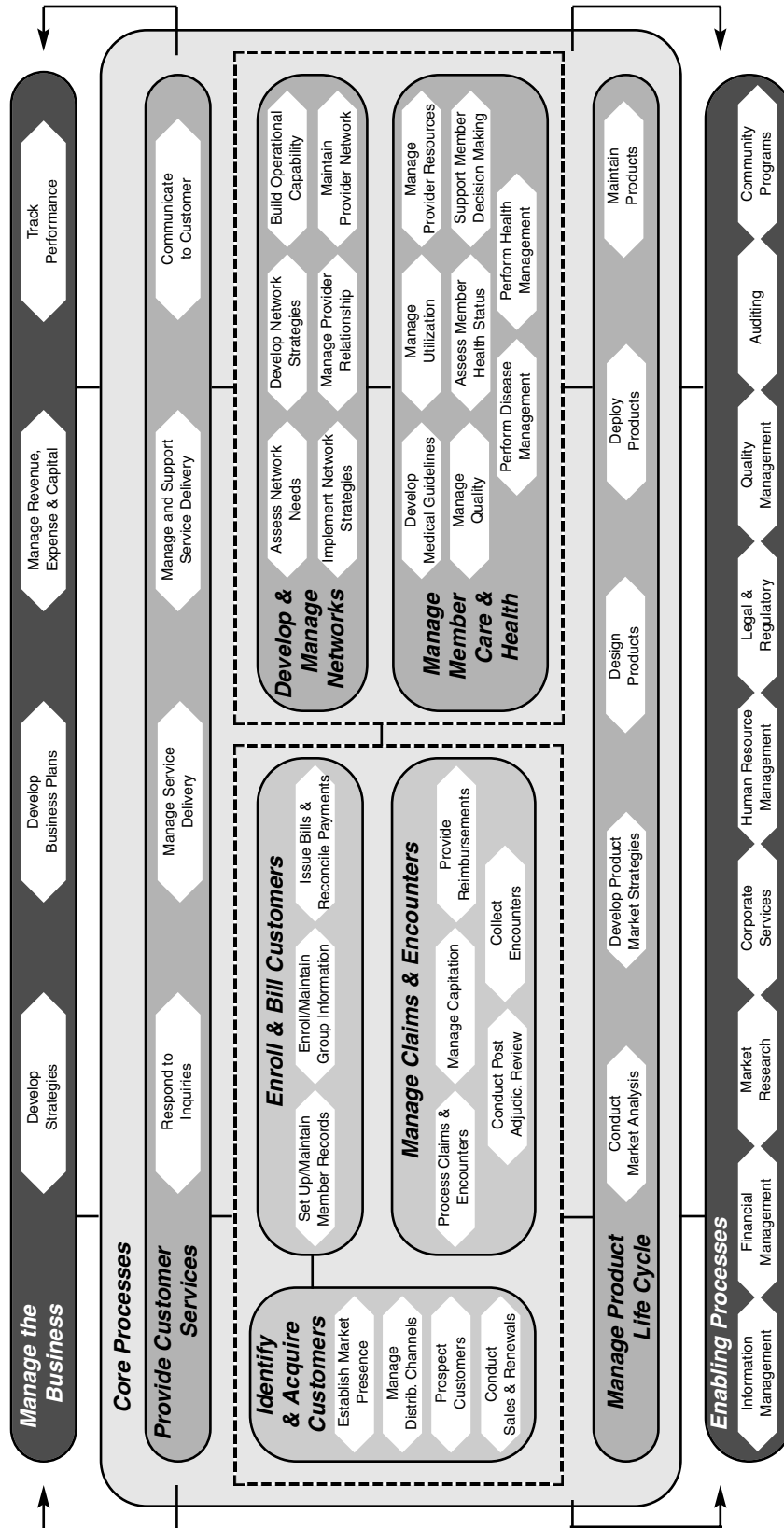
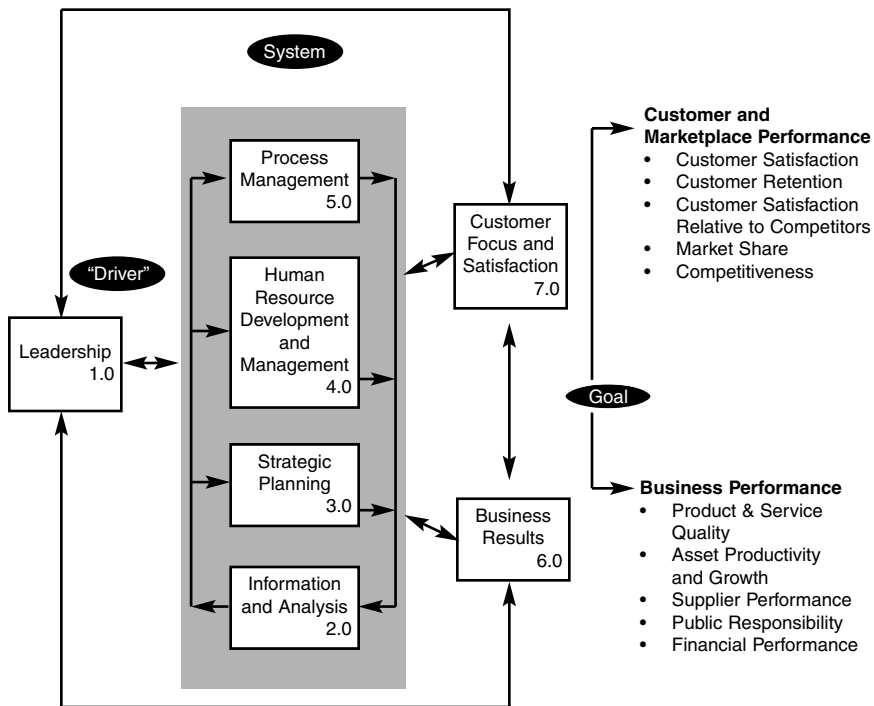


**Exhibit 6: BCBSNC Business Process Model**



**Exhibit 1: Baldrige Award Criteria Framework**

**Dynamic Relationships**



(Source: Malcolm Baldrige National Quality Award Criteria—1996)

**Project Rollout**

The ABM pilot was launched in April 1997, and followed a four-phase implementation (see Exhibit 2—ABM Implementation Steps). While a steering committee was not used, the ABM team appointed did have the full backing of senior management, including Shultz, the CEO, and Rod Filcek, the CFO.

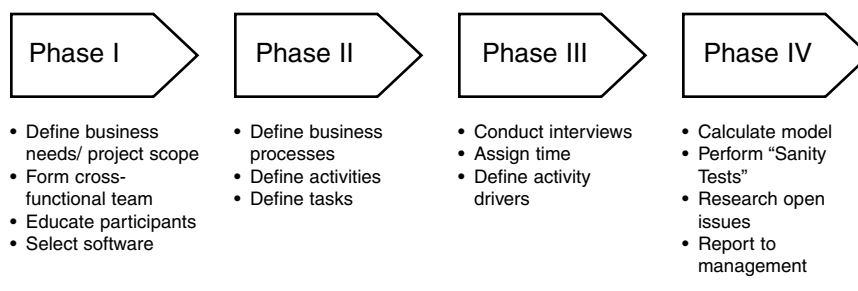
DCC’s ten-member, cross-functional, ABM team included the following:

- The ABM manager;
- The controller;
- The accounting manager;
- An accounting analyst;
- The supervisor of business systems and processes;
- The supervisor of portfolio administration;

- A portfolio administrator;
- Two investment analysts; and
- A lease administrator.

Each of the team members participated in the interviews and the model building.

**Exhibit 2: ABM Implementation Steps**



**Training and Communication**

As Brad Gillespie, DCC’s ABM manager, notes:

One key to success has been the provision of adequate training and education for project participants. This included the team as well as each employee of the Diversified Capital Group. Following on the concept that DCC believes people are our most important asset, we believe that we need to continually educate our employees and keep them informed and not surprised.

Two training sessions were held before the interviews began. The first focused on ABM concepts, methodologies, terminology, and the reasons behind the ABM implementation. The second training session covered the terms *value-added* versus *non-value-added*.

As Gillespie notes:

We planned to perform non-value-added activity analysis, and we wanted to avoid misconceptions. During the training, we did not want people to take offense to the term non-value-added. We emphasized that the focus was on the activity and not the person.

The training proved to be beneficial. In the interviews, employees were very forthcoming in providing information about their participation in non-value-added activities.

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Employees themselves categorized an activity as either value-added or non-value-added. Because training and education had removed their fear of identifying non-value-added activities they had to perform, they freely provided this information. Value-added activities were defined as those activities that a customer is willing to pay for or that the government requires. All other activities are considered non-value-added.

In addition to providing training, the ABM team also began an aggressive communication plan to keep employees posted about ABM developments. The team even published a monthly newsletter—the *ABM Examiner*—with articles about ABM and progress reports about the results.

The training and newsletter articles were put on DCC's Intranet website, thus making them continuously available to all employees (see Exhibit 3 for overview of the ABC website).

### Software Selection

DCC reviewed ten ABM software packages, then narrowed the search to two finalists. One key criterion was to find a program that worked well with what the company already had in place. Another was to feel comfortable with the people who would provide technical support.

The four-person selection committee unanimously chose *HyperABC* by Armstrong Laing because of its use of multidimensional cost objects, support for users, and ease of use. But, the overriding factor was the comfort level members of the ABM team had with Armstrong Laing.

### Data Collection

To define activities, the team conducted about 50 interviews, with at least two team members at each interview. The interviews were quite extensive, each lasting two to three hours. When the team assembled the information they had collected, they found 162 activities that they had identified (though many of these were actually tasks rather than activities).

In the first round of interviews, the people interviewed categorized the activities that they performed as either value-added or non-value-added. As Gillespie notes:

We also allowed interviewees to designate an activity as only partially non-value-added. For example, if they felt that an activity was 75 percent value-added and only 25 percent non-value-added, they could note that on their survey, which facilitated the process.

After compiling the results of the interviews, the ABM team concluded that, by identifying 162 activities, they had gone into too much detail. They worked to

**Exhibit 3: ABC Web Site**

- ▼ Home
- ▼ Search
- ▼ Feedback

This page has been viewed 77 times.

# ACTIVITY-BASED COSTING

## Diversified Capital Group



Welcome to the Activity-Based Costing & Management Web Page. This was created in hopes to expand the communication lines and offer more insight to the wonderful world of Activity-Based Costing. As always, your thoughts and comments are welcomed and appreciated.

**The ABC Examiner**

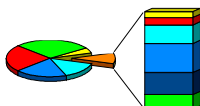
Note: Issues feature prior month's results

- January
- February
- March
- April
- May



**ABC Charts**

- January
- February
- March
- April
- May



**ABC Guide:**

ABC team members, glossary, methodologies, DCG's implementation story.

**Article "World Class Practices: Activity-Based Costing":**

Synopsis of what ABC is and how it works.

**Activity Dictionary:**

List of activities, characteristics (primary/secondary, value-added/non-value-added)

**Monthly Measurables:**

Easy access to the measurables presentations.

**Other Web Pages:**

- Dana Commercial Credit Web Page
- Dana Corporation Web Page

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consolidate some of the activities, after which the number of activities was reduced to 75. An activity dictionary was used to capture base, or starting data for each activity. (See Exhibit 4 for a sample page from the activity dictionary.)

The team conducted a second round of interviews with the same people. The purpose of the second interview was to explain the consolidation process. Gillespie says, “We didn’t want anyone to feel that we had just discarded all the information they previously provided.” The second interviews lasted less than an hour and reconfirmed that the team still had support from the people they had interviewed.

The first activity costs were produced three months into the project, then cost objects were calculated about six months into the project. The cost objects were Diversified Capital Group’s seven programs. Customers were also included in this first model.

The model included all operational expenses except for taxes, interest, and depreciation of the operating-lease portfolio. This resulted in the model including about 70 percent of all costs.

The model began producing results in July 1997. As Gillespie says, “Things just started to fall into place as people started becoming more familiar with everything. It just seems like we have been continually improving.” In the third quarter, the team began breaking costs down by program, and by the fourth quarter, Gillespie really started feeling confident with the numbers.

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**Exhibit 4: Activity Dictionary Sample**

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<b>Activity Process</b>	<b>Procure Lease Equipment Documentation &amp; Booking</b>
<b>Activity Definition</b>	The process of purchasing equipment for lease purposes. This includes all accounts payable functions, issuing purchase orders, speaking with vendor contacts, etc.
<b>Inputs</b>	Purchase order/voucher
<b>Outputs</b>	Payable check for lease equipment
<b>Activity Driver</b>	Number of equipment purchases
<b>Activity Characteristics</b>	Primary, value-added

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### Continuous Improvement

The ABM team increased its validation effort, which Gillespie describes as follows:

We would perform sanity tests on the results just to make sure they made sense. For instance, to evaluate the “book a contract” activity, we would extract the total time the model reflected that it took to perform the activity (labor costs divided by activity driver volume to determine labor cost per activity which was then restated in terms of minutes per activity). We’d then go back to the lease administrator and ask—how long does it really take you to book a contract? Results would be compared to see how closely they matched the previous calculations.

In this way, the team could validate the results from the model and make everyone comfortable that the numbers were reasonable.

### Estimates


Fuller expressed the team’s concern that the model relied significantly on estimates of time spent on various activities. In November 1997, the team formally addressed this concern by putting together a time-tracking system. This effort gained impetus after the annual controllers’ conference when people asked if the ABM results were mainly estimates or guesswork. Although the team believed the results were only 50 percent accurate due to the estimates involved, they had no way of knowing for sure. The problem was compounded by the fact that the model was updated only quarterly, and it took six weeks to assemble the data each time.

To eliminate people’s concern about estimates, the ABM team implemented a time-tracking system to obtain time information daily and to improve the model’s accuracy. Using a Microsoft Excel spreadsheet, team members developed a point-and-click system that improved accuracy to 80–90 percent because people were now recording their time daily.

Using pull-down menus, employees can now record time information in just five minutes per day (see Exhibit 5 for a sample time tracking screen). Icons on the screen are used to send data through the network to the ABM Manager, where it is automatically consolidated into a file that is downloaded into *HyperABC*. It used to take six weeks each quarter to accumulate data. Now it takes only two days each month—and with much higher reliability.

To make the system more user-friendly, the team added simple pop-up reminder buttons. These reminders appear whenever Excel is opened, when a user’s computer is opened in the morning, and also when the user shuts the system down.

**Exhibit 5: Sample Time Tracking Screen**



**Diversified Capital Group**  
Activity-Based Costing  
Time Tracking Program  
Version 3.0

Employee: Gillespie, Brad  
Month: July

Hours Entered: 169.00 of 169.00  
Last Update: 7/31/98 4:08 PM

Reset
Save
Chart
Submit
About

Hot List
Program:
Customer:

Activity:	Program:	Qty:	Hours:	Minutes:
1 Provide Administrative Support	ALL	0	35	15
2 Perform Strategic Planning	Program 2	1	7	0
3 Perform Residual Analysis	Program 3	2	8	15
4 Generate Proposals (Q)	Program 5	1	6	30
5 Price Contract (Q)	Program 4	3	24	30
6 Process Cash	Program 1	540	40	15
7 Clear Suspense Account	Program 1	58	17	45
8 Setup/Book Contract	Program 6	16	7	30
9 Perform Credit Evaluation (Q)	Program 7	15	6	0
10 Perform Month End Close	ALL	0	16	0
11		0	0	0
12		0	0	0