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The Perspective

The world today is a 'global village' characterized by globalization of markets, liberalization, and cut throat competition which has made the present day business a highly complex one.

There has been a paradigm shift from 'seller's market' to 'buyer's market' where today's buyers are not only 'omniscient' but also 'omnipotent'. 'Customer is the king' concept has become the order of the day and producers of goods and services across the globe are under an obligation to make available quality goods / services at right cost to the customers at the right time and at the same time maintaining their profit margin which would enable them to attain sustainability and financial endurance. In a market driven economy, the producers practically have no control on the price as the fixation of selling price is no longer a prerogative of the entrepreneurs.

Increased global competition has forced companies to think aggressively about effective Cost Management. A low cost high quality product has become an object of desire, to gain a competitive edge. It is essential that cost management addresses not just individual activities or cost centres but the entire value chain. In such a scenario, the need for judicious cost management is imperative on the part of the companies to help achieve the aforesaid objective of keeping cost to the bare minimum and at the same time delivering good quality products / services at an affordable price and also maintaining profitability.

Total Cost Management

The expression 'Total Cost Management' (TCM) is of recent origin; thanks to the intense competition prevailing throughout the globe compelling business houses to have a relook at their cost management functions. TCM is the name given by AACE International to a process for applying the skills and knowledge of cost engineering. It is a systematic and structured approach to understand the costs of an organization, with the aim of providing a holistic framework to control, reduce and eliminate cost. TCM is an effective application of professional and technical expertise to plan and control resources, cost, profitability and risk. Total Cost Management (TCM) is a systematic and structured approach to understand the costs of an organization, with the aim of providing a holistic framework to control, reduce and eliminate costs. Cost management is a philosophy, an attitude, and a set of techniques to create more value at lower cost. In this fast space competitive scenario, Cost Management information increases customer value.

TCM is an integrating process that not only maps the fields of practice of cost engineering, and also provides structure for costs of project logistics management, resources, and management accounting and administration practice. Total Cost Management is not a better product cost accounting mechanism BUT it is a A good understanding of costs + A good response mechanism to cost + A culture for analysing cost data + Ability to relate cost to strategy. The key to TCM architecture in a business is integrating

business processes supporting business strategy with TCM.

Total Cost Management is the systematic methodological approach to effectively and efficiently manage the relationships between technical and organizational aspects and facts and their connections to economic and financial manifestations.

TOTAL: It is associated to a proactive and structured approach based on an extensive involvement of all functions at all levels (Strategic, Tactical and Operational) specifically tailored for each type of organization

COST: Represents all the economic resources needed to create value for an organization and its stakeholders

MANAGEMENT: It is the systematic use of methods and techniques to Plan, Do, Check and Assess (PDCA) and their effective application to each phase of the Life Cycle of a business, product, asset, project or process aiming to minimize the costs and maximize the value (profitability).

TCM aims to improve cost functionality across the value chain and thus benefit all stakeholders including shareholders. At a macro level, TCM deals with systems and processes required to bring a cost management culture at all levels of the organization. At the micro level, the focus is on implementing TCM across the value chain. TCM goes beyond bringing down the unit cost and facilitates organizations to improve market share and revenue per unit. The complementary process happens only when the strategy formally recognizes the TCM as an element of strategy. Total Cost Management is the effective application of professional and technical expertise to plan and control resources, costs, profitability and risks. Simply stated, it is a systematic approach to managing cost throughout the life cycle of any enterprise, program, facility, project, product, or service. This is accomplished through the application of cost engineering and cost management principles, proven methodologies and the latest technology in support of the management process. Put another way, Total Cost Management (TCM) is the sum of the practices and processes that an enterprise uses to manage the total life cycle cost investment in its portfolio of strategic assets.

Characteristics of TCM

- Focus on cost prevention as opposed to cost reporting
- Provide a direct link between operating performances and strategic objectives
- Focus on measurement of product or service profitability and cash flows in addition to cost
- Flows and cost accumulation.
- Include selling, general and administrative costs in the decision support function of Cost
- Systems
- Equalize the importance of using technology for profit improvement as well as cost reduction
- As far as possible convert Overhead into direct expenses by establishing a direct relationship

- With the cost drivers or what drives the overhead
- TCM should be a way of life

At its core, total cost management makes use of what is known as cost engineering as the means of effectively arranging and managing fixed and variable costs. This type of engineering requires careful scrutiny of each cost involved in the operation, validating the current level of cost for each line item, and making changes when there is a way to decrease costs without adversely affecting the quality or the quantity of units produced. In order to manage the total cost, managers must constantly review variable costs to determine if any type of waste is occurring, or if price increases on certain line items are having a significant effect on the bottom line of the business. At the same time, attention to fixed costs to determine if there is a way to trim those costs is also essential to the overall process.

TCM is based on the cardinal principle of 'cost prevention' as opposed to 'cost reporting' and the concept revolves around usage / implementation of important tools like Activity Based

Costing (ABC), Just In Time (JIT), Target Costing and 'Kaizen' (continuous improvement). Each one of these work not in isolation but the combined use of these tools bring about TCM whose effectiveness depends to a great extent on how and to what extent these tools are used. Modern techniques like Balanced Score Card, Enterprise Resource Planning, Learning Curve Analysis, Supply Chain Management are found to be of much help in TCM.

While total cost management is often associated with larger corporations, the basics of the approach can easily be translated into just about any type of business operation. Since even locally owned businesses normally operate with a combination of fixed and variable expenses, the approach can prove helpful in identifying ways to keep total costs as low as possible while still meeting customer expectations. This can sometimes involve entering into volume purchase agreements with suppliers or vendors, making changes in the business site that help to minimize utility costs, or streamlining certain processes to keep labor costs within reasonable level.

Make in India and Total Cost Management

Make in India is an initiative by the Government of India to make and encourage companies to develop, manufacture and assemble products made in India and incentivize dedicated investments into manufacturing. The policy approach was to create a conducive environment for investments, develop a modern and efficient infrastructure, and open up new sectors for foreign capital. Furthermore, this initiative carved a way for the industrialists and manufacturers from different parts of the globe to set up their manufacturing plants in India and produce goods or services to foster growth in India's GDP and surge job opportunities.

The TCM Framework is a structured, annotated process map that explains each practice area of the cost engineering field in the context of its relationship to the other practice areas including allied professions. It provides a process for applying the skills and knowledge of cost engineering. A key feature of the TCM Framework is that it highlights and differentiates the main cost management application areas: project control and strategic asset management.

- It helps in controlling the project specific cost, in turn also the overall business cost.
- One can predict the future expenses and costs and accordingly work towards the expected revenues.
- Predefined costs can be maintained as records for the business.
- It helps in taking those actions that are necessary to assure that the resources and business operations aim at attaining the objectives and goals.
- It helps in analysing the long term trends of the business.
- The actual cost incurred can be compared to the budgeted to see if any component of the business is spending more than expected.
- It helps in analysing the business positioning

Total Cost Management (TCM) as an operational strategy will not only make the Indian manufacturing sector more competitive, but also help the country achieve inclusive growth. Manufacturing has to be competitive in order to survive, grow and to create wealth. Cost is no more a finance function. It is HR, operating and marketing functions. In all, it is a strategic function. The journey from cost understanding to maturity has three steps: standardisation of present processes, improvement of the process to the next level and standardising an improved process. This three-step process should be a continuous affair to set standards, improve standards and should finally lead to optimizing products and services. A country can make itself self-reliant through cost-effectiveness.

Conclusion

Today 'world class TCM' is not a choice. It is a necessity for sustained growth and profitability

Total cost management is an integral part of profit planning and total management of enterprises. Total cost management system is a management control and planning system with the primary objective of producing quality goods and services at the lowest possible cost. To achieve long-term competitive cost advantage, an effective system of continuous improvement of quality, time, and cost through technological innovation needs to be installed. The immediate good. Results from TCM emerge in the form of cost reductions through best possible management of activities. So Total Cost Management tool become very important for each & every organization.

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