

Monday Morning  
February 18, 2008

# ONE EIGHTY

## Upcoming 2008 Events

- CAM-I First Quarter Meeting  
Charlotte NC  
March 9-12
- APQC 13<sup>th</sup> Annual Knowledge Management Conference  
Chicago  
April 28-May 2
- CAM-I Second Quarter Meeting  
Baltimore  
June 9-12

## People in the News

- Congratulations to Charlie Stirk, recipient of the 2007 Bonsack Award for his outstanding contribution to the CAM-I Target Costing Interest Group

# Industry Cost Structures

Different industries have different cost structures. Some industries are labor intensive. Others are material or capital intensive. In distribution, regardless of industry, most of the costs are the acquisition of products purchased from manufacturers.

The same is true for retail operations like a grocery store, where 70% or more of expenditures go toward the food and merchandise displayed in the stores.

Performance management and measurement differ between industries and should reflect the cost structures of those businesses.

In a typical manufacturing organization, half the costs are raw materials or component parts purchased from suppliers.

For the manufacturer, the acquisition costs of material and component parts are critical.

The emphasis of performance management should be on the processes and activities for product manufacturing and the activities associated with the

procurement of materials. Effective supply chain management is critical.

In the capital intensive semiconductor industry half the cost structure is depreciation of the capital investment. Once the investment is made, the depreciation cost is fixed for the foreseeable future.

Emphasis should be placed on project management and activities related to capital investment analysis, authorization, and decision.

In a service organization, like a consulting firm or software developer, as much as 75% of the costs can be people and people related (offices, telephones, and computers).

For the service organization, it's all about managing the effectiveness and efficiency of human labor.

Harder to measure but critical for performance are the ideas and innovations that come from knowledge workers.

For a company like Nike that invests heavily in its brand, the largest

expenditures are related to marketing, advertising, and promotion.

In the Nike like example the key activities to manage might include those related to the design and procurement of advertising or management and recruitment of celebrity endorsements.

In the oil and gas industry significant expenditures are made to drill wells to explore for oil and natural gas, many of which are dry or not commercially viable.

Activities related to collecting seismic data and evaluating underground formations are critical to the overall success rate.

***Use a simple pie chart to identify the overall cost structure of your business. Review your performance management and measurement systems to determine that they address the large cost items...***

***John A. Miller***

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