



**Calculating and Reporting Customer Profitability at:
Zippo Manufacturing Company**

Site Visit Summary

Site Visit Date: September 27, 2005

Site Visit Location: Bradford, Pa.

Site Visit Hosts:

- Jim Barnes—manager, continuous improvement and ABM
- Rich Roupe—CFO
- Bob Vecchio—controller
- Cindy Greek—accounting manager
- Chris Hannon—assistant to the vice president of operations
- Dan Rozanski—national sales manager

CALCULATING AND REPORTING CUSTOMER PROFITABILITY

I. General Overview of Calculating and Reporting Customer Profitability

Company Snapshot ¹	
Industry:	Consumer Products Manufacturing
Revenue:	Middle Market (privately held)
Employees:	765
Headquarters:	Bradford, Pa.
Web Site:	www.zippo.com

Founded in 1932, the Zippo Manufacturing Company creates various products including lighters and accessories. Through district representatives, the company sells products to wholesalers who in turn sell to retail companies. A minimal amount of online purchasing of products occurs directly to consumers. With products sold in more than 120 countries, Zippo has produced more than 400 million windproof lighters since the company's inception, and the Zippo brand has evolved into one of the most recognized in the world.

Although Zippo began to closely review income statements in 1999, it was in 2003 that the company started to analyze customer profitability due to management's need to understand at a granular level which customers and products were most profitable to the company. Management was keenly aware that the company had profitable products and customers, but it also had "not-so-profitable" products and customers. Zippo understood that the 80/20 rule of profitability applied to the company—that is, 80 percent of the organization's revenue came from just 20 percent of its customers.

The chief financial officer of the company initially introduced the concept of Activity-Based Costing (ABC) by adding it to the list of strategic initiatives in 1999 and assigning it a specific priority. One lesson learned for the company was that they initially believed that a technology solution would aid implementation of ABC in the company; unfortunately, putting software first was not the answer. (Prior to 2003, the company analyzed gross margins on the basis of standard cost. The standard cost calculated overhead as a multiplier of direct labor. Accordingly, the company knew that gross margins were not accurately reflected at the granular level of product/customer and there was no visibility to customer profitability at an operating margin level.) Zippo

¹ Source: www.hoovers.com (retrieved July 2005)

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partnered with external resources to implement Activity-Based Costing/Manufacturing (ABC/M). This effort enabled Zippo to evaluate its customers and establish a benchmark for customer profitability. As a result, the company dismissed some of its customers. The company was able to focus on the growth of specific accounts and eliminated (customer) activities of little or no value. Today, Zippo is continuously reviewing and analyzing its customer list.

In 2004, the company's ABC/M process was refined and streamlined, and future opportunities for improvement were identified. Zippo would like to leverage its current technology and methodology for budgeting, forecasting, and predictive planning.

Customer Profile

Zippo counts approximately 3,500 global customers, including both wholesalers and retailers. Customers buy from 16,000 products depending on the time of the year, which gives the organization approximately 3,600 orders per month. The company's customer classification includes:

- master distributors,
- distributor/wholesalers,
- national accounts,
- direct retail,
- Internet retail accounts, and
- catalog retailers.

Distributor/wholesalers account for about 80 percent of the company's customer base; direct retailers account for 19 percent, and about one percent of the customer base is national accounts.

Zippo uses on-time delivery (OTD) and order fill rate (OFR) to measure customer performance. In order fill rate, for example, if a customer orders 20 products and the company only fills 98 percent of that order, then it is clearly missing opportunities to reduce costs. In this case, additional shipping, billing, receiving, and handling costs are incurred to support the backorders.

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Governance and Structure

The continuous improvement group takes responsibility for analyzing the data provided by the Activity-Based Costing group effort and provides information to finance, sales, marketing, and manufacturing. The calculation of Activity-Based Costs is a joint effort between cost accounting and manufacturing, both reporting, for purposes of ABC, to the CFO. Figure 1 below shows the responsibility and information flow for customer and product profitability at Zippo.

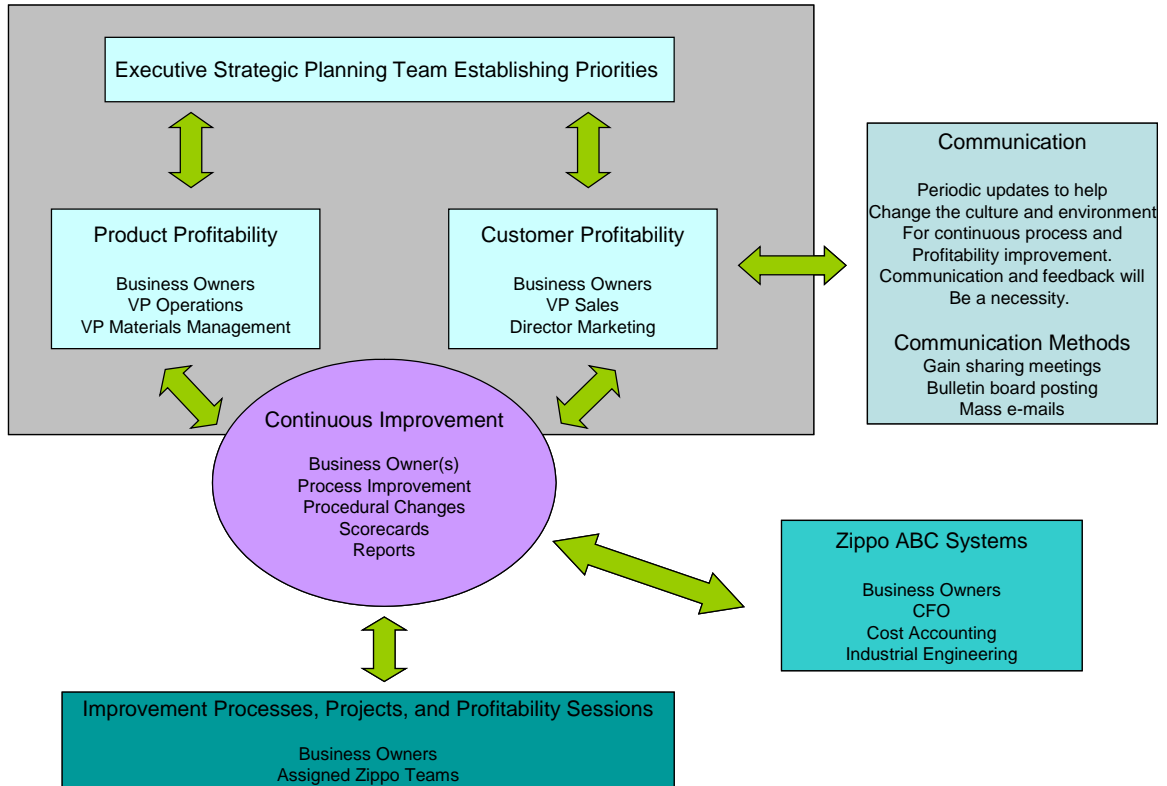


Figure 1

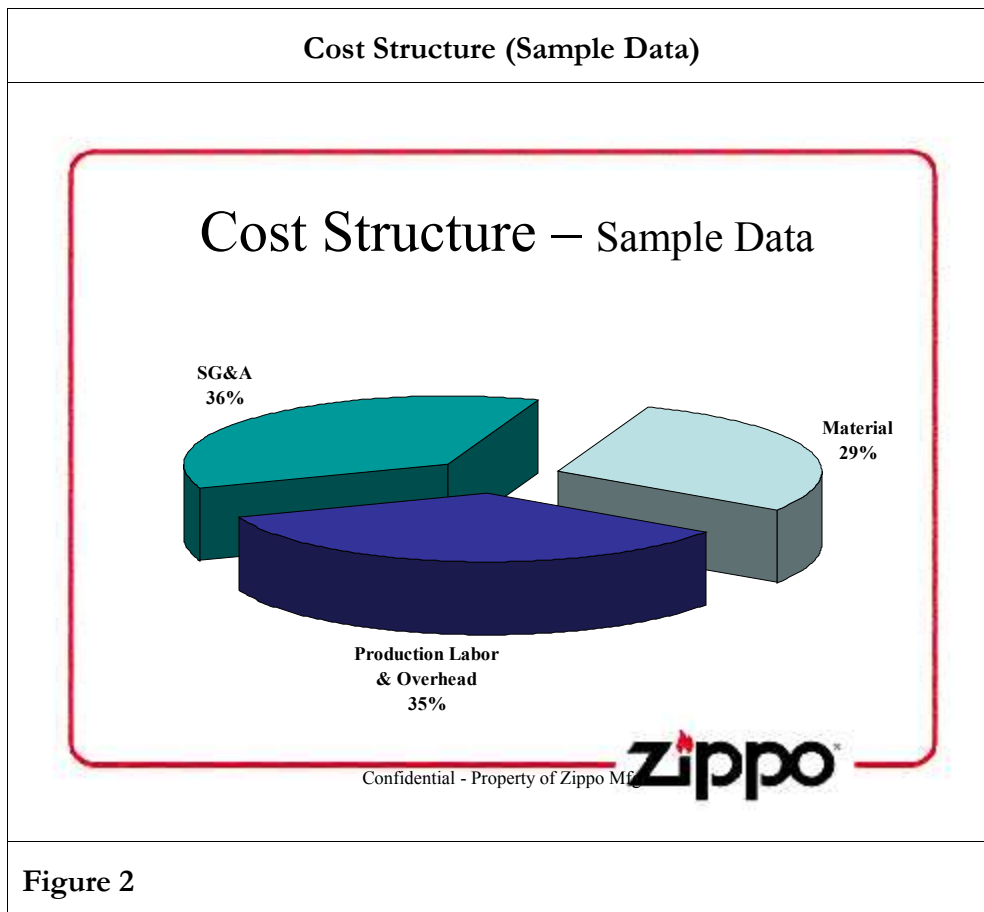
From Figure 1, it is clear that all activity rolls up to the executive strategic planning team, and customer profitability is owned by business unit owners, the vice president of sales, and the director of marketing. The process begins by the continuous improvement group identifying improvement opportunities and presenting them to the business owners. Here opportunities are discussed and prioritized. As opportunities become projects, task teams are created to execute them. Communication plays an important role in the success of the program. Business owners and executive planning teams are kept informed of a project's progress as well as identified opportunities. Each week a meeting is held with the company's supervisors to communicate the status of the company as it relates to the employee gain sharing performance program. (Gainshare is explained in more detail in section IV "Employee Motivation.") This provides an opportunity for the project teams to inform the rest of the company what they are doing and where they

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stand. The disaggregation of performance and profitability information to supervisors is a great opportunity to communicate progress to the rest of the employees as well. Hence, the communications function is uniquely tasked with ensuring that the culture embraces the company's priorities. Furthermore, the continuous improvement team is tasked with evaluating customer and product profitability and leveraging this information for new market development.

The Evolution of Customer Profitability at Zippo

Business issues were the trigger for adopting a customer profitability philosophy in which Zippo acknowledged that standard costs were not reflective of actual product manufacturing costs. Product profitability, manufacturing process costs, and capabilities were given minimal visibility, and it was clear that customer profitability was not being calculated and, therefore, was an unknown. Additionally, Zippo did not have information to calculate sales, marketing, and administrative process costs. Clearly, the company had to make some changes in order to uncover these critical data points that would indicate where improvements were necessary. Figure 2 below shows Zippo's cost structure (sample data).



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After a change in management in 1999, the new CFO developed a strategic planning process involving budgeting and forecasting. The organization also began to focus on the amount of time it took to close its books. An effort to be more efficient was adopted and, as a result, it now takes only about four days to close Zippo's books.

As previously noted, Zippo brought in experts to help uncover the costs associated with its customer efforts. These experts trained a core, cross-functional team that could communicate and champion the tasks and activities associated with the initiative. The company took a "train the trainer" approach because it knew that employees wanted to be taught, not have consultants doing the work for them. The team provided meaningful results in a reasonable timeframe.

As the journey to uncover critical customer information began, it became clear that Zippo had underestimated cultural challenges. The company realized it had to address obtaining buy-in from various stakeholders and committing investments. Department leadership became involved as the team built models, providing a foundation of buy-in and credibility.

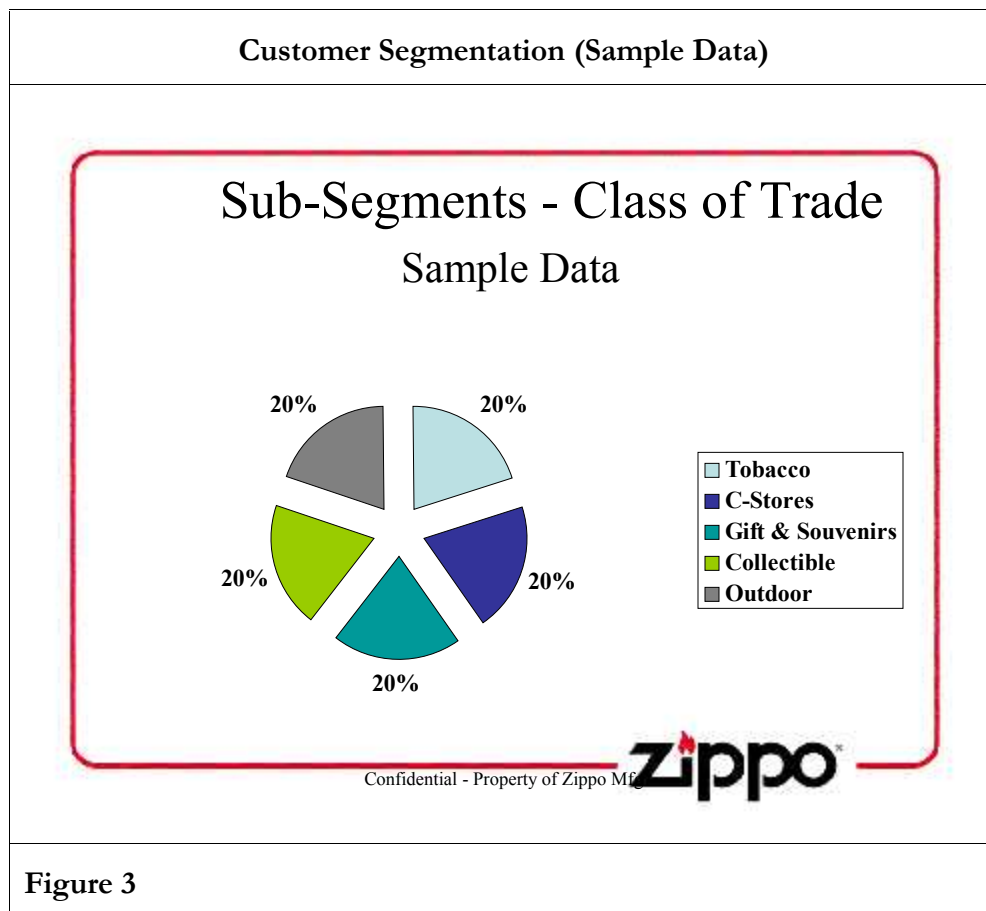
The initiative was implemented via a phased approach. **Phase 1** focused on product profitability, and ABC was implemented in manufacturing. **Phase 2** focused on customer profitability, and ABC was implemented in sales, general, and administrative (SG&A). During Phase 2, the company's ABC model was completed, and during **Phase 3**, Activity-Based Management (ABM) and process improvements were implemented in manufacturing and SG&A. At **Phase 4** the company transitioned to fully integrating its ABC cost data, which is developed in BAE's Fast Track software application, into its ERP system. This integration allows for rapid generation of customer profitability reports and analysis at multiple levels of product/customer profitability. During the next phase, the company will transition to a commercial ABC software permitting real-time analysis of customer profitability. Based upon its success to date with the train-the-trainer approach, a similar approach will be used in the implementation of its commercial software solution.

For companies seeking to begin on this journey, a key question is, "How are we going to gather the information, and what are we going to do with it?" Infrastructure and processes are critical but so is the ability to understand what the data can do for the company. Zippo's journey to its current state has taken six years from conception. Most of this was idle time due to other strategic initiatives. Actual implementation began in September of 2003 and was completed by July of 2004. Fiscal year 2005 was used to refine the process. In the future, the company would like to incorporate a feedback and incentive mechanism into the process.

II. Customer Segmentation

Segmentation Overview

Through ABC, Zippo reviews profit and loss statements that enable customer segmentation. Because of its small customer base (3,500), Zippo is able to capture profitability for each individual customer. Customers are then categorized and arranged into two segments: customer type and geography. Customers within these segments are not mutually exclusive. Wholesale and national accounts are examples of customer type segments. An example of geography is domestic customers versus European customers. The company has the ability to track and calculate profitability by both region and customer type. The sales and marketing groups then further segment (creating another sub-segment) by customer class of trade such as automotive or mass market. In this way, the company can have a segment category that is a domestic automotive wholesaler, for example. Figure 3 below shows the company's class of trade sub-segments.



As information began to be compiled, one question that needed to be answered was, "How do we use the information?" The team decided that a product class would enable Zippo to effectively understand and utilize the information because product mix is an important part of customer profitability. (Figure 4 on page 8 shows the company's

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product codes.) The team then asked district managers about their customers and discovered that it had to change the marketing of its products. It also changed its method of distribution by partnering with representatives who knew a specific market and understood individual industries' wants and needs. Sales groups in particular helped to identify and formulate product categories.

Product Family Codes Tiers

Tier 1 "Product Category"		Tier 5 "Customization Code"	
Code	Description	Code	Description
A1	Regular Lighter	AB	AUTO ENGRAVE W/EMBLEM ATTACH
A5	Slim Lighter	AE	AUTO ENGRAVE
		AG	AUTO FIN W/GOLD INLAY
Tier 2 "Material Family"		AP	AUTO FINISHING POUCH
Code	Description	AR	AUTO ENG/LASER ENG COMBO
BRS	Brass	AS	AUTO FIN/SILVER INLAY
CPR	Copper	CA	PAD PRINT/LASER ENGRAVE
STL	Sterling	CE	PAD PRINT/AUTO ENGRAVE
TTM	Titanium	CL	PAD PRINT/CLICHE
ARB	Armour Brass	CP	POLYCARBONATE CHIP
GLD	Solid Gold	DE	DEEP ENGRAVE/3D
ALM	Aluminum	EA	LE & LASER COMBO ON SEP
		EC	EPOXY CHROME
Tier 3 "Finish Family"		EE	ETCHED EPOXY (1S)
Code	Description	EM	EMBLEM ATTACHED
BBL	BeadBlast	EO	ENGRAVED OUTSIDE PROCESS
BRF	BrushFin	EP	ETCH AND PAINT
HSF	HandSat	LA	LASER ENGRAVE
HIP	HighPol	LB	LASER ENGRAVE WITH W/EMBLEM ATT
PWC	PowdrCt	LC	LASER/COLORFILL
UNF	Raw	LE	LUSTER ETCH
STR	Street	LF	LUSTER ETCH/AUTO ENGRAVE COMBO
WEB	WeatherB	LM	LUSTER ETCH/EMBLM ATT
		LP	LUSTER ETCH
Tier 4 "Plate Family"		LS	LASER ENG & SI COMBO
Code	Description	PI	PHOTO IMAGING
CHR	Chrome	PK	ELPA EP & LASER 2 SURF
GFL	GoldFlsh	PM	ETCH PAINT/EMBLEM ATT
GPL	GoldPlt	RB	SCRIMSHAW LASER RUB & BUFF
MAT	Matte	RV	REVERSE ETCH
OUT	Outside	SA	SURF IMP & AUTO ENG ON SIDE
PVD	PVD	SI	SURFACE IMPRINT
ROG	RoseGld	SM	SURF IMPRINT/EMBLM ATT
SLP	SilverPl	TT	TECHNIGRAPHIC TRANSFER
UNP	Unpltd	YE	FROSTED ETCH

Figure 4

Zippo's customer segmentation structure provides a clear understanding of what is and is not selling, thereby indicating how to direct energies in terms of customer or product level by specific region or territory. Additionally, customer segmentation enables the company to target marketing and sales activity by facilitating the formulation of pricing models and strategy. With customer segmentation and ABC, the company can obtain information at a granular level, enabling it to effectively sift and obtain meaningful and impactful information. Furthermore, the company was able to understand that few products account for a large percent of the total gross profit and that the 80/20 rule for number of stock keeping units (SKUs) applied. Customer information also identified whether plain or embellished products were favored or whether high-polish or satin finish coating was preferred. Other information of interest was that the Far East (region) favors unembellished sterling silver at specific times of the year.

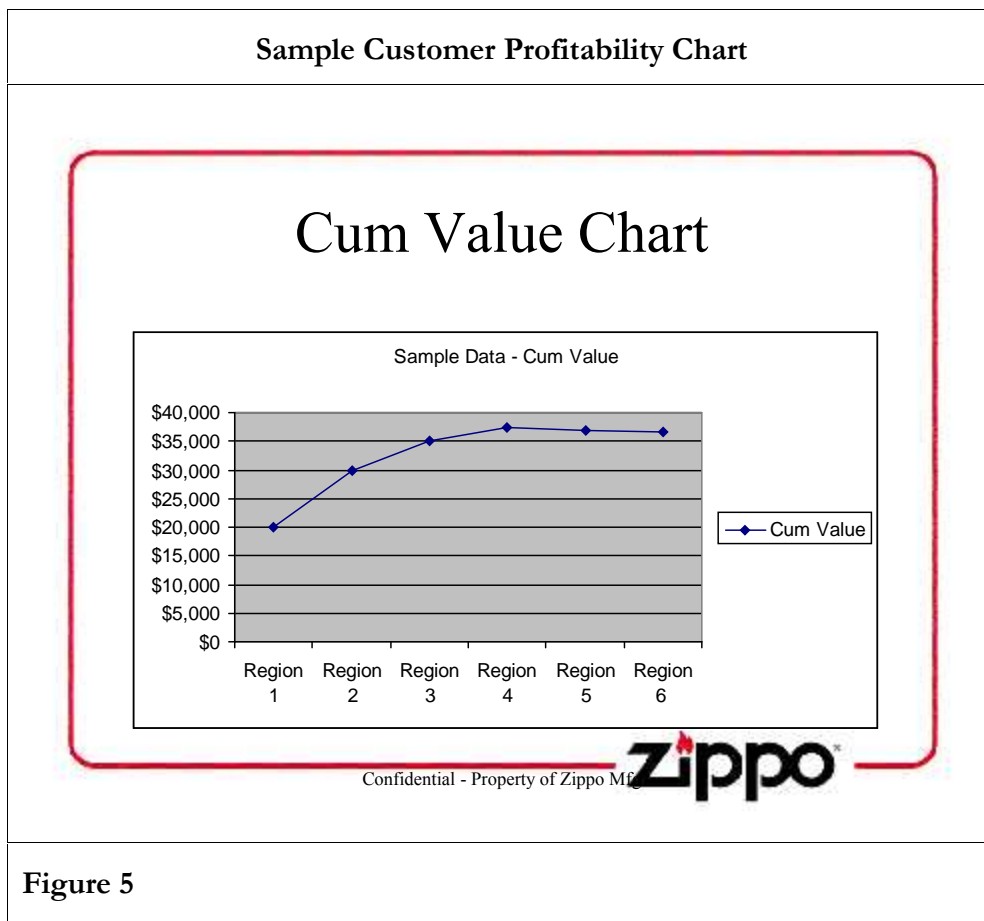
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Customer Profitability

Zippo is able to obtain the following segmentation information that directly impacts operations.

- Customer profitability segmentation:
 - Profitability of individual customers
 - Number of customers by operating profit or loss
 - Cumulative operating income by region
- Product profitability segmentation:
 - Number of products by gross margin range
 - Cumulative gross margin by finish
 - Cumulative gross margin by material
 - Cumulative gross margin by product category

The company can calculate and understand which markets are most profitable, enabling it to make timely strategic decisions. Figure 5 below shows a sample chart indicating value by market (the amount of value a region is contributing). From this information, Zippo can determine support strategies based on whether a region is mature or growing.



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Segmentation and Business Strategy

Zippo has integrated segmentation research into its business strategy; for example, the class of trade category helped to determine distribution direction for outdoor products. The segmentation information has also helped to analyze profitability issues and determine methods of improvement, and it has enabled the company to re-class or eliminate under-performing wholesalers and retailers. Further, Zippo understands that numbers don't always tell the whole story; therefore, the company knows that it must understand the entire data set and identify the relevant elements in order to make decisions.

III. Understanding the Cost to Serve Customers

Customer Profitability Process

The customer profitability process at Zippo stems from Activity-Based Costing. ABC is managed by a core team of cross-functional individuals with everyone at a management level providing input. Figure 6 below shows a sample report generated from the company's enterprise resource planning (ERP) system.

Sales Region: Sample		For Sales from January 2003 through December 2003	
Profit and Loss Statement			
Sales	Units	\$\$\$ Sales	
- Regular Lighter Sales	2,500,000	20,000,000	
- Slim Lighter Sales	250,000	2,000,000	
- MPL Sales	15,000	85,000	
- Fuel Sales	250,000	4,700,000	
- Promo Product Sales	200	1,000	
- Display Sales	2,000	15,000	
- Promotional Material Sales	20,000	1,000	
- All Other Sales	375,000	1,200,000	
Net Sales	3,412,200	28,002,000	
Product Cost			
- Regular Lighter Costs		15,000,000	
- Slim Lighter Costs		1,700,000	
- MPL Costs		100,000	
- Fuel Costs		4,000,000	
- Promo Product Costs		700	
- Display Costs		350,000	
- Promotional Material Costs		100,000	
- Other Costs		900,000	
Total Product Cost		22,150,700	
Gross Profit		5,851,300	
			Product-Related SG&A
			- Manufacturing IT Support
			- Purchasing Support
			- Human Resources Support
			- Licensing
			- Arts & Graphics
			- Legal
			Total Product-Related SG&A
			1,348,000
			Cost to Serve
			- Selling
			- Marketing
			- Other
			Total Cost to Serve
			3,675,000
			General & Administrative Expense Allocation
			- SG&A Executive OH
			- SG&A Financial OH
			- SG&A General OH
			- SG&A IT OH
			Total General & Administrative Expenses
			1,350,000
			Total Operating Expenses
			6,373,000
			Operating Income
			(521,700)
Key Operating Statistics			
Units Sold	3,412,200	Gross Margin	20.9 %
Average Sales Price (Lighters)	8.00	Product SG&A/Sales	4.8 %
Average Sales Price (Non-Lighters)	9.06	Cost to Serve/Sales	13.1 %
		G&A/Sales	4.8 %
		Operating Margin	(1.9 %)
		Operating Income per unit	(0.15)

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Figure 6

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Zippo is in the process of working to have the report be an output of its data warehouse, which will make its creation much more expedient. The sample report is for a sales region and shows sales broken down by the product types sold in it. The information on the report is gathered from the individual customer invoices.

Product cost is calculated on the basis of current standard cost. Current standard cost is standard material and labor and standard Activity-Based Overhead, which is developed in Fast Track and fed back into the ERP system. ABC standard manufacturing overhead is developed by preparing models for all manufacturing support departments—production control, maintenance etc. The cost objects for the manufacturing support departments are charged back as resource dollars to manufacturing production departments—fabrication, plating etc. The activities of the production departments are the work centers within each department. Accordingly, all manufacturing overhead costs are traced to individual work centers. Using actual production output, the overhead cost per unit in each work center is calculated. These Activity-Based Overhead costs are then tied to operation types and fed back into the ERP system. As parts are produced, they pick up overhead charges as they go through each operation step that carries overhead. Effectively there is a bill of materials, a bill of operations, and a bill of activities for each production part. Discounts and allowances are fed into the profitability report at the individual customer level and rolled up into the segments—that is, regions/customer types on the basis of the home territory of the customer maintained in the customer master file.

On the SG&A side of the report, these numbers are also calculated via ABC and developed in Fast Track. SG&A costs have been split into three primary categories.

1. **Product-related**—SG&A costs more closely tied to the products being purchased than to the customer purchasing them. For example, licensing fees are driven by products that carry a royalty payment (e.g., a Harley-Davidson lighter). Licensing fees are calculated on the customer profitability statement on the basis of products purchased by the customer that carry a royalty. Other product-related costs are developed in ABC models and are then assigned to a customer on the basis of the rule established for each cost object in the models. For example, if a customer purchases a lighter that has an emblem on it, the customer profitability statement would carry a purchasing support cost for the time spent to purchase the emblem.
2. **Cost to serve**—Traceable SG&A costs more closely tied to the customers than the product, primarily include selling and marketing costs. Just as manufacturing support costs were charged back to production departments, so too are administrative support costs to cost to serve sales and marketing departments. For example, credit collection personnel are charged back to the sales departments whose customers consumed the credit collection personnel time. Cost objects from sales and marketing are then traced to the customer profitability statement on the basis of the rule assigned to the cost object. For example, all customers who are wholesale customers would include their selling line, a component for the cost object “order entry.” Cost-to-serve information is used to identify opportunities for improvement by asking such questions as, “Is this the best way to invest our sales and marketing

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dollars?” Further, the information uncovers the impact sales and marketing have on a specific region or customer, which enables the company to make effective management decisions such as converting unprofitable customers into profitable ones.

3. **General administration**—SG&A costs that cannot be directly traced or assigned to a particular product or customer and are allocated to all customers on the basis of revenue dollars.

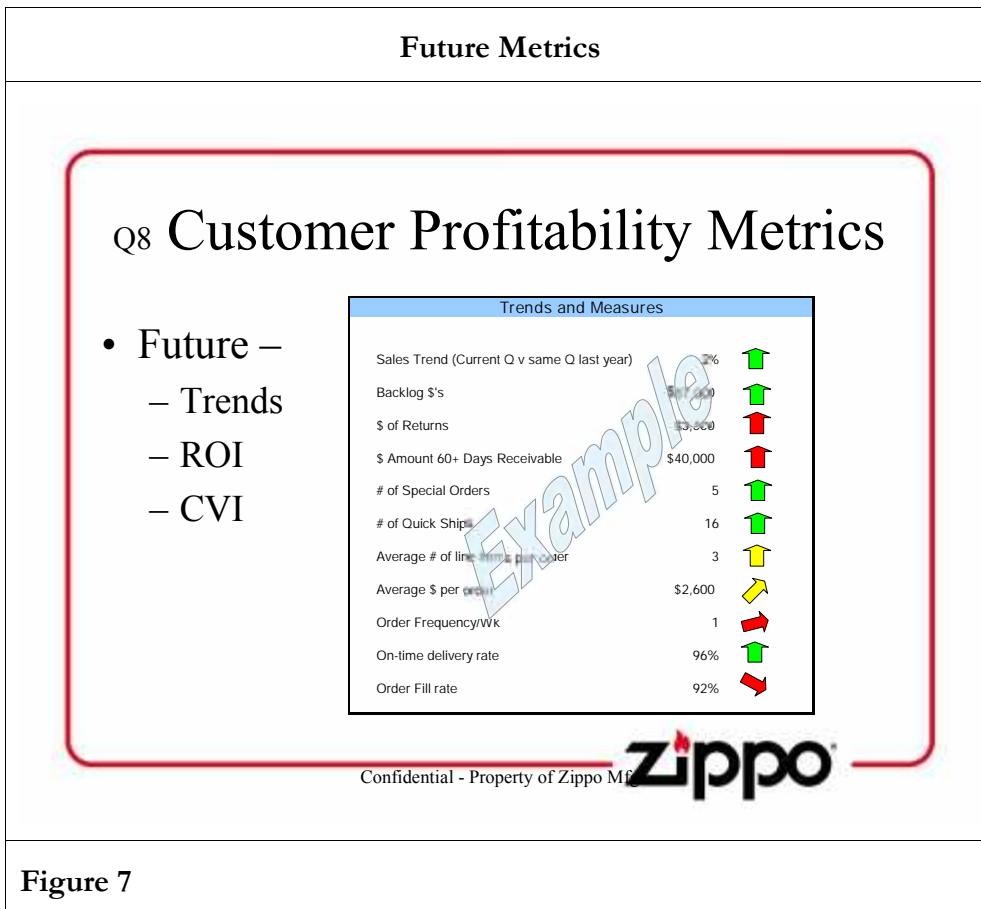
Customer Profitability Metrics

Zippo’s profitability metrics include volume level, revenue, average price (which gets split between lighters and the remainder of products), gross and operating margins, and costs for each category as a percentage of revenue. The company hopes to implement trends, ROI, and CVI metrics in the future as shown in Figure 7 on page 13.

Additionally, the company uses ABC cost object information in an Excel-based modeling program to project the profitability of prospects and new product lines. Although the company does not conduct customer lifetime value calculations, it is able to estimate that more than 100 percent of profit stems from the top 20 customers.

Moreover, Zippo has been able to convert its unprofitable customers into profitable customers by determining the primary cost drivers of the unprofitable customer. For example, packaging may be too expensive for the customer, so the company may provide less expensive packaging to increase customer profitability.

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Challenges of Customer Profitability

While on the journey to uncover customer profitability, Zippo faced the following challenges:

- calculating customer profitability was manually intensive;
- the information (data) appeared accurate from a high level, but as detailed analysis was made, there were issues;
- coming up with the same unit of measurement and the same basis for input and output was difficult; and
- maintaining the accuracy and precision of the information (keeping it simple) was a challenge.

The company is exploring software solutions to address the challenge of manually intensive tasks that can cause data entry errors and increase validation time, which may result in hindering the timeliness of reporting the information. Zippo requires greater detail as it receives more detailed information (the more they receive, the more they want).

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Working with Stakeholders

The company acknowledges that obtaining buy-in from stakeholders is critical. The department managers and supervisors are directly involved in providing input and data. Since everyone can relate to house cleaning, custodial charges became a frequent topic in each session as to why the charges were so high. This topic led to open and healthy conversations and resulted in a better understanding of how charges were allocated. Educating stakeholders on the process of allocating charges was important in ensuring the effectiveness of the process. The process also involved obtaining confirmation and sign-off on final resource allocation and activity from the individual departments. Zippo is planning to implement the process of obtaining confirmation and sign-off for charge back of expenses. The company is continuously working to ensure that the information is as accurate and clear as possible.

Understanding the derivation of profitability is critical to acceptance.

—Zippo Site Visit Representative

Attaining Balance

Zippo must attain a balance of increasing customer profitability while increasing market share. This occurs during the process in which items are selected for the catalog. An issue the company must consider is demand of any given product versus cost-to-serve. Zippo must look at what it costs to create products in terms of quality and process cost and ensure that it makes sense in terms of profit. For example, the company may include a product in its catalog that turns out to be challenging to produce, but since it is in a catalog, the product must be available (the product is committed). Another area that must attain balance is market penetration. The company must analyze its traditional distribution method versus other methods that may be more beneficial.

Managing Unprofitable Customers

When Zippo reviews unprofitable customers, the first element it must uncover is, “What is making the customer an unprofitable customer?” The company reviews product costs, selling or marketing expenses, and method(s) of distribution. In many instances, Zippo had to increase prices in order to convert its customers from unprofitable to profitable. When undertaking this type of analysis, the company is required to review its customer base. With the analysis of the customer base, Zippo identifies whether a customer is up-and-coming or at status quo, enabling it to either re-classify or dismiss certain customers.

The company provides special promotions and holiday dating to motivate its customers to generate more revenue during slower periods. Zippo participates in two events per year—one with Harley Davidson and one with the Retail Tobacco Dealer Association (RTDA)—in which it goes directly to the retailers to learn more about them and, consequently, the end consumer. Holiday dating involves running discounts and promotions during the summer months because this is typically the slow season for the company. The objective of holiday dating is to maintain activity levels.

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Enabling Technologies

Zippo took the same approach as with ABC: uncovering enabling technologies by establishing models, including supervisors and managers, and obtaining sign-offs. Essentially, Zippo wanted stakeholders to uncover the activities within their jobs (tasks), not the outcomes of those tasks. With this exercise, Zippo sought to highlight all non-value-added activity and developed several efficiency and cost reduction initiatives.

Zippo broke down activities into value-added (e.g., making a part) and non-value-added (e.g., moving materials). This was applied not only to manufacturing but also to internal back-office operations. This analysis uncovered where major costs were being incurred, enabling the company to focus on determining priorities. Figure 8 below shows an infrastructure flow diagram of the ABC calculation process:

1. GL data is fed from the company's ERP system into the Fast Track program.
2. Cost objects are calculated using the GL data and activity information provided by the users.
3. Once costs objects are calculated, they are uploaded into an SQL server database for conversion to feed the ERP system.
4. The ERP system uses the cost object information to perform the cost and profitability calculations that ultimately assign, trace, or allocate all overhead costs.

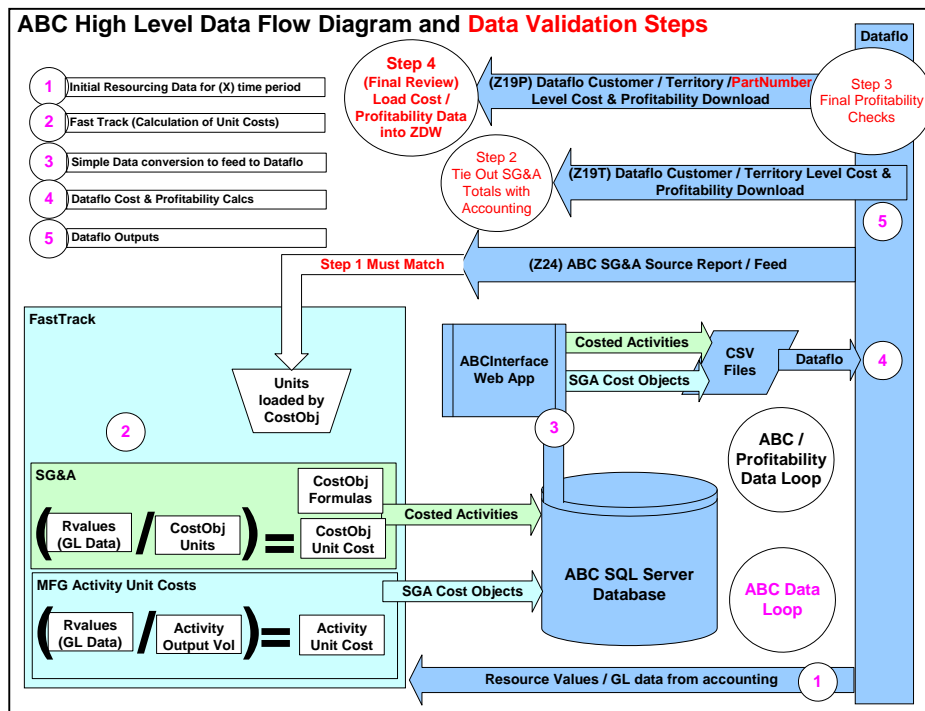


Figure 8

In summary, Fast Track is used to develop the cost objects that make up all the overhead. The ERP system determines the standard material and labor costs and then applies the calculated overhead. A Web interface is linked to the SQL server database,

which uses Crystal reports to present the data in the form of product and customer profitability reports.

In effect, Zippo leverages three technologies to enable it to calculate costs and profitability:

1. Epicor-Dataflo—ERP package,
2. SQL Server and Crystal reports—data warehouse, and
3. BAE Fast Track—ABC.

IV. Reporting Customer Profitability Information

Zippo strives to provide quarterly and monthly updates on customer profitability to executive staff. Any other reporting is distributed downward on a need-to-know basis. Zippo is beginning to use the information as a directional tool but not currently for specific metrics. The company plans to provide the profitability reports via the Internet in the future.

Because Zippo is a privately-held company, information is owned at the executive, sales, or marketing manager level. All line managers provide information into the ABC system, and the sales function has the final decision on how the information gets utilized.

Whenever information must be provided to other stakeholders, an explanation of how the costs were calculated and where the charges came from is thoroughly clarified. The company believes that an understanding of the derivation of profitability is critical in acceptance of the information by the stakeholders.

Moreover, Zippo makes the information actionable after it is understood. It is at this point that the company makes determinations on cause and reviews options and impact utilizing change processes and initiating efficiency and cost reduction programs. In effect, the information is used to provide direction for action (decision making) and to manage and measure. Examples of such actions include a series of price increases over 2005 and the previous year, both domestically and internationally, and revamping the packaging for some of the company's larger customer retailers.

Employee Motivation

Zippo believes in motivating employees with high-level impact programs such as the employee gain sharing program. This program reviews people productivity versus people costs, taking into account such measures such as:

- revenue, finished goods, and materials (people productivity) and
- wages, overtime, vacation, taxes, and benefits (people costs).

These measures are shared with employees for them to understand the impact of costs. This exercise encourages employees to ask questions such as, "How can we lower the costs of certain materials or processes?" Further, the company acknowledges that there is a culture change in process as it faces employee disbelief of the costs associated with

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what they do and strives to change perceptions into reality by building awareness of the true costs of operations. Since a gain sharing payout can range from 0 percent to 25 percent of an employee's monthly earnings, it further enhances the cultural change by linking performance to profitability.

Communicating and Utilizing Customer Profitability

Customer profitability information is effectively communicated to executives via charts, graphs, and key bulleted information. The company notes whether there are any new trends, where improvements may have been made, and what areas are not improving and provides recommendations.

Zippo's customer profitability analysis has enabled the company to make better and more effective business decisions in the areas of sales, marketing, and new product development. Within the sales arena, examples include: 1) catalog product selection, 2) revised pricing, and 3) new product pricing where Zippo utilized ABC cost objects to determine SG&A to establish retail price or breakeven points.

In terms of quantifying the value of the customer profitability information, Zippo feels that company profitability is increased although it has not conducted formal analysis to determine return on investment (ROI). However, the information and analysis does enable the process of new product selection. An additional benefit is that more people are engaged in the use of data and in identifying "winners" from "losers" (customers) with corresponding logic.

V. Lessons Learned and Critical Success Factors

Critical success factors for calculating and reporting customer profitability at Zippo include.

- **Envision the end product**—"What is it that we are trying to achieve? What do we hope to gain?"
- **Simple pilots get quick wins**—Start the effort on a small and simple scale, such as with a department, to assess feasibility.
- **Buy-in of calculation methodology**—Ensure that there is a clear understanding of the calculation that is involved to obtain buy-in.
- **Validity and correctness of data**—It is important to ensure that the information reported or shared is timely, easy-to-understand, and accurate.
- **Executive, management, and supervisory stakeholders**—It is critical to obtain the buy-in of management.
- **Link to performance measurements**—By linking the effort to performance measurements, Zippo is able to motivate stakeholders to take action and participate in improving profitability.
- Ensure that the underlying processes work before enabling with technology solutions.

Zippo learned the following lessons on its journey to uncover customer profitability.

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- Simplify models and calculations.
- Have appropriate reconciliation tools available.
- The process consists of manual and time consuming tasks.
- Document lessons learned in order to move to the next level.
- Only look for a permanent software solution after you have gained a clear understanding of needs by doing it manually with existing software tools.

The company plans to continue with its analysis of customers and products and identifying them as either “winners” or “losers.” It also plans to incorporate this effort into the establishment of performance objectives.