



Quantum Profit Gram #2

New Thinking: Cost-to-Serve

“Cost-to-Serve” (CTS) is simply the total cost of delivering your envelope of goods and services to your clients. Since profit is what’s left when CTS is spent out of Gross Profit (GP), you’ll want to ensure CTS (in every segment) is lower than GP.

Most distributors estimate the relative profitability of their customers and products by GP dollars. This is risky because it ignores widely-varying process/activity costs. For example, two customers with identical sales, GP dollars and margin percent could vary widely in profit contribution. With an accurate measurement of CTS, they will find that:

- There is low-to-no correlation between the GP dollars and profit rates from a customer, item, supplier line or sales territory, and that the actual net profit from any of those elements.
- There are extreme cross-subsidies between the most profitable and most unprofitable elements. (restated: losers are wiping our profits of the winners.
- The extreme winners and losers can both be managed dramatically better with creative plays if we measurably know the extreme elements.

Why is it now especially important to run your business with good CTS knowledge? Although the “great recession of ’07 to ’??” may have a small (stimulus-induced) bump-up “recovery” in late ’09, tough economic conditions will be with us for some time to come. The only way to regain healthy profits and free cash-flow – to better service debt and make money – is to manage better by knowing where you’re truly making and losing money. Using CTS, you can ensure each aspect of your business is using a profitable service model to deliver to your customers.

How do you get good at CTS? It’s a complex task to integrate all of the cost drivers so you can assess the CTS for every customer, rep, territory, product and vendor. Fortunately new advances in computers and software make it possible for distributors to do this, leading the way to new discipline in how resources are deployed, and how internal priorities are managed.

How do we get CTS going for ourselves? While many distributors have had internal projects to try to cost out their business, this is too important to use rough snapshots that age quickly and can lead to decisions based on out-dated views. A new alternative is to out-source the CTS analysis to a distribution-industry specific, web-based service. Waypoint Analytics offers a “Quantum Profit Service that includes on-going expert coaching, and can be growing your profits within 2-3 weeks – for a fraction of the in-house cost. Get more info on their system and free webinars at www.merrifield.com and www.waypointanalytics.info.

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What is
“Cost-to-
Serve”
So What?



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