



Yorkshire & Humber | Regional Development Agency

## ■ Case Study

### - Strategic Costing for Galglass Ltd

#### *Synopsis*

*Galglass has experienced rapid growth over the past four years increasing turnover from £4 million to £10 million. This has been underpinned by tight control of cash flow and a culture which drives down costs within the organisation. Given this culture the company has been reviewing potential benefits from Rapid Build Activity Based Costing.*

#### *Company Background*

Formed in 1979 Galglass Ltd has grown by designing, manufacturing and installing sectional steel, coated bolted cylindrical storage tanks, used for the storage of many types of liquids and bulk commodities.

Over the years, the range has been expanded to include a Poured In-Situ, Monolithic Reinforced Concrete Tank and a Precast Concrete Panel Tank, providing a total solution from one specialised source.

There is a clear strategy to grow sales both organically and through acquisition. There are currently plans to enter new (but related) product markets.

#### *Cost Issues*

The company is continually looking at its cost structure, including discussions with suppliers about the costs of materials and services supplied. Cost issues within the firm arise mainly from price competition in the marketplace, and there has been an increase in overheads during this period of growth.

Yorkshire Forward has been working in partnership with Business Link South Yorkshire and ServQ Limited to pilot Rapid Build Activity Based Costing (ABC) within Galglass.

#### *Cost Modelling*

As early participants in the regional development programme, the Galglass management team has been able to comment on and add to the development of the ABC model.

The process enabled the senior management team to work together to identify the key business activities of the firm, the resources required to support these activities, and then to sense check the costs identified. The process concentrated on the costs involved within the different product types.



*Galglass has invested in CNC equipment.*



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*Galglass manufacture component parts for its storage tanks ready for on-site assembly.*

### *Outcome*

The cost information developed during the pilot indicated product categories which appear to be profitable and those which are not.

Whilst a small percentage of products (by sales value) appeared to be unprofitable, this could be justified based on the aim of providing a full range of products to existing customers.

The outcome reflected the fact that the management of costs within Galglass is at a higher level than many SMEs.

### *Future Development*

As a result of an already strong cost management system, the cost of implementing Activity Based Costing within Galglass (in terms of time and effort) may not be justifiable at this stage.

It is important to appreciate that ABC may not be appropriate for all businesses.

### *References*

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