Transparent Cost-to-Serve Customer Relationships

Using CRM-Embedded Supply Chain Intelligence to Drive Higher Profits with Sustained Results

ChainLink Research

July 2021

synapsum

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Prologue: A Tale of Profit Erosion

Sam missed his sales quota last quarter. He knows he'll have to really hustle to make his numbers this quarter. Fortunately, the pipeline looks healthy. Unfortunately, the company is clamping down on Sam's most effective deal-closing tool: generous discounts. With net margins falling to a new low last quarter, management has set strict limits and special approval requirements on discounting. Sam now relies even more on other sweeteners he has used successfully, such as offering expedited delivery, special handling, and flexible fulfillment (e.g., customized lot and pack sizes). Leveraging these, he closes a couple dozen deals and exceeds his quota, as do many of his sales colleagues. Success! Everyone is happy … until the CFO crunches the numbers at the end of the quarter and discovers that while revenue exceeded goals, EBIDTA[1] declined to a new low, despite meaningful reductions in discounting. What happened?

While Sam was busy figuring out ways to close deals under the new policy constraints, major supply chain issues were occurring. Severe storms in Texas and resulting power outages forced the company to shut down its Texas regional distribution center (DC) for several days. Orders for customers in that region were fulfilled out of other DCs at substantial extra cost due to added mileage and expedited out-of-area shipping.

Most salespeople are flying blind regarding the costs and operational consequences of deal-level decisions and offers they make every day.

The same storms caused a prolonged plastic shortage (due to plant shutdowns), a vital ingredient of key products for the firm. To meet the demand for upcoming orders, the sourcing team had to scour the globe and compete with others for scarce supplies of plastic, driving up input materials costs. Simultaneously, the plastic shortage caused a surge in demand, as buyers shifted away from competitors who were facing more severe stock shortfalls. The remaining DCs all had to work overtime to keep up with increased demand. Furthermore, an increase in custom lot and small pack size orders drove additional warehouse labor overtime, causing underutilized truck space, and increased less-than-pallet excess inventory. Taken altogether, these additional costs more than offset the savings from reduced discounting.

Sam and his fellow salespeople were not fully unaware of the impact of these events. They had heard about the outage at the Texas DC but had no visibility into what products or how customer locations were being impacted. They also had heard rumors of plant production problems and were aware that additional effort was required to customize the lot and pack sizes. But in all these cases, Sam and his fellow salespeople

[1] EBIDTA = earnings before interest, taxes, depreciation, and amortization. EBIDTA measures profit without variations caused by changes in interest, taxes, depreciation, and amortization.

lacked the specific data needed to make more informed decisions about what services and delivery promises to offer and to which customers. The Sales team's primary metric of success was meeting revenue targets and, recently, a secondary focus on gross margin. But the gross margin fails to capture the variable cost fluctuations caused by supply chain disruptions or customer order-level requirements.

A Better Way is in Reach

Sam and the rest of sales were being asked to reduce profit erosion, but not empowered with the tools to do so. They were flying blind regarding the consequences of offers and deal-level decisions on inventory and operational costs. Those consequences were made more severe during the temporary DC and plant downtime. The reality of the demand-supply imbalance was understood but not actively managed by those with the greatest influence over the profit margin and customer outcomes (i.e., the sales team crafting deals).

What if instead, the CRM system provided the sales team with visibility, right there within the context of specific customer sales opportunities, regarding the impact of disruptions or costs of specific services and requests, with steps to take at various points in the sales cycle?

When a CRM system provides deal-specific cost-to-serve visibility, salespeople can support customers' needs while simultaneously improving profitability.

Salespeople would have the information needed to more effectively partner with customers to improve profit margins in ways that were mutually beneficial. Sales would have the flexibility to support customers' ad-hoc needs (e.g., a rushed order required) so long as, in the aggregate, costs were being reduced or recouped. Getting started can be simple. Accurate measures of cost-to-serve could be incorporated into the salespeople's success metrics, motivating them to offer the right kinds of deals to better align customer value to service offered.

Businesses can initially get operational cost insights from supply chain teams who are well versed in the areas of cost, risk, and efficiency. Then, insights can be further automated through data-triggered rules, planning models, external cost indexes, and cost-to-serve point solutions using company operational data (WMS, TMS, production, supply chain, etc.). Ultimately, these same insights can be translated into cost-based algorithms integrated into sales execution software, such as CPQ (configure, price, and quote), DOM (distributed order management), and ecommerce systems. This is the vision and capabilities provided by Synapsum.

How a Large Distributor Turned Around Profit Performance by Shaping Demand

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.

By assessing the marginal profitability of an order during peak, it became clear that improving margins would require shifting unprofitable peak volumes to off-peak periods where it could be more profitably served. Using Salesforce Sales Cloud, the business was able to flag to the sales team specific customer accounts served by certain DCs. On these accounts, the sales team was prompted to right-size product packages and adjust available booking windows. The result was a 26% improvement in EBIDTA (with half of that attributed to a significant reduction in transportation and warehouse costs), 5% higher revenue driven by improved customer satisfaction from top accounts, and improved working capital from reduced inventory requirements.

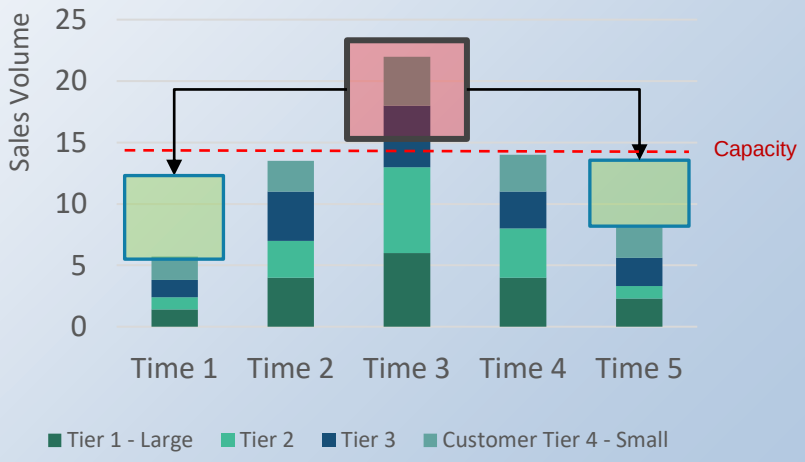

Figure 1 - Shifting Unprofitable Peak Volumes to Off-Peak

Why Now? Tackling Today's Challenges and Building Agility for What's Next

If the tale shared above resonates with your experience, you may be considering whether now is the right time to tackle this issue. With the rise in logistics cost and mounting supply chain challenges, it is a critical time to look at better ways to manage disruptions and costs. Businesses that build better cross-functional response mechanisms will gain cost and customer advantage over competition. The trends below put the urgency of this issue into perspective.

Table 1 - Logistics Costs Trends

	Transportation	Warehouse Fulfillment	Inventory Carrying
Trends	• World Container Index[2] May '21 up 298% Y/Y. • US spot truck rates (May '21) up >50% Y/Y.[3] • Airfreight up >100% Y/Y[4]	• April '21 Warehouse price index at 83.5 (an all-time high), up 24.5% Y/Y	• Producer Price Index up 17.2% Y/Y, April 2021 • Agricultural commodities up 20% Y/Y, May 2020 • Raw Materials up 18% • Metal/Mineral up 46%[5]
	• Logistics Manager Index = 74.5 for April 2021, the second highest reading ever, "*driven by tight capacity, high prices for transportation and warehousing, as well as record-high levels of growth in Inventory Costs*"		
Costs as % of Sales	7% – 10%	2% – 4%	3% – 4%
Drivers	• Surging shipping volumes, shortages in container ships, airfreight capacity, and truck capacity, driver shortages,[6] container shortages, trade lane imbalances	• Worker shortages, rising hourly labor rates, warehouse space shortages, eCommerce shift means move from consolidated store shipments to many smaller shipments	• Rising commodity prices across the board, increased input component costs, trade wars, uncertainty leading to higher safety stock requirements

[2] Drewry's composite World Container Index, reflecting the average price to ship a container worldwide, was almost 4X higher on May 20, 2021 than a year earlier. Rates from China to EU went up almost *4X in a two-month period* (from $2K to $8K, early Nov 2020 to start of 2021).
[3] DAT Trendlines, on 5/26/2021, was reporting Van Spot Rates up 58.1% Y/Y, Flatbed Spot Rates up 52.1% Y/Y, Reefer Spot Rates up 51.8% Y/Y, Spot Load Posts up 577.3%
[4] According to Baltic Exchange Air Freight Index prices for Feb 2020 to Feb 2021 rose on average 101.9% (Source Statista).
[5] Agricultural Commodities, Raw Materials (Non-Timber), and Metal/Mineral prices from the World Bank's Pink Sheet of global commodity prices, as of May 2021.
[6] Many of these shortages will persist for years. For example, ocean carriers are holding off on buying new ships until environmental regulations become clear, which will take many years. Truck driver shortages have continued for over a decade, driven by demographic and lifestyle changes, and have gotten considerably worse recently.
[7] The Everstream Report on Supply Chain Disruptions notes the rise in supply chain disruptions and risk categories.

Today's rising costs go hand in hand with supply chain disruptions. While some of the 'headline-worthy' recent supply chain challenges will normalize with time, businesses should be prepared for greater supply chain volatility going forward. There have been more disruptive events in the past six months than in recent history[7] The trends underpinning these prolonged disruptive events are expected to persist in the future.

Table 2 - Common Causes Behind Today's Supply Chain Disruption

Disruption Drivers	Description
Globalization	Increasingly globalized and interconnected supply chains cause ripple effect from any disrupting event (e.g., Suez blockage, Texas freeze)
Commodity Shortages	From lithium ore to semiconductors, demand for many commodities can grow quickly, outpacing capital-intensive supply capacity.
Transportation Capacity Crunches	Demand/supply imbalances are cyclical, but several factors have aggravated these cycles, making them more intense.
Extreme Weather Incidents	Increasing frequency of hurricanes, droughts, floods, severe winter storms, dust storms, tornados, and wildfires.
Cyber Disruptions	As supply chains digitize, their 'attack surface' grows, increasing the exposure and value of supply chain targets for criminals and unscrupulous state actors.
Pandemics	Expect more pandemics of varying levels of severity due to increased proximity of humans with wildlife and increasing global consumption of animals, with inadequate hygiene and infection control.

Businesses cannot be caught flat footed. Reducing the lag time to respond to these supply chain disruptions and the resulting financial and customer impact is no longer a nice-to have. It is an imperative.

The rest of this document dives into how you can practically achieve these goals using actionable, profit-based insights to guide internal decision-making and create more profitable customer relationships.

[7] Everstream Analytics: Annual Risk Report 2021. Everstream. Published March 2021

The Journey to Transparent Cost-to-Serve Customer Relationships (TCR)

What Is a Transparent Cost-to-Serve Customer Relationship?

For most companies, cost-to-serve implications are opaque to the salespeople and their prospects/ customers. Smart companies are taking steps to achieve *Transparent Cost-to-serve Customer Relationships* (TCR) where the salesperson has full visibility into the cost-to-serve implications of the customers' requests, such as requests for short-supply items, special services, custom pack sizes, specific delivery dates, and frequent small quantity orders. This enables the salesperson to manage those costs and offer alternatives much more effectively. With TCR, organizations can:

- Dynamically calculate cost-to-serve, to accurately reflect the current reality and anticipated future;
- Make cost-to-serve transparent to salespeople for smarter decision-making throughout the sales cycle;
- Turn cost intelligence into experiences that influence customer buying decisions, to lower and/or recapture some portion of costs that are not contributing to customer lifetime value;
- Manage inventory in short supply more strategically to maximize short and long-term results. Better deploy excess inventory or capacity as add-on business for incremental profit.

TCR Should be a Key Element of Strategic Customer Relationships

On the buy-side of the business, sophisticated procurement organizations have long employed strategic sourcing approaches to work collaboratively with key suppliers to improve mutual performance. Outcome-based sourcing[8] is a related advanced practice where the buyer specifies the outcome they seek, rather than issuing an RFQ with overly prescriptive specifications on how to achieve that outcome.

Analogously on the sell-side of the business, smart companies are moving to strategic **Transparent Cost-to-serve Customer Relationships (TCR)**. This is where the seller and the customer/buyer have a mutual understanding of A) the customer's objectives and reasons for specific requests they make (such as for short-supply items, special services, custom pack sizes, specific delivery dates, etc.) and B) the cost-to-serve for those requests. This enables the salesperson to transparently explain how those requests will impact the price and present alternative options to meet the customer's objectives at a lower cost. Ideally, the customer becomes a partner in jointly finding a creative solution that meets their needs at the lowest cost.

In a Transparent Cost-to-serve Customer Relationship (TCR), the salesperson has full visibility into the cost implications of customer demand and how to affect it.

[8] For more details see *Outcome Sourcing: Buying Result* and vested outsourcing.

How to Build on Today's Tools and Approaches

The natural place to view and take action on TCR is in the CRM system that the salesperson currently uses. CRM systems already help the salesperson segment customers based on differentiated sales channels, customer journeys, product bundling or pricing options, and more. Sales and marketing teams often have one piece of the 'right response' equation, using CRM tools for customer retention, acquisition, and upsell. Common examples include predictive models that flag what to offer next ('next best offer'), optimal pricing given market comparables, and likelihood to close the deal. CRM systems extend to marketing and customer service teams, making it the ideal junction to influence profit margins of demand. Thus, the CRM system provides a foundation to build on to achieve TCR.

A company's CRM system, together with their existing costing tools and methodologies, provide a framework and foundation to build on to achieve TCR.

In addition, companies already use a variety of existing tools to address cost-to-serve such as S&OP (sales and operations planning), S&OE (sales and operations execution), cost-to-serve analytics, distributed order management (DOM), and profitability targets for sales. While each of these has limitations, they can still play an important role in supporting TCR (see sidebar).

Building on Existing Approaches

Existing approaches often fall short in achieving cost-to-serve-based customer relationships but can be leveraged and integrated into a TCR initiative:

- S&OP and S&OE—S&OP typically involves monthly planning cycles with a 3- to 24-month planning horizon that can work well for adjusting on those time scales. However, S&OP is not responsive to issues as they arise and prescriptions provided to sales are on a macro level, rather than a deal-by-deal level. The same challenges exist with S&OE, which allow for tactical adjustments in response to demand on a weekly cycle over a 1- to 3-month horizon. Yet, S&OP and S&OE identify imbalances and opportunities that can become key inputs into a CRM-enabled TCR process.
- Cost-to-serve analytics in isolation—Custom-built cost-to-serve analytics run as standalone reports become out-of-date quickly, especially if using ABC models, usually lack deal-level insights, and are expensive to maintain. What is better suited for TCR are analytics providing deal-level insights, integrated into the CRM system, and maintained by the solution provider.
- DOM—Distributed Order Management optimization often focuses narrowly on inventory availability and transportation costs and may not incorporate unique/custom cost-to-serve factors. DOM is typically designed for automated fulfillment engines, rather than salesperson-driven negotiations. However, TCR capabilities can and should be added to automated DOM engines.
- Profitability targets—Profitability targets for salespeople are typically based on gross margins, calculated using standard costs which do not account for near-term COGS fluctuations, nor the cost of value-added services and special requests. It is better to provide salespeople with the granular deal-specific insights and actions needed to achieve those targets.

Achieving Benefits Sooner

Whether during periods of stability, growth, or volatility, companies cannot afford to be caught flat-footed when costs threaten margins or disruptions rattle the supply chain. Capabilities need to be in place for fast response, balancing customer value creation, to optimize long term results. What is needed is:

1) *Incorporating Operational Awareness into Salesperson Action*—the ability to take the everchanging knowledge and awareness that operational personnel have—about ongoing disrupting events, cost-impact of special requests, capacity constraints, and other cost-to-serve dimensions—and distill all that knowledge, making it instantly accessible, organized, and prioritized to sales … *in a format the salesperson can easily digest, within the systems they already use*.
2) *Accurately Modeling, Predicting, and Optimizing Cost-to-Serve*—accurately modeling and predicting cost-to-serve on a deal-by-deal action-specific basis and by customer, and prescribing optimal deal-specific actions for salespeople to take. This requires integrating data from a variety of backend operational systems such as ERP, WMS, TMS, GTM, MES, procurement, and so forth. It requires algorithms that properly allocate costs to specific requests and AI/machine learning that can figure out the optimal course of action.
3) *Automating Cost-to-Serve Optimization for Self-Service Sales*—automating the optimization of cost-to-serve within automated selling and fulfillment platforms, such as ecommerce, CPQ[9], and DOM[10] systems.

The full vision laid out above does not have to be implemented in one big project. In fact, substantial value can be realized quickly by tackling this in discrete steps, as described below. Savings generated by the first phase can be used to fund the later phases. Synapsum provides solutions aligned with these three phases of adoption.

Incorporating Operational Awareness into Salesperson Action

The first phase is enabled by Synapsum ProfitStream Manager,© which brings planning into action through the CRM. The application installs into Salesforce, where it processes operational insights and applies actions to targeted customer accounts to prompt sales and other front office functions directly in the CRM they use

Synapsum ProfitStream Manager

- Implementation Time: 6-8 weeks

Operational personnel such as supply chain, warehouse, and logistics—in collaboration with Sales Enablement—can update actions and tasks ("playbooks") on targeted customer accounts, to better execute on profit optimization initiatives or manage changing conditions to supply and capacity. Playbooks are assigned to customer segments to target areas of impact and align cost-to-serve with deal and customer account value. These changes are instantly visible to the sales team, at the moment they need it, presented in context, while managing the customer relationship cycle, whether negotiating deals or servicing target customers.

[9] CPQ = Configure, Price, and Quote software
[10] DOM = Distributed Order Management

every day. Front office teams will be notified sooner when there are supply chain risks or efficiencies and will know what steps they can take to improve financial and customer outcomes.

The first software in its category, Synapsum Profit-Stream Manager© will give you the reflex muscle and process alternative to better manage across the 'functional' divides in your business.

Example Use Cases, Risks, Opportunities

- Shortage of a key product component causes low or out-of-stock positions, inability to meet 100% of demand.
  - Sales is immediately advised of the shortage, recommended to charge full price (no discounting), limit purchase quantities, and allocate limited supply to key customers with active product demand.
  - A list of alternate substitute products is provided to recommend when appropriate.
- Oversupply, above a preset threshold, creates excess inventory at risk of obsolescence.
  - Alert sales to introduce sales incentives now for overstocked products, to avoid steeper markdowns later.
- Custom kitting execution is made more expensive, due to stop-start throughout the week.
  - Recommend a specific day each week for kitting promised to customers.
- Special pack-sizes require extra warehouse labor by breaking down pre-packed quantities into odd lots, reducing available pick, pack, ship staffing.
  - Communicate preferred standard pack-sizes.
  - Provide recommended surcharge prices for non-standard custom-pack-size services.

Flexibility can be built into action-task response to allow for sales manager discretion where required, as the goal is to improve aggregate efficiency vs. dogmatically pursue 100% compliance. Because a business can get started without backend integrations, ProfitStream Manager can be implemented within a few weeks to help operations planners coordinate faster, more targeted sales-side responses to supply chain efficiency opportunities and cost shocks. This capability can then be naturally extended to respond to integrated operational system data-triggers (e.g., severe SKU line shortage or excess, contract renewals to guide negotiation based on TCR, etc.). Check out the section *Getting Started* to learn how and where to begin.

Accurately Modeling, Predicting, and Optimizing Cost-to-Serve

In the second phase, which can also be a starting point for some organizations, Synapsum Cost-to-Serve Optimizer© pulls in historical data from operational systems and forward-looking cost inputs to model and predict cost-to-serve. If a company has a logical starting

Cost-to-Serve Optimizer

- Implementation Time: 8 – 16 weeks

Cost-to-Serve Optimizer© pulls accessible data from operational systems (ERP, WMS, etc.) to model and predict cost-to-serve in areas that can be influenced and produce substantially higher profits. Know where to better align costs to value. Then make those insights actionable and operational to guide ongoing decision-making.

point to reduce or recoup operational cost driven by demand, Synapsum's Micro Cost-to-Serve point solutions[11] help businesses quickly identify and act. Pre-built models with data mapping compresses time to realize benefit. More comprehensive cost-to-serve models can be developed in tandem that provide a broader view of product and customer profitability, accounting for specific labor, transportation, and overhead costs. These models consider constraints on inventory and capacity to specify ways to optimally allocate limited resources. It is possible to accurately predict the cost-to-serve for variations of each deal—such as predicting the cost of different delivery dates, different product mixes, different lot and pack sizes, and so forth. Over time, AI/machine learning recommends optimal actions for each prospective deal.

For rapid results, focus first on a specific cost opportunity worth pursuing, given the magnitude of cost and your ability to influence it. It helps to be comfortable with being directionally correct initially, then over time, adding granularity and precision, where there is significant value in doing so.

Implementing the second phase requires connecting to targeted data sets in operational systems such as ERP (Order

Example Use Cases, Risks, Opportunities

- Costs rise because contracts include SLAs without accounting for the cost of meeting those service levels.
  - Costs for a standard set of SLAs is calculated and communicated to sales as a negotiating tool.
  - A process is set up for requesting custom SLAs, with same-day turnaround to calculate and communicate the costs of providing those SLAs.
- Customers requiring 'freight collect' are given discounts by sales on the theory it's cheaper if they pick up the freight.
  - Cost-to-serve calculator shows total costs are higher for collect due to complexity of handling many different customers' routing guides vs. prepaid shipments.
  - A specific surcharge is recommended for customers requiring freight collect for targeted accounts.
- One-off sales-led promotional events, not part of regular distribution and delivery of goods, get scheduled without consideration of supply chain circumstances or costs (e.g., ready to display SKU or higher packaging costs).
  - Promotion plans are shared with the supply chain team from the start. Cost-to-serve is calculated and communicated, including specific cost drivers and amounts.
  - Recommendations of alternate ways to lower the cost-to-serve are provided.
  - Cost transfers from operations to sales are implemented for promotion execution, based on calculated cost-to-serve, helping to ensure promotion execution stays within budget.

[11] Micro Cost-to-Serve point solutions address specific, targeted influences that customer orders have on supply chain costs. Rather than trying to create an all-inclusive cost-to-serve model, each point solution targets a specific problem with the data connectors to pull required information, and a model with prebuilt data mapping taxonomy to model the cost impact by order, customer, and customer segment. Examples include SKU movement (on-hand-to-safety stock vs. SKU velocity), manufacturing capacity vs. demand, peak vs. off-peak period costs to pick/pack/load and transport, customer order size and frequency, and many more.

Management and Financials), WMS, TMS, GTM, MES, or procurement systems.[12] It also requires calibrating Synapsum's cost-to-serve model, based on supply chain activities and costs, to accurately reflect the customer's specific business. Initial implementation of this phase can be shortened by starting with a subset of integrations and proxied costs, then incorporating more data granularity and systems over time where there is value in doing so.

Automating Cost-to-Serve Optimization for Self-Service Sales

Once an organization is dynamically modeling costs and prescribing optimal actions, those capabilities can be embedded into the company's automated, self-service selling platforms. This enables cost-to-serve optimization when there is no salesperson involved. Some advanced companies have already implemented automated demand-shaping optimization in their self-serve platforms, for example:

Embed Engine

- Implementation Time: 2-6 months

Recommendations from Synapsum's AI/ML algorithms are embedded into ecommerce and other customer-self-service platforms and systems. Self-service customers are guided to select lower cost-to-serve options and/or pay extra for the higher-cost options.

- Amazon entices customers for specific items to 'place order by' to 'deliver by' dates to manage lead times. The eCommerce giant also encourages customers to select longer ship times on specific orders in exchange for digital media credits or fewer boxes, driving down the cost of fulfillment and transportation.
- Airlines offer a mid-tier loyalty customer (e.g., Gold Status) a choice of extended leg room seats, no-fee change options, and complimentary upgrades during low demand travel periods, which may be restricted or offered at premiums during peak travel dates. This helps bolster demand during off-peak periods.
- A UK-based retailer offers narrower (2-hour) delivery windows for a fee. The fee varies based on whether the time slots occur when the truck will already be near the delivery address. Those optimal slots are promoted

Example Use Cases, Risks, Opportunities

- A competitor's production problems create a sudden spike in demand for specific products.
  - Pricing for those products is automatically increased within the ecommerce engine.
  - For the specific products in short supply, alternatives are suggested to consumers.
- Customers that place high frequency orders in small quantities are provided incentives to choose a structured delivery day with guaranteed on-time delivery and credits.
- Promotion bundles are selected to be merchandised on eCommerce sites based on drivers of traffic, revenue, and available inventory. 'Ship efficiency' scores are provided to marketers and merchandising teams to inform them how efficiently each bundle will ship out, alone or with other add-on items in the order. This drives better decisions on the composition of the promotional bundles.

[12] WMS = Warehouse Management System, TMS = Transportation Management System, GTM = Global Trade Management, MES = Manufacturing Execution System

as 'green' options because they reduce the carbon footprint of the delivery.

Embedded within existing self-service sales platforms (e.g., ecommerce systems), Synapsum Embed Engine© guides and incentivizes customers to select lower cost-to-serve options and/or pay extra for higher-cost options.

Synapsum Embed Engine© is being developed to provide this capability, influencing buyer behavior directly for higher margins. Self-service customers can be guided to, presented with, and incentivized to select certain options based on the company's business strategy. This puts the customer in control but positions the business for higher profitability. Different options can be priced to accurately reflect the true cost-to-serve.

Measuring Results

The same system that helps deliver these savings provides the means to precisely measure the sales, customer, and profit impact. In phase one, businesses can gain sizeable wins in transportation and warehouse costs by concentrating on known areas of opportunities that have been difficult to execute in the past. The capabilities implemented in phase two (*Accurately Modeling, Predicting, and Optimizing Cost-to-Serve*) provide tools to more accurately measure 'before' and 'after' costs, helping provide business justification for continued investments.

To achieve maximum benefit, it is important to continuously monitor the sales team's and customer's' response to recommendations and the impact on revenue and profit. This enables continuously learning what is and is not working and making adjustments to tactics to improve outcomes.

Typical Expected Improvement Metrics

Typical improvements that can be expected from implementing a system like Synapsum are shown in Table 1 below. These are organized into two categories: 1) *Optimization Metrics*—Improving Cost-to-serve Alignment, and 2) *Top Level Metrics*—Overall Business Improvement.

Value Type	Typical Improvement	Example Mechanisms of Improvement
Optimization Metrics		
Transportation Cost Reduction	5% to 25% reduction in transportation costs.	Example tactics to reduce transportation costs: • Salespeople are given visibility to the cost of expediting. • Recommend preset account delivery days, to optimize shipping methods and rates for predictable ship patterns. • Customers are incented to pick optimal delivery slots or cover cost for suboptimal delivery windows. • Customers steered to more cost-effective freight terms and/or incoterms.
Warehouse Labor Cost Reduction	10% to 20% reduction in *targeted areas* of warehouse fulfillment labor.	• Customers steered to standard fulfillment, such as standard packaging, pack sizes, pallet sizes, and configurations. Surcharges recommended for customized pack or pallet sizes, or off-schedule custom services. • Custom kitting and service activities are consolidated into one or more specific days each week.
Better Demand-Supply Alignment (for under-supply and oversupply)	5% to 50% margin improvement for products in under or oversupply. Fulfillment and transport cost avoidance.	• When demand spikes and/or disruptions cause shortages, salespeople are recommended to charge full price, limit purchase quantities, and allocate limited supply to highest value uses/key customers. Alternatives and substitutions are recommended. Fulfillment is steered to non-peak times and locations. • When there is oversupply, sales is alerted and recommended to introduce sales incentives now, avoiding steeper markdowns later.
Custom SLA Management	10% to 75% fewer custom SLAs, driving 50% to 90% cost recovery.	• Sales is provided with a standard set of SLAs. If any custom SLAs are requested, their added cost is calculated and, as appropriate, charged to the customer.
Top Level Metrics		
Customer Retention/ Customer Lifetime Value	1% to 5% increased customer retention. 5% to 30% increase in average customer lifetime value. 2- to 10-point increase in NPS.	Constrained resources are focused on better serving high-lifetime-value customers, who become more loyal due to better service. Retention is maintained for most mid-to-low value customers. Negative value/negative-margin customers are encouraged to change buying behaviors and requests to reduce the cost to serve them. Some negative-value customers will leave, and some will shift to become positive-value customers, further lifting average lifetime value.
EBIDTA	1% to 5% increase to start (higher results possible).	The combined effect of all of the above improves profits. This includes cost reductions or cost recovery in transportation and warehouse, better SLA management, better demand-supply alignment, and serving high-value customers better.
Revenue	1% to 5% increase.	Salespeople are given the insights and tools to meet profit and revenue goals. Revenue strength driven by increased service levels for high-value customers as strains lifted on operational resources.
Working Capital	5% to 15% reduction.	Working capital is reduced by more efficient use of inventory via better demand-supply balancing, especially for just-in-time products.

Table 3 - Typical Benefits from Implementing Synapsum

Getting Started – 3 Steps

Synapsum can be implemented quickly as a SaaS extension to augment existing systems. You can get started with the three steps outlined below. If you would like help with this exercise, please contact Synapsum.

1) **Identify the main customer and order influences driving cost in your supply chain**—Figure 2 below shows some common areas of supply chain cost influences experienced by other organizations. Circle those areas that you believe are driving the greatest non-value added costs into your operations.

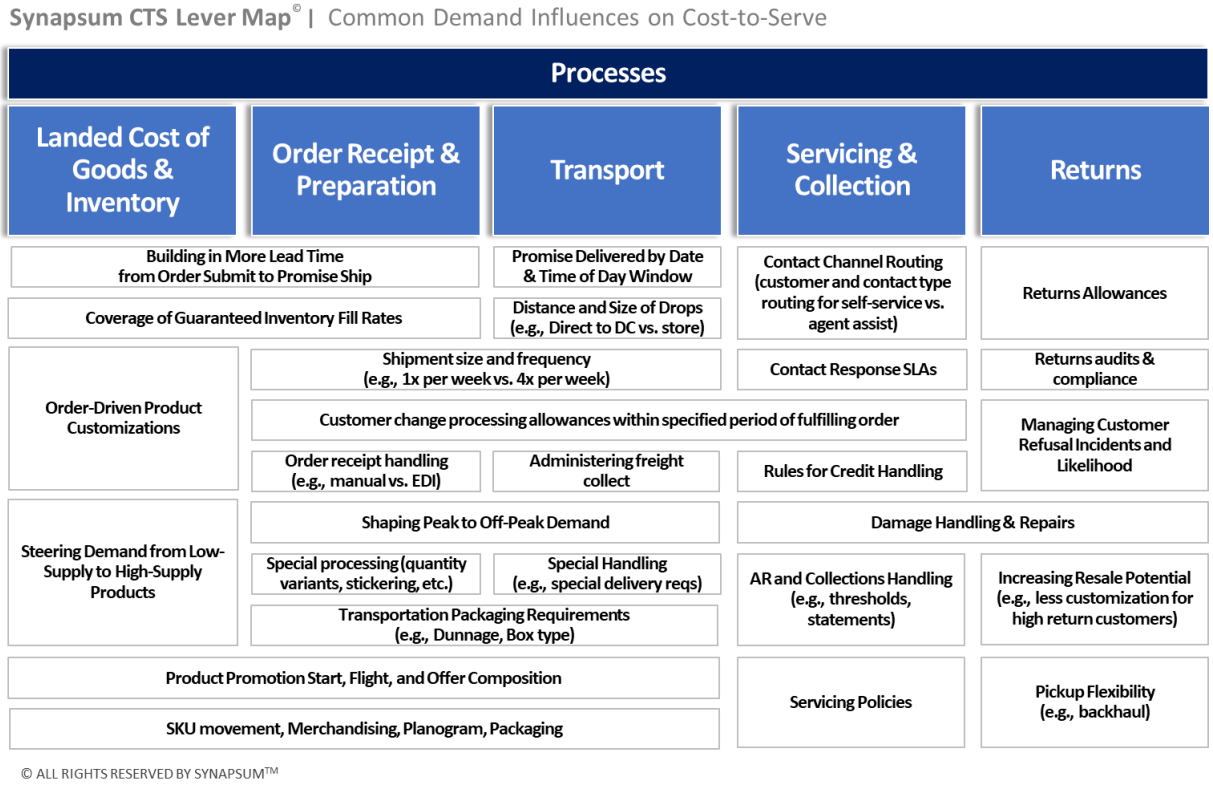

Figure 2 – Common Areas Influencing Cost-to-Serve

Once identified, size the benefit by quantifying the cost impact on margin using easy-to-access sample data (e.g., comparing the profitability of two customers or segments of customers—one with and one without the requirements identified). By doing so, you will understand the potential benefit and where to prioritize focus.

2) **Pinpoint specific changes that can alter the outcome**—Identify specific desired changes to the customer relationship management process to reduce or recoup costs. Some examples are shown in Figure 3 below. Once identified, consider whether there are points even earlier in the process that will have an influence (e.g., offers and promotions, product and assortment decisions, structure of loyalty

programs). For online buying experiences (not pictured below), similarly consider what changes to the steps in the customer buying cycle would drive the greatest impact.

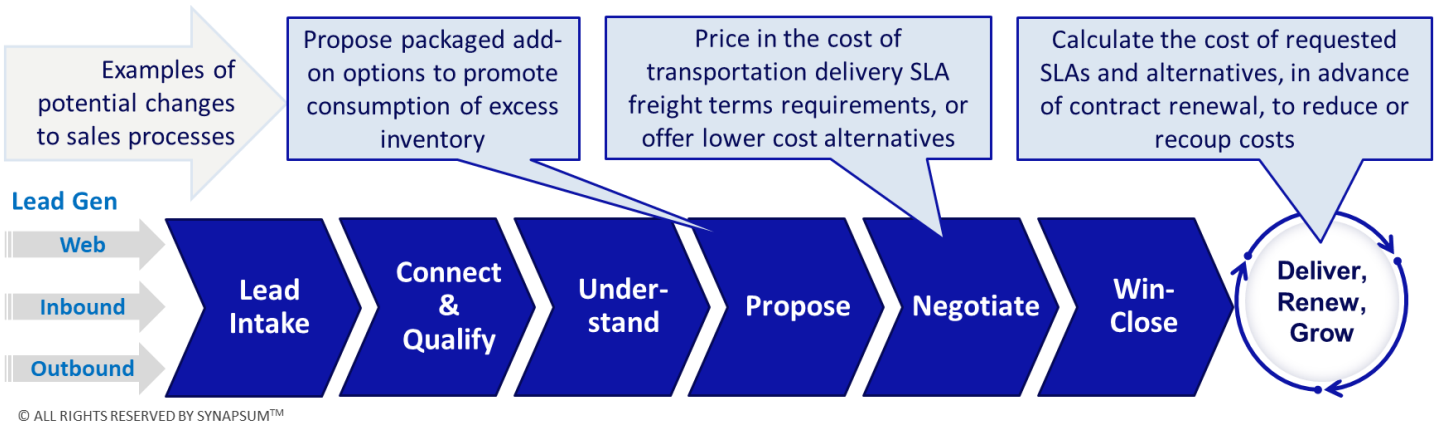

Figure 3 – Examples of Potential Process Changes at Various Stages in Sales Pipeline

3) **Differentiate process changes (actions and approaches) by customer segment, where it makes sense to do so**—Segment your customers into a matrix of contribution margin vs. customer value (see customer segmentation matrix example in Figure 4 below) and follow these steps:
   a. Pick a sample customer account with active demand in the lower left quadrant where customer sales value and profit contribution are low.
   b. Consider how that customer's position in the diagram would change if you enact the changes that you identified in step 2 and applied them to this customer. Will you gain or lose revenue or lifetime value from this customer? Will you gain or lose profit margin with this customer? Based on the answer, do you need to change anything you outlined in step 2, to achieve a better outcome?
   c. Repeat this assessment again for a customer account in each different section of the chart. Note if the recommended actions differ and if so, why.

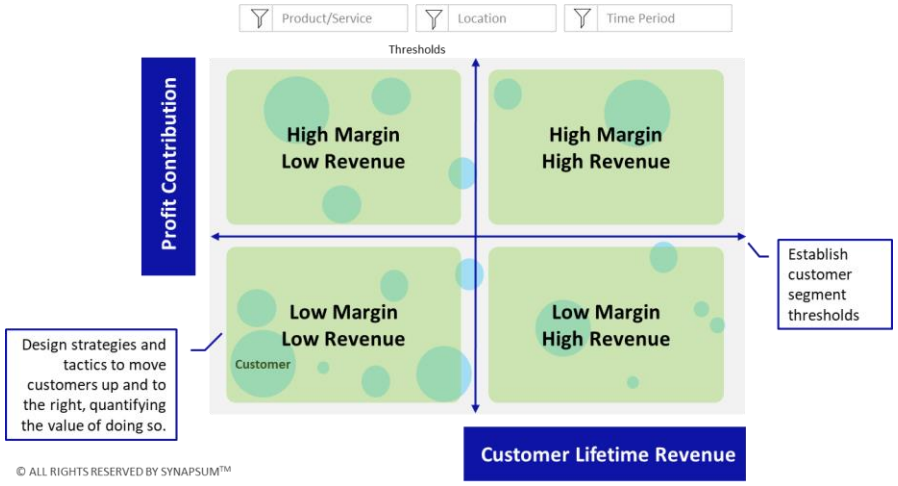

Figure 4 – Defining Triggers and Actions Based on Goals Specific to Each Customer Segment

The result of this 3-step exercise should offer you a working framework to focus on 'needle-moving' opportunities and achieve improved results.

If you believe your company has an opportunity, we would like to connect. One way to participate is through Synapsum's Vanguard Program, which is a low risk, high reward way to try Synapsum today and shape your future profit. For a facilitated design session and/or potential participation in Synapsum's software beta program, please reach out to Synapsum at info@synapsum.com, or call us at (914) 214-9205, or visit our website (https://synapsum.com/) for more information.

About Synapsum:

Our first-hand experiences driving profit growth within businesses is at the root of SYNAPSUM's core design. We understand sales and operational processes, technology applications and data structures, and the unique requirements of transforming insights into integrated actions for greater impact. SYNAPSUM was born in 2020, yet many components of the solution were developed and matured over the last decade, now unified under SYNAPSUM's purpose-built SaaS and data solution. Our team extends across the East Coast, Midwest, and West Coast of the United States, in addition to India. We are inspired by your opportunity to bring cost intelligence into action to improve performance.

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About ChainLink:

ChainLink is a recognized leader in custom research and advisory services, with a focus on supply chain, Internet of Things, and blockchain. Founded in 2002, our emphasis from the start has been on inter-enterprise interactions and architectures ('the links in the chain'). We have conducted over 75 primary research projects, interviewing and surveying over 10,000 executives and professionals. Much of our research focuses on industry-specific use cases, business cases and ROI, and drivers/inhibitors of technology adoption, and business change. As a result, we have developed a deep, multi-industry practice, founded on real-world, validated, supply chain-wide, end-to-end perspectives that have helped our clients understand, plan, and succeed as they move into the future.

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