



Yorkshire & Humber Regional Development Agency

■ Case Study

- Strategic Costing for Metal Formers Ltd

Synopsis

Metal Formers have invested in computer and management systems and apprentice schemes to help compete in a commodity market which is very price sensitive. Particular emphasis is placed on strong customer service. Against this background, the company has been developing the Rapid Build Activity Based Costing method in order to better understand the nature of costs within the business.

Company Background

Metal Formers manufacture components to customer design and specification from sheet metals. They were established in 1968 and have maintained a policy of investment in equipment, people and systems since inception. Their emphasis on Customer Service has enabled the company to retain customers for over 30 years. This loyalty is also reflected in Metal Formers employees with an outstanding attendance record and commitment to their customers.

Metal Formers have developed expertise in many Industry sectors over the years including Electrical, Defence, and Railways, Automotive, Telecommunications, Printing, Process Control, Lighting, Visual Display and Retail Display equipment.

Cost Issues

Allocation of indirect costs was historically based and involved a charge-out based on machine utilisation. The method of allocation needed to be reassessed. The company was also concerned about the costs of estimating and quoting for potential orders.

Cost Modelling

Over a period of two months Ian Pack, the Managing Director of Metal Formers, has worked with Yorkshire Forward's facilitator ServQ, to develop the Rapid Build Activity Based Costing model. Mr Pack's involvement has been influential in the preparation and prototyping of the 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 initially concentrated on the costs involved in serving different customer types.



Ongoing investment in CNC equipment, CAD/CAM systems and Production Control means customers can rely on the integrity of Metal Formers' products and services.





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Outcome

The underlying aim of the activity based costing process is to provide more accurate information on the costs which are incurred by the company. The cost information developed during the pilot indicated customer categories which appear to be profitable and those which are not. Further development of the costing model will enable more detailed cost information to be available for the strategic decision making process. Although prices are mainly market driven this analysis can help management to focus resources on the right customer types.



"We are keen to develop the model further in order to have an estimating model which will use ABC to price products taking account of the cost of serving customers"

- Ian Pack

Metal Formers manufacture components to customer design and specification from sheet metals.

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 Metal Formers to complete over the summer of 2003 initially impacting on the estimating process for customer orders.

References

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