

CASE STUDY – COST INNOVATION FOR FINANCIAL SUSTAINABILITY

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Mr. Suryavanshi has requested an immediate meeting with all department managers. After the March 2021 quarter, the outlook for the company's finances was particularly dismal. Given the rising costs and highly volatile character of the automobile market, it was imperative to investigate the causes of the company's significant drop in profitability during March 2021.

In the heart of Sangli, a bustling district known for its industrial charm, ABC Automobile Parts Manufacturing Company was a cornerstone of automotive innovation and precision. Established in 2002, this company emerged as a testament to the vision of its founder, Mr. Suryawanshi, a native of Sangli who harbored a fervent passion for automobiles. With a deep-seated belief in the potential of his hometown, Mr. Suryawanshi had set out on a remarkable journey to craft a venture that would not only contribute to the local economy but also place Sangli on the map of industrial prowess. And so, ABC Company was born, its roots firmly embedded within the confines of the Sangli district.

Incorporated as a Private Limited Company under the protective umbrella of the Companies Act 1956, ABC Company flourished within the confines of the sprawling MIDC Area in Sangli. Every corner of its facility echoed with the hum of machinery and the spirit of innovation as the talented workforce tirelessly worked to create high-quality automobile parts that would power vehicles on roads near and far. As a mark of unity and shared purpose, the Board of Directors was composed entirely of individuals from the Sangli district, mirroring the company's commitment to its roots. Led by the visionary founder, Mr. Suryawanshi, who retained a 50 percent stake, the remaining Board members also held an equal share in the company's capital, cementing a bond that was not just financial but also founded on their collective dedication.

With a remarkable annual turnover of Rs. 10,000,000/-, ABC Company was once a beacon of prosperity, embodying the dreams of its founder and the aspirations of its workforce. The company's influence rippled through the Sangli District, creating job opportunities for a diverse range of employees across various tiers of management. From the strategic minds at the managerial level to the diligent hands of operatives, every individual played a vital role in shaping the company's success story. From 2015 to 2020, they painted a picture of consistent growth and financial abundance for ABC Company. Profit margins flourished, and optimism radiated throughout its corridors. However, like the shifting winds of fate, the tides began to change in early 2021. The company faced an unexpected challenge - a gradual decline in profits, an enigma that seemed to elude immediate solutions.

As the first quarter of 2021 arrived, a sense of concern mingled with determination swept through the company. The walls that had absorbed years of dedication now bore witness to strategic discussions and brainstorming sessions as the collective mind of ABC Company worked fervently to decipher the factors behind the dwindling profits and to chart a course toward rejuvenation. Amidst the mechanical symphony and the scent of innovation, ABC

Automobile Parts Manufacturing Company stood at a crossroads. The tale of its rise was etched in the annals of Sangli's history, and now, as the challenges of the present loomed large, the company's resilience and adaptability were put to the test.

Little did they know that this phase would become a crucible of transformation. This chapter would redefine the company's trajectory and underscore the unwavering spirit of the people behind its success. The wheels of change were set in motion, promising a story of resurgence, reinvention, and the relentless pursuit of excellence. However, the business has been continually seeing a decline in profit since the March 2021 quarter.

During the meeting, Mr. Suryavanshi asked the heads to give a presentation for their respective Departments.

Mr. Anil, Maintenance Department began presenting his report for the quarter December 2022 – March 2021. His report showed that there was an expense of Rs 5,00,000/- for repair and maintenance of the machines. This was almost 32% higher than in the previous quarter. After hearing This Mr. Suryavanshi's eyes just popped up. This was indeed a very high expense. He asked Mr. Anil to explain the expenses. Mr. Anil Said, "In the last quarter there were frequent Equipment/ Machine failure."

Second to present the report was Dr. Ragini, HR Head. Dr. Ragini was very aggressive in her presentation, and she pointed out that the frequent machine failures have caused injuries to the employees working on these machines. She explained that Rs 4,30,000/- was given as compensation to the injured employees in the last quarter. She said that there were on average 8-10 injuries every month. This was the first incident that compensation had to be given to the employees. Before this such incidences were very rare, almost equal to zero.

Further she presented the results of the research paper written by a HR intern on the work life balance and absenteeism amongst the employees of ABC. She explained that the employees complained of frequent burnouts. She added that there was a 5.2 % increase in the absenteeism of the employees as compared to the previous quarter. This according to her was very high. She had already voiced her concerns to the Production Head, Mr. Bhanu, but he had ignored it. Further as he wanted to cut production costs, he was reluctant to hire more employees, due to which the existing employees were loaded with work. All of them did 4-5 hours of extra time at least 3-4 days a week.

Mr. Bhanu immediately stood up in defense. He added that he had already stated that instead of getting more employees, proper training needs to be given to the employees. The training should involve imparting complete knowledge of the machines and equipment's that were handled along with soft skills trainings like time management, handling pressures, work life balance, etc. he also stated that he had already discussed with Dr. Ragini that a wellness program should be included in the employee development program. But Dr. Ragini had done nothing on this aspect.

Dr. Ragini and Mr. Bhanu almost started to fight, blaming each other for the mistakes. Mr. Suryavanshi interfered and said loudly. "Let us concentrate on the further presentation before we try and find out who is at fault."

Mr. Raghuvir, Head of Logistics, was the next to present his report. Mr. Raghuvir explained that the dealers were complaining about the quality of the products. Also, the dealers were complaining that the product was not available on time and so they had gone ahead and bought the products from other competitor companies or kept the customers waiting. He had brought this to the notice of the Production Head. Mr. Raghuvir complained about the reduced speed of production.

After hearing all this Mr. Suryavanshi was really frustrated. He understood that there was no co-ordination and Harmony amongst all the Departmental Heads. He decided to formulate a committee of external auditor and accountant along with Mr. Sunil, Executive Director and Mr. Prerana, Member of Board for Directors to analyze if there any other issues and to submit the report in 2 weeks.

Some observations of the committee apart from the problems stated by the Head of the Departments were

1. Setup and Adjustments problems
2. Idle Machine and Minor Stops in the manufacturing process
3. Reduced Yield
4. Huge amount of Electricity Bills
5. High administration expenses
6. IT cost
7. Travelling expenses

Mr. Suryanvanshi read the report presented by the committee. He was convinced there were many problems in his company. If these problems are not solved now, it will be a threat to the company's existence. Mr. Suryavanshi wants to overcome all the above problems which are responsible for the loss of the company.

Mr. Suryavanshi looks for professional guidance to help him resolve each of the issues. Which cost-cutting measures will you recommend to management after examining and assessing each issue, as a financial expert?

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