

Dear Colleague,

**Take a moment and think of the key decisions that drive the success of your business:**

- *What price should we charge for our product?*
- *How many units must we sell to break even?*
- *What product lines should we expand and which ones should we discontinue?*
- *Should we make or buy?*

What factor makes or breaks those decisions? ... *The reliability of your costing system.* Good cost data fuels sound decision-making and strategic business management, while poor cost data can reduce management to guessing. The following symptoms may indicate weaknesses in your costing data:



**Neil Crowell, CPA, CIA,  
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#### **Uniform Profit Margins**

Do all of your product lines have similar profit margins? If you use a cost-plus pricing strategy, this is to be expected. However, some costing systems allocate costs uniformly and globally, failing to properly allocate the costs of the unique production activities of each product line.

#### **Little Competition**

If you have a particular product or market where there is little or no competition, consider the source of that advantage. If it is price-based, consider whether your production processes are best in class in efficiency, or whether your cost system is deceiving you and you are under-pricing the product.

#### **Inability to Compete**

Often, having little competition for some products will coincide with the presence of other products or markets that struggle to compete. The under-costed products blow away the competition, while the over-costed products flounder. Pay particular attention to high-volume, standardized products, which are vulnerable to absorbing more than their fair-share of overhead costs.

#### **Losing Bids with Slim Margins**

If you are pricing competitive bids with razor-thin margins and frequently losing, do not be too quick to attribute the cause to the economic environment. It may be time to reevaluate your costing system and identify and remove inefficiencies from the production process.

Need help with your costing system? Contact a [Manufacturing Specialist](#) at Stambaugh Ness today for assistance.

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If you have questions about this article, please contact Neil at 717-757-6999/800-745-8233 or email him at [ncrowell@stambaughness.com](mailto:ncrowell@stambaughness.com). For more information about our Manufacturing and Distribution Industry Group services, please contact [Shareholder Darren Welker, CPA, CIA](#) at the same phone numbers or email Darren at [dwelker@stambaughness.com](mailto:dwelker@stambaughness.com).

Stambaugh Ness's Manufacturing and Distribution Services Group is a team of highly experienced professionals who are committed to understanding the unique challenges of the manufacturing industry. In addition to our traditional accounting and auditing services, we offer value-added services in business planning, operational analysis, strategic management, M&A assistance, and IT / systems consulting. Our resources are complemented through active involvement in local industry associations.

*Stambaugh Ness is a regional accounting and business consulting firm based in South Central Pennsylvania.*