

**TN Exhibit 1** Numerical Exercise

(A) *You are an account manager at Owens & Minor. You have two customers on a stockless program. Below are each customer's activity levels, activity rates, and customer level costs. See Alpha Hospital—Customer Profitability Statement (Exhibit 4 in Owens & Minor, Inc. Case A). Draft a customer profitability statement for Beta Hospital using the format shown in TN Exhibit 3.*

Activity Rates		Customer Level Costs	
Edi Order Cost	\$4.50/edi order	Procurement	\$ 1,486
Non-Edi Order Cost	\$9.01/non-edi order	Labeling	1,000
Line Cost	\$0.66/line	Account Mgmt	991
Delivery Cost	\$457.58/delivery	Occupancy	1,007
Interest Cost	8.64%per annum	Group Fees	750
Emergency Order Cost	\$25/emergency order		
Shipping and Handling Cost	\$130/delivery		

Activity Levels	Alpha Hospital	Beta Hospital
Sales/month	\$ 150,000	\$ 150,000
Orders/month	750	333
Lines/month	15,000	10,000
Deliveries/month	12	10
% EDI orders	25%	95%
Accounts Receivable	\$300,000	\$75,000
Emergency Orders/Month	20	10
Vendor Discounts	\$4035	\$4035
Cost-Plus %	15.0%	15.0%

(B) *It is one year later. Both your customers switched to activity-based pricing nine months ago. You charge each customer what it costs you to provide service, making margin only on distributor discounts. Draft new customer profitability statements for both Alpha Hospital and Beta Hospital using the new activity drivers shown below. What is the cost-plus equivalent of the activity fee each customer is charged? Explain why each customer responded differently to activity-based pricing.*

Activity Levels	Alpha Hospital	Beta Hospital
Sales	\$ 150,000	\$ 300,000
Orders/month	400	660
Lines/month	11,000	20,000
Deliveries/month	7	10
% EDI orders	95%	95%
Accounts Receivables	\$75,000	\$150,000
Emergency Orders/Month	6	6
Vendor Discounts	\$4035	\$8070

**TN Exhibit 3** Numerical Exercise Solution Template

<b>Cost Driver</b>	<b>Rate</b>	<b>Alpha Volume</b>	<b>Beta Volume</b>	<b>Alpha 1 Volume</b>	<b>Beta 1 Volume</b>
EDI Orders	4.5	187.5			
Non-EDI Orders	9.01	562.5			
Lines	0.66	15,000			
Deliveries	457.58	12			
Accounts Receivable	8.64%/yr	300,000			
Emergency Orders	25	20			
Shipping and Handling	130	12			
Product Sales		\$150,000	\$150,000	\$150,000	\$300,000
Cost Plus Margin		22,500			
<b>ABP Fees</b>					
<b>Total Revenue</b>		<b>172,500</b>			
COGS		150,000			
Vendor Discounts		4,035	4,035	4,035	8,070
<b>Gross Margin</b>		<b>26,535</b>			
EDI Order Costs		844			
NonEDI Order Costs		5,068			
Line Costs		9,900			
Shipping and Handling		1,560			
Delivery Cost		5,491			
Emergency Orders		500			
Interest		2,160			
Procurement		1,486			
Labeling		1,000			
Account Management		991			
Occupancy		1,007			
Group Fees		750			
<b>Net Operating Profit</b>		<b>-4,222</b>			
<b>Cost Plus/Equivalent Cost Plus</b>		15%			