



Yorkshire & Humber Regional Development Agency

## ■ Case Study

### - Strategic Costing for IFA Ltd

#### *Synopsis*

*The Independent Forgings and Alloys' manufacturing process is the manipulation of difficult wrought materials. The company aims to set the industry standard for service and delivery through forging partnerships with customers and suppliers. The company has experienced strong growth since the current management acquired the business in 2001. Critical to this continuing growth is a detailed understanding of costs and IFA has been reviewing these using the Rapid Build Activity Based Costing method.*

#### *Company Background*

Independent Forgings and Alloys (IFA) Ltd are specialists in open die forgings for a range of industries and applications. Main customers are fabricators, machinists, prototyping businesses and the aerospace industry. Forging furnaces are controlled to the highest standards, and facilities enable extensive heat treatment, hot straightening, and surface conditioning.

Traditional skills are combined with a modern environment and total commitment to achieve customer demands for quality and performance. Extensive hirework forging of customers' materials is also undertaken utilising a high level of process control combined with speed of turn round.

#### *Cost Issues*

Indirect and support costs have been allocated on a standard time per process basis. The ABC pilot addressed the allocation of these costs based on the actual usage of the company's resources by product types and customer categories.

#### *Cost Modelling*

Martin Burnham, Andrew McGuinness and Craig Syson have worked with the advisory team from Business Link South Yorkshire and ServQ Limited on a strategic costing initiative sponsored by Yorkshire Forward. The ABC pilot looked at costs within both the product range and customer types.

Activity Based Costing examines the key activities within the business from receiving an order, through manufacturing processes, to delivering to the customer. It allocates costs to products, customers, and services based on resources actually used, rather than the sometimes arbitrary allocation of indirect costs used in traditional accounting systems.



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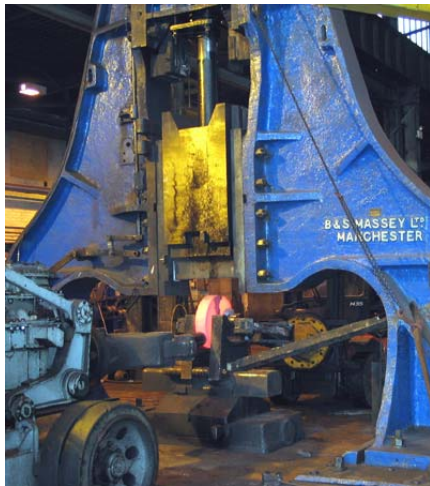


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The ABC approach needed the involvement of the management team and key members of staff. The team's experience and judgement were used to map out the key activities, their linkage, pull and utilisation of corporate resources.

### *Outcome*

The information provided by the 'first cut' ABC model has enabled the company to begin to identify the true costs for product types and customer categories.



*"We have already applied the findings from the cost to serve information on customers. We are now prioritising order estimating based on this information"*

- Craig Syson

*The rebuilt and upgraded 7 ton Massey double leg archform pneumatic forging hammer in action.*

### *Future Development*

The development of a more structured estimating model using activity based costing. There is scope from the ABC information developed to assess how resources are allocated to customer categories, and then focus on those which are profitable. There is also scope to determine ways of reducing the costs associated with serving certain customers.

Using a Plan, Do, Check and Act approach for action based improvement, the management team has programmed activity based management actions for IFA to complete over the summer of 2003 initially impacting on the estimating process for customer orders.

### *References*

Contact [lewis.bowman@yorkshire-forward.com](mailto:lewis.bowman@yorkshire-forward.com) or [andrewdcrossley@servq.com](mailto:andrewdcrossley@servq.com) for further information.

