



Yorkshire & Humber | Regional Development Agency

■ Case Study

- Strategic Costing for Ben Bennett Jr. Ltd

Synopsis

Eastwood Rolling Mills is part of Ben Bennett Jr. Ltd. The company supplies mild steel, carbon spring steel and hardened and tempered steel strip in a variety of grades and thickness. In this highly competitive market, the company needed to understand its cost structure and how this impacted on its core product ranges and customers. The company used Rapid Build Activity Based Costing to assist with the analysis and to be able to assess its sales plans and budgets more accurately.

Company Background

Eastwood Rolling Mills is part of Ben Bennett Jr. Ltd. It is a family owned business with the current (fifth) generation intimately involved. The company supplies mild steel, carbon spring steel and hardened and tempered steel strip in a variety of grades and thickness. Steel coil is bought in and subjected to one or several of the following processes:

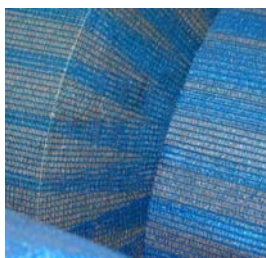
- Slit to a variety of widths;
- Rolled (limited amounts);
- Edge dressed;
- Heat-treated; and
- Surface finished.

The finished strip is sold to two main supply chains:

- Industrial market to second/third tier suppliers; and
- Consumer/domestic market via first tier/branded suppliers.

Cost Issues

The market is competitive and price sensitive. The company has a high quality/service ethos and competes on service, quality and speed. It uses quality suppliers to ensure customer tolerances on specification are met and the company system is well designed to support this service-based approach.



Eastwood Rolling Mills slits, rolls, edge dresses, heat treats and surface finishes steel for the international manufacturing sector.

The company has been examining its cost base, using Rapid Build Activity Based Costing (ABC). Yorkshire Forward sponsored this project. The agency worked in partnership with Business Link South Yorkshire and a specialist advisor, ServQ Limited, helped create a strategic cost model for the company.

Cost Modelling

Eastwood Rolling Mills' General Manager, Derry Graham has been working with Philip Udell the Company Secretary of Ben Bennett Jr. on the rapid build process within the firm.

"Initially, the rapid build process took some time to get to grips with during the first day. The need to estimate which activities consumed which resources tested some of our pre-conceptions." – Derry Graham



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The management team estimated the direct and indirect costs that can be attributed to each of the main product groups. This estimate had several iterations within the business model resulting in a robust estimate of each key activity in the business and for each product line and customer type.

The Ben Bennett team analysed the product range costing and income data produced by the model. The initial findings have enabled the company to reassess some of its costs and re-evaluate how it can work together with customers on some joint cost based initiatives.



Strip being continuously hardened and tempered.

Outcome

"ABC confirmed that at least two product groups were real cost challenges in very competitive markets. We are now looking at ways we can reduce the cost to manufacture these lines more efficiently, in line with our capital investment and market development programme." – Derry Graham

Differentiation on service is important, especially where little price premium can be obtained for branding. Knowing the realistic cost of service is therefore essential. The company is now able to optimise the product and customer mix to get the best returns, whilst still concentrating on quality and delivery.

"Customers, by nature of their differing order size, annual spend and specific needs attract different costs to serve. It is desirable to have an equitable cost structure, where the major customers are not seen to be cross-subsidising very small customers. ABC provides clear information on costs which may be used in pricing, strategic decisions on customer mix, plant and process developments." – Derry Graham.

Future Development

Ben Bennett aims to be able to assess its sales plans and budgets more accurately following the introduction of the Activity Based Costing approach. The company is looking forward to a period of expansion and international sales development, from a firm-costing base.

References

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