Top customer profitability pitfalls

Chief Executive; New York; Apr 2003; Anonymous;

Supplement: CEO Insights

Start Page: 4

ISSN: 01604724

Full Text:

[Headnote]

Here are the 7 key factors that keep companies from adopting and using customer profitability analysis.

1 A lack of comprehensiveness. The majority of customer P&Ls lack enough detail to provide a true view of total cost and customer contribution. The most valuable customer profitability analysis captures data across all functions and includes customer-allocated cost metrics related to manufacturing, distribution, logistics, sales, trade marketing, order management, administration and support, and customer overhead.

2 Manual vs. automated processes. Data for customer P&Ls are typically extracted manually from various sources and entered into a spreadsheet for review and analysis. This time-consuming process creates inconsistent data gathering and analysis and infrequent updates, making its use and value limited. In addition, customer cost and investment data need to be continually updated, as actuals come in to replace estimates. If this continuous feed of data isn't automated, it's very likely that it never will be updated.

3 A lack of integrity and user buy-in. Manual and non-comprehensive processes create results that tend to lack integrity. Data quality compounds the issue, as critical data such as promotion cost/investment may be found only on salespeople's laptops. Data integrity issues cause business owners to second-guess analytical results and not use them to engage in a mutually beneficial and productive dialogue with their channel customers. Without sound data integrity, business owner buy-in is a challenge.

4 Point-in-time and single use. This needs to be developed and automated for continuous use and measurement, vs. a one-time tactic for negotiation purposes or leverage.

5 The process is overcomplicated. Customer P&Ls need not be fully loaded and reconciled to corporate financial reporting statements and systems. The focus should be on business use and reporting vs. financial use and reporting.

6 The "80/20" fallacy. Promotional investment and spending are no longer representative of total investment and the cost of doing business with a customer. Years ago, an understanding of customerspecific trade promotion ROI would have provided manufacturers with 80 percent of the cost category of investment in a total customer profitability analysis. Today, size, complexity and individual customer requirements generate other significant costs and investments critical for accurate analysis, such as freight, inventory carrying cost, HR support investment, displayready pallet cost, "nuisance fees" and so on.

7 No linkage to strategy. As industries have rushed toward a solution, putting technology before strategy was a key shortfall. Companies must develop a transformation roadmap and plan for how they will use this type of analysis to affect their bottom line. How customer profitability analysis will be used is a key element to developing a strategy. An effective strategy and the use of customer profitability analysis should outline mutually beneficial (to manufacturer and customer), measurable and actionable uses and results. The manufacturer and the customer can engage in reinvestment dialogue, using the analysis to highlight mutually ineffective and inefficient activities such as returns, unsaleables, random-case picks and emergency orders - that are driving cost and, therefore, investment that could be more effectively reallocated and reinvested toward mutually beneficial activities, such as consumer marketing, branding and retailer equity development.

[Author note]

For more details on how companies use customer profitability analysis to decrease costs and increase cash flow, contact Marc Shingles, Customer Profitability, Cap Gemini Ernst & Young, at marc.shingles@cgey.com.

Fonte: Proquest / Chief Executive – Acesso em 23/04/2003.