



Yorkshire & Humber Regional Development Agency

■ Case Study

- Strategic Costing, Chapmans Agricultural Ltd

Synopsis

Chapmans is a major manufacturer of agricultural parts for the replacement and OEM market. The business makes plough parts, mower parts and attachments. The company has an extensive product range and the business needed to get a better understanding of its cost structure, especially the cost to service small and medium sized customers. Chapmans used Activity Based Costing to achieve this aim.

Company Background

Chapmans Agricultural Ltd sells to the farming, agricultural and grass care sectors. The company makes plough parts, mower parts and attachments - collectively termed 'ground engaging equipment'. Key facts about the products:

- 70% of the range is sample based;
- They are generally heat-treated steel which is shaped and drilled;
- Generic parts are produced for the aftercare market; and
- Product sales and volume relate to crops sown or harvested, together with the weather impact on ground engagement.

Cost Issues

The company has an extensive product range and the business needed to get a better understanding of its cost structure, especially the cost to service small and medium sized customers.



Plough parts are painted, packed and stored awaiting dispatch

The company was one of the first to be involved in piloting an Activity Based Costing (ABC) model for the SME sector co-sponsored by Yorkshire Forward and Business Link South Yorkshire. Mr Faccenda, the Managing Director of Chapmans, has been influential in the development and testing of the approach.

Cost Modelling

Over a period of two months Peter Faccenda worked with Yorkshire Forward's facilitator ServQ, to prepare an ABC model for the business. As one of the first firms involved in the programme Chapmans' inputs and recommendations have been vital in the preparation and prototyping of Rapid Build Activity Based Costing.

Outcome

The initial findings on the cost to serve the current range of customers revealed some valuable findings on key accounts:

- Around 10 large customers account for over 70% of the company's sales;
- The 'cost to serve' these customers was around half of the average for the whole customer base;
- These key accounts are fundamental to the company's financial performance;



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In contrast:

- Over 50 smaller customers deliver only 15% of the company's sales;
- This 'tail' consumes a significant amount of the business' key activities, especially marketing and sales and design services and consequently a lot of indirect costs (half of the total).



Heat treatment is an integral part of the process for many of Chapmans' products

"The ABC process has taught us some things about our cost base. Like everything the more effort you put in the greater the return. It is also very important to involve the senior team when embarking on such a strategic costing project. It gets both understanding, buy in and focus."
– Peter Faccenda

Future Development

The next steps Peter Faccenda intends to take are:

- To refine the ABC model with his team to sense check the initial outputs;
- Define a pre-filter system for customer acquisition to ensure that new customers have growth potential and their cost to serve can be totally understood;
- Expand the production key activity to cover the manufacturing sub-processes; and
- Trial a less aggressive discount/more realistic pricing structure with new accounts.

"We intend looking at the customer tail. They take over half the current product range and the relevant cost to serve is high. We do not want to be in a 'Dutch Auction' on pricing these smaller orders and accounts. Hence we need an account filter system" – Peter Faccenda

As the business develops the costing process and moves into Activity Based Management, issues such as the reducing the cost to serve small customers and freeing up senior people's time to sell to more strategic/key accounts will reap significant rewards.

References

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