

## **Animation 2.1**

Consider cost as an order qualifier or order winner. The ability to provide products or services at a price the customer is willing to pay whilst still retaining a profit for the organisation is the essence of good cost control. Within the category of cost we have identified five main factors.

**Manufacturing cost:** This is the actual cost of making a product or delivering a service which includes labour, raw material and energy costs. Lower manufacturing costs have been achieved in the clothing sector in recent years by moving to a lower cost economy.

**Value added:** These are activities that increase the worth of a product or service which the customer is willing to pay for, such as extra payments for quick delivery of goods or services.

**Selling price:** In certain established markets, such as household cleaning goods, price may be the only order winner and a price variance of a few pence can influence purchasers.

**Running cost:** This refers to how much it will cost the buyer to use and operate whatever they have purchased. For example haulage contractors want to know how much it will cost them to run the vehicles that they operate.

**Service cost:** Some products, such as motor cars, may need regular maintenance and servicing, which has to be budgeted for when making the initial purchase.

Adopting a cost leadership operations strategy has been widely used by supermarkets such as Lidl and Aldi, and low cost airlines, such as easyJet and Ryanair.