



COST CONTROL: HOW BUSINESSES USE IT TO INCREASE PROFITS

Abstract

Cost control has gained a lot of traction in recent times. Data shows that 82 percent of businesses consider cost management in business as the top priority for sustainable profitability. Cost control has emerged as a vital element to enhance the profitability and competitiveness of a business. It helps companies reduce their costs and pass on this cost advantage to their customers by lowering prices. Organisations approach cost management in business by adopting different strategies. Outsourcing cost control to a reliable third party has proved to be a highly effective strategy to control costs and facilitate sustainable profitability.



All businesses are driven by a profit motive. In most cases, the focus of a revenue model is on increasing sales. The revenue

earned by increasing sales reflects the gross income. The net revenue of the business, however, depends on another

key factor, the cost of goods sold. The net revenue reflects the true profitability of the company.

Net revenue = Gross revenue - (minus) cost of goods

So, we see that the costs incurred while manufacturing and selling goods impact a business's profitability. Hence, cost control

in business has become one of the key focus areas of business. Data shows that 82 percent of companies consider cost

management in business as the top priority for sustainable profitability.

What is cost control in business?

Cost control is the optimisation of business expenses to make it financially stable and profitable. The goal of cost control is to reduce the cost of production while ensuring that the quality of the products is not compromised.

Cost management in business is important because it:

- Maximises profitability
- Optimises costs
- Improves financial performance
- Helps increase revenues

An in-depth analysis of spending patterns and expense patterns helps a business to allocate its resources optimally and make

data-based investment decisions. Cost management facilitates strategic decision making, which gives the company an edge over its competitors.

A business incurs different types of **costs in the manufacturing process** right from procurement of raw materials to delivery of final products to the customer. An analysis of all these costs is necessary to identify leaks and develop cost control management strategies to reduce them.

The different categories of costs are:

Fixed costs: These are costs like rent or insurance premiums, etc., that remain constant.

Variable costs: These are procurement costs, energy charges, etc., that change over time.

Direct costs: These are expenses incurred by a business for facilitating its core functions like the cost of raw materials, machinery, etc.

Indirect costs: These refer to the overhead expenses that a business incurs for functions like employee engagement, etc., that are not directly related to the core functions of the company.

Process of cost control

Typical cost control in business processes goes through the following steps:

Step 1: Establish goals

The foundation for cost management in business is laid by establishing cost control goals that align with your business objectives.

Step 2: Determine KPIs (Key Performance Indicators)

Define metrics for cost performance like budget variance, cost performance index, cost of products sold, gross margins, etc.

Step 3: Cost analysis

Conduct cost analysis to identify inefficiencies and cost-saving opportunities.

Step 4: Budgeting

Establish budgets and cost targets based on accurate financial forecasts and track them against the defined objectives.

Step 5: Identify gaps and take corrective action

Monitor your KPIs to assess if your cost control management strategies are meeting the desired goals or not. If they are not, you may need to take corrective measures.

This process can be augmented by taking the following measures:

- Encourage employees at all levels to be cost-conscious by establishing a robust system where they can be held accountable for expenses relevant to their operations.

- Review your processes periodically and streamline them to reduce waste, eliminate unnecessary steps and optimise resource allocation.
- Focus on cost-effective procurement strategies by negotiating favourable terms with vendors/suppliers and maintaining strong relationships with them.
- Leverage technologies like artificial intelligence (AI) to streamline cost control processes, gain real-time insights into expenses, enhance accuracy and speed, etc. Deployment of technological tools helps businesses track business performance and manage expenses effectively.

Top technologies deployed for cost management in business

Data analytics

Data analytics tools enable businesses to analyse vast datasets and identify patterns, trends and anomalies, etc. These actionable insights are provided to the concerned personnel for data-driven decision-making.

Enterprise Resource Planning (ERP)

ERP systems build a centralised system by unifying core business processes and functions. This centralised system not only facilitates the seamless collaboration between stakeholders, but also helps to monitor business data in real-time. The system automates operations and paves the way for resource optimisation.

Cloud computing

Cloud-based systems provide infrastructure support over the internet. These systems are beneficial because they

offer flexibility to the business and make it scalable. They are easy to implement and provide automatic updates. These systems help minimise costs.

Robotic Process Automation (RPA)

RPA tools automate routine processes, reduce errors and help optimise cost management in business.

Artificial Intelligence (AI)

AI tools gather data from different sources and extract valuable insights for better decision-making. These tools streamline processes, enhance efficiency and optimise costs.

Machine Learning (ML)

ML is a subset of AI. It is a self-learning technology that learns from existing datasets and makes predictions. It is relevant to cost control because ML

algorithms can make accurate financial forecasts that help to establish budgets.

Cost control is not a straightforward process as it requires an interplay of multiple variables. It can prove to be time-consuming and cumbersome. One of the most effective strategies for cost control that has become popular currently is outsourcing **cost control** to a financial services company.

Outsourcing refers to delegating the task of cost management in business to an external agency. Your outsourcing partner takes over the entire task and helps you control costs and boost revenues.

How does outsourcing help cost control in business?

Access to experts

When you outsource your cost control to an agency, you can benefit from the expert knowledge and experience of professionals in their team. You do not need to hire and maintain an in-house team of experts for your processes which can lead to substantial cost savings in the long run.

Access to technology

Most outsourcing agencies leverage technology tools to streamline processes. Hence, you can access technology without investing in technology tools and infrastructure to support it. This reduces your business costs.

Reduce investment in human resources

When you outsource your cost control process to a third party, you do not need to hire professionals with the required skill sets. Tech talent is extremely expensive and outsourcing helps you reduce your expenses. Besides, you also save on the training costs and other costs required for maintaining a skilled workforce.

Flexibility

Outsourcing offers flexibility in workforce management. It helps you make alterations in various processes according to the market demands.

Focus on growth

Your outsourcing partner implements cost management in business strategies to optimise costs. This reduces the time and resources you need to invest in this task, and you can channel them towards the growth of your business.



Partner up

You can leverage the benefits of outsourcing only if you work with a reliable outsourcing partner. Infosys works as an

outsourcing partner with businesses to help them reduce their business expenses effectively by offering them solutions that

can be tailored to their needs.

How can Infosys BPM help?

Infosys offers **BPM in finance** that helps businesses streamline business processes and boosts efficiency and accuracy across

different finance operations. We leverage cutting-edge technologies to analyse your business expenses and provide solutions

to minimise them. Our cost-cost-effective BPM services can be optimised according to the unique needs of your business.

For more information, contact infosysbpm@infosys.com



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