



Prophet 21
WORLD WIDE USER GROUP

What does it Cost to Serve
Your Customers?



Prophet 21
WORLD WIDE USER GROUP

Norm Clark, Ph. D.
Industrial Distribution Program
Texas A&M University
nclark@tamu.edu

P21 Lake Michigan User Group

October 18, 2018



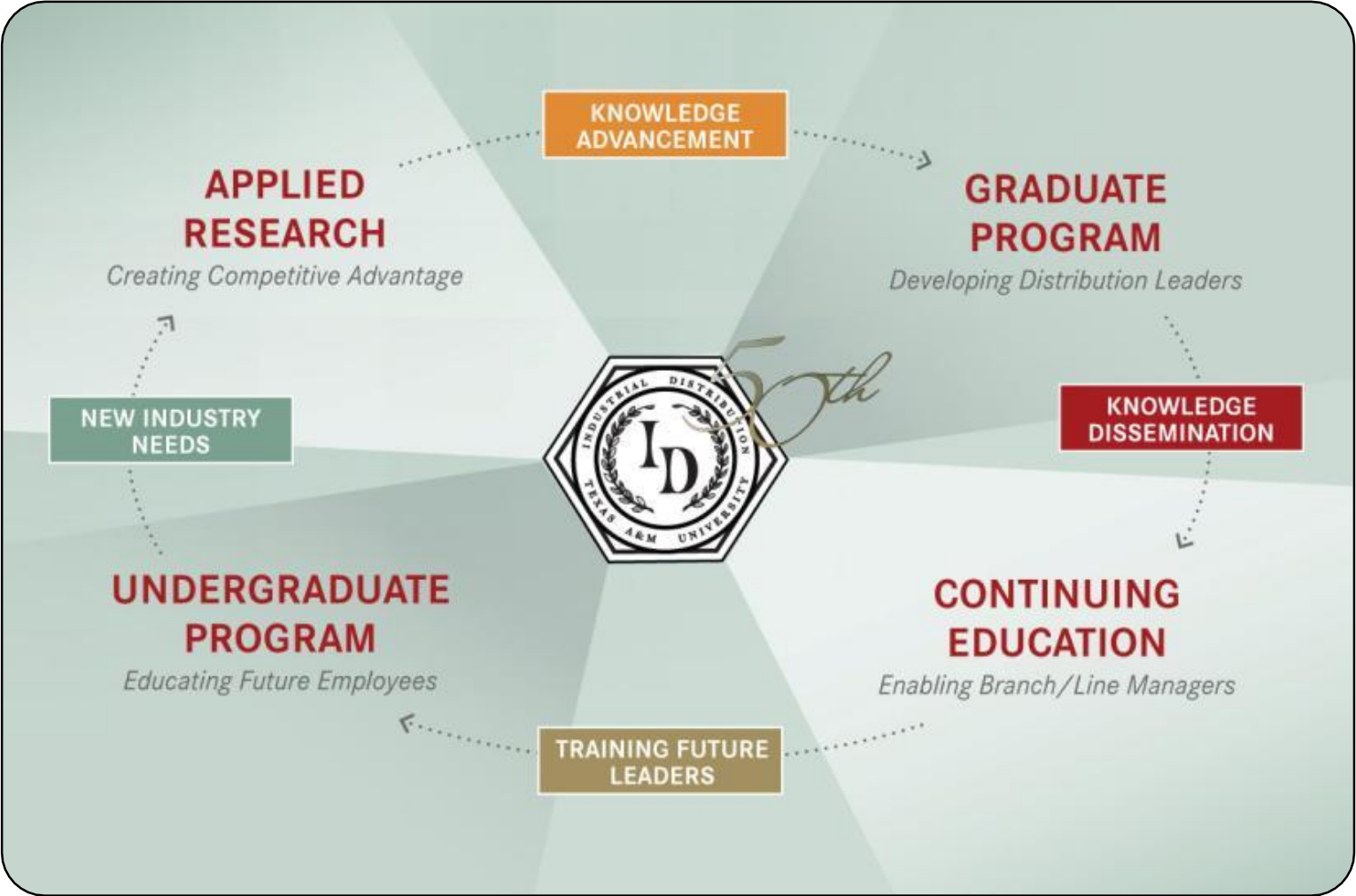
AGENDA

1. Customer Stratification Model
2. Cost to Serve (CTS)
3. The Price Equation
4. Cost to Serve Indicators
5. Cost to Serve Exercise
6. Q&A

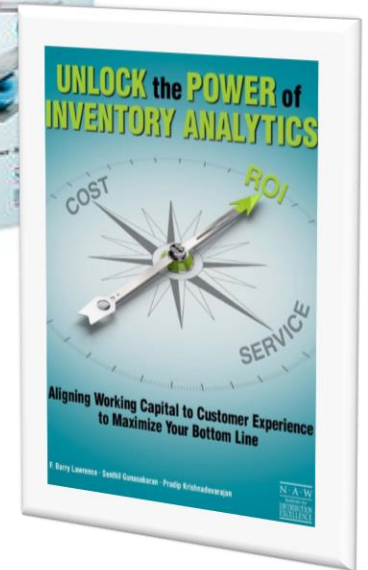
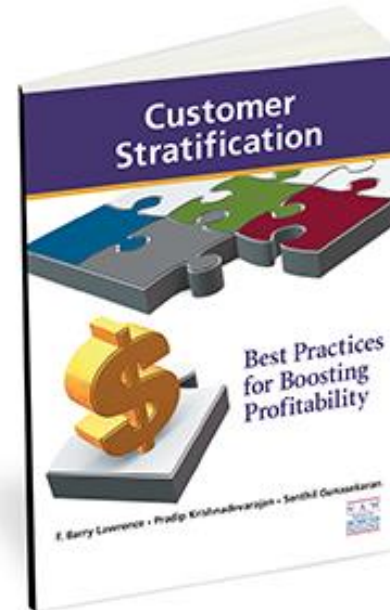
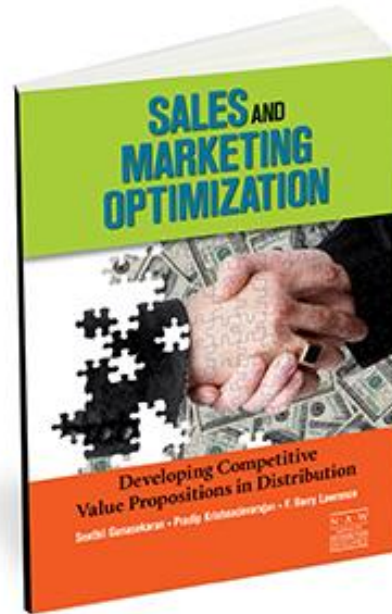
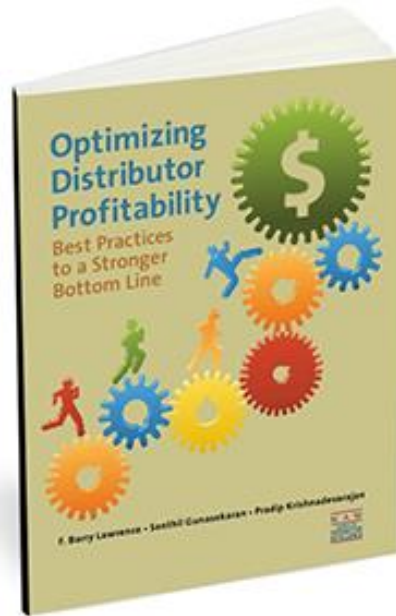
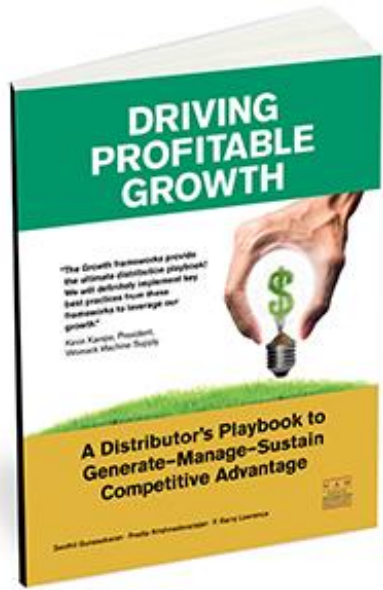


BIO

- Joined the Industrial Distribution faculty in the College of Engineering at Texas A&M University in the fall of 2001
- BBA in Accounting, an MBA in Management, and a Ph.D. in Educational Human Resource Development
- Teaches:
 - Sales Engineering
 - Purchasing Applications in Distribution
 - Manufacturer Distributor Relations
 - Ethics and Leadership
- Thomas and Joan Read Center for Distribution Research and Education at Texas A&M develops and delivers Professional Development Programs to Distributors and Manufacturers globally



Resources



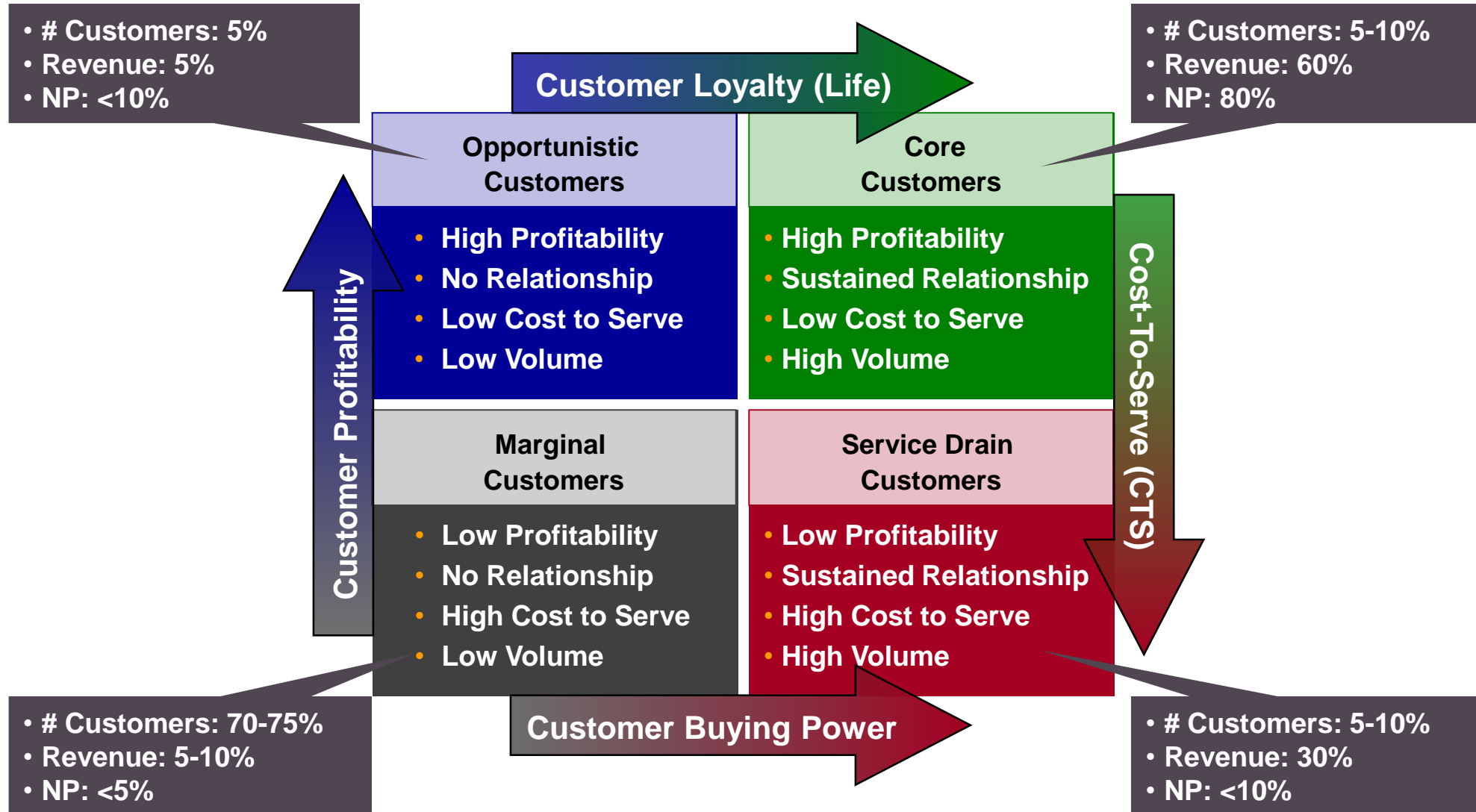


CUSTOMER STRATIFICATION

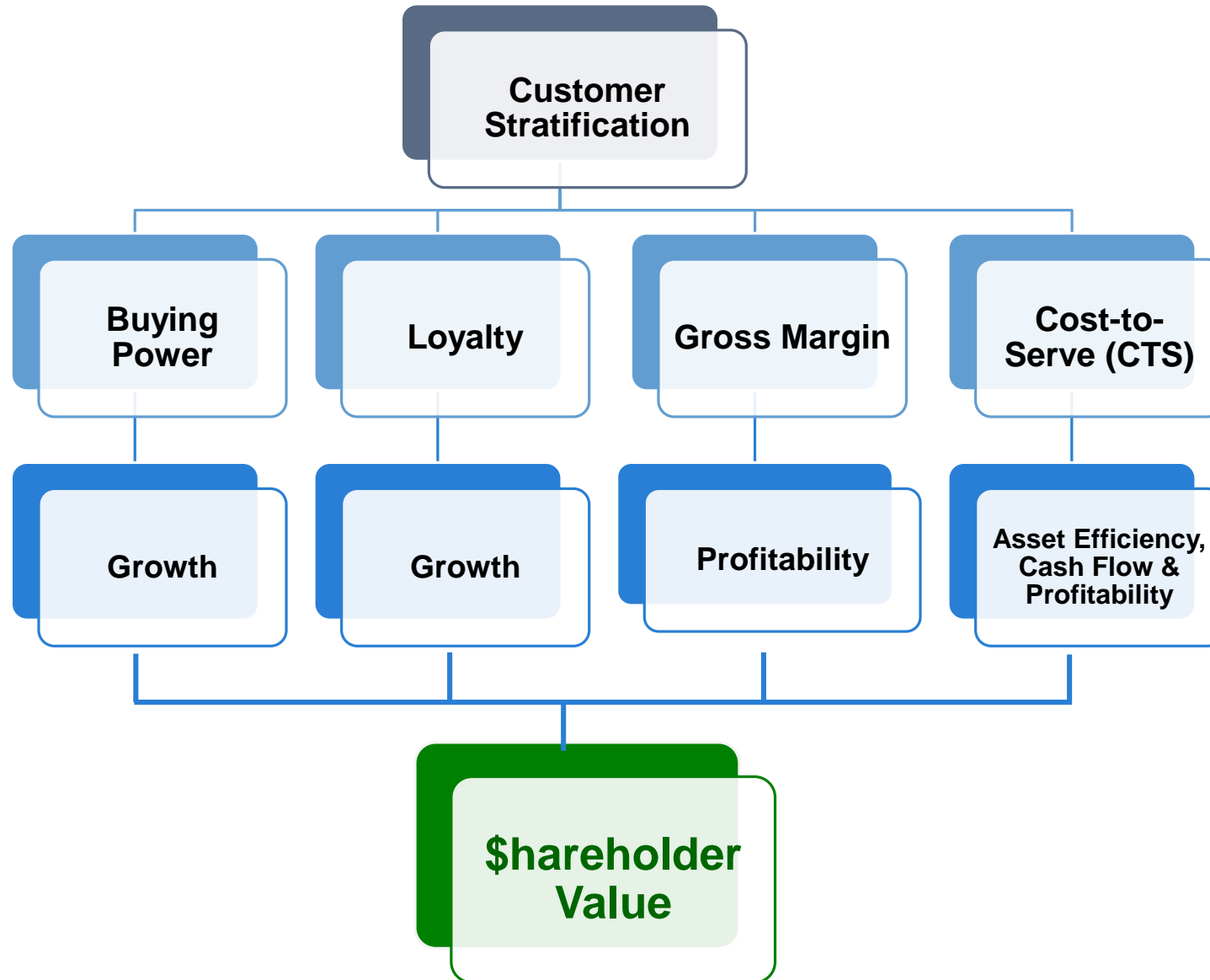


**Best Practices
for Boosting
Profitability**

Customer Stratification Model



Why these 4 dimensions?

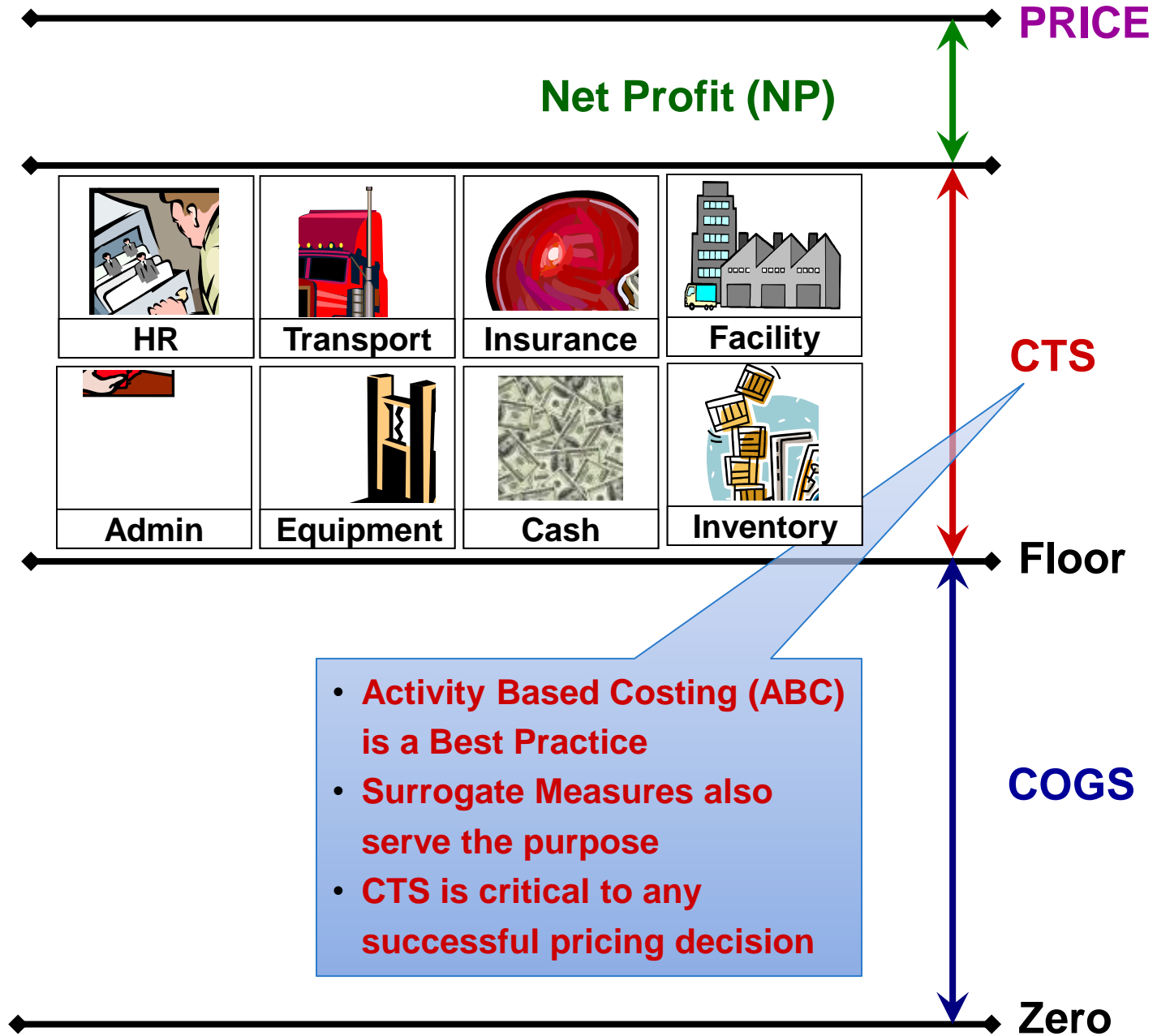




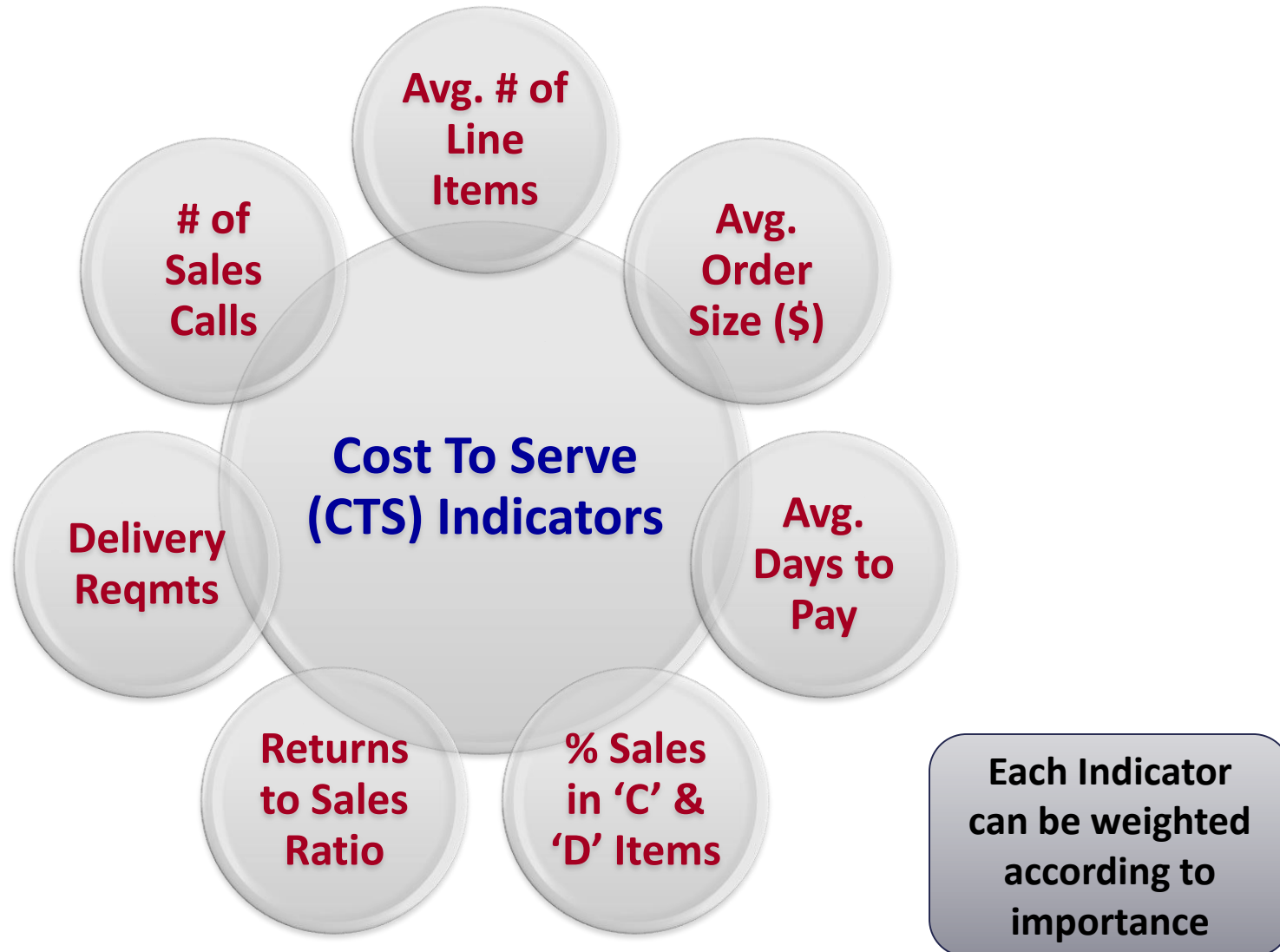
Prophet 21
WORLD WIDE USER GROUP

Cost-To-Serve (CTS)

The Price Equation



Cost To Serve (CTS) Indicators





Prophet 21
WORLD WIDE USER GROUP

CTS Exercise



Prophet 21
WORLD WIDE USER GROUP

Step 1

Identify all of the CTS Factors
that Apply in Your Company

CTS Factors

Sales	Operations	Finance
<ul style="list-style-type: none"> •Quote conversion % •# re-stocks •# warranty claims •# expedited orders •Online orders vs. CSR orders •Sales advertising •Promotions •Sales call expenses (time & travel) •Incentive programs •# sales calls & time spent 	<ul style="list-style-type: none"> •Consignment (customer specific inv.) •Special orders •Order cancellations / returns •Tech support (trouble tickets) •Inventory delivery •Facility costs •Warehouse supplies •Admin. •Substitute products / inventory •# lines per orders •% C&D inventory •# delivery •Training •Maintenance & Equipment repair •Counter spiffs 	<ul style="list-style-type: none"> •DSO & A/R •Warranty concessions •Bad debts •# credit collection calls •Co-op/marketing •Credit card points •Interest expense •Write-offs

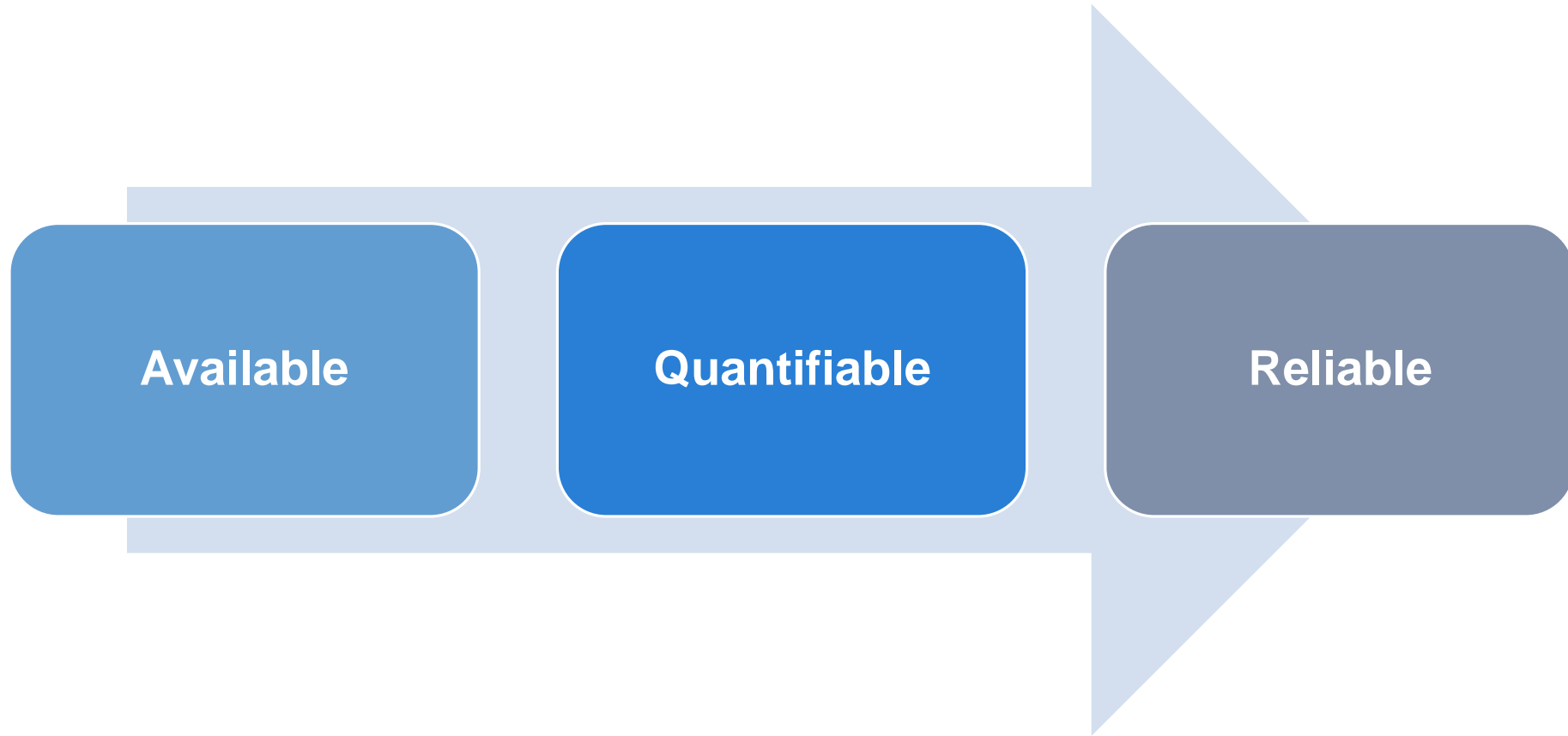


Prophet 21
WORLD WIDE USER GROUP

Step 2

From Your List – Pick the top
5-7 Critical factors

CTS Factors – Qualification Process



Select Critical 5-7 Factors

No	CTS Factor	Weight (Importance)
1		
2		
3		
4		
5		
6		
7		



Prophet 21
WORLD WIDE USER GROUP

Step 3

Rank/Weight the CTS factors
in order of importance



Summary

- Cost to Serve:
 - Difficult to Track on Account by Account Basis
 - Affects Net Profit-Dollar for Dollar
 - Critical Piece of the Customer Stratification Model
 - Reliable Surrogate Method Represents About 80% of Actual Costs



Prophet 21
WORLD WIDE USER GROUP

Thank You!!

Questions? Comments....
<http://id.tamu.edu>