

## ***Case Study:*** **Driving Profitability Improvement through Activity Based Management**

**Gregg Siuciak**

*Vice President, Finance – Global Profitability Improvement*  
Fisher Scientific International Inc.

**May 18-20, 2005 Cambridge, MA**

## Biography

### **Gregg Siuciak**

*Vice President, Finance – Global Profitability Improvement  
Fisher Scientific International Inc.*

Gregg Siuciak is vice president of finance for Global Profitability Improvement (GPI) at Fisher Scientific International Inc. (NYSE: FSH), a world leader in serving science, offering more than 600,000 products and services to more than 350,000 customers located in 150 countries. As the leader of GPI at Fisher, he is responsible for the company's efforts to better understand and improve performance across the enterprise.

Prior to joining Fisher Scientific, Mr. Siuciak spent over thirteen years in consulting with BearingPoint and their predecessor, KPMG Consulting. As managing director, he was responsible for supporting the efforts of many Fortune 1000 CFOs to improve the business value of their finance function.

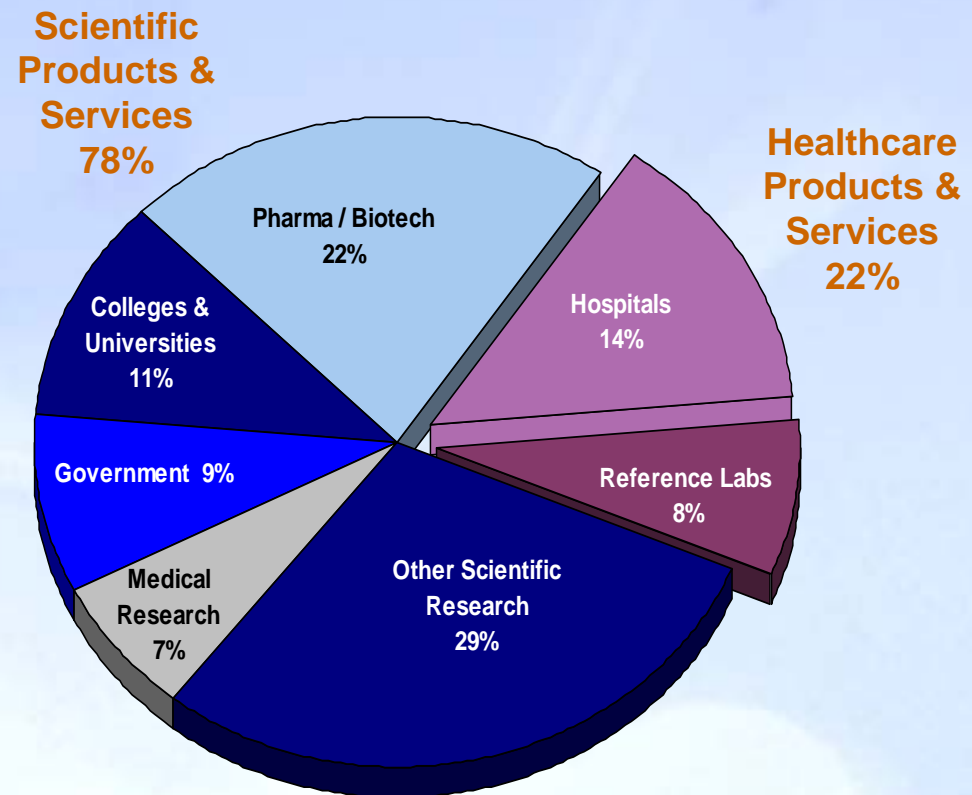
Mr. Siuciak began his career at General Electric where he graduated from the Manufacturing Management Program. He earned his MBA from UNC Chapel Hill's Kenan-Flagler Business School, and a BS in biomedical and electrical engineering from Duke University.

# Agenda

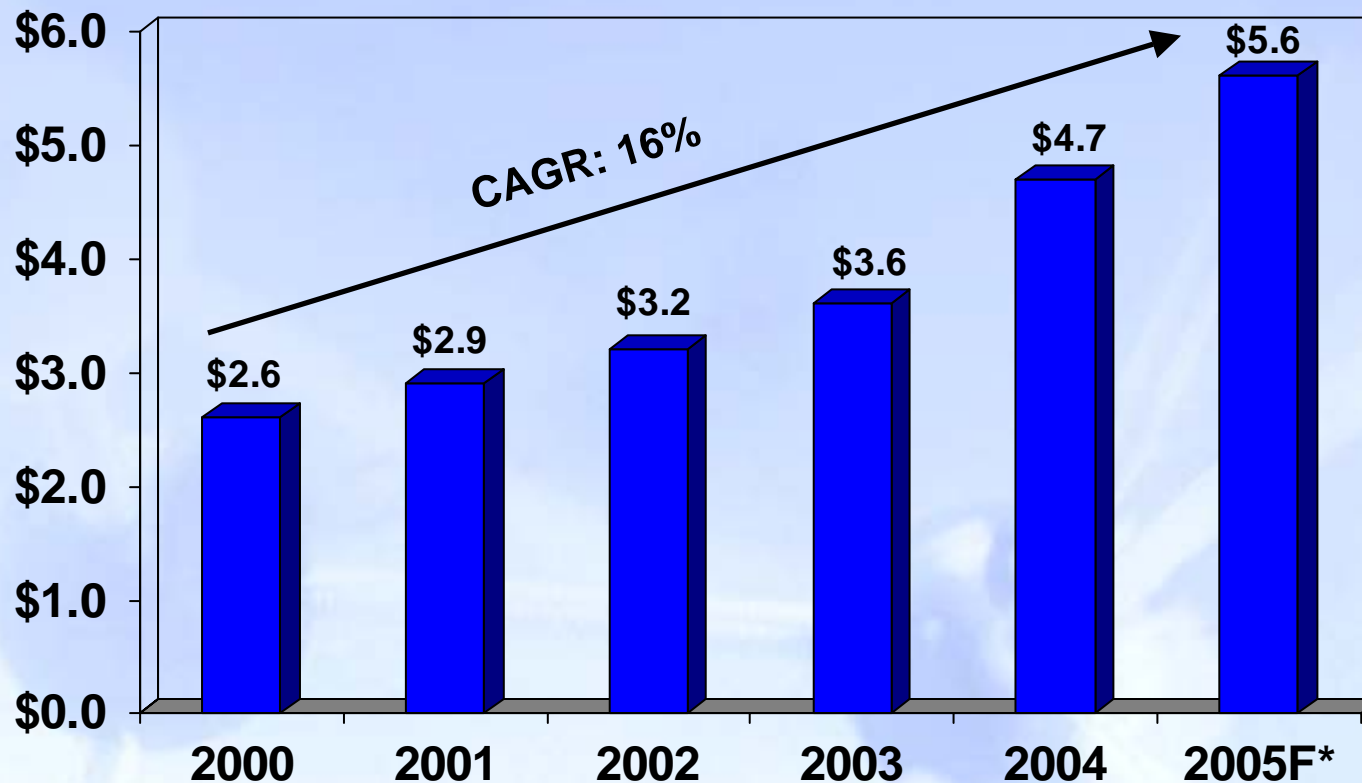
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- ➔ • Fisher Scientific key facts
  - Need for ABM
  - Implementation
  - What Works
  - Progress

# Fisher Scientific Key Facts

- **History** – founded in Pittsburgh by Chester Fisher in 1902
- **Business** – a leading provider of products and services to the scientific community
- **Employees** – 17,500
- **Financials** – Revenue of \$4.7B in 2004




# Sales Growth (\$ in Billions)



\* Midpoint of guidance previously issued by Fisher Scientific on Feb. 8, 2005, which reflects revenue growth of 20% to 22% for 2005. Guidance excludes the impact of foreign exchange.

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# Need for Activity Based Management

## Model

*Understand  
drivers of  
profitability and  
cost complexity*



## Action

*Improve  
profitability for  
customers,  
suppliers and  
Fisher*



# Henry Ford Understood the Cost of Complexity

*“You can have whatever color you want as long as it’s black.”*

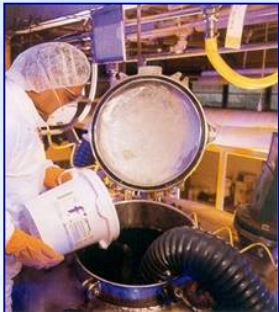


# Today's Environment Is More Complex

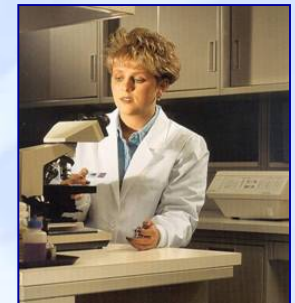
**600,000 Products**



**6,000 Suppliers**



**350,000 Customers in 150 Countries**



**Global Supply Chain Network**

# Further Adding to Today's Complexity

## Customers

- *Pharmaceutical*
- *Biotech*
- *Academic*
- *Hospitals*
- *Clinical Labs*

## Products

- *Cataloged*
- *Hazardous*
- *Refrigerated*
- *Packaging*
- *Self manufactured*
- *Private label*
- *Exclusives*

## Suppliers

- *Franchised*
- *Third Party*

## Orders

- *Internet*
- *EDI*
- *Phone*


## Transportation

- *Fisher fleet*
- *Regional carriers*
- *Small-parcel carriers*

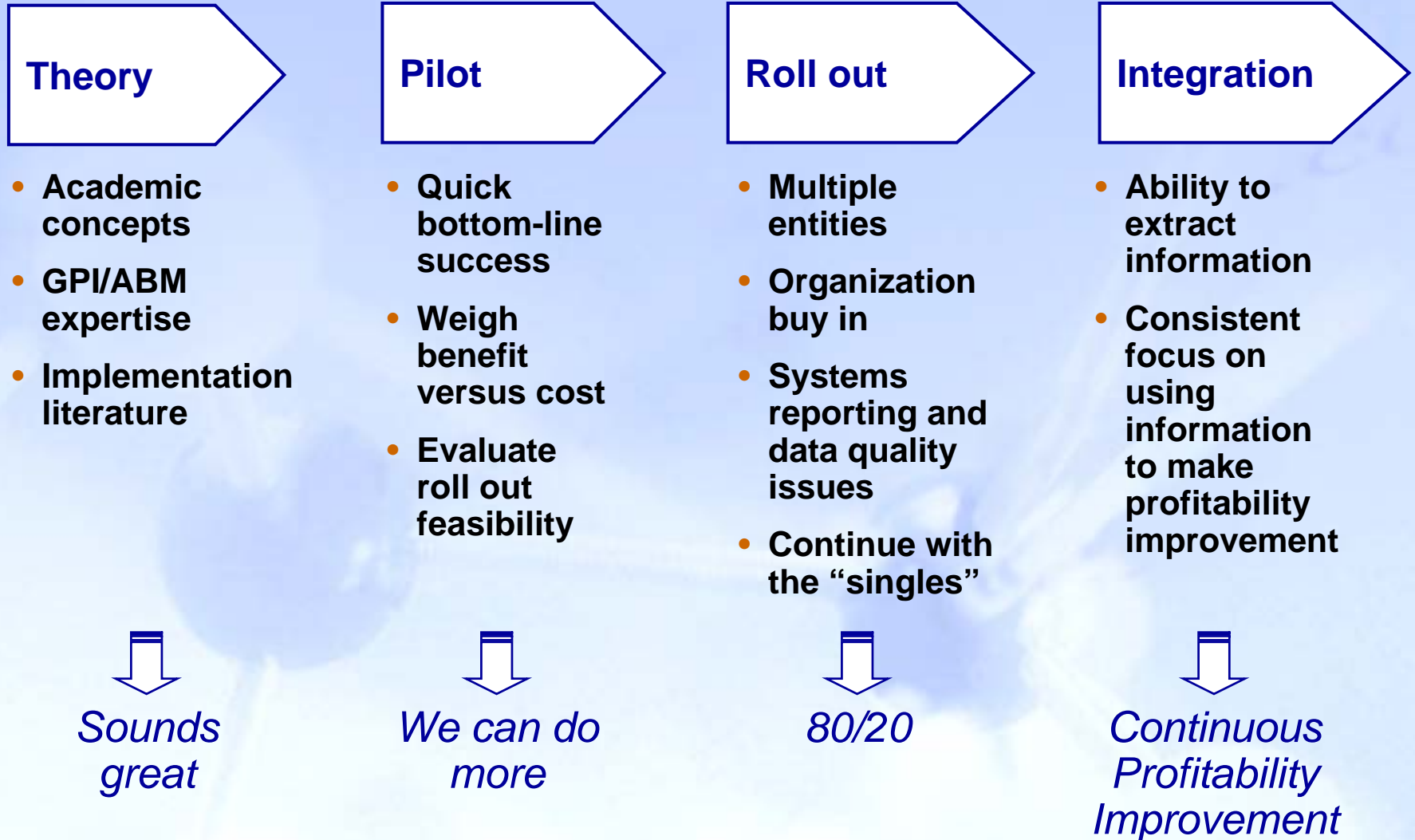
## Shipments

- *Warehoused*
- *Direct Shipped*
- *Urgency*

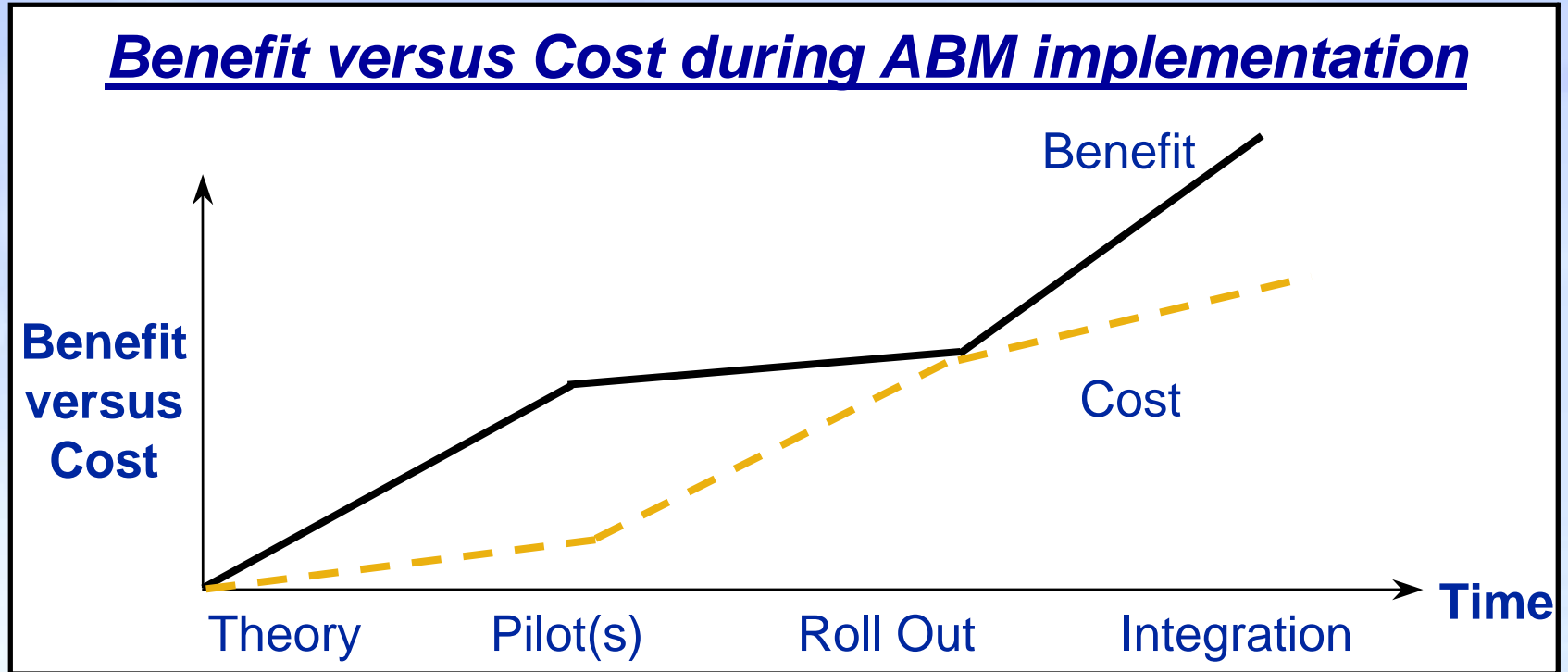
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# GPI Implementation Cycle



# Organizational Mood Meter



# Model Capabilities

- **Reporting**

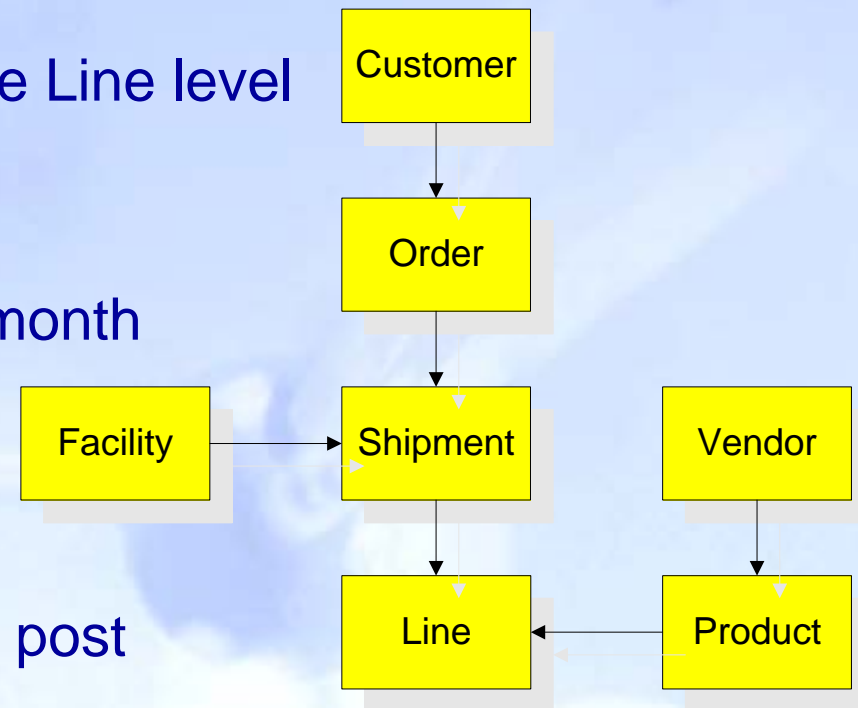
- P&L\$ items to the operating income level – revenue, cost of goods, period costs, and SG&A
- All P&L\$ items are driven to the Line level

- **Complexity**

- General ledger lines ~9,000 / month
- Activities ~200+

- **Process**

- Model close – monthly (5 days post GL close)
- Model update – annually



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# What Works

- Bottom-line focus
  - *Focus on Singles, the Home Runs will come*
- Business sense
  - *Model for Complexity, Use with Simplicity*
- Maintain credibility of the model
  - *Perception is Reality*
- Share the information
  - *Share the Gain, Not the Pain*
- Organizational support
  - *Team work does make a difference*

# Bottom-line Focus

- Consider all possibilities
  - Model reports
  - Data inputs
  - Other Information
  - Hallway conversations and ideas
  - Urgent business issues
- Follow through
  - Focus on specific customers, vendors, products
  - Work with business units to complete implementation
- Measure, track and report the bottom-line benefits



***Focus on Singles,  
the Home Runs will come***

# Business Sense

- Model for complexity
  - Must provide meaningful differentiation
  - Understand the cost of measurement vs. the cost of error
  - Consider sustainability during design
  - Do not build the “perfect” model
- Understanding the methodology should not be a prerequisite to using the information
- Application to business issues is more important than elegance



***Model for Complexity,  
Use with Simplicity***

# Maintain Credibility of the Model

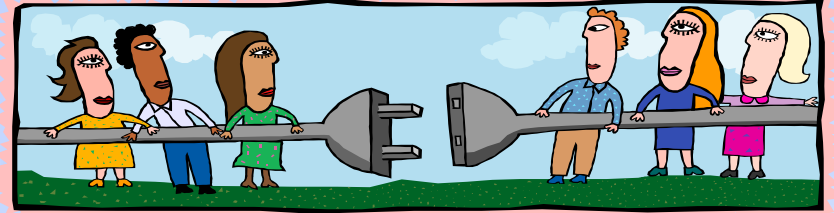
- Model close (monthly)
  - Validations
  - Smell test results
  - Streamline process
- Model update (annually)
  - Communicate with businesses to gather information
  - Document sources and impact
- Prioritize and communicate design changes
  - Immediate – GL has changed / Data-feed issues
  - Nice to have – identify what bottom line \$ will be generated



***Perception is Reality***

# Share the Information

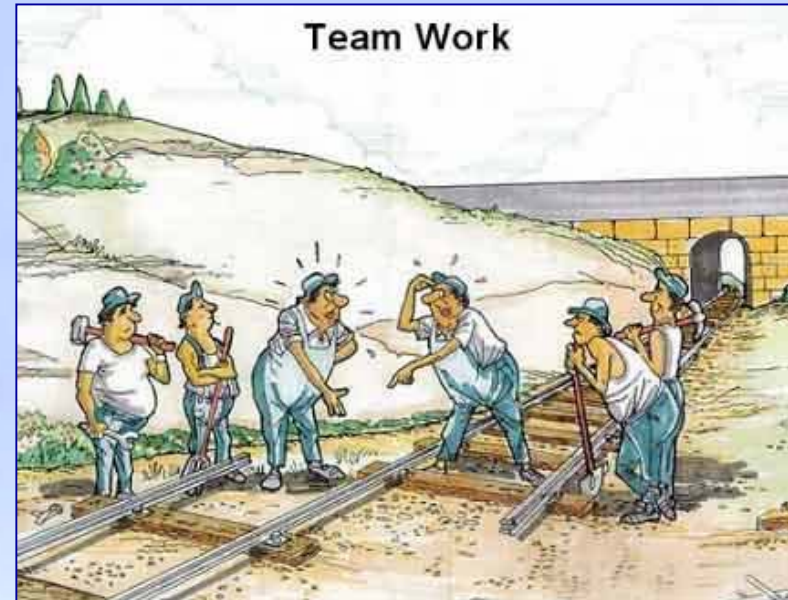
- Training
  - Extracting the information
  - Applying the information
- Make the information accessible
  - Open lines of communication
  - Solicit feedback
- Co-development
  - Work with users to develop analysis tools
  - Combine with other analyses and data to address bottom line



***Share the Gain, Not the Pain***

# Organizational Support

- Top management
  - Direction
  - Commitment
- Team
  - Positive attitude
  - Strive to make a difference
- Business units
  - Advice on making information relevant
- Partners
  - Willing to work with you and address issues immediately



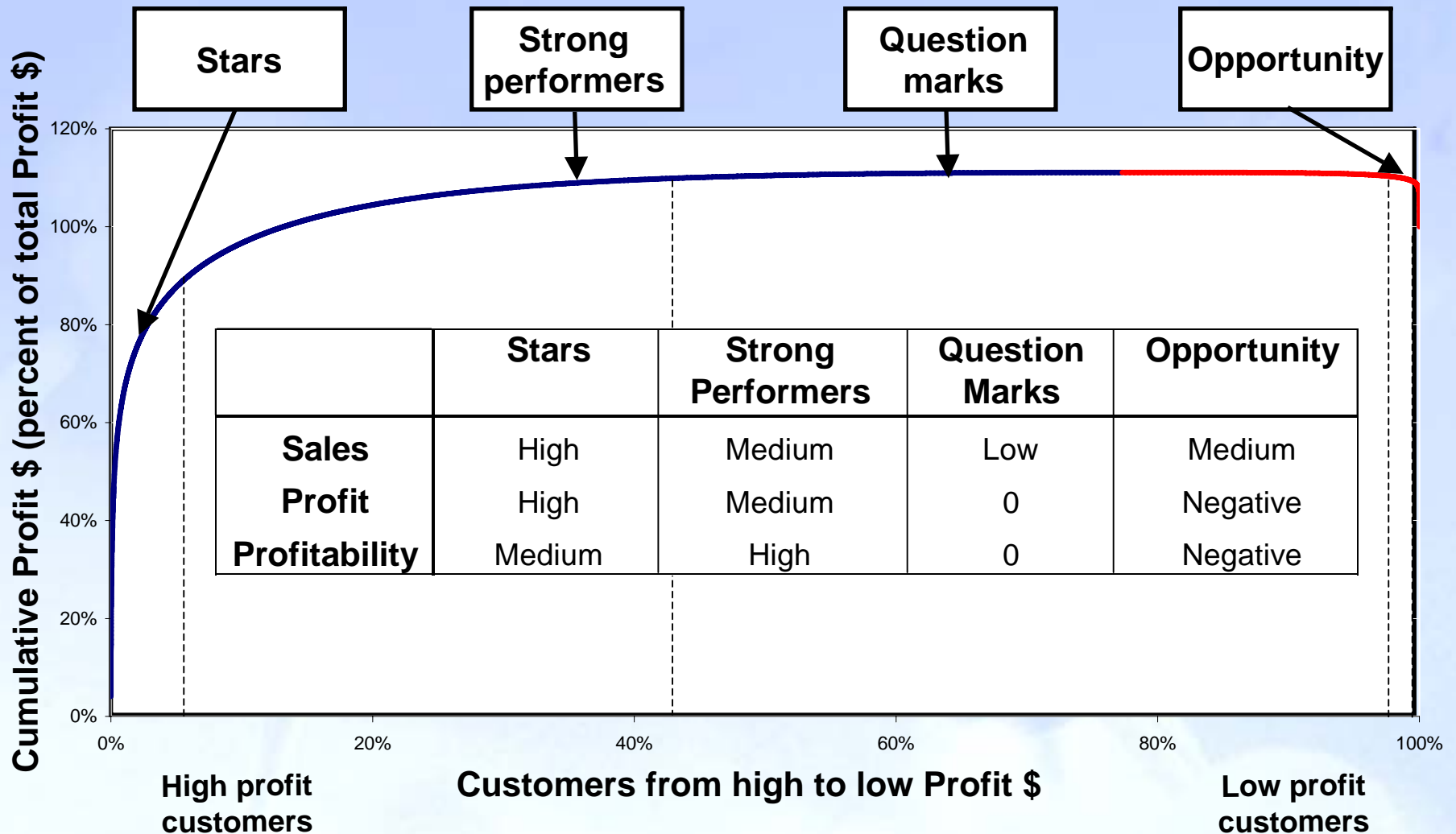
***Team work does make a difference***

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# Customer Profitability “Whale” Curve



# Customer Migration, Not Elimination

- Migration ↑
- Stars – strong strategic relationships
    - Must keep these customers
    - Learn from these successes
  - Strong Performers – potential gems
    - Actively identify the gems and future “Stars”
    - Prevent a slide to “Question Marks”
  - Question Marks – help cover costs
    - Avoid mutually ambivalent relationships of convenience
    - Identify opportunities to grow relationships
  - Opportunity – profitability killers
    - Identify opportunities to immediately improve relationships
    - Determine profitable aspects of serving these customer

# Cost Recovery Options – “What If”

Example A – Customer A unrecovered cost > \$23K

- Scenario 1 – Recovering Operating Costs through improved services

Options	2004 Cost			\$ Recovered	Customer Action
	2004 Total	Recovery	What If		
1. Orders < \$150	2,625	8%	100%	\$23,009	Reduce < \$150 Orders
2. Haz Orders	394	96%	100%	\$285	Bundle/bill Haz Orders
3. Ice Orders	0	0%	0%	\$0	Bundle/bill Ice Orders
4. Sales	\$814,899		0%	\$0	Increase Sales
				\$23,294	

- Recover operating costs by increasing order size and consolidating hazardous orders, or billing for these services

# Cost Recovery Options – “What If”

Example A – Customer A unrecovered cost > \$23K

- Scenario 2 – Recovering Operating Costs through improved sales

Options	2004 Cost			\$ Recovered	Customer Action
	2004 Total	Recovery	What If		
1. Orders < \$150	2,625	8%	8%	\$0	Reduce < \$150 Orders
2. Haz Orders	394	96%	96%	\$0	Bundle/bill Haz Orders
3. Ice Orders	0	0%	0%	\$0	Bundle/bill Ice Orders
4. Sales	\$814,899		20%	\$23,294	Increase Sales
				\$23,294	

- A 20% increase in sales at the 15% margin for Customer A is required to recover the same operating costs

# Discussion

