_An analysis of Costs

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Principles of Management | 2025

NOVA SCHOOL OF BUSINESS & ECONOMICS

To recap

- ✔ Sources of revenues
- ✔ Diversification: the case of Apple
- ✔ Trade-off revenues vs. users: the case of Instagram
- ✔ Dynamic pricing and customer niche: the case of Uber

_Costs

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In economics, costs refer to the value of resources used or foregone to achieve a specific objective, typically in the production of goods or services.

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These resources can include factors such as labor, raw materials, capital, and other inputs that are essential for the production process.

_Costs

The concept of costs is fundamental in understanding the efficiency and profitability of production, as well as in making various economic decisions.

Types of costs:

✔ Fixed Costs
✔ Variable Costs
✔ Explicit Costs
✔ Implicit Costs
✔ Opportunity Costs

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Fixed Costs:

Expenses that remain constant regardless of the level of production or sales. These costs do not change with the variation in the quantity of goods or services produced.

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Examples: rent payments, salaries of permanent staff, insurance premiums, property taxes...

Variable Costs:

Expenses that fluctuate in direct proportion to the quantity of goods or services produced. They increase or decrease as production output changes.

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Expenses that fluctuate in direct proportion to the quantity of goods or services produced. They increase or decrease as production output changes.

Examples: costs of raw materials, packaging, hourly wages of part-time workers, sales commissions based on the number of products sold…

Explicit Costs:

Actual monetary expenses a company incurs while conducting business operations. These costs involve direct payment or a cash outflow.

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Actual monetary expenses a company incurs while conducting business operations. These costs involve direct payment or a cash outflow.

Examples: payments for raw materials, wages and salaries, rent, utilities, advertising expenses, lease payments…

Implicit Costs:

Also known as implied costs, represent the opportunity costs of utilizing resources that a firm already owns. They do not involve a direct cash outlay but are related to the firm's own resources.

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Examples: if a company uses its own building for business purposes instead of renting it out to another firm, the implicit cost would be the potential rental income foregone.

Opportunity Costs:

The value of the next best alternative that must be forgone to pursue a certain action or decision. It is the cost of the opportunity that is lost when a particular choice is made.

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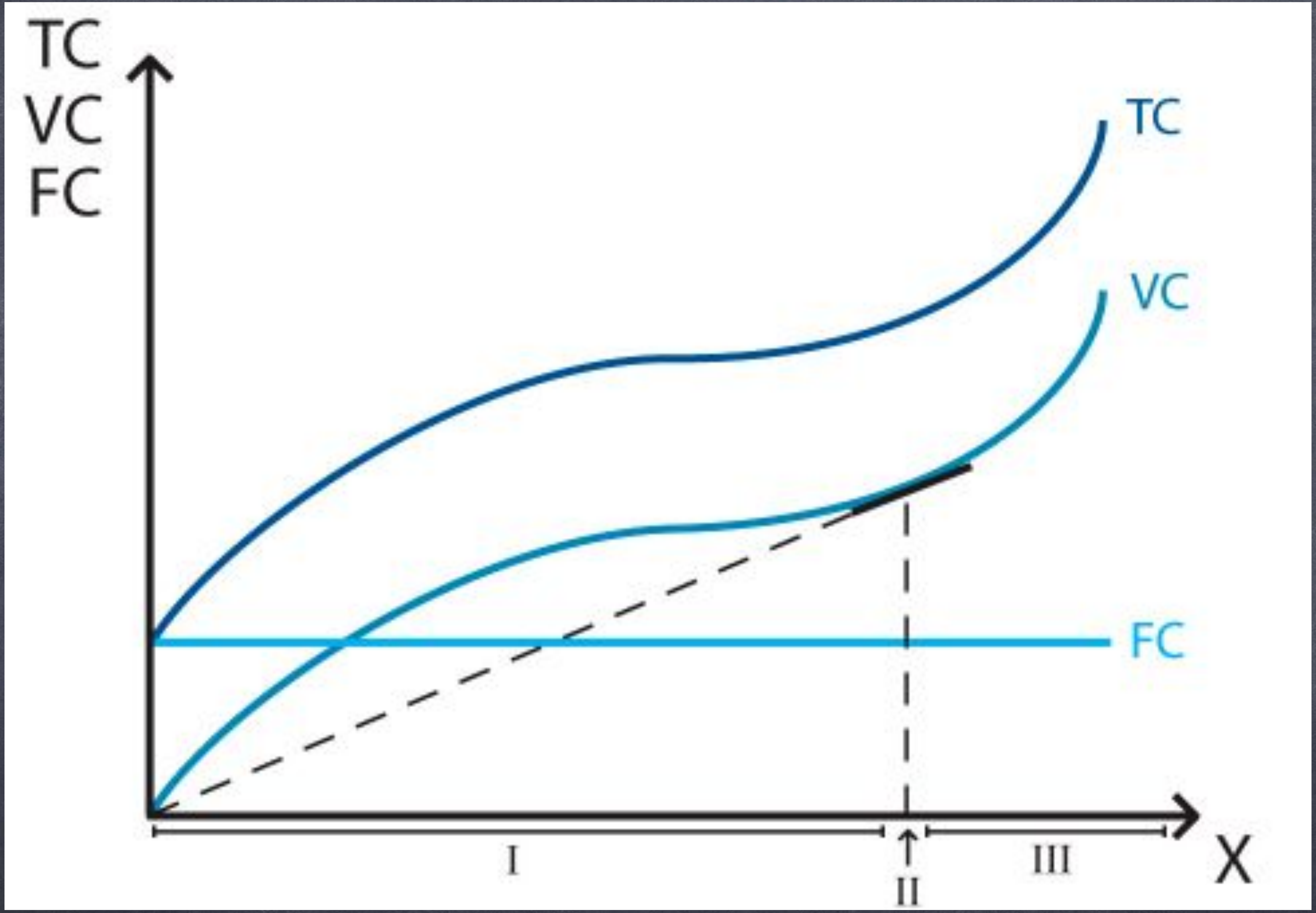
The value of the next best alternative that must be forgone to pursue a certain action or decision. It is the cost of the opportunity that is lost when a particular choice is made.

Examples: if a person decides to invest in stocks, the opportunity cost could be the potential returns that could have been earned if the money had been invested in bonds or real estate instead.

_Costs



Cost effectiveness: the case of McDonald's

Overall approach to cost management:

✔ Supply chain
✔ Operations
✔ Menu profile
✔ Economies of scale
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A bit of background…

How does it work in the food industry?

_Costs

A bit of background…

How does it work in the food industry?

COST is a deal breaker!

_Costs

A bit of background…

How does it work in the food industry?

COST is a deal breaker!

Here's an example:

https://xtrachef.com/

https://vimeo.com/323613806

Takeaways:

Supply chain optimization (!!)

Takeaways:

Supply chain optimization (!!)
Standardized Operational Procedures

Takeaways:

Supply chain optimization (!!)
Standardized Operational Procedures
Menu Engineering

Takeaways:

Supply chain optimization (!!)
Standardized Operational Procedures
Menu Engineering
Economies of Scale

Takeaways:

Supply chain optimization (!!)
Standardized Operational Procedures
Menu Engineering
Economies of Scale
Operational Efficiency

_Costs

The Founder (2016): https://youtu.be/eOBEJtz_FL8

Cost management with tech: the case of Amazon

A bit of background

- ✔ Founded by Jeff Bezos, in 1994, as an online bookstore
- ✔ Quickly added music and videos
- ✔ Introduction of Amazon Marketplace
- ✔ Add-on cloud computing (AWS)
- ✔ Expansion into Digital Services (Prime)

Overall approach to cost management:

- ✔ Tech & Automations
- ✔ Operations
- ✔ Data-driven decision-making

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Tech & Automations

Amazon has heavily invested in advanced technologies and automation, particularly in its warehousing and logistics operations. Robotics in its fulfilment centres.

Strategy & Operations

By strategically locating its warehouses and distribution centres, Amazon can minimize transportation costs and expedite order fulfilment.

_Costs

Data-driven decision-making

Understanding customer behavior, preferences, and buying patterns, led to reduced costs related to ineffective marketing campaigns and inventory management.

To come:

➔ The Business Model Canvas and the Value Proposition Canvas

See you on next session :)