Cost Reduction Strategies and their Function in the Development of Firm's Export: with Emphasis on Producer Firms

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Abstract
Quick and dramatic development of technology along with the ever-increasing growth of competition in world markets have directed managers of economic units and especially the firms active in the field of international markets toward reducing production cost and also a system for the management of costs. The main intent of the research is to introduce cost reduction strategies regarding production in general and to clarify the function of the system adopted for the management of firm's suppliers in the reduction of production costs in particular. Based on the analyses performed on the theories existing in this area, the research variables chosen are as follows: supplier's job status, quality of supplier's products, supplier's service quality and eventually supplier's risk status. The research findings show that some of the most important indicators to reduce production costs in this area are as follows: supplier's financial ability, commitment to quality, prompt deliverance of materials, and also ability to satisfy additional needs of exporters at the appropriate time.

Keywords: Cost Reduction, Development of Export, Suppliers, Producer Firms.

1. Introduction
There are a great many of factors in today's world market that have led to the occurrence of fundamental changes in the processes of production and supplying of products and services, forcing managers of economic units to offer pleasant services, but with the least amount of finished prices, to customers. Such factors consist of competitive market environment, the change having occurred in the status of customer and continuous changes occurring in his interests, dramatic developments in the area of information and communication technologies, the growing appearance of alternative products, formation of stable mental images through marketing strategies and competitive advantages and so on (Chang, Wang and Wang, 2007).
Performing with a higher speed in international markets and also in today's universalized market environment, such changes have forced the firms active in the area of production to permanently challenge to attain competitive advantages.

However, the strategy of cost management has always been one of the key factors helping firms to achieve competitive advantage, and what's more is that the strategy is increasingly getting more and more important (Korpela and Tuominen, 1996). One of important factors to reduce production costs, i.e. the one which is verified in numerous studies, is the true selection of suppliers of raw materials.

Suppliers of raw materials are among the really effective variables for the management of costs, and hence if being selected accurately, they can deservedly contribute to the reduction of the need to excessive stock of materials, more working capital available to be given to organization's management, reduction of the time required for production, acceleration of the time required for the offering of product and for the fulfillment of commitments, and eventually the increase of productivity and decrease of finished prices of produced materials (Mahesh and Amarpreet, 2006; Watts, Kim and Hahn, 1992).

Suppliers of raw materials are considered as a convenient communication link for the presentation of high quality products, on time fulfillment of firm's commitments, reduction of production costs and increase of firm's productivity; thus, if chosen incorrectly and inaccurately, they will lead firms to facing irremediable losses regarding their export performance (Choi and Chang, 2006; Choi and Hartley, 1996; Choi and Krause, 2006).

Despite the important role that suppliers of raw materials can play in the reduction of production costs and promotion of firms' export performance, a deep gap can still be observed in the research literature of the country. Therefore, the present research is intended to investigate cost reduction strategies and the extent to which such strategies can be useful for export producing firms for the advancement of their export performance. The results of the research can prove to be valuable for the country's policymakers working in the area of production and export, managers of firms, and also later researchers.

2. Cost Management
The system of cost management is a process that gives high values to customers through reducing additional costs using a set of tools and techniques and is defined together with the efficiency of organization's resources. The definition does emphasize the central point that profitability and growth of firm can be achieved through giving value to customers (Dickson, 1966; Kahraman, Cebeci and Ulukan, 2003).

The main goals of the strategy of cost management consist of:

- Measuring the finished price of the resources used for the performance of the main activities of economic units
- Identification and removal of those items of the cost that do not create added value
- Determining the efficiency and effectiveness of the main activities performed in economic units
- Identification and evaluation of the new activities that can improve future performance of organization

Based on the studies done in this area, some of the most significant tools and techniques used for the successful performance of cost management strategy consist of (Choi and Chang, 2006; Choi and Hartley, 1996; Liao, Li and Lu, 2007; Park, Lee and Yoo, 2005).

3. Value Engineering
Value engineering is a set of some technical methods the aim of which is to evaluate and analyze the method at which work is performed and apply creativities and techniques of system analysis for the optimization of plan.

Value analysis is a creative and organized method the aim of which is to recognize unnecessary costs, i.e. the costs that neither do increase the quality, efficiency and life span of the product, nor are noticed or interested by customers.

4. Kaizen
Kaizen is the Costing process with the aim of achievement to permanent improvement, through which the reduction of finished prices of products are targeted each year, and then all organization's employees are asked to express their creativities and suggestions for the realization of the target and to endeavor to get to those aims, but of course to enjoy its consequential profits.
5. Suppliers of Raw Materials
Suppliers of raw materials and the true selection of them are among the most important tools for the management of firm's costs. Therefore, if chosen scientifically and utilized permanently, they can act as a tool for the application of cost leadership strategy in foreign markets (Kim and Yoon, 1992). The studies performed in the field indicate that numerous variables are effective in the process of choosing raw materials' suppliers. They also indicate that the variables can be different based on the type of industry, firms' produced products, and characteristics of target markets (Korpela and Tuominen, 1996; Riddalls and Bennett, 2002).

The importance of managing the selection of the supplier chain is proportional to the amount of using its materials in firm's production line and as a result its share is classified in the costs of production unit. Moreover, the managing is of radically high significance in export producing firms of the developing countries, where a high amount of raw materials is usually supplied by foreign suppliers (Wu, 2009).

The results of numerous studies done in this area are indicative of the presence of four main and common variables in the strategy of correct and accurate selection of raw materials' suppliers. The variables consist of the followings:

6. Supplier's Job Status
Supplier's job status is among the important and vital variables in the selection process, and its direct effect on production costs of producer firms has been approved (Fish and Segall, 2004; Wu, 2009). To investigate job status of a supplier firm, some significant variables are usually evaluated, such as: firm's managerial ability, its financial capacity, its organizational customers and the success status of the industry (Basnet, Corner, Wisner and Tan, 2003; Lee and Kim, 2000).

Concerning the managerial ability of supplier firms, the following factors are taken into account as the most important and effective variables that need to be exactly inspected: management knowledge, the number years the same management team has been present in and working with the same firm, the ability of management to communicate and to have intimate link with new customers and also his ability to absorb new customers, the amount to which firm's perpetual customers will have stability (i.e. will be loyal to the same firm), the position of firm in market and its mental picture in the minds of customers, satisfaction of the firm's personnel, etc (Chen and Hwang, 1992; Fish and Segall, 2004; Taudes, 1998).

With respect to financial abilities of supplier firms, it should be maintained that the most significant variables effective in this area consist of the following: condition of firm's assets and liabilities, firm's capital, its liquidity status, its different financial ratios (especially the current, transitory and overall ratios of liabilities and the ratio of profit to sales) and also firm's profitability (Taudes, 1998; Wu, 2009).

Another important variable with respect to the job status of a supplier firm is its organizational customers. As a matter of fact, the variables effective in this area are: overall status of organizational customers regarding their quantity, firm's best organizational customers and the overall time period during which they have worked with the same firm (i.e. loyalty status of reputable and great customers), etc. (Ho, 2004; Taudes, 1998; Wong and Lu, 2005).

One more important variable in the field is the growth status of the industry in which supplier firm is operating. The most significant variables effective in this area are: industry's comparative status and the position of firm in it, operational status of the industry, its average profitability, and the firm's market share in the industry (Choi and Chang, 2006; Seydel, 2005).

7. Quality of Supplier's Products
Another important variable playing a significant role in the process of selecting suppliers of raw materials is the quality status of firm's products. The most important elements effective with respect to this variable, i.e. the ones that need to be evaluated by firms, consist of: the amount to which supplier firm and its managers have commitment to quality, the rate of losses of firm's products, and the amount of improvements having occurred in the firm's processes over a specific time span (Chaudhry, Frost and Zydiak, 1993; Choi and Hartley, 1996; Muralidar and Santhanam, 1990).

Commitment to quality represents the amount of commitment of firm and management to continuously promote the quality of its products consistent with the needs of customers and the dominant organizational culture so that to accomplish its quality- and customer-orientation aims (Spekman, Kamauff and Myhr, 1998).
The rate of losses observed in firm's products is also taken into consideration as one of important variables for the true and radical appraisal of supplier firms. In other words, the average rate of losses of firm's products and moreover rate of losses retrieved by supplier are good indicators for evaluating the quality of produced products (Dickson, 1966; Min, 1992).

On the other hand, how returned (defective) products are encountered by firms is also effective on evaluating the quality of supplier firms (Min, 1992).

Another variable which is highly important in the assessment of qualitative indicators of a supplier firm is the amount to which the process of capabilities has improved or the so called issue of change occurring in processes. The average time period for the accomplishment of production processes and the attempts of firm to improve such a process and moreover the commitment of top manager to the phenomenon of process improvement are very good indicators for investigating the ability of supplier firm in this area (Kim and Yoon, 1992; Rice and Caniato, 2003; Tagaras and Lee, 1996).

8. Supplier's Service Quality

Another important variable to fulfill a comprehensive investigation of all supplier firms of raw materials is the quality of their services. This important indicator is also analyzed by some factors including: the time for the delivery of product, whether or not to have on time accountability to orders, production capacity of the supplier and flexibility of production processes (Chang, Wang and Wang, 2007; Wickramansinghe and Sharma, 2005).

On time delivery of materials is a very significant factor helping firm to have a dynamic and active production line, on time production of goods and consequently on time answerability to the needs of customers. In other words, if a supplier firm manages to punctually provide the materials needed by a producer, it can both help the producer to promptly send his produced goods to market and also through reducing the need to raw materials' inventory and consequently cutting back on firm's overheads, provide a deserving help for the generation of competitive advantage in the field of production's finished price and increase of firm's liquidity (Ahmed, 2009; Chaudhry, Frost and Zydiak, 1993; Muralidar, and Santhanam, 1990).

The other vital factor is firm's ability to provide a prompt accountability to orders and also to present suitable and on time information about the materials offered. As a matter of fact, the process of prompt accountability is fulfilled only when the information about the product is offered timely and the responses to customers' complaints and the returned goods are also performed promptly (Choi, and Krause, 2006; Forman, 1996; Phusavat and Kanchana, 2008).

Suppliers' production capacity is also an important factor that should be scrutinized in this area. To be precise, each firm currently works with a part of its nominal production capacity; thus, the utmost production capacity of firm in case of existence of a demand, firm's previous production trend, and future developmental plans of firm are all enumerated as important indicators for the assessment of supplier firm in this area (Ross, Chen and Huang, 2007; Wong and Lu, 2005). Flexibility status of firm's production process is also another important variable that should be put under analysis. Simply stated, flexibility status of production lines and firm's machinery used to answer environmental changes and new requirements of organizational customers are considered as the most important factors determining the abilities and comparative advantages of supplier firms (Andrew, 2005; Lee, and Kim, 2000; Choi and Hartley, 1996).

9. The Risk Status of Supplier Firms

Another important variable for the assessment of raw materials' suppliers is their risk status. Risk status of suppliers refers to their credit behavior in banking system and also the condition of their working capital for the credit offering of products to organizational customers on the one hand and on the other hand to the behavioral form adopted by supplier firm for the delivery of customers' orders (Park, Lee and Yoo, 2005; Viken, 1995).

From the second point of view, supplier's risk can be evaluated via three variables including: the amount of complaints made by customers, the amount of delay in the delivery of orders, and also the amount of ability on the supplier's part to satisfy additional requirements of organizational customers (Singh, Shelor, Jiang and Klein, 2004; Vonderembse and Tracey, 1999).

In fact, the fewer complaints are made by organizational customers against their dealings with the supplier firm, the less delay is observed in the delivery of organizational customers orders, and the more ability the supplier firm has for the satisfaction of additional needs of organizational customers, the less risky it will be for such customers to communicate with the supplier.
The results of numerous field studies indicate that the abovementioned variables have a direct effectiveness on the reduction of firm's costs. However, what is noticeable is that the issue (i.e. cost reduction) is highly dependent on making a suitable decision regarding the choice a good supplier firm which is by itself dependent on the occurrence of a comprehensive analysis of the above variables (Andrabi, Ghatak and Khwaja, 2006; Liang, 2003).

In general, based on the studies done in the area of supplier firms, the most important factors can be illustrated in the following figure.

10. Conclusion
Putting the emphasis on export producer firms, the present research dealt with investigating the strategies of cost reduction and the position of such strategies in the development of firm's export performance. Based on the findings of the study, the most important variables used for the selection of a good supplier firm (i.e. the one that provides raw materials) are as follows: job status of the supplier, service quality of the supplier, and supplier's risk status.

As other findings of the research signify, on the one hand the accurate selection of raw materials' supplier firm (if the introduced variables and indicators are precisely and correctly taken into account in the selection) can lead to the reduction of firm's costs, and on the other hand such a reduction can lead to the declination of finished prices, which by itself can, in the long run, be a step forward for the using of cost leadership strategy in the comparative environment of international markets.

Accurate selection of suppliers of raw materials will not only help to take an effective step forward for prompt offering of suitable products to customers, but also will lead to fundamental and outstanding changes in the costs of firm.

If inspected comprehensively form the highly important aspects of financial, quality and risk conditions, supplier firms will then be recognized thoroughly the result of which will be the reduction of costs and generation of comparative advantage with respect to finished prices, and hence leading to the improvement of firm’s export performance (Catt, Barbour and Robb, 2008; Seydel, 2005; Ward and Duray, 2000).
Based on the studies done, the most significant variables that should be scrutinized with respect to supplier's job status consist of firm's financial statements, and its financial ratios. In fact, firms benefiting from stronger financial statements will have higher capacities for satisfying the needs of exporter firm with respect to the prices of raw materials. They will also have higher capabilities for the offering of materials with better credit conditions (Hajeeh and Al-Othman, 2005; Vehovar and Lesjak, 2007; Santoso, Ahmed, Goetschalckx and Shapiro, 2005).

Based on the results of the present and previous studies in this area, the quality of supplier's products and services are among other important variables in the field. Quality-oriented thinking along with prompt and suitable services will have a very important role in helping export firms to have a better market-orientation, leading to the reduction of their products' finished prices (Basnet and Leung, 2005; Lucas and Jr Moore, 1976; Wang, Tian and Hu, 2005).

Another important issue in this field is the risk of supplier firm. Actually, the fewer credit risks exist on supplier firm's part and also the less risk exists regarding the complaints of customers and returned goods, the more probable it will be for exporter firms to take a suitable and on time delivery of raw materials, which in turn and in the long run will lead to the reduction of the exporter firm's costs.

References


