



THE IMPORTANCE OF STRATEGIC COST MANAGEMENT AND ITS IMPLEMENTATION IN MANUFACTURING INDUSTRIES: A CASE STUDY OF METAL PRODUCING INDUSTRIES IN UZBEKISTAN

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Abstract

This article focuses on determining the necessity of strategic cost management in manufacturing industries. Additionally, the article negates the need for its implementation in practice with the intention of strategic accounting for the management of industrial enterprises. Focus is placed specifically on analyzing cost management systems of steel industries in Uzbekistan.

Keywords: strategic accounting; Production costs; cost; cost management; classification of costs; cost accounting system; the cost of resources.

Jel Codes: M4, M41

Introduction

Price, quality, and time are three crucial criteria that economic analysis has recently highlighted as being crucial to a company's success in the face of intense competition. The globe still has trouble integrating sustainable corporate practices, and sustainability data integration is still insufficient. Manufacturers have not performed particularly well since they must deal with heightened competitiveness, which is strongly influenced by globalization and the rapid advancement of technology. Blue Scope and other industrial businesses must make sure that their goods are of the highest quality, delivered on time, inventive, and cost-effective to operate. (Mack et al., 2016).

Financial management, cost management, and strategic management are all intertwined in the complex process known as strategic cost management. It entails reducing expenses and getting financial resources ready to take the desired strategic market position in an affordable way. Cost management and business plan alignment are essential requirements for businesses in the current difficult economic climate. Long-term improvements, influence on people, and integration with the whole business plan are increasingly more important than the conventional strategy of only reducing costs in the short term.

For improving cost management in industrial organizations, promoting sustainable development, and developing integrated systems, the strategic cost management method offers a convincing and effective answer. Organizations can significantly improve their decision-

making processes and gain a distinct competitive advantage in today's quickly changing business environment by successfully tackling cost stickiness and assiduously monitoring product life cycles. Adopting this strategic paradigm enables businesses to successfully traverse the obstacles posed by global competition, quickly adapt to changing consumer needs, and build a solid basis for long-term success and increased profitability. (Henri, Boiral, and Roy, 2016). Companies are well-positioned to improve resource usage, drive operational efficiency, and make wise strategic decisions through the implementation of strategic cost management, resulting in long-term success and progressive growth in the fiercely competitive business climate.

Methodology

The research effort employed data-collection, observational, grouping methodologies.

In connection with the research question, the information of the State Statistics Committee of the Republic of Uzbekistan, "Uzmetkombinat" joint-stock company, as well as library catalogs and internet resources available in Uzbekistan are used. Also, official reports, information-analytical bulletins, academic articles and Internet resources, databases of international organizations are used.

Techniques for Cost Management in Industrial Companies

All manufacturing sectors are seeking for ways to reduce costs by implementing cutting-edge cost management strategies. To be more competitive, they must control expenses while simultaneously enhancing efficiency. Manufacturing and other costs should be under control using an industrial cost accounting system. Industrial firms like Blue Scope might employ a variety of cost management strategies. Some of them are overall quality management, life cycle costing, target costing, the just-in-time method, material requirement planning, enterprise resource planning, and activity-based costing.

More than 75% of firms in the nation and more than 65% of industrial organizations employ target costing. Determine the production costs of a certain product with a specific function and quality to make a specific profit at its predicted selling price using the structured approach known as target costing. (Gupta, 2009 and Hansen, 2007).

Life cycle costing differs from standard costing methods in that it provides frequent profitability reports, such as monthly, quarterly, and annual reports. It focuses more on monitoring expenses and income on a certain product across a product base throughout time. (Elhwaity, 2013).

Results

Costs are categorized in management accounting in accordance with the goals and objectives of the management. During casual conversations, managers of many different business types commonly express their concern that there is never enough information available to the management regarding overall expenditures. As a result, companies utilize management accounting, which enables them to collect cost data from the various data sources within the company and further evaluate those costs using a number of layouts and structures.

Around the world, cost management theory and practice have all been developed and improved upon, including absorption-costing, direct-costing, standard-bone, and other ways to their management (Efremova 2006).

Table 1

Modern cost management systems

Methods of management accounting related to costs		
In relation to business processes	By the degree of absorption of fixed costs	By the level of cost control
<ul style="list-style-type: none"> • Cost Centre Responsibility • Processor method • The Peripheral Method • Custom method 	<ul style="list-style-type: none"> • Absorption-costing • Direct-costing • Calculation of the reduced (production) cost price 	<ul style="list-style-type: none"> • Calculation of the actual cost price • Calculation of regulatory costs • Standard-costing
Integrated cost management systems		
Market-oriented systems	Cost methods	Management Methods for Life Cycle Stages
<ul style="list-style-type: none"> • Just in time • Target-costing • Kaizen Costing • Benchmarking • Total Quality Management 	<ul style="list-style-type: none"> • Strategic Cost Management • Functional and Cost Analysis 	<ul style="list-style-type: none"> • Life Cycle Costing • Activity Based Costing

Source: Authors' own elaboration based on Efremova 2006.

It is essential to choose the cost calculation method to apply during the computation procedure. A variety of techniques and methods are combined in the calculation method to estimate the cost of specific commodities produced by business units while taking into consideration the specifics of technological conversions and processes. According to Drury, the distribution of costs for each individual customer's order is part of the process of cost creation in the order calculation system because each customer's order is unique and requires a separate labor, material, and overhead cost. This method of process-based production cost computation is used when similar things are manufactured in series and follow a set order through each stage of production. The chemical, cement, oil refining, paint, and textile sectors are a few examples of such industries. Taking into account departures from and modifications to current standards, the real cost of production is calculated: $Ca=Nc\pm D\pm Ch$, where: Ca– actual cost of production; Nc — standard costs; D — deviations from standard costs; Ch — changes in standard costs.

We may calculate the production's actual cost using this method without having to wait until the conclusion of the reporting period. By affecting how costs are created within the current process, this enables us to manage costs.

The industrial companies in the Republic of Uzbekistan currently employ the direct costing method, which separates expenses into variable and fixed costs.

Table 2

Cost categories and techniques of computation in relation to tasks

Cost types	Tasks	Calculation method	Performers
1. Estimate	Determining the economic efficiency obtained from the use of a new type of product or a new technology	It is calculated based on the costs incurred in accordance with the advanced norms and regulations established for the production of new technologies or new products.	Department of production and implementation of new techniques and technologies, other departments of the enterprise (in cooperation with plans, standards, etc.)
2. Plan	To plan the total product and its unit costs and control its implementation.	It is calculated on the basis of the norms and regulations in force at the beginning of the current year or newly produced.	Under the leadership of the planning department in cooperation with other departments
3. Normative	Quick control of deviations from norms of actual costs	In the enterprise, the report is calculated based on the standards developed at the beginning of the month. The actual cost is the sum of three indicators when the standards change: standard cost + , - standard deviation + , - standard change	Under the leadership of the planning department in cooperation with other departments
4. Real	Determining the total product and actual costs per unit	Actual costs are allocated among the products produced based on a fixed rule, and then calculated by dividing by the quantity of each product.	Accounting staff

The various cost kinds stated in the table can also be computed in accordance with the steps taken during production. It is well known that given the circumstances of the planned economy, there was no need for the cost of goods to be set by the steps of the production process.

As we can observe from the table 6, the majority of costs belonged to COGS at 63.86 % in 2019, and this contribution increased with some fluctuations in the following three years, reaching 71.52 % in 2022. The figures for administrative costs and income tax were less than 5 % in four years. With regard to financial expenses, the share decreased considerably from

Table 3

Cost allocation of “Uzmetkombinat” in thousands UZS

	Indicators	2019		2020	
		Sum	%	sum	%
1	Cost of goods sold	1 216 623	63.86	4 128 260	81.97
2	Sales expenses	32 634	1.71	39 990	0.79
3	Administrative Costs	78 899	4.14	177 992	3.53
4	Income Tax	4 942	0.26	71 006	1.41
5	Financial Expenses	352 415	18.50	239 805	4.76
6	Other expenses	219 668	11.53	379 202	7.53
	Total	1 905 181	100	5 036 255	100
	Indicators	2021		2022	
		Sum	%	sum	%
1	Cost of goods sold	5 629 728	79.08	5 920 909	71.52
2	Sales expenses	40 445	0.57	37 875	0.46
3	Administrative Costs	270 575	3.80	326 349	3.94
4	Income Tax	290 918	4.09	226 605	2.74
5	Financial Expenses	343 203	4.82	1 074 917	12.99
6	Other expenses	543 913	7.64	691 456	8.35
	Total	7 118 782	100	8 278 111	100

18.5% in 2019 to 4.76 %, before illustrating a dramatic growth to almost 13 % in 2022. In contrast, the lowest proportion of total costs belonged to sales expenses, less than 2 % in four years. Between 2019 and 2022, the share of other expenses decreased from 11 to 7.5 %, prior to increasing slightly to 8.35% in 2022.

Table 4

Net sales and COGS of “Uzmetkombinat” in four years, in thousands UZS

Indicators	2019	2020	2021	2022
Net Sales	1 799 607	5 260 718	8 352 753	8 384 683
Cost of Goods Sold	1 216 623	4 128 260	5 629 728	5 920 909

Table 5

Calculation of gross profit margin of “Uzmetkombinat”

	2019	2020	2021	2022
(Net Sales-COGS)/Net Sales * %	32.39507	21.52669	32.60033	29.38423

As can be seen from the tables and the line graph, gross profit margin percentage in 2019 was 32%. After a considerable decrease by 9% in 2020, gross profit margin then increased to 32.6% in the following year. Furthermore, this rate indicated 29.3% in 2022, meaning that the company netted 32.6 sums from each sum of sales generated.

In order to describe the relationship between assets and liabilities, we calculated and analyzed current ratio.

Table 6

Current assets and current liabilities of “Uzmetkombinat” in four years, in thousands UZS

Indicators	2019	2020	2021	2022
Current Assets	1 242 655	2 482 132	5 936 665	6 607 404
Current Liabilities	738 052	1 305 619	3 498 015	3 624 351

It is clear from the table 11 that both, current assets and current liabilities, increased year by year. In order to calculate current ratio, we divided current assets by current liabilities. The results is illustrated in table 12.

Table 7

Current ratio

2019	2020	2021	2022
1.68	1.90	1.70	1.82

Current ratio of “Uzmetkombinat” grew year by year, meaning that the company’s assets increased more than liabilities to cover its debts.

“Uzmetkombinat” produces many various products every year. We selected four of them, namely enamelware, thermal insulation materials, products from copper and its alloys, and ferrosilicon, and analyzed the growth rate and profitability of these goods.

Table 8

Profitability analysis of four different products in 2021 and 2022

Name	2021 year	2022 year	Growth rate, %
Enamelware			
Net revenue, billion.sums	91	113	24%
Gross profit, billion.sums	-4	-10	128%
Profitability	-5%	-9%	-
Thermal insulation materials			
Net revenue, billion.sums	85	103	22%
Gross profit, billion.sums	20	39	101%
Profitability	33%	70%	-
Products from copper and its alloys			
Net revenue, billion.sums	234	326	39%
Gross profit, billion.sums	45	39	-13%
Profitability	24%	12%	-
Ferrosilicon			
Net revenue, billion.sums	31	46	48%
Gross profit, billion.sums	0	21	-
Profitability	0%	80%	-
ALL			
Net revenue, billion.sums	441	588	33%
Gross profit, billion.sums	61	89	49%

It is apparent from the table 13 that net revenue and gross profit of these four products increased by 33% and 49% between 2021 and 2022, respectively.

Net revenue of Enamelware increased by 24%, however gross profit decreased by 128%. Clearly profitability also declined.

Net revenue and gross profit of thermal insulation materials grew, meanings that profitability of this product also increased in the given two years.

While net profit of products from copper and its alloys grew from 234 to 326 billion sums, the rate of gross profit decreased by 6 billion sums from 2021 to 2022. As there was a decrease in gross profit, the profitability of these products also declined from 24% in 2021 to 12 % in 2022.

It is evident from the figure 8 that both net revenue and gross profit rose considerably in the given years. Interestingly, the profitability percentage also grew from 0 % to 80%.

In our opinion, the following actions should be taken to ascertain and analyze the price structure of the product quality improvement:

- monitoring the implementation and dynamics of the plan for cost reduction;
- to determine the reasons for the change in cost and to correctly determine the factors affecting it, that is, the effect of quality on quantity;
- analysis of the costs of improving the quality of certain types of products;
- search for opportunities to improve product quality and reduce costs;
- development of scientifically based proposals, which are included in the cost of the product, to improve the quality of the product (work and service), the structure of costs for production and sale, and the formation of financial results, arising from the characteristics of the industry.

Conclusion

Strategic cost management has evolved into a valuable tool for businesses looking to improve decision quality, gain a competitive edge, increase firm profitability, and preserve organizational viability. Therefore, the goal of this study is to explore how decision quality, competitive advantage, and firm profitability might affect organizational sustainability as a result of SCM. Value chain analysis, strategic positioning analysis, and cost driver analysis are all components of SCM. In this study, the sample data from “Uzmetkombinat” JSC is used as a sample analysis. The findings showed that value chain analysis and strategic positioning analysis significantly improved the quality of decisions, competitive advantage, firm profitability, and organizational sustainability. Additionally, cost driver research significantly improves competitive advantage, business profitability, and organizational sustainability. Additionally, the effectiveness of decisions and competitive advantage have a big positive impact on business profitability and organizational sustainability. Organizational sustainability is significantly positively impacted by company profitability.

The use of strategic cost management techniques aids in boosting and sustaining competitiveness in the iron and steel sector. By improving pricing efficiency and cutting costs, it helps to draw in more new clients while keeping existing ones. Using the technique of strategic cost management, enhance the product continuously to boost the profitability of the firm and the company's market share globally. One of the most crucial strategic lines of defense

against the competition in the markets is to increase and broaden the competitive advantage of the product by lowering the cost of manufacturing processes.

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