reduce training time, made to achieve a timely change of series
- Achieve maximum reliability of the machines to reduce parking costs due to their accidental falls

Total Quality Management (TQM)

TQM - is a complex process that causes a continuous quality improvement of product/services to meet customer requirements in the context of increasing labor productivity and profit industrial organization. By introducing the notion of total quality optics has changed throughout the organization in quality:

- Replacing the periodic verification of product quality preventive control
- Introduction of quality at the micro level, method «zero defects»
- Quality should be provided and certified the rules recognized/valid international [15].

CONCLUSION

In the conditions of the world economic crisis, methods of cost cutting are gaining great popularity in economic sectors. Anti-crisis managers offer various ways to overcome is cost optimization by reducing the cost of a product or service in regions. When the amount received from the proceeds is equal to the sum of fixed and variable costs, the enterprise is at the break-even point of production. Of course, staying at the break-even point is better than being below it. But we need to strive for the best, and we will strive to overcome the break-even point in a positive direction. Transition economies like Uzbekistan also implementing new approaches of reducing production costs for further development of economic sectors.

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