



Yorkshire & Humber | Regional Development Agency

■ Case Study

- Strategic Costing for Watsons Anodising Ltd

Synopsis

Watsons Anodising has developed 5 crafts and 35 processes into a high quality business supplying signs and engraving to trade customers. In a low margin environment it is essential to understand the true costs within the business. The company has been developing the Rapid Build Activity Based Costing model to examine the nature of costs within its product lines and customer segments.

Company Background

Watsons Anodising has supplied sign and engraving trade customers for more than 40 years. The company is centred on providing high quality manufacturing and fabrication facilities to the sign, architectural and electronics industries.

From inlayed glass into granite, profile cutting and lettering through fabricated plinths and panels to custom fascias and enclosures, Watsons manufacture to the toughest specifications producing industry leading build quality and finish.

Cost Issues

Andrew Coulthard, Watsons Anodising's General Manager, has been working with the advisory team from ServQ Limited and Business Link South Yorkshire on a strategic costing initiative sponsored by Yorkshire Forward.

Allocation of indirect costs was historically based and involved a charge-out based on a percentage mark-up. The method of allocation needed to be reassessed.

Cost Modelling

The ABC process involved identifying the key business activities from a horizontal view of the business, i.e. from enquiries received from customers, through the design and manufacturing processes, to delivering products and invoicing customers. The next stage is to allocate resources to the key activities, then determine the usage of key activities by product and customer types.

As a participant in the ABC pilot, Andrew Coulthard contributed to the development of a costing model which is of practical use to SMEs. The company was able to determine the relative profitability of products and customers and begin to prioritise areas for management action.



Watsons Anodising can utilise 35 different processes in its manufacturing operation.



Yorkshire & Humber Regional Development Agency

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.

"The ABC process has brought clarity to issues and has helped prioritise areas to focus on within the business. We have prioritised issues as gold, silver and bronze."
- Andrew Coulthard



"The process was useful, even if the results might make people uncomfortable. The information provided by activity based costing is akin to 'seeing the light'. It is a different way of looking at the business. This new perspective is a powerful management tool."

- Andrew Coulthard

Five traditional crafts are available during the manufacture of quality signs and engraved products.

Future Development

Financial information from the existing accounting system is being pulled together to help develop a more detailed ABC model. There is scope from the ABC information developed to assess how resources are allocated to customer and product categories, then focus on those which are profitable. There is also scope to determine ways of reducing the costs associated with producing certain products and 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 Watsons Anodising to complete over the summer of 2003. Initially this will focus on defining action to address unprofitable products and customer categories.

References

Contact lewis.bowman@yorkshire-forward.com or andrewdcrossley@servq.com for further information.

