Measuring and Managing Customer Profitability

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My-CPE

https://my-cpe.com/
About Gary Cokins
Founder, Analytics-Based Performance Management LLC

B.S. Industrial Engineering & Operations Research; Cornell University, 1971

M.B.A. Finance & Accounting; Northwestern University, Kellogg Graduate School of Management, 1974

Previous Associations:
- FMC Corporation
- Consultant with: Deloitte, KPMG, Electronic Data Systems [EDS, now HP]
- SAS (16 years)

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Who will benefit from this presentation?

Managers who have previously struggled at promoting the measurement and reporting product, channel and customer profitability into their decision support systems.

Managers who intend to “champion” profitability analysis techniques and need a compelling call to action.
Drowning in data but starving for information.

“Looks like you’ve got all the data—what’s the holdup?”
Key questions

What? So what? Then what?
AGENDA

- Eras and Issues with managerial accounting
- Basics on activity-based costing (ABC)
- Implementing with ABC rapid prototyping
- Calculating channel and customer profitability
- Applying analytics
- Historical versus predictive costing
- Barriers slowing the adoption rate
Six Eras of Managerial Accounting

**Stone Age**
20,000 BC

Precious metal and paper money piles, ultimately leading to double-entry bookkeeping (Luca Pacioli, 1494).

**Medieval**
1492

Alexander Hamilton Church; standard cost accounting (to reflect Frederick Winslow Taylor’s manufacturing scientific methods, 1910).

**Industrial**
1910

The USA’s Great Depression resulted in regulatory reforms to protect investors (1930s).

**Regulatory Compliance**
1930

“Causal” cost tracing of increasingly diverse types of products, services, channels and customers.

**Channel & Customer**
1980

Rocks and stone piles.

**Predictive Accounting & Analytics**
2019

A shift of emphasis from a historical to a predictive view of strategy and operations.

2020

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Here is Part of the Problem.
Which managerial accounting system should we use?

Here is Part of the Problem.
Which managerial accounting system should we use?


Even most cost accountants do not understand what the differences are!
Ideally, all costs should be **directly** charged, but as variety, complexity, and technology increases, more costs are **indirect and shared**.

### Cost-Driver Table

<table>
<thead>
<tr>
<th>1st Preference</th>
<th>2nd Preference</th>
<th>3rd Preference</th>
<th>Last Resort</th>
</tr>
</thead>
</table>

### Resources

- **Time Sheet**
- **Labor Reporting**
- **Estimates**

### Activities

- **Project accounting**
- **Standard costing**
- **ABC/M**

### Final Cost Objects

- **Outputs, Processes, Products, Service Lines, Markets, Channels, Orders, Customers**
Gary Cokins’ part time role as the IMA Executive in Residence

IMA Strategic Finance magazine; December 2013, January 2014; Trend #1

“Measuring and Managing Customer Profitability”; IMA Strategic Finance; February 2015.

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A simple explanation of ABC ...
that you can explain to your spouse (or boss) tonight.
The Need for Tracing, not Allocating, Costs

Changes in Cost Structure

Overhead (indirect expenses)

Cost Components

Broadly averaged cost allocation was acceptable.

Direct (recurring) Labor

Direct

Material

Cost errors are large and misleading.

Stages in the Evolution of Businesses

1950

Old-fashioned

Hierarchical

Integrated

100%

0%

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The General Ledger View is Structurally Deficient for Decision Analysis.

<table>
<thead>
<tr>
<th>Chart-of-Accounts View</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Claims Processing Department</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Salaries</td>
</tr>
<tr>
<td>Equipment</td>
</tr>
<tr>
<td>Travel expense</td>
</tr>
<tr>
<td>Supplies</td>
</tr>
<tr>
<td>Use and occupancy</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

When managers get this kind of report, they are either happy or sad, but they are rarely any smarter!
# Each Activity Has Its Own Cost Driver

<table>
<thead>
<tr>
<th>Activity-Based View</th>
<th>Claims Processing Dept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key/scan claims</td>
<td>$31,500</td>
</tr>
<tr>
<td>Analyze claims</td>
<td>121,000</td>
</tr>
<tr>
<td>Suspend claims</td>
<td>32,500</td>
</tr>
<tr>
<td>Receive provider inquiries</td>
<td>101,500</td>
</tr>
<tr>
<td>Resolve member problems</td>
<td>83,400</td>
</tr>
<tr>
<td>Process batches</td>
<td>45,000</td>
</tr>
<tr>
<td>Determine eligibility</td>
<td>119,000</td>
</tr>
<tr>
<td>Make copies</td>
<td>145,500</td>
</tr>
<tr>
<td>Write correspondence</td>
<td>77,100</td>
</tr>
<tr>
<td>Attend training</td>
<td>158,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$914,500</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chart-of-Accounts View</th>
<th>Claims Processing Department</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actual</strong></td>
<td><strong>Plan</strong></td>
</tr>
<tr>
<td>Salaries</td>
<td>$621,400</td>
</tr>
<tr>
<td>Equipment</td>
<td>161,200</td>
</tr>
<tr>
<td>Travel expense</td>
<td>58,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>43,900</td>
</tr>
<tr>
<td>Use and occupancy</td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$914,500</strong></td>
</tr>
</tbody>
</table>

**From: General Ledger**

**To: ABC Data Base**

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Multiple-Stage Cost Flowing

Simple ABC

Expanded ABC
ABC/M Cost Assignment Network

Resources
(general ledger view)

Work Activities
(verb-noun)

Final Cost Objects

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ABC/M Cost Assignment Network

Resources (general ledger view)

Work Activities (verb-noun)

Final Cost Objects

"Costs Measure the Effects"
(1) Demands On Work
(2) Costs

People Activities

“cost-to-serve” paths

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Standard Costing Over- and Under-Costs Products

% error distortion per unit

- 50-200%

0%

1,000%+

Rank-ordered Products/Services

• Simple Products and Services
  • made through generic processes
  • High Volume of Production

• Complex Products and Services
  • made through specific processes
  • Low Volume of Production

Source: Alireza Sarraf; permission to use granted
$30 \text{ sales} - 28 \text{ expenses} = 2 \text{ profit}

Unrealized profit revealed by ABC

Net Revenues Minus ABC costs = profit

Organizational shock from the truth
More important than a better costing method are its results.

Net Revenues Minus ABC costs = profit

Sales $31.0
- Expenses 31.5
= prof/(loss) $0.5

loss = $0.5
Take Actions to Raise the “whale curve”

Source: Alireza Sarraf; permission to use granted

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Activity Costs “pile up” into outputs.

ABC provides insight for the product’s or service’s cost drivers and driver quantities.

Each activity’s driver quantity

\[ \times \]

Activity driver per unit-level cost consumption rate

(e.g., # of orders)
Most CFOs take the left-side path!
Polling Question #1
AGENDA

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Rapid Prototyping with *Iterative Remodeling (crawl, walk, run, fly)*

Each iteration enhances the use of a ABC system.

Make your mistakes early and often, not later when the system is too hard to change.

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Balancing Levels of Accuracy with Effort

Accuracy of Final Cost Objects

Level of Data Collection Effort

Is the higher climb worth the better view?

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A key to initial ABC/M Rapid Prototyping is to identify major sources of diversity.

Customer Profile Candidates

- Influencers of Diversity of Activity
  - Geography
  - Order Habits
  - Order Frequency
  - Level of Demand
  - Technical Sophistication
  - Etc.

- Cost Consumption

Dominant Influences (Check 2 or 3)

- Near vs. Far
- Standard vs. Specials
- Infrequent vs. Frequent
- Light vs. Invasive
- Advanced (E-commerce) vs. Archaic (Manual)
- Etc.

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Benefits from ABC/M Rapid Prototyping

- Accelerated learning
- Solving the thorny “leveling” problem
- Preventing “over-engineering” ABM model size
- Peer group: Pre-determining uses for the information
- Replacing misconceptions with reality.
- Getting ROI from earlier insights and decisions.
AGENDA

- Eras and Issues with managerial accounting
- Basics on activity-based costing (ABC)
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What has Caused Interest in ABPM?

The shift from being product-centric to customer-centric. The emphasis will be more on economics – measuring customer profitability and customer lifetime value (for B2C).
The only value a company will ever create is the value that comes from its customers – the current ones and the new ones acquired in the future.

To remain competitive, one must determine how to keep customers longer, grow them into bigger customers, make them more profitable, serve them more efficiently, and acquire relatively more profitable customers.
So what about the Other Below-the-line “Calculated” Costs?

Products and standard service-lines are not the only thing for which accountants should compute costs.

What about costs that have nothing to do with making products and delivering standard service-lines?

The problem with traditional accounting’s product gross profit margin reporting is you don’t see the bottom half of the picture.
# What about Costs Below Product Costs?

<table>
<thead>
<tr>
<th>INCOME STATEMENT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$ 100</td>
</tr>
<tr>
<td>- Product direct costs</td>
<td>-20</td>
</tr>
<tr>
<td>- Overhead cost</td>
<td>-10</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>__________________________</td>
<td>-------</td>
</tr>
<tr>
<td>= Gross profit margin</td>
<td>$ 70</td>
</tr>
<tr>
<td>- selling costs</td>
<td>-20</td>
</tr>
<tr>
<td>- distribution costs</td>
<td>-10</td>
</tr>
<tr>
<td>- marketing costs</td>
<td>-20</td>
</tr>
<tr>
<td>- administrative costs</td>
<td>-10</td>
</tr>
<tr>
<td>__________________________</td>
<td>-------</td>
</tr>
<tr>
<td>= Total Profit</td>
<td>$ 10</td>
</tr>
</tbody>
</table>

The accountants report these by each product (but they are wrong without ABC).

? We have no visibility of these costs by customer (except in total)!
Costs from Sales & Marketing are not Products

Customer +
Channel +
Product +

Direct material, Direct labor & Equipment
Indirect expenses
Distribution, Sales & Marketing
Sales, general, and administration (S,G&A)
# 1- Customer Retention – It is relatively much more expensive to acquire a new customer than to retain an existing one.

# 2 – Sources of Competitive Advantage – As products and standard service-lines become commodity-like, then the shift is towards service-differentiation.
# 3 - CRM’s “One-to-One” Marketing – Pepper & Rodgers have hailed technology as the enabler to (1) identify customer segments, and (2) tailor marketing offers.

# 4 - Power Shift – The Internet is shifting power … irreversibly … from sellers to buyers.
Polling Question #2
Angel Customers & Demon Customers

Discover Which Is Which and Turbo-Charge Your Stock

Larry Selden,
Professor Emeritus of Finance and Economics at Columbia University Graduate School of Business

Geoffrey Colvin,
Senior Editor at Large, Fortune Magazine
ABC/M Profit Contribution Margin Layering

**RESOURCES**
- SENIOR MGT
- OSHA
- IRS
- DOT
- Etc.
- Gvt
- Regulators
- R&D

**FINAL COST OBJECTS**
- UNUSED CAPACITY
- UNUSED CAPACITY
- ARBITRARY (for full absorption)
- ARBITRARY (for full absorption)
- BUSINESS SUSTAINING RELATED

**WORK ACTIVITIES** (examples)
- PURCHASES RECEIPTS
- RELATIONSHIP MANAGEMENT
  - # POs
  - Receipts

**UNIT & BATCH LEVEL**
- UNIT & BATCH LEVEL
- PRODUCTS/SKUs

**PRODUCT & SERVICE LINE-RELATED**
- PRODUCT & SERVICE LINE-RELATED

**PRODUCT LINE SUSTAINING**
- PRODUCT LINE SUSTAINING

**CUSTOMERS**
- CUSTOMERS

**SUPPLIERS**
- SUPPLIERS
- SUPPLIER-RELATED

**SUMMARY**
- PROFIT CONTRIBUTION EROSION
- # Advertisements
- Facility costs
- # Pounds
- # Gallons
- # Meters

**RESOURCE LEVELS**
- SUPPLIER RELATED
- BUSINESS SUSTAINING RELATED

**VALUE PROPOSITIONS**
- VALUE PROPOSITIONS

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### ABC Customer Profit & Loss Statement

<table>
<thead>
<tr>
<th>Category</th>
<th>Activity Cost Driver Assignments</th>
<th>Margin $ [\text{Sales} - \Sigma \text{Costs}]</th>
<th>Margin % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td>$$$</td>
<td></td>
</tr>
<tr>
<td><strong>Product-Related</strong></td>
<td></td>
<td>$ xxx</td>
<td>98%</td>
</tr>
<tr>
<td>Supplier-Related costs (TCO)</td>
<td>$ xxx</td>
<td>$ xxx</td>
<td></td>
</tr>
<tr>
<td>Direct Material</td>
<td>xxx</td>
<td>xxx</td>
<td>50%</td>
</tr>
<tr>
<td>Brand Sustaining</td>
<td>xxx</td>
<td>xxx</td>
<td>48%</td>
</tr>
<tr>
<td>Product Sustaining</td>
<td>xxx</td>
<td>xxx</td>
<td>46%</td>
</tr>
<tr>
<td>Unit, Batch*</td>
<td>xxx</td>
<td>xxx</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Distribution-Related</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outbound Freight Type*</td>
<td>xxx</td>
<td>xxx</td>
<td>28%</td>
</tr>
<tr>
<td>Order Type*</td>
<td>xxx</td>
<td>xxx</td>
<td>26%</td>
</tr>
<tr>
<td>Channel Type*</td>
<td>xxx</td>
<td>xxx</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Customer-Related</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer-Sustaining</td>
<td>xxx</td>
<td>xxx</td>
<td>22%</td>
</tr>
<tr>
<td>Unit-Batch*</td>
<td>xxx</td>
<td>xxx</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Business Sustaining</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td></td>
<td><strong>xxx</strong></td>
<td><strong>8%</strong></td>
</tr>
</tbody>
</table>

* Activity Cost Driver Assignments use measurable quantity volume of Activity Output (Other Activity Assignments traced based on informed (subjective) %s)
Migrating Customers to Higher Profitability

Types of Customers

Very Profitable

Product Mix
Gross Profit Margin

Profitable

Unprofitable

Cost-to-Serve

Very unprofitable

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KPI Linkage of Customer Profits to the Scorecard

Very Profitable

High

Product Mix
Gross Profit Margin

Low

Cost-to-Serve

Profitable

KPI Target

Unprofitable

Very unprofitable

Types of Customers

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Customer Sales Volume Versus Profits

Customers tend to cluster. Medium sales volume customers can be much more profitable than large sales volume customers!

These losers drag down profits

Sales Volume (logarithmic scale)

Profitability

$ profitable

$ 0

$ (unprofitable)

$ small

$ large

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A “whale curve” of Customer Profitability

Cumulative Customer Profitability (Whale Curve)

- 20% most profitable generate 180% of profits
- 20% least profitable lose 80% of net profits

Target competitor top slice

Strategic neglect or turnaround

Cumulative Net Operating Profit (%)

Unrealized Profit Potential

Actual Net Profit

Cumulative % of Units (Customers, Orders, Line Items, Products, etc.)

Source: Kaplan
Polling Question #3
A Shift in the CFO’s Emphasis

The CFO must now help Sales and Marketing … to better target customers.

The spending budget for sales and marketing is critical … but it should be treated as a preciously scarce resource to be aimed at generating the highest long-term profits.

This means answering questions like:

- Which type of customer is attractive to newly acquire, retain, grow, or win back? And which types are not?
- How much should we optimally spend attracting, retaining, growing, or recovering each customer micro-segment?
Optimizing Customer Value --- “Smart” Sales Growth

You can destroy shareholder wealth creation by …

… over-spending unnecessarily on loyal customers for what is needed to retain them.

… under-spending on marginally loyal customers and risk their defection to a competitor.

Therefore, what is the optimum spending level for differentiated services to different micro-segments of customers?
A financial view is not the only consideration.

Other factor variables to evaluate sales prospects and existing customers should include:

- retention (loyalty)
- attrition (tenure)
- churn propensity
- RFM (recency, frequency, and monetary spend)
- their lifecycle stage
- their referrals potential
- their familial relationships
- their “social networks”
- their tastes and preferences
- socio-demographic
- psychological
- others ??
Actions to Make Customers More Profitable

- Manage each customer’s costs-to-serve to a lower level.
- Improve and streamline customer facing processes, including adding self-service models where possible.
- Establish a surcharge for or re-price expensive cost-to-serve activities.
- Reduce services; focus first on labor intensive ones that add the least value yet cost the most.
- Introduce new products and service lines.
- Abandon old products or service-lines.
- Raise prices.
- Improve and streamline internal business processes.
- Offer the customer profit-positive service level options with varying prices.
- Increase investments on activities that a customer shows a preference for.
- Up-sell or cross-sell the customer’s purchase mix toward richer, higher-margin products and service lines.
- Discount prices to gain more business with low cost-to-serve customers.
Improve the value mix of customers

Notes

1. Only focusing on the number of customers acquired results in a degraded mix as low-value customers by definition are easier to acquire

2. A customer-centric strategy will not acquire any customer; only higher-value ones

Source: Managing Customer Relationships by Martha Rogers

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Who is more important to pursue with the scarce resources of our marketing spend budget?

Our most profitable customers?
Or our most valuable customers?

What is the difference?

The “customer lifetime value” measure is intended to answer this question.
Imagine you are pharmaceutical supplier. Which Customer is more Important?

<table>
<thead>
<tr>
<th>Dentist A</th>
<th>Sales: $750,000</th>
<th>Profits: $100,000</th>
<th>Age: 61</th>
</tr>
</thead>
</table>

| Dentist B | Sales: $375,000 | Profits: $40,000 | Age: 25 |

Which is more profitable? Which is more valuable?
Customer Value Management – Financial Definitions

Time = 0 (now)

Historical
(trends, insights, inferences)

Past (reactive)

Customer Profitability
The difference between the revenues earned from, and the total costs associated with, the customer relationship during a specified period.

Customer Lifetime Value (CLV)
The net present value of the future cash flows (both inwards and outwards) attributed to the customer relationship during the predicted lifetime of that relationship

Future (proactive)

Predictive
(uncertainty, risk mgmt.)

Customer Value Management – Financial Definitions

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Customer Profitability
The difference between the revenues earned from, and the total costs associated with, the customer relationship during a specified period.

Customer Lifetime Value (CLV)
The net present value of the future cash flows (both inwards and outwards) attributed to the customer relationship during the predicted lifetime of that relationship.
Polling Question #4
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Why are some customers more profitable than others?
Recursive Partitioning / Decision Trees

Example:
The single, largest factor for explaining the profit variation is Average Order Size.

Customers small order quantities are less profitable.
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The Three Key Questions

What? So what? Then what?

This involves price quoting.
Recurring Expenses // Future Volume & Mix

- **Activity-Based Costing**
  - Historical & Descriptive
  - Starts with known:
    - spending
    - driver measures
    - output quantities
  - Calculates “costs”

- **Activity-Based Planning**
  - Predictive
  - Requires capacity analysis
  - Starts with estimated outputs
  - Applies ABC/M rates
  - Solves for Resource “expenses”

Past

ABC/M

ABP

Now

Future

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Predictive Accounting

**Known**

- resources
- work activities
- cost objects

**Provides unit-level consumption rates**

**Past** ABC/M

**ABC/M**

**Now** ABP

**Future** ABP

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Predictive Accounting

resources
work activities
cost objects

? calculated

Estimated

Past    ABC/M    Now    ABP    Future

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Predictive Accounting

Past - Descriptive

Now - Predictive

Future

Unused

Used

Sunk

Unused

Fixed
(unavoidable)

Variable
(adjustable capacity; avoidable)

Traceable to products, channels, customers, sustaining
### Resource classifying dependencies

<table>
<thead>
<tr>
<th>Expenses</th>
<th>One-time order; demanded price</th>
<th>---- type of decision →</th>
<th>Large capital expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
<td></td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>Step-fixed</td>
<td>X</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>Fixed</td>
<td>X</td>
<td>X</td>
<td>...</td>
</tr>
<tr>
<td>Sunk</td>
<td>X</td>
<td>X</td>
<td>... X</td>
</tr>
</tbody>
</table>

---

**Operational**

---

**Strategic**

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Most organizations are typically at lower levels of maturity in adopting progressive managerial accounting practices, methods and systems.

Costing Continuum / Levels of Maturity
(most companies are Level 5D and 1P)

(1) Descriptive Continuum
EXPENSE TRACKING, COST
REPORTING
and CONSUMPTION RATES

1D
Blind

2D
Process Visibility
bookkeeping Lean accounting

3D
Output Visibility
Direct costs without (3) and with (4) support costs to output groups

4D
Improved Output Information/ Approximate Accuracy
Standard costing to individual outputs; Project acct; Job order costing

5D
Improved Treatment of Indirect Costs
Push Activity-Based costing (ABC); Product costs

6D
Improved Output Information/ Approximate Accuracy
Level 6D with Channel and customer profitability Reporting; Cost-to-serve

7D
Customer Demand Sensitive
Unused capacity costs (estimated)

8D
Unused Capacity Aware

(2) Predictive Continuum
DEMAND DRIVEN PLANNING
with CAPACITY SENSITIVITY

1P
% G/L acct. Incrementa

2P
Pull Activity-based Resource Planning
(ABRP); Forecast driver quantities X unit consumption rates; Driver based budgeting

3P
Time-driven ABC
(TDABC); Forecast driver quantities X time consumption rates; Direct cost focus; Repetitive work conditions

4P
Ultimate in consumption rates; (RCA); Level 2P with proportional costing at direct and support depts.

5P
Simulation

Source: “A Costing Levels Continuum Maturity Model” by Gary Cokins published by the International Federation of Accountants, 2019
The Intelligence Hierarchy

Power of Information

- Raw Data
- Standard Reports
- Ad hoc Reports & OLAP

Descriptive Modeling (with analytics)

Predictive Modeling

Prescriptive Analytics / Optimization

$ROI

Data → Information → Knowledge → Insights → Decisions

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Polling Question #5
How Does It All Fit Together?

Connecting customer value to shareholder value

- **Strategy, Mission**
- **Customer Satisfaction**
- **ERP, etc.**
- **Scorecards, Dashboards**
- **CRM**
- **Organization Resources (capacity)**
- **Supplier Inputs**
- **Shareholders Owners**
- **ROI**

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In Summary … first, we energize with good managerial accounting.
EPM is Circulatory and Simultaneous

Shareholder Wealth Creation is not a goal. It is a result!
EPM is Circulatory and Simultaneous

Shareholder Wealth Creation is not a goal. It is a result!

Less productivity reduces Shareholder Wealth

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AGENDA

- Eras and Issues with managerial accounting
- Basics on activity-based costing (ABC)
- Implementing with ABC rapid prototyping
- Calculating channel and customer profitability
- Applying analytics
- Historical versus predictive costing
- Barriers slowing the adoption rate
Why has the adoption rate for profitability reporting with ABC been so slow?
Why is the adoption rate so slow? What are the barrier categories?

(1) **Technical** barriers include IT related issues.

(2) **Perception** barriers are excess complexity and affordability.

(3) **Organizational behavior** barriers involve resistance to change, culture, and leadership.
Typical Excuses Preventing Being Progressive

We are profitable, so why does it matter?

We will purchase software that will fix our problems.

We already know our “true” costs from our general ledger financial reporting system.

We have done it this way forever. And we don’t do that here. We already know everything. It is in our heads.

We are a small organization. We’ll worry about better methods when we get larger.

All this hype is just made up stuff from highly paid consultants.

No one looks at the reports I create, so there is no point generating better reports.

We cannot afford better software to fix our problems.

We are way too busy doing other things.

We don’t know where to start or how to get started.

Source: William Vaughn Company CPAs; IMA conference, June 20, 2018
There are seven seasoned professionals on this IMA task force who share frustration with the slow adoption rate by accountants of progressive management accounting practices, methods, and systems.

The task force’s opinion is that most CFOs and accountants continue to use stale and out of date accounting practices from the 1960s!

Here are links to the task force’s website. The second link is our “Mission” statement. The task force members are in the third link. Navigate in it a while to see the various “audiences” we are influencing:

https://www.thecmcq.org/

https://www.thecmcq.org/about-us

https://www.thecmcq.org/advisory-board

Our “demand pull” approach is to “partner with 12+ non-financial and accounting institutes (e.g., www.apics.org, www.asq.org, www.cscmp.org) to enlist their members to communicate with their CFO’s organization that they are being underserved with flawed, misleading, and incomplete internal management accounting information to support their decision making.
Getting Started Actions and Resources

Action steps

▪ Get educated. Get buy-in.
▪ Rapid prototyping. Start small; think big.
▪ Improve incentives. (Motivational theory)

Resources:

“Measuring and Managing Customer Profitability”; IMA Strategic Finance; February 2015.

A suggestion: Have your management team read either or both of these educational pieces. Then schedule a meeting for discussion. Have each manager answer, “What did I learn? What issues and concerns do I have about EPM?” This will stimulate needed conversations.
From Theory to Practice

Your success depends on how well and how fast the right information and intelligence gets to the right people.
Thank You

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