



AUSTIN QUALITY FOODS MIXES IN ABC/M FOR GREATER PROFITABILITY

For the record, this article is for beginners. If you have read other articles written by first-time ABC modelers, I doubt that you will learn anything new. However, reading over and over again the *right* things to do when building your first model should give you an advantage over others who have not.

This is the Austin Quality Foods ABC/M journey from concept through implementation. When the story telling is done, you will have our version of a Four Phase Project including three areas we deemed significantly important. The tangible result is our first model with new views of product, customer, market channel, and broker profitability. First, a little about Austin Quality Foods. We are located in the heart of North Carolina in a little town called Cary just outside the capital city of Raleigh. This is our only location.

We are in the snack food industry—specifically a cookie and cracker manufacturer—and are privately held by a small number of shareholders.

We have an innovative management style, a better-is-best attitude, a color-outside-the-lines mentality, *and...* ABC/M implementation at Austin came about because of our how-can-we-do-better spirit.

This article tells of Austin Quality Foods' ABC journey from concept through implementation. You should detect a bit of enthusiasm as you read.

- I will focus on:
- Picking the right team, including the applications expert
 - Beginning the project with the end in mind
 - Educating for project buy-in at all levels

Phase I - Picking the Right Team

At Austin, our core team has four members:

- A process-improvement engineer representing manufacturing
- An Information Technology support person
- A new-hire—the model-builder—with excellent PC skills and an accounting background...And
- Me, team leader, and one who has very broad knowledge of AQF in general.

In addition to our core team, we have other Austin associates who participate on an “as-needed” basis. These are associates we called upon during the grueling interview process and they are vital for getting good information.

Our team also includes an Application Services expert from ABC Technologies. She, with all her knowledge and

expertise, was invaluable to the success of our first model.

Last, but not least, we have an ABC Steering Committee which includes our CEO, VP of Finance, and VP of Information Technologies. They are the driving force for ABM at Austin.

Needless to say, we had our challenges for picking the right team. Our two biggest challenges were:

- Finding members for a balanced core team who could dedicate 90% of their time to model building (For us that was 4 months.)
- We also had to work around the schedules of our “as-needed” team members for educating, interviewing, and input.

Phase II - Beginning the Project With the End in Mind

Once we had our team together, we began Phase II - Beginning the Project With the End in Mind. You’ve heard the saying: “If you don’t know where you’re going, any road will get you there.” My advice is to define the purpose of your model and focus on the intended goals. It took us longer than it should have to define the purpose of our model, but life is so much easier once you have a purpose. And when you get a little lost, you get back on track very easily *if* you know where you’re going.

At Austin, our goals are to

obstacle? When the ABC Team proposed our first ABM project to our Executive Management, we included a list of associates we felt should be on the task force and in turn, should have access to ABC profit information. The proposal was accepted providing the new task force members went through an ABC education process.

At project inception, I strongly suggest talking to people with ABC model-building experience. At Austin, we had conference calls with two different manufacturers who had at least 12 months of ABC experience. Before we called, we prepared a list of questions and faxed these questions to the experienced users so they could prepare for our call. One of the most important questions we asked was “What would you do differently if you had to start over?”

Here is a list of some other mission-critical steps you cannot omit:

- Clearly visualize the hierarchy of your model.
- Create a paper model.
- Develop a time line.

If you can, be flexible. Remember that you are beginners. Even with an Application Services expert, you won’t think of everything. Allow yourself time to re-do.

Phase III - Getting Project Buy-In

Now you are ready for Phase III - Getting Project Buy-In. We did that through an education process that included:

- Executive management
- The users of information
- The providers of information

during this phase? Absolutely!!! Our greatest challenge was overcoming the resistance we felt within the organization. Not everyone was (or is) a believer in ABC. When we explained that the ABC interview process and model results would include all functional areas of the company, it raised some eyebrows. What might ABC/M tell us that we might not want to know? Although every company is different, anticipate some resistance for whatever reasons, and it will make the process easier.

So, what did we do to overcome the resistance? We had a well-organized project, gave consistent periodic updates, and asked for *Rules of Fair Play* to be read:

“When striving to delight our customers & consumers while achieving superior growth with profits sufficient to ensure the future of the company, cross-functional team members cannot be afraid of open dialogue. Amen.”

Phase IV - The Model Building Process

Simply put, you’ve planned your work, now work your plan. There are other issues that are keys to model-building success:

- Know the data sources that will go into the model.
 - Take advantage of ABC Technologies’ training classes
 - Use an Application Services expert
- The model-building process is not easy, but you will end up with a much closer and more accurate view of your company than you have right now and it will be based on facts.

What were our biggest mistakes?

1. Leaving key players out of the loop. Those key players ended up being involved but it took additional time, education, and mending of bruised feelings.
2. Aiming for the bulls eye rather than the target. The idea here is to make sure the numbers to the left of the decimal point are correct before worrying about the numbers to the right of the decimal.
3. Forgetting that “to err is human”. For sure, you will make mistakes. Learn from them and go forward.

We are most proud of our model’s nine-level profit dimension structure. Each of the Products, Customers, Channels, and Brokers dimension contains costs. The Products dimension hones in on individual SKU’s and is broken down into many sub-dimensional layers such as branded and private label,

See page 8, Austin Quality Foods



Ginny Botz

Ms. Botz is the Operations Controller for Austin Quality Foods, responsible for Cost Accounting, Production Accounting and Activity-Based Costing for the company. She has been with Austin since 1983, and has been employed in the snack foods industry since 1970.



▲ A sampling of new cookie and cracker products introduced by Austin Quality Foods this year.

use the model for:

- Continuous process improvement
- Strategic decision-making by executive management

However, there are other things to think about and questions to answer. For example, know what you want to accomplish with your model. What will you do with the information? Who will get it? These are critical issues to be reconciled before model building takes place.

The question “who will get the information?” was a big issue for us since we are privately owned, which means that few individuals have access to profit information. How did we overcome this

At Austin, we worked with small groups of associates by functional areas. We talked about both ABC and ABM. We offered definitions for each and gave examples of activities, resources, and cost objects. We also explained the kind of information our ABC model would provide such as:

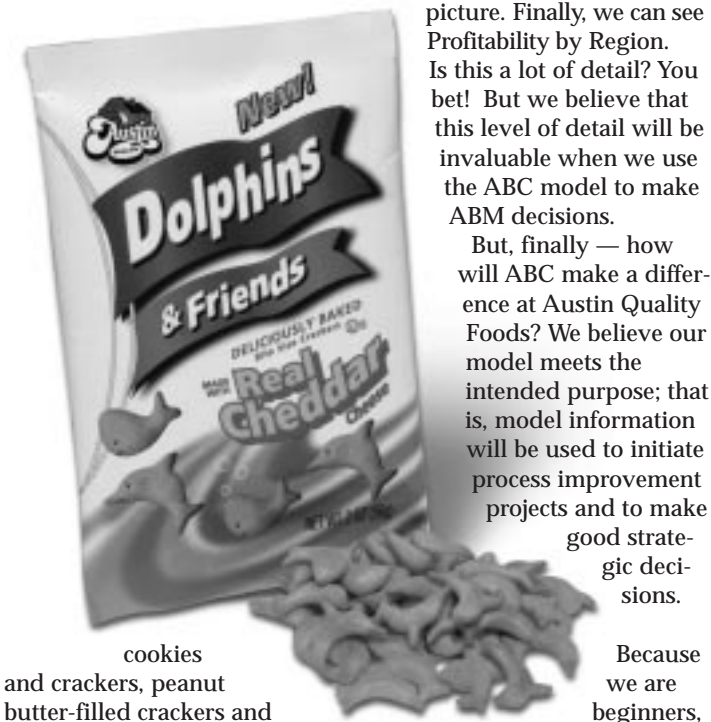
- Cost of activities
- Cost of processes
- Costs of non-value added activities
- Cost drivers of non-value added activities
- Cost of activities that add value

Finally, we explained how we would use ABC at Austin Quality Foods.

Did we have challenges

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cookies and crackers, peanut butter-filled crackers and cheese-filled crackers, etc.

The Channels dimension further shows profitability of the same SKU sold in different channels of distribution.

The Customers "Bill to" dimension shows the overall profitability of a customer.

The Customers "Ship to" dimension shows the variability of customer profitability based on where the product is shipped.

The Brokers dimension adds broker costs to the profit

picture. Finally, we can see Profitability by Region. Is this a lot of detail? You bet! But we believe that this level of detail will be invaluable when we use the ABC model to make ABM decisions.

But, finally — how will ABC make a difference at Austin Quality Foods? We believe our model meets the intended purpose; that is, model information will be used to initiate process improvement projects and to make good strategic decisions.

Because we are beginners, this article was a how-do-we-get-our-foot-in-the-door look at activity-based costing. Picking the right team, beginning the project with the end in mind, and educating for project buy-in at all levels are key activities for beginners to know about before model building ever begins.

It worked for us, as I am sure it will work for you. ♦

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