



Current situation and optimization analysis of production cost management in Chinese automobile enterprises

BY

Lu yang^{1*} Dong ke² Zhou Aiyu³

^{1,2,3}School of Economics and Management, Southwest Petroleum University



Article History

Received: 23/07/2023

Accepted: 28/07/2023

Published: 30/07/2023

Vol –2 Issue – 7

PP: - 33-36

Abstract:

After China's economic development to a certain extent, people's quality of life has been significantly improved, and people's requirements for material life are getting higher and higher. With the gradual popularization of automobiles, a high-end durable consumer goods, China's automobile manufacturing industry has also been rapid development, and many foreign automobile manufacturers have set up factories in China, which has made China's automobile production and sales have ranked first in the world for several years. However, with the opening of the market and the intensification of competition, the competition in the automobile industry is becoming increasingly fierce, which brings great pressure to enterprises. In order to achieve great development in market competition, automobile enterprises must strengthen the cultivation of core competence and strengthen cost management. Therefore, how to improve the core competitiveness of enterprises is an urgent problem to be solved. Taking Chinese automobile manufacturing enterprises as an example, this paper discusses the cost management problem of automobile manufacturing enterprises from practice, and on this basis, puts forward some improvement measures for the cost management problem of automobile manufacturing enterprises in China.

Keywords: automobile enterprise, core competitiveness, cost management

1. Overview

In recent years, with the continuous expansion of China's automobile production scale, the automobile industry has initially established a relatively perfect industrial system in China and has become one of the fastest developing industries in the world today. However, with the increasingly fierce competition in the automobile industry, joint venture brands and independent brands, traditional automobile manufacturers, and emerging forces are fighting for the dominance of the consumer market and user groups. At present, the core technology of China's automobile industry is still in its infancy, the number of independent brands is not large, and there is no obvious advantage in quality, price, etc., which has become the bottleneck restricting the development of China's automobile industry. Throughout the world's major automobile enterprises, Dongfeng Nissan through professional technology and management technology to reduce costs, improve product competitiveness; Chang 'an Automobile regards efficiency as the vitality of enterprise, and promotes cost matrix budget management through project team in order to reduce cost and increase efficiency. [1] Therefore, paying attention to the cost management of enterprises is fundamental to improve their efficiency and enhance their market

competitiveness. Optimizing the entire manufacturing process and strengthening the cost control at each stage can achieve the optimal allocation of resources and the adjustment of production effects, so as to maximize the value of the company. In the operation process of automobile manufacturing enterprises, it is necessary to analyze the production cost of automobile manufacturing enterprises, so as to formulate more reasonable management strategies, so as to realize the efficient and stable development of automobile manufacturing enterprises.

1.1 Composition of production cost of automobile enterprises

1.1.1 Component cost

In the production process of automobile enterprises, the most direct cost is the automobile parts: including steel plate, frame, engine, gearbox, and so on. As well as float glass, PVB film, PVC injection molding materials, etc., their manufacturing costs are the most intuitive automotive production costs[2]. China's auto parts industry has become one of the world's largest industries and has formed a development pattern consisting of more than 20,000 companies. However, due to the lack of independent research and development funds, as well as high energy consumption

*Corresponding Author: Lu yang



and low value-added products, its core components are basically monopolized by foreign leading enterprises. According to the relevant data released by the Ministry of Commerce, in the production of automotive electric injection systems, engine management systems, ABS, micro motors, and airbags, the market share of foreign enterprises is 100%, 100%, 91%, 97%, and 69%, respectively. China's spare parts industry is in a "weak", "small", "scattered" state. Moreover, most of the parts are supplied by foreign countries. In particular, the prices of imported vehicles, which are made in China, remain high even though they do not have to pay high auto tariffs

1.1.2 The cost of equipment and property rights shall be shared equally

The cost of equipment and assets refers to a series of production equipment purchased for the manufacture of cars and the cost of manufacturing ownership of cars. These expenses are spread over a car, forming the cost of a car. This fee is based on the size of the company, the larger the company, the larger the car production, the lower the cost per car. Equipment cost is the proportion of a company's equipment costs in the cost of each vehicle. In addition to some basic hardware equipment, the most important point is that when producing each model, you must have your own production line and the corresponding equipment. In addition, it is a fixed cost, and once invested, it does not have any impact on the total amount of product. In terms of property rights and brand use, the company adopts subcontracting and total contracting methods. Subcontract is to convert the cost to each car, and then distribute according to the production and sales; In the other case, a lump sum payment is made to the joint venture[3]

1.1.3 Labor cost

The labor cost of automobiles is mainly a series of professional quality talents such as workers, technicians, developers, and managers. With the aging of the population, family planning, and other reasons, China's young labor force is tight, and the price of human resources is rising, which can be seen from the transfer of some labor-intensive enterprises to less developed countries such as Africa. Although China still has an advantage at present, this advantage is gradually weakening. The auto industry is a sector with higher labor costs in China. At the same time, because the automobile is a technology-intensive and capital-intensive industry, China's automobile production efficiency is much lower than that of foreign countries, leading to a further rise in labor costs.

1.2 Importance of production cost management of automobile enterprises

1.2.1 Improve the decision-making ability of enterprises

Strengthening the cost control of automobile manufacturing enterprises can improve the level of their decision-making and enhance the scientific nature of their decision-making. When making management decisions, the cost control target should be taken as a guide, so as to effectively prevent overspending and avoid causing greater economic losses. Strengthening the cost management of automobile manufacturing enterprises

can optimize the internal management mechanism of enterprises, simplify the workflow, and reduce unnecessary investment as much as possible while ensuring product quality, thus improving the decision-making level of enterprises.

1.2.2 Enhance the competitiveness of enterprises

In today's world, with the increasing internationalization of the market, the competition between enterprises is becoming increasingly fierce. Only by constantly improving their competitiveness can enterprises survive, develop and grow in the fierce competition. Companies can reduce production costs, improve quality, and increase research and development funds. By strengthening cost control, automobile production enterprises can standardize operation and carry out detailed management of automobile raw material procurement, inventory, production, and sales, which is beneficial to achieve comprehensive cost control, improve the economic benefits of enterprises, and then improve the quality of products and services. Therefore, if we want to enhance the competitiveness of enterprises, we must carry out cost management.

1.2.3 Improving the profitability of enterprises

A higher profit level is a necessary condition for the survival and development of automobile enterprises. In the automobile manufacturing industry, cost management is a very important management activity, it has a great impact on the profits of enterprises. In the automobile manufacturing enterprises, the reasonable implementation of the whole process of cost management can effectively improve the business conditions of enterprises, improve the economic and social benefits of enterprises. In this way, it can continuously bring profits to the company, forming a virtuous circle. In today's society, with the increasingly fierce market competition, from the characteristics of product cost composition, cost management has become an important way for automobile enterprises to improve economic benefits. At present, China's automobile manufacturing industry is facing the competition dominated by cost. On this basis, the optimization of the cost management system will enable enterprises to gain greater advantages in the competition.

2. Existing problems of production cost management in automobile enterprises

2.1 Weak awareness of cost control

Along with the gradual improvement of our market economy system, many enterprises are beginning to realize the importance of cost management. However, some enterprises in the implementation of cost management, due to the lack of enough attention, resulting in the cost management is not perfect. Some enterprises' cost control is limited to the management of procurement and taxation and the lack of systematic and comprehensive cost management results in little cost management

2.2 Lack of cost management system

The imperfect cost management system has become a common cost management problem in enterprises. The relevant managers of enterprises lack the understanding of cost management, and the employees lack the consciousness of cost saving. In most enterprises, the cost management system is usually limited to the subsidiary system of other enterprise systems, there is no independent cost management system, but the traditional way of formal meeting demonstration, purchasing department personnel, company leaders, and so on, has a strong subjectivity

2.3 There is waste in parts procurement cost

New energy vehicle companies in the purchase of parts, generally in line with the principle of "cost-effective" to buy, generally according to their own reserve materials to purchase directly, which led to some parts companies and buyers collusion, not only can not save management costs for the company but will bring more costs and more waste.

2.4 Do not attach importance to cooperation with suppliers

Companies use a variety of ways to reduce the price of parts purchased, thereby reducing suppliers' profits, which may make them trapped in competition with suppliers, rather than from the standpoint of long-term strategic development to consider the relationship with suppliers. This will increase the cost of using parts in the later period, increase inventory, and increase management costs

2.5 The production process is complicated and there is waste

In the process of mass production, there are many links in automobile manufacturing, the manufacturing process is more complex, and the error rate is relatively high. The production department must strictly control the production process, production technology, and quality of the product, but in the production process, a large number of raw materials will be consumed, which brings unnecessary waste to the enterprise. In addition, in the manufacturing process of the vehicle, there will inevitably be various costs, such as electricity, electricity, etc., and the size of the cost will have a direct impact on the manufacturing cost of the vehicle.

3. Optimization measures of production cost management of automobile enterprises

3.1 Create a cost management environment for all staff

In order to ensure the effectiveness of cost control, automobile manufacturing enterprises should pay attention to the cultivation of cost consciousness of all employees, establish the cost efficiency enterprise culture, and realize the comprehensiveness of cost control. Only by improving the cost-benefit consciousness of all employees, business departments can pay attention to and promote cost optimization from the perspective of the company's interests when carrying out specific work, and enterprises can have the power to continue to increase costs. First of all, we should pay attention to the company's internal publicity work. Through

the organization of the staff meeting, make the staff realize the impact of cost management on the enterprise and the staff, stimulate the enthusiasm of the staff.

3.2 Improve the enterprise cost management system

When enterprises carry out cost management, they should also start from the construction of cost management system. On the construction of cost management system, through the decomposition of vehicle value chain and the refinement of its system, a set of modern enterprise cost management system is built. Therefore, we should optimize the cost control plan in the process of project implementation, increase the reform of target cost control means, implement the equipment management responsibility system, and improve the cost control system.[4] In addition, we should also strengthen the control of the three aspects of cost before, during, and after the event. In the process of developing the target cost method, in order to achieve the prior control of the new car research and development process, the enterprise should be based on the actual situation of the Chinese market, the cost of its product research and development process should be estimated in advance. In terms of process control, in the manufacturing of automobiles, there are labor costs, raw material costs, manufacturing costs, equipment depreciation costs, and other problems, which require a sound financial system, such as a high-quality financial personnel, a sound contract management system. In terms of post-event control, after the completion of the demonstration project, the Finance Department should pay close attention to the cost settlement at this stage, and the relevant personnel should do a good job of sorting out the data such as fixed assets and contracts according to the actual situation.

3.3 Determine the parts procurement mode

The parts that enterprises want to buy can be divided according to their importance, and can also be divided according to their needs and prices, and their core parts can be comprehensively analyzed according to different standards. For different kinds of parts, there are different procurement methods. For the general standard parts, because of its large demand, it is necessary to take the way of public bidding, based on meeting the requirements of customers, through various ways, such as inquiry, price comparison, business negotiations, etc., to determine the supplier that can meet the target cost requirements. In addition, it is necessary to develop a set of perfect quality management standards to ensure that the provided products meet the quality standards, if there are unqualified materials, it is necessary to investigate the responsibility of the supplier and compensate the purchaser.[5] In addition, quality compensation clauses can also effectively reduce the risk of quality loss caused by product marketing

3.4 Properly handle the relationship with suppliers

To properly handle the relationship between enterprises and suppliers, we should not only strengthen our own cost management but also pay attention to all aspects of the value chain of our product production and the external environment. Suppliers provide assembly parts for automobile manufacturers, which is located in the upstream of the entire

production chain, and also the starting point of cost control. The price of parts reached between procurement experts and suppliers of automobile companies will greatly affect the cost of products. Therefore, enterprises should find a long-term and strategic partner with suppliers, so as to jointly improve the product quality. Only by realizing the sharing of resources can we gain more benefits in the fierce market competition.

3.5 Minimize the waste caused by the production process

Carry out on-site inspection of each process of the workshop, determine the personnel and working hour quota suitable for the later production, and establish the reward and punishment mechanism of the cost. In different production processes, the cost control points of each process are different. The financial department must go deep into the business, have an understanding of the production process of different processes, decide the cost management priorities of different processes together with the business department, establish a cost management indicator system, and track and manage key cost indicators. It is also necessary to establish a set of effective assessment mechanism

4. Conclusion

Reducing the cost of automobile manufacturing can not only increase the profits of enterprises but also fundamentally strengthen the core competitiveness of enterprises. With the acceleration of globalization, the competition among automobile brands is becoming more and more fierce. Therefore, for automobile manufacturers, it is necessary to constantly explore and innovate various ways to reduce the cost of products. Only in this way, can the product maintain a strong viability in the market, in order to enable the enterprise to obtain the maximum profit.

Reference

1. JIANG Zhigang. Research on Internal Cost Optimization of G Automobile Company [D]. South China University of Technology,2022.
2. Liang Wangchun. Research on Cost Control of Auto parts Enterprises --Taking Tianjin Hongde Automobile as an example [J].China Market,2019, No.997(06)
3. Li Jian, He Xiwu. Exploration of automobile cost [J]. Automobile Application,2007, No.176(06):13-15.
4. Zhang Pengfei, He Qiong. On Cost Control Method -- Target cost Method [J]. Brand,2015(12):282-283
5. LI Jianquan. Cost Management of Jianghuai Automobile from the perspective of value Chain [J].Modern Business Industry,2020,41(23).