Guidelines for an "ABC" project practical implementation

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Note: The views expressed in this presentation are those of the author and do not necessarily reflect the opinions of the ITU or its membership.

Initiating the project

Initiate the Project

- Define the objectives - *what does the company expect from "ABC" implementation?*

- Define the scope - *will the implementation be extended to the whole company activity or limited to a few business lines?*

- Define the cost objects - *which will be the gross outputs whose costs will be studied?*

Leadership

- An ABC project must be driven by a multifunctional team;

- the team leader or the owner should be assigned, under the supervision of the top management;

- the team roles should be made as clear as possible (top management responsibility)

Buy in

- An ABC project needs the total commitment of the top management;

- The management, with the possible help of an instructor, should train the team with a view to sharpening the awareness of its members

Planning

- The management and the team leader should draw the project plan;

- the project plan should help the team and the management to control the quality, the cost and the timing during the implementation phase of the project

Analysis

Activities and processes

- The activities should derive from the cost objects;

- it is up to the team to define all the activities, build the work flow diagram and elaborate a clear process map reflecting what the employees *are doing* (not what they are supposed to do)

Activity Attributes

Attributes as those below can be associated to some activities in order to ease the analysis of the results and focus on what is crucial:

- *value Added - a customer would accept to pay for;*
- *Non Value Added - a customer wouldn't pay for;*
- *rework - resuming the work for any reason*
- *scrap - relating to rejected final product units*
- *etc.*

General ledger

- The team and the finance department should work together with a view to reconcile the cost data - *how can we map the cost data organised by department to those processes that are cross functional and cross departmental?*

- A resource structure should come out of that exercise.

Drivers

- Define the resource consumption patterns to identify the resource drivers;

- define the activity consumption patterns to identify the activity drivers

Cost objects

- At that stage, the management and the team should fine tune the products, services and customers;

Data collection

- The management and the team should define that data collection method(s) that they intend to use: the outcome might be a mix of surveys, interviews, storyboards, etc.

- the data collected by the team is submitted to the model administrator (provided with the appropriate software) who will pop the model results

Model Validation

Pilot project

If the scope of the project where limited to a pilot project, the activities hereunder should follow:

– *the team revise the reports*

– *the model administrator modify the model as needed and run allocation again*

– *the team and the management analyse the report with a view to build an actions list*

Communication

- To strengthen the ABC implementation buy in through employees awareness, the management should, at that stage organise a large communication (reports and seminars) concentrated on the findings and highlighting the reason why changes may be unavoidable.

- This ends the ABC implementation process

From ABC to ABM

"Don't stop there, because there can be much more"

Benchmarking

- The top management and the team should identify the ABM cost drivers and performance measures for key and significant activities in order to compare with what is achieved by the competitors (Benchmarking)

Improvement

- The top management and the team may set targets for improvement and implement them within the initial scope of the ABC process;

- they will consider the measure results

- they may also, after that, decide whether to run an other pilot project or proceed to generalisation and integration: a new plan for next step(s) should be set.

Integration 1/3

- If the results are deemed satisfactory, the management may decide to integrate ABM as the driving concept of the company strategy;

- in so doing, they may consider Activity Based Budgeting/Forecasting based on a better resource allocation

Integration 2/3

- In a competitive environment, a competitive analysis may help identify the level of competitiveness of the company's products/services and lead to changes on the products/services, activities or resources allocation

Integration 3/3

- Where competition is harsh and can not suffer delayed decision, the management, with the help of an integration team, may wish to integrate ABC system with the Management Information System and have the ABC costs real time.

Conclusion

The bank robber Willie Sutton, when asked "why do you rob banks?", is reputed to have replied "because that's where the money is."

ng too much data can be as inefficient as ing only a few information;

- usually the most significant drivers give accurate results;

- Always think about Willie Sutton: focus on high cost activities

END