



Alta Via Consulting

"A Better Use of Information"

IMA: Conceptual Framework for Managerial Costing

Tuesday, April 29th, 2014



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Content

- About Alta Via
- Approach to Conceptual Design
- Managing Its Introduction
- Software Type
- Leadership and Change Management
- Usable Cost Information



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Who is Alta Via?

- We Are a Niche Service Provider in the Areas of Managerial Accounting and the Managerial Processes of Planning, Simulation, Control, and Decision Support
- Established in 1998
- 50 Consultants Across North and South America, Africa, and Europe.
- We Partner With Various Managerial Accounting and Decision Support Tool Vendors e.g., SAP, proEO, and Jedox

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NAVIGATE: TO?



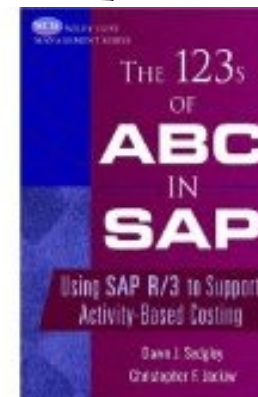
Who is Alta Via?

- Alta Via Wrote the Book on Activity-based Costing in SAP
- Participated in the IFAC Committee that Wrote Their International Good Practice Guide Establishing Principles for Management Accounting
- Served on A Task Force for Similar Principles Document for the Institute of Management Accountants (the MCCF)
- Alta Via Sponsors a Professorship for Management Accounting at Northern Illinois University

“We Are Your Costing Geeks!”



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1772

237

2

1



1772 – Approximate Year the Concept of Variable Cost First Appears in the Literature and Arguably the Beginning of MA

237 - the Number of Years MA Operated without Principles (from 1772 to 2009)

2 - the Number of Principles that Govern MA namely: Causality and Analogy

1 - the Number of Principle-based MA Approaches in the Marketplace: RCA



The One Thing...



The One Thing...

The Manager's Brain!



**(Disclaimer: Image Does Not
Reflect Actual Size)**



Why?



➤ Optimization thinking:

- For a given outcome – Understand the cause!



Cause



Effect



Or?



➤ Optimization thinking:

➤ For a given decision – Understand the effect!



Cause



Effect



MA's Principles

The Principle of Causality

The relation between a managerial objective's quantifiable output and the inputs that must be consumed if the output is to be achieved.

The Principle of Analogy

How existing cause and effect insights are used to make inferences about the expected outcome of a particular managerial action.



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- proEO is a BI/BW-based In-memory Best of Breed Managerial Costing Application



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What About Statement 4?



ACCOUNTING

FINANCIAL ACCOUNTING

MANAGERIAL ACCOUNTING

TAX ACCOUNTING

Cost Accounting
(Financial Accounting Principles Apply)

A Quantitative Model of the Economic Flow of Goods and Services Based on Cause and Effect Relationships

Valuation of the quantitative cost model in line with optimization objectives

E.g., Paragraphs 13 and 14 in Statement 4

Support Managers' Inferences as to What Transpired:

- Strategic Assessment
- Analysis & Control
- Learning
- Corrective Actions

Support Managers' Inferences as to Future Outcomes:

- Strategy Formulation
- Planning
- What-if Analysis
- Decision Support/Adaptive Actions

← History

Future →

Crucial Differences

Cost Accounting for External Reporting

1. FA's Matching & Periodic Principles Apply
2. Direct, Causal, and Other Assignment Methods
3. Capacity not in View
4. Full Cost Proposed
5. Financial Depreciation

Managerial Accounting for Decision Support

1. MA's Causality & Analogy Principles Apply
2. Only Causal Assignments Subscribed to
3. Capacity at Its Core
4. Attributable Cost Proposed
5. Actual Usage Depreciation



Implementation Overview

The Implementation Methodology is Characterized by a Robust Conceptual Design Phase



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Leadership

- Focus on developing a cost culture which requires:
 - An organization with the single focus of supporting managerial costing within the entity
 - A champion in senior management to drive the initiative
 - A Long-term dedication to shifting from a budget-centric mind-set to a cost informed environment
 - A recognition that cost informed decisions rely on the principles causality and analogy



Leadership

➤ Crosses all Perspectives:

- **Strategic** – Long-range defining What and Why; e.g. Objective X Should Cost Y in Year Z
- **Tactical** – Mid-range defining of How to translate the strategic cost objective into practical and specific actions; e.g. optimize process A to meet strategic objective
- **Operational** – Day-to-day execution of specific tasks to deliver the outputs; e.g. utilize contract support or overtime to provide output X at cost impact of Y



Leadership

- Crosses Domains (Financial versus Operational)
 - Perceived to be the responsibility of the Financial domain since cost is a monetary valuation
 - Reality is Operational domain manages the input/output relationships and therefore are closer to understanding causality
 - Operational managers have direct influence on optimization decisions (planning and controlling) and financial managers support through providing cost data (accounting and analysis)



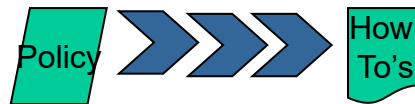
Change Management

“A Culture of Entitlement”

- Budget-focused
- Spend rate driven – inputs
- Performance objective - 99.9% obligated
- Free goods has infinite demands



- Develop/Recruit Analysts
- Enhance Training
- Performance Focus



- Process Improvement (Lean 6-Sigma)
- Integrated Business Design



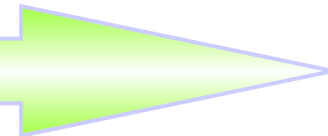
- ERP Applications (e.g. SAP)
- Business Warehouses
- Executive Scorecards

“A Culture of Influence”

- Cost and performance focused
- Results driven - output & outcome
- Performance objective – resource consumption optimization (efficiency & effectiveness)
- Use what is necessary to obtain the objective



Enablers of Change



Change Management - People



- Develop/Recruit Analysts
- Enhance Training
- Performance Focus

➤ Restructured Organizations:

- Shift resources to “hub” like kind activities together
- Decentralize to incorporate analysts with operations

➤ Redefined Roles:

- Development of new positions (e.g. cost analysts)
- Shifting budget-centric roles to include cost analysis

➤ Enhanced Skills & Knowledge:

- Introduction of principles into Training programs



Change Management - Processes



- Process Improvement (Lean 6-Sigma)
- Integrated Business Design

➤ New Policies:

- Perform Time Tracking
- Usage-based vs Financial Depreciation

➤ New Procedures:

- Funding requests need cost benefit analysis backup
- Optimization need to take into consideration costs

➤ New Focus:

- Performance variance analysis
- Obtain non-financial metrics



Change Management - Technology



➤ Bigger:

- Larger data sets available
- Consolidation of operational data with financial data

- ERP Applications (e.g. SAP)
- Business Warehouses
- Executive Scorecards

➤ Faster:

- Ability to “crunch” through more advanced calculations
- Real or near-real time accessibility

➤ Better:

- More user-friendly graphical interfaces
- Provide information versus data sets



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➤ Cost Per Unit:

- Tracking of non-financial measures (e.g. # of tax returns, # of soldiers trained, etc.)
- Inclusion of supports costs (provided outside of manager's budget) (e.g. IT Network Support)

➤ Capacity Consumption – “Free Goods Have Infinite Demand”:

- Identification of causality in support relationships (e.g. Square Footage, Cancelled Class) – change behaviors



Usable Cost Information

➤ Justifications:

- If X output then Y inputs needed
- If process A can be changed then Inputs required are Z



Additional Reading

- The Management Accounting Philosophy series
- The Debating the Principle series

Both available from Alta Via: <http://www.altavia.com>

- The IFAC International Good Practice Guide on Costing

<http://www.ifac.org/sites/default/files/publications/files/IGPG-Evaluating-and-Improving-Costing-July-2009.pdf>

- The IFAC Costing Continuum

http://www.ifac.org/sites/default/files/publications/files/IFAC-Evaluating-the-Costing-Journey_0.pdf



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Thanks!

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