Monday Morning
January 7, 2008

ONE EIGHTY

Upcoming 2008 Events

- APQC Winter Training Program
  Houston
  February 5-6
- CAM-I/CII Performance Management Conference
  New Delhi
  February 18-19
- CAM-I First Quarter Meeting
  Charlotte NC
  March 9-12
- Network Costing Forum
  The Woodlands
  March 27

Customer Profitability

Profits earned on customers and customer segments may be one of the most important measures and yardsticks of organization performance.

The bottom line on any customer (or customer segment) P/L statement represents the basic exchange of value between the organization and its customers.

Value to the customer is reflected in the selling prices that comprise revenues. Value for the supplier is reflected in the cost and profit (or loss) of the products and services provided.

Add in the investment of property, plant, and equipment made on the customer's behalf and the ROI on the customer relationship can begin to be understood.

Customer profitability calculations are typically made and reported on current and historical basis. More important to many industries is Customer Valuation, the future value of the customer.

Projections of the future are significantly enabled with actual, historical data and information. Without understanding the historical profitability of customer and customer segments, projections into the future would be futile.

Giving the importance and relevance of customer profitability information, surprisingly few organizations make this basic calculation and even fewer include it on a Balanced Scorecard.

The basic requirements for calculating customer profitability are defining the customers or segments and the assignment of revenues and costs to those customers and segments.

Implementing these requirements vary significantly between companies and between industries and is due to the nature of the customer base.

Businesses selling to other businesses (B2B) typically know the revenues and products/services purchased by their individual customers.

Business selling to consumers (B2C) could have millions of customers with absolutely no information on the products and services any one of them purchase. Big box retailers like Wal-Mart are examples.

For the B2B organization the customer profitability calculation is relatively easy and involves assigning costs to known customers.

The B2C organization will be required to segment their customer base and use assumptions for buying patterns and products and services purchased to assign revenues and costs to customers or segments.

In recent years, B2C businesses like Best Buy have begun to pay for this type of customer information by offering discounts and reward cards to those customers willing to provide a telephone number or e-mail address.

Manage your customer portfolio like any other investment focusing on ROI and profitability…

John A. Miller

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