

The Danish pilotage company DanPilot will in the future be subject to competition in areas where it currently has a monopoly. With the introduction of activity-based costing, ABC, they have got a better overview of the profitability and at the same time laid the foundation for future decisions.



Insight into profitability by segment and routes

DanPilot is Denmark's largest pilotage service provider with around 150 pilots. It originated from a merger of the last three Danish pilotage companies in January 1, 2007 and then, on December 4 2013, it transformed into an independent public company.

The overall objective of this ABC-project is to provide an overview of profitability in each business area and, at the same, time establish the basis for future pricing.

The business areas consist of:

Transit pilotage - (in transition to open market);

transiting through Danish waters (do not enter Danish ports) part of this is Ship-to-ship and Bunkering.

Port Pilotage (competition);

piloting either to or from Danish ports.

Politically, it has been decided that transit pilotage as a business segment must be gradually liberalized so that there is effective competition by 2020. DanPilot will remain committed to delivering pilotage services under the public service obligations in both business areas.

The project was initiated by the CFO and Head of Business Support (Steering Committee) in order to provide input into the strategic processes regarding the liberalization of transit pilotage, and partly in preparation for adaptation to the future competition.

THE PROJECT

Phase I "Deliver a prototype model 2014 that demonstrates how ABC can be utilized at DanPilot"

Phase II "Update prototype for a final model 2015"

Phase III "Update 2015 model to a monthly model in 2016"

A Project Initiation Document was prepared for all three phases. The end product was defined as a fully implemented ABC model, a monthly update rate on the aforementioned model, and lastly a subset of demands as to what questions the model should be able to answer.

Each phase transition was completed with an evaluation and a decision to either stop the project or advance the project to the next level.

The project was organized with a steering committee, a project manager and the people resources in the organization contributing to the project. The models were developed in close cooperation with DanPilot's business controllers and consultants from CES and Prodacapo.

The objectives were clearly defined, resources to be applied were determined, and the time frame for the expected completion of Phase I was 3 months, the results a completed prototype. The idea was to get started so as to be ready when the need for such a model should arise.

The main risks in this project were speculated to be obtaining accurate data, and lack of acceptance of the pending results, should these results conflict with either previous assumptions or political agendas. These risks were addressed in the project by additional controls, reconciliations, and documentation.

Changes to the project were handled on a day-to-day basis, by submitting information to the steering committee, who then commented and approve accordingly.



“The implementation of Prodacapo has lifted the insight level in the business considerably”

Lars Teil Johansen, Head of Business Support



“The process is time consuming and extensive, but once the knowledge is there, you can’t do without an ABC model.”

Simon Madsen, Business Controller

MODEL THAT REFLECTS THE REALITY

Simon Madsen, Business Controller (Project Manager), says: “We have built a model that reflects the reality of DanPilot, the economic relations and realities. This resulted in many AHA! moments, where we dug considerably deeper into the complexities of DanPilot, and we have consistently followed up on all the “strange” results and data through to completion.”

Simon Madsen further says, “The process is time consuming and extensive, but once the knowledge is there, you can’t do without an ABC model.”

This way of ABC thinking is new at DanPilot, and it takes time to integrate it into all the levels of the organization. The process in which a model is first built and then gradually expanded, from involving a few people to involving the entire organization, has proven useful at DanPilot.

The model has survived despite numerous changes in the project group, and has proven to be a resilient foundation when making strategy decisions.

The increased awareness and insight into DanPilot as an organization has raised both new questions, and given answers to previously unanswered ones.

This opportunity for new insight has piqued the interest of the Functional Specialists, who in turn have been forbearing with the project. The dialogue between the project team and the Functional Specialists has been paramount to the model, and the project.

FOCUS ON DATA QUALITY

In this project, 80% of the time consumed was related to the data foundation, that is, the mining of data, error correction registrations and estimations of missing records and the preparation of requirements for future data mining, correction of errors in setup, etc. Thus, the project has helped highlight the importance of data quality. Everyone in the organization benefits from the improved data quality and saves time by not having to deal with incorrect reports and poor decision support. ABC operates in this respect as a requirements specification for the database.

Mining accurate data is a gradual process, which means having accurate data when building the first model is not a requirement. Understanding the data leads to insight and highlights the faults in the data which can then be corrected. This leads to a more pro-active way of creating a LEAN data mining process, where time is not spent on mining unnecessary data, but spent on mining relevant data.

ABC WITH TRACEABILITY

The ABC model shows the value chain costs graphically for each process, and calculates how much they cost and how many full-time employees are included. Prodacapo provides a quick overview, while one can trace back the calculations to their roots. It is therefore possible to both check the calculations, and evaluate the assumptions. Traceability in the model makes it suitable for the documentation of cost-based prices.



DanPilots

MISSION – Safeguarding our customers' vessels and the environment

VISION – The most reliable pilot services in Europe

PROMISE – Your time, your safety – our commitment

Simon Madsen, Business Controller, further says, “With the models calculations as a foundation, a lot of hypotheses and assumptions were disproved. Previously, allocations were based on an overall average, where ABC models are based on allocations via activities. This reflects the actual resource consumption and thereby the actual costs of the service provided, customer and/or route.

“A strong feature is the trace-back ability in Prodacapo, which helps clarify incomprehensible figures and calculations, as you can trace back all the way to the G/L numbers, a powerful tool, regardless of whether you click on a customer, a route, an activity etc.”

AUTOMATIC UPDATES

This project has been implemented as an administrator and super-user project, where one of the objectives is to assure that DanPilot is able to maintain and develop their ABC models. DanPilot has recently decided to update the ABC models monthly, ensuring live models where changes in the structure and setup are continuously incorporated, just as knowledge of ABC becomes an integrated part of everyday life.

Prodacapo serves as a multifunctional tool supporting DanPilot's need to continuously adapt the models. Once the models have found their final forms, it is possible to automatically update them via the Connect module.

Head of Business Support, Lars Teil Johansen, says, “My main issue was: Lack of insight into profitability at all levels (product, customer, vessel sizes, etc.).”

NOW AN INTEGRATED PART

The implementation of Prodacapo has lifted the insight level in the business considerably. After DanPilot had implemented a full ABC allocation model, the company got a clear view of its business on a much more detailed level. DanPilot can now mine data at a significantly deeper level. This has lifted the overview of the business considerably, making it possible to make changes and adjustments to the business. The ABC model is now an integrated part of DanPilot's decision support whenever making analyses about cost savings, efficiency etc.

DanPilot can fully recommend other companies to implement Prodacapo to increase the transparency of their businesses.”

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Prodacapo Headquarters

Vasagatan 36, SE-111 20 Stockholm, Sweden
Tel: +46 8 622 25 00 E-mail: info@prodacapo.com
www.prodacapo.com

www.prodacapo.com

Prodacapo was founded in 1994. We have specialized in software solutions for Strategic Performance Management. Our headquarters are in Stockholm, Sweden. Our solutions are available from an expanding international network of partners, as well as directly from Prodacapo.