

# Case - Activity Based Costing in Supply Chains



GROENEWOUT



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GROENEWOUT

47 years Consultancy

Logistics

Supply Chain Management

Multidisciplinary Team

Construction Management & Engineering

Transition Support

Supply Chain Strategy > Implementation

## 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

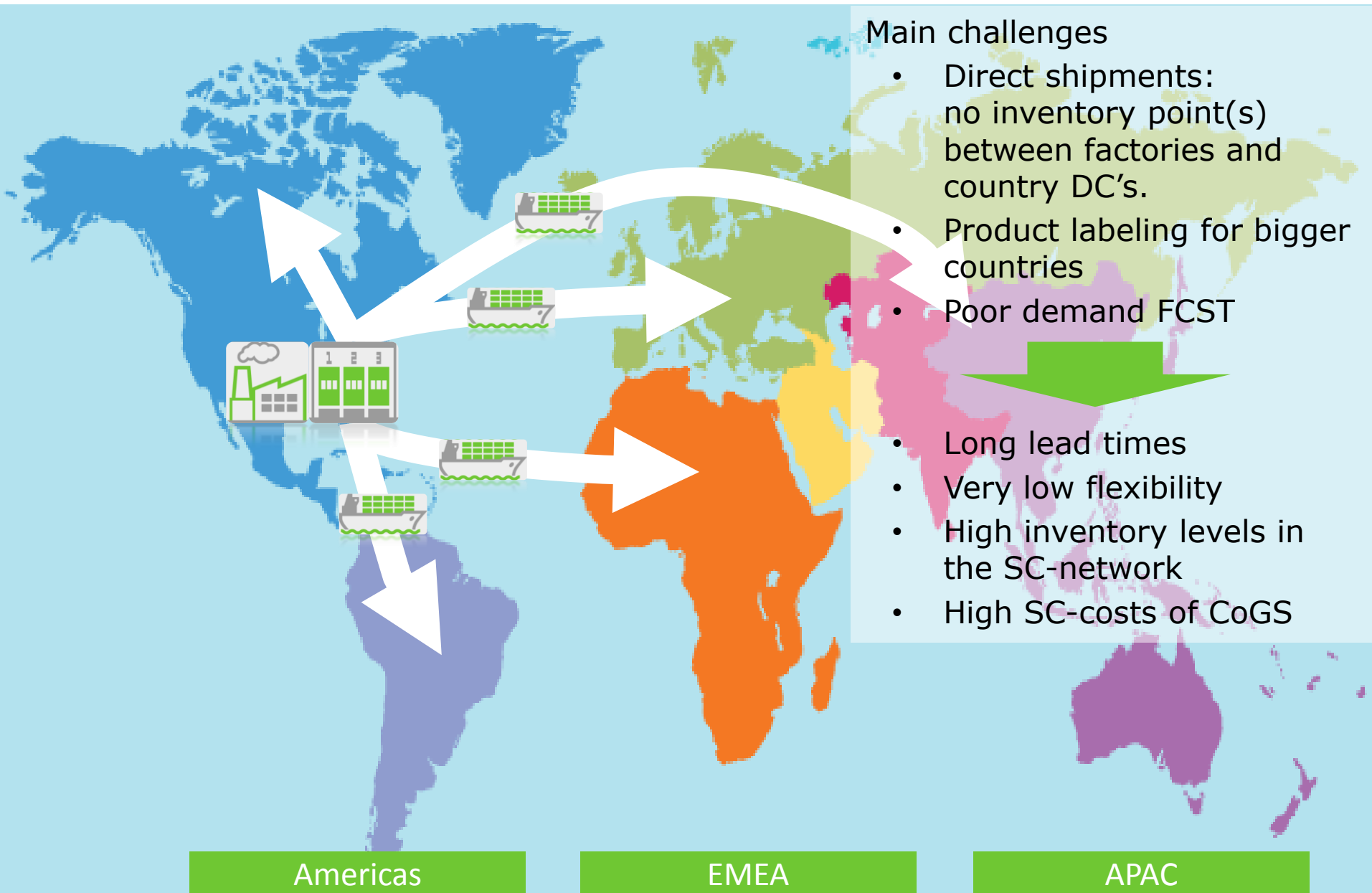


## VOICE OF THE CUSTOMER

- 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)



Setup new Legal Entity  
(Forever Direct EU) to serve  
EMEA region

- Decoupling country DC's from the factories
- Setup Outsourced EMEA-DC to replen country DC's
- Fine distribution remains in the countries

- Improved visibility & demand FCST
- Reducing lead times
- Reducing stock levels
- Increasing flexibility

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



- Back-sourcing of bulk Replen
- Centralization of fine distribution activities with postponement manufacturing (country specific labeling)

## Setup new:

- EMEA DC
- Processes
- Logistic & IT-systems
- Organization
- Cost Pricing Model

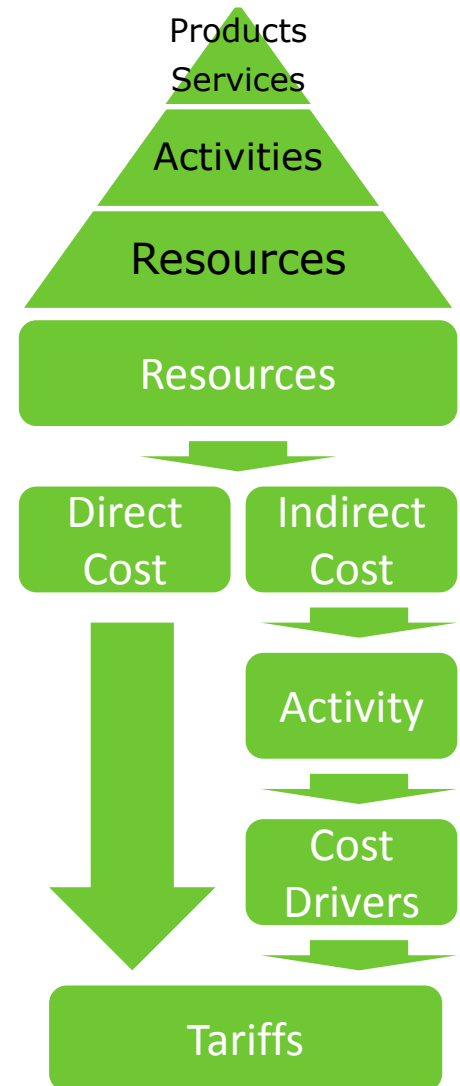
## Supply Chains Savings:

- OPEX (**14%**)
- Working Capital (**32%**)
- Cost transparency

# Cost Pricing Model in Logistics

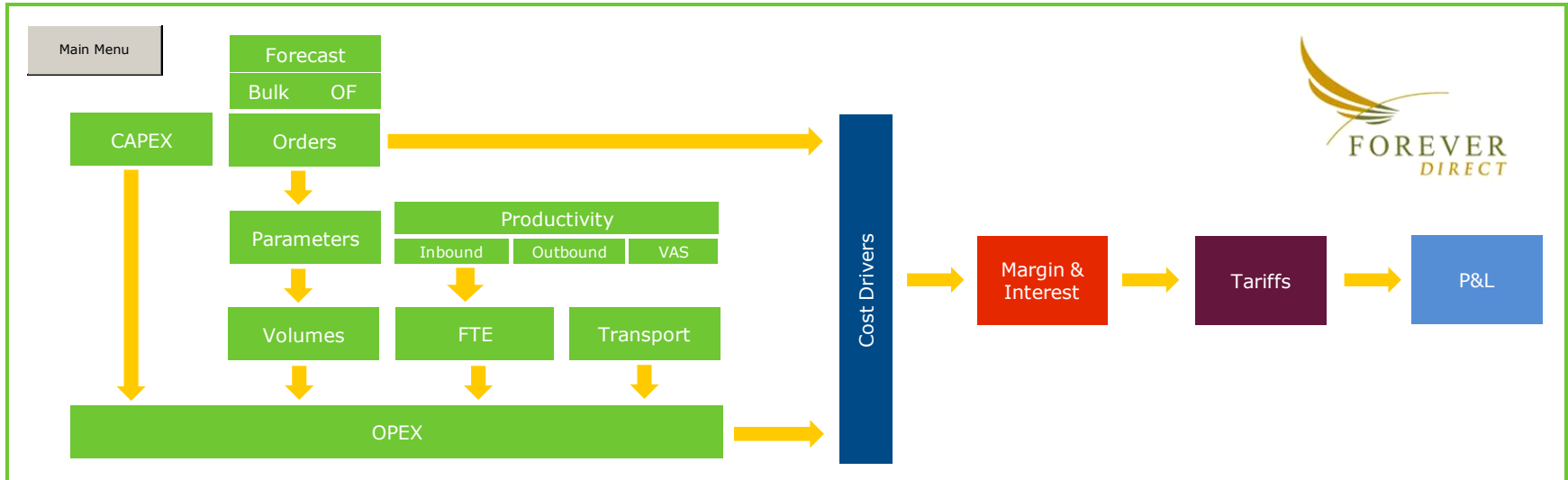
## APPLYING ACTIVITY BASED COSTING & ACTIVITY BASED MANAGEMENT

- 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



Status: OK

Scenario: OK

Version: 4.6, 23-11-2012

Date: 12/04/2013

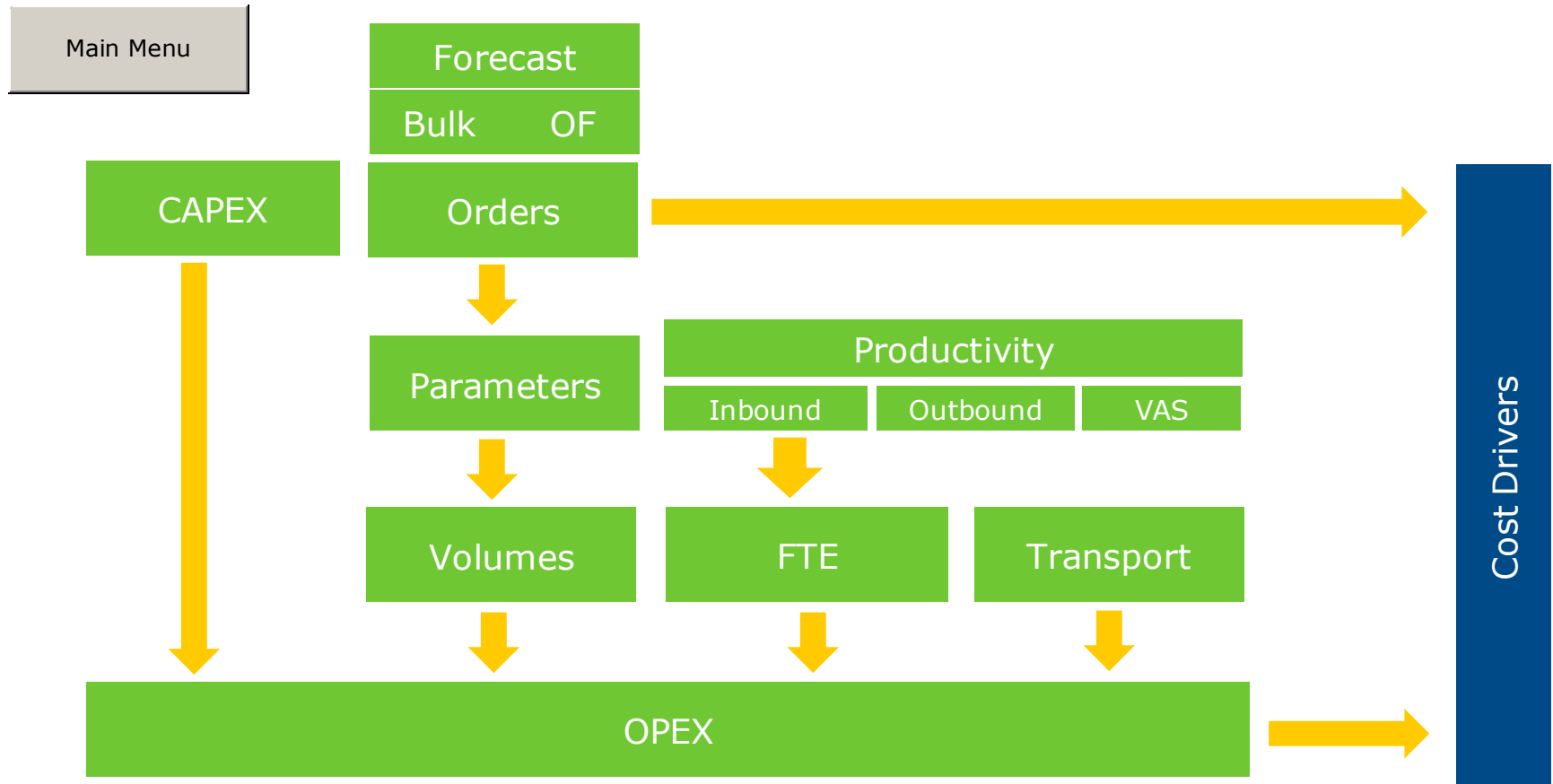
Investment phase: 1  
 Indirect FTE Occupation: 2013  
 Year and Quarter: 2013 Q4

Line-haul SHARED  
 Final-Mile DIRECT



# Cost Pricing Model in Logistics

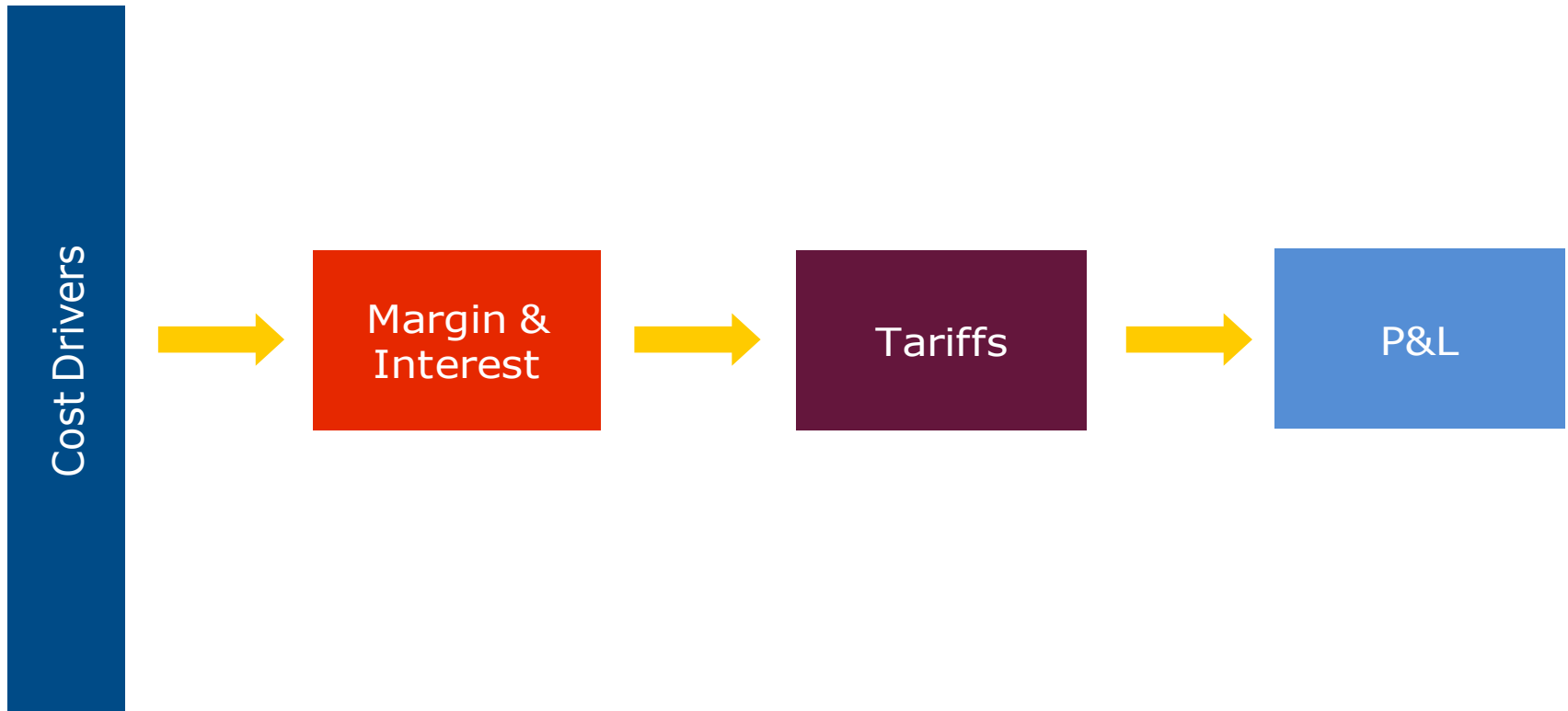
## SNAPSHOT ACTIVITY BASED COSTING MODEL



# Cost Pricing Model in Logistics

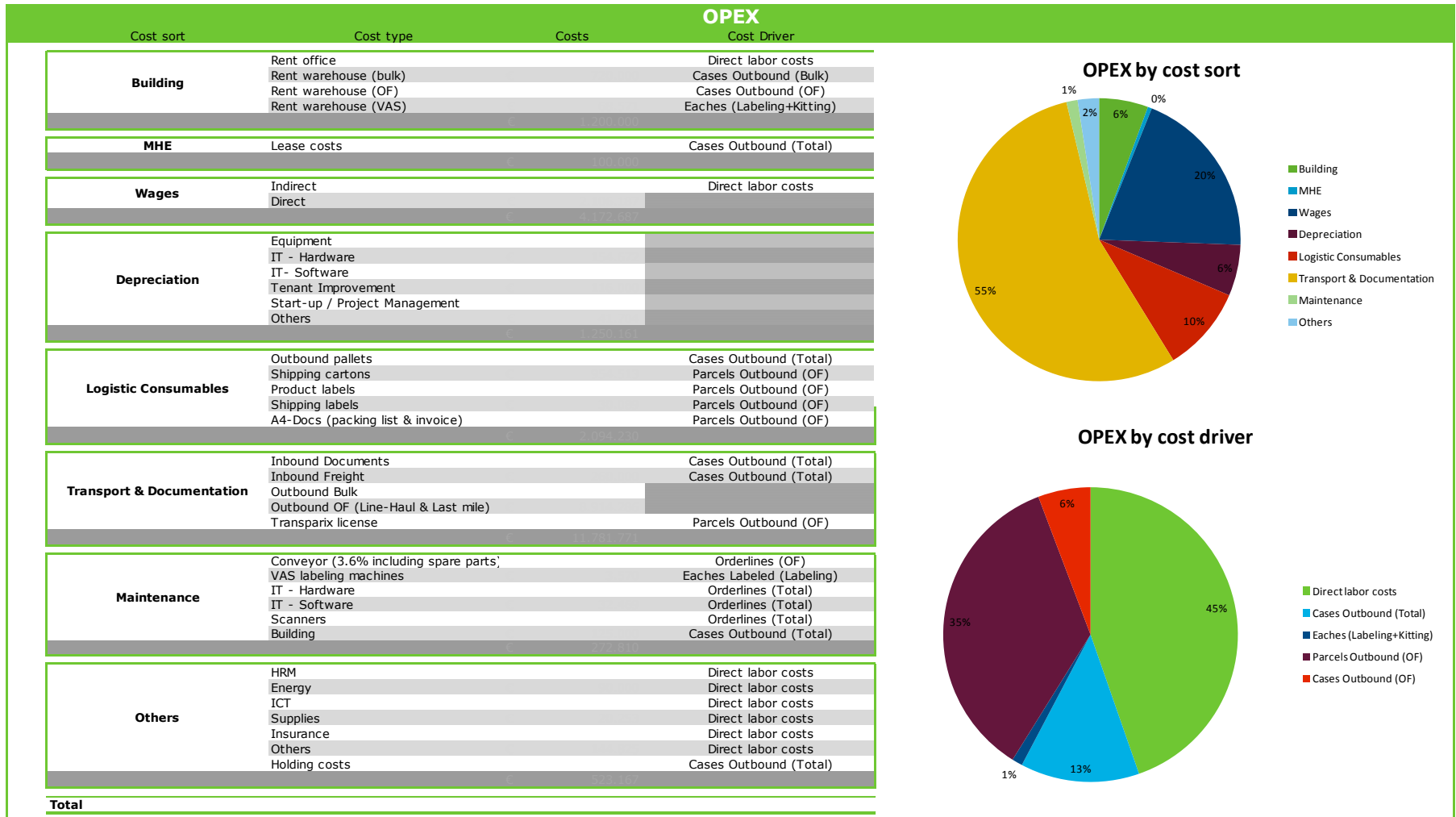
## SNAPSHOT ACTIVITY BASED COSTING MODEL

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# Cost Pricing Model in Logistics

## SNAPSHOT ACTIVITY BASED COSTING MODEL



THANK YOU  
VERY MUCH  
FOR YOUR  
ATTENTION



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