



Quantum Profit Gram #2

“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 is lower than GP in every segment.

Most distributors estimate the relative profitability of their customers and products by GP dollars. This is risky because it ignores widely varying process and activity costs. For example, when comparing two customers with identical sales, their GP dollars and margin percent could vary in profit contribution.

With an accurate measurement of CTS, it may be found that:

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

Why is it important NOW to run your business with good CTS knowledge?

Although the recent recession may have created 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 increase revenue is to manage better.

You can do this 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 to assess the CTS for every customer, rep, territory, product and vendor. Fortunately, new advances in computers and software make it easier 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? Many distributors have had internal projects to cost out their business, but this process 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 outsource the CTS analysis to a distribution industry specific, web-based service. That’s where WayPoint Analytics comes in.

Waypoint Analytics offers a Quantum Profit Service that includes ongoing expert coaching to help you begin growing your profits within 2-3 weeks for a fraction of the in-house cost. It would be our privilege to tell you more about how this works, and even give you a demonstration. Give us a call to learn more!

QUANTUM
PROFIT™
MANAGEMENT

**What is
Cost to Serve
???**



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