



Yorkshire & Humber Regional Development Agency

■ Case Study

- Strategic Costing for Kaye Aluminium Ltd

Synopsis

Kaye Aluminium continues to restructure and develop its business since being bought in March 2001 by the EXL group. The company has been reassessing the profitability of its customer base and improving the efficiency and profitability of its working practices. Critical to this continuing development is a detailed understanding of costs and Kaye Aluminium has been reviewing these using the Rapid Build Activity Based Costing method.

Company Background

Kaye Aluminium Ltd, is one of the UK's leading extruders. It produces aluminium profiles for the building, electronic and automotive market sectors. Applications include windows, doors, electric trunking, air conditioning, ceiling systems and signage.

The company has an extensive production capability in terms of profile dimension and alloy capability. Added value services offered include in-house powder coating, anodising, thermal break and fabrication. Comprehensive design support is available to assist customers in the development of products and applications.

Cost Issues

With competitors entering the UK market from the Far East and Eastern Europe, the market has become increasingly competitive and price sensitive.

"Important business decisions are made on 'gut feeling' rather than using the costing information available. Selling prices are dictated by market forces with limited knowledge of the costs involved or the resources consumed."

- Ellen Rainey

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

Cost Modelling

Ellen Rainey and Peter McNeill from the senior management team have used the ABC pilot to look at costs within the product range and customer base. As early participants in the regional development programme, Kaye's management team has been able to comment on and add to the development of the ABC model.



Kaye Aluminium has made significant investment in modern extrusion facilities.





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

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 from the receipt of an order enquiry through to delivering the product to the customer. Resource costs were allocated to these activities, and then the usage of key activities by products and customers calculated.

Outcome

The information delivered during the pilot provided the firm with a better understanding of its strategic cost structure.



Kaye Aluminium carries a large stock of the customer specific dies essential to the extrusion process.

"This project has confirmed that even though our business is profitable as a whole, loss making products and customers are subsidised. If these sales categories were removed profits would increase and company resources would be freed to concentrate on increasing market share. Maximising profit rather than turnover is a crucial element of activity based costing."

- Ellen Rainey

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

"Just as costing structures are changing from functional to activity based, managers working in today's business environment must develop an understanding of the cost base of the business and the broader consequences of their decisions."

- Ellen Rainey

Future Development

"In an increasingly competitive industry, further development of activity based costing/management is vital for the future survival of Kaye Aluminium."

- Ellen Rainey

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

References

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