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Case Study Summary

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Case Study Summary

The process that determines the profitability of a business to enhance its strength and eliminate or improve activities that make the company lose its money is referred as activity-based management. Activity-based management analyzes costs of equipment, employees, and other components of the business to allocate and determine the activity costs. The activity-based management system (ABM) uses activity analysis, performance measurement, and cost drivers analysis to analyze the business' activities and guide the organization in the right direction.

Also, ABM uses activity-based costing (ABC) information to conduct its analysis. The ABC system calculates precisely the company's costs of its main products to make a buying decision. G.E. Mustill is a small organization that manufactures photo framing machineries. Activity-based management is conducted to improve its profit by enhancing the value of services offered to customers (Gunasekaran et al., 2000). G.E. Mustill is located in Essex, England, whose annual turnover amounts to \$ 653,000, and it has 20 employees. It manufactures 22% of its products and subcontracts the rest of the parts from suppliers. They produce photo framing machines using standard measurements which are based on customers' request. G.E. Mustill's main activity is to assemble the machine parts using manual labor.

The first process of conducting an ABM is by classifying the business' operations under ¹ value-added, or non-value added operations. The value-added practice adds value to a product. Non-value-added operation is a task that can be removed without affecting the performance of a product (Gunasekaran et al., 2000). In G.E. Mustill, the first task is to focus on critical activities like inventory costs to add value to the customer's needs. Inventory costs can be eliminated or reduced since they do not affect the quality, function, or performance of the products using several quality assurance procedures. The company should ensure that all the parts and materials

coming in are fit for use to minimize inventory costs. They should be directly supplied to the company's workplace so that features that are not required can be instantly eliminated. This will give suppliers the responsibility of ensuring that they deliver quality materials and products so that inspection activities can be reduced.

Benchmarking is the second ABM process that offers the company's best opportunities to improve its value-added activities. Comparing similar G.E. Mustill business activities with other companies helps determine the possibility of an improvement (Gunasekaran et al., 2000).

Besides, benchmarking can also be conducted on non-value added and value-added activities based on cost, customer satisfaction, quality, and flexibility. The third ABM process is performance management using cost drivers. Cost drivers are used to measure a business's performance based on the control of the cost driver's volume. In this case, G. E Mustill cost drivers include its marketing fees, assembly fees, inventory costs, and engineering support. For instance, for an assemble activity in G.E. Mustill, labor hours is the cost driver. In that, if the labor hours for making a product are increased, the assembling activity performance becomes low, which increases the cost of the product due to high production costs (Gunasekaran et al., 2000). In contrast, if the labor hours are reduced, the assembling activity performance increases, minimizing the production cost and that of the product. This increases the profit margin since the product can be sold at an affordable market price.

Management methods and practices have changed over time to help companies manage their activities while producing quality products that meet the customers' needs and make profits. The ABM systems help small companies realize what they need to do to eliminate unnecessary activities to improve their general performance.

Reference

Gunasekaran, A., McNeil, R., & Singh, D. (2000). Activity-based management in a small company: a case study. *Production Planning & Control*, 11(4), 391-399.

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