

# **Rob O'Byrne - MD Logistics Bureau**

## **Cost To Serve**

***How its application can improve EBIT performance by up to 20%***

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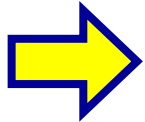
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## **Introduction**

To provide background and context to commentary and case studies

## **Cost To Serve**

What is Cost To Serve ?

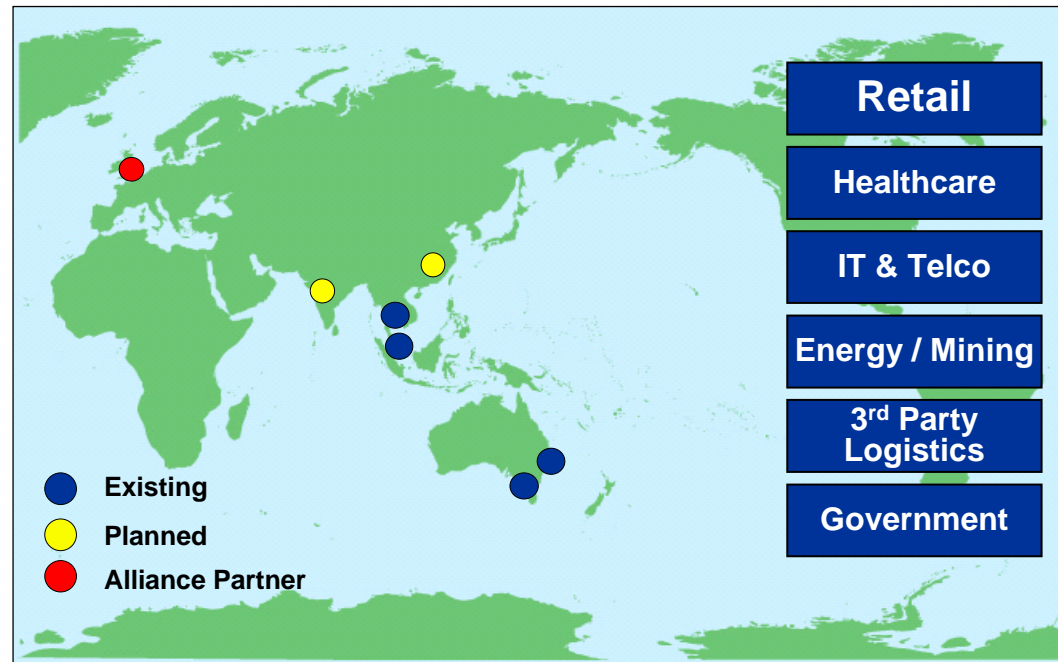
What benefit does it deliver?

How is it implemented?

## **Questions/Discussion**

# Introduction - Logistics Bureau

- Largest specialist Supply Chain consulting company in the Region
- Breadth and depth of experience, with over 700 Supply Chain projects completed
- We are independent, objective and guarantee results



# Focus – Core Industry Sectors

## Case studies from the 3 sectors at the top

### Healthcare

- Animal health
- Hospitals
- Government health
- Optical and dental
- Pharmaceutical distribution
- Pharmaceutical wholesale
- Pharmaceutical retail
- Pharmaceutical manufacturing
- Pathology & Imaging

### FMCG & CPG

- Agriculture
- Appliances
- Baked goods
- Beverages
- Cold stores
- Consumer goods
- Cosmetics
- Dairy
- Dry goods
- Meat
- Milling
- Packaging
- Retail Discount & Variety
- Retail Fashion
- Retail Fast Food
- Retail Grocery

### Energy Mining & Construction

- Building products
- Cable companies
- Construction companies
- Distributors
- Electrical distributors
- Energy, oil, gas, electricity
- Explosives
- Fabrication
- Mining Equipment and parts
- Power distributors

### IT & Telco

- Carriers
- Distributors
- Parts & service
- PC manufacturer
- Printer manufacturers
- Software distributors
- Telecommunication manufacturers
- Wholesalers

### Government & Economic Development

- Development groups
- Federal government
- International government
- Local government
- Specialised services
- State government

### 3PL

- Freight forwarding
- Ocean freight
- Parcel carriers
- Warehouse & distribution

# Some of Our Customers

- AAP Communications
- Abbott Laboratories
- ACF
- ACG
- ADI
- AEI
- ALDI
- ALM
- A.P.I.
- Air New Zealand
- Alcon Laboratories
- AMCOR Australasia
- Auditor General Victoria
- Australian Aerospace
- Australian Trade Coast
- Australian Wheat Board
- Bangkok Gen Hosp Group
- Barbeques Galore
- Bayer
- Bega Cheese
- Beringer Blass Wine Estates
- Berli Jucker
- BHP Billiton
- Bluegum Technology
- Bluescope Steel
- Boots Healthcare
- Boral
- Brightpoint
- Brisbane Airport Corp
- Bunnings
- Buy.com
- Carlton & United Beverages
- Castrol
- Cement Australia
- Ceva
- Chanel
- Chomtana
- Christian Dior
- Colorado
- Corporate Express
- Cosmax Cosmetics
- Costa Group
- Coty Lancaster
- CP Foods
- CSR
- Crompton Lighting
- Daimler Chrysler
- Diageo
- Delta Electricity
- Dept of Defence
- Dept Transport & Regional Svcs
- Dexion
- DHL
- Diethelm Thailand
- Diethelm Vietnam
- Don Smallgoods
- Double A
- Dulux
- EFFEM
- Elgas
- Elizabeth Arden
- Energy Australia
- Epson Australia
- ETSA Utilities
- Exel Logistics
- FiK International
- Fosters
- Freedom Group
- Frutex
- Fujitsu
- GAC
- Gardner Smith Group
- General Pants
- George Weston Foods Group Office
- GlaxoSmithKline
- Goodman Fielder
- Grays online
- GUD Holdings
- Harper Collins
- Ingram Micro
- James Hardie
- Jeans West
- Jalco Group
- John Danks & Sons
- Johnson Controls
- Johnson & Johnson Pacific
- Juvena
- Komatsu
- Laminex
- Lend Lease
- Li and Fung
- Lion Nathan
- Maersk Logistics
- Mariner
- Mars Corporation
- Melosi
- Masterfoods
- Minor Foods
- Mitr Phol Sugar
- Mitsubishi Trucks
- National Blood Authority
- National Foods
- Nokia
- Novartis
- NSW Health
- NSW Police
- NYK Logistics
- Nylex
- Olympus
- Orica Explosives
- Philmac
- Pinkertons
- Pfizer
- Pelerman Group
- Petroleum Inst of Thailand
- Post Logistics
- Provimi
- Siam City Cement
- Selleys
- Shell
- Siemens Dematic
- Signum
- Southcorp
- Southern Health
- SPC Ardmona
- Speedibake
- St Vincent de Paul
- Star Track Express
- Stramit
- Sunbeam Foods
- Supa A Mart
- Sylvania Lighting
- Tattersalls
- Tech Pacific
- Tenix
- The Warehouse Group
- Tip Top
- TNT Express
- TNT Logistics
- Toll
- Transend
- Trimex
- Unilever
- Unimin
- UPS
- Vinidex
- Weight Watchers
- Wesfarmers
- Weston Bio Products
- Weston Biscuits
- Weston Milling
- Whirlpool
- Woolworths
- World Bank
- Yates
- Zuellig Pharma

## → Markets

- Geographic expansion, acquisition, product range expansion

## → Retail Stores

- Better stock allocation systems, new point of sale unit loads

## → Distribution

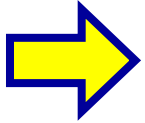
- Rationalisation of DC networks, more supplier centralisation

## → Factory Gate Pricing

- Changes to order profiles

*These...and more, will impact supplier's processes, use of resources and costs*

**Introduction**



**Cost To Serve**

What is Cost To Serve ?

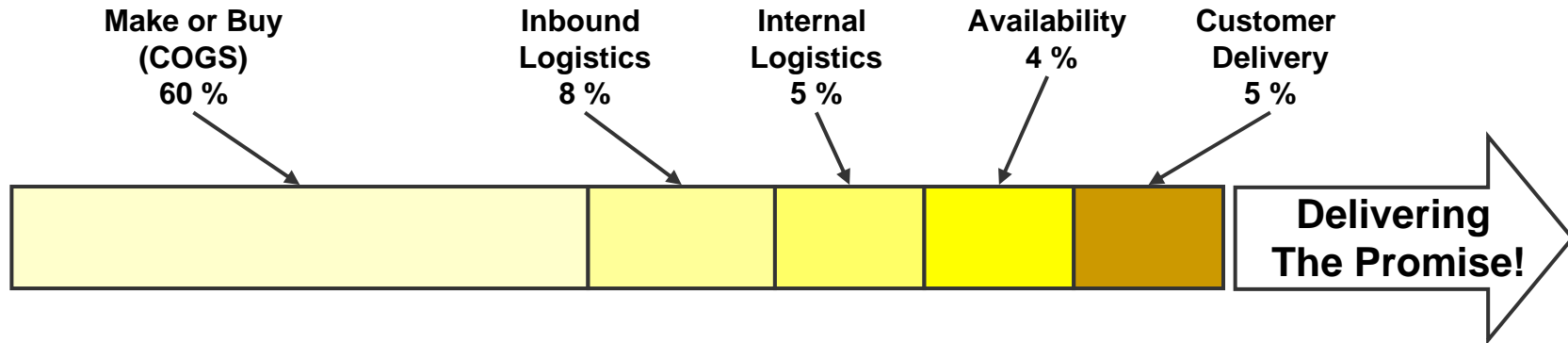
What benefit does it deliver?

How is it implemented?

**Questions/Discussion**

# Supply Chain Dimensions

It's about..... Asset Performance (AP), Supply Chain Network (SCN) and Planning (P)



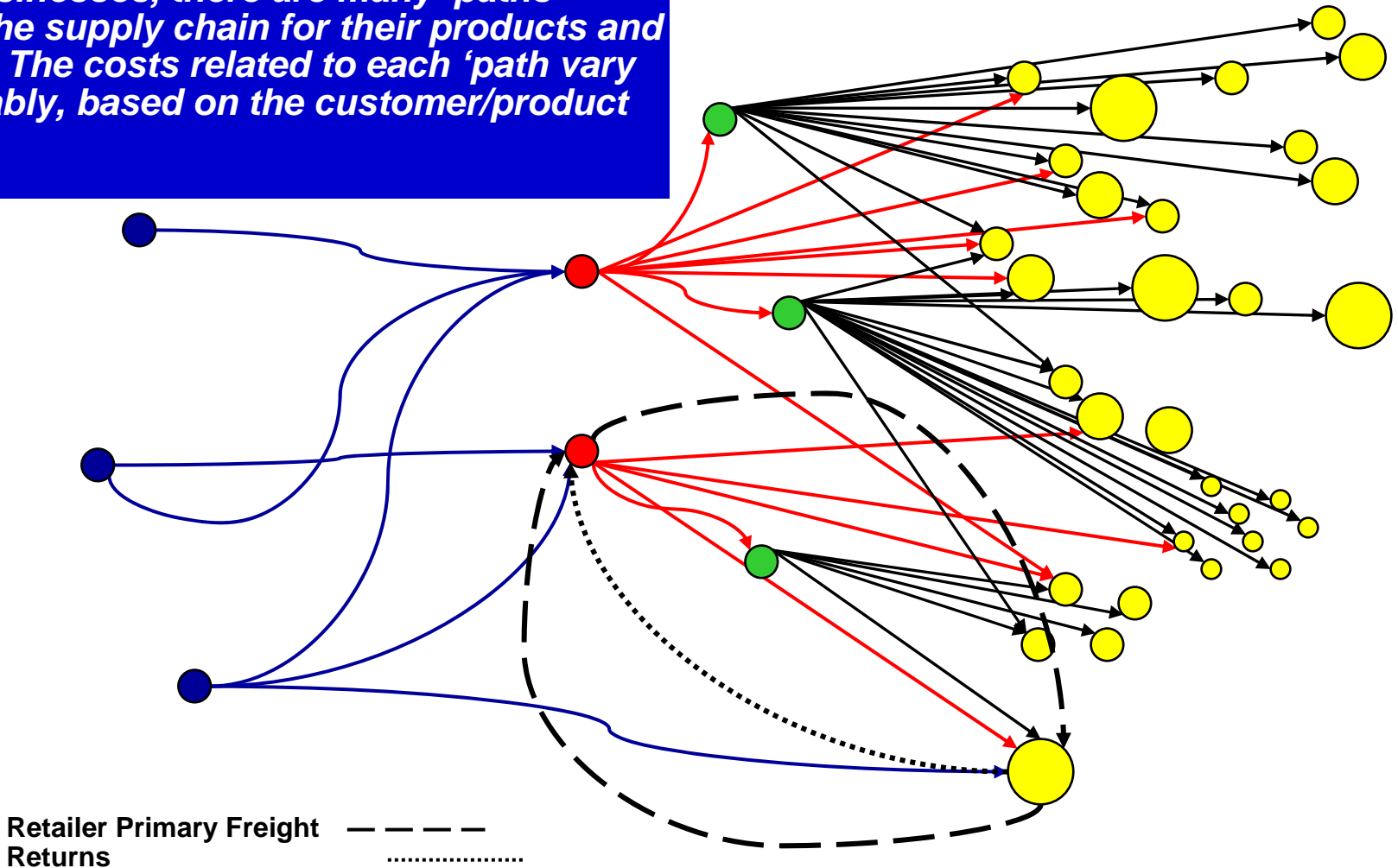
- (AP) ← **Organisation:** Structure, responsibilities, accountabilities, culture, skills →
- (AP) ← **Performance:** SOPs, KPIs →
- (SCN) ← **Physical Assets:** Facilities, storage equipment, vehicles, MHE →
- (SCN) ← **Transport:** Speed, Utilisation of time & capacity, consolidation, backloads →
- (P) ← **Time:** Lead Time, order size, order frequency, flexibility, responsiveness →
- (P) ← **Stock:** How much and where, Regional, National, Local, Suppliers →
- (P) ← **Processes and Systems:** ERP, add ons →
- (P) ← **Optimisation:** Trade offs: costs, f assets, w capital, availability, sales, customer retention →

**Cost To Serve is a critical 'enabler' in identifying & driving improvement**

# Supply Chain - Physical Complexity

● Source    ● Primary DC    ● Satellite DC or Flow Through    ● Customer

*For all businesses, there are many 'paths' through the supply chain for their products and services. The costs related to each 'path vary considerably, based on the customer/product mix.*



Retailer Primary Freight    - - - - -  
Returns    . . . . .

→ **Cost To Serve is:**

*Understanding the total cost of servicing our customers*

*....at a customer and product level*

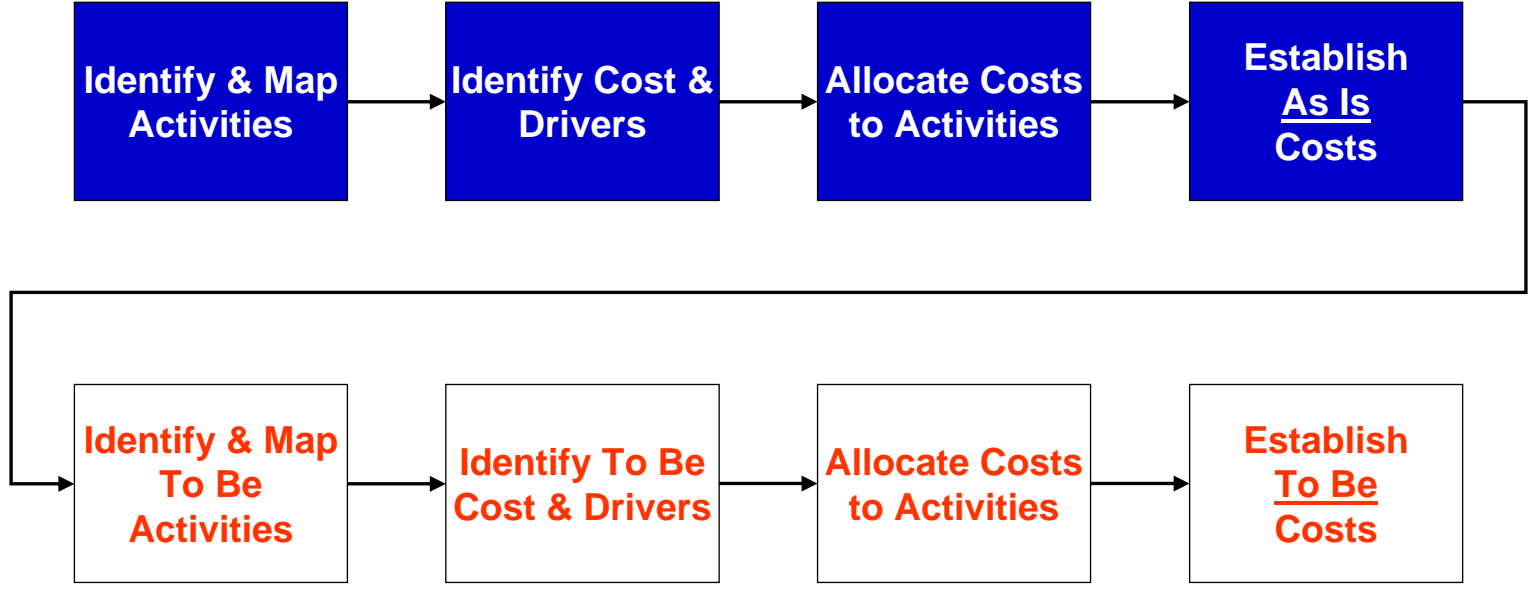
*....so that the business can provide appropriate levels of service to its customers*

*....to achieve business goals*

→ **Cost To Serve is NOT:**

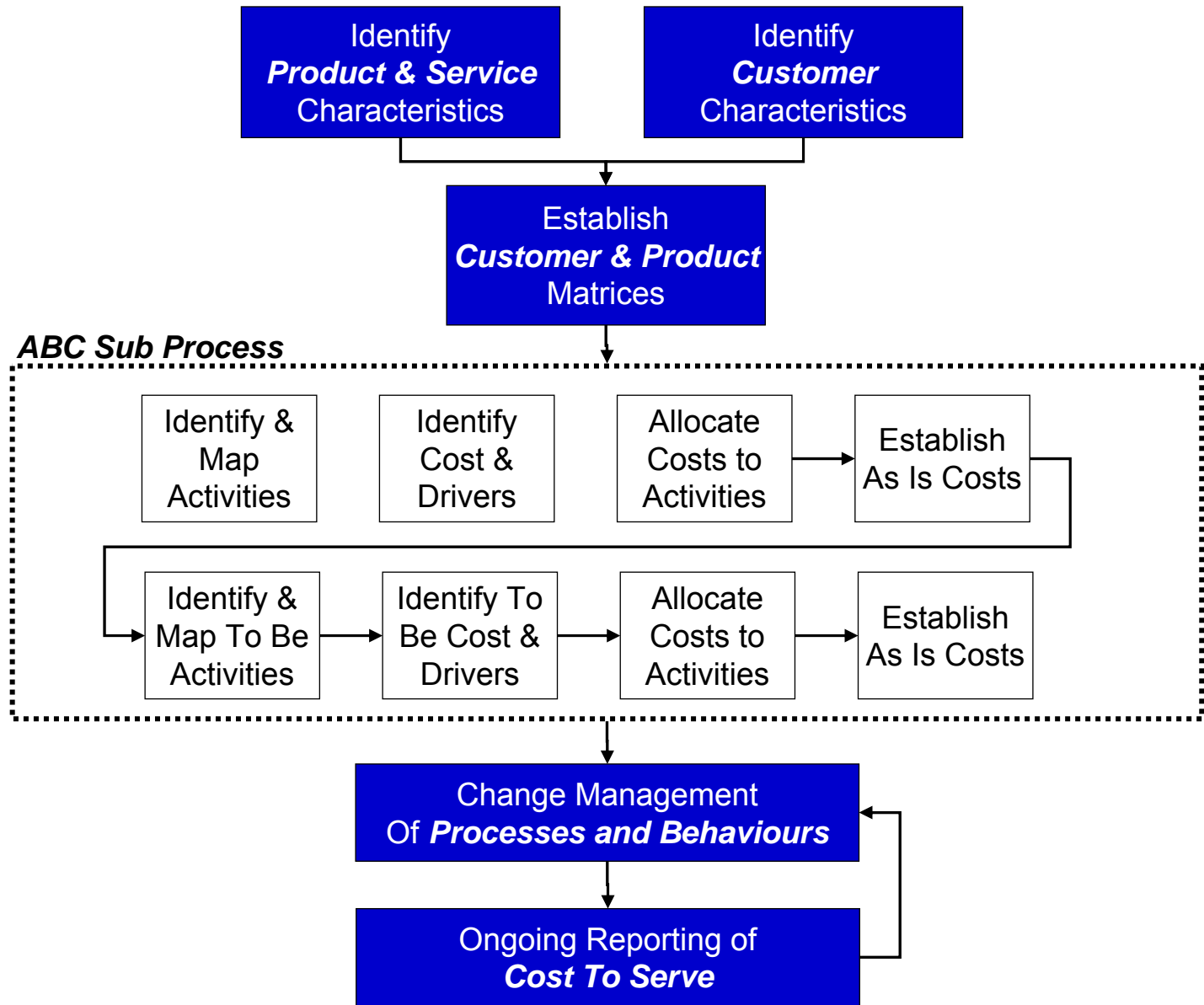
*-Activity Based Costing*

# Traditional ABC Approach



*This approach takes no account of the customer and product characteristics that can drive additional costs into the Supply Chain.*

# Cost To Serve Approach



# Different Perspectives

GL View	
Wages	\$100,000
Rent	\$30,000
Depreciation	\$20,000
Other	\$20,000
Total	\$170,000

ABC View	
Order Management	\$30,000
Receipt & Putaway	\$30,000
Storage	\$60,000
Picking & Despatch	\$50,000
Total	\$170,000

CTS View 1	
Continuity fulfilment	\$65,000
Seasonal fulfilment	\$35,000
Promotional fulfilment	\$70,000
Total	\$170,000

CTS View 2	
Mass retailers	\$55,000
Independent retailers	\$65,000
Route trade	\$50,000
Total	\$170,000

## → Typical CTS outcomes include:

- Identification of *low margin customers*
- Identification of *low margin products*
- Identification of *high cost processes*
- Ultimately.....*making all customers profitable*, or more profitable!

*The aim is not to delete low margin products or customers, but to make them all profitable*

→ **With CTS reporting, a company has the ability to:**

- Negotiate terms with major customers
- Test alternative distribution modes/service
- Improve customer profitability
- Improve pricing methodology
- Improve processes

*A review of Cost To Serve is often the first step to major Supply Chain improvement.*

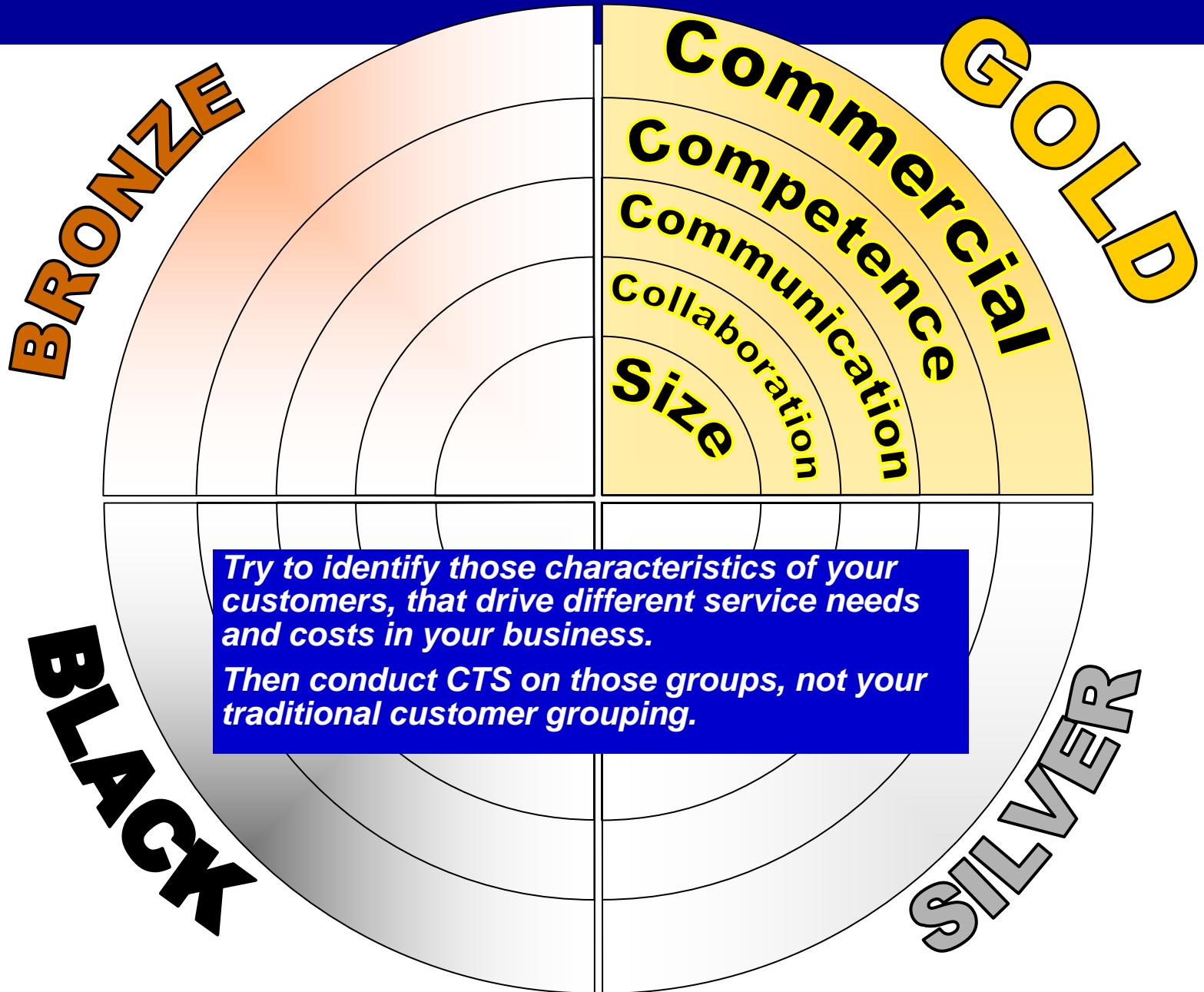
## → Why CTS often fails:

- Data is not comprehensive
- Data extraction too difficult
- Lack of business ‘buy-in’
- Process is too complicated
- Not fed into Business Strategy
- CTS not done well first time
- No early wins to be seen

*Starting with a specific area of the Supply Chain, such as warehousing or delivery, and focussing on costs by customer and product group only, is often a less resource intensive way to start.*



# Understanding Customer Characteristics



# Cost To Serve view – Customer Segmentation

**A great example of customer segmentation, where service expectation, and cost to serve vary considerably.**



**Fare Types**  
First Class (F,P)  
Business (J,C)  
Economy (Y)  
Sub Classes (B,H,L,M,V)

**Service considerations?**  
**Cost to serve implications?**

**Business**

**Economy**

**Discount Economy**

*I know what I want!  
I want it now!  
I'm willing to pay a premium.  
And hey ! ..... This wine is too warm !*

*The Ticket was a good price!  
I wonder if we'll get a decent meal on this flight ?*

*Hey Darl .....I can see the harbour Bridge !*

# Understanding Customer Characteristics

## and how they vary across industries

### Customer Profile Characteristics - Mining

Customer Name: ABC Mines

Customer Category:	Major	Special Service needs:	Shot Crews
Region:	Qld	Special Account needs:	Detailed invoices
Industry:	Coal	Planning Focus:	Disciplined
Market Segment:	OCCO	Flexibility:	Low
Ordering Frequency:	Daily	Mine Road Condition:	Good
Av Order Size (t)	350	Demand predictable:	Yes
Delivery Service Need (days)	1	Part Loads Req'd	No
Type of Contract:	3 year rolling	Contract complexity:	Low

### Customer Profile Characteristics - FMCG

Customer Name: Col Mart

Customer Category:	Major	Special Service needs:	30 min delivery window
Region:	National	Special Service needs:	1 SKU per pallet
Industry:	Retail	Special Account needs:	7 day terms
Market Segment:	RG	Forecasting ability:	Poor
Ordering Frequency:	Daily	Contract relationship:	Needs extra effort
Av Order Size (plts)	50	Payment History:	Medium
Delivery Service Need (days)	Next day	Returns History:	High
Type of Contract:	Annual	Contract complexity:	Low

**What customer characteristics drive cost in your business?**

# Reporting by Customer

For this customer, freight charges are much higher than average. This should be investigated.

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Main Menu

## CTS Customer Report

	\$m	% of Sales	Co Av
<b>Sales</b>	<b>\$34.00</b>		
Primary Freight	\$0.17	0.5%	0.4%
Factory	\$1.36	4.0%	4.0%
Secondary Freight	\$0.31	0.9%	1.6%
Secondary Storage	\$0.14	0.4%	0.3%
Plant	\$1.36	4.0%	4.0%
Delivery Fleet	\$2.18	6.4%	6.4%
Head Office	\$1.02	3.0%	3.0%
Freight to Customer	\$1.02	<b>3.0%</b>	0.7%
Sales & Tech Support	\$0.52	1.5%	1.5%
<b>Total costs</b>	<b>\$8.08</b>	<b>23.8%</b>	<b>22.0%</b>

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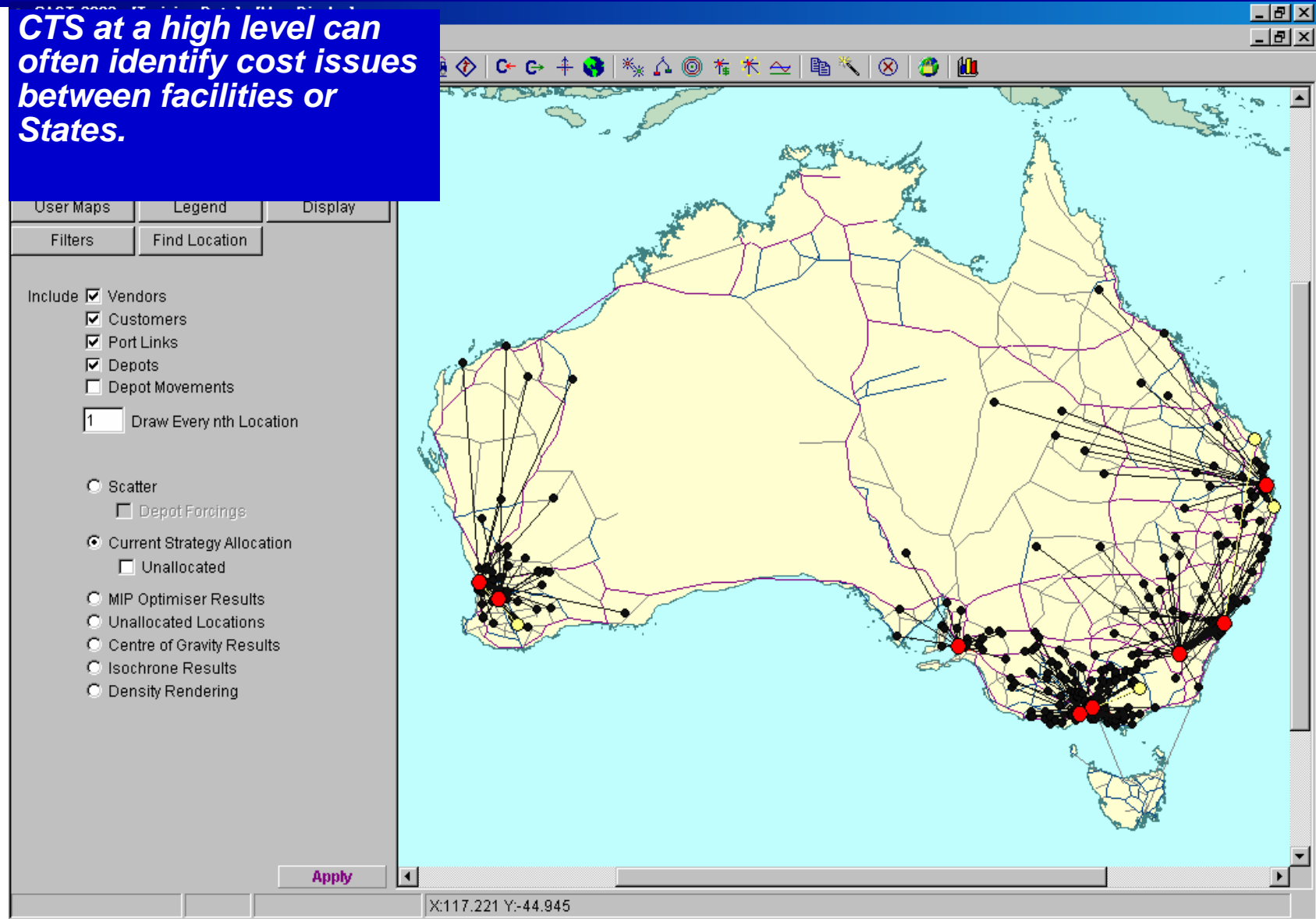
Report - By Customer

Report - By Product

Report - By State

	\$m	% of Sales	Co Av
<b>Sales</b>	<b>\$34.00</b>		
Primary Freight	\$0.00	0.5%	0.4%
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Secondary Storage	\$0.00	0.4%	0.3%
Plant	\$0.00	4.0%	4.0%
Delivery Fleet	\$0.00	6.4%	6.4%
Head Office	\$0.00	3.0%	3.0%
Freight to Customer	\$0.00	<b>3.0%</b>	0.7%
Sales & Tech Support	\$0.00	1.5%	1.5%
<b>Total costs</b>	<b>\$0.00</b>	<b>23.8%</b>	<b>22.0%</b>

**CTS at a high level can often identify cost issues between facilities or States.**



# Network Cost Outputs

**CTS reporting can be at a customer and SKU level if required.**

Select Customer Record

Customer Delivery Quantity	25.47	Unit Cost	
Number of Deliveries	6.00		
Total Cost To Market	4001.53	157.11	

## Transportation Costs

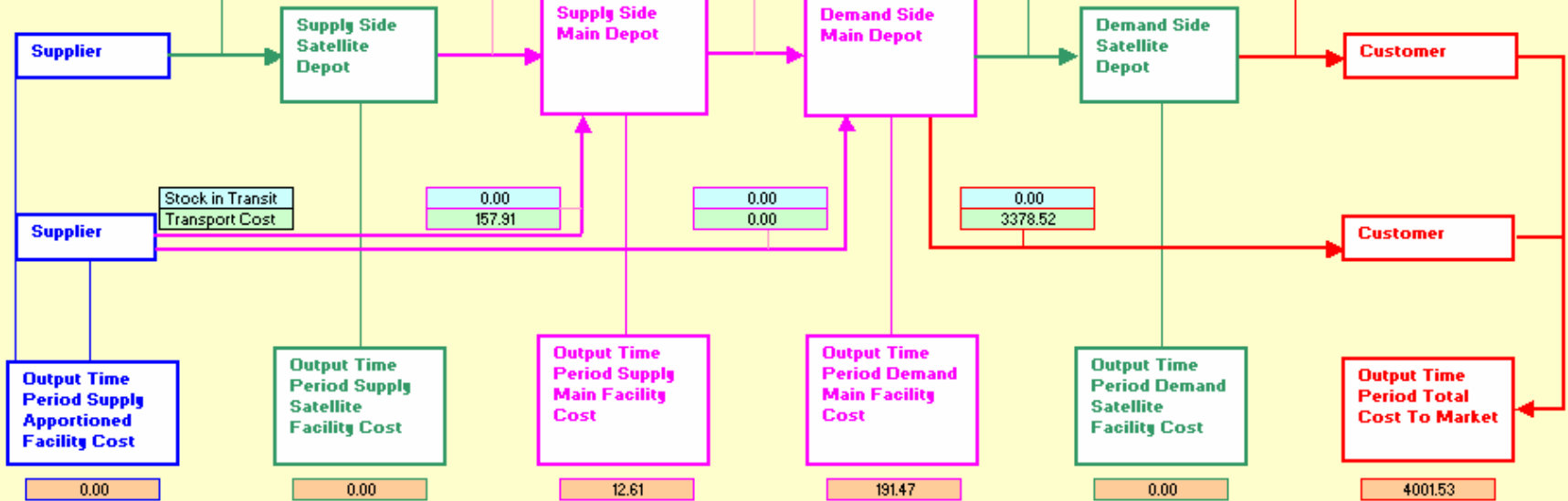
Stock in Transit	0.00
Transport Cost	0.00

0.00
0.00

0.00
261.02

0.00
0.00

0.00
0.00



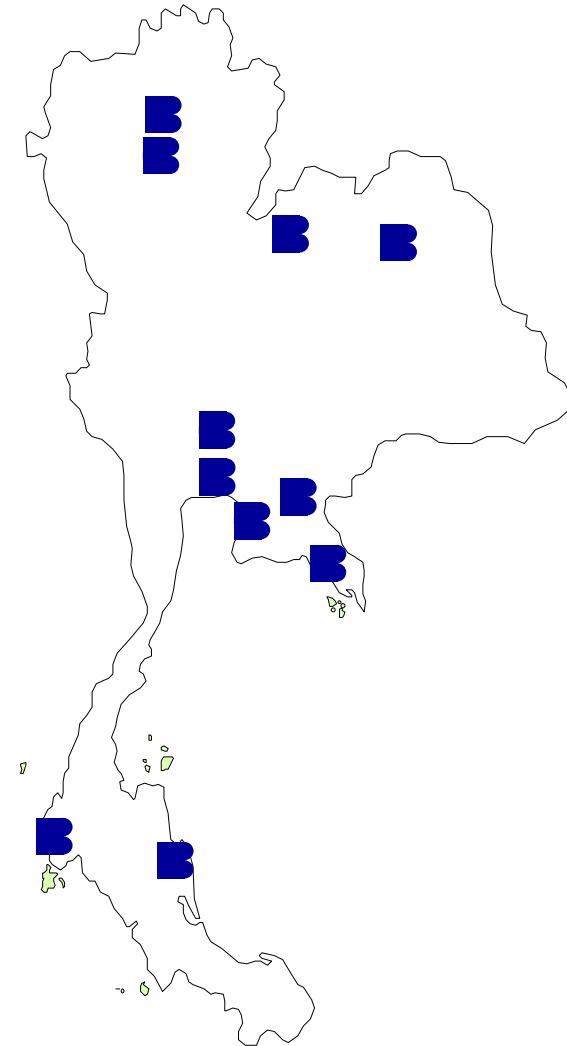
## Facility Costs

**Supply Side**

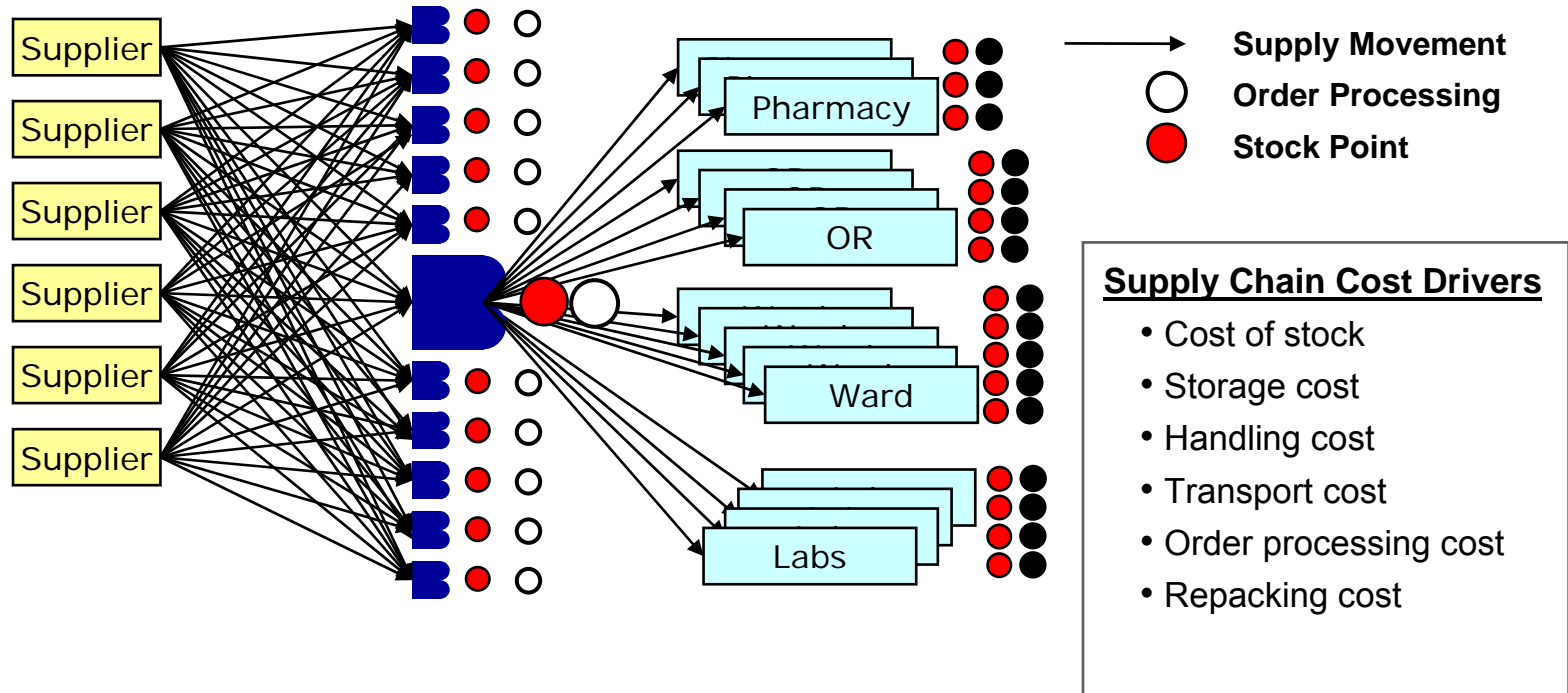
**Demand Side**

## → Overview

- Currently 20 Hospitals in the group.
- Some supplies are purchased locally by each Hospital, with others (about 20%) handled through the central purchasing department.
- 4,000 to 7,000 different supply items are purchased.
- Suppliers are pushing e-commerce.



# Potential Opportunities Highlighted by CTS



- Minimise Multiple Handling
- Minimise Stock Levels
- Minimise Order Processing
- Improve Supplier Management

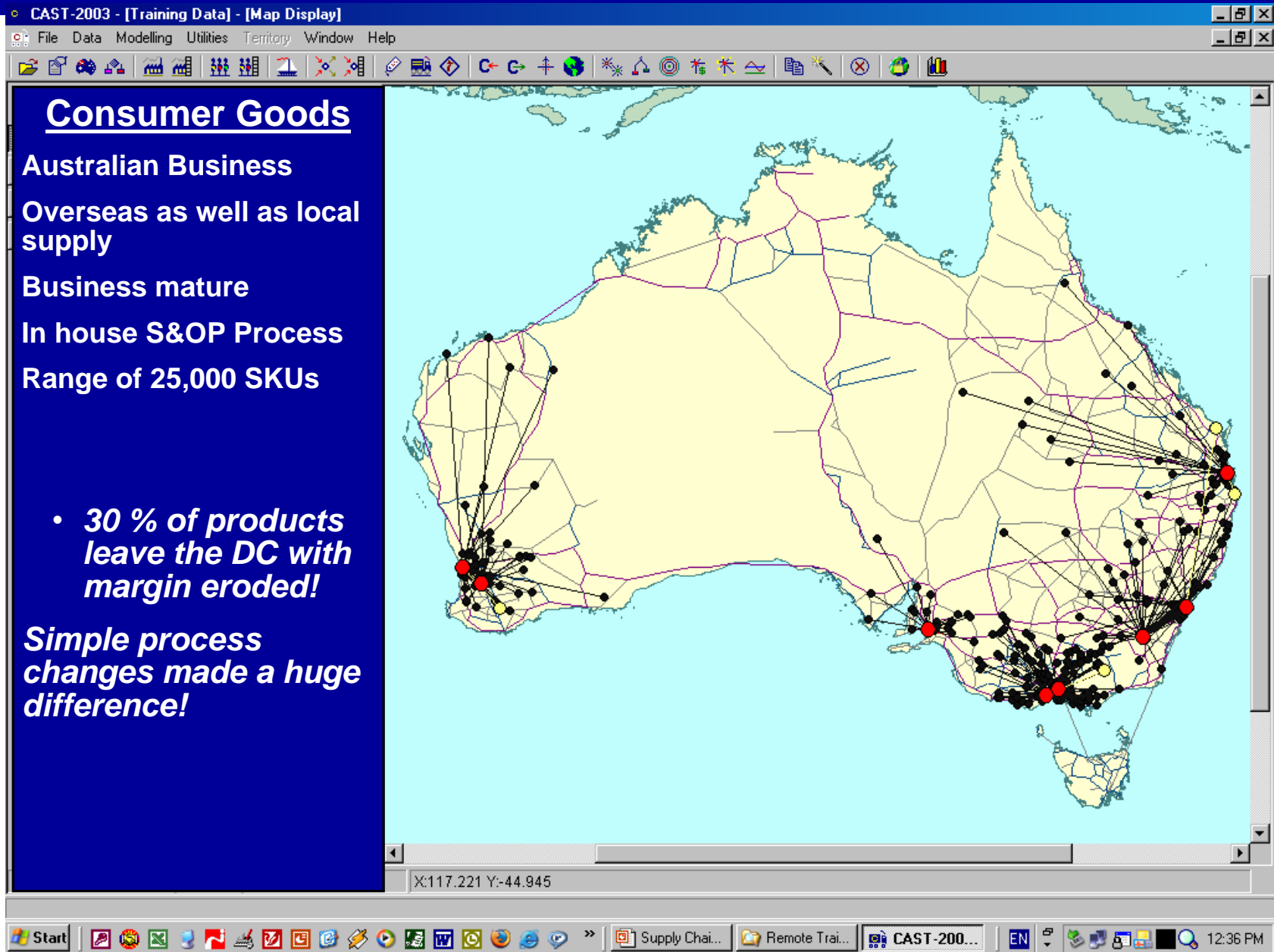


BUT.....

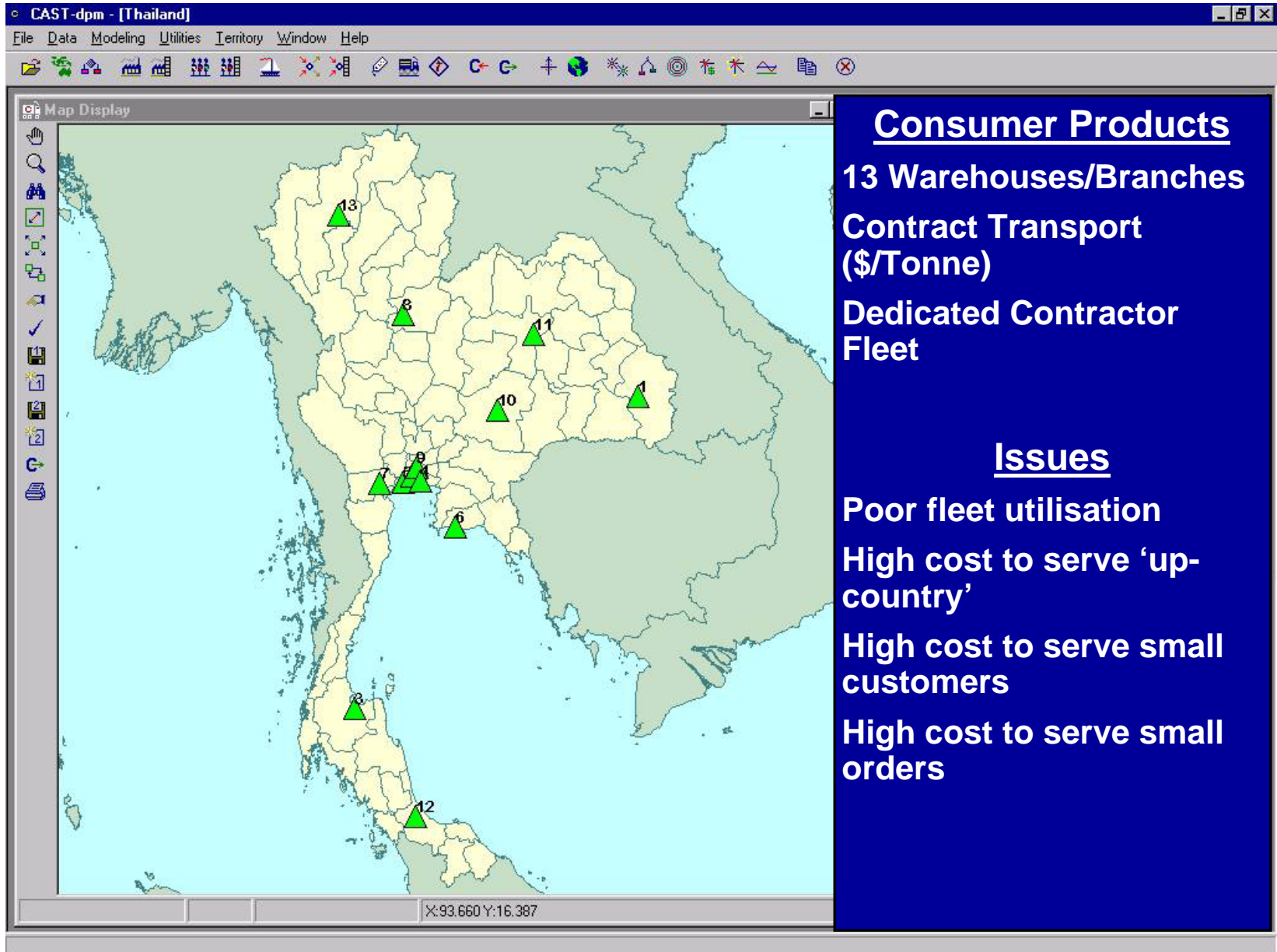
Not at the expense of patient care

**A complex Supply Chain, but CTS highlighted easy wins for reducing costs, that were 'invisible' through normal cost reporting.**

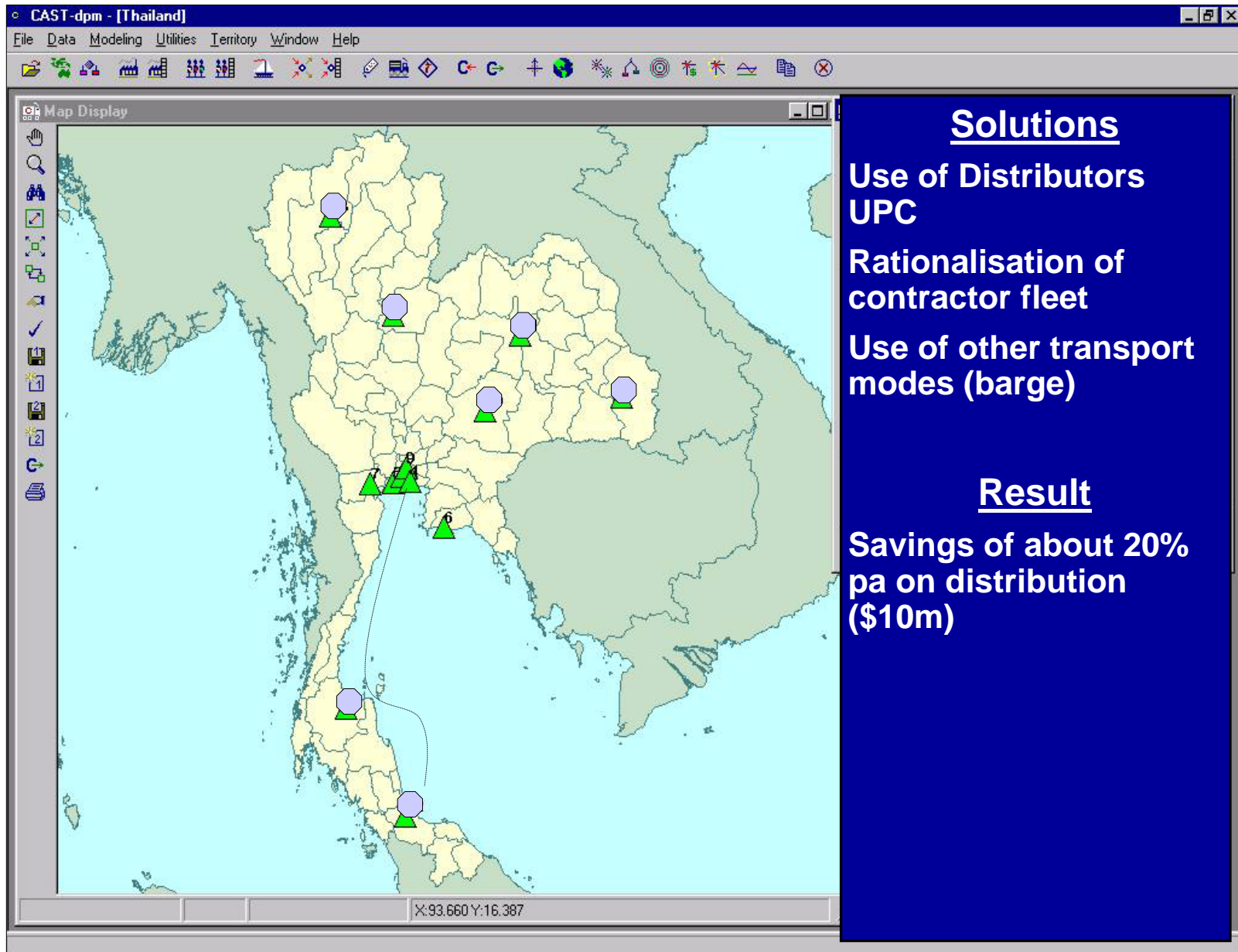
# Case Study - Order Size



# Case Study – Channel Strategy



# Case Study – Channel Strategy



## → Granularity

- Level of detail? Customer, customer group?

## → Units of Measure

- Tonnes, pallets, Cases, \$

## → Resourcing

- Finance and IT support is essential

## → Timelines

- Simple study = 3-4 weeks

## → Data availability

- Extraction and validation can take time

## → One Off

- Network Audit for Strategic Alignment of Supply Chain

## → Periodic

- Quarterly/Annually to audit performance

## → Dynamic

- Automated real time update of reports

- Supply Chains are constantly changing
- Supply Chains continue to be a 'differentiator'
- Visibility of Cost To Serve is essential

*Start on just one area of your Supply Chain,  
and see what you can find!  
You will be surprised....*

# Cost To Serve

*How its application can improve EBIT performance by up to 20%*



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*Management Consultants*

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