

# PRODACAPO case study



## Realising ABC for **ABB**

**The multinational electrical engineering group ABB – Asea Brown Boveri – is renowned for its success in time-based competition and process management. Going one step further, ABB now uses PRODACAPO throughout the company to implement Activity Based Costing in its efforts to cut lead times and costs even further.**

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

"Moreover, as companies strive to manage processes rather than traditional functions, traditional costing methods fall short of the necessary requirements," says Volker Hevler, Vice President and Project Manager ABC-C Group at the ABB headquarters in Zurich, Switzerland.

True to its tradition of innovation and leadership, ABB launched a companywide Activity Based Costing project in 1996. Volker Hevler

became the champion of ABC in ABB and today oversees progress within hundreds of ABB companies and cost centers throughout the world.

"The decision to go for ABC represented a corporate concern and priority to, at the end of the day, further our competitiveness in an increasingly global and competitive marketplace," says Volker Hevler.

#### **ABB's objectives are fourfold:**

- To cost and price products better by assigning many more indirect costs to products and services than can be achieved with traditional cost accounting
- To enable better management with thorough analyses and insights into activities and processes
- To use ABC as a tool for change management in the organisation and its processes
- To facilitate strategic decision-making based on relevant cost calculations

#### **World-leading ABB**

ABB is a global electrical engineering group, primarily dealing with the generation, transmission, distribution and use of electricity. The group is also a world leader in process automation, industrial robots, environmental protection and railway equipment. In 1997, the group had a turnover of \$35bn with 230,000 employees in around 1,000 companies in 140 countries.

Throughout its organisation, ABB is now moving away from traditional function-orientation. Instead it is moving towards dynamic activities and processes in line with its value chain and the customer focus of its various business areas.

As functional borders within companies become 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 work processes and reallocating overhead costs – that are typically influenced by factors such as number of orders and complexity and variety of products, etc.

"Typically, you can see that overhead 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**

From the start it was clear that ABC methodology must become a common denominator for accounting throughout the entire group – not merely a tool to improve manufacturing or contracting activities in parts of the organisation.

"We set our sights very high from the start – ABC must cover the entire group and include full 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 must 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. First, current activities and processes and the associated costs are mapped out, assigned to processes and optimised. Second, an integrated ABC cost accounting system is implemented.

The first step of cost tracing involves:

- Analysis and costing of common activities by cost center
- Assigning cost center activities and costs to company processes

- Optimisation of processes and activities
- Reassigning cost center activities and costs

The second step includes:

- Assigning costed activities to cost objects
- Implementation of the new system

"First, we perform a thorough process analysis and optimisation throughout the group by carrying out group interviews with practically all employees regarding their tasks and activities. This gives us a detailed map of our activities and processes as they are. Since it also establishes costs and volumes, we are creating a management tool to optimise work processes, cut lead times and eliminate excessive costs," says Volker Hevler.

#### **Measuring up to ABB**

When mapping out processes through group interviews, data is fed into ABB's software tool. Here, PRODACAPO is put to work from the start.

"We chose PRODACAPO because we found it to be the system with the most potential. With PRODACAPO, we can both map out processes and activities and do costing in one and the same system. True, we had another tool in ABB but it only showed costs in rows and columns. The advantage of being able to visualise processes and activities with PRODACAPO's process mapping module is immeasurable," says Volker Hevler.

"PRODACAPO was a good fit with what we were looking for and we have had very good relations with their team in tailoring PRODACAPO to our needs. They measured up to the significance of what we wanted to accomplish."



## Practising ABC:

# ABB in Sweden at the helm

**One country where ABC projects have made considerable headway is Sweden. In the Swedish headquarters in Västerås, controller Kenth Pettersson uses PRODACAPO on a daily basis.**



*Kenth  
Pettersson*



Kenth Pettersson has 20 years of experience as a CFO. He is now into his third year of managing the implementation of ABC costing in around 50 Swedish ABB companies. Sharing the workload with his colleague Thomas Bengtsson – and drawing on the support of ABB Management Consultants – Kenth Pettersson is travelling extensively to the various ABB offices throughout the country.

"Everything I need to map out processes and run this job is right here," he says and points to his laptop. Indeed, PRODACAPO fits nicely onto a standard-equipped portable PC for a road warrior like Kenth Pettersson.

He is also an extremely busy person, running ABC projects in companies totalling some 25,000 employees. For a few days, he works at his desk in the ABB headquarters reviewing activities in a procurement process mapped out the week before.

"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 I have at my desk is a well of information about disruptive events and factors that I can draw on in optimising costs and timeliness," says Kenth Pettersson.

Typically, disturbances translate into potential for reducing costs and continuously improving operations. Already here – in the first stage of implementing ABC – cost savings are being realised.

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

### **ABC procedure**

Kenth Pettersson is one of the many facilitators for ABC implementation that Volker Hevler and his corporate team have at their disposal. Kenth's way of working 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 with questions and answers relating to their activities. Finally, these forms are reviewed in joint discussion to map out the activities of our processes – such as procurement of primary products for the manufacturing of a customer order, purchasing stock components, etc."

Once the process of analysing and mapping out 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 profit centers.

"What we do is to go from the process "as-is" map to the process "should-be" map. In doing this, we focus on a vital few processes where we see the most potential for improvements. This is not an exercise in downsizing or mere cost cutting – rather, it is a management tool with maps, measurements, comparisons, etc, which we can rely on in the future."

The deliverables after the optimisation process in stage one are not only a process management action plan supported by the company top management but also increased profitability per product and customer thanks to PRODACAPO. In the next step, ABC is fully implemented as a cost accounting system based on the reassigned cost center activities and costs.



# About **PRODACAPO**

PRODACAPO is a client/server system that delivers business improvements using management techniques such as Balanced Scorecard, ABC, TQM and Process Management in one fully-integrated system.

By using the implementation handbooks and the efficient helpdesk support available together with experienced training support, you can implement PRODACAPO in a surprisingly short time.

## **PRODACAPO includes the following products:**

- PRODACAPO Process Manager – Improves your business processes by cutting lead-time, improves quality and cuts your process costs
- PRODACAPO Process Costing – Integrates your financial systems with the management of your processes and organisation
- PRODACAPO ABC Object Costing – Gives you the possibility to increase the profitability by understanding how your processes are consumed by your customers and products
- PRODACAPO Balanced Scorecard – Translates your strategy into action by applying your Balanced Scorecard to your business processes

- PRODACAPO Connect Interface – Links PRODACAPO to your existing business systems
- PRODACAPO WEB Solution – Publishes your process and Balanced Scorecard information throughout your organisation via Internet/Intranets and Extranets

## **PRODACAPO is the market's most powerful tool for:**

- Strategy follow up
- Customer & product profitability analysis
- Process modelling and optimisation
- Organisation improvement analysis
- On-going ABC and follow up

## **PRODACAPO's advantages include:**

- Unique integrated product for Balanced Scorecard, Process Management and ABC
- Efficient interface with all leading Enterprise Resource Planning and financial systems
- Web interface for easy information transfer
- Rapid implementation via logical model
- Advanced process modelling functionality
- Complete costing and profitability for customer and products in the same model



### **Sales and Marketing**

Finlandsgatan 34 • Box 6061  
SE-164 06 KISTA • SWEDEN  
Phone +46 8 632 19 00 • Fax +46 8 632 19 02

### **R&D and Administration**

Strandgatan 21 • Box 848  
SE-891 18 ÖRNSKÖLDSVIK • SWEDEN  
Phone +46 660 798 70 • Fax +46 660 798 79