

Measuring logistics costs and performance



Estd. 1990

Main Title Goes Here....

- Logistics and the bottom line
- Logistics and shareholder value
- Logistics cost analysis
- The concept of total cost analysis
- Principles of logistics costing
- Customer profitability analysis
- Direct product profitability
- Cost drivers and activity-based costing

Logistics and the bottom line

$$\text{ROI} = \frac{\text{Profit}}{\text{Capital employed}}$$

Figure 4.1 The impact of margin and asset turn on ROI

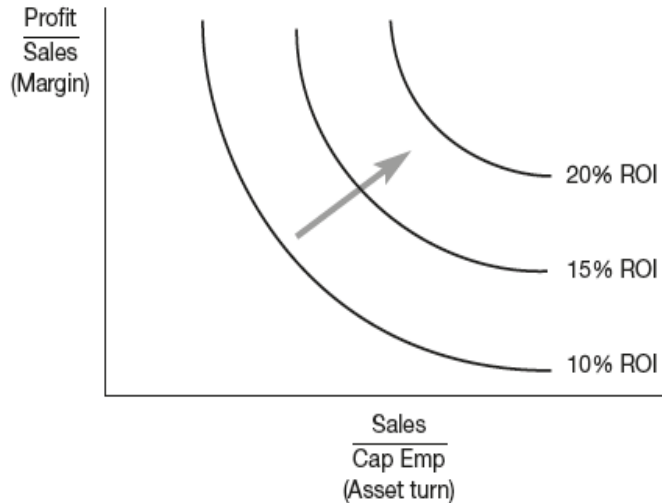
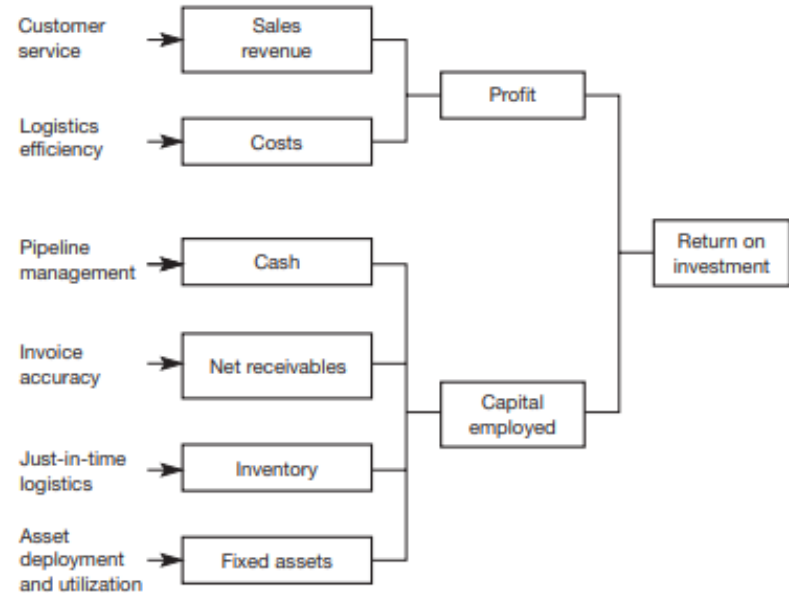
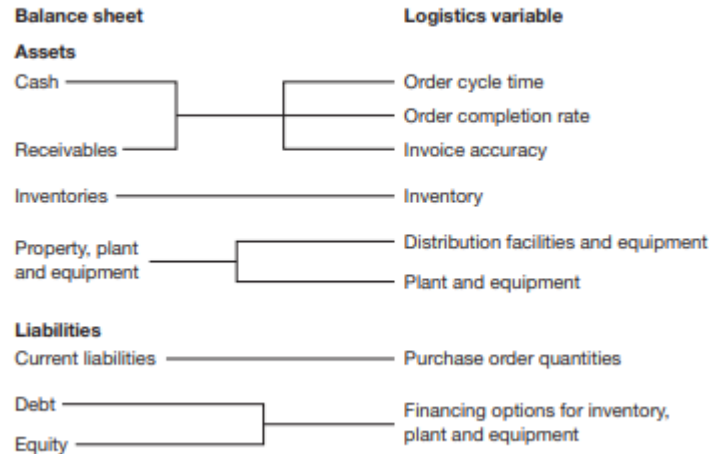


Figure 3.2 Logistics impact on ROI



Logistics and shareholder value

Figure 3.3 Logistics management and the balance sheet



Net operating income
less
 Taxes
less
 Working capital investment
less
 Fixed capital investment
 =
 After-tax free cash flow

- These **cash flows** may themselves be defined as:
Net operating income less Taxes less Working capital investment less
Fixed capital investment = After-tax free cash flow

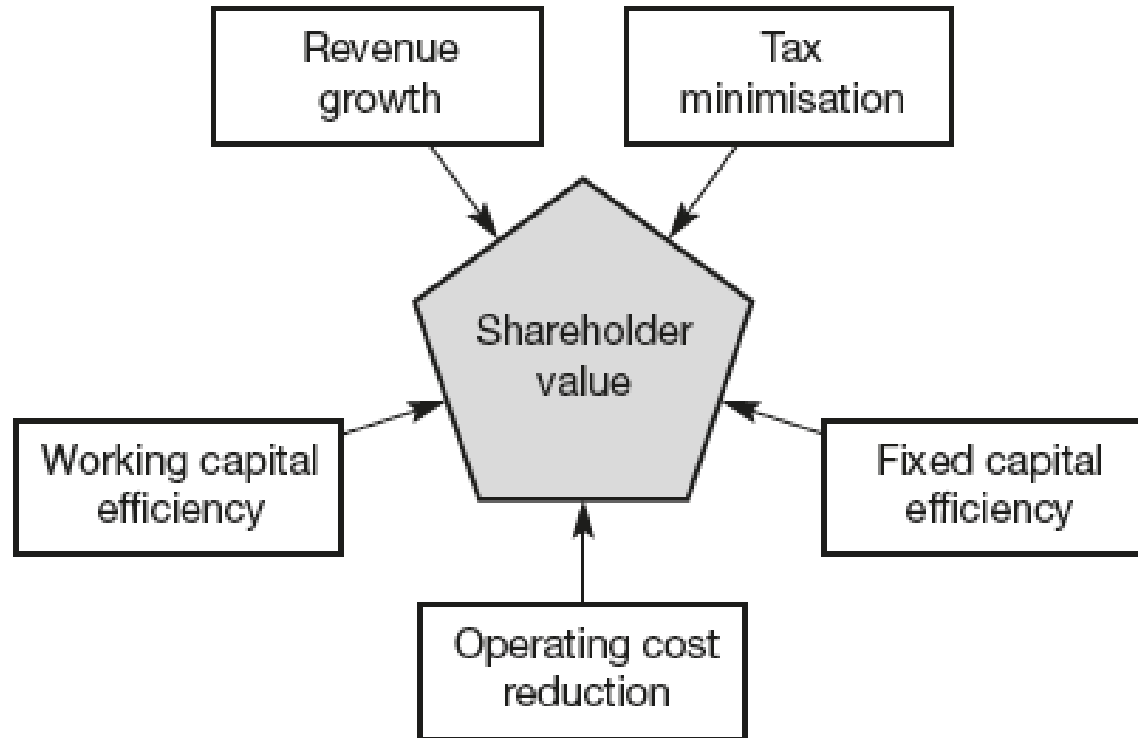
Economic value added (EVA)

= Profit after tax – True cost of capital employed

- A simple definition of MVA is:
Stock price × Issued shares less Book value of total capital invested =
Market value added
- And, as we have already noted:
MVA = Net present value of expected future EVA

The drivers of shareholder value

Figure 4.4 The drivers of shareholder value



Cash-to-cash cycle time = Days of inventory¹ + Days of accounts receivable² – Days of accounts payable³

$$^1\text{Days of inventory} = \frac{\text{Current inventory (value)}}{\text{Daily cost of goods sold}}$$

$$^2\text{Days of accounts receivable} = \frac{\text{Current accounts receivable}}{\text{Daily sales (value)}}$$

$$^3\text{Days of accounts payable} = \frac{\text{Current accounts payable}}{\text{Daily cost of goods sold}}$$

The role of cash flow in creating shareholder value