

# case study

## The evolution of Activity Based Costing to support Shared Services within Skandia Life

Skandia is a leading worldwide provider of long-term savings products with a range of innovative solutions for pensions, investments, insurance, banking and protection. Active in some 20 countries on four continents, its largest markets are Great Britain and Sweden. Skandia is also active in Australia and in selected growth markets in Europe, Asia, the Middle East and Latin America.

Since 2006, Skandia has been a member of the Old Mutual Group, an international financial services organisation offering a wide range of products and services in savings and asset management. Old Mutual was founded in 1845. Its head office is in London and the group has approximately 47,000 employees worldwide.

### 1999 to 2006

Skandia has been working with Prodacapo software and Bellis-Jones Hill since 1999. The initial business requirement was driven by a desire to have an improved understanding of the operational cost base, how those costs are driven by the various products on offer and the underlying factors which caused unit costs to move when business volumes change up or down. Prodacapo was selected because of its easy to use interface and the expert knowledge which could be provided by Bellis-Jones Hill consultants.

**skandia** :

*"We found Prodacapo to be a very flexible application, which was able to adapt quickly to meet our changing requirements."*

Jim Kirk,

Business Intelligence Manager,

Skandia



**Bellis-Jones Hill**  
PERFORMANCE MANAGEMENT CONSULTING & SOFTWARE

***"With the help of Bellis-Jones Hill we created an effective solution to support our new business model. Their expertise of costing and performance management was invaluable to the success of the project."***

*Lynzi Harrison,  
Head Of Business Information,  
Skandia*

Skandia was supported throughout the whole lifecycle of the initial development, from conception to implementation, by Bellis-Jones Hill consultants. This included the development of automated routines to ensure information could be easily updated and the development of analytical views that enabled full ad-hoc analysis to understand how costs flow through the organisation.

By applying Bellis-Jones Hill's Activity Based Costing (ABC) methodology, Skandia were able to analyse and understand cost information for the entire business, providing both total and unit cost information for each product, which in turn enabled them to monitor efficiency and where necessary to make improvements.

By 2006 the following business processes were supported by ABC information:

- Product Costing – first models were built with and for the Actuarial function in order to assist with product pricing.
- Calculation of the "Management Fee" charged from the Business Services company to other Group companies.
- Embedded value assumption setting, forecasting and business planning.
- Trend analysis, activity analysis and various benchmarking exercises.

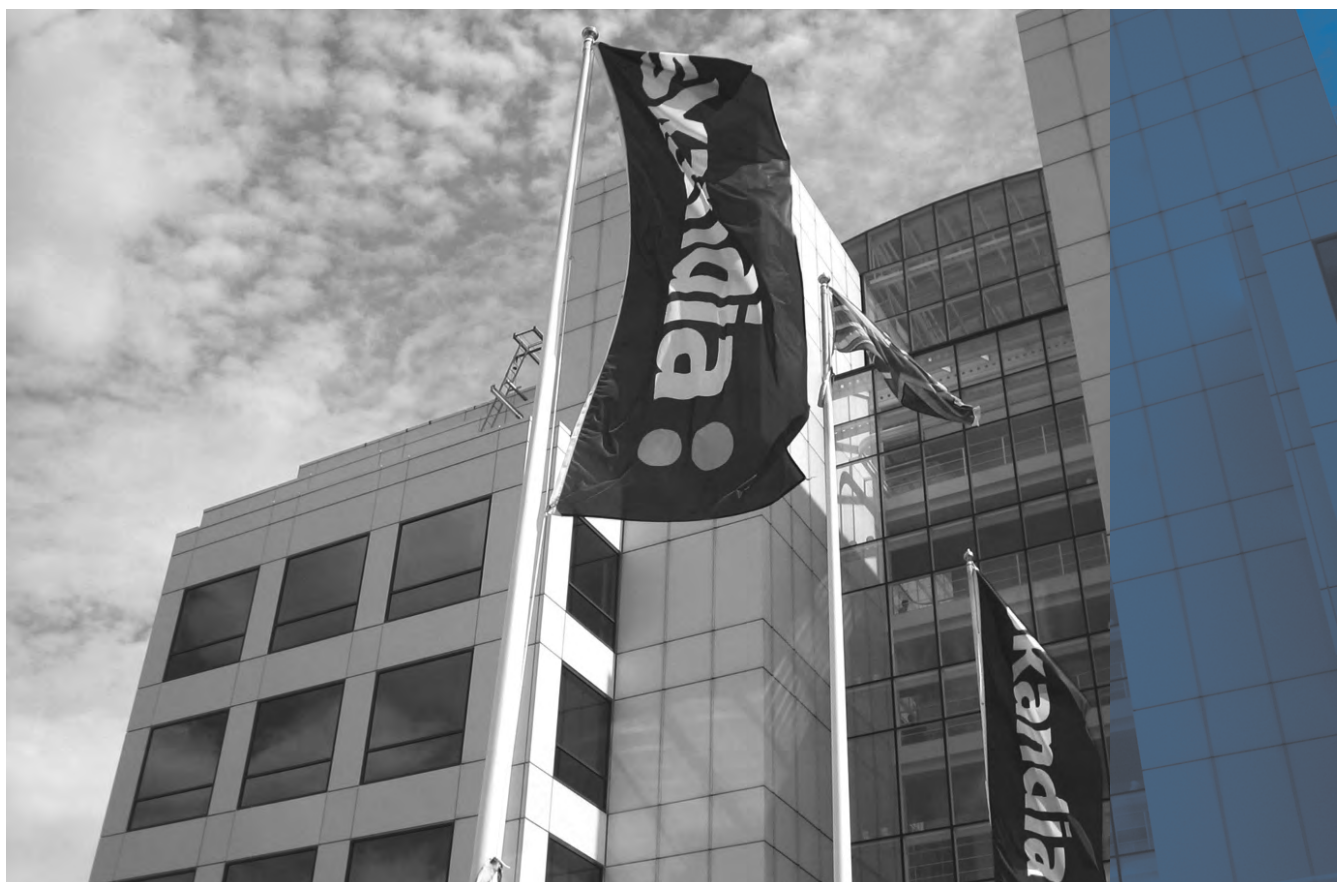
Skandia was also able to use this information to support major change initiatives such as IT Outsourcing, Business Process Re-engineering, Organisational Design and Governance Restructuring.

So support could be provided to both "business as usual" functions as well as major change initiatives.

#### **2007 – Date**

In 2005, Old Mutual made a public offer to acquire all shares in Skandia UK's Swedish parent company. By February 2006, this purchase was complete and by June 2006, Skandia shares had been de-listed from the Stockholm and London Stock Exchanges. Skandia UK was now part of a much larger financial services group.

Following the takeover, a new governance structure was put in place to provide clear accountability within the group, and business units were established to focus on product and business development both in the UK and internationally. A Shared Services organisation was created to provide a variety of services to these Business Units (BU's) and to the wider group.



The Shared Service organisation comprises various support functions such as Human Resources, IT, Customer Services, Investment Administration, Finance and Facilities. Each area within Shared Services and each of the BU's has a Service Manager whose primary focus is on continual improvement in service delivery, with the aim of building productive working relationships and embedding more commercial behaviours throughout the company.

To support the move to this new business model, the development of a commercial charging mechanism for Shared Services was required. Working with Bellis-Jones Hill consultants, and already in possession of a great deal of information on the cost of the services in their existing ABC model, the transition to a new model was achievable within a relatively short space of time.

In less than three months a new Skandia ABC model was operational. The Prodacapo software is based on a tried and tested methodology and during the development of the new model it proved to be very flexible, with the ability to adapt quickly to the changing requirements of the business.

Once complete, a pricing tariff was produced for each combination of service and customer. On a monthly basis the new ABC model is updated with service volume and cost data, which enables profit and loss analysis of the Shared Service organisation. Each section within Shared Services is now incentivised to make a small operating profit, helping drive commerciality throughout Skandia.

The new Commercial Operating Model brings all the benefits of a commercial framework without the cost and time that you might associate with formal legal contracts. It now enables the business to:

- Benchmark with third party providers much more easily.
- Become proficient at service management (both demand and supply).
- Develop a deeper knowledge of its services (volumes, costs, etc).

#### Key Learnings

- The identification of the key drivers of costs within a Shared Services organisation and how they are consumed by different areas of the business.
- A deeper understanding of the various customers of Shared Services, what they consume, and how much it costs.

#### Next steps

If you believe that your organisation could benefit from a review of its performance management approach please get in touch. We will be delighted to discuss your requirements and how we can help. For more information please contact Bellis-Jones Hill on 0207 323 5033. We look forward to hearing from you.