SUPPLY CHAIN SERVICES

# CONNECTING SUPPLY CHAIN STRATEGIES TO ENTERPRISE PROFITABILITY THROUGH MARGIN TRANSPARENCY

Most companies know what they pay suppliers and what they charge customers. Far fewer understand the full economic cost created between those two points.

Supplier lead times, quality losses, inventory requirements, order variability, freight, service commitments, returns, working capital and supply risk can materially change the profitability of a product or customer relationship. These costs often sit across several functions and systems, making them difficult to see and even harder to manage.

The result is decisions made in a margin vacuum:



**Procurement** reports purchase-price savings that do not fully reach EBITDA.



**Sales** grows accounts that appear profitable based on gross margin.



**Operations** absorbs the complexity costs required to fulfill customer promises.



**Finance** sees the combined impact only after margin has already eroded.

Procurement and Supply Chain have a broader role to play here than simply reducing cost. Their view of supplier economics and operating requirements can help the wider business understand how sourcing, pricing, and service decisions affect margin. That requires connecting two complementary measures: total cost of ownership (TCO) to capture the full cost and risk associated with a supplier, material, asset or service, and cost-to-serve to measure the resources required to fulfill, deliver and support a product, customer or channel.

Used together, supplier TCO and customer cost-to-serve connect decisions on both sides of the supply chain to enterprise profitability. They give companies a fuller view of enterprise contribution and a common fact base for sourcing, pricing, service, planning, and portfolio decisions, helping management identify where changes can improve EBITDA without eroding margin erroneously.

With Supply Chain functioning at a strategic level, that broader view also makes it easier to see where margin is being lost. In many organizations, the biggest gaps appear in three areas: how costs are measured, how pricing and service decisions are made, and how responsibility is divided across functions.

**Used together, supplier TCO and customer cost-to-serve connect decisions on both sides of the supply chain to enterprise profitability.**

# WHERE MARGIN EROSION REMAINS HIDDEN

## 1. Purchase Price and Gross Margin Provide an Incomplete View

Companies typically have detailed data on purchase price, standard product cost, revenue and gross margin. They often have less visibility into quality losses, inventory requirements, operating complexity, customer service effort, and working-capital consumption. That can make a sourcing event look successful even if inventory, quality, or disruption costs increase elsewhere. A large customer can appear attractive based on revenue and gross margin even when service requirements, revenue leakage, or fulfillment complexity significantly reduce its contribution.

The gap is usually between supplier cost, internal operating activity, and customer contribution. Closing it may require analysis at the supplier, product, service, customer, order, route, or channel level, depending on the decisions the business needs to make. The model should reconcile to Finance records while incorporating the operating drivers behind the numbers. Those might include order lines, warehouse touches, delivery stops, changeovers, support hours, delivery frequency, order size, returns, expedites, special handling, service-level commitments, forecast error, or defect incidents.

More detail is only useful if it supports a decision. The aim is to understand whether an apparent saving or profitable account is actually creating value for the business as a whole.

## 2. Broad Pricing and Service Decisions Can Hide Cost Differences

When input costs rise, a broad price increase across customers or products can seem like the obvious response, but it may penalize high-value accounts while doing nothing to address the behaviors creating disproportionate cost. The same issue arises with services. A standard service promise may work well for most customers, while others require frequent deliveries, small orders, dedicated inventory, special handling, or extensive support. If those differences are not visible, profitable customers may effectively subsidize less profitable ones.

Cost-to-serve analysis gives commercial and operations teams a better basis for deciding what should change. Does pricing reflect the service being provided? Should delivery frequency or minimum order quantities be adjusted? Are there services that cost more to provide but remain strategically important? The right answer will not always be to reduce service or increase price. Some high-cost services are commercially valuable and should be protected. The point is to understand where the costs live and whether the commercial model reflects it. The analysis also needs to keep pace with the business. Freight, fuel, labor, tariffs, and supplier prices change, and so do customer requirements and ordering patterns. A profitability study completed once and left untouched will quickly lose its usefulness.

That visibility matters even more where there is no dedicated pricing function and responsibility sits with a group that may not have a full view of cost, such as Sales. Without a clear view of cost-to-serve, pricing decisions can give away margin that Procurement or Supply Chain has worked to create.

## 3. Fragmented Ownership Prevents Value Realization

The costs that determine enterprise contribution are spread across Procurement, Operations, Supply Chain, Finance, and other commercial teams. Procurement may control supplier terms but not product specifications. Sales may set customer commitments without seeing the full fulfillment cost. Operations may absorb variability without the authority to change commercial terms. Finance may validate the result without having visibility into all the operational drivers behind it. Each decision can make sense within one function and still reduce value for the company overall.

Clear ownership and cross-functional communication helps. Procurement provides insight into supplier TCO, sourcing strategy, contract value, and supplier performance and leads on sourcing strategy. Operations and Supply Chain provide visibility into inventory, capacity, quality, fulfillment, and operating complexity. Commercial leadership leads on pricing, customer terms, product mix, and service commitments. Finance provides consistency in the cost methodology and validates the resulting financial impact. Those roles will look different from one organization to another. What matters is that the decisions connect. The same economic view should feed into regular management processes, including strategic sourcing, sales and operations planning, integrated business planning, pricing reviews, customer profitability reviews, product rationalization, and supplier performance management.

This fragmentation also helps explain a familiar problem: Procurement can report significant savings during the year, only for leadership to ask why those savings are not visible in EBITDA. Identified opportunity, negotiated value, implemented savings, P&L impact, cash impact, and working-capital release are not the same thing. Savings may be reinvested, absorbed by higher costs elsewhere, offset by commercial decisions, or lost in ordinary operating variance. Material initiatives therefore need a clear baseline, an accountable owner, an implementation date, and validation from the Finance team. Management also needs to decide what happens to the value once it has been created. Is it expected to reach the bottom line, offset inflation, or fund investment elsewhere?

Without that discipline, Procurement may have delivered the saving it committed to, while the enterprise never sees the expected financial benefit.

# EMBEDDING MARGIN TRANSPARENCY INTO BUSINESS DECISIONS

TCO and cost-to-serve work best as ongoing management capabilities. The economics change too frequently for a one-time analysis to remain useful for long, making it that much more important to build an enduring capability for strategic collaboration to improve margin transparency.



### 1. Start with the Decision

Define and align on the business question before building the model. Is management trying to understand product-level profitability? Customer service costs? Supplier economics? The effect of a pricing change? Inventory requirements?

Starting with the decision helps establish the level of detail required and avoids building an elaborate model without a clear use for it.



### 2. Build a Decision-Grade Economic Model

Relevant data may sit across enterprise resource planning, procurement, warehouse, transportation, customer relationship management, quality, warranty and service systems. Advanced analytics and, where appropriate, AI can help companies work with large or fragmented datasets and identify patterns that would otherwise be difficult to see.

Where detailed data is not available, operational studies and well-governed assumptions can provide a reasonable starting point. Whatever the source, the model needs to be traceable to the underlying data and reconcilable to financial totals.



### 3. Collaborate, Align, and Act on the Findings

The analysis needs to result in specific sourcing, pricing, service, inventory, or portfolio decisions.

It often makes sense to begin with a manageable number of material opportunities where management has both the authority and capacity to act. Procurement, Supply Chain, Finance, and other business leaders should agree on what the data show, what action will be taken, who is responsible, and how the financial impact will be measured.



### 4. Embed the Model into Management Routines

Ownership and refresh cycles should be established from the outset, with the analysis incorporated into regular management processes.

This is where many programs lose momentum. Finding an opportunity does not deliver the benefit on its own. The decisions and operating changes that follow are what determine whether the value is realized. Clear KPIs can connect operational performance with margin, while Finance-validated benefit tracking helps management see what has actually been delivered.

# PUTTING MARGIN TRANSPARENCY INTO PRACTICE

A&M has seen the value of greater cost and margin transparency delivers for businesses across industries and market conditions. The tools available to companies continue to evolve, but the underlying principle remains the same: better visibility into the economics gives management a stronger basis for making decisions.

| Industry | Focus | Description | Impact |
|---|---|---|---|
| **Industrial cleaning** | Linking profitability analysis to action | A division of a global industrial cleaning and repair company was experiencing significant margin erosion. A&M developed profitability models at the market, customer, and product level, then used the analysis to identify underperforming customers and support cross-functional pricing and operational improvements. A&M also introduced an S&OP process, customer profitability reviews, and new forecasting and performance measures. | The work generated more than $3.5 million in margin impact. The S&OP work identified more than $3 million in reduced rental, labor, training, and administrative expense, as well as more than $900,000 in positive cash flow in the first year. |
| **Medical technology** | Keeping pricing aligned with changing costs | A global medical technology company needed to understand and respond to the impact of changing tariffs. A&M built customer- and product-level gross profit and margin models that could be updated as tariff assumptions changed. | The analysis covered more than 130,000 customer and product combinations, quantified $60 million in tariff-related COGS impact, and identified $50 million in operational mitigation strategies. A&M also analyzed customer contracts, developed customer and product-family margin targets, and identified more than $100 million in pricing opportunities to address the remaining exposure. |
| **Consumer products** | Understanding customer cost-to-serve | A global cleaning products manufacturer had limited visibility into the cost of fulfilling orders for individual customers, including warehouse costs, outbound logistics, trade promotions, and deductions.<br><br>A&M developed customer-level cost-of-fulfillment analytics linked to live data. The business could see overall fulfillment costs and drill into specific drivers, such as the cost of splitting pallets for customers placing small, frequent orders. | The analysis showed which customers were profitable to serve and which required attention. Sales, Marketing, and Customer Service could then use the same fact base in discussions with customers about buying patterns and service arrangements. |

# FROM MARGIN ANALYSIS TO MARGIN MANAGEMENT

Improving margin requires both the right level of data and the discipline to act on it across the enterprise. In many organizations, the information needed to understand and manage profitability is fragmented, too high-level, or not connected across suppliers, products, and customers. Building a more granular, fact-based and cross-functional view helps identify where true margin improvement opportunities exist and gives Procurement, Supply Chain, Operations, Finance and other commercial teams a stronger basis for decisions on sourcing, pricing, service, and other levers that can improve EBITDA.

Supplier TCO and customer cost-to-serve provide complementary ways to build that view. Together, they show how sourcing, pricing, inventory, service, and operating decisions affect financial performance across the enterprise. The value comes from turning that visibility into action, and action into measurable financial impact. Without that connection between analysis, action, and results, identified opportunities can fail to translate into EBITDA improvement.

At A&M, we help organizations build that capability by connecting supplier TCO, operating complexity and customer cost-to-serve within a common financial framework and mechanisms for comprehensive decision-making. We use that fact base to inform margin management and strategy, from granular supplier, product, and customer profitability analysis to pricing, sourcing, and operating decisions, as well as the governance and management routines needed to sustain the results. Depending on the opportunity, those actions can support cost reduction, margin improvement, revenue enhancement, and better customer outcomes.

Margin transparency is ultimately far more than an ongoing analytical exercise. It is a management capability: one that gives teams a common view of the economics, supports better decisions across functions, and makes it possible to track whether those decisions are delivering the intended results. In that way, operational insight is translated into sustained margin improvement and optimal financial performance.

## Key Contacts




**Julie Diehl**
Managing Director
jdiehl@alvarezandmarsal.com



**Christine Mack**
Managing Director
cmack@alvarezandmarsal.com



**Sarah Balabanov**
Senior Director
sbalabanov@alvarezandmarsal.com


Follow A&M on:


© Copyright 2026 Alvarez & Marsal Holdings, LLC.
All Rights Reserved.
509955-64694/September 26
10314_Stg01


## ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

To learn more, visit: **AlvarezandMarsal.com**

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠