

Improve decision making

*“Do your costs contribute to
the profit?”*

Activity Based Costing (ABC) as technique for understanding your costs

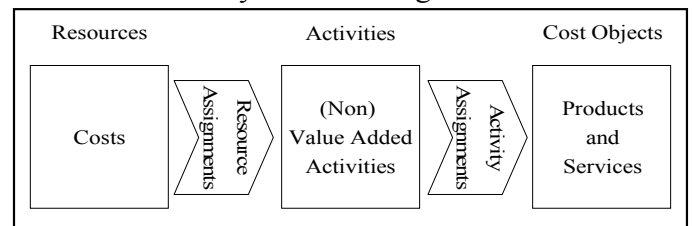
*What products or customers are money makers
or money losers?*

- An increase in sales can increase your loss. Do you know for which products this is the case?
- Sales, service and maintenance costs can be related to your clients. Do you know which clients are still profitable after assigning these costs?

How to charge or assign costs?

- Subsidiaries or departments do not make equal use of central services. Do you have central activity- / overhead costs assigned related to the use of it?
- (Internal) clients easily ask for all kind of information or services. Do you know if it is still important for them when they are charged for it?

Activity based costing structure



Trace and assign costs, based on cause-and-effect relationship

*What will the profit impact be of initiated
(improvement) projects?*

- Current financial overviews hardly enable you to calculate the real cost impact of improvement projects. Do you have a realistic business case?

*Will the in-, outsourcing or centralising of
activities improve your profit?*

- Conventional finance overviews don't give you the individual activities and the linked costs of resources used. Do you feel comfortable making strategic decisions with the current cost-insight?

Is your money used for what it should be?

- You expect most of your money to be spent on specific Added Value activities. Do you know how much money is involved with Non Value Added activities?

**ABC is not a solution, but
a start for *business*
improvement**

For more information about Activity Based Costing
and Management, contact us at:

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ABCWorkshop is a group of independent
management consultants, specialised in
Cost Management.

Visit also our ABC web-site:

www.ABCworkshop.com

TRADITIONAL		ABC	
Salaries	502,400	Receiving orders	102,000
Equipment (IT)	161,200	Repair/Enrichment	51,000
Finance	58,000	Data Entry	152,900
Supplies	43,900	Process Batches	65,800
Facilities	30,000	Copying	25,500
		Receive/Handle inq.	142,600
Total	795,500	Stake holder contact	99,900
		Meetings	116,800
		Training	39,000
		Total	795,500

"When managers get the traditional cost overview, they are either happy or sad, but they are rarely any smarter!"

If you need to improve your business, determine your focus:

- **Strategic costing** (profitability analysis, price setting, investment analysis and planning, strategic business planning).
- **Cost reduction** (efficiency improvement projects, review product portfolio, in- and outsourcing initiatives, change of sales efforts of (non) profitable products and services).
- **Cost control** (cost awareness while doing business, department (line-) managers are leading in cost reduction initiatives and feel cost responsible).

This focus will influence the ABC-model's scope, granularity, staff-involvement and update frequency.

ABC Services

ABC workshop

For organisations that are planning to implement Activity Based Costing as cost management tool the ABC workshop is an ideal introduction before setting up your project plan. This workshop will go through all the aspects (a.o. critical succesfactors) that need to be taken into account before you start (a case will be part of this workshop). We will also, if the information is available, create a simple ABC model and do the analysis for one of your business units.

Quick scan

Organisations that would like to start directly with cost management and have cost analysis results on a short term available, an ABC quick scan can realise this. The ABC quick scan will result in a high level picture of the current cost situation related to the activities and products. Results can directly be used for strategic management decisions or further specific (ABC) investigation. If the organisation also delivers the project team, we will train them during this quick scan and enable them to bring the ABC analysis to the next level.

A quick scan can be realised in six consultant days. It will be necessary that specific data is available. With a number of interviews and collected data the modelling can start. In this quick scan 5 to 15 high level activities and 5 to 15 high-level product/service groups will be defined.

Set-up and implementation of ABC/M

After analysing what type of cost insight is needed, what is your focus, we create and implement the right ABC model and make sure that results will be used as planned.

Initiate and monitor business improvement projects (in conjunction with our business partners)

ABC is often used as part of a business case. We support organisations in creating the financial analysis for their business case. After the ABC analysis we initiate, with our business partners, projects in the field of centralisation, outsourcing (to f.e. India) and/or offshoring of activities.

ABC software selection

Many ABC analysis software tools are offered. Prices differs from \$4.000 up to easely \$50.000. It is important to understand what your focus is, it determines how sophisticated the software need to be. We are familiair with different suppliers of ABC software and can help your company select the right one.

Information

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