



Yorkshire & Humber Regional Development Agency

■ Case Study

- Strategic Costing for Edward Pryor & Son Ltd

Synopsis

Edward Pryor & Son Ltd. was founded in 1849 as a manufacturer of marking tools and equipment. It is a leading company in this field and exports its products and technology internationally. Edward Pryor has been examining the relevant costs and the impact on sales and values for its newer lines, which are the basis for future expansion.

Company Background

Edward Pryor & Son Ltd. was founded in 1849 as a manufacturer of marking tools and equipment. It is a leading company in this field and exports its products and technology internationally. There are three main divisions of the company:

- Standard type and punch (STAP);
- Engraving; and
- Marking machinery.

The latter includes design and commissioning. The business has an international reputation in delivering high quality marking solutions. Marking is segmented into:

- *Functional* – instrument gradations on gauges and machines;
- *Identification* – for part re-ordering or assay;
- *Traceable* – for sensitive components typically in aerospace;
- *Legislative* – to comply with legal certifications (country of origin, classification);
- *Commercial* – to protect trademarks and use in marketing; and
- *Decorative* – for use in giftware and similar product lines.

Cost Issues



CAD systems control the tooling for a new logo

The company has a variable history on costing with several legacy-based systems. The Finance Director, Dean Finister, is therefore planning investment in better IT and costing systems. The highly specialist nature of the firm means that indirect costs are a significant proportion of total costs. In preparing for the new systems the indirect costs needed to be reviewed and apportioned more accurately - as part of the pilot programme.

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, which helped to create a strategic cost model for Edward Pryor & Son Ltd.

Cost Modelling

The company has developed several new product ranges over the past few years: customised machines, coding solutions and lasers. These complement the traditional products: STAP, engraving and stock machines/accessories.



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The management team estimated the indirect and direct costs attributed to each of the main product groups. The consequential profitability of the three new product groups was considered to be more realistic using ABC.

"We tend to fall in love with things and therefore apportion indirect costs with less objectivity than we really should. Therefore Activity Based Costing has some attractions" – Mark Jenkins, Director and General Manager of the Marking Division.

Outcome

After building its ABC model Edward Pryor has been re-examining the relevant indirect costs and the impact on sales volumes and values for the newer lines. The existing lines are strong performers financially because of the firm's good reputation for quality and service in marking technology.

The company is working with large international OEMs as a technical supplier on new marking solutions. Rapid Build ABC indicates that this service is currently under costed. The management's strategy is to expand in this area.



The use of lasers for high traceability marking is important in the medical and advanced engineering sectors

"Activity Based Costing has attractions. A company can tend to over estimate the income and underestimate the costs associated with both developing new business and product lines. It is important that these new costs are accurately estimated, otherwise there is a degree of cross subsidy between the profitable existing lines and new product and market development"

– Mark Jenkins

Future Development

There is a great deal of goodwill invested in the both the OEMs and Edward Pryor's future relationships. The costing model will help the business move on into achieving strategic supplier status based on realistic costing analysis. It is important in such situations that the perceived 'balance of power' towards larger OEMs is on an equitable footing and they pay realistic prices, especially for joint development initiatives.

A more robust and accurate costing system will enable Edward Pryor to open a dialogue on getting more realistic prices and establishing a win-win business approach.

References

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