

Activity Based Costing/Management Specialty Chemical Company



Product and Customer Costing

Case Study

Situation

The client wanted a more accurate and profess focused understanding of the costs associated with producing different products, serving individual customers, and supporting these two key processes. They also wanted to evaluate profitability for each customer and product with this new cost information and develop new market strategies. Finally, the client wanted to define opportunities for process improvement and re-engineering using the process cost data developed from the activity cost model. The scope of the study encompassed five manufacturing plants and five separate business units.

Project Objective

- Deliver a product and customer model foe each of the client's strategic business units (SBU).
- Benchmark product and process costs across plans in North America
- Determine product and customer profitability with specific suggestions to enhance market strategies
- Identify opportunities for performance improvement and re-engineering for each plant

What We Did

- Organized plant wide SBU focused and functionally representative teams to collect/analyze data and implement process improvement changes
- Train a core client team in Activity Based Management (ABM), the ABM methodology, and the utilization of ABM software to build cost and profit models
- Facilitated the development of cost and profitability models for the SBUs for both strategic and operational objectives
- Facilitated client management teams in the utilization of ABM data and development of plans to improve SBU financial performance
- Developed operational transaction performance measures for the client

Results

- Identified significant cost savings at each site halfway through the cost model development
- Identified unprofitable products/customers and determined the process cost drivers that were making these products and customers unprofitable. A significant percentage of product and customers indetified at each site had critical implications
- The development of operational strategies for enhancing division profitability and performance improvement