Know The Drivers of Logistics Cost. Reduce and Recover More of It.

How Planning can stay ahead of freight and warehouse cost hikes using cost-to-serve intelligence

⧉⧉ synapsum

Challenges in Distribution

Logistics Cost
Risen from 6 cents to 15+ cents per dollar

Logistics costs are eating away at margins, becoming a CEO and CFO-level focus. There is concern over how much the market can bear in price increases to offset rising costs.

Trucking Rates
Y/Y rates +23% contract, 14% spot

Truck rates have risen by double digits, with indications that 2022 will see additional double digit increases with rising driver, fuel, and truck equipment costs.

Warehouse Capacity
More Open Jobs than Applicants

What used to be +10 job applicants per warehouse position has reversed to more open positions than available applicants. Increased hourly pay and bonuses are a must to meet staffing requirements.

Under-Recovered Costs
Blanketed changes put revenue at risk

Where freight and warehouse costs are recovered in price or shipping charges, companies are making blanketed adjustments to address aggregate variances putting revenue at risk.

"Where are All the Truck Drivers". WSJ, November 2021.
'Warehouse Labor Woes are Worse than Ever, October 2021, Forbes, ARC Advisory, US Dept of Labor

4 Steps to Better Managing Freight and Warehouse Costs with Actionable Cost Intelligence

1
Tie costs at the order line level

Attribute freight and/or warehouse cost to the order line level by bringing together order, shipment, warehouse, product, customer, and financial data under a structured model. Nail the model for one quarter, then expand.

2
Observe cost drivers and outliers

Dial-in on cost drivers and areas of under-recovery across customers, products, locations, carriers, and offerings; Quantify how commercial offerings and customer ordering patterns influence costs, adding dimensions atop transactional data offering new ways to view the business.

3
Target variances and influencers

Reduce or eliminate drivers of costs that don't deliver any real value for customers. Alert individuals with influence over these costs day to day from negotiating customer fulfillment SLAs and freight terms to planning next week's product promotions; Translate cost predictions to price quotes and customer options to improve margins.

4
Monitor, adjust, and improve results

Trace the impact of commercial changes on cost recovery and reduction. Preempt market shifts in costs from warehouse labor to transport carrier fees, and cost implications following changes made in your distribution network.

COMPANY SPOTLIGHTS

See how two companies use actionable cost intelligence to improve profitability

EQUIPMENT DISTRIBUTOR LEVERAGES COST MODELS TO CLOSE FREIGHT RECOVERY GAP BY HALF, BOOSTING NET MARGIN BY 275 BPS

B2B BOOK DISTRIBUTOR REVERSES PROFIT DECLINE BY IMPROVING COST TO SERVE ON UNPROFITABLE BUSINESS DURING SEASONAL PEAK

Spotlight #1: Equipment Distributor using Synapsum's Processes and Products

Challenge

As a global market leader providing over a million parts across 30+ global distribution centers serving construction, utilities, and related industries, this global parts supplier is vulnerable to logistic costs increases.

The business was experiencing rising freight costs and widening gaps in cost recovery on customer quoted freight. This called into question what was driving freight costs, how to better recoup costs on paid freight, and where to set the free freight minimum shipping threshold to improve net profitability. All while balancing the need to stay competitive.

The path was unclear - without freight costs tied to the order line level, the business was making decisions using point-in-time analyses without clarity on what is driving costs. The commercial team was pushing back on blanketed increases in prices and freight given competition.

≫ GOALS

1. Improve net profit by adjusting Free Shipping sales value threshold and identify short-list of exclusions

2. Reflect total outbound freight costs at order checkout on paid freight quotes across Parcel, Air, and LTL

3. Bring ongoing freight visibility around cost drivers across carriers, products, customers, locations, impact of commercial SLAs, and more

ACHIEVEMENTS

In under 10 weeks, setup the Freight Cost to Serve Optimizer® delivering freight intelligence, simulations, and predictions to guide immediate improvements

Informed commercial changes to free shipping terms and paid freight-upfront quotes with very targeted changes with the least negative impact on customers for >$2.5MM improvement

Commercial teams had simulation capability to look at win-win scenarios to reduce customer and company costs through freight collect, forward stocking, and other programs

KEY RESULTS

275 BPS
Net margin

through lower freight cost on sales and higher freight recovery
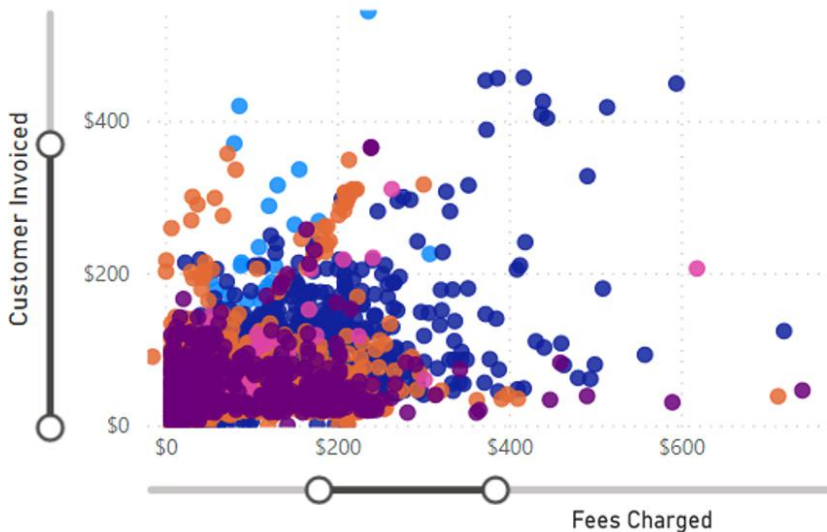
FREIGHT COST RECOVERY GAP

Before

▼48%

After

▼78%

Exhibit - Freight-Upfront Quotes vs. Carrier Charges

BEFORE
Static inputs used to estimate parcel freight

AFTER
Machine learning predicting freight

Spotlight #2: B2B Book Distributor using Synapsum's Processes and Products

Challenge

A leading distributor missed its profit target during its peak season despite having a higher deal count. Pressure had been mounting on its sales organization as a competitor was grabbing share. The sales team further grew volume during its peak period using incentives in a bid for customers.

As a result, many of its distribution centers increased use of expensive transportation outsourcing and warehouse labor overtime which contributed to higher costs. This higher peak demand also created a need for more inventory on hand and more equipment to process orders, thereby tying up more working capital. With customers returning a significant portion of unsold inventory, the business was not getting the return on working capital it expected.

≫ GOALS

1. Measure and identify where and why demand was unprofitable or marginally less profitable

2. Shift how unprofitable customer demand was served (timing, method, etc.)

3. Grow revenue and improve the customer experience in a competitive market

ACHIEVEMENTS

Simulated the result of shifting unprofitable peak volumes to off-peak periods in select markets

Automated alerts to commercial teams on select accounts when opportunities were in the sales pipeline to rightsize product quantities and booking windows, accessible in Salesforce workflows

Created transparency for sales, operations, finance, and business leads to view how commercial activity impacted operational efficiencies, powered by a unified cost to serve model
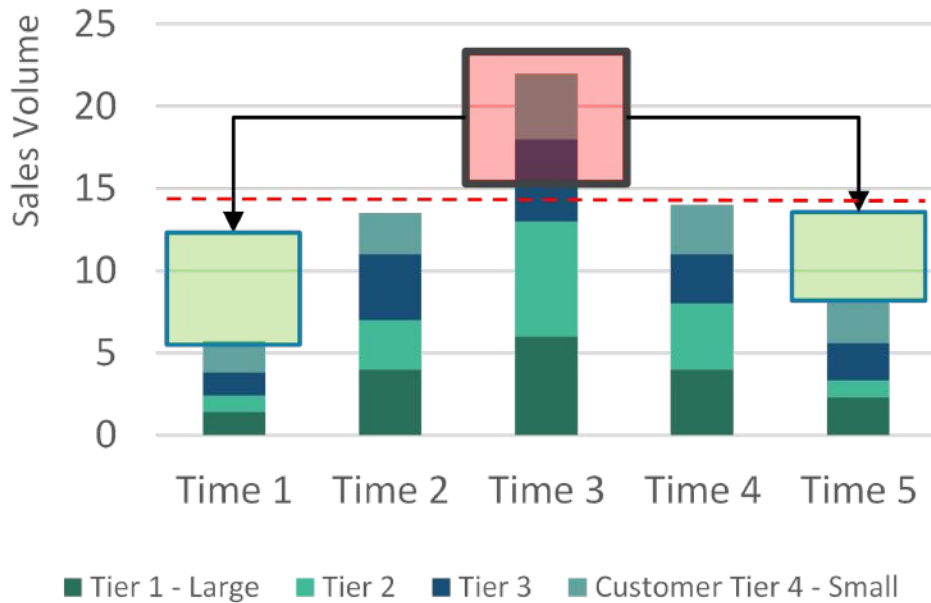
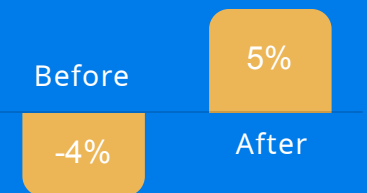**Figure 1 - Shifting Unprofitable Peak Volumes to Off-Peak**

KEY RESULTS

1300 BPS
Net margin

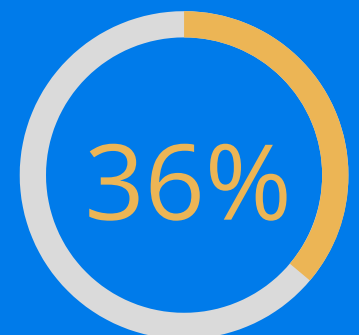by reducing use of transportation outsourcers and warehouse overtime;

Knock-on effect of improved working capital from reduced inventory requirements while improving sell through rates
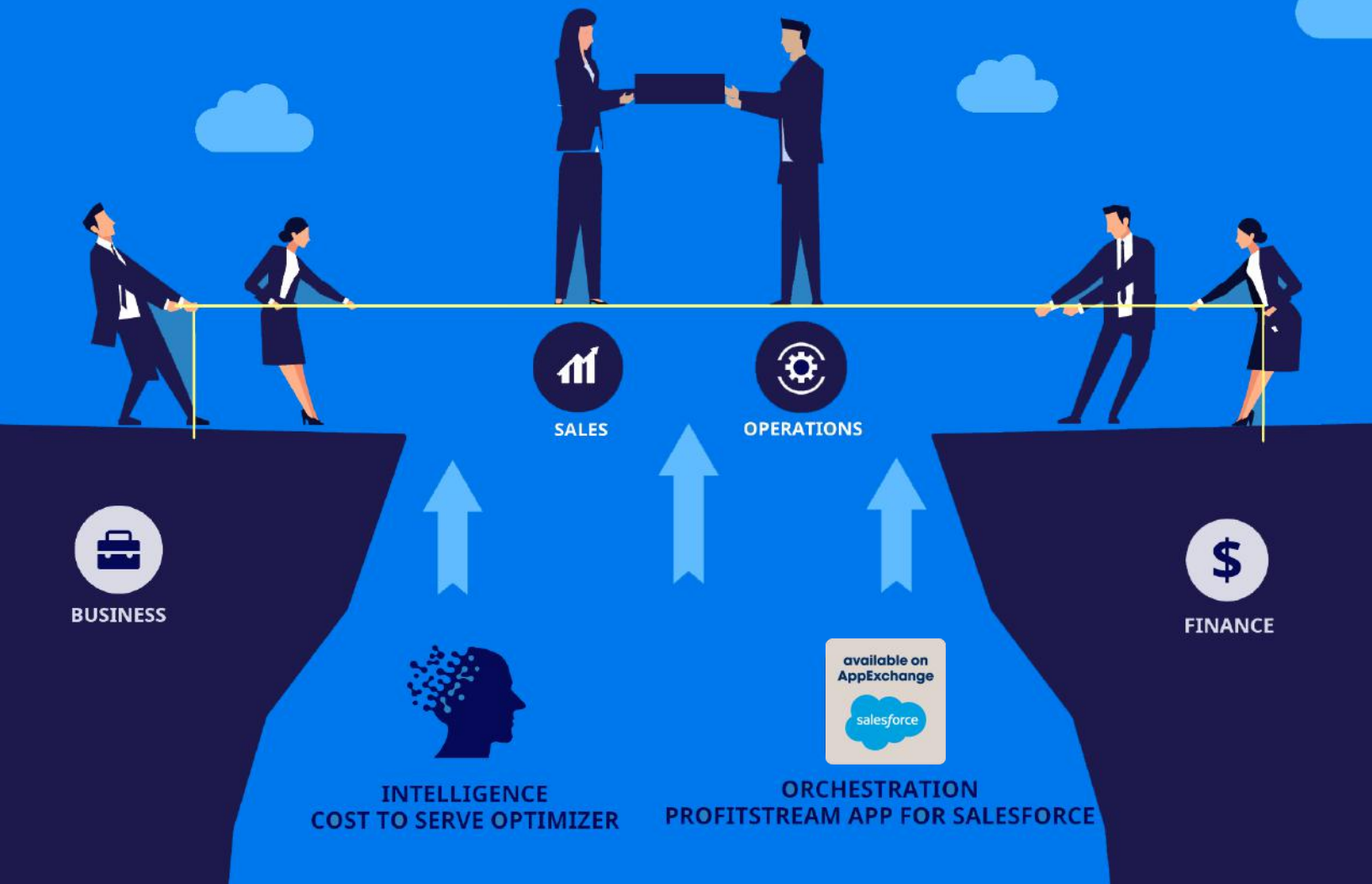
Reversed Revenue Decline

Before: -4%
After: 5%

improved customer satisfaction from top accounts, in part attributed to less constrained operations

Outsourced Transport Spend Drop

36%

Learn how Synapsum can help your business

SALES

OPERATIONS

BUSINESS

FINANCE

INTELLIGENCE
COST TO SERVE OPTIMIZER

available on AppExchange
salesforce

ORCHESTRATION
PROFITSTREAM APP FOR SALESFORCE

"Synapsum adds dimensions above the ERP turning raw data into profit opportunities that bridge operations and sales...speed to results is impressive"-

Fortune 1000
Supply Chain Leader

Ready to Start?
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synapsum.com/vanguard

Also Check Out...
Whitepaper: Transparent Cost-to-Serve
Customer Success Stories
Assessment: Your Cost-to-Serve Opportunity