



PRODUCT COST REDUCTION STRATEGY AND ITS IMPORTANCE

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ABSTRACT

This article discusses the factors that determine the cost of a product, its main components, existing scientific approaches and practical mechanisms for reducing costs. The study also analyzed the factors affecting the cost of a product in business entities, and developed proposals and recommendations aimed at reducing costs.

INTRODUCTION

In a market economy, one of the primary objectives for enterprises is to produce competitive, affordable, and high-quality products. In industrial sectors, optimizing production costs and reducing product unit costs to enhance profitability and return on investment has become increasingly important. The product unit cost represents the total expenses associated with production and sales. Therefore, a thorough analysis of unit costs, identification of cost components, and effective management of these costs are essential for improving economic efficiency.

In recent years, key strategies for reducing unit costs have included the automation of technological processes, efficient use of raw materials and energy resources, and improvements in labor productivity. Additionally, analyzing standard costs, optimizing expenses, and identifying efficiency factors have become priority areas for all manufacturing enterprises.

LITERATURE REVIEW

Cost optimization, particularly strategies for reducing unit costs, is a crucial tool for ensuring the competitiveness of any manufacturing enterprise. Early scientific approaches to product unit cost were introduced in classical economic theories. Karl Marx [1] and Adam Smith [2] analyzed production costs through the labor theory of value. Modern economists, such as Michael Porter, in his work *Competitive Advantage*, consider unit cost as a key element of competitive strategy [3].

Uzbek scholars, including X. Khodjayev, I. Qurbonov, and R. Salimov, have examined the structure of unit costs in detail [4]. Their research identifies the primary components of unit costs as raw materials, wages, energy consumption, depreciation, and other production expenses.

In international practice, methods such as LEAN production, Kaizen, and Just-in-Time (JIT) are widely applied to manage unit costs effectively [5]. These approaches aim not only to reduce costs but also to improve quality, minimize waste, and ensure timely and affordable delivery of products to the market.

The analysis and management of product unit costs are widely studied by economists. Reducing unit costs is closely linked to decreasing production expenses, enhancing operational efficiency, and rational resource use [6].

A.A. Yudanov (2002) emphasized that managing unit costs is a key factor in increasing enterprise competitiveness [7]. He recommends identifying cost centers, standardizing expenses, and applying activity-based costing (ABC) methods.

In Uzbekistan, mechanisms for forming and reducing product unit costs have been extensively covered in economic literature. For example, M. Qodirov (2017), in his monograph *Cost Management in Enterprises*, highlights methods for classifying production costs accurately and optimizing them to reduce unit costs [8]. Other economists, such as S. Haydarov, T. Jo'rayev, and A. Boboqulov, identify practical strategies for reducing costs, including [9]:

- Optimizing energy and raw material consumption;
- Modernizing production technologies;
- Improving labor productivity;
- Eliminating excessive and inefficient expenditures.

METHODOLOGY

This study aims to identify and analyze the main factors influencing product unit costs and to develop strategies for reducing costs through effective cost management. The research examines cost formation in enterprises, identifies key trends and challenges using analytical accounting methods, and proposes actionable measures to reduce unit costs.

DISCUSSION AND RESULTS

The study systematically examined factors affecting product unit costs, their economic significance, and their impact on enterprise profitability. High unit costs are often associated with low production efficiency, resource wastage, and insufficient adoption of modern technologies.

The main components of unit cost are typically as follows:

- Raw materials and materials: 60–80%;
- Wages and related social contributions: 5–15%;
- Energy consumption: 2–10%;
- Depreciation of fixed assets: 2–8%;
- Other production costs: 3–10%.

This composition varies depending on the type of product and production technology. In high-cost production, raw materials usually play a decisive role.

The study identified the following factors as having the greatest impact on unit costs:

Raw material price and consumption – instability in supply, logistics costs, and wastage can artificially increase unit costs;

- Technological level – lack of modern, energy-efficient equipment increases energy and time consumption;
- Labor productivity – inefficient use of labor resources increases costs, especially when wage components are high;
- Weak cost control – inaccurate accounting and inability to detect inefficiencies hinder cost reduction efforts.

Nowadays, the optimization of established standards and norms for raw materials is recognized as one of the primary objectives for any enterprise. The main goals of improving standards and norms are:

1. Reducing resource wastage;
2. Optimizing production processes;
3. Lowering product costs;
4. Maintaining consistent product quality.

Table 1.

Main directions and recommendations for improving norms and standards

| Direction | Actions / Recommendations |
|--|---|
| 1. Clear technological standards | Review current raw material standards. Develop technological maps for each product. |
| 2. Strengthening laboratory control | Assess the quality of raw materials in laboratory conditions before and after production. |
| 3. Implementation of new technologies | Introduce resource-efficient technologies (low-waste, automated systems). |
| 4. Study of local raw material sources | Analyze alternative raw materials to replace imports. |
| 5. Continuous monitoring of standards | Conduct quarterly monitoring of raw material consumption, waste, and product cost. |
| 6. Transition to zero- or low-waste production | Recycle waste and reintegrate it into the production process. |
| 7. Employee training | Conduct training for staff on efficient use of raw materials. |
| 8. Control through IT systems | Monitor consumption in real-time using ERP, MES, and similar systems. |

As evident from this table, the improvement of standards and norms can lead to a measurable reduction in product cost expenditures. The proposed measures are crucial for increasing the company's profit, optimizing expenses, and forming a strategic framework for future operational planning. Below, a strategy for reducing product costs in the company's activities has been developed, outlining feasible steps for implementation.

Table 2

Strategic directions for reducing product costs

| Direction | Measures | Rationale |
|--|---|--|
| 1. Optimize raw material consumption based on scientific standards | - Recalculate production norms using current data- Continuously monitor technological settings | Since obtaining cheap raw materials is difficult, it is necessary to use the available resources optimally |
| 2. Maximize the use of recycling systems | - Strive for production with minimal or zero waste- Produce secondary products from recycled materials (e.g., technical fabrics) | Waste can serve as a potential source of revenue |
| 3. Reassess product assortment (Direct Costing) | - Calculate full and direct costs for each product type- Prioritize profitable products | High-quality but costly products may yield lower profits |
| 4. Adjust energy consumption according to operational mode rather than low-quality equipment | - Manage energy load in optimal modes (e.g., operate during low-load periods)- Control energy use of ventilation, lighting, and auxiliary equipment | Cost-effective equipment may harm quality, so managing operational regimes is crucial |

| Direction | Measures | Rationale |
|---|--|---|
| 5. Strengthen control through skilled personnel | - Conduct 1–2 technological training sessions per year- Identify inefficiencies through error monitoring | Even with automation, human factors influence consumption and quality |

Through the implementation of this strategy, the company may observe the following outcomes. Analyzing product costs and implementing cost-reduction measures represents a critical strategic direction for any manufacturing enterprise. By thoroughly examining the cost structure, maintaining control over expenses, and making economically grounded decisions, reducing product costs not only increases profitability but also lays the foundation for sustainable development.

CONCLUSION

The results of the study indicate that high product costs are often associated with inadequate management of production expenses, inefficient use of resources, and insufficient implementation of modern technologies. The main elements that determine product cost—raw materials, labor, energy expenditures, and other production costs—and their relative proportions directly affect the final product price.

Moreover, analyzing product costs using economic-statistical methods, normative assessments, and comparative approaches provides a solid basis for developing a cost-reduction strategy. Based on the analysis, the following measures are recommended:

- Implement a cost normalization system;
- Optimize raw material supply chains;
- Introduce energy-efficient technologies;
- Increase labor productivity;
- Establish a continuous cost monitoring system;
- Integrate digital management technologies.

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