

Calculating and Reporting Customer Profitability

Consortium Benchmarking Study
Kickoff Meeting
August 9, 2005



Tab 1: Welcome and Introductions

APQC, Subject Matter Expert, and Sponsors



Welcome

Cindy Hubert, Executive Director, Customer
Solutions, APQC



APQC

- > Founded in 1977 with \$10 million from 100 corporations
- > Nonprofit, tax-exempt 501(c)(3) organization
- > No government support; no endowment
- > Annual revenues \$12 million and staff of 80
 - Membership – approximately 250 organizations
 - Best practices research, publications, and advisory services
 - Conferences and educational services
- > Board of Directors
 - 55 senior executives from corporations, education, and government



APQC's Mission

To work with people in organizations around the world to improve productivity and quality by:

- discovering effective methods of improvement,
- broadly disseminating our findings, and
- connecting individuals with one another and with the knowledge they need to improve.



We help organizations find and use best practices through...

- > Benchmarking
 - Consortium benchmarking studies
 - Customized projects and solutions
- > Training and conferences
- > Publications
- > Research and technical assistance
- > Information services/Library
- > Networking



APQC's Key Milestones

- > The White House Conference on Productivity
- > Malcolm Baldrige National Quality Award
- > Groundbreaking research
 - White collar productivity
 - People, performance, and pay
- > International Benchmarking Clearinghouse
 - Membership
 - Process classification framework
 - Benchmarking code of conduct
- > Knowledge management initiative
- > APQC education initiative
- > Open Standards Benchmarking Collaborative



Housekeeping Details

- > Safety
- > Restrooms
- > Phones
- > A/C
- > Your binder
- > Participant roster



Agenda

Morning Session:

- | | |
|--------------------------|------------------------------------------------------------------------------|
| 7:30 - 8:00 a.m. | Registration and Continental Breakfast |
| 8:00 - 8:45 | Welcome and Introductions |
| 8:45 - 9:45 | Perspectives on Calculating and Reporting
Customer Profitability with Q&A |
| <i>9:45 - 10:15</i> | <i>Networking Break</i> |
| 10:15 - 10:45 | Overview of APQC's Benchmarking Methodology |
| 10:45 - 11:45 | Best-Practice Partner Candidate Reviews |
| <i>11:45 - 1:00 p.m.</i> | <i>Networking Lunch</i> |
| | <i>APQC Tour Available at 12:45 p.m.</i> |
| | <i>KSN/Study Community Overview at 12:30 p.m.</i> |



Agenda

Afternoon Session:

- | | |
|--------------------|------------------------------------------------------------------|
| 1:00 - 2:00 p.m. | Small Group Exercise: Building Common Ground |
| <i>2:00 - 2:30</i> | <i>Stretch Break</i> |
| 2:30 - 3:30 | Small Group Exercise: Refine Questions for Data Collection Tools |
| 3:30 - 3:45 | Next Steps, Wrap Up, and Adjourn |



Introductions



Who Is Here Today?

- > Rachele Williams, Project Manager
- > John Miller, CEO, Arkonas (Subject Matter Expert)
- > Sponsor Organization Representatives



John Miller

- > Nationally recognized expert in area of cost management, Activity-Based Costing (ABC), Activity-Based Management (ABM), and other improvement initiatives
- > Author of *Implementing Activity-Based Management in Daily Operations* (1996)
- > Articles have appeared in leading publications, including *Management Review*, *Journal of Cost Management*, and *Practical Accountant*
- > Former partner at Arthur Andersen and project director/principal author of three consortium studies in conjunction with APQC related to ABM and reporting



Consortium Sponsors

- > Blue Cross and Blue Shield of Florida
- > Cisco Systems, Inc.
- > CNH Global N.V.
- > John Deere C&CE Division
- > SAS Institute
- > APQC (Internal Sponsor)



Sponsor Introductions

Please briefly share with us your:

- > Name
- > Organization's name
- > Role within your organization
 - And.....
- > Single word to best describe you





Tab 2:
Subject Matter Expert Perspective

John Miller, CEO, Arkonas, Subject Matter
Expert



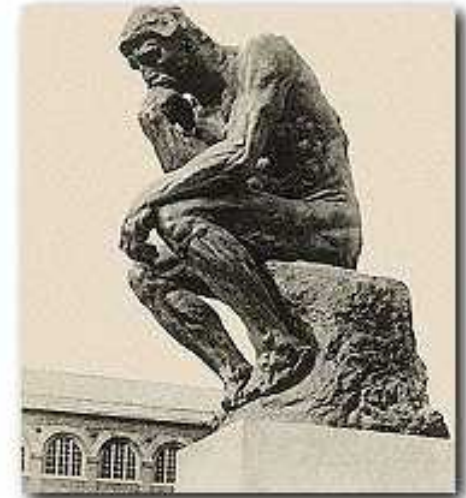
Tab 3:
Overview of APQC's Benchmarking Methodology

Rachele Williams, Project Manager, APQC



What Is Benchmarking?

Benchmarking is the practice of being humble enough to admit that others may have better processes and wise enough to learn how to match or even surpass them.



Consortium benchmarking is benchmarking performed by a group of organizations that are interested in studying a single topic or process area.

APQC Consortium Benchmarking Roles

- > **Subject matter expert** – individual(s) or organization with expertise in the study topic
- > **Sponsors** – customers who are funding and directing the study
- > **Best-practice partners** – organizations that are selected based upon their successful practices
- > **Participants** – both sponsors and best-practice partner individuals who are involved in the study



Sponsorship Roles

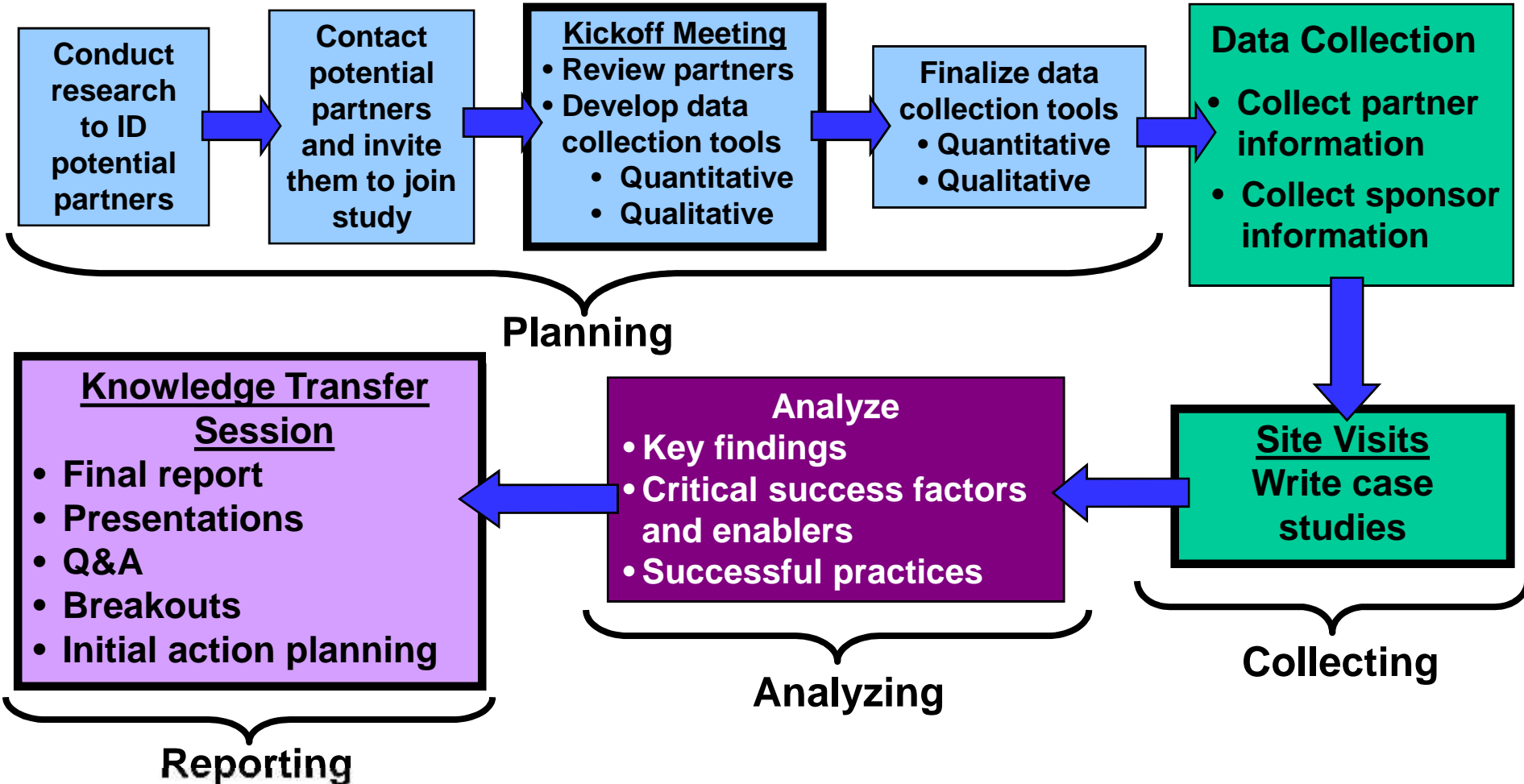
- > Contribute feedback for detailed questionnaire and site visit guide
- > Review partner profiles
- > Pilot detailed questionnaire (DQ=quantitative survey)
- > Provide comparative data (via DQ)
- > Participate in site visits (facilitated by APQC) hosted at partner organizations
- > Participate in a knowledge transfer session at the end of the study, featuring best-practice partner and SME presentations, group discussions, and other activities



Consortium Benchmarking Methodology: The Big Picture



Consortium Study Methodology



Methodology - Phase 1: Plan

Step 1: Work with subject matter expert to determine scope



Step 2: Conduct research to identify potential partners (organizations that are using successful practices in the topic area)

Step 3: Screen potential partners



Methodology - Phase 1: Plan (continued)

Step 4: Review study methodology at kickoff meeting

- > Solicit feedback for data collection tools (site visit guide and detailed questionnaire)
- > Review partner profiles
- > Review study roles and responsibilities
- > Review site visit guidelines

Methodology - Phase 2: Collect

Step 1: Distribute detailed questionnaire tool to sponsors and partners

Step 2: Conduct focused site visits with partner organizations



Methodology - Phase 3: Analyze

- Step 1:** Compare results of sponsors with partner organizations
- Step 2:** Identify and assess successful practices and processes used by partners
- Step 3:** Isolate key enablers/drivers of superior performance
- Step 4:** Invite partners to present at knowledge transfer session

Methodology - Phase 4: Report/Adapt

Step 1: APQC prepares report of results, including identification of key findings organized by study focus areas



Step 2: Conduct knowledge transfer session for both sponsors and partners to review study results, discuss improvement strategies, and participate in presentations

Rules of the Game - Benchmarking Code of Conduct

- > Participating organizations agree to abide by the principles addressed in the Benchmarking Code of Conduct.
- > Adherence to the Code of Conduct will contribute to efficient, effective, and ethical benchmarking.
 - Participants agree to share information only within their own companies and only for the purposes of learning and improvement.
 - Participants agree NOT to use the material for commercial or competitive use.
 - Participants must be willing to share the same type and level of information requested from other companies.
 - See appendix in your meeting materials or visit <http://www.apqc.org/bmkcode>.

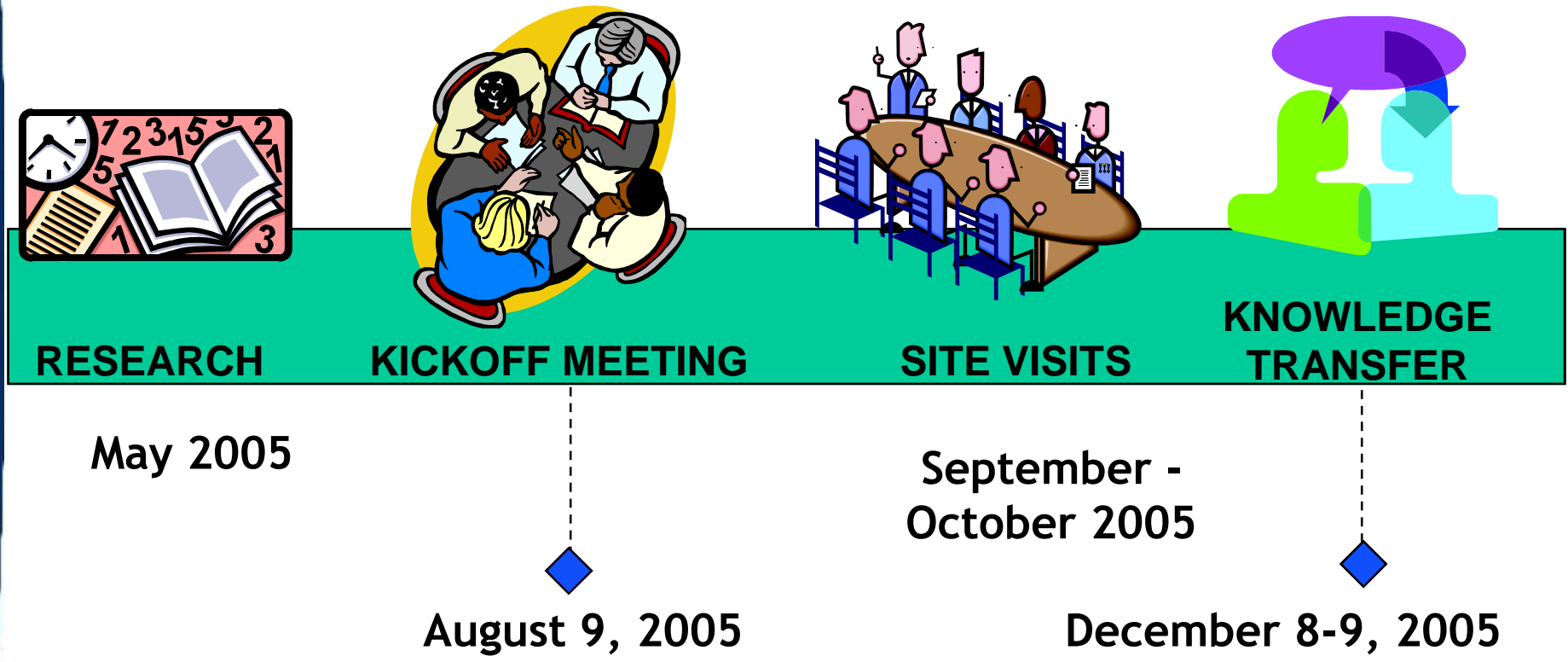


Confidentiality Norms

- > Project team will blind participant data from other participants.
- > To obtain maximum value in the study, participants are asked to exchange information in accordance with the Benchmarking Code of Conduct; however, both sponsor and partner organizations have the right to decline to answer specific survey questions they deem too proprietary or sensitive.
- > After a preset period of time (4 months post-KTS), a high-level information report will be available for purchase.



Benchmarking Timeline—Key Milestones



Tab 4: Selecting Best-Practice Partners

Subject Matter Expert, APQC, and Sponsors



Identifying Prospective Partners

- > Seek to identify organizations successful in one or more areas of study scope
- > Sources of prospective partners:
 - Secondary literature research
 - APQC knowledge from previous experience and projects
 - Nominations from subject matter expert
 - Nominations from sponsors

Partner Screening Process

1. Screening questionnaire (litmus test) and follow-up call
2. Evaluation of partners based on criteria
3. Review of partner profiles by sponsors

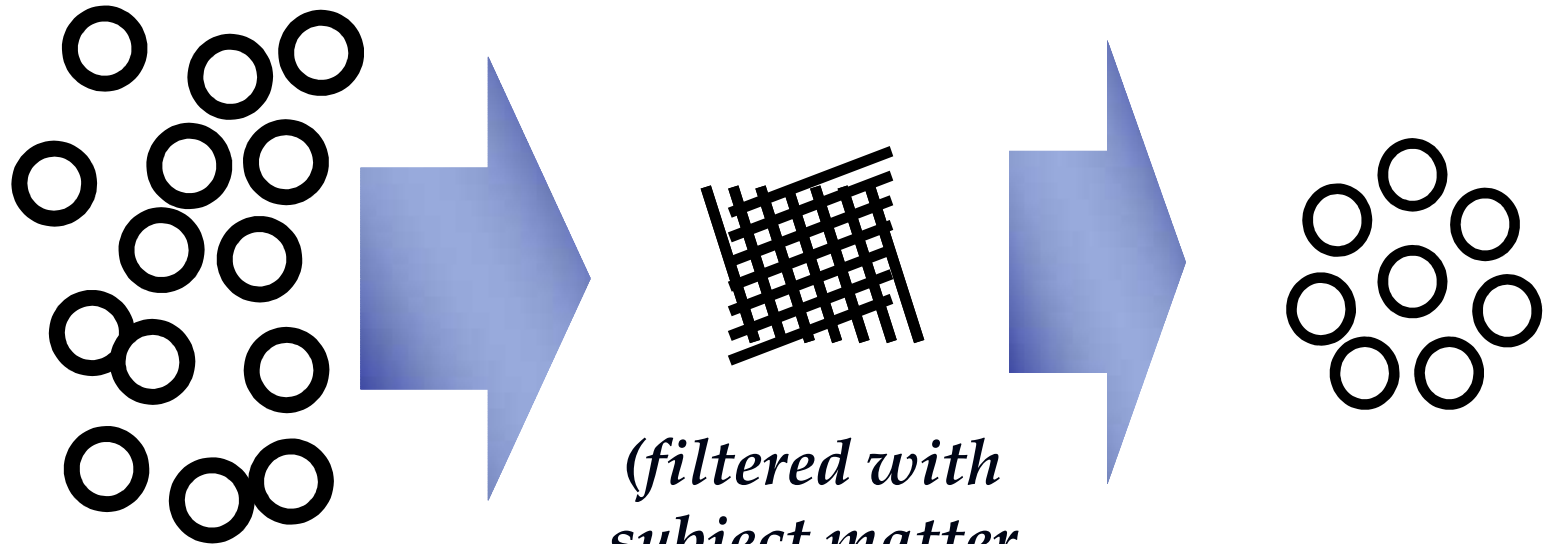


Potential Partner List (100+)

1-800-Flowers.com	Dreyfus	LifeWay Christian	Royal Bank of Canada
3 Mobile	EDS	Lowe's	Royal Bank of Scotland
Abbott Labs	Farmers Group, Inc.	Lufthansa	SBC
ABN AMRO	FedEx	Marriott	Schwab
Absolute Coatings	Fidelity Investments	Mazda	Sears Canada
AGF Management	First Data Corporation	MCI	Southwest Airlines
Air Products & Chemicals	First Federal Bank of Ca.	Menlo Worldwide	STMicroelectronics
American Airlines	First Union/Wachovia	Merrill Lynch	Standard Life Assurance
Bank of America	Fisher Scientific	Microsoft	Sun Life Assurance Co. of Canada
Banta Foods	Geiger Brothers	Morgan Stanley	Suncorp
Best Buy	GE	Natexis Assurances	Supervalu
Blockbuster	Guardian Life Insurance	New York Life	Telesp Celular Participacoes
BMO Bank of Montreal	Harley-Davidson	New York Times Co.	Tempel Steel
Boise Cascade	Harrah's	Nextel	Tesco PLC
British Columbia Automobile Assn.	Harvard Pilgrim Healthcare	Nike	The Bank of Ireland
Broadway National Bank	Home Depot	Nintendo	Thrivent Financial
BT	HP	North Shore Credit Union	Timberline Steel
Canada Colors & Chemicals	HSBC Mexico	NTL Inc.	Toshiba
Canadian Imperial Bank of Commerce	Hudson's Bay Co.	Oracle Corp.	Travelex
Capital One Financial	IBM	Pacificorp.	Unilever
Carlson Cos	ING Direct	Peregrine Outfitters	UPS Supply Chain Solutions
Citigroup	J&J	Pfizer	Verizon
Conco Food Service	Kemps Dairy	Pitt Ohio Express	Victory Packaging
Dell Computer	Klein Steel	PNC Bank's Regional Community Bank	Zippo Manufacturing
Delta Airlines	Kodak	Roche	
	Kroger	Rodale	
	Leapfrog Enterprises		



The Filtering Process



**ORGANIZATIONS
SURFACED
THROUGH
RESEARCH and
NOMINATIONS**

APQC.

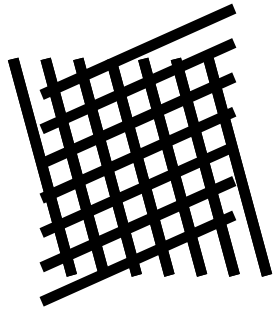
*(filtered with
subject matter
expert input)*

**PERFORM FILTER
PROCESS**

**RESULTING
ORGANIZATIONS**

The Filtering Process

One last filter:



ORGANIZATION
Willingness



The list of organizations presented to the study sponsors as candidates to host site visits.

8 Companies Completed Screening Survey

- > Canada Colors & Chemicals
- > Canadian Imperial Bank of Commerce
- > FedEx
- > Marriott
- > Microsoft (Rocky Mountain Sales District)
- > North Shore Credit Union
- > Wachovia
- > Zippo Manufacturing



Canada Colors & Chemicals

Chemicals Division

Industry:	Chemical manufacturing/dist.
Employees:	370
Customers:	Approx. 2,500
Revenue:	\$275 million
Location:	Don Mills, Ontario (Canada)



CIBC

Industry:	Banking/Financial services
Employees:	37,281
Customers:	Approx. 8 million
Revenue:	\$13.7 billion
Location:	Toronto, Ontario (Canada)



FedEx

Industry:	Transportation
Employees:	250,000
Customers:	Approx. 8 million
Revenue:	\$29 billion
Location:	Memphis, Tenn.



Marriott

Industry:	Lodging
Employees:	133,000
Customers:	Approx. 12 million
Revenue:	\$10 billion
Location:	Washington D.C.



Microsoft

Rocky Mountain Sales District

Industry:	Computer software
Employees:	400 (district)
Customers:	Approx. 100
Revenue:	\$100 million (district)
Location:	Denver, Colo. (district)



North Shore Credit Union

Industry:	Financial services
Employees:	285
Customers:	Approx. 40,000
Revenue:	\$34.5 million
Location:	North Vancouver, BC, Canada



Wachovia

Industry:	Financial services
Employees:	96,030
Customers:	Approx. 20 million
Revenue:	\$28.1 billion
Headquarters:	Charlotte, N.C.



Zippo

Industry:	Consumer products mfg.
Employees:	765
Customers:	Approx. 3,500
Revenue:	Middle-market (private)
Headquarters:	Bradford, Pa.



Summary Best Practices: What They Said

Canada Colors:

- > Senior management commitment to ABC
- > Focus by sales and marketing on “worst” performers

CIBC:

- > Customer income statement
- > Profitability ties to customer-specific behavior
- > Holistic view of customer relationship



Summary Best Practices: What They Said (Cont.)

FedEx:

- > Value segmentation modeling
- > Holistic view of the customer

Marriott:

- > Ability to employ predictive modeling to quantify a customer's future purchase level in order to set a target for earning a greater share
- > The mechanics of estimating customer profitability with imperfect information and demonstrating how customers with a greater number of purchases at the same brand of hotel can still have widely differing levels of profitability



Summary Best Practices: What They Said (Cont.)

Microsoft Rocky Mountain Sales District:

- > Segmentation schemes
- > Scorecarding
- > Integrated reporting systems

North Shore Credit Union:

- > Use of needs-based models (propensity) in conjunction with member profit scoring to derive a forward-looking measure of potential member value
- > Accessibility of member score to all staff via electronic profile



Summary Best Practices: What They Said (Cont.)

Wachovia:

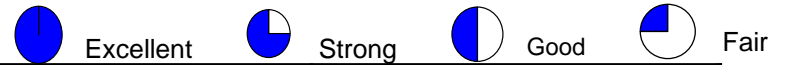
- > Behavioral segmentation/“sweet spot”
- > Book of business program
- > Customer contact optimization

Zippo Manufacturing:

- > Full integration of ABC into ERP system
- > Short and streamlined ABC implementation methodology
- > Key operational indicators on customer profitability reports



Summary Snapshot



	Customer Segmentation	Understanding Customer Cost to Serve	Reporting/Use of Customer Profitability Information
Canada Colors			
CIBC			
FedEx			
Marriott			
Microsoft (Rocky Mt. Sales District)			
North Shore Credit Union			
Wachovia			
Zippo Mfg.			



Tab 5:
Building Common Ground: Small Group Activity



Small Group Exercise: Building Common Ground

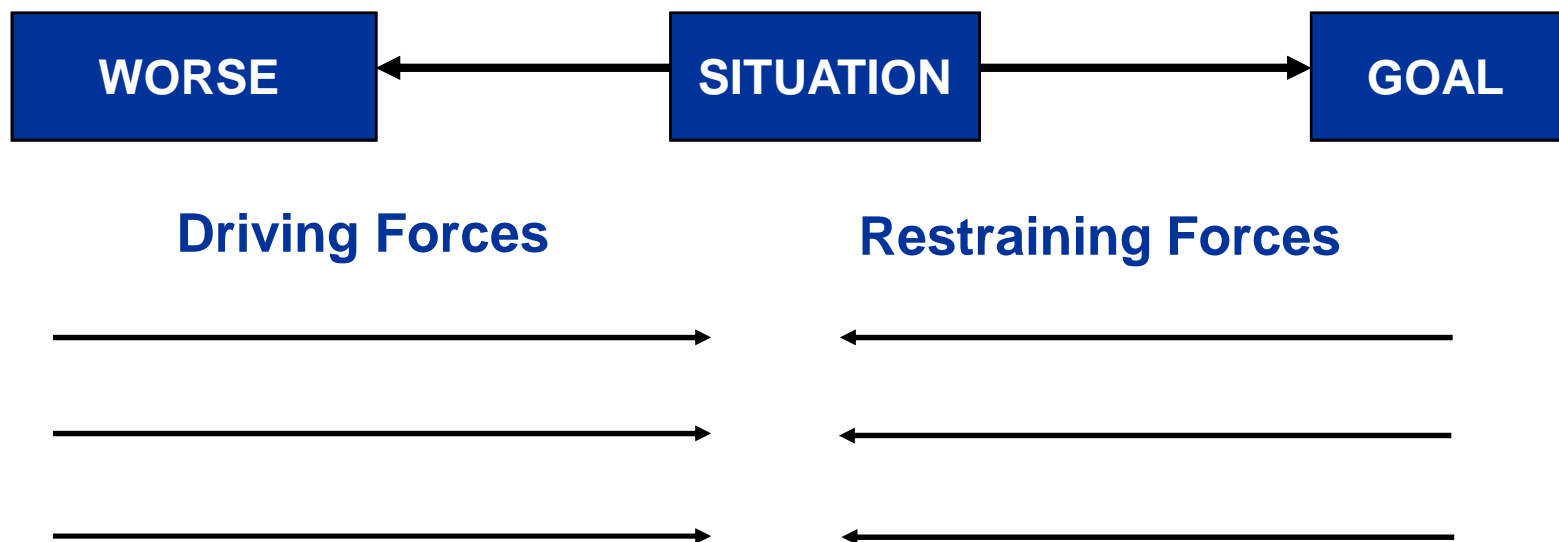
Discussion Points:

- > How is customer profitability calculation/analysis “owned” within your organization? Who are the key stakeholders? Where does it fall on your organization chart?
- > How does your organization operationalize its processes for doing this?
- > What are the driving forces moving you toward successful calculation/reporting of customer profitability?
- > What are restraining forces that are limiting your success with calculating and reporting customer profitability?



Small Group Exercise: Building Common Ground

- > Current Situation: Improving calculating and reporting customer profitability processes



Tab 6: Data Collection Tool Development

APQC Team and Sponsors



Two data collection tools

Detailed Questionnaire:

- Quantitative
- Closed-ended questions
- Written responses
- 1 - 1.5 hours to complete
- Sponsors and partners



APQC.

Site Visit Guide:

- Qualitative
- Open-ended questions
- Process information
- Responses and discussion at site visits
- 4 hours to present



Ask Yourself

- > Do questions fall within the **scope** of this study?
- > Are the **major** issues within the scope addressed?
- > What **value** will this question add to the final outcome of this study?
- > Is this a “nice to know” or a **“NEED TO KNOW”** question?
- > Are additional questions **needed** for clarity and more detail?



Develop Questions

- > Take 10 minutes to review the draft DQ and SVG
- > Break into groups
- > With your group, review the sample questions for that scope area
- > Using your Post-It notes, make changes as needed to ensure the questions/issues you want are included
- > Add questions
- > Rotate to new scope area to ensure you have a chance to address each





ACTION ITEM

We Need Volunteers for the Pilot Team!

- > Review tools for content, flow, and clarity of questions
- > Determine if definitions need to be added
- > Complete the detailed questionnaire (DQ)
- > Determine length of time it takes to complete DQ
- > Report to APQC Team no later than one week from receipt of draft tool

Tab 7: Site Visits and Next Steps

APQC Project Team and Sponsors



Preparation for Site Visits

- > Project team contacts partner companies to work with them to set up the site visit.
- > Project team sends sponsors logistical information (i.e., hotel suggestions, transportation options, and maps to site).
- > Project team will prepare site visit packet to distribute to site visit attendees.
 - Includes site visit questions
 - Agenda
 - Debrief form



Preparation for Site Visits

- > Each sponsor schedules his or her own site visit travel arrangements.
- > Project team provides names and the titles of sponsors to partner host for security purposes.
- > Partners have the right to exclude any sponsor organization from that site visit.

Day of Site Visit

- > APQC facilitator opens meeting with introductions.
- > APQC facilitator asks questions from site visit guide or partner leads presentation based on the questions.
- > Sponsors ask follow-up questions within the scope of the study. You are also given time at the end of the presentation to ask additional questions.
- > Partner companies have the right to refuse to answer any questions of a potentially sensitive nature.
- > Sponsors complete debrief form and give to APQC.



Next Steps

- > APQC finalizes data collection tools
- > Pilot detailed questionnaire with selected sponsor companies
- > Administer detailed questionnaire to sponsors and partners
- > Schedule site visits with partners
- > Conduct site visits with partner companies: September - October, 2005
- > Analyze data and develop final report
- > Conduct knowledge transfer session
- > KTS date: **December 8-9, 2005**



Contact Information

CRCP Online Community Page
<http://www.apqc.org/portal/apqc/crcp>

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