

PDF - An Evaluation of Cost Reduction Technique in Achieving Profitability in an Inflated Economy (A Case Study of Nigerian Breweries Plc) - researchcub.info

ABSTRACT

This research work is aimed at An Evaluation of cost Reduction Techniques in Achieving Profitability in an Inflated Economy with particular reference to Nigerian Breweries plc, this work examined the following: To find out how effective, the resources of Nigerian Breweries PLC are being utilized to improve profitability. To know if cost reduction schemes are being applied in the industry. To find out the specific strategies adopted, the level of application and the specific areas where they are being administered their evaluation. To ascertain whether there is systematized cost reduction schemes/programme under the personnel and or accounting department. An Evaluation of cost Reduction Techniques in Achieving Profitability in an Inflated Economy. These are the areas that the researcher concentrated on while carrying out this research work. The first chapter is the introductory part of the research work. This chapter also contains the background of the study, statement of problems, research Question etc. Data for the study was sourced from two main sources which include Primary and Secondary sources of data collection. Primary data: Questionnaires and oral interviews were used to collect information from the respondents. Secondary data: Journals, magazines and other relevant materials relating to the area of my investigation will be reviewed. An extensive literature review was carried out on direct literature and indirect literature on books, journals and past works. The research instrument used in this study includes oral interviews and questionnaires. The questionnaire is structured to contain both close and open-ended questions. Simple tables, pie charts and percentages were used in the treatment of data while chi-square was used in the research work. Based on the findings, conclusions were drawn and recommendations were also made in the last chapter of this work which is the fifth chapter.

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CHAPTER ONE

INTRODUCTION

For a business to succeed, knowledge of certain management techniques is very necessary. Mastering the techniques that can help one to achieve the basic objectives of building up a business and making it profitable.

1.1 BACKGROUND OF THE STUDY

All production aims to satisfy people's wants, however in carrying out this production, certain costs are incurred to achieve the stated organisational objective be it to satisfy people's wants according to Hanson J. L to maximize profit. For any business to achieve its set objective there have to be adequate, strong and effective cost reduction measures (formal or informal) that should be adopted.

The effectiveness of these measures however may have heaped some of these companies to remain in business irrespective of the harsh condition like inflation among others.

Many Nigerian business establishments presently, especially the manufacturing sectors are in a serious profit squeeze. Several factors account for this inward condition which includes, the increasing cost of running a business in Nigeria, drastic fall in the Nigerian foreign exchange market did not help matters. The situation is further aggravated by triple-digit inflation present in our (Nigeria) economy. The structural adjustment programme, ban on importation of certain basic raw materials, payment of long excise duties have caused some companies either to have closed indefinitely or produced at a high cost, thereby making even the local goods high and sale volume low.

All have resulted in poor profit margin payout, retrenchment, compulsory leave and retirement with or without benefit which invariably affects the company as well.

Firms, therefore, are struggling to maintain satisfactory pay-off where costs are used and price increase becoming more and difficult to sustain. To maintain earnings in the face of these conditions, there is the need for these companies to decide about cost maintenance culture, increase productivity to enhance profitability and diversification into a completely new market area.

In addition to these, it will enhance the competitive ability and generate a reasonable profit margin for survival, growth and expansion of the business.

It is the view that most industries do not have approved they exist, are not well organized. This analysis, therefore, is designed to explore the various strategies and evaluate them and is well open to manufacturing firms in reduction system can go a long way at improving profitability and overcoming inflation.

It is appropriate therefore to say that the identification of these problems of some industries and the solution to them will not only improve the profitability of its operations but also help largely towards the improvement of the Nigerian economy.

This work, therefore, is assumed to be of some benefits to manufacturing firms and help them improve further than return on investment and improve the Nigerian economy generally.

1.2 STATEMENT OF PROBLEM

The firms are in business to make a profit. It does this by producing and selling some commodities.

Essentially, every activity whether productive or not consumes resources. According to Lipsey (2009) "there are insufficient productive resources in the world to produce the number of goods and services that would be required to satisfy every one want". The scarcity of these productive resources eg (human and material) made it imperative that there should be a product and judicious use of them.

Most firms in Nigeria are faced with rising costs of production and low contribution margin.

Small firms, in particular, have peculiar problems and are easily swept off their feet by conditions that other companies could accommodate.

Factors that can disrupt the profitability of Nigerian Breweries Plc in this economy of hyperinflation includes:

- i Inadequate capital structure
- ii Inadequate to enjoy economies of purchase
- iii Tiny market sharer losing their market share
- iv Higher cost of research and development.

Having considered the above factors, certain questions needed to be answered include:

1. Is there any possible means of installing a cost reduction system to eliminate the avoidable cost and or waste and enhance Nigeria Breweries Plc's profitability.
2. Do this firm have any cost reduction scheme or programme and if present, how effective and efficient are they? Are they producing the desired result?
3. Can the cost per unit of production of a given product be realized without affecting the quality and usefulness of the product.
4. Are the firm resources being fully utilized or are some of them lying idle and thus going to waste.
5. How, out of the various alternatives do we employ our limited resources to produce these assortments as efficiently as possible.
6. In a manufacturing setup, what specific area requires a reduction in cost and what level of cost reduction is required in a given cost level.

1.3 OBJECTIVES OF THE STUDY

Having identified these problems above, and the operational environment surrounding the company, which the researcher is aimed at solving, the following is what this study is aimed at achieving:

- To find out how effective, the resources of Nigerian Breweries PLC are being utilized to improve profitability.
- To know if cost reduction schemes are being applied in the industry.
- To find out the specific strategies adopted, the level of application and the specific areas where they are being administered their evaluation.
- To ascertain whether there is a systematized cost reduction scheme/programme under the personnel and or accounting department.
- To know if certain specific cost reduction techniques applied in one industry will still achieve some result elsewhere.

– To offer suggestions on the specific cost reduction techniques to the company under review as well as assist where firms including the low ones.

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