

# Cost-to-serve: Worth digging for?

## When it comes to applying cost-to-serve, how good is good enough?



Cost-to-serve is a well-established approach for learning which customers and products matter most, and how to manage them at the appropriate cost. Among top packaged goods companies, cost-to-serve is part of their DNA — and the approaches they use are highly evolved. Should companies in other sectors adopt the practices of leaders in packaged goods?

	Point	Counterpoint
<b>Good enough isn't.</b>  <i>Without a precise understanding of true costs, you're flying blind.</i>	Every customer, product, and supplier delivers different value to the bottom line. Cost-to-serve (CTS) can help you identify which ones matter most.	In these tough times, you need to keep all the business you can. Every sale is a good sale.
	Customers are becoming more and more demanding. With CTS, you'll know how to respond.	Too much data can be misleading. Good salespeople already know how to respond.
	A functional view of costs provides an incomplete picture. CTS can help deliver the cross-functional view you need.	Sales, marketing, manufacturing, logistics, customer service — they all know their own numbers. That's where we should focus.
	Real performance improvements require an institutional approach to CTS — an approach that's ongoing and sustained.	Ad hoc analysis provides insights more quickly and economically.

	Point	Counterpoint
<b>This isn't the time to go deep.</b>  <i>The effort and money required for effective CTS practices isn't worth the trouble right now.</i>	We already have more information than we know what to do with. This feels like another big data drill.	You won't get more information. You'll get insights — to help make smarter decisions about products, pricing, and customers.
	This might help us improve our own profitability, but it could strain relationships with trading partners.	Done right, CTS will also help uncover win-win opportunities with your customers.
	There's too much uncertainty in our channels right now to take on CTS. Better to wait until things settle down a bit.	It's more critical than ever to have insights that help identify shifts across channels — and respond appropriately.

# My take



**Frank Burkitt, Principal, Deloitte Consulting LLP**

There's nothing like a recession to get businesses focused on what matters most — growing profitable customers. Faced with tough choices about how to sell which products to whom, companies across the board are looking for effective practices from leaders in packaged goods. One of the things they're finding is called "cost-to-serve."

Cost-to-serve (CTS) is an approach that helps companies recognize that bottom-line profitability, not sales volume or gross margin, is the true measure of success. It incorporates a broad view of costs, so that you can track, measure, and model every element of the equation to help improve profits. It gives companies the information necessary for them to focus the right level of resources on the right customers and segments.

Many packaged goods companies have mastered cost-to-serve, and many more are well on the way to building mature CTS practices. The issues they began confronting 10 years ago are now showing up in other sectors. Fast-moving products in technology and pharmaceuticals, for example, more and more resemble traditional consumer packaged goods. Further down the continuum, engineered and durable goods, industrial, automotive, and aerospace are beginning to face issues pioneered in consumer products. Is the product mix right? Who are the most valuable customers? How to think about pricing and service levels? A strong cost-to-serve platform helps you answer these kinds of questions with confidence.

Building that kind of platform requires an institutional commitment that goes beyond ad hoc analyses. While a one-off approach might seem expedient and easier to implement, it won't deliver the continuous flow of insights needed for rapid response to changes in the business environment. Companies that want to accelerate out of the downturn, should get their CTS houses in order now. The ability to make quick, smart decisions about customer management, product portfolios, and pricing will likely become more important than ever over the next couple of years.

## A view from the consumer packaged goods sector

**Kim Porter, Principal, Deloitte Consulting LLP**

At no time in recent history have we seen the kind of volatility that's present in consumer packaged goods (CPG) today. On the heels of a year of tremendous pricing actions, CPG manufacturers are now facing consumer shifts across retail channels, pack sizes, and from branded to private label. Companies that haven't yet institutionalized cost-to-serve capabilities could find themselves at a significant disadvantage when it comes to making smart decisions quickly.

CPG manufacturers accustomed to planning based on "last year's numbers" are especially vulnerable. The fact is, last year's numbers are all but meaningless today. In such a dynamic environment, cost-to-serve insights are critical to pinpointing how to drive profitability: opportunities to shift trade spend across customers/products, refine efficiency logistics programs, fix the mix across retailers, and where necessary, even rationalize the product portfolio.

While ad hoc analyses can help identify isolated improvement opportunities, an institutionalized cost-to-serve capability is required to drive sustained benefit. If not, leakage squeezed out of one part of the operations will likely reappear in a different part of the P&L. This is especially true as customers become more and more advanced in unwinding their cost structures and understanding their supplier profitability. Cost-to-serve not only provides manufacturers with a comprehensive view of what each customer currently delivers to the bottom line, but when done right, can help uncover significant win/win opportunities to drive profitable growth.

Bottom line? Deep cost-to-serve capabilities can help you make fast, smart decisions when it comes to pricing, promotional spend, resource allocation, and product mix/rationalization. It's definitely worth digging for.

## A view from the heavy equipment sector

**Doug Gish, Principal, Deloitte Consulting LLP**

Cost-to-serve analysis is an important management tool in the heavy equipment sector, but it's only one piece of the customer optimization puzzle. Other variables, such as volume, margin contribution, customer expectations, product portfolio, and strategic positioning, have to be considered as well. CTS can also help identify customers that are too expensive or disruptive to serve. The rules of engagement for those customers can be redefined — or they may be dropped.

We recently helped an engineered products company develop a comprehensive cost-to-serve model. They were surprised to find that more than 30 percent of their total costs were incorrectly assigned to customers and products. This shortfall masked actual customer profitability, resulting in margin erosion and sub-optimal decision-making. It's all too common. Many engineered product companies simply haven't yet done the hard work of understanding their true costs to serve.

Beyond providing guidance on which customers and products matter most, CTS gives heavy equipment companies a unique opportunity to improve their core business processes. By understanding the true cost structure associated with specific customers, products, plants, and channels, operating inefficiencies can be quickly identified and addressed.

Before taking on a CTS program, it is important to think about the tough decisions you may have to make — decisions about differential pricing, service levels, incentives, operational complexity and more. If you're not prepared to use your new-found CTS knowledge to support these kinds of decisions, it's probably not worth starting in the first place.

For more information, please visit: [www.deloitte.com/us/debates/costtoserve](http://www.deloitte.com/us/debates/costtoserve).

For further information about this debate, please contact:

**Frank Burkitt**

Principal  
Deloitte Consulting LLP  
[fburkitt@deloitte.com](mailto:fburkitt@deloitte.com)

**Kim Porter**

Principal  
Deloitte Consulting LLP  
[kporter@deloitte.com](mailto:kporter@deloitte.com)

**Doug Gish**

Principal  
Deloitte Consulting LLP  
[dgish@deloitte.com](mailto:dgish@deloitte.com)

**Related Insight:**

[In Fighting Shape?](#)

A survey of cost improvement trends from Fortune 500 Companies

[How to Get the Most Out of the Bird in Your Hand](#)

Ten tips for growing profitable revenue with the customers you already have

[Out of the Shadows: Why Supply Chain Strategy Should Be at Top of Corporate Agenda](#)

A point of view focusing on improving supply chain complexity and developing strategy for high-speed performance

[Getting Pricing Right: The Value of a Multifaceted Approach](#)

Set prices according to the mathematics handed over by your pricing analytics team, or not?

**Related Content:**

Library: [Deloitte Debates](#)

Services: [Consulting](#)

Overview: [Strategy & Operations](#)

Industries: [Consumer Products](#), [Process & Industrial Products](#), [Life Sciences](#), [Technology](#), [Oil & Gas](#), [Aerospace & Defense](#)

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.