

Prodacapo Case



ABB reduced internal costs significantly

ABB uses Prodacapo AB's software solution for enterprise performance management. They are implementing activity-based costing in their efforts to optimise their business processes and improve cost calculation. The global technology and engineering group ABB is renowned for its efforts to be fast and to manage processes efficiently.

True to its tradition of innovation and moving early ABB launched a company-wide activity-based costing project in 1996. Volker Hevler, Vice President and Project Manager, ABC Group, at ABB headquarters in Zurich, Switzerland, became the driver of ABC in ABB and today oversee the progress within hundreds of ABB companies throughout the world.

"The decision to go for ABC represented a corporate concern and priority to further our competitiveness in an

increasingly global and competitive marketplace," says Volker Hevler.

Throughout the world, controllers in large and small industries face a similar dilemma; indirect costs are on the rise relative to direct costs, making up some 50 per cent of total product costs. At the same time, traditional costing methods tend to overcost high-volume, standardised mass-market products and undercost low-volume, tailor made products and systems.

"Moreover, as companies



strive to manage processes rather than traditional functions, traditional costing methods fall short," says Volker Hevler.

ABB's objectives are fourfold:

- Improve product costing and transparency by assigning indirect costs to cost objects more accurately than can be achieved with traditional cost accounting systems.
- Enable better management decisions with thorough analysis and insights into activities and business processes.
- Use ABC as a tool for change management in the organisation and its processes.
- Facilitate strategic decision-making based on more accurate cost calculations.

ABB is a global technology and engineering company serving customers in power transmission and distribution; automation; oil, gas, and petrochemicals; industrial products and contracting; and in financial services. Power Generation Customers are served by the joint venture ABB ALSTOM POWER. The ABB Group had a turnover of \$31bn in 1998 and today employs about 175,000 people in more than 100 countries.

Throughout its organisation, ABB is now moving from a functional orientation towards a business process orientation, reflecting the value chain and the customer focus of its respective business areas.

As functional borders within companies are becoming increasingly obsolete, ABB is

keen to leverage its IT capabilities to support new management methods.

Here, ABC plays a key role in overhauling and optimising business processes and in assigning indirect costs – which are typically influenced by factors such as number of orders as well as by the complexity and variety of products.

"Typically, you can see that overhead

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*Volker Hevler, Vice President,
ABB Worldwide Headquarters*

costs for purchasing, order handling, tender preparation and invoicing are driven by factors not considered in job order costing," says Volker Hevler.

Aims for world-leading ABC

Already from the start it was clear that the ABC methodology must become a common denominator for controlling and monitoring all processes within each of its companies – not merely an accounting gimmick, or a tool to improve the manufacturing, or contracting activities in parts of the organisation.

"We set our sights very high from the

start – ABC must always comprise the entire company and include dedicated management buy-in and commitment. It is not sufficient to use ABC in your current cost accounting system or to use it as a parallel tool. Rather, you, do it by the book and progressively," says Volker Hevler.

Two-tier process

ABB's approach is based on a two-step implementation based on cause and effect. In a first step, costed activities per business process are analysed, mapped and optimised. In a second step, an integrated ABC calculation/cost accounting system is implemented, based on the activities derived from the first step.

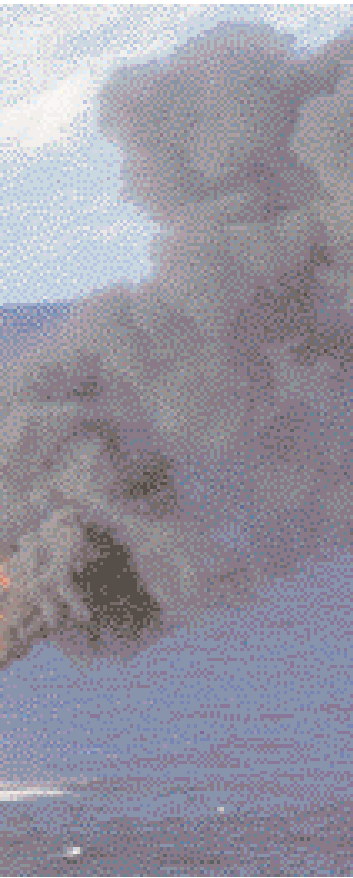
The first step involves:

- Analysis and costing of common activities per cost center
- Assignment of cost center activities and costs to company processes
- Optimisation of processes and activities
- Reassignment of cost center activities and costs

The second step includes:

- Assigning costed activities to cost objects
- Implementing an ABC-based calculation/cost accounting system

"First, we perform a thorough process analysis and optimisation throughout the group by carrying out group interviews



Practising ABC – ABB in Great Britain



One country where ABC projects have made considerable headway is Great Britain. At ABB headquarters in London, controller Andy Daniels uses Prodacapo on a daily basis.

with practically all employees, regarding their tasks and activities. This gives us a detailed map of our activities and processes. Since it also establishes cost and volumes, we create a management tool to optimise business processes to cut lead times and reduce costs significantly,” says Volker Hevler.

Measuring up to ABB

Within the ABC projects, the Prodacapo software solution is used from the very beginning of each project.

“We have chosen Prodacapo because we found this to be the best available solution for our global project. And we believe it has the most potential. With Prodacapo we can both map our processes and activities and do a product/customer profitability calculation in one and the same system. Furthermore we aim to design standard interfaces to the companies’ ERP systems with regards to our integrated ABC calculation/cost accounting system. The advantage of being capable to visualise and drill down information about costed processes and activities with Prodacapo’s process mapping module is unmeasurable,” says Volker Hevler.

“Prodacapo had a good fit with what we needed and, from the beginning, we have had very good customer-supplier relations within our teams, i.e. in tailoring their solution to our needs. They understood the significance of what we wanted to accomplish.”

Andy Daniels has 20 years of experience as a CFO. He is now into his third year of managing the implementation of ABC costing in around 30 British ABB companies. Sharing the workload with his colleague Karen Wilson – and drawing on the support of ABB ProCon – Andy Daniels is travelling extensively to the various ABB offices throughout the country. He is an extremely busy person, driving ABC projects in companies with some 6000 employees in total.

“Everything I need to be able to perform an ABC project is right here,” he says and points to his laptop. Indeed, Prodacapo fits nicely onto a standard-equipped portable PC for somebody always on the move like Andy Daniels.

“The initial process analysis is somewhat like detective work where we try to detect disruptions in the flow of activities that make up a process. What we have in our Prodacapo models is a well of information about disruptive events and factors that we can draw on to optimise costs and reduce time needed for execution,” says Andy Daniels.

Typically, disturbances translate into opportunities to reduce costs and continuously improve operations. Already here – in the first stage of implementing ABC – cost savings are realised.

“I would emphasise that nobody has – until now – been able to map out activities in such great detail and align them directly to overhead costs. Here is a truly large potential to leverage ABC to change management and continuous improvements in the future.”

ABC procedure

Andy Daniels is one of the many facilitators for ABC implementation whom

Volker Hevler and his corporate team have at their disposal. Andy’s workmode is typical of how Prodacapo is used.

“In the first stage of a project, all employees receive a one-hour briefing so they understand the significance of what we are doing and how their contribution will be decisive for our success. In the next step, we complete a form where they tell us about the work they perform. Finally, these forms are reviewed in joint discussions to map out the activities of our processes – such as procuring primary products for manufacturing to a customer order, or purchase stock components,” says Andy Daniels.

Once the process of analysing and mapping has been concluded, indicators from the interviews are put to work to optimise processes. With Prodacapo, all activities are then coded to facilitate benchmarking and best practice measurements between ABB companies and segments.

“What we do is to go from the process ‘as-is’ map to the process ‘should-be’ map. In doing this, we focus on the vital few processes, where we see the highest and most relevant potential for improvements. This is not an exercise in downsizing or mere cost cutting – rather, it is a management tool with maps, measurements, comparisons, and other tools which we can rely on in the future,” says Andy Daniels.

The key deliverable after the optimisation process in Stage 1 is a process management action plan supported by top management that leads to increased profitability per product and customer, thanks to Prodacapo. In the next step, ABC is fully implemented as a calculation/cost accounting system based on the costed activity and costs.

Prodacapo, with headquarters in Sweden, is one of today's leading providers of Enterprise Performance Management applications.

The software solution includes components for: Balanced Scorecard, Activity Based Management, Process Management and Business Planning.

The applications enable managers to translate strategy in to action, drive true customer and product profitability, improve organizational efficiency and increase the accuracy and ease of the planning process. Each component is designed to work as a solution in its own right or in conjunction with one or more of the other elements, allowing a performance management solution that is right for each organization's specific situation.

Leading companies and organizations in more than 50 countries are currently using Prodacapo software.

