

Monday Morning

July 7, 2008

ONE EIGHTY

Upcoming 2008 Events

- Performance Institute
Performance Budgeting for Government
Arlington VA
August 4-8
- CAM-I Third Quarter Meeting
Portland OR
September 7-10

People in the News

- Congratulations to Anthony Pember, recently appointed CEO of Pilbara Group

The Cost of a Can of Tuna

Early in my career, out of college and working for Arthur Andersen, I was assigned to a project for a tuna packing plant in San Diego.

Overall the operation made money but management wanted to know the cost and profit of its individual products.

Sound familiar? Many of you have the same issue today, especially if you're in a service business, where the service is the product.

The question back then was what does a 6 oz can of tuna cost?

The question today for a service business might be the cost of providing a checking account, mobile telephone number, automobile rental, or an e-mail account.

While a can of tuna is a lot different than a telephone number or checking account, the costing issues are similar.

Each has costs that must be traced or assigned to the product (can of tuna) or service (automobile rental for example).

For the tuna packer, the largest cost item was raw

tuna fish, which were cleaned, cooked, packed, and canned.

For the tuna packer some of the fish (white meat) ends up as different grades of canned tuna (solid, chunk, flake). Portions of the tuna (red meat) are used to make cat food.

The bones and non edible portions of the fish are sold and used for fertilizer.

Raw tuna fish are purchased by the ton. The primary costing issue was how to split the cost of a ton of tuna between white meat (with its different grades), red meat, and by products like fish bones. In the end, the assigned cost to the fish parts had to equal the total of the fish cost.

Depending on the method of assigning tuna cost to canned solid tuna vs. cat food has a huge impact on each product's cost and profitability.

Assigning cost to products on the basis of weight or volume, meaning each of the fish parts had the same value would have produced a misleading result. A pound of white solid albacore tuna is

worth more than a pound of bones.

Most cost accountants try to avoid using allocations and cost assignments based on sales, preferring physical measurements like time, weight, volume, nodes, quantities, etc as basis for accurate cost assignment.

For the tuna packer, its individual products each had a different value in the marketplace even though they came from the same fish. Value could not be ignored and was an important part of the cost assignment methodology.

For many service organizations, the largest cost item may be its network of computers, servers, cell towers, automobiles, or airplanes.

Like a tuna fish, some parts of a network may be more valuable than other parts. Value in the marketplace may play an important role in the assignment of network costs to services.

The cost of a 6 oz can of tuna in 1971? 14 and half cents...

John A Miller

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