

## **COST REDUCTION STRATEGY – PROCESS AND EFFECTS**

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**Abstract.** *The strategy of cost leadership, although always current, acquires special importance in the time of crisis. Cost reduction, savings program, savings measures, etc. are used as synonyms for this strategy; finally, all of these express the need to reduce costs for an enterprise. Enterprises make the cost reduction program which includes mandatory stages of reduction, reduction tools and the most appropriate strategies. The choice of tools depends on the chosen strategy, but the stages cannot be skipped or omitted within the strategies. Firstly, the present paper presents five stages through which the cost reduction program must pass, then a set of tools that can be used for reduction, and the differences between cost reduction strategy and program of layoffs.*

**Key Words:** *cost reduction strategy, stages in cost reduction, tools for cost reduction, program of layoffs, corporative culture.*

### INTRODUCTION

Carrying out any activity in an enterprise requires spending certain resources. That is why spending represents the basic mechanism that enables an enterprise to function. Spending is also a process in which there is a transmission of the resource value to the effects, while employees create new value which is added to these effects. This way, spending represents a form of resource investment in the creation of enterprise results, so it is the determinant, the driver and the consequence of the functioning of an enterprise (Figar, 2007).

The importance of spending the resources of an enterprise to achieve strategic and operational business performances imposes challenges to continually look for ways to reduce costs in an enterprise. The constant progress of technology, increasing competition in the global market, new needs of the customers that need to be met quickly, as well as the striving of an enterprise to achieve its profit function are just some of the triggers that motivate every modern enterprise to seriously analyze its costs. The analysis reveals the types of costs that should be reduced, and consequently, appropriate strategies are being defined and implemented.

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The management of modern enterprises no longer sets as the target the fixed percentage of cost reduction, but also allows managers at lower management levels to use their creativity and research in order to come up with a number of options for reducing costs (Kerr, Pauwels, 2014, 4). The concept of a continuous search for new ways to reduce costs needs to be constantly promoted at all organizational levels of an enterprise, which indicates that the enterprise has a strategic approach to this issue. This involves a series of corresponding changes in corporate culture that lead to a proactive cost reduction by an enterprise, and not only in situations when faced with difficulties in the business.

Representatives of the consulting firm Bain & Company Inc. have come to a conclusion that "... businesses with successful programs of continuous cost reduction typically achieve half of the increase in annual profits directly from cost reduction" (IOMA, 2006, 3). In addition to this, additional benefits for enterprises that have cost discipline are reflected in the opportunity of faster stabilization of their business activities in crisis situations, as well as in more certain prospects for rapid adjustment to challenging situations typical in the modern market (IOMA, 2006, 3).

There are a large number of customers with low payment capabilities all over the world. About 2.47 billion individuals or 43% of the population in developing countries live on less than two U.S. dollars per day; furthermore, one billion people will be living on less than \$ 1.25 per day in 2015, according to the UN 2012 MDG Report and World Bank estimations (Mendes, 2014, 39). This means that with the same or fewer resources an enterprise should produce both more and cheaper products in order to meet the demand of this segment of customers from the bottom of the purchasing power pyramid. Therefore, the implementation of cost reduction strategies has a continuous importance.

Cost reduction can be achieved either by performing the existing activities in the value chain cheaper, or by restructuring the value chain (Porter, 2014). Performing the existing activities with fewer resources represents the use of internal reserves, while restructuring the value chain requires radical changes, which is the longer way. Both of these actions are achieved by implementing different strategies which give priority to the reduction of different types of costs. Labour costs are almost always the first target in every cost reduction, so, in practice, the cost reduction program is often perceived as the release of employees.

This paper deals with both cost reduction strategy as a process and the effects of that process. First, possible reasons for avoiding the creation and implementation of the costs reduction strategy are listed, and then the necessity of establishing the cost-sensitive discipline in all enterprises is pointed out. This is achieved through five stages. Stages have a regular flow and no stage can be omitted or skipped. However, the behavior of different enterprises can be different at the same stage, same type of costs, so the effects can be different as well. The case studies for two companies, mentioned in this paper, confirm the previously stated facts, and all this can serve to the managers in enterprises in the Republic of Serbia as an example for the selection of a positive practice.

## 1. COST REDUCTION STRATEGY AS A PROCESS

A cost reduction strategy must be integrated into the overall business strategy of an enterprise. This is the only way employees are going to see a complete picture of the overall benefits which their individual activity regarding cost reduction is going to bring, as well as the total investment that needs to be made in order to create and implement this

strategy. The program from which all this can be considered should be made by the enterprise management that should also be the driving force of the program implementation and an example of saving the resources in carrying out its activities.

However, the enterprise management is often inclined to postpone the cost reduction strategy for a future business moment. The reasons for this behavior can be numerous: the current profit, too much effort, tradition, and increasing the number of employees (Payne, 1953, 72).

- *Existing profit.* A current profitable business may cause managers to oppose the creation and implementation of cost reduction programs. However, this attitude can cost an enterprise, given that competition is constantly advancing. This can lead to a situation in which an enterprise cannot cope with the competitors in the near future.

- *Excessive effort.* Creation and implementation of cost reduction require changes. Naturally, the change causes the fear of failure with the management and other employees. Therefore, at one point, the whole enterprise is "under pressure". That is why employees, generally, tend to avoid such a situation, justifying their attitude by the fact that they are exposed to great stress for the sake of small savings on individual resources. This attitude is wrong. Long-term perspective requires enterprises to make sure that costs savings are an integral part of the overall philosophy and culture of the firm and that it must be accepted by all employees.

- *Tradition.* Over time, the enterprise establishes a certain practice of problem solving. This practice grows up into unwritten rules which the employees blindly adhere to, regardless of the nature of the problem they are facing. Every problematic situation has its own nature and requires a separate approach, which requires additional investment of energy and time. Since many employees, including the management, are not always ready for this, tradition may appear as a serious blockage to the cost reduction program in an enterprise.

- *Increase in the number of employees.* There is often an attitude in an enterprise that the creation and implementation of cost reduction programs should increase the number of employees. As a result, management rather relies on consulting services. As cost reduction is a continuous process, choosing this option is wrong. Employees are the ones who know best where and how to save, so they should be motivated and further educated or just directed. In the long run, hiring consultants can create overdependence on them, as well as a false picture of the costs of an enterprise.

Despite the previously mentioned resistance that may arise, modern enterprises manage costs proactively and foster the appropriate cost discipline, the so-called cost-sensitive discipline. The constant challenges of competition influence an enterprise to think in the long run, and continuously develop cost reduction strategy. Accordingly, the cost reduction strategy in the modern enterprise can be conducted over the next five stages (McCormick, 2013, 47):

1. Cost estimations,
2. Adjusting to enterprise's global business strategy,
3. Selection of tools for cost reduction,
4. Cost reduction strategy implementation and
5. Measuring the effects and costs of the cost reduction strategy.

### **1.1. Cost estimation**

Cost estimation is the initial step in the process of cost reduction. At this stage it is necessary that management, based on the current market and financial situation, makes a proper assessment of the types and amount of costs that need to be reduced. This is one of the key moments in the process of cost reduction, because it determines the strategic direction in which an enterprise is going to focus its activities.

The first and, as it seems, the most logical step that each management needs to take is to collect adequate information on the current state of costs in an enterprise. *Payne* (1953, 73) recommends starting with the direct costs of production, including, first of all, the labor costs. Furthermore, the management needs to collect the data on indirect labor costs, which, in modern enterprises, make a much larger amount and a larger share in the total costs. The main challenge for managers is to achieve a reduction in labor costs, preferably without releasing valuable employees who have been with the enterprise for many years. It is particularly important that the employees do not experience the cost reduction program in an enterprise as a "program of layoffs", because this can create a huge resistance that will negatively influence the implementation of the cost reduction program. If the dismissal of a part of employees turns out to be an inevitable move in order to reduce costs, an enterprise should carefully consider the right moment to implement it. It would be suitable to carry out the release during a so-called "quiet" period - the period when there are no seasonal fluctuations in the production volume, no drastic changes in the structure of production, etc.

The procedure of collecting information in an enterprise is not an easy task. Some information is not easy to acquire, so, in this case, there is the need to find adequate ways to make it as relevant and as objective as possible. It is not important to just collect formation - it is more important to use it properly. This is the moment when creative skills of managers come into play. Creative use of the collected information on the type and amount of costs is the only reliable method. It is not recommended to apply the method of data usage that has already been implemented by an enterprise of a similar size and business activity, because chances to gain a competitive advantage, in this situation, are poor.

### **1.2. Adjusting to enterprise's global business strategy**

A cost reduction strategy must be adequately adapted to the global business strategy of an enterprise, that is, it must be integrated into a global strategy. This necessity arises from the fact that enterprises focus on different markets, different consumer segments, and different sources of resources and so on. Cost reduction team leaders form a cost reduction program very carefully trying to adapt to the global business strategy of an enterprise. Of course, the strategy of an enterprise can change due to a variety of market conditions. An enterprise which notices the decline in sales and profit, must take appropriate steps to eliminate this. One of the steps surely must be the reduction of costs, because the only cost-competitive firm can have a comparative advantage in relation to its market rivals. So, with the change of the global enterprise business strategy, cost reduction strategy must change as well. If the existing conditions require so, the focus of cost reduction programs must be redirected where it is needed the most. Therefore, a cost reduction strategy must possess the appropriate degree of flexibility in accordance with the changes in the global business strategy of an enterprise.

### 1.3. Tools for cost reduction

The area of cost reduction is constantly attracting the attention of experts. One of the researches (The E&Y & IMA, 2003) has been conducted at the request of the modern competitive economy that puts increasing pressure on enterprises to maximize their financial performance. In order to achieve this goal, enterprises must be dedicated to continuous cost reduction. The research covered a sample of 23,000 managers (members of IMA) who received an e-mail with a link to a questionnaire that should be filled in. Nearly 2,000 respondents answered by filling in the questionnaires. The main objectives of the research were (The E&Y & IMA, 2003, 1-2):

1. Investigation of the fundamental changes in the role of management accounting,
2. Analysis of the existing tools and consideration of introducing new tools and methods for cost management,
3. The impact of new technologies to replace the existing technology of management accounting and
4. Examining factors that influence the adoption of new tools and methods in enterprises.

**Table 1** *Usage of tools for cost management (IOMA, 2006, 12)*

Management Accounting Tool	Use	Under consideration	Rejected
<b>Planning: Budgeting Tools</b>			
Operational budgeting	76%	16%	8%
ABM/standard budgeting	65%	23%	12%
Capital budgeting	62%	24%	14%
<b>Decision Support Tools</b>			
Quantitative techniques	76%	17%	7%
Breakeven analysis	62%	23%	13%
Internal transfer pricing	57%	23%	20%
Supply chain costing	31%	43%	26%
Value chain analysis	27%	47%	26%
<b>Product Costing Analysis Tools</b>			
Traditional costing	76%	15%	9%
Overhead allocations	70%	20%	10%
Multidimensional costing	35%	39%	26%
Target costing	27%	40%	33%
Life-cycle costing	32%	37%	41%
Theory of constraint	32%	41%	37%
<b>Performance Evaluation Tools</b>			
Benchmarking	53%	36%	11%
Balanced scorecard	43%	40%	17%
Value-based management	27%	41%	32%

The largest portion of the previously mentioned E&Y & IMA research is dedicated to the systematization of tools used in procedures to reduce costs in enterprises. Table 1 best illustrates the intensity of the use of certain tools that are classified into the appropriate groups, where the major usage of tools considers its use in at least 60% of the surveyed enterprises.

By analyzing the previous table, conclusions on the use of certain tools can be drawn:

- Most of the companies use operational, standard, and capital budgeting;
- Only two (quantitative techniques and graph profitability) of the five tools used in decision-making meet the requirement of being used by the majority, because they exceed the limit of 60%. One tool, transfer prices, does not exceed the limit of 60%, while the remaining two tools from this group are used irregularly, and more than 25% of the enterprises have refused their use;
- With tools for analyzing the cost price, it can be immediately concluded that the majority of enterprises use the traditional costing and the allocation of overhead costs;
- There is an interesting trend with the performance evaluation tools where no tool exceeds the limit of 60% (using the benchmarking of 53% can be characterized as a default considering the current trends in the market and striving to implement best practices, while surprisingly low use of the balanced scorecard suggests that non-financial performance measures are ignored by the companies).

Based on the research conducted in the E&Y & IMA overview (2003, 3-5), the corresponding results are published and they can be interpreted as a valuable analysis of the current state of the economies in the participant's countries (from all over the world), but also as a basis for future improvements in management accounting, with special emphasis on cost management. This research revealed that:

- Cost management plays a key role in achieving the strategic objectives;
- The priority for research participants, who are also the decision makers in their companies, is the existence of "effective" cost information;
- Despite the needs for information about costs, numerous factors that influence the reduced cost transparency have been established;
- A large number of participants who responded to the questionnaire did not take into account the possibility of introducing new tools to manage costs;
- Despite the introduction of new tools to manage costs, many of the research participants still widely use the old techniques to manage costs;
- Managers who were participants in research require the quantification of proposals for the introduction of new tools to manage costs.

#### **1.4. Implementation of cost reduction strategy**

Apart from the existence of good ideas and suggestions for cost reduction, their adequate implementation is also very important. A very important factor that requires special attention is the resistance to the implementation of the strategy by the employees and unions.

Modern enterprises, which successfully implement cost reduction strategies, use the approach which makes them different from the enterprises that cannot implement it well. These are the so-called *sustainable transformation of costs* which imply (Guarraia, Saenz, Fallas, 2012):

- Setting the goals created on the basis of external data, and not on the basis of internal benchmarking;
- Adaptation of the cost reduction strategy to the global business strategy of an enterprise;
- Introduction of appropriate measures;

- Focusing not only on the individual organizational units of an enterprise, but also on the so-called "stitches" of an enterprise;
- The resistance of employees and trade unions.
- *Setting the goals created on the basis of external data and not on the basis of internal benchmarking.* When determining to what extent the costs should be reduced, many managers fall into the trap and determine the percentage of cost reduction according to what is possible to achieve internally. In making this decision, managers rarely take into account market trends depending on which the target cost reduction should be determined. The importance of what has been previously stated is reflected in situations where there are new competitors in the market (e.g. competition from China), or new trends. This is the moment when an enterprise finds out that it cannot cope with the new competitors and new market opportunities relying on the reduction determined by internal benchmarking;
- *Adaptation of cost reduction strategy to the global business strategy of an enterprise.* Any company that does not address the issue of cost management in a timely fashion risks finding itself in a very difficult situation in the future. Therefore, cost-disciplined companies are seeking to proactively manage costs, and for that purpose exercise the adaptation of their cost reduction strategies to the global business strategy of the company. This proactive approach allows them to, following the market trends, achieve a high degree of flexibility in cost reduction, and sustainable competitive advantage;
- *The introduction of appropriate measures.* The necessity of introducing adequate measures is derived from the current practice of many enterprises that, while realizing cost reduction programs, attention is directed to only one part of the expenditure items from the income statement. Specifically, during the measurement of the cost reduction percentage enterprises rely only on the costs of "visible" resources and, thus, fail to cover the costs of "invisible" resources, i.e. calculate with an incomplete "rump" cost price. Usage of the appropriate tools for managing also the costs of the "invisible" resources, could help solve this problem;
- *Focusing not only on the individual organizational units of an enterprise, but also on the so-called "stitches" of an enterprise.* This recommendation appears as a consequence of the complexity of the enterprise's organizational structure. Organizational units can record all the costs related to them, but the question is what happens to costs which are located on the border ("stitch") between two organizational units? It is a frequent occurrence that no one pays attention to these costs, because nobody knows exactly who they belong to, or none of the organizational units want to accept them. But it is exactly with such kind of costs that lies the possibility of significant savings. K. Coyne, S. Coyne and E. Coyne (2010, 80) argue that with the reduction of these costs an enterprise can reach 30% or more in savings. In order to achieve this, it is necessary to establish control over "costs on the stitches" through greater coordination of activities among the organizational units, and their better communication with the suppliers;
- *Overcoming the resistance of employees and trade unions.* As initially stated, the barriers to successful implementation of the cost reduction strategy can be the resistance of employees and trade unions. Employee's resistance is the resistance to change and a tendency to carry out the work activities in a customary manner. Any proposal which leads to a change is unwelcome and it is being rejected. The

lack of cooperation by the employees can slow down and complicate the realization of a cost reduction program to a large extent, and the management is forced to implement the intended changes slowly and carefully in such workplaces. At first, there should be fairly simple operations that can be learnt quickly and easily and with a quality supervisor – a supervisor who can influence employees with his knowledge and charisma to accept new changes. Also, the introduction of changes in order to reduce costs can cause a strong union resistance. Enterprises manage to overcome this situation by persuading the employees individually, and the employees exert direct pressure on the unions. This way, an enterprise indirectly removes the resistance of the unions in the introduction of cost reduction programs.

### 1.5. Measuring the effects and costs of cost reduction strategy

Enterprises that traditionally rely solely on the determination of the cost reduction percentage may not be able to recognize the impact of cost reduction on the efficiency of the enterprise. Intelligent and sustainable cost reduction program includes an in-depth analysis of the business areas critical to the survival and success of an enterprise in which the reduction of costs is to be performed. Such a “smart” cost reduction strategy in areas that are crucial for an enterprise allows for the potential initiatives for cost reduction to be classified as (Kerr, Pauwels, 2014, 1-3):

1. Clear wins,
2. Worth the trade-off and
3. The last resort.
  - *Clear wins.* Partially based on the name, it can be concluded that this is about actions which clearly bring cost reduction in the right places. That way, direct influences are made on the growth of both efficiency and effectiveness. Usually, clear profits are achieved by the approach to solving a particular problem, and while solving this problem one comes to ideas for cost reduction which are the right move and carry significant results.
  - *Worth the trade-off.* The point of trade-off is in relation between costs and benefits. Namely, the initiatives for program research, which should bring benefits, have the task to analyze the costs of such programs. In case where all programs do not deliver anticipated benefits, the only ones left in the portfolio are those which represent the cost-benefit optimization.
  - *The last resort.* A large number of initiatives to reduce costs can be undertaken, but many of them can have adverse effects on business activities in other parts of the enterprise. An enterprise should apply this method of cost reduction exceptionally.

In addition to the previously mentioned benefits, certain direct benefits that the cost reduction strategy entails should also be stated. These are (IOMA, 2006, 4):

- elimination of waste and duplication of resources,
- implementation of the best programs and practices of cost reduction,
- introduction of modern technology in order to increase effectiveness,
- creation of virtual operations on the internet by following modern IT trends.

Implementing the cost reduction strategy requires an investment of adequate resources. The main question raised here is in what time the cost savings should cover the invested capital. Practice shows that this should be a short period of time, usually one year. This is

because it is not always necessary to purchase new equipment, hire a consulting firm, etc. in order to achieve significant savings. Sometimes it is only necessary to make certain corrections, adjustments in activities, to realize the planned savings. In any case, the management should stick to the economic principle here - achieve maximum effect with the minimum investments.

## 2. COST REDUCTION STRATEGY AND PROGRAM OF LAYOFFS

The first question which arises with the cost reduction strategy is: What types of costs should be reduced? When restructuring an enterprise, labor costs are, mostly, the first on the list to be reduced, and that is why the cost reduction strategy is often wrongly equated with the program of layoff. Such an understanding is supported with the applied forms of restructuring, such as:

- release of redundant employees,
  - movement of business activities to countries with cheap or cheaper labour,
  - migration of employees due to the change in the job location and
  - strategic approach.
- *Release of redundant employees* is performed directly and indirectly. Redundant employees are released directly, and indirectly there are the elimination of production lines, closure of plants, factories and subsidiaries. Both direct and indirect ways lead to a labour cost decrease, but severance pays are increasing. Finally, an enterprise sees a solution in better functioning with decreased number of employees.
  - *Movement of business activities to countries with cheap or cheaper labour* has long been known as a strategy of cost reduction through the reduction of labor costs. Today, especially important are the regions with low labor cost of engineering stuff. Low-cost engineer regions are China, the Czech Republic, India and Vietnam, medium-cost engineer regions are South Korea, Hungary, Poland and Thailand. Low labor costs mean that the salaries of engineers are only 10-20% of the salary of engineers in the United States, and the mean cost of labor to the wage to 20-50% of the salary costs of engineers in the United States (Eppinger, 2006, p. 24). Of course, care has been taken about the running costs of other categories of employees, and finally the so-called “smart” combination is made. South Korea can be an example of a successful country in creating smart combinations: uses low-cost engineering in China, limited amounts of higher-cost engineering in the U.S. or Europe for accessing to the latest technologies and markets, but has retained much of the engineering process at home (in South Korea) (Eppinger, 2006, p. 26). The ultimate goal is the production and provision of services at low cost.
  - *Migration of employees due to the change in the job location* has, until recently, been considered the traditional approach, because the workforce was moving from rural to urban areas, from underdeveloped to developed areas, from the periphery to the center. Today, employees are migrating for a job, because the present location requires fewer employees or the business activity at the location is completely extinguished. Employers are offering two alternatives: either not to leave the current location and remain jobless or to move to locations where, currently, there is a job,

but this kind of migration does not guarantee a permanent employment. The migration is an alternative that causes not only economic, but also emotional problems: the separation of families, inadequate housing at the other location, commuting, etc. The end result may be either higher cost of an enterprise or "voluntarily" job leave.

- ◆ *Strategic approach* is a holistic approach. It sees an enterprise as a whole, and cost as the total cost of an enterprise (not just by types of resources and organizational units). This is the only one of the above stated approaches that clearly shows that the cost reduction strategy is a much broader concept than the program of layoff, but it does not necessarily have to contain it. Employees are the most valuable resource of an enterprise who create and use other resources, so their release should be the last step in the process of cost reduction and only if it is inevitable. However, different enterprises behave differently, as shown by the two case studies below.

The company Merck & Co., based in New Jersey, is the world's leading manufacturer of drugs, and has been in the business for 120 years. The revenue of the company started to fall in 2004, so in 2005 the company implemented a Restructuring program that was supposed to reduce the overall costs, thereby increasing its efficiency and competitiveness. In order to achieve these objectives, five manufacturing plants and two clinical sites, as well as other property, were sold or closed. Nevertheless, the costs increased in 2006 and 2007. The "patch area" for further reduction was research and development costs, because for the period 2005-2008 these costs increased by about 20%. That is why in the new Program from 2008 the key point was *to reduce the number of employees in order to reduce company costs*. The number of senior and middle managers was reduced by 25%, and the key employees, researchers, were not spared from layoffs either. The layoff was focused on older workers who had been working for the company for more than 10 years. Some researchers employed on individual projects in Montreal were offered to move to other locations. Those who did not accept the relocation were dismissed. Also, if the project was not successful at the second location, they had to suffer the termination of the department and staying out of work (Pharma cost cutting strategies case study, 2009).

As a result of the Program implementation, research and development costs in 2008 decreased slightly compared to 2007, but were almost twice as high compared to 2000; the sales revenue decreased slightly compared to 2007, but it was at the level of revenue in 2000. Therefore, moving jobs to new locations, migration of employees because of the change in the job location, and firing employees based on the principle *first in - first out* did not reduce the costs of R&D significantly. This proves that the years of experience and acquired skills of employees in the company are not worthless assets.

The opposite example is the German car manufacturer BMW with its headquarters in Munich. At the same time when the company *Merck & Co* had a problem of high costs, in 2007, *BMW* was faced with the problem of declining productivity and the aging workforce in its factories in the United States, Germany, and Austria. But this company noted that this was a long term problem and applied a strategic approach to its solving. The forecasts showed that this company was going to be faced with the average age of the plant's workers of 47 in 2017, instead of 39 in 2007. Especially as the nation's aging is a global phenomenon: in the United States it is expected that people over 65-years-old will make up 16.6% of the population in 2020, in Germany 21.6%, and in Japan 26.2%, while this will also affect its factories in these countries. It is a fact that the healthcare costs for employees older than 65 are up to three times higher compared to the employees

between the ages of 30 and 50, and the productivity is also lower (Bauer, Mauermann, 2010). That leads to cost increase, instead of a cost reduction, so the company found itself in a situation to choose among a traditional and a modern approach to cost reduction:

- *traditional*, according to which older employees should be released or forced to retire, and
- *modern*, according to which older employees should be retained by adjusting the work to their physical abilities.

Based on the forecasts and the facts it was necessary to create a Cost Reduction Program that would allow the retention of older employees, the increase of their productivity, and reduction of the labor costs and overall operating costs. The company decided to adopt the *modern approach* and created a Program which contains (Bauer, Mauermann, 2010, 100):

- healthcare program,
- enhancing workers' skills and the improvement workplace environment,
- instituting part-time policies, and
- the change in the management processes.

Although the annual increase of productivity by 7% has been projected, the Program caused resistance among younger employees and the unemployed. However, the management did not give up the implementation of the Program:

- 70 small changes in the design and equipment that improved ergonomics were implemented at various workstations,
- ergonomically optimal job rotation, so that employees would be equally burdened,
- exercise breaks during working hours were introduced,
- the equipment was purchased (glasses, chairs, etc.) to facilitate the work of older employees.

The company invested about 40,000 euros in the Program, and the annual productivity increase of 7% was expected, as well as the increase in output from 500 to 530 units per shift, and absenteeism reduction from 7% to 2% in all BMW factories, not only in Germany.

The creation of the specific organizational culture in *BMW* contributed to the treatment of the experience of employees as a valuable resource of the company, and despite the initial resistance, all employees took part in the creation of such culture (Bauer, Mauermann, 2010):

- top management had the task to spot the problems at the factory level,
- the production managers ran an experiment,
- the line workers created the solution.

## CONCLUSION

Each enterprise should strive for structuring the most profitable portfolio of customers. Such a portfolio is usually composed of customers with different purchasing power. Report and the estimation of the World Bank show that there is a large segment of buyers with a low purchasing power, whose needs can be met only with cheaper production. That is why cost reduction has a large importance in this. The cost reduction strategy should be comprehensive i.e. it needs to refer to the reduction of all types of costs and everywhere, not only to the reduction of labor costs as it is usually practiced.

The example of *BMW* shows that the investment in older employees can be beneficial while the example of the company *Merck & Co.* shows that the retention of only young employees does not bring satisfactory results. That is why enterprises should create a climate that does not equate the program of layoffs with the cost reduction strategy. This is especially important because equating the cost reduction strategy and the layoff programs is largely present in the Republic of Serbia.

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### STRATEGIJA REDUKCIJE TROŠKOVA - PROCES I EFEKTI

*Strategija troškovnog liderstva, iako uvek aktuelna, poseban značaj dobija za vreme krize. Redukcija troškova, program štednje, mere štednje i sl. koriste se kao sinonimi za ovu strategiju, a svi u konačnom izražavaju potrebu za smanjenjem troškova preduzeća. Preduzeća sačinjavaju Program redukcije troškova, koji sadrži obavezne etape u redukciji, alate za redukciju i najadekvatnije strategije. Izbor alata zavisi od izabrane strategije, ali se etape ne mogu preskakati, niti izostavljati ni kod jedne strategije. U ovom radu je prikazano pet etapa kroz koje mora proći Program redukcije troškova, zatim set alata koji se mogu koristiti za redukciju i razlika između strategije redukcije troškova i programa otpuštanja.*

Ključne reči: *strategija redukcije troškova, etape u redukcij troškova, alati za redukciju troškova, program otpuštanja, korporativna kultura.*