

# Spotlight | customer profitability

How a closer look at your individual customers can transform your bottom line\*

**All customers are not created equal.**

**Do you know who's who?**

**Are you aligning your business accordingly?**

By building long-term relationships with the most valuable individual customers, companies can win over a loyal—and profitable—customer base.

Most organizations today assess performance using revenue or profitability metrics. Yet this approach may be causing you to miss valuable opportunities to make your business more profitable.

A closer look at individual customers can help transform your bottom line. Moving beyond traditional customer segmentation is critical, as customers contribute in widely different ways to your profitability. Knowing which customers add to your profitability is just as important to your bottom line as identifying those who do not.

Understanding individual customer profitability can help you target high-value customers and tailor products and service offerings to their specific needs. That can lead to valuable long-term relationships – which can give you a competitive edge in today's uncertain economy.

**Key benefits of a customer profitability focus:**

- Empower management/staff to make decisions that boost profits
- Better prioritize customer service to attract and retain high-value customers
- Optimize marketing spend
- Improve retention and loyalty campaign results
- Increase sales through personalized offers
- Identify goals/strategies
- Identify and mitigate profitability-reducing behavior

# 01

## The wrong assumptions can cost you money

### A tale of two customers.

Most companies measure customers by revenue alone, without examining their individual contributions to the bottom line. This can lead to assumptions that often prove misleading. Here's an example:

John pays \$65/month for phone and Internet service. Lisa pays \$100/month for voice, high-speed Internet, and digital TV.

John's been a customer for seven years. He's upgraded twice, using low-cost self-service options. He has never called the help desk or required a technician dispatch. He gets his bills online and always pays on time.

Lisa's been a customer for two years. She calls the help desk at least five times each year. She's received several \$25 credits for temporary Internet performance issues. She pays by check, has missed payments, and never orders pay-per-view.

**How does this knowledge impact your relationships with John and Lisa?**

**The right answer with a customer profitability focus:**

John's attractive profitability profile will make him eligible for premium call-in services. Marketing will offer a customized upsell to digital TV. If John attempts to leave for another service provider, your call center will offer a generous credit, free Internet speed upgrade, or other customized offer to keep his highly-profitable business.

Lisa will be steered toward lower-cost online servicing with the option to pay for premium customer service. If Lisa calls for a service credit, it will be capped at \$5 per incident. Churn-related offers will be similarly scaled (such as a \$20 credit or two free pay-per-view movies). These parameters increase the likelihood that both customers make a favorable contribution to the bottom line.

# 02

## Where do your customers fall on the profitability spectrum?

Knowing how your customers contribute to your bottom line can help you tailor products and services – trimming costs and leading to bigger profit margins.

### VIPs

These are your star players. Dollar for dollar, these customers deliver the highest margins to your business. Do you know who they are? How are they treated when they interact with your company?

**Objective: Go the extra mile to keep these customers happy; anticipate their needs and tailor product offerings to extend the longevity of these relationships.**

### Potentials

These customers have the most potential for growth. Perhaps they purchase only one of your products, or perhaps they buy many products but the deals yield only a limited margin. There's potential for you to expand your relationship with this group. Are you tapping into their potential?

**Objective: Elevate these customers and the margins to VIP status.**

### Under-performers

These are your least profitable customers. They contribute very little, or worse, detract from profitability. These customers factor significantly into your company's bottom line – but not in a positive way. Just as you should have dedicated teams serving your most valuable customers, you should also have dedicated turnaround teams targeting those who are treading water or draining away your profits.

**Objective: Consider their long-term value. Reduce their costs to your business, increase their revenues or end the relationship.**

# 03

## You could be missing the big picture

Customer profitability analysis lays the foundation for a new corporate mindset where the bottom line is considered in every customer interaction.

### Traditional approach

- All customers are treated equally; or worse, prioritized by revenue alone
- Sales force is motivated to sell higher revenue or margin products
- Little/no awareness of how individual customers impact the bottom line
- Company operates with minimal understanding of how to increase customer profitability
- Internal product groups work in separate silos, often with competing objectives
- Customer profitability is dictated by the customer's mix of products

### Customer profitability approach

- Service is driven by a customer's bottom-line contribution to help maximize value and make sure each customer relationship is profitable
- Sales force is motivated to ensure that only profitable deals are priced and sold
- A clear course of action is designated for each category of customer; i.e., targeting high-performing customers or dedicating teams to mediate unprofitable customers
- Company has a deeper understanding of customer profitability and how it can benefit the entire organization
- Internal product groups operate holistically, with the same objective: to achieve a profitable relationship with each customer
- Customer profitability is dictated by the customer's mix of products and interactions with the business

# 04

## A one-size-fits-all approach could be bleeding your bottom line

Measuring business performance based on the contributions of individual customers can help your company identify and retain the customers that offer the greatest value.

### Sales

Traditional commission models focus purely on revenue, giving sales teams virtually no incentive to sell profitable deals. A model based on the bottom line of individual customers can lead to better decisions and greater internal collaboration between sales and operations, improving both cost containment and customer satisfaction.

### Marketing

One-size-fits-all marketing could be a costly mistake. Instead, use customer profitability assessments to offer targeted products and services to those customers and potential customers who represent the greatest value to the company and to disengage with those who do not.

### Customer service

Do your most profitable customers know their loyalty and business is valued? Give them free access to enhanced call centers and priority service, while making these same services available to other customers for a fee. Steer those who offer the least long-term value toward low-cost self-service options.

### Retention Programs

Rather than focusing on keeping every customer 'at all costs,' ensure all discounts, billing adjustments, and other offers are aligned with each customer's contribution to the bottom line. This allows for more generous offers to your most valued customers and helps ensure that you don't overspend on your least profitable customers.

# 05

## Customer profitability: a competitive edge in an uncertain economy

In today's turbulent economy, companies are battling for wallet share from a dwindling customer base. Customer profitability analysis may be the answer.

The customer profitability approach can help your company identify, attract and retain those customers who offer the greatest promise of long-term profitability.

While companies establish competitive advantage by building stronger, longer-lasting relationships with their most valuable clients, these very customers are on the receiving end of specialized offers that provide solutions to their financial needs at competitive prices – making customer profitability a win-win for your company and your clients.

Incorporating customer profitability analysis into longer term strategic planning can also offer insights into the health of your overall business:

- Are a large segment of your customers inordinately unprofitable?
- Should you revisit your business model, product offerings, or strategic value proposition as a result?

**In a time of limited resources, customer profitability analysis can help you determine where to accelerate and where to put on the brakes.**

# 06

## Where do you fall on the customer profitability continuum?

Most organizations develop a long-term profitability segmentation strategy they implement over time. The following represents milestones along that continuum.

### Foundational

- Identify revenue and cost-allocation formulas to calculate customer profitability
- Consider existing data sources needed to analyze customers' profitability
- Pilot the program to validate approach and identify quick hits for profitability improvement

### Operational

- Segment customers into categories, such as VIP, potential, or underperforming
- Deploy customized strategies in:
  - Marketing
  - Customer service
  - Retention
- Reorient sales force commission structures from revenues to profitability.

### Aspirational

- Tear down operational silos within internal product groups
- Capitalize on greater internal collaboration
- Use profitability data in strategic planning; align goals and objectives to support profitability

# 07

## What customer profitability analysis can do for you

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### Enterprise Business Telecom Provider

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A large telecommunication company views its customers primarily based on their overall revenue contributions. The services provided to these large-scale customers are often complex and feature customized pricing, so there's significant variation in the profitability of these deals.

By adopting customer profitability, the communications provider can:

- Align commissions with customer and deal profitability to create incentives for the sale of more profitable deals
- Proactively identify cost overruns in deals, allowing for quicker course correction

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### Advertising Agency

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An advertising agency provides advertising, PR, media planning, and brand development services to a variety of customers. These services are typically standardized.

A deeper understanding of customer profitability would help the agency:

- Allow for strategic investment in specific clients and service levels
- Proactively identify opportunities for cost containment
- Perform value analysis on customer expense costs

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### Television Conglomerate

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A large television conglomerate compartmentalizes its advertising customers, requiring brands to have separate, stand-alone relationships with each of its networks. By leveraging customer profitability, the company can:

- Better understand each customer's aggregate contributions
- Improve margins through significant cost savings (driven by consolidation)
- Grow revenue through competitive pricing made possible by cost savings
- Align sales and marketing efforts to achieve or surpass profitability goals

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### Cable Provider

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Providers determine a customer's profitability based solely on the products they purchase (TV, phone, or Internet). By looking at their service history, purchase of add-ons (such as pay per view), payment history, and other variables, providers can better align customer profitability with:

- Customer service levels and support
- Retention programs and credit lenience
- Marketing offers and upgrades

# 08 | Getting started

Many companies understand the concept of customer profitability but struggle to successfully harness its power.

PwC can help.

## **Develop a business case/road map**

Many companies know what customer profitability is but don't understand how to use it. We can help build a complete business case that identifies a variety of uses, quantifiable benefits, and a high-level plan of action.

## **Create an implementation plan**

Our team understands business operations, finance, and data, and can help bridge the gap between revenue/cost methodologies and the data sources needed to support them.

## **Assess data quality**

We'll canvas your data environment and provide a thorough quality assessment to identify information gaps and ascertain which information is useful in determining profitability.

## **Build a proof-of-concept model**

A preliminary model focused on a limited customer set can help fine-tune a solution. It can also begin to yield real results and quick-hit benefits prior to full implementation.

## **Evaluate solutions and select vendors**

Solutions include varying levels of complexity and integration. We help companies choose and implement the best solution for their needs.

## **Align the organization and drive operational change**

We develop the processes and policies to turn insight into actions that can produce revenue-generating and cost-reducing opportunities throughout your company.



# customer profitability

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## Continuing the conversation

To have a deeper discussion about customer profitability analysis and your company, please contact:

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