



# CostPerform – delivering bottom line benefits

## Accurate costing of shared services

A private, multi-business-unit Financial Services company was strong and profitable. It employed over 850 specialist personnel at its corporate headquarters and in its offices in seven other countries. However success, evident from rapid and continuing growth, was bringing its own problems. The central shared functions that served all the business units had grown complex and, in the view of some within the business units, expensive.

The company needed to know more about its cost in both its shared service areas and in its business units.

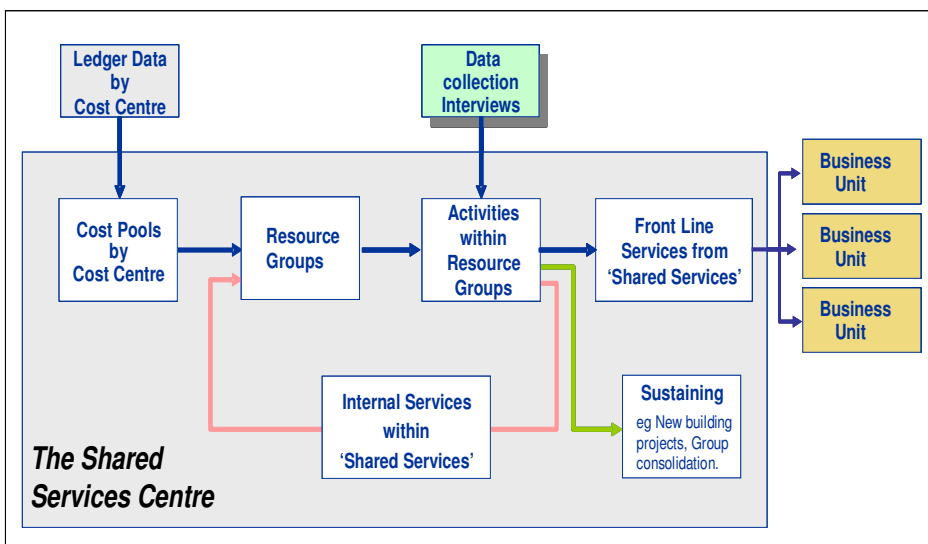
- In the central shared functions, it needed to know the costs of providing services to business units in order to enable accurate internal charging and in order to simulate the costs of future demands.
- In the Business Units: it needed to know the costs, and hence the profitability, of providing products and services to customer. This information could then be used to adjust product portfolios, service levels and prices

Because conventional accounting and management reporting of costs could not provide the information, the company implemented an Activity Based Costing analysis and modelling approach using CostPerform.

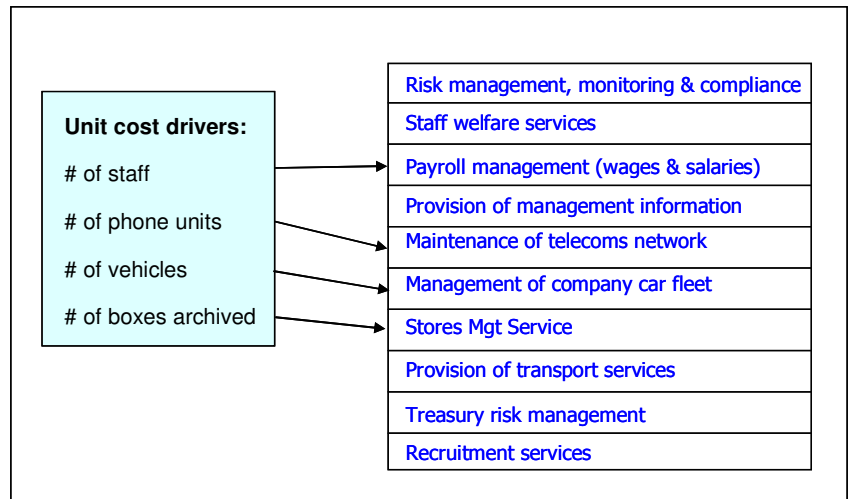
## The model of Shared Services

Starting with the ledger, costs were grouped into 'Resource Groups' to simplify the model. Resource Groups were either cost centres or groups of small cost centres. Large cost centres such as 'Finance', were split into several Resource Groups of people doing similar things such as Accounts Payable, Accounts Receivable and so forth. Within each Resource Group, activity data was collected through staff interviews. There were around 5 to 10 activities in each Resource Group.

Resource Groups provided 'Services' both to other Resource Groups within Shared Services and to the Business Units. To create a particular service, activities were assigned from various Resource Groups. The proportion of the total cost of an activity that was assigned to a particular service receiver was based on the cost driver volume relating to that service receiver. For example, many parts of Shared Services and the Business Units needed to archive material. The overall cost of the Stores service was divided across the service receivers based on the number of boxes each had archived.



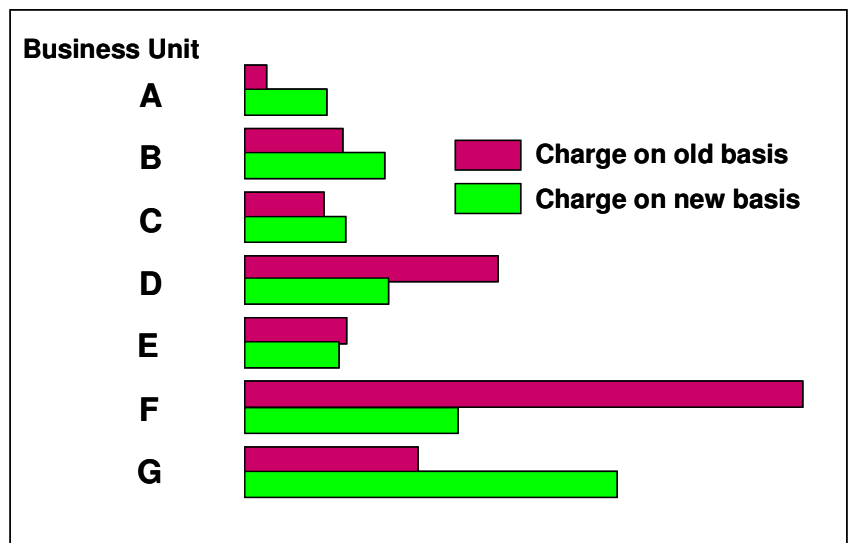
**Right:** Examples of services and of the cost drivers used to assign service costs to other shared services and to the Business Units



When all the activity costs had been assigned to services, and the services assigned to the Business Units, a clear difference arose between the previous method of charging based on Business Unit sales volumes and the accurate charges found using the ABC model (shown right).

This has enabled a correct focus on those services that are costly. As a result, Business Units can now reduce Shared Service costs by reviewing the volume of demand for the more costly services.

In addition, Managers of the Shared Services focus on process improvements that will reduce the unit costs of activities and services so in turn reducing the costs charged to Business Units.



### Benefits demonstrated by CostPerform

The company developed for accurate charging to Business Units and then many more benefits emerged:

- Comparing unit costs of activities and services in different parts of the group highlights areas of best practice.
- Accurate unit cost data is used in costing models when tendering for new business opportunities and when re-pricing existing contracts.

With Shared Services now providing accurate charging, each Business Unit has been able to build its own ABC product and customer profitability model.

