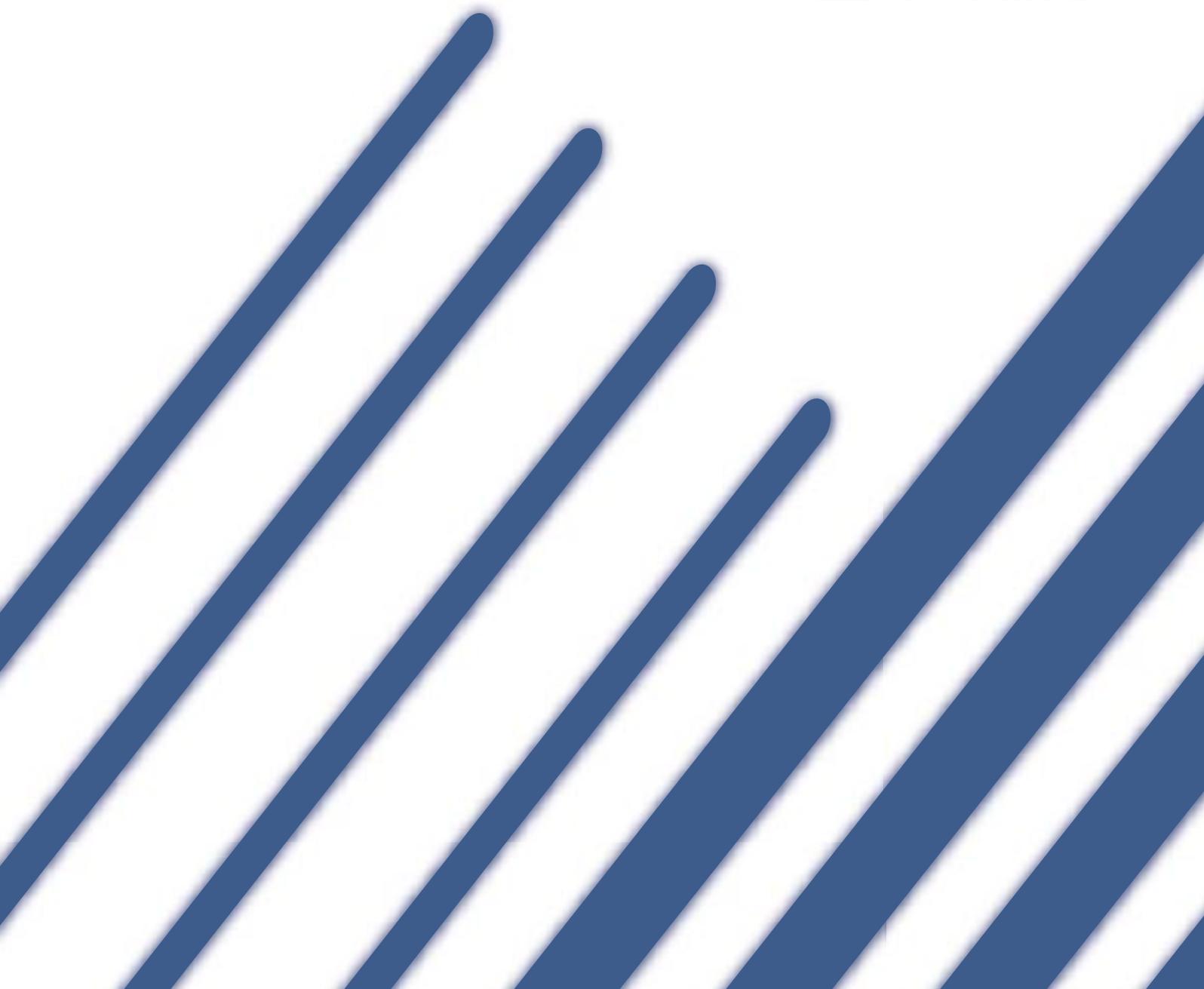




AUSTRALIAN
FOOD AND GROCERY
COUNCIL

*A Guide to Using Cost to Serve to Enable
Effective Customer Engagement*



The Australian Food and Grocery Council

The Australian Food and Grocery Council (AFGC) is the national body representing the nation's food and grocery products manufacturers. The food and grocery products industry is Australia's largest manufacturing sector, employing more than 200,000 Australians and contributing 2.5 per cent to gross domestic product.

The role of the Council is to help shape a business environment that encourages the food and grocery products industry to grow and remain profitable.

The Council provides food and grocery products manufacturers with a platform from which they can voice their views on a range of issues.

For further information on the activities of the AFGC refer to www.afgc.org.au



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Focus Information Logistics

Focus Information Logistics Pty Ltd is a grocery industry advisory company, providing strategy guidance and modelling support to manufacturers and retailers in achieving mutually profitable outcomes, through fact-based collaboration.



Focus provides the expertise, experience and modelling tools to enable suppliers to engage effectively with their major customers, in the radical transformation now underway in the industry. Focus personnel continue to promote the adoption of true profit as the key financial performance indicator for the industry. Focus is pleased to be a contributor to this publication, which we hope will foster a rigorous, proactive approach to customer engagement.

Further information at www.fil.com.au, email info@fil.com.au or phone +61 2 9906 2555

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EXECUTIVE SUMMARY

In the context of the unprecedented breadth and pace of change in the Australian FMCG Industry, it is appropriate that all stakeholders understand and measure their underlying Cost to Serve (C2S). For this to happen, retailers and suppliers must move from traditional accounting measures of cost and profitability to a more logistics focused measure of the true cost and profitability of service. This Guide attempts to build a foundation methodology and framework for such on-going analysis.

C2S is a generic label for a robust methodology to determine the likely financial outcomes of supply chain investment and collaborative engagement. It is a process and activity focused methodology. It moves beyond the broad measures of costs collected through the General Ledger and standard accounting practices. It focuses on sustainable decision support and builds a foundation for fact-based collaborative engagement. C2S is about being approximately right as opposed to being precisely wrong. It is a methodology which forces attention upon the key drivers of cost (and waste) through rigorous process mapping. As a result, it can often result in re-appraisal of existing processes. Its applicability is as suitable for Primary Freight/Factory Gate Pricing considerations as it is for Efficient Assortment and Ranging Analyses.

The dimension of time is a critical part of any C2S undertaking. As the Australian supply chain "metamorphosis" gathers momentum, all stakeholders must appreciate the current ("As Is"), transitional ("Near Term") and final ("End State") financial impacts of evolving business practices. Analyses and decisions need to be cognisant of these time states.

The end focus of the C2S methodology must be the supermarket shelf. Depending upon the level of trust (and hence collaboration) between stakeholders, outcomes will be richer and more sustainable if the focus is on the end-to-end supply chain. For the purpose of this Guide, the supply chain flows from finished retail item, through to the supermarket shelf.

In all C2S work, there are four Guiding Principles:

- Consistency
- Scalability
- Transparency
- Results Focus

This Guide will build upon these principles and demonstrate the C2S methodology through the following dimensions:

- As an enabler of change in the context of the Australian Grocery Industry business transformation (the "how" as opposed to the "what").
- As a consistent end-to-end supply chain model identifying broad processes and cost elements. This model should be scalable depending on the maturity of the trading relationship.
- As a refresher on the applications described in the existing ECR Australasia toolkit (*"Profit Impact of ECR"*).
- As a "how-to" guide, for those wanting to apply the methodology, drawing on first hand experience of the authors in the application of the methodology.

This Guide is offered as a contribution towards building an environment which fosters deeper collaboration between retailers and suppliers. For this to happen, C2S must be both consumer focused and cost conscious. It all starts and ends at the supermarket shelf.

TO READ MORE

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