

**INTERNAL AUDIT
UPDATE**

**COST OPTIMIZATION
DURING COVID 19**



Cost optimization during COVID-19

As the world is suffering from the rise of COVID-19, at the same time business are suffering due to lack of revenues, bad debts, fall in demand etc. and ultimately it is impacting profits and reserves of businesses. Many businesses are finding hard to survive and filing for bankruptcy for ex- Gold's gym. On the other hand there are also companies like Parle which have recorded highest sales in the past 8 decades during this pandemic. This pandemic have realised businesses two important things:-

- i. Review their costs structures and optimize it to survive in the long run
- ii. Importance of business continuity plan (BCP)

As economic recovery will take some time, the Companies all over the world are focusing on reducing their costs so as to cope up with loss of revenue and a way to survive during this pandemic. There is a saying also "**Cost saved is equal to the income earned**". However, while cost reduction organisation should devise strategy which aligns with vision and objectives of the company and leaves no ambiguity that can create hurdles in future growth of the company. Cost optimization should be such which creates competitive advantage for business and provide value to all stakeholders in the long run.

Cost optimization strategies differ from an organisation to organisation and from industry to industry. Here are few methods described below which can help organisation in cost reduction:-

- i. **Identify non-value adding activities and eliminate them:** Organizations should evaluate their end to end processes and identify activities that does not add value to the final product or not required during this period, eliminate them.
- ii. **Streamline Supply chain management:** Organizations should review their Supply chains and transform it to make more robust and efficient. For ex- Negotiate with vendors for more discount or with transporters to reduce charges.
- iii. **Reduce cost of capital:** Organizations should conceive ways for cheaper source of capital. It will help organization in long run and achieving competitor's advantage.

- iv. Evaluate outsourcing of activities:** In today's time nothing should be sacred. Organization should evaluate outsourcing of some activities which can save cost by not compromising with quality.
- v. Automate processes:** Organization should leverage technology for certain repetitive processes and reduce labour costs.
- vi. Reduce fixed costs:** Reduction in fixed cost helps an organization to achieve competitor's advantage and organization which have lower fixed cost can easily survive in comparison with the one who have higher.
- vii. Identifying opportunities for improving energy efficiency:** Power cost is a major cost in manufacturing industries and in some service industries also. Organization should ascertain ways for improving power efficiency and reducing power cost.
- viii. Realization of non-moving inventory at discount:** Non-moving inventory should be sold by an organization either at less profit or no profit, to save warehouse cost and opportunity cost of capital.

Cost optimization is the best way forward for an organisation to survive during tough times and best way to achieve is by increasing efficiency and effectiveness of processes and people of an organisation, so that it results in faster growth and competitive advantage and provide maximum value to stakeholders.

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