Managerial Costing for Automotive Cost Estimators, Buyers and Cost Engineers

The automotive supply industry has been working to establish a "transparent and collaborative" supply chain for several decades. The effort has been successful in several areas, especially those that can be addressed by technology. Even costing, one of the supply chain's more contentious arenas, has been improved by technology. Software solutions have been developed to substantially improve the accumulation and processing of data from a multiplicity of sources as well as the transmission of cost information between supply chain partners. There remains, however, at least one serious barrier to the attainment of transparency and collaboration; namely, how to use all that data and technology to measure "cost" accurately and then use those measurements to reduce supply chain costs.

Although 21st Century systems and technology are being used to process data, most cost-related data is still being processed through unsophisticated, early-20th Century cost models; models that view all costs as either direct material, direct labor, burden or "G&A." Although such models were proven to be inaccurate, uninformative and misleading decades ago, they continue to be the basis for critical cost-related discussions between buyers and sellers all along the automotive supply chain. These models' biggest shortcomings are: 1) they fail to measure product or customer cost accurately and 2) they fail to provide insights leading to cost reduction opportunities.

In January 2018, APICS and the Institute of Management Accountants published a joint research report in which they surveyed upper management supply chain professionals to assess the impact of issues related to costing systems and practices. In speaking of the report's findings, APICS CEO Abe Eshkenazi stated, "Supply chain professionals rely on cost information when making decisions, but have indicated a need for that information to be more accurate and effective. This report highlights the necessity for supply chain and finance departments to work more closely and adopt costing practices that are progressive and focused on informing internal decisions."

The report identifies three root causes of why supply chain professionals are not receiving adequate costing information:

1. **An overreliance on external financial reporting systems:** Many organizations rely on externally-oriented financial accounting systems that employ oversimplified methods of costing products and services to produce information supporting internal business decision making.
2. **Using outdated costing models:** Traditional cost accounting practices can no longer meet the challenges of today's business environment, but are still used by many accountants.
3. **Accounting and finance's resistance to change:** With little pressure from managers who use accounting information to improve data accuracy and relevance, accountants are reluctant to promote new, more appropriate practices within their organizations.

Those externally-oriented, outdated systems referred to are the "direct material, direct labor, burden and G&A" focused systems mentioned earlier. Since a formal education in costing practices was not a part of most supply chain professionals' training – and keeping up-to-date on the advances in costing practices has probably not been high on their continuing education priority list – these inadequate costing systems may be the only costing systems they have experienced. They are unaware that much more accurate and relevant costing methods exist that would enable them to do their jobs more effectively. As the

APICS/IMA report states, “It is important to understand that a wide array of solutions have been developed to address ‘the costing problem’ over the past 30 years. These solutions have been well-publicized and proven successful at many firms. The issue is not ‘Is there an answer?’ The issue is ‘How do we get accountants to face the problem and implement solutions to create and improve cost information for internal decision making?’” Without an understanding of the kinds of solutions that are available, auto industry cost estimators, buyers and cost engineers lack the ammunition necessary to pressure their cohorts in finance and accounting as well as those at their suppliers to “get off the snide” and provide them with costing tools that support, not hinder, them in their value-enhancing activities.

“Managerial Costing for Automotive Cost Estimators, Buyers and Cost Engineers” is a course that has been developed by FACTON, a market leader for enterprise product costing, and D. T. Hicks & Co., a managerial costing consulting firm that has been helping firms in the auto supply industry adopt more advanced costing practices for over thirty years, to address “the costing problem” and provide supply chain professionals with 21st Century costing tools that will enable them to:

- Facilitate a transparent and collaborative supply chain
- Clarify supply chain economics
- Promote accurate product and customer costing
- Support rational and well-informed discussions and negotiations between buyers and sellers
- Identify cost reduction opportunities at their suppliers, and
- Identify cost reduction opportunities in the relationships between supply chain partners

You can download a course brochure and/or register by visiting FACTON’s website at:
https://www.facton.com/en-us/ces