Activity Based Costing/Management
Major Oil and Gas Company

Covalence Solutions LLC

Organizational Efficiency and Effectiveness

Case Study

Situation

We worked with a major oil and gas exploration/production company to pilot and evaluate Activity Based Costing and Management as a method of managing business processes and increasing organizational efficiency and effectiveness. The client wanted to identify opportunities for cost reduction and to quantify internal service and product costs for production engineering, field engineering, and operations accounting. The CFO of the client felt that their overhead was too high and wanted to identify potential cost reductions.

Project Objective

- Identify opportunities for increasing organizational efficiency and effectiveness
- Assist the client in evaluating Activity Based Costing as a tool for measuring organizational performance
- Determine the costs associated internal services and products
- Develop a plan for implementing Activity Based Costing company wide

What We Did

- Facilitated a client team, organized the project, defined the model structure, and trained the client in the use of ABC software
- Assisted the client in the development of an activity dictionary and defining products and services
- Facilitated the ownership of client identified opportunities for stakeholders of processes that were affected
- Assisted the client in the analysis of data and the ABB model

Results

- Client adopted Activity Based Costing corporate wide
- Cost savings opportunities of 37% of total costs were identified
- Organizational focus was re-evaluated and shifted as a result of the study
- Production economic analysis was revised as a result of the study after new insights were gained about G&A