

What are the key points to LCP's Cost-to-Serve® methodology?

Julian Mosquera, Director at LCP Consulting, provides further insight into how LCP's Cost-to-Serve® approach reveals cost and margin improvement opportunities.

LCP's Cost-to-Serve® methodology provides businesses with rapid and incisive insights into how its customers and products consume resources and erode margin across the supply chain, replacing the normal average view of costs by function.

Our experience is that Cost-to-Serve® exposes a remarkably wide range of cost and margin erosion. It quickly pin points which customers, products or markets require strategic attention and operational actions, such as segments that are being over-served, over-stocked or double-handled. It takes a truly end-to-end approach from material source to point of consumption (materials, manufacturing, logistics, distributor, healthcare facility or indeed the patient)

Essentially, regardless of the complexity of process or supply chain structure, we are able to arrive at a very close attribution by function and activity of the true cost to service any given combination customer, product or market. It ties directly to the P&L and balance sheet, which gives confidence in the results.

It is different from activity based costing (ABC) because it avoids intensive functional diagnosis of cost which makes it faster to complete. Cost-to-Serve® derives its sharp insights from capturing and converting to cost the characteristics of products and customers in terms of order size, handling characteristics, cube and weight, stock cover, batch sizes, set up times, truck fill and many others. ABC does not routinely make these differentiations or link them together along the specific product – customer chains.

Typically through a series of workshops, we work with our clients to establish a clear segmentation of the customer / product / market / channel mix to identify their specific cost driving attributes and determine how these may be differentially serviced in future. This very direct analysis through a Cost-to-Serve® model that captures the general ledger and transactional data enables us to scale the potential for both cost reduction and enhanced income generation arising from 'tuning' the commercial model and the operations.

The power of this process is evidenced by the impact it has for clients:

- A chemicals client saved \$millions simply by restructuring their product and service portfolio to better align to how their customers purchased material and were allocated research and technical support resources. Our client restructured pricing to reflect the true cost of services, introduced new service segments and were able to increase revenues without fundamentally changing the underlying operational processes
- A petroleum client saved \$millions by changing the terms and standards for servicing different global markets, load balancing between plants and improving the management of transport associated with its global distribution network
- A pharma client saved \$millions in capital by rebalancing its supply side economics to more closely match market demand (batch sizes and frequency of replenishment, for bulk production and packaging plant market replenishment). This client also identified lead time reduction as an essential cost driver and subsequent systematic reduction of lead time resulted in massive working capital savings
- Two clients used Cost-to-Serve® to pinpoint loss making product sectors and services which lead to major strategic re-balancing of priorities, saving capital expenditure and adjusting commercial terms

a thought leadership Insight

By linking the segmentation to clear 'rules of engagement' through Cost-to-Serve®, businesses become empowered to engage their customers, markets and internal sales functions with greater clarity. Services, products and channels that add value to both customers and our client are visible and the team can move forward with confidence.

Most companies see this process as so data intensive that it fails at the first hurdle. LCP's methodology, whilst data dependent, introduces remarkable levels of granularity without the usual overhead, by cleverly integrating a wide range of readily available data into a proprietary tool that acts as the engine for the Cost-to-Serve® modelling.

Having implemented this methodology in numerous businesses, across national and global platforms, including interfacing to common ERP systems such as SAP, the technology is robust and the methodology well proven.

From our experience, the single biggest challenge for businesses is no longer technical. It is to gain the internal championing and wide functional engagement of the concept, such that the cross business issues that emerge (not fundamentally supply chain ones) can be openly addressed and explored to determine benefits.

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About LCP Consulting

LCP Consulting is a leading specialist in customer-driven supply chain management. With over 20 years' experience in the field, we identify where supply chains make major contributions to how businesses operate profitably and compete effectively. We support businesses review, re-design and implement changes to their end-to-end operations. Our fact-based diagnostics pin point exactly where & how to cut costs, enhance operational efficiency and invest for the future.

LCP Consulting is a member of the Green Logistics Consultants Group, which is an international collaborative network of supply chain consultants who focus on improving the environmental performance of supply chains.

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