

Case - Activity Based Costing in Supply Chains



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GROENEWOUT

47 years Consultancy

Logistics

Supply Chain Management

Multidisciplinary Team

Construction Management & Engineering

Transition Support

Supply Chain Strategy > Implementation

The Customer

CUSTOMER PROFILE

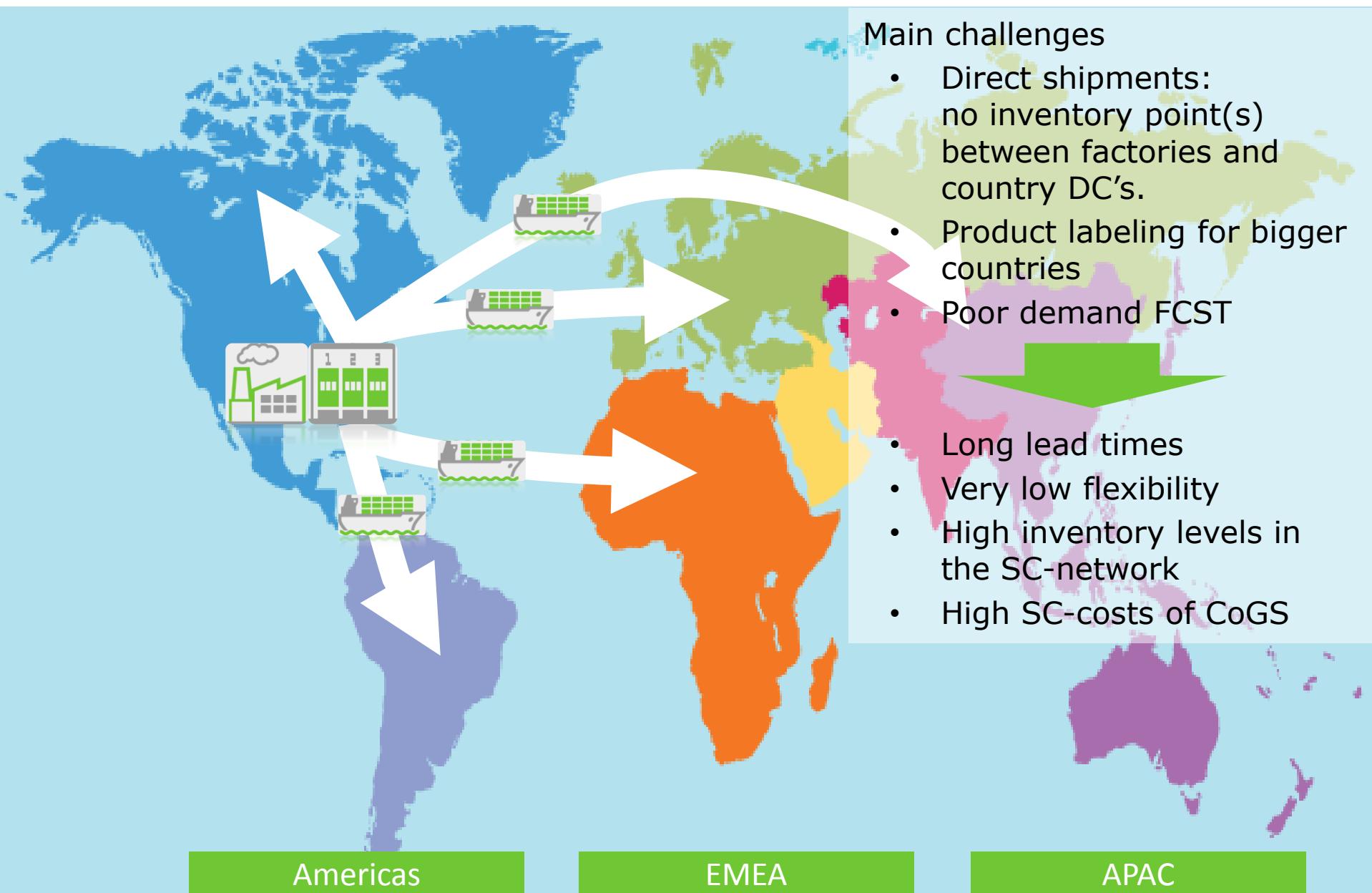
- Business model: Multi Level Marketing
- No retail or store channel, but sales via networks
- Gross sales: \$ 3.0 billion (2012)
- Sales network: 9.5 million distributors in ca. 90 Countries



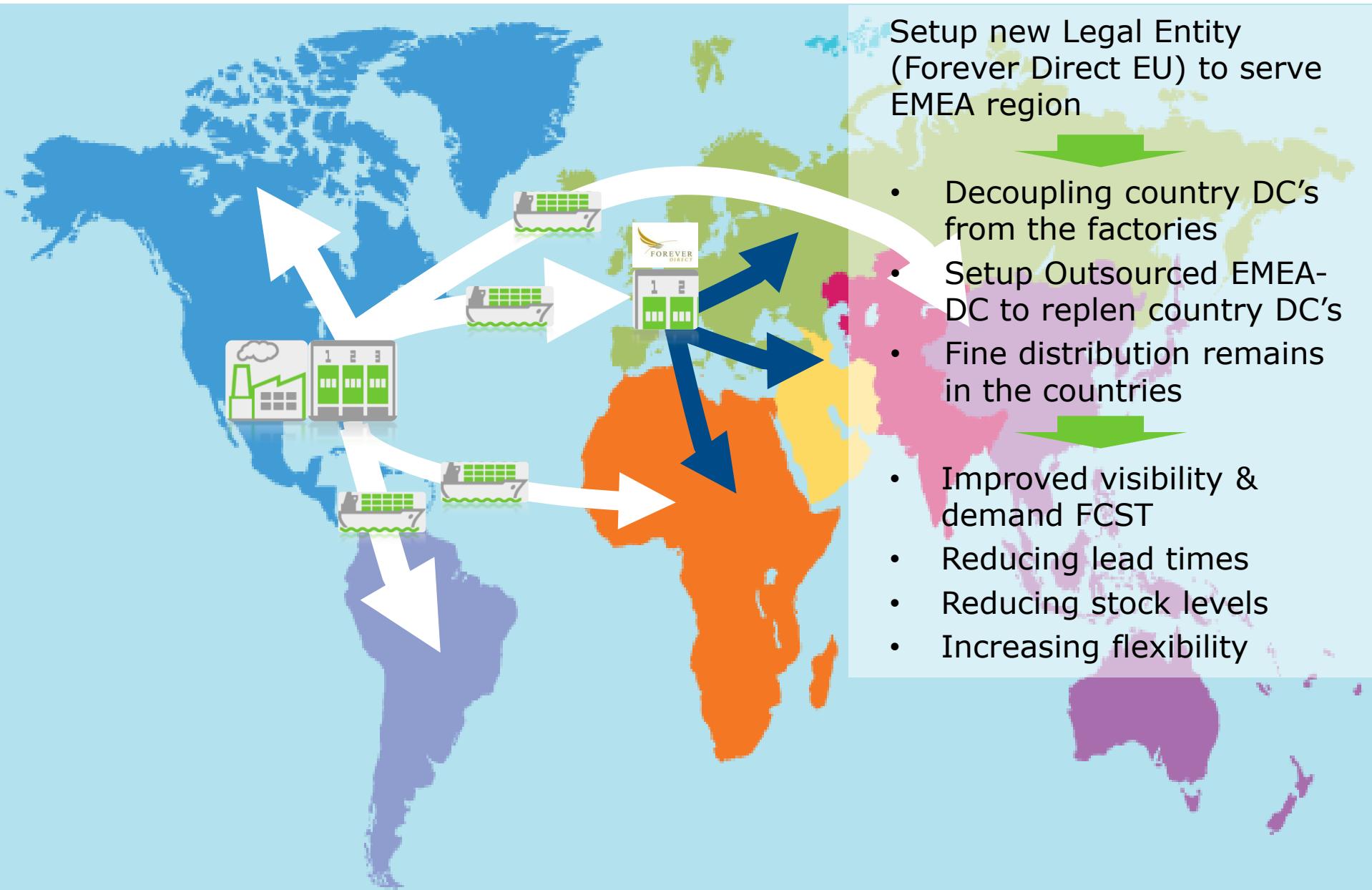
VOICE OF THE CUSTOMER

- Distribution activities back as core business (Back-sourcing)
- Centralization, which countries?
- Servicing a new customer type (distributor)
- Business Case - payback within 3 years
- New pricing setup

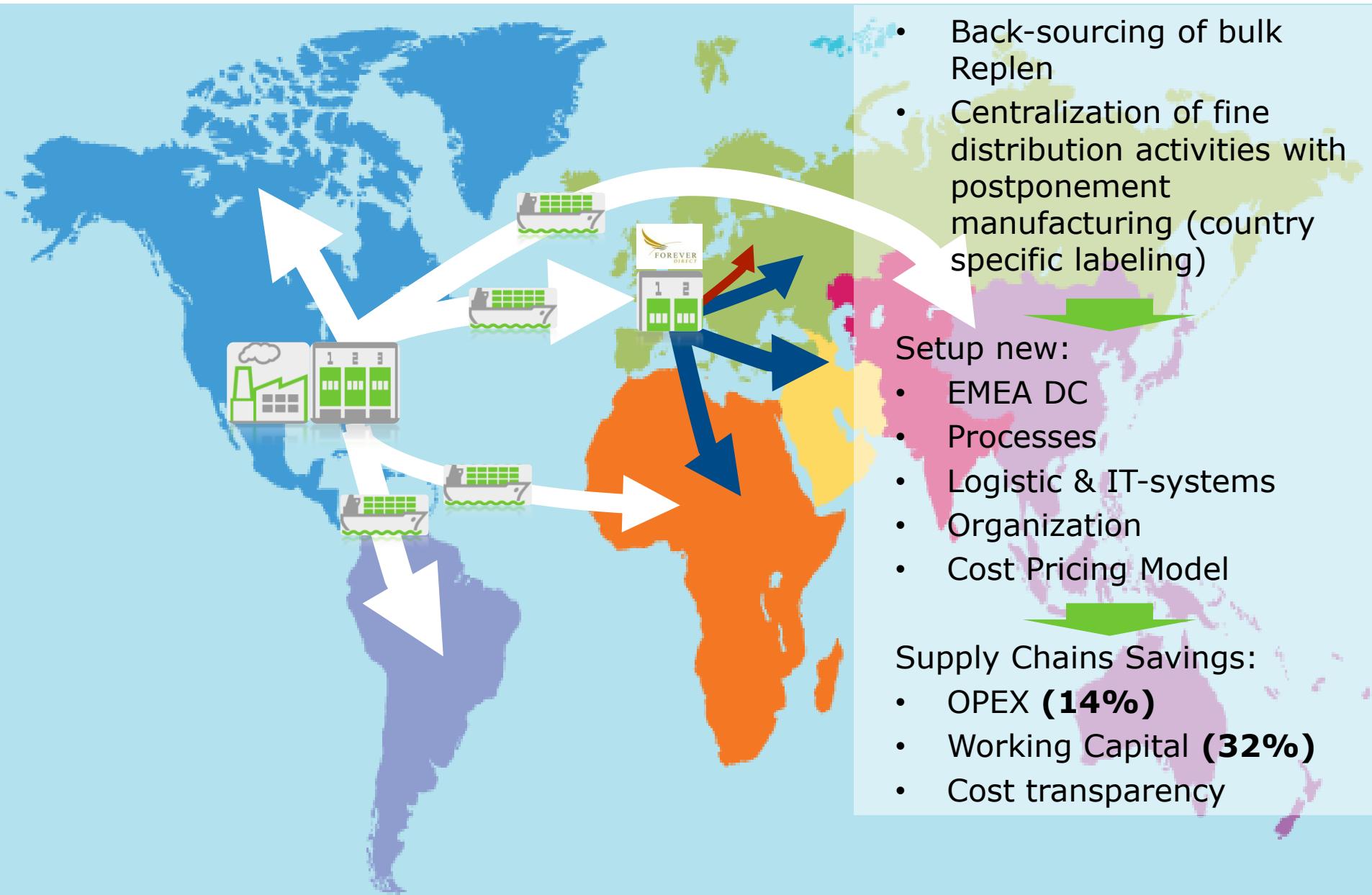
Forever Living's Supply Chains **PREVIOUSLY**



Forever Living's Supply Chains TODAY (IN PROGRESS)



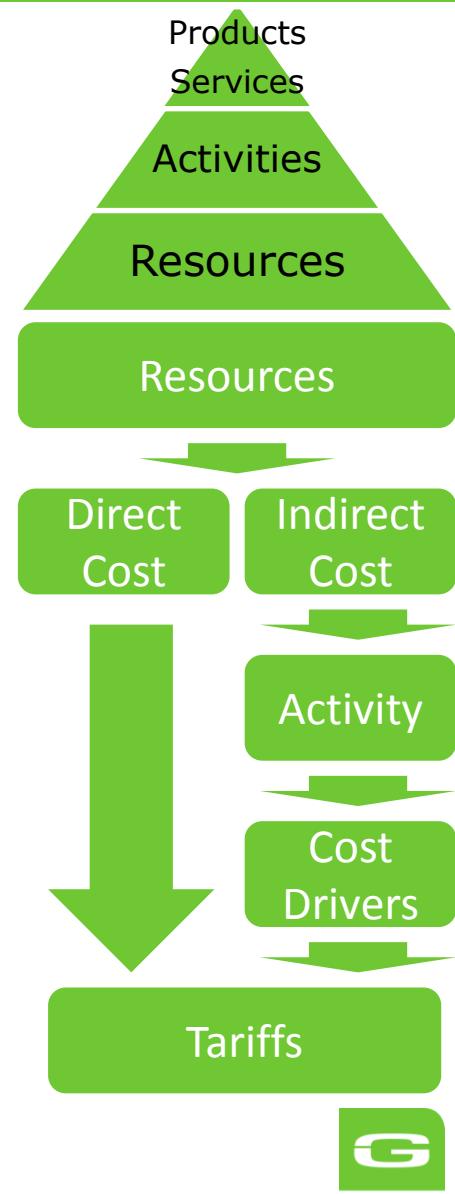
Forever Living's Supply Chains NEAR FUTURE (IN PROGRESS)



Cost Pricing Model in Logistics

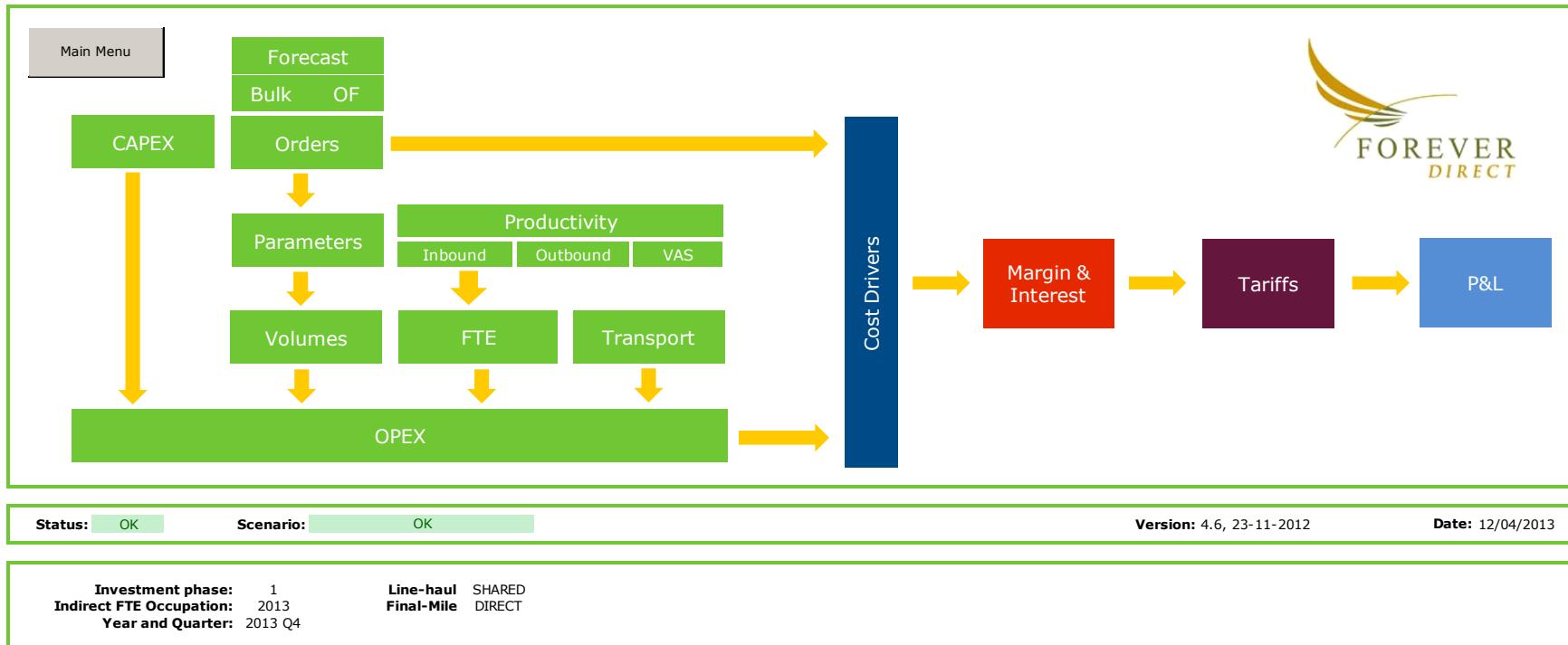
APPLYING ACTIVITY BASED COSTING & ACTIVITY BASED MANAGEMENT

- ABC was mainly used by production companies, today also by service providing companies (i.e. Banking & Insurance, LSPs, ...).
- Base principle: cost allocation of indirect costs to activities.
- Activity Based Management is Cost Management based on ABC-info for:
 - ❖ Cost (re)allocation
 - ❖ Cost reduction program
 - ❖ Improving product/customer profitability
 - ❖ Sensitivity analyses to simulate cost impact
 - ❖ Explaining cost implications (i.e. rush order)
 - ❖ Benchmarking of similar customer profiles: advice on best practices to reduce their own cost.
- Main concerns/focus areas are:
 - ❖ Allocation of fixed/indirect costs (i.e. Mngt)
 - ❖ Customer changes impacting other customers
 - ❖ Data availability: access to and transparency of info
 - ❖ Level of complexity: Keep it simple



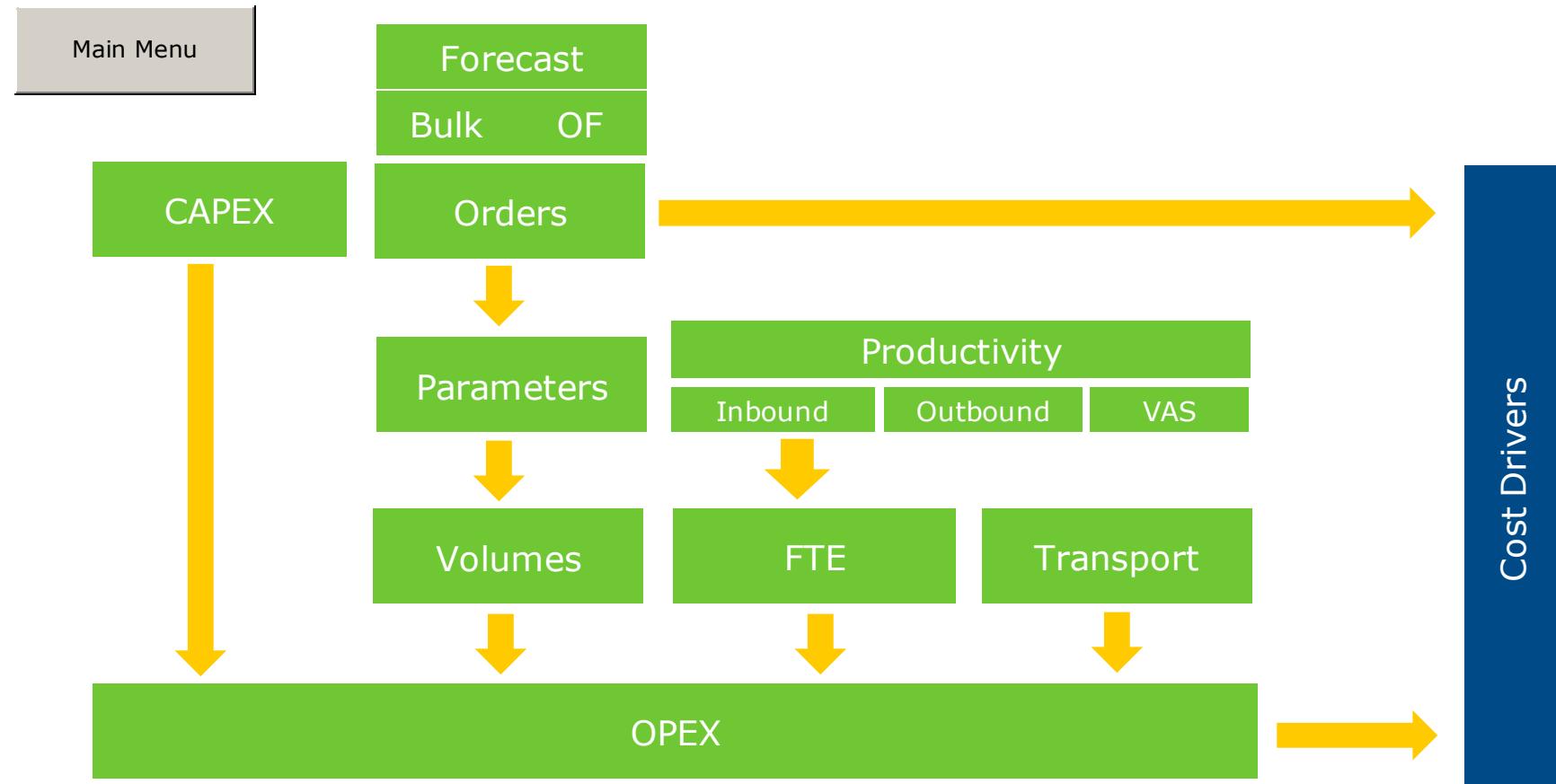
Cost Pricing Model in Logistics

SNAPSHOT ACTIVITY BASED COSTING MODEL



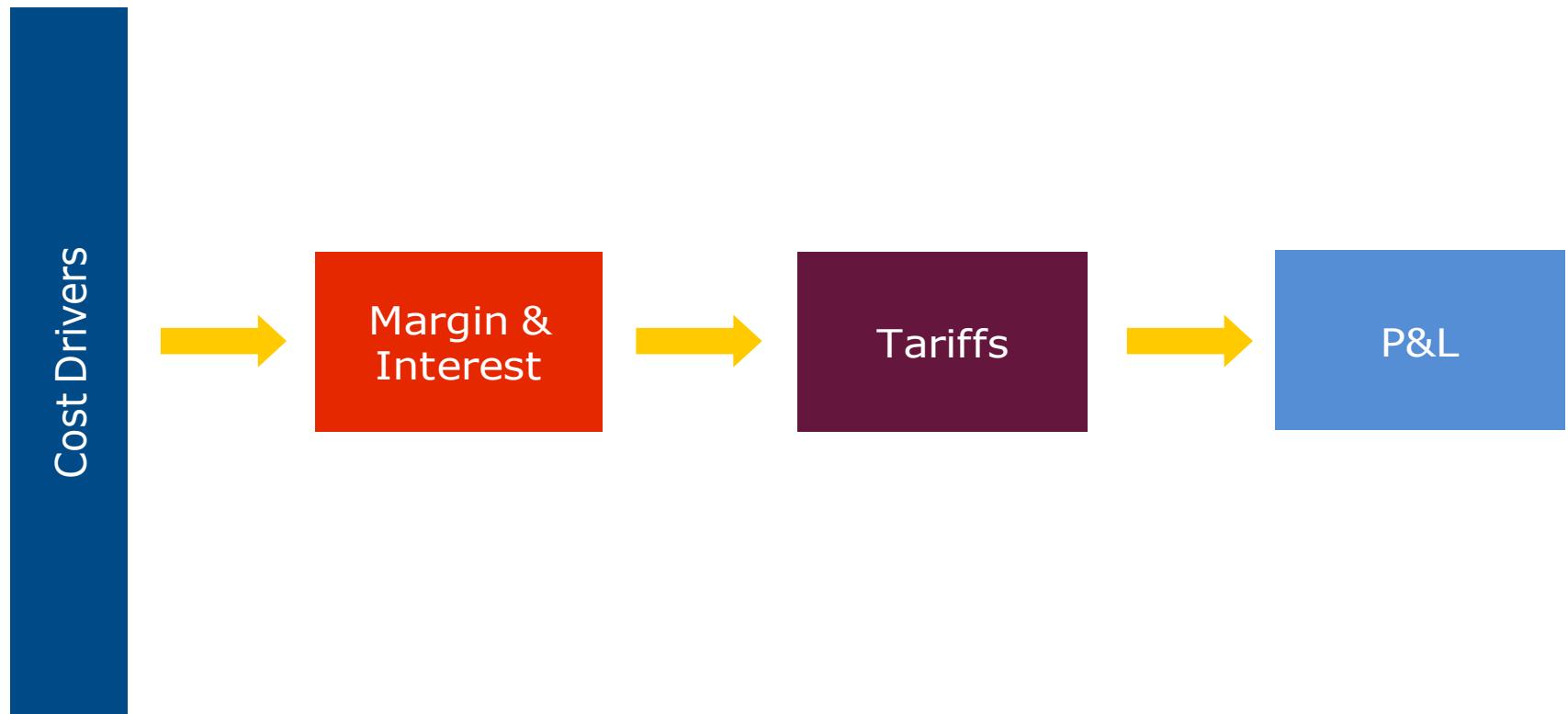
Cost Pricing Model in Logistics

SNAPSHOT ACTIVITY BASED COSTING MODEL



Cost Pricing Model in Logistics

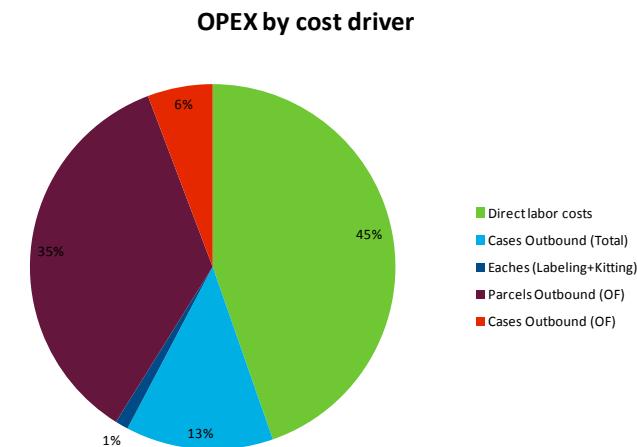
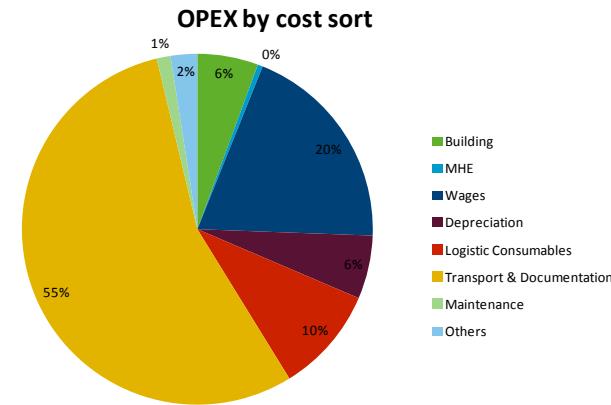
SNAPSHOT ACTIVITY BASED COSTING MODEL



Cost Pricing Model in Logistics

SNAPSHOT ACTIVITY BASED COSTING MODEL

OPEX			
Cost sort	Cost type	Costs	Cost Driver
Building	Rent office		Direct labor costs
	Rent warehouse (bulk)		Cases Outbound (Bulk)
	Rent warehouse (OF)		Cases Outbound (OF)
	Rent warehouse (VAS)	€ 1.200.000	Eaches (Labeling+Kitting)
MHE	Lease costs	€ 100.000	Cases Outbound (Total)
Wages	Indirect		Direct labor costs
	Direct	€ 4.172.687	
Depreciation	Equipment		
	IT - Hardware		
	IT- Software		
	Tenant Improvement		
	Start-up / Project Management		
	Others	€ 1.250.161	
Logistic Consumables	Outbound pallets		Cases Outbound (Total)
	Shipping cartons		Parcels Outbound (OF)
	Product labels		Parcels Outbound (OF)
	Shipping labels		Parcels Outbound (OF)
	A4-Docs (packing list & invoice)	€ 2.094.230	Parcels Outbound (OF)
Transport & Documentation	Inbound Documents		Cases Outbound (Total)
	Inbound Freight		Cases Outbound (Total)
	Outbound Bulk		
	Outbound OF (Line-Haul & Last mile)		Parcels Outbound (OF)
Maintenance	Transparix license	€ 11.781.771	
	Conveyor (3.6% including spare parts)		Orderlines (OF)
	VAS labeling machines		Eaches Labeled (Labeling)
	IT - Hardware		Orderlines (Total)
	IT - Software		Orderlines (Total)
	Scanners		Orderlines (Total)
Others	Building	€ 272.810	Cases Outbound (Total)
	HRM		Direct labor costs
	Energy		Direct labor costs
	ICT		Direct labor costs
	Supplies		Direct labor costs
	Insurance		Direct labor costs
Others			Direct labor costs
Holding costs			Cases Outbound (Total)
Total			



THANK YOU
VERY MUCH
FOR YOUR
ATTENTION



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DRIVEN BY KNOWLEDGE