Decimal® Suite

GAIN RELIABLE CONTROL OF YOUR COSTS Part 2

Processes improvement

Every organization wants to improve its operations performance as this is inextricably linked to its bottom line. An effective costing model is a valuable tool, as managers can use it to view information from different angles and thereby determine which strategies will have the greatest effect on improving the organization's results.

We enable them to do so by constructing the model in such a way as to create a cause-effect relationship between the components. Most organizations model the activities required to deliver products or services to their customers. Then, they make sure that the modeled activities enable their decision-makers to understand cost behaviour. They structure their activities so that their costs behave according to one of the following patterns:

Behavior	Explanation
Unit-level activities	Occur every time a product is made or sold
Batch-level activities	Occur every time a batch of units is handled or produced
Time driven	Based on the time required
Product and service-level Activities	Occur because of specific product lines
Customer support activities	Occur because of clients
Facility support activities	Occur to support the entire process

Constructing a model in this way shows both the costs of a given process as well as the cost of its component activities. We can also give attributes to each of the model components (resources, activities, cost objects, etc.).

For example, if each model component is characterized according to its potential for improvement (low, medium or high), results can be analyzed not only by activity or process but also by the potential for improvement. In other words, management could choose to improve a process in which most of the activities have a high potential for improvement.

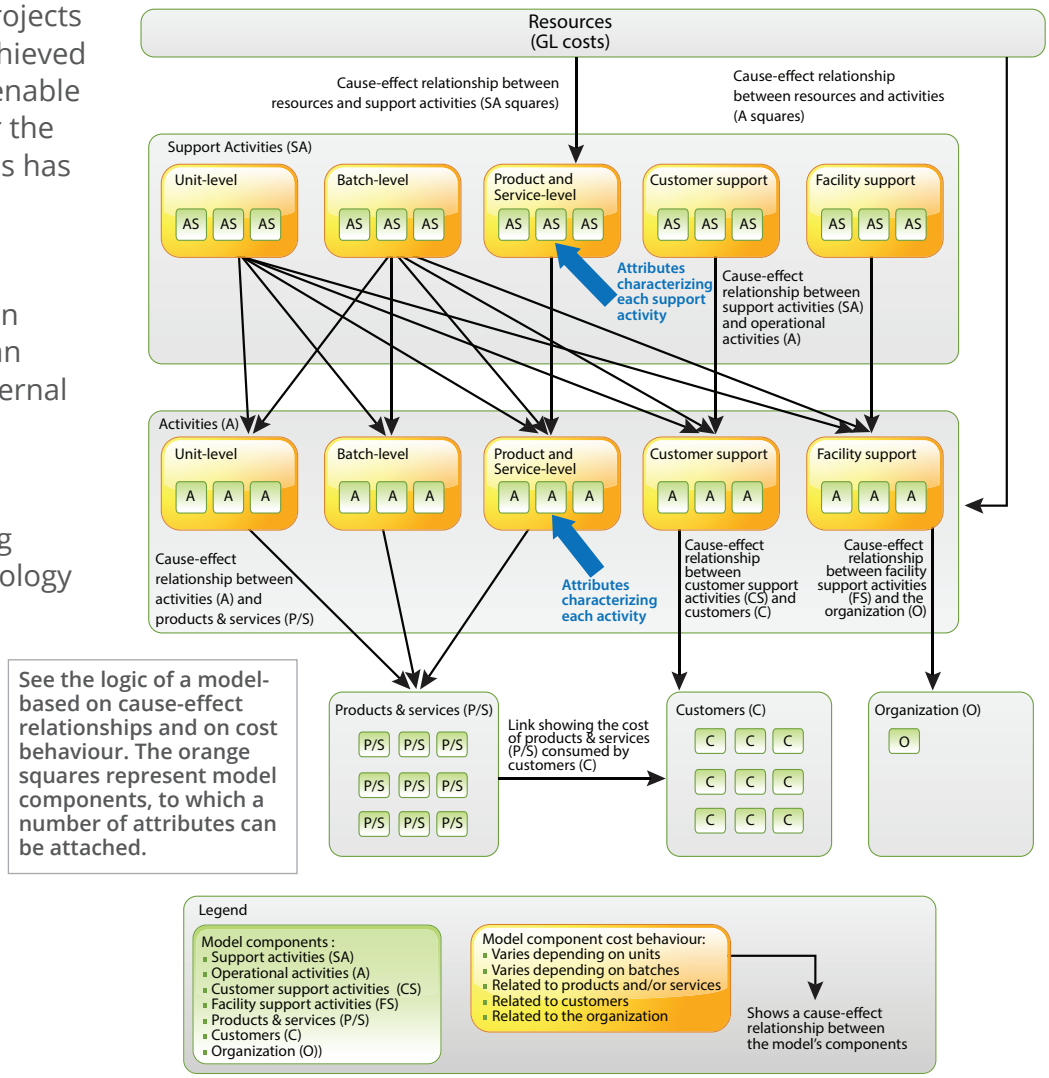
Using attributes to characterize model components enables managers to analyze costs in terms of the organization's priorities. In addition to focusing on potential for improvement, they could also choose to characterize the components according to value (added value, no added value) or according to quality control (prevention and detection costs, costs of internal and external deviations).

These results help managers identify areas that would benefit from performance improvement projects, such as Lean Management or Process Re-engineering. The model also enables them to measure the

effectiveness of improvement projects and check whether they have achieved their objectives. Attributes also enable managers to determine whether the cost of non-added-value activities has been reduced.

The costing model also provides support for different optimization programs. For example, users can construct models to facilitate internal or external benchmarking.

The Decimal Suite helps you determine your costs by applying the last relevant costing methodology in your business context. Integrate capacity and operational data to optimize your business processes and support strategic decision making.



Benchmarking

Benchmarking is the process of comparing an organization's business processes and performance indicators to the best practices of their own or another industry. The process typically measures quality, time and cost, and the goal can be internal or external comparisons.

Scope	Explanation
Internal	Benchmarking similar processes or activities within a given organization, i.e., comparing the branches or divisions of a financial institution or the boroughs of a city.
External	Benchmarking processes or activities of external entities, i.e., benchmarking accounts payable processes.

We can help you construct a cost model for your benchmarking exercise. The most important aspect of a cost benchmarking model is that it provides COMPARABLE results. In order to be effective, your benchmarking model must fulfill the following requirements:

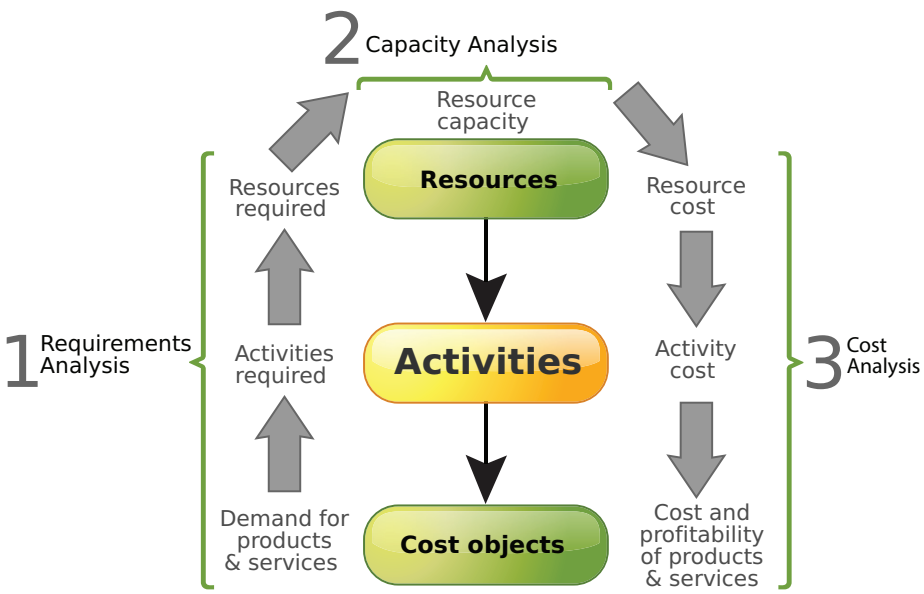
Requirement	Explanation
Calculate costs	Calculate the costs of the aspects to be measured, i.e., products, processes, activities, conceptual framework (such as ITIL).
Isolate components	Isolate and even ignore the cost of certain components that make up the cost of the aspect to be measured. For example, if amortization costs are excluded from the costs of the organization you are comparing yourself to, you must be able to identify and exclude those costs from your calculations in order to be on a comparable footing.
Understanding the why	Enable decision-makers to truly understand cost structure by creating a model based on cost behaviour and the cause-effect relationships between its components. Using attributes to characterize model components makes it easy for the organization to analyze costs from any number of relevant perspectives.
Measure improvement	Discover whether or not a process of activity has become more efficient by calculating its unit cost.

Whatever your benchmarking exercise, the DECIMAL experts can help you choose the approach that will provide the most relevant results for decision-making.

Forecast and scenarios

The Decimal Suite enables you to generate realistic forecasts and scenarios based on cost behaviour and cause-effect relationships.

Forecasts and scenarios typically involve adjusting resource costs and the sale price of goods and services. The Decimal Suite enables users to quickly and easily calculate the impact of cost adjustments. Adjusting costs and sale prices are only one aspect of this exercise. A truly realistic forecast should also take into account the demand for goods and services and the organization's ability to meet that demand.



With the Decimal Suite, users can enter a demand for products and services and then calculate the volume of activities required to meet that demand. Then, the tool calculates the resources (labour and other expenses) required to sustain the previously calculated volume of activity. By parametrizing capacity, managers can immediately ascertain whether or not the organization has the necessary capacity to meet the demand for products and services.

This means managers will no longer pursue unrealistic scenarios.

In the event of an unrealistic production scenario, there are three levers managers can adjust:

- First, he or she could increase efficiency: if a given activity enables workers to process 15 requests per hour, the manager could decide to set a goal of increasing efficiency by processing 20 requests per hour.
- Second, the manager could increase the processing capacity by hiring additional labour, for example.
- Third, the manager could choose to reduce production to a level that is realistic for the organization.

Because it factors in capacity, the Decimal Suite provides reassurance that scenarios are consistent. It also enables managers to rapidly change parameters and save as many scenarios as desired.

Accountability

The highly competitive global business environment creates unrelenting pressure toward increased efficiency and cost reduction. For several years now, organizations have been paying closer attention to performance measures, prized for their usefulness in decision-making and accountability.

With the Decimal Suite, accountability becomes easy to understand and effective in the sense that is generates valuable decision-making information. For example, the Suite can help managers identify the areas that would truly benefit from an optimization or process improvement program. Once the improvement programs are implemented, it is easy to gauge their success at improving the processes and activities of the targeted sectors. Because results based on cause-effect relationships are easy to explain, they promote transparent management, as managers more readily grasp the impact of their decisions.

It is also easier for managers to understand where they fit in the value chain and the impact their sector has on other aspects of the organization. Many managers have indicated that one of the unexpected benefits of the costing process is that they can more easily explain what a given sector does and where the resources are concentrated.

With their improved understanding of cost behaviour, managers are better able to set priorities and deploy resources to have the greatest possible impact on results.

Types of analysis that facilitate accountability:

- Account variance analysis of budgets and standards
- Cost variance analysis of activities
- Cost variance analysis of products/services
- Cost variance analysis of clients
- Assessment of goal achievement for improvement projects
- Comparison of activity, product, service and client-related costs over time
- Drill-down cost analysis

Montreal

Head Office
793 Jean-Paul-Vincent Blvd. suite 202
Longueuil, QC, Canada J4G 1R3
T. 450.640.1222
F. 450.646.1223

Quebec

400 Jean-Lesage Blvd, Suite 348
Québec, QC
Canada G1K 8W1

T. 418.704.1222

Ottawa

World Exchange Plaza
45 O'Connor Street, Suite 1150
Ottawa, ON, Canada K1P 1A4

T. 613.454.1222

Toronto

First Canadian Place
100 King Street West, Suite 5700
Toronto, ON, Canada M5X 1C7

T. 1 647.477.3400

www.decimal.ca