Super Bakery, Inc., created in 1990 by former Pittsburgh Steelers’ running back Franco Harris, is a nationwide supplier of mineral-, vitamin-, and protein-enriched doughnuts and other baked goods to the institutional food market, primarily school systems. Super Bakery is a virtual corporation, in which only the core, strategic functions of the business are performed inside the company. The remaining activities—selling, manufacturing, warehousing, and shipping—are outsourced to a network of external companies. Super Bakery draws these cooperating companies together and organizes the workflow. The goal is to add maximum value to the company while making the minimum investment in permanent staff, fixed assets, and working capital. The results are notable: Super Bakery’s sales have grown at an average annual rate of approximately 20% during most of its existence. One of Super Bakery’s challenges has been to control the cost of the outsourced activities. Management suspected a wide variation in the cost of serving customers in different parts of the country. Yet its traditional costing methods were spreading costs over the entire customer base. Each customer’s order appeared to cost the same amount to complete. In actuality, orders with high profit margins were subsidizing orders with low profit margins. Super Bakery desired a system that would more accurately assign the costs of each order. With such a system, pricing could be improved. The company looked at and eventually changed to a system that could identify the costs associate with the activities performed in the business—manufacturing, sales, warehousing, and shipping. The new activity-based costing system showed that the costs and profit margins on each sale vary significantly. Super Bakery is now able to track the profitability of each customer’s account and the performance of outsourced activities. This doughnut maker, as a result, even knows the cost of the doughnut holes!

Source: Based on Tom R. V. Davis and

Bruce L. Darling, “ABC in a Virtual Corporation,”

Management Accounting (October 1996), pp. 18–26.