AlignAlytics
Insights Fit For Action

Specialty Manufacturer

Case Study *Strategy & Performance*

Cost To Serve

Cost-to-serve: Managing product & customer profitability beyond gross margin

"Using a practical cost-to-serve methodology gave us a full transparency over true product customer profitability. It has changed our business focus and strategy. A new focus on the top profit contribution opportunities has improved our profit performance by around 3%."

Background

As with most manufacturers, our client had limited visibility on its product and customer profitability beyond gross margin. This lack of visibility represented approximately 50% of its cost base. The business was unable to draw the right strategic rationale in terms of what resources should be focused on what product/customer priorities.

An activity base costing exercise was seen as excessive given the extensive number of product lines, and could not be sustained over time.

Challenges

The client approached PMSI to better understand how a sustainable, driver-based allocation methodology might be implemented, in particular:

- An approach that satisfies both the financial and business community in terms of acceptable methodology
- A consistently managed solution, with regular updates
- A level of profit granularity that allows for multi-strategic initiatives
- And practical support for decision makers to access findings.

Approach

AlignAlytics looked to leverage multiple data sources and determine relevant drivers from which costs could meaningfully be allocated. For every cost center, across the value-chain, the best drivers were identified, including:

- A freight model with over 300 core destinations
- Sales force costs were allocated based on a CRM, team focus and time allocation methodology
- Customer service related costs were based on # orders and customer/product segment type
- Warehousing and supply chain used # order lines and product category
- Certain finance costs were allocated based on # invoices and credit holds
- Other direct costs were allocated to specific product lines.

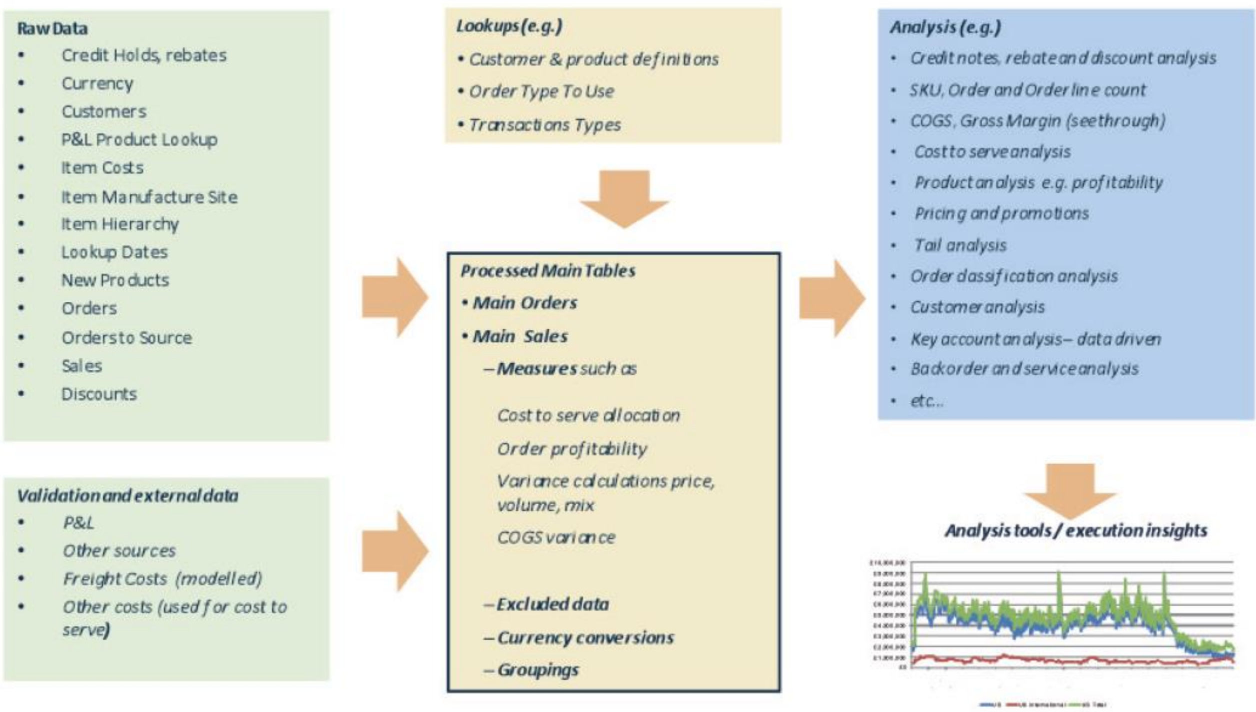
Cost to Serve: Managing beyond gross margin

Project Outcomes

By using these various cost spreading techniques the cost centers could be allocated down to the transaction level. A granular database was created that allowed customer/product/order level contribution transparency.

Certain customers were clearly loss-making requiring a change of approach e.g. telesales and others were seen as critical to the business needing additional relationship management.

Strategy and portfolio management was re-focused based on the cost-to-serve, allowing for a better medium term plan focusing on the top profit contribution opportunities. Over a 3 year period average profit margin improved by 3%.



Want to know more?

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