Monday Morning
November 26, 2007

ONE EIGHTY

Upcoming Events

- CAM-I Fourth Quarter Meeting
  Austin
  Dec. 10-12
- APQC Winter Training Program
  Houston
  Feb. 5-6, 2008
- Passport to ABC Book Launch
  Los Angeles
  January, 2008

People in the News

- Emily Asmus (Grant Thornton), Lori Feller (IBM Global Services), Jim Jensen (Boeing), Bob Thames (SAS Institute), Doug Webster (Grant Thornton) and the CAM-I Change, Adaptation, and Learning Interest Group release their new book-- ***Chasing Change: Building Organizational Capacity in a Turbulent Environment***

Account Level Costing

Wachovia Bank, FedEx, and Sprint/ Nextel are just a few examples of companies leading a trend to drive cost and calculate profitability to the account and even the transaction level.

Wachovia calculates the profitability for each customer account. FedEx calculates the profitability for each sender's account number and Sprint each telephone number. Utilities are interested in the cost and profitability of residential households and retail operations want to know the profitability of cash register sales.

Account level costing is a powerful operating tool. Sales orders, insurance policies, bank accounts, service agreements, and retail sales transactions are the front line of operations, where organization value is made or destroyed on a real time basis. Account level profitability enables line managers to react and make changes on a near time basis.

Account level costing is a powerful strategic tool. Cost and profitability taken to the granularity of account and transaction level can be summarized to report profitability of product and service lines of business, and the profitability of customer groups, segments, or channels.

Good examples of the power of account level costing are large global suppliers of tools and services to drill and produce oil and natural gas. Total revenue for each sales order is in the tens of thousands and includes product sales, tool rentals, tool operators, and technicians.

One company used its current standard costs for manufactured products and Activity-Based Cost tracing methodologies for rental tools and service personnel to cost and calculate the profit earned on each sales order and for each individual line item on the order.

Unique fields on the sales order captured customer information, the oil field, and even the specific well where the work was performed.

The unique fields and sales order level of granularity were the basis of a strategic tool to report profits by customer, product, and service.

Perhaps even more interesting was the ability to calculate the profits earned from different oil fields and to segment the types of oil wells that were most profitable. From a strategic point of view, aligning with customers that drill in oil fields and types of formations most profitable to the company is a priority.

The primary enabler of account level costing is the advancement of IT systems and capability. Except in businesses with few transactions or accounts, the level of granularity for reporting costs and profitability would have been impossible just 10 years ago.

Technology, you got to love it…

John A. Miller

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