Customer Profitability – is it enough?

Customer relationship management demands that you understand which customers create profits and those that destroy it. However this is just not enough if you want stay in business in the long term.

Historic profitability measures just don't measure profitability - financial accounting systems fail the test. You need something to replace them that can actually support the business and the business decisions that must be made.

Every Product & Services Provider wants to know if they are profitable or not and financial reporting systems tell them this. But they also want to know who and what makes that so and here the financial accounting systems fail them. What also makes sense is to know who are the customers that create and destroy your profits so you can identify who you don't want to keep or those you really want to attract.

So more and more organisations are asking questions about just what makes up individual customer profitability. Initially managers have asked simple questions that reflect simple needs as who they are? Simple because few managers have been able to do very much with highly aggregated and untrustworthy profitability information even when they could actually tease it out of their financial accounting systems. Yet the question of customer profitability is one of the most important questions that any customer centric organisation can ask.

They are beginning to ask the more important questions: If I know who the customers are, can someone tell me why they are profitable, can then identify or profile others that could become profitable and then tell me how I can do all this?

Information is an asset!

Customer Relationship Management (CRM)

The customers actions and transactions drives the business - no customer no business.

Today the term Customer Relationship Management (CRM) is banded about by consultants and the press as if the mere chanting of the term can change the way organisations have done business for decades. The term is mis-

used for sales purposes by those marketing call centres, sales automation software, Enterprise Resource Planning systems (ERP's) and other systems that will change the way business is to be carried out "tomorrow" - yes well!? Claims made by vendors, sales people and consultants are sometimes true but the success of CRM rests on both technology and organisational change.

This change should start with understanding the profitability of each customer at a granular level and then actions can be planned to make use of the other wondrous technologies and change management practices available. CRM is a vision founded upon customer profitability as its centrepiece. By taking an enterprise-wide focus CRM identifies the customer as the driver of all the business.

CRM is Holistic...

The power of the CRM vision is that it pervades the whole of the enterprise and is founded on the concept of a strategic information repository a scaleable data warehouse (SDW). Information soft and hard is captured from all points of contact: phone, branch, retail counter, call-centre, internet, Value added reseller (VAR). This information is assimilated into "one version of the truth" that enables decision makers and customer service representatives to make the right decisions and take the right actions that build relationships and enhance profits. One of the major reasons for this drive to undertake the CRM journey is that it is good for profits and survival. You may have read about the benefits to be derived from the move from simplistic data-base marketing to critical event driven marketing as a move from push tactics to a customer pull strategy. The foundation however of any strategy is an understanding of what drives customer profitability and as an exercise in addition what actually drives overall profitability.

Can you use the Profitability System?

A good profitability system is more than a tool for measuring...

There is also a problem facing many organisations in how to actually use the profitability system once implemented. It is not just a financial or management accounting system it is an input for creating a more profitable business. And as such must be planned for across business units with a clear vision that it has a

multiplicity of uses. It will be an organisational wide solution that supports many business units and this in itself will require a plan for change management that will be supported by senior management. Profitability solutions must be implemented that incorporate multi-dimensional views that see the profits of the organisation as a whole, it's products, channel, business groups, and specifically customers.

The Road to Customer Profitability

On the road to customer profitability many organisations began by attempting to carry out product profitability. Initially we could see this attempt at product profitability and hence better costing as a manifestation of an organisations' fixation on being product driven as opposed to customer focused. However even this approach was difficult to implement as a product's profitability was often managed only vertically, from development through sales, with no measurement of costs borne horizontally through an organisation administrative and back-office expenses.

Some manufacturing companies had overcome this problem but the Services industry had found it difficult because of the many attributes their products had. A television may have many working parts but it performs one function and does not have a range of service or risk elements attached to it. This junction where cost accounting meets CRM profitability is an issue that most service organisations have yet to manage efficiently. This often leads to serious cost-benefit doubts being cast over CRM initiatives within organisations, which in fact may not be justified.

Reference Source: M.Meltzer @CSC /white paper on Customer Profitability- crmcommunity.com/ Feb. 2001

Author: Max Franchitto,
Managing Director, MGF Consulting.
Web Site www.mgf.com.au