International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

A study on the impact of Cost Control Strategies on profitability at Welcord Components Private Limited, Mettupalayam, Puducherry

Monalisa S[1], Dr. R. Sureka Ravi[2]

[1]MBA Student, Department of Management Studies, Sri Manakula Vinayagar Engineering College (Autonomous), Puducherry.
[2]Assistant Professor, Department of Management Studies, Sri Manakula Vinayagar Engineering College (Autonomous), Puducherry.

ABSTRACT

This study explores the role of cost control strategies in improving the profitability and efficiency of Welcord Components Private Limited, a leading manufacturer of electronic components. Cost control strategies are systematic approaches used to monitor, analyze, and regulate expenses, ensuring optimal resource utilization without compromising product quality. These strategies are crucial for sustaining competitive advantage and achieving financial stability in a dynamic manufacturing environment.

The research evaluates various cost management techniques, including Cost-Volume-Profit (CVP) analysis, variance analysis, budgeting, and profitability ratios to measure their effectiveness in controlling costs and enhancing profitability. By analyzing financial data over five years (2019–2023), the study assesses the relationship between cost efficiency and organizational performance. Tools like regression analysis further highlight the impact of cost control on profitability, providing actionable insights for future improvements.

Findings reveal that effective cost control measures lead to increased profitability, improved resource allocation, and better financial performance. Despite rising production costs and competitive pressures, Welcord Components has successfully maintained operational efficiency through budgeting, process optimization, and technology adoption. However, challenges related to labor costs, material pricing, and process automation emphasize the need for continuous improvement and sustainability-driven strategies.

Keywords: Cost Control, CVP Analysis, Profitability, Resource Optimization, Budgeting

1. INTRODUCTION

Cost control is a critical aspect of financial management, particularly in the manufacturing sector, where high production costs and competitive pricing pressures necessitate careful resource utilization. Welcord Components Private Limited, established in 2010, is a manufacturing company engaged in producing electronic components such as PCB assemblies, LED lights, smart devices, and home appliances. With increasing costs of raw materials, labor, and energy, cost control strategies help identify areas of wastage, optimize resources, and improve profitability.

- **OBJECTIVE**
- To Study the Cost Control Strategies available in Welcord Components
- To Analyse the Profitability Position of Welcord Components

2. REVIEW OF LITERATURE

- Kaplan, R., & Norton, D. (2023) - *"Strategic Cost Control for Competitive Advantage"* - Discusses integrating cost management with strategic planning to boost profitability.
- Sher, R. (2021) - *"How Dynamic Cost Management Boosts the Bottom Line"* - Explores dynamic cost management and its impact on profitability and growth.
- KPMG (2023) - *"Building a Cost Efficiency Strategy That Drives Growth"* - Highlights six strategies to cut costs without affecting productivity.
- Smith, J. (2022) - *"Cost Optimization Through Lean Management Techniques"* - Focuses on reducing operational inefficiencies using lean principles.
- Taylor, P. (2024) - *"Cost Control Strategies for Modern Manufacturing Industries"* - Analyzes cost reduction techniques specific to manufacturing firms.
- Ding, L. (2020) - *"Sustainability and Cost Control in Manufacturing"* - Examines how eco-friendly practices reduce costs and improve profitability.
- Johnson, R. (2023) - *"Budgeting and Forecasting for Effective Cost Control"* - Explores the role of financial planning tools in reducing costs.
- Ghosh, S. (2022) - *"Data-Driven Decision Making in Cost Management"* - Discusses the application of big data and AI in optimizing costs.
- Lal, R., & Gupta, K. (2021) - *"Kaizen and Continuous Improvement Strategies for Cost Reduction"* - Focuses on small incremental improvements for long-term savings.
- Cooper, R., & Kaplan, R. (2023) - *"Activity-Based Costing and Resource Optimization"* - Highlights advanced costing methods for improving profitability.

3. RESEARCH METHODOLOGY

Research methodology refers to the systematic process used to plan, conduct, and analyze research. It provides a structured framework for gathering and evaluating data to address specific research questions or hypotheses. It includes the methods, techniques, and tools used for data collection and data analysis. Research methodology ensures that the study is organized, reliable, and valid, enabling researchers to draw accurate conclusions. It also explains the sampling techniques, data sources, and analytical tools applied during the study. The methodology helps in identifying patterns, testing hypotheses, and generating insights based on evidence. It involves defining the research design (descriptive, analytical, experimental) and choosing between qualitative or quantitative approaches. Researchers also address limitations and ethical considerations to maintain transparency. Overall, research methodology is essential for ensuring the credibility and replicability of findings.

3.1 Collection of Data

Collection of data refers to the process of gathering information from various sources to address a research problem or achieve specific objectives. It involves systematic methods to obtain accurate and relevant data for analysis and decision-making. Data collection can be done through primary sources like surveys, interviews, and observations, or secondary sources like reports, books, and databases. Effective data col-

lection ensures that the information is reliable, valid, and suitable for statistical analysis.
There are two types of collecting data,

- Primary Data
- Secondary Data

This research study includes collection of secondary data.

3.2 SECONDARY DATA

The data are collected from the annual reports, mainly balance sheet, income and expenditure of the company for a period for five years from 2020-2024. The data for the analysis are collected and gathered from the printed reports like annual reports, official files, records and other available related materials.

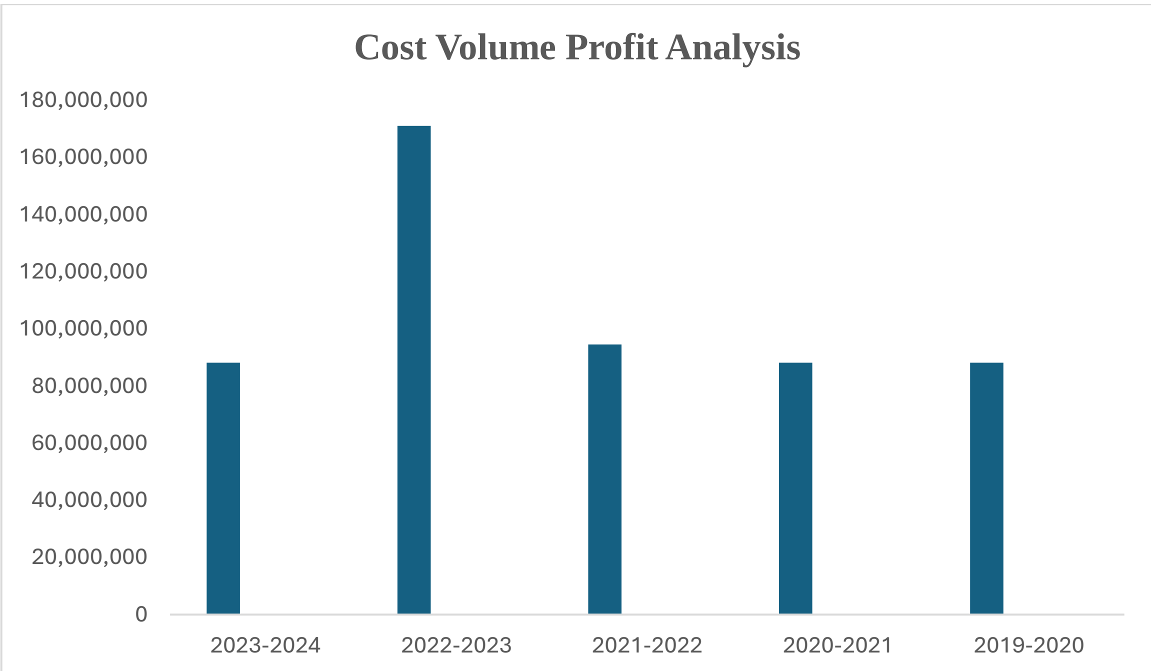
4. DATA ANALYSIS AND INTERPRETATION

4.1 COST VOLUME PROFIT:

Cost-Volume-Profit (CVP) Analysis is a financial tool that helps businesses understand the relationship between costs, sales volume, and profit. It examines how changes in a company's fixed and variable costs, sales prices, and sales volumes impact its profitability.
Contribution = Sales – Variable Cost

Table shows the contribution Margin

YEAR	SALES	VARIABLE COST	CONTRIBUTION
2023-2024	580,000,000	491,800,000	88,200,000
2022-2023	599,773,352	428,705,893	171,067,459
2021-2022	603,978,402.73	509,411,352.28	94,578,050.45
2020-2021	560,000,000	471,800,000	88,200,000
2019-2020	540,000,000	451,800,000	88,200,000



INFERENCE

The contribution trends indicate notable fluctuations, with a peak of ₹171.07 million in 2022- 2023, reflecting effective cost control measures. However, in 2023-2024, there was a sharp drop to ₹88.2 million, primarily due to rising variable costs, emphasizing the importance of maintaining consistent cost control strategies to ensure stable profitability over time.

4.2 GROSS PROFIT RATIO

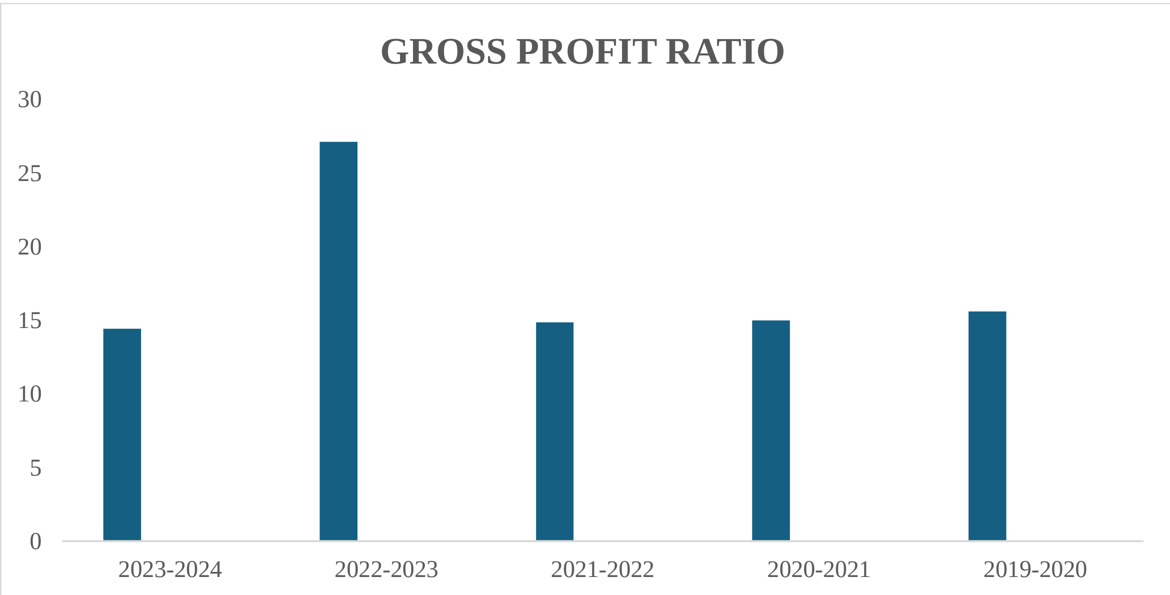
Gross Profit Ratio is a financial metric that measures the profitability of a business by showing the percentage of revenue remaining after deducting the cost of goods sold (COGS). It indicates how efficiently a company produces and sells its goods while controlling direct costs like raw materials and labor.

Gross Profit Ratio = Gross Profit / Net Sales * 100

A higher ratio reflects better profitability and cost management, while a lower ratio may indicate higher production costs or inefficient operations. This ratio helps businesses evaluate pricing strategies, production efficiency, and their ability to cover operating expenses and generate profits.

The Table showing the impact of sales growth on Gross Profit Ratio.

YEAR	GROSS PROFIT	NET SALES	RATIO
2024	83,700,000	580,000,000	14.43
2023	162,630,122	599,773,352	27.12
2022	89,792,100.45	603,978,402.73	14.87
2021	84,000,000	560,000,000	15
2020	84,300,000	540,000,000	15.61



INFERENCE

The Gross Profit Ratio analysis shows fluctuations in profitability over the five-year period (2019–2024). The highest ratio (27.12%) was recorded in 2022–2023, indicating strong profitability due to higher sales and effective cost management. However, in the following year (2023–2024), the ratio dropped significantly to 14.43%, suggesting a decline in profitability, possibly due to increased production costs or lower sales margins. The ratios for 2019–2022 remained relatively stable between 14.87% and 15.61%, reflecting consistent performance during those years. The overall trend highlights the need for better cost control strategies and pricing adjustments to maintain profitability in the future.

FINDINGS

COST VOLUME PROFIT:

The analysis reveals notable fluctuations in contribution trends, with a peak of ₹171.07 million in 2022-2023, reflecting the positive impact of effective cost control measures. However, a sharp decline to ₹88.2 million in 2023-2024 highlights the adverse effects of rising variable costs, leading to reduced profitability. This emphasizes the critical need for maintaining consistent and robust cost control strategies to stabilize profitability and mitigate the impact of variable cost increases over time.

GROSS PROFIT RATIO:

The Gross Profit Ratio analysis reveals fluctuating profitability over the five-year period from 2019 to 2024. The highest ratio of 27.12% in 2022-2023 indicates strong profitability, attributed to higher sales and effective cost management. However, the significant decline to 14.43% in 2023-2024 suggests a drop in profitability, likely due to increased production costs or reduced sales margins. The ratios from 2019 to 2022 remained stable between 14.87% and 15.61%, reflecting consistent performance. This trend highlights the importance of addressing cost control issues and adjusting pricing strategies. Moving forward, better management of costs and pricing will be essential to maintain profitability.

CONCLUSION

In conclusion, the analysis of the Cost-Volume-Profit (CVP) and Gross Profit Ratio highlights significant fluctuations in profitability over the period from 2019 to 2024. The sharp rise in the CVP contribution in 2022-2023, driven by effective cost control measures, underscores the importance of maintaining robust cost management practices. However, the subsequent decline in the following year, primarily due to increased variable costs, indicates that profitability can be easily impacted by changes in cost structures. This reinforces the need for continuous monitoring and adjustment of cost control strategies to maintain profitability in the long term.

The Gross Profit Ratio further emphasizes the volatility in profitability, with a peak in 2022-2023 followed by a significant decline in 2023-2024. While the company enjoyed stable profitability between 2019 and 2022, the drop in 2023-2024 points to the adverse impact of rising production costs or reduced sales margins. This shift in profitability calls for a more agile approach to pricing and cost management to avoid such dramatic fluctuations in the future. The ability to adjust pricing strategies in response to market conditions and effectively manage costs will be crucial in maintaining consistent profit margins.

Overall, the findings suggest that while the company has experienced periods of strong profitability, it must focus on strengthening its cost control measures and adopting flexible pricing strategies to address the challenges posed by rising production costs and market changes.

REFERENCE

1. Gupta, A., & Kaur, P. (2017). Cost Control Strategies and Their Impact on Profitability in Manufacturing Firms. International Journal of Business and Management.

2. Sinha, A. (2016). Impact of Cost Control Techniques on Profitability: A Study of Manufacturing Companies in India. Journal of Applied Business and Economics.
3. Anthony, R. N., & Govindarajan, V. (2014). Management Control Systems. McGraw Hill. Discusses various cost control systems, highlighting their impact on organizational performance and decision-making.
4. Institute of Cost Accountants of India (2020). Cost Management Techniques for Competitive Advantage.
5. Garrison, R. H., & Noreen, E. W. (2018). Managerial Accounting. McGraw-Hill Education.