



MEASURES OF COST OPTIMIZATION BASED ON THE EXAMPLES OF FRENCH COMPANIES

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Abstract: The aim of the article is to present and discuss the key methods of cost optimization in a company. The authors focus on various aspects of business environment and inner conditions that may influence the management and decision-making process in terms of reducing unnecessary costs or implementing the measures of costs optimization lest to interfere in a damaging way in company's future. On the basis of an analysis of selected literature, statistical data, and business articles, the authors introduce the examples of cost optimization measures undertaken by French companies.

Keywords: company, costs optimization, costs reduction, management

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Introduction

The general objective of any company is quite apparent, i.e., maximizing profits by minimizing the costs connected to the company's activities. Most companies aspire to be profitable and to be able to take place on the market of sorts, as well as, to be able to react to threats that can establish competitors but also to various economic situations. Today one can perceive the business environment to be tempestuous and hard to predict. Therefore, it is not just enough for a company to sell more, but it has to reduce its expenses in prerequisites and in this way release funds to invest, innovate, develop, to export, and to establish its leadership (Zawiła-Niedźwiecki, Rostek, Gąsiorkiewicz (red.) 2010, p. 465; Witek 2007, p. 93; Morgan 2010, p. 156; Krawczyk-Sokołowska, Ostraszewska 2017, p. 236; Ślusarczyk, Szajt 2013, p. 98). However, the company should not neglect the impact of a cost-cutting measure, such as, for example, a downsizing plan. Thus, the question may arise how the company can implement cost optimization measures without compromising its future. One of the methods might be clearing various expense items which require attention and which are levers for the optimization of the company's costs. This method includes several aspects to focus on:

1. Purchases and supplies:
 - Search for competitive suppliers
 - Economies of scale (groupings of companies)
2. Organization of the work:
 - Arrival of new technologies
 - New management methods

3. Employment costs:
 - Relocation
 - Costs connected to employees in France (Labour Law)
4. Looking towards the outside:
 - Outsourcing
 - Cost hunters

Search for competitive suppliers

Purchases product components represent 40% to 60% of the turnover. It is thus essential to implement savings on this supply cost. Suppliers must work hand in hand with producers so that their interests converge. The collaboration includes several solutions. The first aspect is to negotiate prices, i.e., to create a link of loyalty which assures regular orders – having the same supplier allows the company to negotiate prices. It is one of the levers to improve profitability. To negotiate the prices, the entrepreneur can increase his order volume. The next step is to engage the suppliers in the product development, which means creating closeness, which can turn out to be the guarantee of quality. One can win confidence and development of customer loyalty (Schiele, Horn, Vos 2011, p. 316; Chrzan, Sowier-Kasprzyk 2017, p. 19). For example, in the Bel Group, reports from marketing regarding consumer expectations are transmitted to the shopping service. In this way, a company may avoid a situation in which it gets a request for packaging unsuitable for its production lines. Furthermore, the company gains time, and additional costs are avoided, both for the suppliers and for the company (Pelouzet 2007). What is more, the company should help the suppliers to optimize their means of production, i.e., to reveal superfluous costs or improve the productivity gain by providing material or intellectual help to work organization. The German-French company Bruder-Keller found itself in a challenging situation. When in the early 2000s the expectations of its customers evolved radically, the company reviewed the entire manufacturing process, which showed that the subcontractor in a fine sheet metal workshop increased productivity by 30%. Bruder-Keller gained 6% on their main customer, on their purchases and was able to accompany his suppliers on the way to rationalization (Pelouzet 2007; Keller 2017). Having in mind the above aspects, the company should also support innovation. This in general means helping suppliers in their innovating process or taking them towards innovations to reduce production costs in the mid- or long-term. Such an approach also meets the needs of consumers who have new expectations as we move forward in time. Competition is evolving with innovation, and therefore it is constantly necessary to increase one's competitiveness. There are two options, i.e., activation of qualitative leverage in product competitiveness or significant cost reduction to achieve price competitiveness. Correspondingly, it is important to maintain framework agreements. In the framework purchase agreements, suppliers and producers sign exclusive deal agreements and in this way guarantee orders from the same suppliers for the same product at a predetermined deadline. It allows the company to reduce the costs without

imposing its and its supplier's margin. For example, the Rodhia company concludes framework purchase contracts with suppliers for a single product at a time, for which the company establishes precise specifications. The company guarantees exclusivity for two suppliers per product line, avoids loans and keeps the competition between the suppliers. This also allows the company to leave the choice to the end user. Finally, the firm makes a commitment for a period of three years, but not for a specific quantity or business volume. The advantage of these contracts is that they allow the company to simplify orders and save time but also help to avoid constant renegotiation of prices (Vivarat-Perrin 2002, p. 30-32).

Economies of scale

To be sure of prices of competitive suppliers, some competitors place orders with the same suppliers and in this way implement economies of scale. Indeed, the higher the order volume, the more the unit cost decreases. This is the same principle as on the supermarket shelves: the price per kilogram often decreases as the bought quantity increases. P. Pelouzet (2007), president of the CDAF (association of French leaders and buyers) and purchase director at Cegelec refers to the words of V. Le Bail, (an association of air conditioning installers), who stated that joining the association is a valuable chance for the company. Clauger is a good example of a unit which belongs to the seventeen members of Gicaf including installers of air conditioning systems and refrigeration. Although the members are competitive, everything takes place on good terms, which means that each member operates in a precise geographical zone respected by others. As a result, the company's purchasing costs fell by 6%, and on certain products, they are expected to achieve 20%. To a large extent, it may be assumed that economies of scale form a virtuous circle (*Figure 1*).

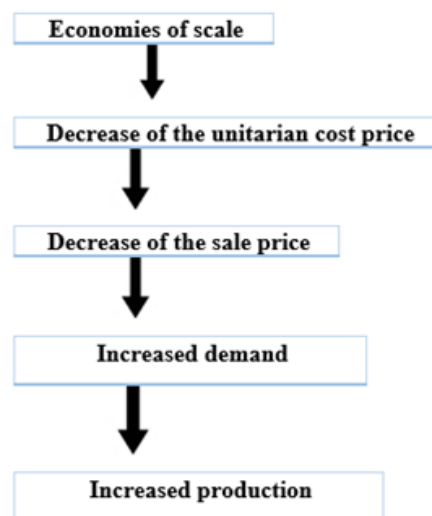


Figure 1. Economies of scale's virtuous circle

Source: Own elaboration

The arrival of new technologies

If the company wants to be prosperous, it must know how to adapt itself to its business environment. Therefore, it should be attentive to new technologies which never stop to decrease in the short-, mid- or long-term production costs and facilitate production systems. The objective, in this case, is to improve production performance by means of technological breakthroughs (Jelonek 2016, p. 208). This refers to the so-called “Advanced Manufacturing” (Sentryo 2017). What needs to be discussed subsequently is the fourth industrial revolution, different than Celledu Digital Technology, with tools which allow modeling, virtualizing or feigning. These transformations force companies to adapt to the new behavior of consumers, who try to be more involved in the product development. They want to be able to give their opinions and have differentiated, personalized products. Thus, it has become necessary to review mass production systems and to move to the systems of “mass customization”, which keeps the same hourly constraints and the cost of serial production. The factory of the future will be endowed with intelligent machines that will be able to make things perfect and thus gain productivity and efficiency. But despite all that, the human remains at the heart of this technological evolution that require attention. It is necessary to know how to master these new working tools which are to help rather than completely replace human action. For example, in relation to the maintenance of complex sensor systems, they continuously produce warning anomalies indicating a breakdown or any danger, as well as technical failures arising in the production of a tool or product (Lukić 2017, p. 421-422; Sentryo 2017). Thus, technical teams can act in real time, in a faster and more effective way because the device can track the anomaly. New production and management techniques involve big transfer levers in the industry. This includes designing a product using 3D printers that help to test some innovations more quickly and thus increase the product feasibility; piloting and controlling in situations in which condition sensors allow a better understanding of machine breakdowns, i.e., the appearance of intelligent robots in a company that assist humans without replacing them. One can accelerate the development of a prototype and achieve record times. Additionally, it includes services, which means that the objective of predictive management is to limit or even remove production stops resulting from breakdowns, cross-functional technologies, such as: cloud computing (the possibility of cooperation with parties and industrialists, but also the possibility of using software without a license) (Kopishynska et al. 2016, p. 106-107), Big Data Analytics (to solve problems thanks to more consistent data), and finally, energy harvesting (to be able to install production tools by means of new energies in the most suitable places) (Jelonek 2017, p. 2; Sentryo 2017).

Relocation

Relocation is one of the recent debate subjects in France concerning the cost of the employee who represents, according to the government and business managers’ associations, a restraint on the hiring in a fixed-term and unspecified contract (it refers to CDI – “Contract Duration Indeterminée”, in principle an indefinite

contract, or contract for an indefinite period, or CDD – “Contract Duration Déterminée”, a contract for a definite period or a fixed-term contract) (Knowledge Team 2016). To mitigate the loss of income, some industries prefer to relocate their business. For example, in the sector of household electrical appliances French Group Seb (Téfal, Rowenta, Calor, Moulinex, Krups) and Carrefour Products moved to China. In the automobile sector, it was noticed that Renault relocated its business to Romania and India. And in the food industry, such companies as Amora moved to Poland, whereas Saupiquet partly relocated its production to China. Sports and leisure sector can be observed to function in other parts of the world as well. For instance, Salomon is present in Romania, and Décathlon in China. In order to avoid losing jobs in France, the government sets up incentive measures which aim at maintaining jobs, by softening the labor code, which was too rigid according to the employers, and which was added to the constraint of the minimum wage ((SMIC(GUARANTEED MINIMUM WAGE)) (Vulser 2009; Bain 2015). The categories which are characterized by a strong unemployment rate are unqualified or less qualified employees, who see their jobs relocated to countries where the labor cost is low. Indeed, one cannot guarantee the same quality, but a clear margin can turn out important. Nevertheless, there is a limit to this phenomenon. Countries differ in safety standards, and the cost of compromise on compliance with French specifications can result in additional costs and more important spending. Therefore, the objective of the legal work introduced quickly by the administration of French President E. Macron is “*cheaper work for the employer*”. Regarding the assumptions of French managers, several solutions have been implemented. The first step is to facilitate the hiring of low-qualified employees by achieving zero general burden at the SMIC level. Secondly, companies should seek for burden reductions (responsibilities) closely to 1800 euros a year per employee, when, for example, it is paid to the SMIC, or when they can invest in new projects and equipment. Thirdly, the so-called creation of “France jobs” should be implemented – when a company, wherever it is situated, hires an inhabitant of the priority districts under a contract for an indefinite period, it will benefit from a 15 000-euro bonus, extended over the first three years on condition that there are no other burdens. Under the fixed-term contract, the bonus will be 5000 euro in the first two years (En Marche 2018).

Costs connected to employees in France

It is necessary to remind that the cost of an employee must be anticipated during the implementation of the business plan. In France, companies calculate the average rate of employer's social security contributions. It is estimated at the level of 42% of the gross salary, for example, for a gross salary at the level of 1500 euro; the calculation is thus $1500 \times 42 / 100 = 630$ euro of employer's social security contributions. What is very important is that this average rate does not consider the reduction of employer's social security contributions of the Fillon's law (Articles L241-13, L242-1 of the D241-7 and following the social security code, laws, and regulations in France), which is proportional to the paid salary. The calculation of

the average rate of payroll charges is estimated at 22% of the gross salary. For example, for a gross salary of 1500 euro, the calculation is $1500 \times 22/100 = 330$ euro of payroll charges. It is either a net salary of 1170 euro. To calculate the total cost of an employee (*Table 1*), one needs to include all payments from the employer to the employee: add employers' social contributions, any cash wages, retroactive or/and bonus payments, employers' social contributions, or any extras to be included in a net salary (Nishimata 2013; Bessot 2017).

Table 1. Calculation of employer's expenses and the Fillon reduction according to the salary in France

| Paid monthly gross salary | Annual gross salary | Employer's social security contributions | Reduction Fillon | Rate of employer's contributions after Fillon | Cost of the salary | | |
|---------------------------|---------------------|--|------------------|---|--------------------|----------|--------------------------|
| | | | | | In EUR | | In % of the gross salary |
| | | | | | Monthly | Annual | |
| 1 480 € | 17 764 € | 622 € | - 422 € | 14% | 1 680 € | 20 164 € | 114% |
| 1 500 € | 18 000 € | 630 € | - 412 € | 15% | 1 718 € | 20 612 € | 115% |
| 1 600 € | 19 200 € | 672 € | - 365 € | 19% | 1 907 € | 22 886 € | 119% |
| 1 700 € | 20 400 € | 714 € | - 317 € | 23% | 2 097 € | 25 159 € | 123% |
| 1 800 € | 21 600 € | 756 € | - 270 € | 27% | 2 286 € | 27 433 € | 127% |
| 1 900 € | 22 800 € | 798 € | - 222 € | 30% | 2 476 € | 29 707 € | 130% |
| 2 000 € | 24 000 € | 840 € | - 175 € | 33% | 2 665 € | 31 981 € | 133% |
| 2 100 € | 25 200 € | 882 € | - 127 € | 36% | 2 855 € | 34 255 € | 136% |
| 2 200 € | 26 400 € | 924 € | - 80 € | 38% | 3 044 € | 36 528 € | 138% |
| 2 300 € | 27 600 € | 966 € | - 32 € | 41% | 3 234 € | 38 802 € | 141% |
| 2 500 € | 30 000 € | 1 050 € | - € | 42% | 3 550 € | 42 600 € | 142% |
| 3 000 € | 36 000 € | 1 260 € | - € | 42% | 4 260 € | 51 120 € | 142% |
| 4 000 € | 48 000 € | 1 680 € | - € | 42% | 5 680 € | 68 160 € | 142% |
| 5 000 € | 60 000 € | 2 100 € | - € | 42% | 7 100 € | 85 200 € | 142% |

Source: (Bessot 2017)

Information: The calculation of the reduction is based on the annual salary. To read this table, you must take the fixed salary + all premiums subject to employee contributions over 12 months.

Outsourcing

In 2014 in France, 61% of the companies in the trade sectors, except agriculture and finance, resorted to subcontracting in the amount of 314 billion euro. The results are presented in *Figure 2*.

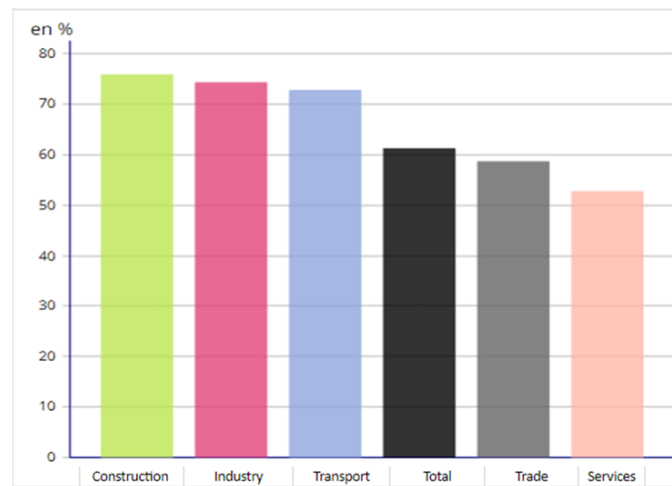


Figure 2. Subcontracting rate by sectors in France in 2014

Source: Insee (National Institute for Statistics and Economic Studies, France)

As can be noticed in *Figure 2*, in 2014, 76% of the companies in the construction sector resorted to subcontracting. The results correspond to all legal units and profiled companies in France, excluding financial and agricultural trade sectors, and are responsible for the normal regime of industrial and commercial profits. Having in mind the data, one may raise a question why companies decide to subcontract. First, it should be stated that subcontracting certain tasks may assure the success of a company. Using subcontractor's services can be regarded as a precise task within a company, which allows reacting directly to an increase in the demand. It has also become a commercial practice for small and medium-sized enterprises. They can maintain good productivity by minimizing the in-house costs which can be more important. The company can benefit from the contribution of skills and workforce (Enshassi, Medoukh 2007, p. 1520-1521).

Cost hunters

There are consultants today who have a mission to optimize the costs of companies. They are specialists who use their expertise in optimization. They can act on various levers, working with the company's tax system, its development, financial investments, useless spending, and wasting. They might be considered by employees to be the promise of change because their arrival can be the sign of downsizing and restructuring. Indeed, the company should expect effective results from cost hunters. One such cost hunter was hired by the city hall of Argenteuil in France. As a result, the city hall worked out 12 million euro of savings in two years. Too old and too expensive municipal swimming pools were closed, and thanks to that movement 500 000 euro were saved, but consequently, ten jobs were lost. Other steps included abolishing fireworks on July 14, reducing spending on communication and budget holidays for children (Franceinfo 2015).

Conclusions

Cost optimization in an enterprise is one of the key elements of running a business. A cost audit carried out by specialists can bring some benefits that, by reducing unwanted costs in business operations, should bring savings that can be invested in the company development. The use of cost optimization tools should be treated as the process of repairing a company, which should later give more chances to increase its value and efficiency. Lowering company operation costs, such as production, telecommunications, administration, office materials, or real estate costs is frequently the only option for the company's operations. The optimization of business processes improves the management and organizational structure and helps to increase employee potential through the introduction of flexible forms of work, which is of importance in manufacturing enterprises. All entrepreneurs who want to increase the efficiency of their business or need support in the field of cost management should take cost optimization into their account, but they cannot forget about choosing adequate cost optimization measures so as not to devastate the objectives and strategies focused on the successful future of the company on the market.

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METODY OPTIMALIZACJI KOSZTÓW NA PRZYKŁADZIE FIRM FRANCUSKICH

Streszczenie: Celem artykułu jest przedstawienie i omówienie kluczowych metod optymalizacji kosztów w przedsiębiorstwie. Skoncentrowano się na różnych aspektach środowiska biznesowego i uwarunkowaniach wewnętrznych, które mogą wpływać na proces zarządzania i podejmowania decyzji w zakresie redukcji niepotrzebnych kosztów lub wdrażania środków optymalizacji kosztów, aby nie ingerować negatywnie w przyszłość firmy. Przedstawiono przykłady miar optymalizacji kosztów podejmowanych przez firmy we Francji.

Słowa kluczowe: firma, optymalizacja kosztów, redukcja kosztów, zarządzanie