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COST CONTROL TECHNIQUES

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The main objective of each business is to maximize the profit year by year and profit can be found out by subtracting cost from sales.

Formula of profit is given below,

Profit = Sales - Cost

From the above formula we can conclude that to increase profits, business can adopt basically following types of strategies which is;

1. By changing in selling price or Increasing Revenue
2. By reducing it in cost or Cost Reductions

In today's scenario the market is too competitive and because of this reason first options can't be adopted. Reason is that so many external factors affect the selling price and that's why it is advisable to adopt a second option which is reduction in cost so cost control is necessary for companies to manage their expenses and improve profitability. Different types of techniques can be used for effective cost control which is listed below;

1. Budgeting
2. Standard costing
3. Variance analysis
4. Activity based costing (ABC)
5. Just-in-time (JIT)
6. Cost-Volume-Profit (CVP) Analysis
7. Continuous Improvement (Lean Management)
8. Employee Training and Development
9. Outsourcing
10. Supplier negotiation
11. Technology and Automation
12. Performance Metrics and KPIs

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13. Process Reengineering
14. Financial Reporting

1. **Budgeting: Shri I am Pandey**, capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in long run activities in anticipation of an expected flow of future benefits over a series of years.
2. **Standard Costing:** aAccording to **Wheldon** standard cost are predetermined or forecast estimates of cost to manufacture a single unit or a number of units of a product during a specific immediate future period. By comparing them to actual cost to identify the variance.
3. **Variance Analysis:** Difference between standard cost and actual cost known as variances. This variance is basically of two types: favourable variance called as Black variance and unfavourable variance also known as red variances. Variances are found out from standard costing standard cost is pre determine cost which is calculated from the management standards of efficient operations and the relevant necessary expenditure it may be used as a basis for price fixing or for cost control through variance analysis. By analysing the difference between these two costs to understand why variance occurred and take corrective actions.
4. **Activity Based Costing (ABC):** Allocating costs based on actual activities that drive costs, rather than simply spreading costs across products or services.
5. **Just-in-Time (JIT) : Voss** says that JIT is “Production methodology which aims to improve overall productivity through the elimination of waste and which leads to improved quality.”
6. **Cost-Volume-Profit (CVP) Analysis :** As **Colin Drury** has written, “It is a systematic method of examining the relationship between changes in activity or output and changes in total sales revenue, cost and net profit.” The objective of CVP analysis is to establish what will happen to the financial results if a specified level of activity or volume fluctuates.” Through the use of cost-volume-profit analysis, the sales volume required to achieve the desired profit objective can be determined.
7. **Continuous Improvement (Lean Management**): Employing Lean principles to eliminate waste and improve processes, which reduces costs.
8. **Employee Training and Development:** Investing in training to improve employee efficiency can help minimize costs in the long run.
9. **Outsourcing:**Contracting certain business functions or processes to third-party companies to reduce costs associated with labor or overhead.
10. **Supplier Negotiation:** Regularly reviewing and negotiating with suppliers for better rates, terms, and discounts to lower procurement costs.
11. **Alternative Cost Structures:** Evaluating and potentially changing fixed costs to variable costs to increase flexibility and reduce risk during downturns.

12. **Technology and Automation:**Implementing technology solutions and automation to streamline operations and reduce labor costs.
13. **Performance Metrics and KPIs:** Establishing Key Performance Indicators (KPIs) to monitor efficiency and effectiveness, making adjustments as necessary based on performance data.
14. **Process Reengineering:** Analyzing and redesigning workflows and processes to eliminate inefficiencies and reduce costs.
15. **Financial Reporting:** Regularly reviewing internal financial reports to monitor spending patterns and adjust accordingly.

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