

*TCM is an effective application of professional and technical expertise to plan and control resources, cost, profitability and risk. A low cost high quality product has become an object of desire to gain competitive advantage. Hence, it is essential that cost management not merely addresses individual activities or the cost centres but the entire value chain.*

The world today is a 'global village' characterized by globalization of markets, liberalization, and cut throat competition which has made the present day business a highly complex one. Today's mantra is the 'survival of the fittest' which all the organizations, sooner or later, are realizing and are striving hard to get their acts together to explore avenues and new ways not only to survive in the market but also to retain / increase their market share and maintaining / improving their brand image. There has been a paradigm shift from 'sellers market' to 'buyers market' where today's buyers are not only 'omniscient' but also 'omnipotent'. 'Customer is the king' concept has become the order of the day and producers of goods and services across the globe are under an obligation to make available quality goods / services at right cost to the customers at the right time and at the same time maintaining their profit margin which would enable them to attain sustainability and financial endurance. In a market driven economy, the producers practically have no control on the price as the fixation of selling price is no longer a prerogative of the entrepreneurs.

In such a scenario, the need for judicious cost management is imperative on the part of the companies to help achieve the aforesaid objective of keeping cost to the bare minimum and at the same time delivering good quality products / services at an affordable price and also maintaining profitability. At this juncture, I feel appropriate to pen a few lines on 'cost management'. This term has no uniform definition but it can be used to describe the approaches and activities of managers to use resources to increase value to the customers and to achieve organizational goals. Cost management decisions relate to such decisions like the amounts and kinds of materials used, changes in plant processes and changes in product designs. Cost management is inextricably linked with revenue and profit planning and is not practiced in isolation. It is an integral part of general management strategies and their implementation. Instances include programs that enhance customer satisfaction and quality as well as research and development and marketing programs to promote "block buster" new products.

The expression 'Total Cost Management' (TCM) is of recent origin; thanks to the intense competition prevailing throughout the globe compelling business houses to have a relook at their cost management functions. TCM is the name given by AACE International to a process for applying the skills and knowledge of cost engineering. It is a systematic and structured approach to understand the costs of an organization, with the aim of providing a holistic framework to control, reduce and eliminate cost. TCM is an effective application of professional and technical expertise to plan and control resources, cost, profitability and risk. A low cost high quality product has become an object of desire to gain competitive advantage. Hence, it is essential that cost management not merely addresses individual activities or the cost centres but the entire value chain. A value chain is a chain of activities for a company operating within a specific industry. A product passes through all activities of the chain and at each activity gains some extra value. This means that there is a value addition to the product at each and every stage of activity or process through which it passes. This concept finds its applicability to project as well, turnkey projects in particular, where at each stage of the project, efforts are made to reduce / control / eliminate costs (avoidable) while minimizing risk (technological / financial etc) and maximizing profitability as well as competitive advantage. TCM maps the process upstream of project management. In TCM, what precedes project management is referred to as 'strategic asset management' or more traditionally 'portfolio and program management'. A unique element of the TCM process is that it integrates all the steps that an organization must take to deploy its business strategy. This includes monitoring and becoming aware of a performance issue with an asset in its asset portfolio (ie, capital base), to completing a project and delivering a modified or new asset to the company's portfolio. It also addresses managing multiple projects as a program or project portfolio.

TCM is based on the cardinal principle of 'cost prevention' as opposed to 'cost reporting' and the concept revolves around usage / implementation of important tools like Activity Based Costing (ABC), Just In Time (JIT), Target Costing and 'Kaizen' (continuous improvement). Each one of these work not in isolation but the combined use of these tools bring about TCM whose effectiveness depends to a great extent on how and to what extent these tools are used. Modern techniques like Balanced Score Card, Enterprise Resource Planning, Learning Curve Analysis, Supply Chain Management are found to be of much help in TCM. TCM has found its biggest audience in companies which involve huge capital outlay in fixed capital assets through construction projects (oil & gas, chemicals, pharmaceuticals etc). It is also finding wider use in IT, software, IT Enabled companies. It is hoped that the articles on the cover feature will aid in the understanding and assimilating the concept of TCM and the esteemed readers will find them quite useful.