

FEATURES OF FORMING COST-CUTTING PRODUCTION STRATEGY IN A SUBSIDIARY OF THE HOLDING STRUCTURE

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One of the profound elements of the macroeconomic system of the country in existing conditions is holding structure. Holdings are widespread in both big businesses and small and middle businesses. The aim of a holding structure is to concentrate the financial, intellectual and material resources in the key areas of the company's business development.

In conditions of innovation economy, holdings gain competitive advantages by converting tangible, financial and intellectual resources into the source of revenue. Capitalizing this revenue, holdings are able of securing the increase of their market value. It is essential, because world practice gives examples that security of the enterprise's market value increase for a sufficiently long period of time is a criteria of securing sustainable development.

The holding itself can be very efficient as an organizational management structure to manage innovation business. In this case, a parental company forms a group of subsidiaries, specializing in the creation of different types of product innovations. Besides that, auxiliary companies (e.g., financial, consulting, insurance) that service the whole holding, typically from the headquarter, regardless of geographical location or industry membership

of subsidiaries, may be formed as a part of the holding structure [2].

The realization of the competitive strategy must enable the increase in market value of the holding structure in a long run. And this increase may be secured in different ways, because a number of both external and internal environment factors influence the forming of the final level of value. Thus, from the point of cost estimation method, the competitive strategy is a strategy of increasing its market value (business value) [1].

On corporate level, the developed strategy of the holding maximizes the company's market value. The value maximization strategy of a holding structure often comes into being as a result of integration of subsidiaries' strategies, based on the thorough analyze of these strategies.

The competitive strategy of a subsidiary must include a system of steps, resulting in subsidiary's competitive advantages. Later, these advantages will-enable the subsidiary to create economic added value. The strategy must be based both on a well thought market analyze, competitors, tangible and intangible assets, and other intangible production factors (including the intellectual potential of labor resources) that the subsidiary possesses.

For effective development of the holding structure it is necessary to take into consideration that the redistribution of financial and other resources in the holding among certain parts of innovation business is a very difficult managerial task. Thus, adoption of product innovations (new types of products) in holding's subsidiaries requires not only the usage of production systems, combining a high level of flexibility and automation, but also changing the mechanism of operational-calendar planning and managing product processes within the whole holding structure. Also it is necessary to take into account the possibility of new costs in the holding company that are linked with the change in product manufacturing technology. For the holding company these costs are objective, as they are the results of creating process innovations (new product manufacturing technologies). The development of the innovation activity makes holding companies distribute optimally costs of all types of resources and consolidate the company's positions in different product spheres of the market.

However, in practice the adoption of new types of products is usually linked with changes in the sequence of production processes that may in turn increase the time of technological processes. There are also problems with fast adaptation of production systems to the requirements of process innovations. The current habits and corporate rules in production activities of working people are violated. This situation has a significant impact on the work coordination and organization of all the subsidiaries of the holding company. Under these circumstances, unexpected production costs and undisclosed losses may emerge.

In this case, there may be a situation when investment and current costs of the holding, as well as undisclosed loss, will be higher than achieved results. The difference between the sum of discounted results and the sum of discounted cost will be negative. Thereby, in these conditions the subsidiary in the holding structure starts to generate negative funds flow. However, in the process of creating the holding value within the whole structure this negative influence has undisclosed character

and might not influence the positive rate of the market value due to the positive difference that is formed by another subsidiaries.

In order to eliminate negative influence of the increased costs and undisclosed loss it is necessary to supplement the strategy of the market value maximization of the holding company with cost-cutting production strategies of the subsidiaries. Forming of the cost-cutting strategy in the production within the subsidiary is based on the following basic principles:

1. Carrying out the diagnostics of company's value curb.

The aim of the diagnostics is to find out factors that restrain the value increase and lead to destruction of company's value, and also to identify the dominant curb or a major group of curbs.

2. The development and realization of the conception of managing costs and the results of company's activity.

At this stage of the strategy the revelation and management of the factors that determine unexpected production costs is carried out. Program of measures is created to enable rational combination of functional potential of the organization and the ability to generate positive value of net funds flow, and also to capitalize the profit from the investments, using the cost optimization.

3. Development and realization of the lean production concept – elimination of company's undisclosed loss [4].

At this step of the strategy an action, operation or process that does not add value to the product from the client's point of view is defined. Afterwards, this action, operation or process is regarded as company's loss. All undisclosed losses are divided into:

- unavoidable, i.e. from the client's point of view, the concerned process does not add value to the product, but it is impossible to maintain company's efficiency. In this case, it is possible to optimize the costs, though it is impossible to eliminate them;

- avoidable, they are subdivided into seven categories: overproduction, defective goods, movements, transportation, stocks, waiting, excessive processing.

Thus, the development of the cost-cutting strategy in the production of a subsidiary is based on the synthesis of the process of the company's value curb diagnostics, conception of managing costs and results of company's activity, and on the conception of lean production – elimination of the company's undisclosed losses.

During the development and realization of the strategy these elements cover all the organizational structure of the holding company's subsidiaries, uniting all its chains together (including particular business processes and particular operations). Achieving the goal of the elimination of the emerged costs and undisclosed losses negative influence, all functional strategies and target standards on all levels of the management must be coordinated with the main strategic goal of the holding structure.

Important tools that contribute to the effective realization of the holding company's competitive strategy are such functional strategies as financial and investment [1, 2, 3], and also the strategy of cutting production costs in subsidiaries of the holding structure. Namely, the realization of these strategies plays the utmost important role in creation of the new value in the holding company and contributes to the forming of the cost estimation method in running the company.

It is also important to take into consideration whether subsidiaries and the whole holding structure in general under existing parameters (organizational structure, production capacity, quality of the manufactured product) is able to increase the value, i.e. what internal and external factors mainly influence the forming of the holding company's market value.

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