FOR THE CFO AND CORPORATE FINANCE

Price Discovery for Margin Recovery in Distribution

Distribution costs can now rival COGS as the largest variable line on the P&L. The cost of the work inside it, invisible until now, is hiding 1.5–3 EBITDA points of recoverable margin. **Cost to Serve resolves it** by customer, product, fulfillment path, and order profile, so price discovery stops being a guess.

Distribution: The margin blind spot

It is the quarterly close. The COGS variance is in the deck. It's explained, decomposed, and defensible. Procurement can walk through it line by line. The DC cost variance is on the same page, larger, and nobody can decompose it.

In apparel, consumer goods, electronics, and industrial distribution, DC cost now approaches or exceeds COGS, and the variance inside it is invisible. The number moves; the explanation defaults to "mix" or "wage pressure", which are generalities disconnected from any customer, SKU, fulfillment path, or order type.

The result: margin leaks out to unprofitable customers, products, fulfillment paths, and service tiers, and the CFO can't name a single one. Bain finds 30–40% of transactions are mispriced in distribution. Those are the dollars currently left on the table, quarter after quarter.

Stop the bleed. Then reprice the work.

Averages don't fail because they're imprecise. They fail because they hide the actual cost spread you would act on if you could see it. There are four dimensions where Cost to Serve varies sharply. Order profile, customer, fulfillment source, and service tier. Resolving the actuals with Cost to Serve directly enables recoverable gross margin and revenue.

Metrics that mislead

DC cost has become one of the largest variable lines on the P&L. And in apparel, consumer goods, and small-parcel ecommerce, it approaches or exceeds COGS. The decomposition tools haven't kept up. COGS gets a SKU-level variance report. DC cost gets a paragraph.

"Mix" is not an explanation
When DC variance is attributed to mix, the next question, "**which mix?",** has no answer. Customer? Product? Order-profile? All four move independently. Averaging hides each one.

Pricing updates annually. Cost updates daily.
The bid model, the rate card, the free-shipping threshold is often set once, and revisited at the next planning cycle. The order profile drifts continuously. By the time the model is refreshed, the margin has moved.

30-60%
improvement in profitability

THE BAIN FINDING

1.5–3 EBITDA percentage points recovered in distribution alone.

Distribution EBITDA margins typically run 5–8%. Recovering 1.5–3 points is the equivalent of growing revenue 15–45% at unchanged margin, without adding a customer.

COST TO SERVE LEVERS THAT IMPACT PRICING

Where margin leaks and where it gets recovered - with Cost to Serve

Order Profile & Product Family

3–5x cost spread

What you're shipping (size, weight, fragility, value, return propensity) and how it's composed in the order (lines, zones, VAS, kitting) drives most of the labor and equipment cost the DC absorbs. Blended unit cost lets easy work subsidize hard work. When mix shifts, margin moves with no visible cause.

WHAT YOU RECOVER

SKU and product-family repricing. Surcharges that finally cover non-standard work. Rationalization of SKUs that don't earn their cost to handle.

Customer (B2B Wholesale & 3PL)

1.5–3x cost spread

Same rate, different compliance pack-outs, different chargeback exposure, different order profiles. Customer-level Cost to Serve typically ranges 1.5–3x within a single portfolio. New customer growth can erode total margin if their cost profile is worse than the existing book.

WHAT YOU RECOVER

Contract renegotiation with decomposed cost evidence. Tiered minimums, accessorials by process, and exits where the math doesn't pencil.

Fulfillment Path Economics

30–70% cost spread

The economics of servicing demand vary dramatically by fulfillment path. A DC shipment, ship-from-store order, marketplace fulfillment, and in-store return all consume labor differently. This often creates 30–70% differences in operational cost. Returns alone can make one product family 2–3x more expensive to service than another. Pricing, shipping, and service-level decisions made against blended averages hide where margin is actually gained and lost.

WHAT YOU RECOVER

True delivery-margin visibility. Free-shipping thresholds aligned to operational economics. Pricing and service decisions grounded in the real cost of fulfillment and returns.

Rush Order & Service Tier

2–3x cost spread

Same-day, next-day, and expedited orders pull labor into overtime and dedicated zones, costing 2–3x a standard order. Expedite surcharges the are set too low can quietly eat margin at scale, though the accretive revenue might look positive. The calculated surcharge standard looks right, but it's often wrong. Operations has a hunch the surcharge isn't covering itself, but nobody can prove it.

WHAT YOU RECOVER

Rush surcharges that match the actual cost of expedited work. Service-tier pricing that funds itself instead of leaking margin.

"Ultimately, the data speaks for itself. We can actually tailor it to specific processes. If there are deviances, we can say to our clients, "this is what is attributing to your cost per unit."

Val Ramroop | *Vice President Operations, National Logistics Services (NLS)*

A 3PL View

Let's show how Cost to Serve can help drive financial performance. For 3PLs, the revenue is for services. And yet, very frequently when Cost to Serve is exposed, they find some customer accounts are losing money, and the accounts that are profitable are inadvertently subsidizing the losing accounts. In this example, two 3PL customers have the same revenue, same volume, same contracted rate, same blended margin. Customer A is healthy and profitable, but Customer B is unprofitable due to more difficult workflow. As Customer B's volume and billables go up, the 3PL is left further in the red. Often this is not discovered until it is too late. A 3PL that has Cost to Serve visibility in real time will avoid this fate. Cost to Serve resolves what the warehouse actually did, and assigns a cost to that activity. No matter how complex the workflow.

BEFORE

	Customer A	Customer B
Monthly revenue	$45,000	$45,000
Orders shipped	10,000	10,000
Contracted rate	$4.50/order	$4.50/order
Blended cost view	$3.80	$3.80
Blended margin	+$0.70 (16%)	+$0.70 (16%)

AFTER

	Customer A	Customer B
Avg. lines per order	1.2	3.4
Pick zones touched	1	3
Return rate	4%	6%
Actual cost to serve	$2.90	$5.20
True margin	+$1.60 (36%)	-$0.70 (-16%)

HOW DOES THIS WORK?

Easy Metrics can allocate the full DC cost stack. Not just labor.

Labor in all its forms (direct, indirect, and "missing time") accrues the most, and has the most variability in a DC environment. That's why Cost to Serve for labor is the foundational starting point to get control of margins and pricing. Adding facility, equipment and automation and other fixed costs gives finance a more complete picture. Cost to Serve allocates costs to where they are being consumed, and finance finally gets an apportioned view of distribution costs. Finance can calculate the true ROI of automation systems, robots, and other equipment according to how much workflow they are actually processing.

Labor (direct & indirect). Every touch measured and costed against the work it performed. Pick, pack, receive, replenish, returns, kitting, VAS, inventory control. Allocated at the activity level, not just a facility average.

Facility. Rent, utilities, depreciation. Allocated proportionally to the activities the facility supports, not pooled across total square footage.

Equipment & automation. Each unit's monthly cost (capex, lease, or operating) attributed to the activities it actually performed, against the units it actually processed. Critical for automation and robotics, where vendor-promised utilization and real utilization rarely match.

Other fixed costs. Supervision, administration, IT, support functions mapped to the cost centers and activities they actually enable.

- **Optimize and ensure performance from labor spend**
- **Reality check vendor ROI promises on large investments**
- **Rationalize capex budgets against actual Cost to Serve**
- **Rightsize robotics and equipment fleet**

Three operations, three CFO conversations.

Third Party Logistics

3PL

Where margin leaks: customer profitability.

100% of revenue is warehouse operations. Every contract is a P&L line. Cost to Serve resolves cost by **customer** and by **process** — so you don't just know which customers are unprofitable, you know whether inbound, returns, VAS, or outbound is eating the margin.

Levers: Reprice unprofitable accounts, restructure accessorials by process, raise minimums, bid new business against a known floor.

CFO QUESTION IT ANSWERS:
Which contracts are eroding gross margin, and by how much?

Wholesaler / Distributor

Shipper

Where margin leaks: product family & customer mix.

You set prices against expected fulfillment cost. Built, then revisited rarely. Cost to Serve shows **actual** cost by product family, customer, and SLA/VAS — and the gap to expected. When they diverge, likely the SKU is mispriced, the customer mix has drifted, or compliance work has expanded. Cost to Serve reveals where.

Levers: Reprice product families against actual cost, retire low-margin SKUs, raise MOQs, surcharge non-standard pack-outs.

CFO QUESTION IT ANSWERS:
Which products and accounts still price correctly, and which need to move?

Retailer / Brand

Omnichannel

Where margin leaks: fulfillment path & service tier.

DC cost varies sharply by fulfillment path. And returns make ecommerce categorically more expensive than retail. Blended fulfillment/returns cost hides where margin is being made or lost. Cost to Serve resolves cost by **fulfillment source, order profile, and service tier,** including the loaded cost of returns.

Levers: Reset free-shipping thresholds, surcharge non-standard orders, isolate fulfillment margin, price expedited service against actual rush cost.

CFO QUESTION IT ANSWERS:
Which fulfillment sources and service tiers are funding the business, and which are draining it?

TWO EXAMPLES THE CFO CAN ACT ON

Margin destroying scenarios fixed by Cost to Serve

Free Shipping

Two $50 orders, one promise.
Both free-ship qualified. Same revenue, same promise.

Order A — single SKU, forward pick, one carton

Cost to fulfill	$4.20	Profitable

Order B — three SKUs, two zones, fragile

Cost to fulfill	$11.80	Underwater

Once cost is resolved at the order-profile level, the free-shipping threshold becomes a finance decision with a defensible answer — not a marketing assumption.

Rush Orders

$9.99 surcharge that doesn't cover the work.
Next-day commitment, promoted at $9.99 above standard rate.

Standard order

Cost to fulfill	$4.60

Rush order (overtime, dedicated zone, reprioritized flow)

Cost to fulfill	$18.10	–$3.61 / order

The promotion looks accretive on the marketing dashboard. It's destroying margin on every order it generates. Cost to Serve makes a surcharge a calculation, not a guess.

What you can finally see

Metric outputs that drive the pricing review

3PL Price Review

BEFORE

$180 **Inbound Container Processing**
per container

Original Inbound Profile
4,000 cases
2 SKU's
12 splits
Floor stacked

Customer Perspective: The workload stays the same, a "container is a container", "Why did the processing cost jump?"

AFTER

$320 **Inbound Container Processing**
per container — repriced to reflect actual workload

Actual Inbound Profile (Reality)
5,200 cases
20 SKU's
120 splits
Floor stacked

Operational Reality: The container didn't change. The work inside it fundamentally did.

What Changed Operationally

- More carton breakdown
- More SKU sorting
- More scans
- More pallet builds
- More putaway decisions
- More inventory touches
- More labor hours per container

The Pricing Conversation Changes

Without Cost to Serve:

- The 3PL looks inefficient
- The rate increase feels arbitrary
- Margin erosion becomes the operator's problem

With Cost to Serve:

- Workload complexity becomes measurable
- Product-mix changes become visible
- Labor impact becomes quantifiable
- Repricing becomes defensible and directly tied to operational workoad

Now the conversation becomes:

"The original rate assumed 12 splits per container. Your inbound profile now averages 120 splits. The operational labor required to process the work has fundamentally changed."

Gartner: a transaction treated as +7.5% profitable under traditional cost allocation was found to be -0.4% after Cost to Serve reallocation. At scale, small variance becomes large gross margin movement.

What you can finally see

Metric outputs that drive the pricing review

Wholesale Price Review

BEFORE

$1.00 **Network Average Cost-to-Serve per Case**
Everything looks healthy at the total level. One average hides very different realities.

Customer	Avg Cases per Order	Cost-to-Serve per Case	Order Profile Summary
A	200	?	High-volume replenishment
B	7	?	Small, frequent orders
C	12	?	Fragmented ordering
D	150	?	Stable, bulk ordering
Network Avg	—	$1.00	Blended across all customers

Risk: The average masks unprofitable customer behavior. Low-volume, high-touch orders are subsidized by high-volume customers.

AFTER

Same Network. Very Different Economics.
Volume drives operational efficiency. Order profile drives cost.

Customer	Avg Cases per Order	Cost-to-Serve per Case	vs. Network Avg ($1.00)	Profitability Impact
A	200	$0.87	-13%	Efficient, profitable
B	7	$2.50	+150%	Highly inefficient
C	12	$2.42	+142%	Highly inefficient
D	150	$1.05	+5%	Efficient, profitable

Insight: Cost to Serve exposes very different per-case realities between customers. Align pricing and order behavior with reality.

TAKE ACTION

- Reprice low-volume customers
- Establish MOQs or minimums
- Add small-order surcharges
- Drive consolidation & better order profiles

The Pricing Conversation Changes

Without Cost to Serve:

- All customers appear equally profitable
- Blended averages hide operational reality
- Low-volume customers are subsidized by efficient accounts
- Small, fragmented orders quietly erode margin
- Sales teams negotiate pricing without understanding servicing cost

With Cost to Serve:

- Customer profitability becomes visible
- Low-volume, high-touch order profiles become measurable
- Operationally expensive accounts can be repriced
- Minimum order quantities and surcharges become defensible
- Pricing aligns to actual warehouse labor consumption

Now the conversation becomes:

“Your pricing was built around bulk replenishment behavior. Your current ordering pattern creates significantly higher operational labor per case. The cost to service your account is materially different from the network average.”

What you can finally see

Metric outputs that drive the pricing review

Retail / Omnichannel Price Review

BEFORE

$4.50

Average Fulfillment Labor Cost

All channels blended together. Costs look similar, and omnichannel appears margin neutral.

Key Question: are we covering the true Cost to Serve of each fulfillment path?

AFTER

Fulfillment Source	Department	Direct Labor Cost (per order/return)	Indirect Burden (% of Direct)	Fully Loaded Labor Cost (per order/return)
DC Fulfillment	Outbound Fulfillment	$2.29	30%	$2.98
Ship-from-Store	Outbound Fulfillment	$6.45	55%	$10.00
Return-at-Store	Inbound Returns	$7.83	60%	$12.53

Does the revenue & inventory benefit outweigh the operational servicing cost?

Revenue Benefit (?)
Incremental sales, conversion, market share growth

Customer Experience Benefit (?)
Convenience, speed, loyalty, NPS improvement

Inventory Benefit (?)
Better inventory positioning, reduced stockouts

Operational Cost (per unit) (!)
Fully loaded labor cost varies by fulfillment path

Decision: Balance the revenue and inventory benefit against true operational Cost to Serve

The Pricing Conversation Changes

Without Cost to Serve:

- Ecommerce fulfillment appears as one blended operating cost
- Ship-from-store looks operationally equivalent to DC fulfillment
- Store returns are treated as customer service activity
- Omnichannel convenience appears margin-neutral
- Inventory utilization and revenue benefits are measured independently from labor impact

With Cost to Serve:

- Fulfillment-path economics become visible
- Store fulfillment labor is separated from DC economics
- Reverse-logistics burden becomes measurable
- Indirect labor and workflow fragmentation are quantified
- Delivery margin can be evaluated by fulfillment source

Now the conversation becomes:

"The customer experience improved. The question is whether the operational servicing cost required to support it still preserves margin."

Cost to Serve as one source of truth.

With Cost to Serve, finance has the detail and supporting resources to drive confidence and action. By replacing emotion about operational costs with facts in business language, Easy Metrics helps organizations transform the relationship between operations and the rest of the business from reactive to a strategic value driver.

With visibility into cost and performance, finance and operations can work together and drive top line margin improvements. Operations become a competitive advantage to the business, instead of a cost center.

Stop the leak

Cut what isn't paying

- Exit or reprice unprofitable customers
- Retire SKUs that don't earn their handling
- Cap service tiers that don't fund themselves

Reprice the work

Charge for what it actually costs

- Renegotiate contracts with decomposed cost evidence
- Activity-based pricing for VAS, returns, rework, rush
- Surcharges that actually cover the work they describe

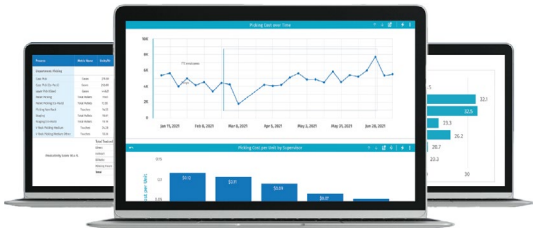
Shape Demand

Move the mix toward margin

- Set MOQs against order profiles that erode margin
- Service tiers anchored in actual cost differential
- Rationalize SKUs and product families by contribution

Easy Metrics brings Price Discovery to life.

Determine optimal pricing based on actual Cost to Serve. Use precise operational cost analytics to price services accurately, negotiate effectively, and protect margins.



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Targeted Cost to Serve
A single objective metric comparing every facility, adjusting for product mix and workflow complexity. Reveals whether your operation is beating margin targets or where costs exceed expectations.

About Easy Metrics
Easy Metrics is a cloud-based warehouse performance management platform that unifies operational data to deliver real-time visibility across your network. We empower operations leaders to optimize labor, reduce costs, and improve productivity by connecting performance metrics to financial outcomes.

www.easymetrics.com