

The Role of Finance in Transformational Performance Management

Brian Higgins

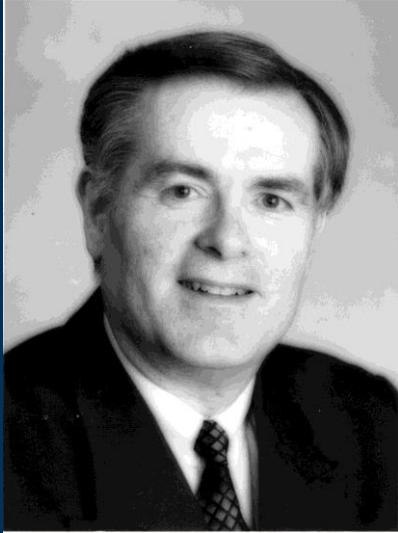
Allen Berryman

June 24, 2024



The Association of
Accountants and
Financial Professionals
in Business

Featured Presenters



Brian Higgins
Principal
Management Resource
Technologies Ltd



J. Allen Berryman, CPA
Chief Financial Officer
Patten Title Company

Agenda

1. Introduction
2. Evolving Role of Finance
3. Issues With Today's Financial Costing Systems
4. A New Categorical Solution
5. Real-World Case Study
6. Key take aways



Poll Question 1:



To what level are past and present economic conditions (*inflation, competition, regulations, etc.*) impacting your organization?

- a. Significant impact
- b. Moderate impact
- c. Not affecting the business at all



Poll Question 1 Results: (Placeholder)

Issues, Concerns, and Pain Points

Sticky

- **~~“Transitory”~~ inflation is permanent enough to take action**
- Growing costs without a similar growth in revenues
- Increased demands under budgetary constraints
- Overlap, duplication, poor quality, fragmentation, and non-mission-related effort generating excessive/avoidable costs
- Need to grow the business but cannot afford to do so
- Maintaining a leadership position
- Most organizations do not know what their products and services really cost
- Improvement targets may not be correctly selected due to the lack of diagnosis – oftentimes by brainstorming, intuition, or the *“squeaky wheel”*
- Lean/Six-Sigma/CI/BPM efforts are not *“moving the needle”*
- **CFOs are often held responsible for financial performance but may not have adequate authority nor tools to affect financial performance**

Roles of the CFO

“CFO’s believe that their most critical task is measuring and monitoring their company’s performance.”

Chief Financial Officer Insights
IBM C-Suite Study

Controllership
Duties

Treasury Duties &
Governance

well as the day-to-day
mechanisms by
companies are

“Only 47% of CFOs think their finance organization is effective at measuring and managing performance.”

Chief Financial Officer Insights
IBM C-Suite Study

Economic Strategy

*“Only 16% of the CFOs believe the finance organization is effectively **combining information from different parts of the enterprise** – of vital importance.”*

Chief Financial Officer Insights
IBM C-Suite Study

Primary Responsibilities of FP&A

FP&A professionals play a critical role in helping organizations make informed financial decisions, optimize resource allocations, and drive business performance and growth.



Budgeting &
Forecasting



Financial Analysis



Strategic Planning



Management
Reporting



Financial Modeling



Performance
Management



Decision Support



Improve Forecasting



Cross-functional
Collaboration



Investment Analysis



Identifying Opportunities



How are performance improvement projects identified?

- Brainstorming
- Pain points or noise
- Thorough diagnostic assessment
- Other

Do executives view the effort as a *breakthrough initiative* that is:

- critical to success
- aligns with strategic direction
- having a significant payback, or
- serious consequences if action is delayed or not taken?



Rearranging deck chairs

On the Titanic

How Many Organizations Cost Products/Services

- Jill joins nine friends for dinner
- Nine guests ordered the \$50 special
- Jill ordered a \$10 appetizer
- Presented with a bill for the total amount (\$460), they decide to split the tab – each paying \$46
- Jill's cost at least 4½ times more than her actual cost
- Jill would be “covering” or “subsidizing” the costs of other diners
- Is that fair?
- **Many of today's businesses cost their products and services in the same manner and yet...**
- **Finance relies on the accuracy and/or confidence of costs to make decisions**



Problem: “Inside-Out” Approach

The Financial Systems Cannot Identify Opportunities

Income Statement

ACME MANUFACTURING COMPANY	
Income Statement	
For The Year Ending December 31, 2018	
Revenues	\$1,200,000

Balance Sheet

ACME MANUFACTURING COMPANY	
Balance Sheet	
December 31, 2018	

G/L systems are designed to capture costs at the functional or department level. Can be setup for P&L data at a granular level (*i.e., office or branch*), but that doesn't deal with LOB cost/profitability, indirect/overhead costs, overlap, duplication, or activity fragmentation – inability to grasp the situation!

Net income (after tax)	\$350,208
Earnings Per Share	\$1.75
(based on 200,000 shares outstanding)	

Stockholders' Equity	357,500
Total Liabilities & Stockholders' Equity	\$857,500

GAAP accounting provides little, if any, managerial insights!

The wrong conclusions lead to the wrong solutions!

Poll Question 2:



What method of managerial cost accounting are you using?

- a. Absorption Cost Accounting (ACA)
- b. Activity Based Costing (ABC)
- c. Time Driven ABC (TDABC)
- d. Other type of cost accounting
- e. Don't know



Poll Question 2 Results: (Placeholder)

Conventional Managerial Cost Accounting Systems

Produce Misleading & Unreliable Outcomes

Absorption
Cost
Accounting



GAAP Compliant but NOT a managerial cost accounting system!!!

Activity Based
Costing
(ABC)



Not GAAP Compliant!!!

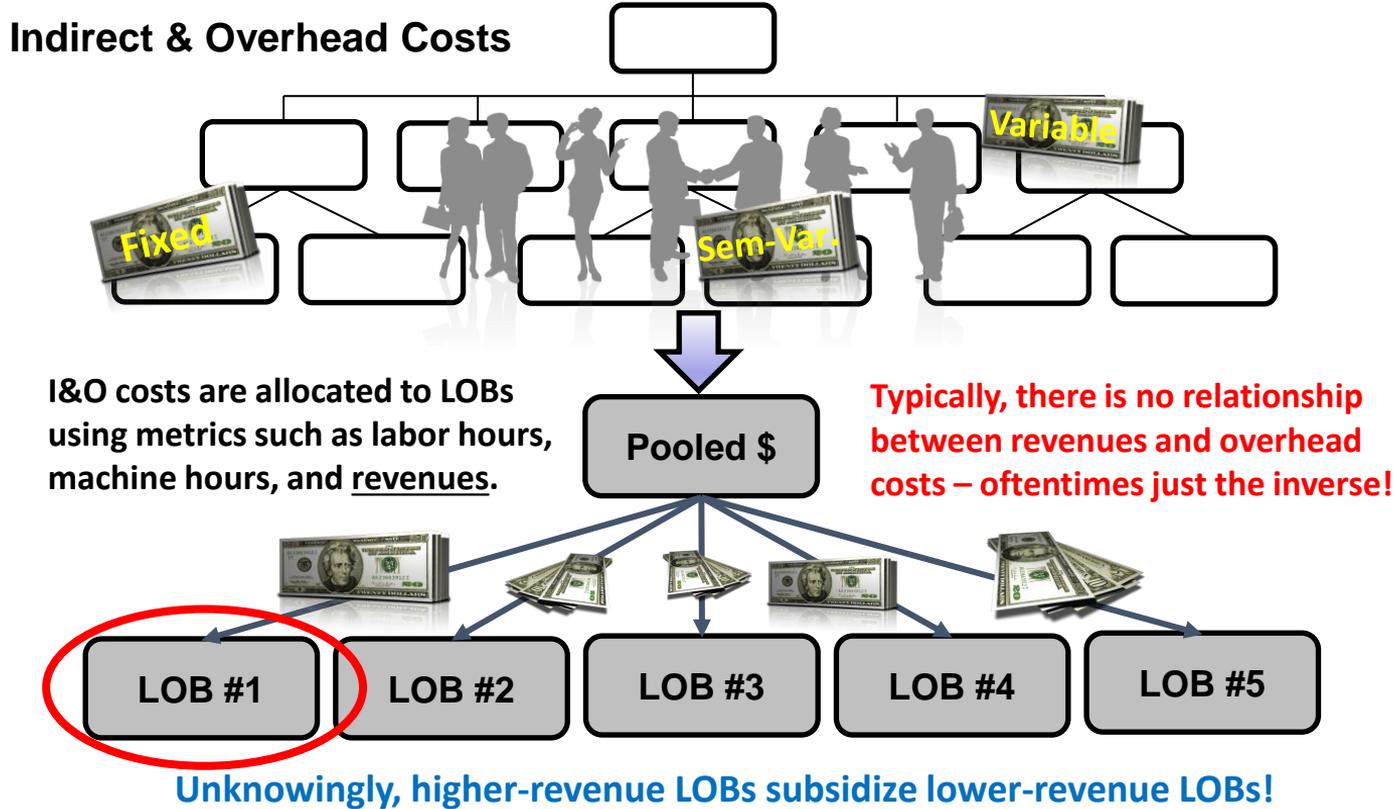
Time-Driven
Activity Based
Costing
(TDABC)



Not GAAP Compliant!!!

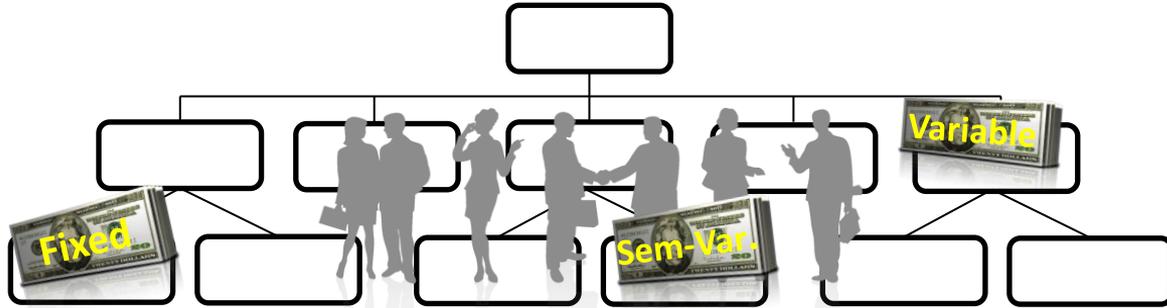
Absorption Cost Accounting (ACA)

Distorts Product/Service Costs & Profitability



Activity Based Costing (ABC)

Relies on cost pooling, blending, averaging & allocations – destroying audit trails needed for cost & profit validation



Pooled costs from the GL are allocated to activities based on FTE distribution



Activities

The distribution of cost is not the same as the distribution of effort!

Activity costs are allocated to objects based on the consumption of Activity Cost Drivers (ACDs) & ACD rates



Cost Objects

ACD rates, often represented as an average cost of a blended group of costs which are often treated as 100% variable, leading to significant over- & under-costing for which **ABC costs ≠ Financials**

Activity Based Costing (ABC)

Averages Distort Outcomes



In his 20 seasons, playing 1,476 games, he never achieved exactly all three of his averages together...

- 27 points per game
- 7 rebounds
- 7 assists

...in any single game! -- **Larry Lesser, PhD, Professor of Mathematics, University of Texas**

Imagine the error in costing if an average is used for 100+ activities associated with any product or service!

While averages provide a summary measure, they may not capture the full complexity of the data. It's important to consider other statistics and visualizations to gain a complete and comprehensive understanding.

Averages can sometimes oversimplify complex issues, leading to misleading conclusions. It's important to use averages responsibly and consider the broader context when interpreting the results.

Notable Quotes on Activity Based Costing (ABC)

“Service companies, lacking tangible products, have no financial reporting requirements at all for allocating indirect and support expenses to the services they produce or the customers they serve. Consequently, most service companies do not suffer from distorted cost numbers at all since they do not measure the costs of producing their individual services, and serving their individual customers...nor do they know the true costs of the activities and processes they perform.”

COST & EFFECT

Using Integrated
Cost Systems to
Drive Profitability
and
Performance

ROBERT S. KAPLAN
ROBIN COOPER

HARVARD BUSINESS SCHOOL PRESS

*“Actual activity cost driver (ACD) rates, used monthly, are **inappropriate to use for operational feedback and control. Nor should they be used for product and customer costing either**... Managers who fail to understand the limitations of these rates [and use them instead of activity-based costing] may set inappropriate priorities for process improvement and make incorrect decisions about products and customers.”*

“Under careful scrutiny, people usually conclude that the dollars saved by improving the efficiency of a non-value-added activity... are just as valuable as the dollars saved by improving the efficiency of a value-added activity.”

Kaplan and Cooper (Cost & Effect, 1998, pg. 157-158)

Time-Driven Activity Based Costing (TDABC)

Similar to ACA with activities



$$\text{Capacity Cost Rate} = \frac{\text{Total Cost of Capacity Supplied}}{\text{Practical Capacity of Resources Supplied in Time Period}}$$

$$\text{Capacity Cost Rate} = \frac{\$302,993}{245,700 \text{ minutes}} = \underline{\$1.23 \text{ per minute}}$$

Time Driven Volume-Cost Analysis

Process Step	Time (minutes)	Quantity	Total time (minutes)
Receive & Log A/P Invoices (On-Line)	5	4,075	20,375
Receive & Log A/P Invoices (Mail)	12	895	10,740
Obtain Receiving Documentation (1 line item)	7	3,080	21,560
Obtain Receiving Documentation (2 line items)	14	1,342	18,788
Obtain Receiving Documentation (3 line items)	21	548	11,508
Contact Inventory Control (IC)	10	1,882	18,820
Match Receivers w/Invoice (1 line item)	6	3,080	18,480
Match Receivers w/Invoice (2 line items)	12	1,342	16,104
Match Receivers w/Invoice (3 line item3)	18	548	9,864
Contact Vendor (corrections)	16	895	14,314
Authorize Payment	2	4,970	9,940
Issue Payment (ACH)	2	4,125	8,250
Issue Payment (check)	15	845	12,675

Who, what, and where comprises excess capacity -- direct and/or indirect?

Total Required Per Quarter (Minutes)	191,418
Standard Cost @ \$1.23/minute	\$235,444
Total Quarterly Expenses	\$302,993
Efficiency (Standard Cost ÷ Total Expenses)	77.71%
Cost of Excess Capacity	\$67,549

Cost Blending Loses Identify \neq Validation



**Costs, like
blended water,
have lost
source
identification!**

Summary of “Indirect” Costing Shortcomings

Short List

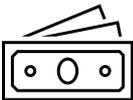
- ✓ **Absorption Cost Accounting:** no correlation between allocation metric & I&O spending
 - ✓ **Activity Based Costing (ABC):**
 - Reliance on Activity Cost Drivers (ACD):
 - Contains multiple cost types, averaged, yet treated as variable
 - Single ACD for each activity
 - ACDs difficult to maintain and apply especially for “knowledge” work
 - ✓ **Time Driven Activity Based Costing (TDABC)**
 - Limited to time being the only driver
 - Inadequacy of unused, or excess, capacity information
 - ✓ **Common shortcomings:**
 - Costs are pooled, blended, aggregated, and allocated
 - Lack of confidence of product/service costs & profitability – undermining management support and commitment
 - Restricted to monetary terms only – lacking qualitative experiential information
 - Time to benefit
 - Lack of analytical tools – focus on NVA Activities
- Inability to VALIDATE activity & LOB costs/profitability – due to non-existent bi-directional audit trails!**

Poll Question 3:



Confidence in the current accuracy of cost and profitability?

- a. Highly understood of true cost & profitability
- b. Moderately confident
- c. Not confident at all



Poll Question 3 Results: (Placeholder)

The Problem & Solution

Problem...

All conventional cost accounting systems omit costs and/or rely on “pooled” and/or averaged costs – both of which distort outcomes!

- **Under-Costing:** Priced too low – lose profits
- **Over-Costing:** Priced too high – sacrifice revenues



Solution...

A system that treats ALL costs as direct – eliminating cost pools, blending, averages, and allocations – that can also assess business value. A system that uses cost and effort to derive **value** information necessary to **discover** the most opportune areas targeted for improvement.

A “Direct - Outside-In” Managerial System

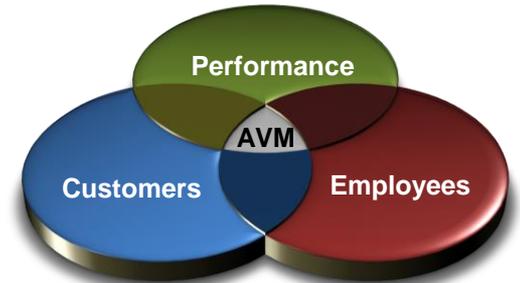
Activity Value Management® – a New Category of Management Accounting

A multi-dimensional value-based and stakeholder-centric financial and operational diagnostic/transformational system – a new category of managerial cost accounting

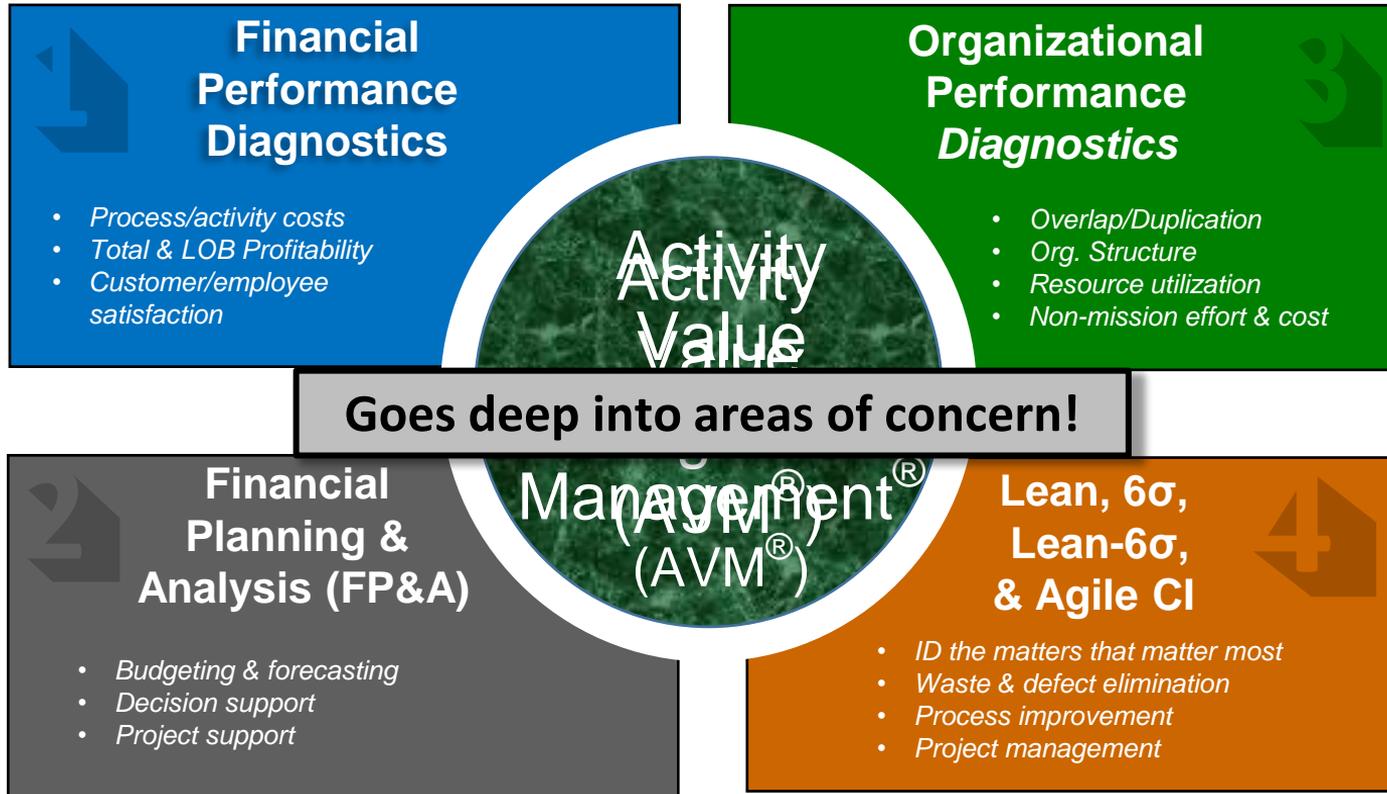
1. A revolutionary costing philosophy that **simultaneously** **and directly** assigns all costs and **effort**, from those actually doing the work, to activities, products, and services without any intermediate cost aggregation, pooling, blending, averaging, or indirect allocation – may be considered an **extension of GAAP accounting**.

2. A **business assessment system that improves financial and operational performance** by linking the qualitative experiential stakeholder voice to activities, costs, and lines of business (LOB) required to **assess value**.

3. Providing numerous analytical tools to identify then implement breakthrough opportunities for financial/operational enhancements accompanied by improved customer satisfaction and employee engagement.



AVM[®] Component Structure



AVM[®] Typical Job Plan & Schedule



Implemented by a collaborative internal cross-functional team, capitalizing on their intellectual assets and wisdom all while being guided by a management steering committee.

Phase I

Diagnostic (needs assessment)

Planning
(2-3 Weeks)

Synthesis
(1-2 Weeks)

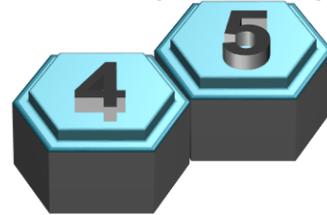
Identify the matters that matter most!

Data Collection
(2-5 Weeks)

Phase II

Prescriptive

Solutions
(1-2 Weeks)



Data Analysis
(3-4 Weeks)

Phase III

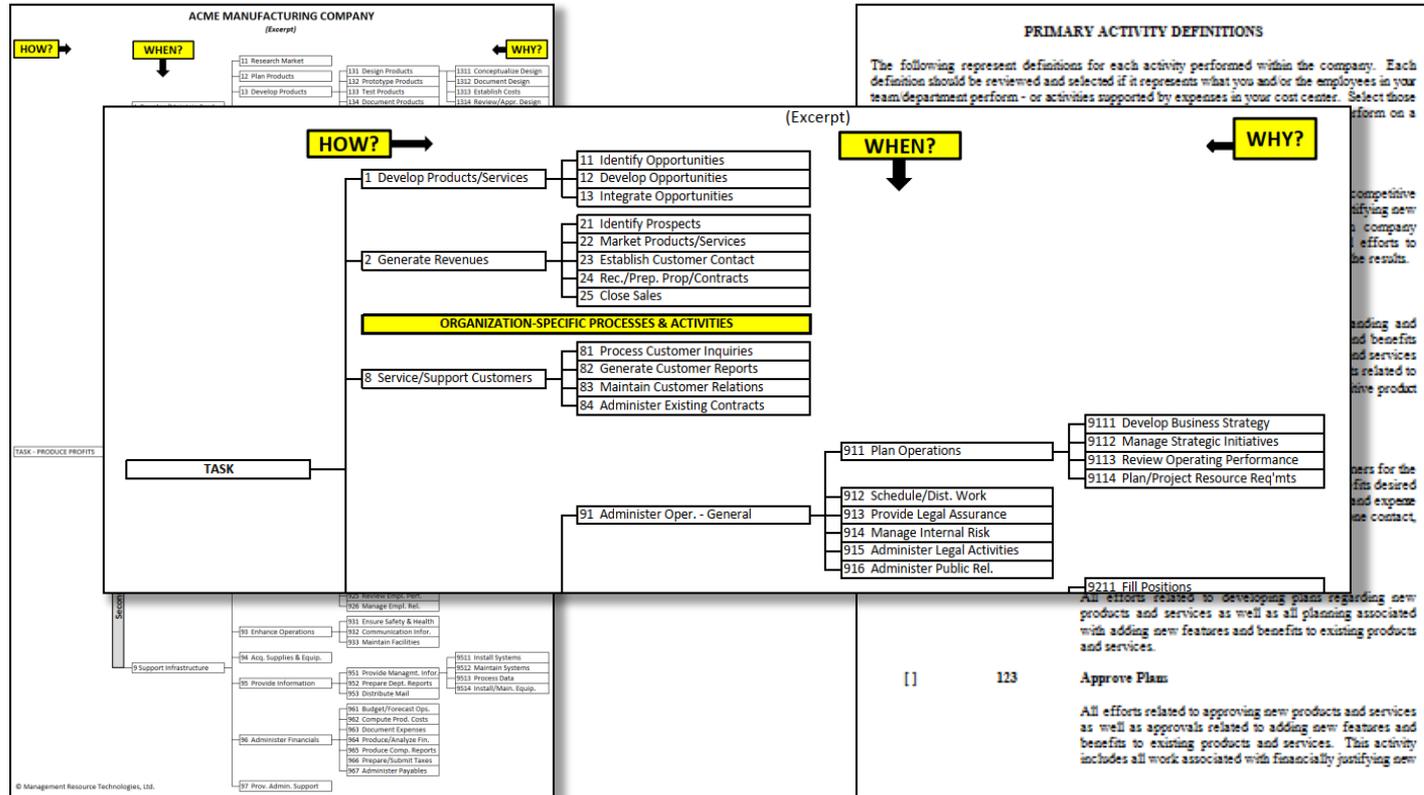
Implementation



Implementation
& Follow-up (TBD)

- Issues and opportunities typically emerge within the first week of Data Collection
- Historically, 25% of the opportunities are addressed within the Diagnostic phase

Activity Logic Diagram



Areas of Concentration – Objective Focus

Employ numerous strategic and tactical tools which can augment techniques associated with Six-Sigma, Lean, etc.

- Financial Analysis (*incl. acquisitions & divestitures*)
- Stakeholder Issue Analysis
- Activity Scoring
- Organization Structure Analysis
- Revenue Analysis
- Risk Identification & Control
- Internal Benchmarking
- Wage & External Spend Analysis
- Overlap & Duplication
- Cost Behavior Analysis
- Mission-Critical Analysis
- Cross-Functional Analysis
- Activity Fragmentation
- Process/Activity Analysis
- System/Investment Analysis
- Pricing Analysis (*strategic & value*)
- Cost of Quality
- Resource Utilization (*misplaced effort*)
- Strategic Planning/Forecasting/Budgeting
- Driver Analysis (*macro & micro*)

However, many of these tools are typically considered “off limits” for many common improvement approaches such as Lean, Six-Sigma, CI, etc.

Ancillary Uses of Information

- Forecasting and budgeting by activity
- **Strategic and tactical planning:**
 - Activity alignment – assuring a tactical response to the strategy
 - Resource redeployment
 - Risk mitigation
 - Focus on mission-critical activities
 - Acquisitions & divestitures
- Wage & Salary Administration (*individualized job profiles*)
- Quantify “soft areas” of negative drivers with “hard costs”
- Strategic pricing
- Organization analysis
- Audits – identify critical processes/activities
- Risk management
- **Provides basis for project investments (e.g., IT projects) – impact assessment**
- **Diagnosis to enhance outcomes from improvement initiatives (Lean, Six-Sigma, CI, BPM, etc.)**

	2004	2006	2008	2010	2012	Outcomes
Successful	29%	35%	32%	37%	39%	Project resolution results from CHAOS research for years 2004 to 2012
Failed	18%	19%	24%	21%	18%	
Challenged	53%	46%	44%	42%	43%	

McKinsey: IT projects over \$15M...

- 45% > budget
- 7% < schedule
- 56% < functionality

HINAS →

Is the juice worth the squeeze?

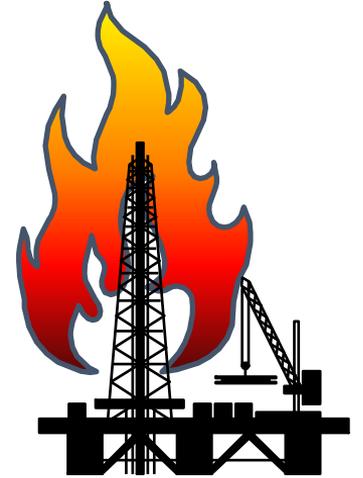


If you want better costs do better costing!

Real World Case Study

Real World Case Study: Background

- **Company:**
 - ✓ Financial services company
 - ✓ About \$350M in sales, \$300M in costs, and 2,500 employees
- **Issues/concerns:**
 - ✓ \$25M profit gap between projected and actual trajectory
 - ✓ Understanding cost & profit for 15 LOB
 - ✓ Lack of revenue growth over past 4-5 years
 - ✓ High number of customer complaints & defection (**60%** every 2 years)
- **What they did:**
 - ✓ Initial Lean Six-Sigma Effort – slow start, little bottom-line impact – CFO: “*didn’t move the needle!*”
 - ✓ Hired “Big-5” consulting firm – failed to identify “revenue leak”
 - ✓ Unsuccessfully initiated Activity Based Costing (ABC)
 - ✓ Engaged Finance and internally employed Activity Value Management direct costing diagnostic system to reverse performance setbacks – **refocused LSS initiative!**



Case Study: Major Areas of Concentration



Financial Performance

*Line of Business
& Total Profitability*



Organizational Performance

*Overlap/Duplication,
Structure, Resource Cost,
Non-Mission Effort, etc.*



Going deep into areas of concern!

Strategic Pricing

*Value, Competition, & Profit
Maximization*



Customer Churn

*Customer Support Cost,
Effort, Issues, &
Satisfaction*



Major Areas of
Concentration

Case Study: The Process

- ✓ Identified 480 cross-functional processes/activities representing:
 - Marketing & Sales
 - Operations
 - Finance and Accounting
 - Legal
 - Facilities
 - HR
 - IT
- ✓ Directly and simultaneously assigned all costs and efforts to both activities and LOBs (*without aggregation, blending, pooling, averaging, or allocating*)
- ✓ Captured customer, competitive, and employee experiential data (*e.g., trust drivers, issues, concerns, and opportunities*) ≈ 2,600 anecdotal/verbatim statements were assigned to processes, activities, and LOBs
- ✓ Analyzed results using a number of select diagnostic and analytical tools to identify performance-improvement opportunities
- ✓ Identified and prioritized dozens of opportunities (*e.g., Customer Support*)



Case Study: Profitability Analysis

1/22/2020

ACME FINANCIAL SERVICES
LOB Profitability Analysis

ACTIVITY NUMBER	PROCESS/ACTIVITY DESCRIPTION	OVERALL	LOB #01	LOB #02	LOB #03	LOB #04	LOB #05	LOB #06	LOB #07	LOB #08	LOB #09	LOB #10	LOB #11	LOB #12	LOB #13	LOB #14	OTHER LOBS	ACTIVITY NUMBER
1	"DEVELOP/MAINTAIN PRODUCTS/SERVICES	\$14,757,437	\$1,236,620	\$373,272	\$186,635	\$702,326	\$1,868,319	\$2,547,358	\$175,414	\$358,439	\$217,799	\$654,151	\$336,159	\$386,802	\$1,118,337	\$1,022,813	\$2,086,906	1
11	"CREATE NEW PRODUCTS/SERVICES	\$10,456,890	\$897,317	\$321,779	\$157,831	\$540,649	\$1,276,034	\$2,126,795	\$150,018	\$517,564	\$171,965	\$352,155	\$186,902	\$212,806	\$604,173	\$776,827	\$1,384,756	11
111	"IDENTIFY OPPORTUNITIES	\$3,990	\$6,665	\$12,245	\$38,043	\$110,599	111											
1111	Research Market	\$1,034	\$4,843	\$430	\$17,776	\$85,816	1111											
1112	Prioritize Opportunities	\$2,897	\$1,823	\$11,815	\$20,272	\$24,784	1112											
112	"DEVELOP OPPORTUNITIES	\$2,553	\$8,831	\$86,473	\$112,465	\$387,436	112											
1121	Determine Feasibility	\$4,877	\$27	\$4,573	\$4,306	\$86,553	1121											
1122	Develop Strategic Alliances	\$623	\$2,859	\$49,142	\$50,290	\$101,446	1122											
1123	Acquire Market Input (Customers)	\$116	-\$988	\$2,132	\$18,508	\$65,790	1123											
1124	"PREPARE BUSINESS CASE	\$1,851	\$6,220	\$25,820	\$29,284	\$121,220	1124											
11241	Develop/Maintain Project Schedule	\$1,834	\$4,336	\$20,606	\$15,667	\$66,239	11241											
11242	Prepare Financial Evaluation	\$137	\$81	\$1,043	\$8,819	\$19,903	11242											
11243							11243											
11244							11244											
112	REVENUE:	\$39																
113	PERSONNEL:																	
1131	Manager	\$2																
1132	Individual	\$7																
1133	Support	\$9																
11	Clerk	\$5																
113	SUB-TOTAL PERSONNEL:	\$10																
113	NON-PERSONNEL:																	
1131	Expenses	\$17																
113																		
11	SUB-TOTAL	\$28																
113	GENERAL COSTS																	
113																		
11	NET COSTS	\$28																
113	EXCLUSIONS	\$1																
113	INCLUSIONS																	
11	TOTAL COSTS	\$28																
113	OPER. MARGIN(\$)	\$9																
113	OPER. MARGIN(%)	26.52%	62.84%	-168.00%	34.07%	-35075.03%	45.14%	-13.08%	20.35%	18.41%	-15.65%	34.31%	-216.28%	-41.37%	25.82%	-1842.08%	-84.22%	
113	FULL-COST MARGIN(\$)	\$77,615,375	\$14,141,576	-\$2,084,574	\$860,885	-\$1,899,034	\$74,368,194	-\$10,700,586	\$1,034,068	\$3,539,407	-\$856,829	\$9,110,853	-\$3,805,308	-\$1,881,236	\$2,168,097	-\$3,613,565	-\$2,766,374	
113	FULL-COST MARGIN(%)	21.56%	57.70%	-173.71%	29.11%	-35075.03%	40.19%	-18.02%	15.40%	13.47%	-20.59%	29.37%	-221.27%	-47.98%	20.68%	-1846.64%	-89.17%	

Any cell can contain experiential information captured from customers, employees, and perhaps customers of competitors regarding issues, opportunities, and possible solutions.

Each cell contains a complete audit trail of specific component cost and effort (*personnel and non-personnel*) captured by activity, department, and LOB.

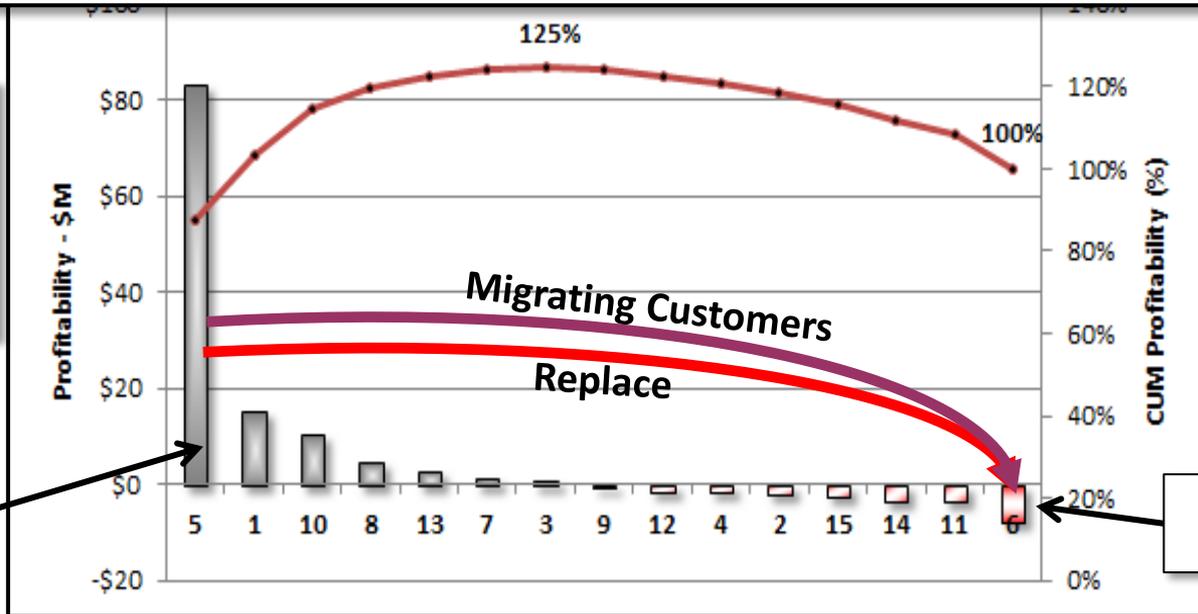
Case Study: LOB Profitability

Cause of Profit Gap: ACA cost accounting system - if LOB #6 revenues were applied to LOB #5, profit would increase by \$25M!

The wrong conclusions led to the wrong solutions!

LOB #5 - Originally believed to have both low and declining profitability

LOB #5
(Core Legacy)



LOB #6 - Originally believed to be highly profitable

LOB #6
(Replacement)

Case Study: Customer Support

Bi-Directional Audit Trail – Validation May Be Considered GAAP Compliant

AVM Activity Information Form CLIENT: ACME FINANCIAL SERVICES PROJECT: AVM ANALYSIS LOCATION: D:\ACMEFIN V2 DEMO - MANUAL - 2522

1. Select project

ACMEFIN Hierarchical

Pareto

2. Select cost source

5. LOB #05 Clear **A**

Load Print Exit A

Statistics Comments Assignments Quick View - Summary Quick View - LOBs Quick View - Channels

Display Tips Freeze Rows/Cols

Suppress Sort Color Display Assignment Totals

Suppress Zeros Yes No Print

Adjust Lines Cost Effort Profiles Excel Filter Assmts 13

Sort Options

Line	Type	Description	Department	Percent	Cost	FTE	Hrs/Week	Cost Type
456	150600	2 SVS REP/OMAHA	REG. MRKT - OMAHA	4.20%	\$2,406	0.04	1.88	V
457	327600	2 SVS REPS (2)	REG MRKT - SOUTH FLORIDA	7.00%	\$6,762	0.14	5.60	V
458	394100	2 SVS REPS/N. CA (7)	REG MRKT - NORTHERN CALIF	3.75%	\$15,937	0.33	13.13	V
459	710900	1 SWAT REPS (8)	OUTBOUND	6.00%	\$0	0.48	19.20	V
460	740900	M TANDY TOWNSEND, ASST. SUPVR	GROCERY	1.00%	\$533	0.01	0.40	V
461	78400	3 TARA STEPHENS, RELATION MGR	PITTSBURGH/OHIO VALLEY	3.92%	\$1,249	0.04	1.57	V
462	119900	E TELECOMMUNICATION EQUIPMENT (7550.0100)	SAN ANT/AUS REG #2000	15.00%	\$1,287	0.00	0.00	S
463	406700	E TELECOMMUNICATION EQUIPMENT (7550.0100)	LOS ANG. REG DEF #11000	12.00%	\$1,231	0.00	0.00	S
464	280600	E TELECOMMUNICATION EQUIPMENT (7550.0100)	N. FLORIDA REG #21000	12.50%	\$727	0.00	0.00	S
465	418100	E TELECOMMUNICATION EQUIPMENT (7550.0100)	SAN DIEGO REG #12000	12.00%	\$219	0.00	0.00	S
466	641400	M TERRY KLEM, DIRECTOR	RECOVERY - DENVER	1.00%	\$847	0.01	0.50	V
467	104800	M TERRY SHUSTER, DIST. MANAGER	REG. MRKT - PHILADELPHIA	2.50%	\$3,169	0.03	1.00	V
468	403100	M THOMAS STUPPY, DISTRICT MGR	REG MRKT - LOS ANGELES/OC	2.40%	\$2,981	0.02	0.96	V
469	550700	M TOM SMITH, SUPV MERCH BLNG	APPL DEV - MERCH. BILLING	1.50%	\$1,472	0.02	0.60	V
470	143200	E TRAVEL TRANSPORTATN - CONSULTANTS (7664.0300)	KAN CITY REG #61000	8.00%	\$358	0.00	0.00	S
471	218900	E TRAVEL TRANSPORTATN - CONSULTANTS (7664.0300)	OMAHA REG #64000	8.00%	\$231	0.00	0.00	S
472	486800	3 TRESSA NAIR, JR REL MGR	NATIONAL ACCOUNTS	13.80%	\$5,713	0.16	6.21	V
473	776600	I VANCE HENSON, A/R	ACCOUNTS RECEIVABLE	12.26%	\$3,976	0.12	4.90	V
474	492200	I WENDY LEE, ACC ASSISTANT	NATL ACCOUNTS SERVICE	5.00%	\$1,561	0.05	2.00	V
475	138500	M WILL AVOIAN, DIST. MANAGER	REG. MRKT - OMAHA	10.61%	\$13,864	0.11	4.24	F
476	79500	3 WILLIAM LAWSON, RELATION MGR	PITTSBURGH/OHIO VALLEY	2.40%	\$874	0.02	0.96	V
477	550900	I XIN GU, SFTWR DEV SR	APPL DEV - MERCH. BILLING	2.25%	\$1,982	0.03	1.01	V
478	551100	I YUAN WANG, SFTWR DEV - INT	APPL DEV - MERCH. BILLING	1.50%	\$1,037	0.02	0.60	V
47								
48		4213 Research-Resolve Customer Issues - TOTALS:			\$1,130,753	22.03	881.18	
48		Fixed Cost		15.00%	\$169,586			
48		Variable Cost		63.44%	\$717,321			
48		Sem-Variable Cost		21.56%	\$243,846			
48		No Cost Type Assigned		0.00%	\$0			

Activity Numbers Filter Activities Color

Case Study: Customer Support

Integration of Quantitative & Qualitative Information

42 *SUPPORT CUSTOMERS

\$23,955,430 (8.48%) - 443.23 FTE (18.60%) - 17,729.21 Hrs/Wk (18.60%) - \$54,047/FTE

-----|R I S K S|-----

Risk #1: Customer satisfaction and loyalty will decrease if adequate customer support is not provided, leading to customer churn and possible loss of future business.

Severity: 7 Likelihood of Occurrence: 4.5 Detectability: 6 Risk Priority Number (RPN): 189 (High) Corrective

Action Index (CAI): 31.5 (High)

Risk #2: Ability to profitably grow the business and increase support is not provided.

Severity: 7 Likelihood of Occurrence: 5 Detectability: 3 Risk

Action Index (CAI): 35 (High)

Comment 1,223. (Int #7) - Opportunity: Should Not Be Doing - PAS a) recovery inbound, b) recovery, c) check p TRS. Customer Services would like to see this automated.

Comment 1,224. (Int #7) - Opportunity: How Processes Could Be Changed -- Phone system - Lucent. Upgraded

Comment 1,225. (Int #8) - Opportunity: Should Not Be Doing - moving PKF to customer Services where it should logical fit with customer Services.

Comment 1,226. (Int #8) - Concern: customers dislike transfers.

Comment 1,227. (Int #14) - Concern: Biggest Frustration - Equipment/Software (Sub 21) - system is outdated and between entities. Example, quarterly reports. VICO [sic] HAS EQUIPMENT NEVER BILLED. If 2 systems were would be caught earlier. Now it takes a long time to catch. [Dashboard Severity = Positive/Opportunity]

Comment 1,228. (Int #14) - Concern: Biggest Frustration - Other system issue between Sub 21 and Sub 3 - Sub for equipment and Sub 3 is customer accounting information. When Sub 21 record is created with current month's record is not activated, the Sub 21 record will transfer the billing and held in buffer until someone activates/cancel [Dashboard Severity = Concern/Issue/Problem]

Comment 1,245. (Int #35) - Opportunity: Changed Immediately - Check Processing. We provide re-active service vs pro-active service such as calls for upgrades and being able to show the customers the value proposition we offer. Like to have a 50/50 split between re-active and pro-active work. Currently working 90% on re-active work.

Comment 1,246. (Customer Survey) - Defectors: The majority of customer defection is driven by an unattractive cost/benefit value proposition, customer service issues, and warranty problems. 1) cost/price - 18%, 2) wasn't worth it (value) - 10%, 3) low check volume (value) - 8%, 4) do not receive bad checks (value) - 6%, 5) not pay for bad checks (warranty) - 5% (Dashboard Severity = Concern/Issue/Problem)

Comment 1,247. (Customer Survey) - Defectors: From a revenue perspective, the most critical issues to address are competitive pricing, warranty, and customer service. The average monthly billings for defectors that left for lower-cost competitive offerings had the highest average billings of \$375, followed by customer service (\$300), then by warranty problems (\$290), and finally value (\$185).

Comment 1,248. (Customer Survey) - Defectors: Customer Service defectors that called the "800" number experienced problems in issue resolution and effective communication -- customer service interaction quality did not appear to be the major cause. 32% not helpful, 22% response not timely, 10% difficult to reach, 10% did not call back. (Dashboard Severity = Concern/Issue/Problem)

Comment 1,249. (Customer Survey) - Loyal customers: While loyalists purchase Acme for financial security, key reasons for retention include "peace of mind," convenience, quality, and customer service.

Processes Could Be Changed - All reporting is printed on paper. Paper reports maintained in line then paper volume could be reduced. Example: 1100 pg report is reviewed but did not transfer for current month. [Dashboard Severity = Positive/Opportunity]

Measures Improving - in spite of system issues, team members are COMMITTED to get it done.

To keep staff motivated, currently low.

Attendance.

Effectively - smooth running/flowing operation (missing tools prevent this).

better systems, more updated information.

Case Study: X-Functional Analysis

Overlap, Duplication, Fragmentation, & Non-Mission Related Activities

Highly Fragmented

ACTIVITY NUMBER	ACTIVITY DESCRIPTION	MARKETING & SALES			OPERATIONS			OTHERS			TOTAL		
		COST	FTE	#	COST	FTE	#	COST	FTE	#	COST	FTE	#
2315212	Determine Pricing/Profitability	\$732,075	11.01	285	\$78,214	1.69	25	\$29,479	0.35	3	\$839,768	13.05	313
42	*SUPPORT CUSTOMERS	\$13,604,905	197.52	N/A	\$8,752,351	239.57	N/A	\$1,598,174	6.14	N/A	\$23,955,430	443.23	N/A
421	*RESOLVE CUSTOMER ISSUES	\$5,399,038	92.36	N/A	\$3,105,699	130.36	N/A	\$222,712	3.94	N/A	\$8,727,449	226.66	N/A
4211	Receive/Document Customer Issues	\$801,786	14.46	137	\$1,264,608	60.33	238	\$24,675	0.47	22	\$2,091,069	75.26	397
4212	Transfer Customer Issues	\$101,952	1.95	57	\$120,240	6.36	149	\$11,454	0.23	18	\$233,647	8.54	224
4213	Research/Resolve Customer Issues	\$2,640,075	40.04	228	\$847,228	27.55	247	\$115,182	1.94	37	\$3,602,484	69.63	512
4214	Document Customer Issue Resolution	\$207,871	4.05	69	\$174,975	6.88	114	\$42,393	0.88	63	\$425,239	11.79	246
4215	Follow-up Customer Issue Resolution	\$508,682	8.59	101	\$265,478	9.29	98	\$29,011	0.42	26	\$803,171	18.30	225
4216	Process Warranty Status Inquiries	\$905,199	13.31	124	\$26,052	3.13	22				\$931,251	21.44	146

Where do you have highly-compensated employees working below their grade level?

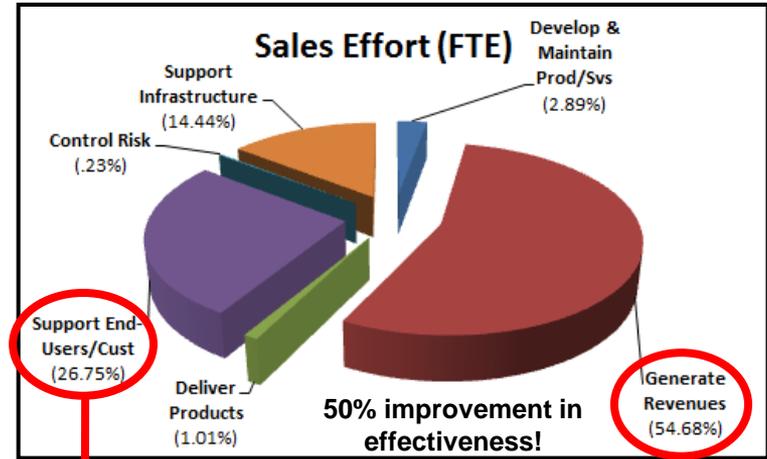
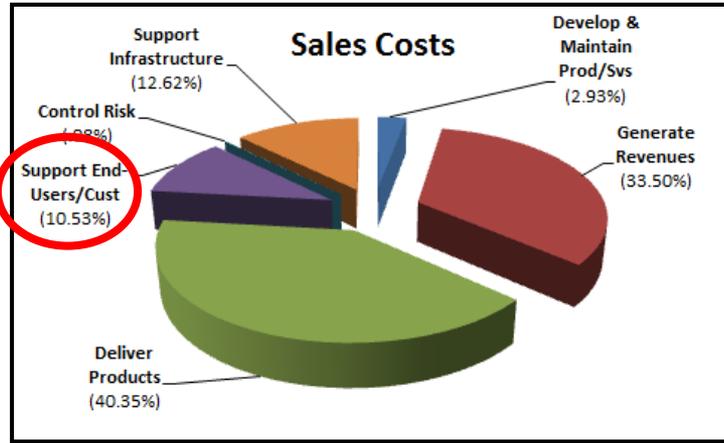
Case Study: Mission-Critical Analysis

Sales & Marketing

- Duplicated work of other departments due to lack of trust
- Non-mission-critical work - “**Support End-Users/Customers**”
- Undermined mission of “Generate Revenues”
- Cost of duplication: \$14M
- Lost revenue opportunity: \$45M opportunity realized

Sales Activity Analysis

Process/Activity	Cost	% Cost	FTE	% FTE	Hrs/Wk
Develop/Maintain Products/Services	\$4,094,020	2.93%	22.30	2.89%	892.06
Generate Revenues	\$46,858,141	33.50%	422.49	54.68%	16,899.53
Deliver Products	\$56,441,271	40.35%	7.84	1.01%	313.55
Support End-Users/Customers	\$14,727,379	10.53%	206.70	26.75%	8,267.78
Control Risk	\$116,485	0.08%	1.75	0.23%	70.04
Support Infrastructure	\$17,657,708	12.62%	111.58	14.44%	4,463.04
Total	\$139,895,004	100.00%	772.65	100.00%	30,906.00



Objective: Improve trust so that people can do more of what they should be doing and less of what they should not be doing!

Shift from non-mission to mission-critical activity

Case Study: Other Selected Actions

- **Opportunity:** Dozens of Sales offices disbursed across the country (*multiple offices in HQ city*)
- **Action:** Created regional offices to reduce costs, gain efficiencies, and improve process consistency

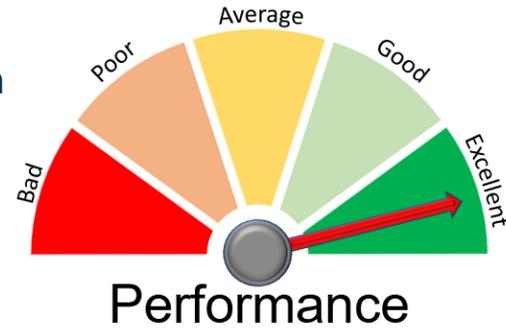
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- **Opportunity:** LOB #6 (*replacement*) was sold at the same price as LOB #5 (*legacy*), but offered considerable value-added benefits
 - **Action:** Re-priced LOB #6 (*replacement*) to reflect the additional value provided and offered as a premium upgrade from LOB #5 (*legacy*) – went from selling a service to selling value



-
- **Opportunity:** Sales compensation plan encouraged the wrong behavior -- % commission (*based on revenue*) increased on 18th contract – larger contracts were sandbagged until after the 17th contract
 - **Action:** Commission plan modified to encourage higher profit sales rather than quantity of contracts – profitability jumped

Case Study: Bottom Line Results

- Improved customer support along with lower costs
- Significant reduction of customer “churn” – improved customer satisfaction
- Shifted focus towards greater profit improvement and revenue generation
- Reduced processing errors
- Eliminated unprofitable LOBs
- Reduced external spend on purchased goods
- Streamlined organizational structure — reduced layers, improving managerial span of control, greater centralization, and concentration on mission-critical activities, etc.
- Financial improvements >\$30M in repeatable benefits (*plus \$45M in revenue enhancements*) moved the needle...
 - ≈ 10% of revenues, or
 - ≈ 12% of expenses, or
 - ≈ \$15M+ per 1,000 employees



AVM[®] Major Strengths and Advantages

- ✓ Provides a broader vision of overall performance in terms financials, customer loyalty, employee engagement, and competitive advantages/disadvantages
- ✓ Direct and simultaneous assignment of resource cost and effort to activities and lines of business (LOBs) without any intermediate pooling, blending, averaging, or allocations – matches the financials.
- ✓ Bi-directional traceable & verifiable activity/LOB cost audit trails
- ✓ Experiential feedback from employees that perform the work, combined with responses from current customers, past customers, and customers from competitors (*optionally*) – assigned to processes, activities and LOBs
- ✓ Improves management's confidence in the outcomes
- ✓ Focuses on the value, not just costs, of processes and activities
- ✓ Recognizes activity cost behavior (*fixed, variable, & semi-variable*) – improves forecasting and budgeting
- ✓ Fast – typically ¼ the time and expense
- ✓ Provides multiple analytical tools

Summary: Who Can Benefit

Education



Public Sector



Private Sector



Energy Production



Financial Services



Manufacturing



Healthcare



Any organization that...

- Performs activities to produce outputs
- Wishes to maintain leadership
- Lacks true cost & profitability information
- Cannot afford to grow the business
- Organizations from 40 to thousands of employees
- Experiences growing costs without growing revenues
- Desires improvement under budgetary constraints
- Wants to guarantee delivery of the value proposition

Takeaway: What You Can Do Now to Improve Performance

First: Research the methods used to cost lines of business (LOBs)

Next: Conduct a trial, or proof of concept (POC), following the steps below...

1. Identify the processes and activities performed in the target area (25-75)
2. Assign costs and/or effort to those activities, then to LOBs
3. Capture and assign comments from suppliers, customers (*internal/external*), and employees related to issues, concerns, roadblocks, and opportunities to improve the processes and activities
 - a. *If you were working in the most efficient & effective manner, what would it look like?*
 - b. *What would you like to have that you don't have now?*
4. Score activities using 1-5 scale for both importance & performance.
5. Identify areas needing improvement based on importance, performance, cost, value, problems, concerns, opportunities, etc.
6. Develop solutions
7. Create implementation plans then measure result



Poll Question 4:



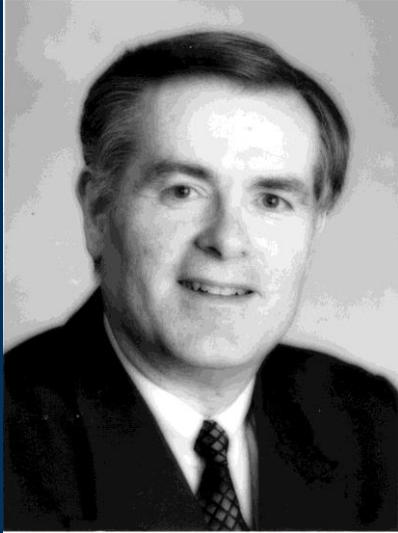
How likely would the method described in this webinar help improve both costing and performance improvement?

- a. Very likely
- b. Likely
- c. Neutral
- d. Unlikely



Poll Question 4 Results: (Placeholder)

Questions and Answers



Brian Higgins
Principal
Management Resource
Technologies Ltd



J. Allen Berryman, CPA
Chief Financial Officer
Patten Title Company

Thank you!



The Association of
Accountants and
Financial Professionals
in Business