

The challenge of optimizing costs

In the current highly competitive scenario, cost is a matter of survival for any company. Therefore, the pursuit of its optimization must be present at all times, walking hand in hand with operational efficiency

By Rodrigo Moraes

In the past, when seeking to readjust the financial value of a company in relation to its stages, processes and products, cost cutting was the main tool employed. Without well-defined policies or adequate planning. Today, in view of a scenario of increasing competitiveness, cost optimization (rather than 'cost cutting') and operational efficiency have made it into the corporate world and become much more efficient management tools. "Mostly due to established exporting models and the opening up of Brazil's economy, this change in concept stems from the need of organizations to be competitive", says Marcos Sebastião Baum, Finance Director of the Brazilian Cost Association (ABC).

But, after all, what can be understood from cost optimization? Contrary to what many people think, this expression not only relates to cutting and reducing the use of raw materials and human resources. Paulino Graciano Francischini, Production Engineering professor at the University of São Paulo (USP) and Finance Director of Instituto Vanzolini, explains that optimizing is planning and executing actions that seek to eliminate activities in the process that do not add value to the end product.

Simply put, cost optimization depends on four factors: operational processes (process management); organizational structure (policies adopted by the company); internal controls and adequate information (professional training and



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transparency); and investments in technology (research and innovation).

However, Baum points out that the first step toward cost optimization is to plan and establish a cost management policy in the company. "For starters, it's necessary to adequately measure all costs, both fixed and variable. Without this, most probably the company will have difficulties to focus its efforts in a way that the optimization work results in productivity improvements and, consequently, cost reductions".

STRUCTURES THE WORK

With the demand for better and better results (more quality, less time, less costs...), the need for an agile and well-

defined organizational structure is also indispensable. After all, the organizational structure of a company is the tool that ensures the execution of plans pursuant to the objectives and strategies defined, through the organization of activities and resources.

In order to succeed and achieve the desired goals, this structure must start out with a plan that includes the identification of tasks and their grouping into functions that can be well executed, attributing responsibilities to groups and people. It must also provide coworkers with information, work tools, compatible performance methods and motivation to fulfill such requirements.

All this, without leaving the com-

pany's macro-strategy behind. In an article, Ricardo Karsten, managing partner at Bering Consulting, explains that initiatives like quality programs, process reviews, implementation of management software applications and training plans, among others, are only valid if aligned with the company's strategy. "For such, it is necessary to clearly define the path desired by the organization, in such a way that the initiatives used to achieve this path are almost a natural consequence of the desired strategy".

At Votorantim Celulose e Papel (VCP), goals are established through strategic dialogue, which culminates in holding an in-house event coined 'EBITDA Day' (Earnings Before Interest, Taxes, Depreciation and Amortization). "During the event, which includes the participation of directors and managers from all areas, the opportunities and challenges existing in each stage toward costs optimization are discussed, in order to then define the goals to be pursued throughout the year", explains Sandro Bressan, VCP's management systems manager.

Once these goals are defined, the company disseminates them internally until the information reaches the operational level and factory floor. "When we do this, we involve the entire audience that is part of the VCP business. The management and monitoring/follow-up of the different stages occurs in an integrated manner in all areas of the process – including those deemed support areas, like human resources and financial – and all units cooperate in an important manner to the achievement of goals", says Adriana L. Morini, VCP's Costs and Competitiveness consultant. She goes on to explain that, in order to ensure integration and motivation toward fulfilling goals, there exists variable compensation, respecting the different weights according to hierarchical level.

EVOLVING PROCESSES

The existing improvements in technologies and processes in plants are common practice in the sector, which

favors the continuous pursuit of maximum operational efficiency and, consequently, cost reduction. "Before looking for new equipment, we have the challenge of trying to maximize that which already exists in opportunities within our own operating base", says Adriana, at VCP. The company began using in 2008 the Lean 6 Sigma methodology. "The tool maps the value chain; takes the flow of processes and identifies where efficiency can be obtained by eliminating and adjusting these stages", says Bressan.

At present, companies already seek to adjust their processes so as to optimize costs in each link in the production chain. Using as example the pulp production process, this pursuit begins with the development of a clone, carried out so as to have a tree of better practical handling and fast growing. Then comes the harvesting, the transportation, loading and unloading, storing, until the wood reaches the productive process. "It is precisely between these links where cost reductions are sought", exemplifies Francischini.

INVESTING IN TECHNOLOGY

Every investment in research and in introducing new technologies and processes directly influences two variables in the process: in the physical result of the investment (result) and cost structure of the company. "If you can get a more adequate ratio as a result of the investment and result achieved for what is produced, it is clear that a productivity gain was obtained and, consequently, a reduction in costs", observes Marcos Baum.

On the other hand, if a company presents low productivity due to lag in a given type of technology employed, the negative reflex on costs will be inevitable. In this case, ABC's Finance Director warns that overturning this situation is something that has to be done in a very meticulous manner. "Renewing this technology is not simply a matter of substituting it. It is necessary to assess the manner how it will be implemented, the time necessary to achieve a maturity level with this new

structure and what the impacts are of this change in all stages of the process".

According to USP professor Francischini, in the case of the capital intensive pulp and paper sector, this relationship with technology is even stronger. "From the very beginning, in developing a clone for a given tree, to the pursuit of a smaller variability in paper, it is necessary to apply the technology concept pegged to cost planning".

THE HUMAN FACTOR

The qualification of people is another factor that directly implies in the optimization of costs. "Today, in the pulp production process, we have a reduced number of people working - and with increasingly less interventions. However, these people need to be sure they know what they're doing. The profile of this operator has changed considerably since such tools like automation began playing a key role in managing processes and, consequently, company costs", points out USP professor Paulino Francischini.

But it is not only the operators who need to be duly qualified to help out in the cost optimization process. "It is fundamental that organizations train and qualify their managers so that they also have a financial vision when making decisions", says Baum. He points out that all hierarchical levels must be involved, from factory floor to directors to company president.

According to the Brazilian Cost Association (ABC), which annually promotes congresses and meetings aimed at disseminating and exchanging knowledge in the cost area, Brazil has improved considerably in this area. In the beginning, these congresses were promoted by university students who were essentially developing theories about costs. "Today, we have a large number of professionals developing work in their companies and attend our congresses to share their experiences and results", says Baum. In his opinion, Brazil is pretty much at the forefront in the cost area, particularly in relation to Latin America. ▲