



Yorkshire & Humber Regional Development Agency

■ Case Study

- Strategic Costing for PCT Automotive Ltd

Synopsis

PCT Automotive plans to quadruple sales and achieve a 10-fold increase in net profits over the next 7 years. This involves European expansion and extending the company's activities from manufacturing towbars to a wider range of automotive products. Critical to the plan is a detailed understanding of costs and PCT has been reviewing these using the Rapid Build Activity Based Costing method.

Company Background

PCT Automotive Ltd's primary business is towing products and accessories. There are plans to expand into other automotive products and to expand into Europe over the next 7 years. The company supplies the automotive aftermarket via independent fitting companies. It currently does not sell via retail multiples and car manufacturers thus managing to avoid significant supply chain discounting. The core competencies are:

- A good technical understanding of the towbar and related accessories market;
- Investment in high levels of research and development with each product line being tested to the relevant European Standards;
- Delivery of a quality customer service and technical support to the fitting aftermarket;
- Building good quality integrated manufacturing, warehousing and distribution systems to ensure a full range of product availability to the customers; and
- A strong management team with an ambition to expand and deliver.

Cost Issues

In this environment the company needs to:

- Understand the cost structure of the firm;
- Cut out all non-added value activities; and
- Re-invest funds into sustaining the research and development activity.

All are crucial to the business. Yorkshire Forward has been working in partnership with Business Link South Yorkshire and ServQ Limited to pilot Rapid Build Activity Based Costing (ABC) within PCT Automotive.

Cost Modelling

The ABC pilot looked at both the product range and customer profiles in significant detail. As early participants in the regional development programme, PCT's management team has been able to comment on and add to the development of the ABC model. James Terry, the company's Managing Director, has been personally involved in the pilot at every stage.



PCT manufactures automotive towbars and accessories for the European market





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The process enabled the senior management team to work together to identify the Key Activities of the firm, which resources were required to support these activities and then to sense check the costs involved. For a company that aims to grow and invest, a more complete overview of the cost structure was essential.

"It is good to stand back from the day to day management tasks and assess from first principles the cost structure of the firm, especially the use of the key resources normally considered as indirect costs." – James Terry

The ABC approach needed the involvement of the management team and key members of staff. The team's experience and judgement were used to map out the Key Activities, their linkage, pull and utilisation of corporate resources. In PCT this consultation process helped to build confidence and consensus at each stage of the pilot where decisions on relevant weighting and resources were needed.

Outcome

The information delivered during the pilot was of real use to the firm in understanding its strategic cost structure. Overheads could thus be better deployed and the cost of supporting key customers more accurately estimated.

"We are assessing the cost and profit of a particular business line, having identified its overhead structure in more detail using the Activity Based Costing Model. We are giving the business line its own management accounts in the short term until we better understand its contribution to the firm." - James Terry

Having estimated a more robust cost structure for both the major product lines and the management of customer related services, the business is now moving onto a six-month programme of Activity Based Management.

"The approach to customer profiling, in particular the analysis of the size versus cost to service will help our sales and support team in delivering better value for the firm and the majority of our customers. It is important that we appreciate the true cost to serve." - James Terry

Future Development

Using a Plan, Do, Check and Act approach for action based improvement, the management team has programmed 8 activity based management actions for PCT to complete over the summer of 2003 impacting on:

- Front-end customer account planning and related discounting structure;
- Focused marketing and selling to potential growth accounts;
- Target costing of each product line to assess competitiveness at the product line level; and
- The building of a market based transfer cost model between the manufacturing site and the warehousing and sales operation.

These actions will ensure the company is well placed for its UK product line and European expansion.

References

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