The Art of Financial Prudence

In the post pandemic era, **Ayan Banerjee** believes in optimising costs and coordinating effectively with both external and internal stakeholders to maximise resource efficiency.

AYAN BANERJEE
Whole-Time Director
TIL India

The business costs and coordination phenomena have changed completely in the post-COVID situation. Markets are opening up, and new challenges are emerging, particularly due to the evolving geopolitical landscape and the increasing frequency of environmental challenges. In this context, costs and coordination are the two key levers to stabilise businesses. Our company's cost drivers have been thoroughly reworked, though the job is not yet complete. However, the journey has taught us many new lessons, which I will briefly outline below.

Let's first understand what cost control means. Essentially, cost control refers to the processes and strategies that organisations implement to monitor and regulate their expenditures, ensuring they stay within budget limits. While effective cost control is essential for maintaining financial discipline, optimising costs unlocks long-term success. By maximising resource efficiency and aligning spending with strategic goals, businesses can enhance profitability and drive sustainable growth. In today's dynamic market, merely controlling costs is no longer enough; organisations must adopt a proactive approach to cost optimisation. This shift is the key to successful financial management, enabling companies to thrive in an increasingly competitive landscape.

The two types of cost coordination

Cost coordination can be broadly

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ABOUT THE AUTHOR
Ayan Banerjee, Whole-Time Director, TIL India, is a Chartered Accountant with nearly three decades of expertise in heavy engineering, electronics and media, and is the Group Chief Financial Officer at Gainwell Group.

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divided into two segments: coordination with external stakeholders and coordination within the company. The company was restructured through a One-Time Settlement (OTS) under the RBI's 7th June 2019 Circular for Prudential Framework for Stressed Assets Management. This unique financial arrangement allowed the company to recover financially. Fresh equity infusion and other financial arrangements transformed an ailing, negative net-worth company into a positive net-worth business within a few months.

This transformation was only possible through proactive "coordination" between the new management, existing secured lenders, and other regulators, stakeholders, including employees. Afterwards, new lenders provided new lines of working capital and term loans. It's important to note that cost control and coordination are not unique to us. They are common challenges faced by all engineering companies, struggling with declining margins due to rising business costs. Without effective monitoring, companies will experience a steady decline in profitability. Therefore, cost control through coordination is the new order of the day.

External cost coordination drivers

External cost control or coordination can be broken down into six key categories, ranging from vendors to customers. Each requires a different approach. Here are the key components to consider:

- Coordination with vendors: Active coordination with key suppliers is crucial to reduce manufacturing costs in today's price-sensitive environment. Timely payments and reliable communication provide suppliers with an operational assurance, maintaining a steady supply chain. It is no longer about import substitution alone but about scale, continuity, and quality across the globe with target costing becoming the new order in the manufacturing world.
- Coordination with customers: Effective coordination with customers aims to prevent late delivery (LD) situations and ensure timely supply. Maintaining open communication lines helps manage expectations and enhances customer satisfaction, leading to improved

financial performance.

- Coordination with freight forwarders: To optimise costs with freight forwarders is essential, particularly when shipping routes are impacted by geopolitical conflicts in the Middle East and Europe, pushing up sea freight costs. Strategic partnerships with freight forwarders can lead to more cost-effective logistic solutions and better delivery timelines.
- Coordination with technology partners: Collaborating with technology partners allows companies to access modern, sustainable technologies that align with market demands, ensuring that products meet performance expectations while providing value for both the company and its customers.
- Coordination with leasing agencies: Leasing capital goods has become increasingly popular, allowing companies to maximise returns by utilising assets multiple times. This approach reduces upfront costs and enhances financial flexibility.
- Coordination with market regulators: Timely communication and reporting with market regulators can significantly reduce compliance costs. Leveraging technology and efficient communication networks simplifies compliance processes, making them more cost-effective while promoting transparency.

Internal cost coordination drivers

Internal cost coordination is more crucial than external factors. Without efficient internal coordination, external efforts may fail to deliver optimal results.

Partnering with technology firms provides access to sustainable technologies that meet market demands and performance expectations while providing value to both the company and its customers.

- Coordination with employees: Effective communication with employees fosters clarity and enhances cost-effectiveness. Adopting an employee-first approach leads to a more engaged workforce, driving operational efficiency.
- Coordination through hybrid communication: The shift to hybrid communication models post-COVID has introduced flexibility and cost savings. Using technology and digital tools streamlines communication and improves collaboration among teams.
- Coordination with IT systems: Transitioning from legacy systems to ERP solutions is essential for accurate reporting and reliable data analytics. While ERP systems may involve higher initial costs, they enhance business intelligence and operational effectiveness.
- Outsourcing vs in-house operations: Successful outsourcing strategies reduce costs and drive economies of scale, fostering a collaborative environment in a multi-polar world.
- Coordination for working capital control: Effective working capital management is critical for engineering companies. Quick collections and rapid inventory turnover are achievable through coordinated efforts across business segments, ensuring a healthy working capital cycle.
- Safety: Maintaining a safe workplace is essential for efficient, cost-effective operations. Any disruption in this respect can create business distress. Safety, while requiring initial CAPEX, ensures smooth future operations.
- Business ethics: Business ethics is an intangible yet crucial driver of cost control. Ethical business conduct underpins sustainable business operations. Short-term deviations may seem beneficial but often result in long-term costly disruptions.

To summarise, optimising costs is now more important than traditional cost control. In a dynamic world where business processes evolve daily, cost control alone is ineffective. However, optimisation and proper coordination enhance efficiency, helping businesses rationalise costs in a dynamic yet sustainable manner. | CW |