

Chapter 5

Conclusion and Recommendations

5.1 Introduction

According to the objectives of the study which are aimed to develop information for the Activity Based Management and to analyze for the non value added activities of industrial marketing division. The following will explain the use of ABM and the activities of IMD which are performed as non valued-added activities, addition with the recommendation for the study and further study that should be realized.

5.2 The Activity Based Management

Activity Based Costing (ABC) is directly linked to and supportive of Activity Based Management (ABM), as shown on figure 5-1. The main purposes of ABC are to provide costing information on cost objects and to provide information to enable management to reengineer the business if necessary, and attain continuous improvement. Meanwhile Activity Based Management (ABM) is the process of understanding, reengineering, measuring, and making decisions about activities to put the organization on the road to continuous improvement. It turns out that the information collected when

developing an ABC system also reveals an organization's activities and how they are performed. As figure 5-2 shown, ABM is an ongoing process involving four phases:

- Identify value-added and non value-added activities.
- Reengineer the enterprise.
- Benchmark value-added activities.
- Develop a performance measurement system for continuous improvement.

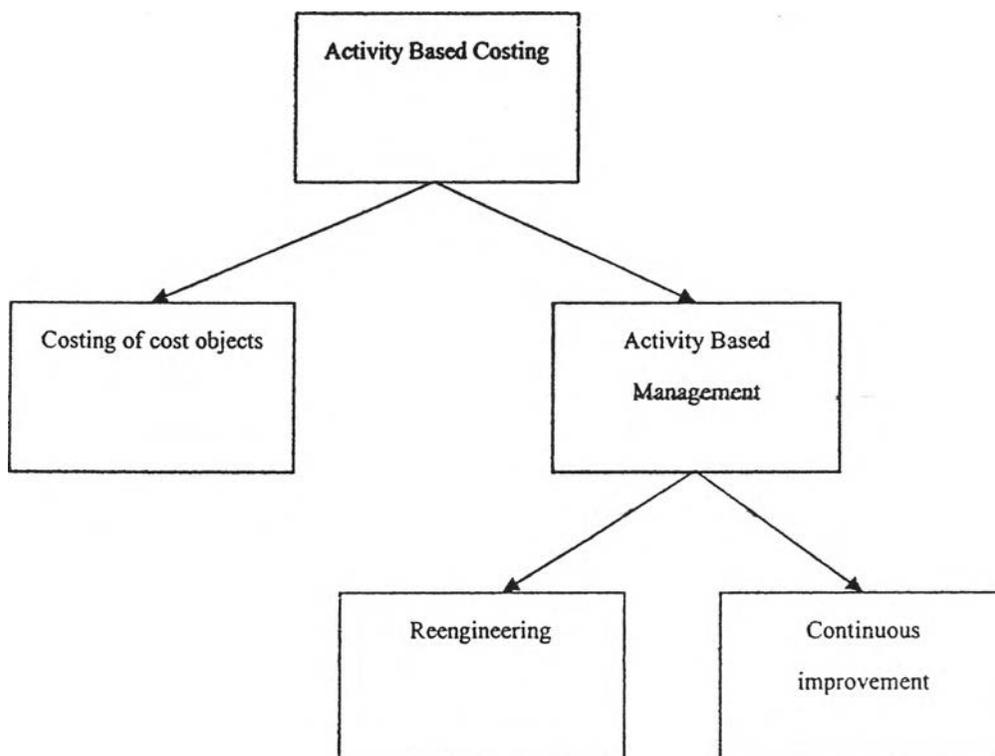


Figure 5-1: Linkage between Activity Based Costing and Activity Based Management

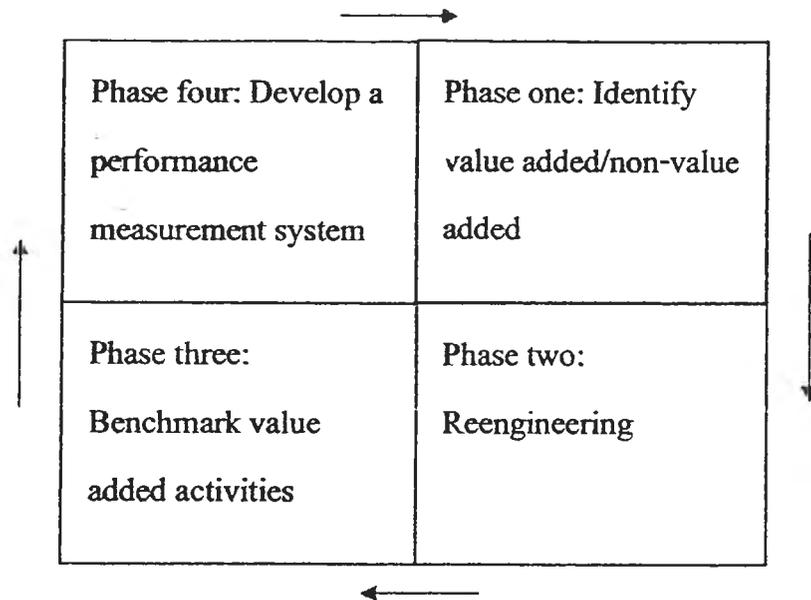


Figure 5-2: The Four ongoing Phases of Activity Based Management

For the case company, after develop ABC the information which was obtained will be developed to ABM in order to complete the organization improvement program. The result from ABC such as activities, activities' cost will be provided as an input for this systems and it will trigger the improving phase of ABM. The developments of ABM system for the case company by structuring from the study, the systems was developed from Traditional Costing System to ABC and then to ABM, is as following:

1. Analyzing & Modeling the company activities.
2. Identifying the activity involving functions such as section, division, and department.

3. Capturing cost information from ledger and cost center by cost element reports. And then grouping the cost element by following the company assigned groups.
4. Analyzing the workloads of each function involved in the activities. For the study of IMD, they are homogenous because almost of their function are assigned to work for the marketing and sale activities.
5. Allocating all resources and its cost by using the two stage cost allocation method.
6. The results of ABC from this study, there are the activities cost drivers, the activities cost per units, the activities cost per litre, will be loaded to ABM system as an input information triggering the ABM loops.
7. For the case company, they should be emphasis on the value added activity and non-value added activity at first.

5.3 The identification of activity's value

Value-added activities contribute something that is worthwhile to the company and its customers. Such activities are critical factors that are essential to enterprise's success. Value-added activities are two types. One type adds value to the customer; confirming the delivery or delivering the shipment on time are example. The next type is

essential for the proper functioning of the enterprise. For example, paying employees is not of direct concern to customers, but it does satisfy an organizational need. On the other hands, the non value added activities represent waste; these activities can be reduced or eliminated without decreasing the company's ability to complete and meet customer needs. Armed with a list of non value-added activities, the organization can create teams to find innovative ways to eliminate, reduce, or reengineer those activities. One of the costliest things a company can do is to invest in equipment and people to make non-value added activities more efficient.

Consequently to the activities of IMD (A0), there could be grouped into three groups as their characteristic; presale, order getting, and after sale. The presale is the activity of industrial marketing planning; these activities are done before the sale transaction occurred. The order getting is activity of sale operations such as business traveling, customer approving. The after sale is the activities of order receiving, delivery control, technical support. The activity cost of IMD and their group was shown on table 5-1. For example, If the division was reduced the number of sale plan from four plans per month to two plans per month, it could be reduced the cost of order getting from 45,890 Baht/Month to 22,945 Baht/Month.

| Main Activity/Sub Activity | Node | Unit | Activity |
|----------------------------------|------|---------|----------|
| Description | | Measure | Rate |
| 1. Industrial Marketing Planning | A1 | | |
| 1.1 Information Gathering | A11 | Plan | ₺54,724 |
| 1.2 Plan Generating | A 12 | Plan | ₺8,084 |
| 1.3 Plan Approving | A 13 | Plan | ₺16,244 |
| 1.4 Plan Implement | A14 | Plan | ₺7,724 |
| 2. Sale Operation | A2 | | |
| 2.1 Generate Sale Plan | A21 | Plan | ₺11,472 |
| 2.2 Customer Approach | A22 | Clients | ₺449 |
| 2.3 Customer Approved | A23 | Clients | ₺1,794 |
| 2.4 Ordering Control | A24 | Clients | ₺398 |
| 3. Customer Service | A3 | | |
| 3.1 Order Receive | A31 | Clients | ₺24 |
| 3.2 Order Checking | A32 | Trucks | ₺60 |
| 3.3 Order Slip Preparing | A33 | Clients | ₺14 |
| 4 Delivery Control | A4 | | |
| 4.1 Generate Daily Plan | A41 | Plan | ₺143 |
| 4.2 Shipping (Only tank Trucks) | A42 | Trucks | ₺24 |
| 4.3 Delivery Checking | A43 | Trucks | ₺104 |

Table 5-1: The IMD activities Cost / Unit

Beside that the activities of delivery checking (A43) is the after sale service which the cost was occurred corresponding to the number of customer. And the activities

had to do because of the problems of transportations which were not performed an on time shipment schedule so that almost of the shipment should be checked and confirmed by M/R or CSS team for the cost of 104 baht/client. If this activity could be eliminated or reduced by increase a number of company's tank trucks or outsourcing the tank trucks, the company will contribute from the reducing a cost from 40,000 Baht/Month for the customer of 400 clients.

5.4 Recommendation

The following is the recommendation for this study and further study:

1. The objective and scope of the study should be clearly and precisely defined because the other steps will be concentrated on that objective and scope.
2. The result of the study may be distorted due to the uncompleted information and limitation of data excessive.
3. Due to the Activity Based Costing system are quite different from the traditional costing system that was develop for the company many year ago. So that before developing a new system such as ABC, management team should understand and overview on the study processes.

4. The key role of developing the ABC/ABM is the information system and technology due to the present computerized accounting reports used as information sources are generated from the traditional concept so some data are omitted by the systems.
5. Since the implementation of ABC seem to be costly and consumed more resource than the traditional costs system, therefore company should trade-off the cost benefit before committing its implementation.
6. Some activity should be redesigned or terminated from the current sale and marketing processes due to the development of IT.
7. When develop ABC, the very important step is to find out which are the properly resource drivers or activity drivers. The following are the suggesting methods to develop activity drivers and resource drivers:

7.1. Resource Driver

7.1.1. Direct Charging

7.1.2. Estimation

7.1.2.1. Total Time Method

7.1.2.2. The Job Classification Method

7.1.2.3. Specific Employee Method

7.1.3. Arbitrary Allocation

7.2. Activity Driver

7.2.1. Direct Charging

7.2.2. Arbitrary Allocation

7.2.3. Estimation/Regression

8. Being use the IDEF0 model analysis method, the computer program such as BP WINS should be provided to use as a tool due to the complexities of the activities and its number. For this study the activity models were developed by using a VISIO program which its capacity could not supporting for the complexities and a high number of activities.
9. IDEF0 is a powerful tool for developing activity models due to the model takes a real-world activity and represents it as a square-cornered box, labeled with a verb phrase. And the real-world activity also has resources it uses:
 - Things consumed in the activity.
 - Things used in but not consumed by the activity.
 - Things used to ensure or enforce the activity are successful.
10. The case company should assign team to study the valued and non value added activities or processes by following the concepts of value and cost of activities which are directly link to customer. The result of the study will be used to create more customer satisfaction for marketing and sale area; investing in Training, Computer technology & information system, Quality systems are the example.

11. Management can use information from ABC system to define a product costing, budgeting, and performance evaluation or ABM as illustrated on figure 5-3.

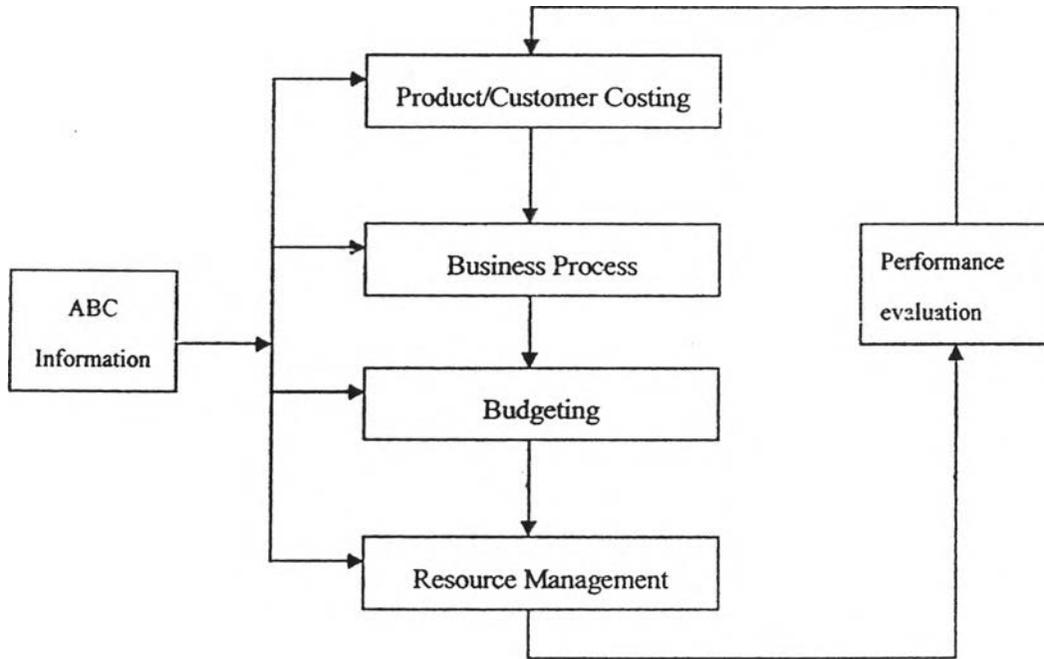


Figure 5-3: Activity Based Management and ABC Information