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PLANNING AND ECONOMIC JUSTIFICATION OF THE WAYS OF REDUCING THE PRODUCTION COST

According to the general definition, the production cost is a monetary value of expenses of an enterprise for production and sales of goods. Production cost characterizes the efficiency of a whole process of production at the enterprise as it reflects the level of process organization, technical level, labour productivity, and so on.

Cost reduction is an especially relevant process in this period of economic development where there is a struggle for saving already existent markets and penetration of new market sectors.

Factors of production cost reduction:

- increase of the technical level of production
- improvement of production and labour organization
- better use of natural resources
- change of amount and structure of production
- other sectoral factors

The main ways to reduce production cost are: the use of cheaper or alternative materials in the production; search for cheaper labour, which will allow reducing costs related to labour remuneration; introduction of various energy-saving technologies.

Raw and other materials are included in production cost at historical costs taking into account transportation costs, thus a right choice of materials distributors makes an influence on the production cost. It is important to ensure material entry from the suppliers who are near from the enterprise as well as to use the cheapest mode of transport. The main condition for reducing raw-materials consumption for production per one unit is the improvement of product design and manufacturing process, use of efficient materials, introduction of technically based

standards of consumption of natural resources. The most important in the competition for reduction of production cost is a compliance with austerity regime in all segments of business and operations of the enterprise.

Thus, the enterprise production cost is the most significant indicator of its production efficiency. Its level makes an impact on financial results of enterprises' activities, expanded production pace and, naturally, their financial position.

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