

Corporate value creation: Customer value 2008 report



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Foreword

If organisations are going to maximise stakeholder wealth then they must fully appreciate and understand the importance of maximisation of customer value and customer satisfaction, customer profitability analysis and customer life cycle analysis; in the successful management of their customer base.

These techniques require organisations to adopt strategic management accounting principles and practices, incorporating activity based management, activity based costing, life cycle analysis and scorecards (as a minimum); to provide the enhanced metrics to inform the strategic thinking and decision taking in today's modern organisation.

In the face of global hypercompetition, it is the accountant's duty to ensure that the customer value relationship, customer empowerment and corporate value are fully managed and add optimum value to the wealth of the organisation.



The accounting guidelines entitled 'Customer Profitability Analysis' (Epstein, 2000) and 'Managing Customer Value' (Epstein and Yuthas, 2006) provide guidance on how to develop strategies that are customer focused, and aim to improve individual customer acquisition, profitability, retention and lifetime value. The 2006 guideline even offers a 'customer profitability management cycle' as a cyclical framework to help managers identify customer value opportunities and to sustain the highest levels of potential customer profitability.

'Increasingly, companies are focusing on the relationships between employee satisfaction, customer satisfaction, and corporate profitability. They are focusing on the drivers of corporate profitability...' (Epstein, 2000 p. 3)

Customer profitability is a complex notion but once understood drives maximisation of corporate value. Customer profitability is what remains when all customer related costs are deducted from customer revenue (Murphy et al, 2006).

Customer revenue includes all the revenue streams from the customer over the lifecycle of their relationship with the supplier firm. These include:

- the sales made over the life cycle
- the referrals gained through the customer
- the ongoing transparently managed relationship between the customer and supplier to maximise profit
- the ability to leverage the customer, portfolio of sales and development of products in line with customer desires.

Sponsored by: Business Objects an SAP company

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The research was conducted by The Customer and Market Insight Team at CIMA who abide by the Market Research Society Code of Conduct and Guidelines

Customer satisfaction and profitability require a fine balance between satisfying the customer in the longer term, evolving the relationship and not incurring the additional costs of overprovision with regard to customer satisfaction.

The key is to achieve customer satisfaction for the most profitable customers. A comprehensive knowledge of customer profitability results in customers being re-categorised as worthwhile, worth developing or worth giving over to our competitors.

This idea of keeping the 'really' profitable customers was supported by the work of Selden and Colvin (2003) who introduced the notion of 'angel' and 'demon' customers.

Customer related costs fall into the following categories:

- costs of goods/services
- costs to sell e.g. promotions, advertising etc.
- costs to serve e.g. order processing, shipping etc.
- relationship costs e.g. account management expenses
- business sustaining costs e.g. R and D, senior management costs etc.

All of these costs must be accumulated per each individual customer and enable the issue of 'real' profitability to be addressed. The use of activity based management techniques and the principles that are incorporated within Activity-Based Costing (ABC) combined with integrated cost and revenue information systems, provide a comprehensive source of information in customer profitability estimation. Cost and revenue drivers can thereby be managed accordingly.

Well documented case studies, incorporating global players like Federal Express, Wal-Mart, the Royal Bank of Canada, Standard Life Assurance and MGM Mirage Resorts (Epstein, 2000; Epstein and Yuthas, 2006), suggest that for many firms the vast majority of their profits come from 20% of their customers (the 80:20 Pareto Rule or Principle), and that unless customers are individually assessed then this awareness of profitability is obscured. The whale curve seen later in the report depicts this phenomenon in diagram form.

The financial function and management accountants in particular, have a major role in providing the highly accurate cost and revenue metrics to enable a comprehensive measurement of each customer's profitability. Only then can firms strategically understand, manage and maximise levels of customer profitability. As a result of rising to this challenge, stakeholder value can be optimised and corporate growth achieved. This follows the sound advice of Michael Porter (1996):

'A company can outperform rivals only if it can establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at a lower cost, or do both.'

The following CIMA survey suggest that management accountants in the main appreciate that a primary element of their role is involved with understanding customer satisfaction, whilst also being aware that far greater efforts can still be made in refining their grasp of the relationships that exist between customer value, satisfaction and profitability in the creation of corporate value. Only then can a customer centric focus be achieved.

Executive summary

Analysis and the management of customer value, satisfaction and profitability, are complex and sustainable strategic advantages available to firms operating in hypercompetitive environments. This report in acknowledging the importance of customer value looks at the following key issues for CIMA members and finance professionals in general, wishing to enhance customer, stakeholder and corporate value creation.

It considers the following aspects of customer value:

- customer satisfaction and customer value
- customer value management
- customer profitability
- customer value and customer-centric information systems
- customer value and strategic management accounting.

The survey incorporated a sample of 25% of the global CIMA 70,000 strong membership, weighted according to country, and attracted a response rate of 5.75% (representing 1.4% of all CIMA members). The respondents were classified according to industry sector, job title, country and company size.

The main measures used appear to cluster according to three broad categories:

- financial measures
- marketing measures
- operational or service measures.

The survey research reflected a number of areas where agreement was widely shared and unanimous; it also identified areas where agreement levels were much more varied and where elements of best practice, though identified in part within the sample, could be substantially improved.

The areas showing near unanimous agreement were as follows:

- 97% of respondents believed that the finance department had some contribution to customer satisfaction
- 95% of respondents agreed that there was a need to understand customer satisfaction and improve customer loyalty in the long-term
- 94% believed that the effectiveness of the financial function contributed to customer profitability
- over 70% agreed that data warehouses and customer segmentation were the most popular Customer Relationship Management tools invested in by companies
- a large proportion also agreed that corporate reputation and the customers view of an organisation were important elements in creating customer satisfaction.



However the areas where less agreement or acknowledgement of shared practice was identified are as follows:

- customer lifecycle analysis was less prevalent in use than might be anticipated (only 22% usage by companies was recorded)
- the proportion of companies where wallet share metrics were used was recorded for only 14% of the respondents
- activity based costing measures were only acknowledged by 24% of the sample as a tool to understand the value of their customers.
- CRM tools had only improved the firm's knowledge regarding cost of sales for 42% of the respondents
- 54% on average could access customer profitability at the individual customer level
- 59% believed that they could attach or allocate all costs to their customers, but not necessarily at the individual customer level.

The levels of robustness in setting metrics, costing techniques, integrated systems and ability to be agile and responsive with regard to customers' needs, also varied widely and was country specific. This poses a substantial challenge for finance professionals globally.

Considerable evidence suggests that most organisations only have a partial understanding of what makes a customer profitable – but that once known, companies could influence customer behaviour to improve their levels of profitability.

This survey substantially supports a growing global acceptance amongst professionals, and particularly accountants, that marketing, systems and accounting (as all other functional dimensions of the firm) need to be managed in a holistic and interrelated manner, to maximise sales returns and actual profits in the longer term.

By adopting ABC principles and systems that allow ABC to be extended to the full and complex costing of individual customers and segments, a customer centric strategic advantage can be gained and sustained.

High levels of customer satisfaction and related profitability (over the life time of the relationship), once accurately measured and incorporated into decision making, provide additional and important strategic gains in the quest for sustainable competitive advantage.

However it must be noted that customer profitability is only one measure that is critical to organisational success. It should be recognised that it should not be 'overcooked' as other customer metrics are important. It should also be appreciated that not all customers can be profitable today but may provide learning opportunities, be strategically important or may become tomorrow's 'cash cows'.

Customer profitability measurement informs many important business decisions and is becoming a 'must-have' inside many organisations. It offers an interesting opportunity for management accountants to add considerable value and work alongside their colleagues in marketing, sales and strategy

Accountants, strategic management accounting methods and techniques and comprehensive user-friendly integrated systems, therefore have a combined role in Customer Value Management and Corporate Value Creation.

More research and practice is needed in developing a new customer-centric relationship paradigm and in the development of the strategic cost accounting systems to support this concept.

1 Why customer value is important?

'Customer satisfaction is the outcome felt by buyers who have experienced a company's performance that fulfilled expectation ... and (are) delighted when their expectations are exceeded. Satisfied customers remain loyal longer, buy more, are less price sensitive, and talk favourably about the company.'
(Kotler, Marketing Management, 1994 p59).

Customer value (CV) is created by the interplay of customer satisfaction and customer relationship management, it is the net worth to customers from buying and using a seller's product or service or mix of these two benefits.

To maximise long-term economic returns to the company, customer value creation must be managed so as to move in the same direction as customer profitability. Essentially, this requires information on which of our customers are most profitable to us, how we satisfy their needs, how we acquire and retain our profitable customers and how we convert less profitable customers or cease trading with them.

Finally, how we determine and split our marketing and advertising and related costs, that is, our total spend, in supporting this complex agenda. Ramani and Kumar (2008) have called this complex behaviour 'Interaction Orientation', a source of strategic competitive advantage; it relies upon the company's ability to effectively combine – individually based customer-oriented analysis, positive and speedy responses to each customer's needs, long-term customer value management and customer empowerment.

Who will benefit from managing customer value? In essence, all the stakeholder groups that have a primary interest in optimising the medium and longer term returns to the company. This includes, internally, the board members, the marketers, customer relationship managers, planners, IT systems managers and providers, the finance managers; and externally, it includes the shareholders and wider community.

The next section will look at the notion of customer value, its management, customer-centric systems (including accounting information systems) and the future of customer value analysis. The notion of a customer-focused organisation will be considered according to new contemporary notions of customer driven metrics and activity driven information, now available.

These ideas are essential for a strategic appreciation and understanding of customers and profit, and underpin this Customer Value 2008 Research Report, commissioned by CIMA and supported by Business Objects (part of the SAP AG).

2 Key aspects of Customer Value and management

2.1 Customer Value (CV)

A recently published management accounting guideline 'Managing Customer Value' (2007) sees Customer Value as the foundation of customer profitability and clarifies our understanding by offering the reader a dual concept of customer value:

'the value the company provides to the customer, through its product and service offerings, brands and relationships ... and the value the customer provides to the company, in the form of profit streams, intellectual capital, and other customer assets' (Epstein and Yuthas, 2007).

They continue to promote the notion of a Customer Value Management Cycle (CVMC), which provides an integrated approach to effectively optimising the management of this cycle (see next section).

This dual notion of customer value is a dynamic concept and evolves over time. It can be a source of sustainable strategic advantage, if understood in the context of the customer's extended value chain and its relationship with the seller, and reflects the combined work of Saeed et al, (2005) and developments in Porter's inaugural work (1985). It is currently researched widely, and incorporated into many research agendas (see the continuing work of INSEAD and Manchester Business School).

This dynamic relationship can be supported and refined by the use of high quality technology (Parasuraman & Grewal, 2000), the most appropriate customer-oriented information and robust metrics (including high quality accounting information). This offers empowerment facilities for our long-term and potentially lucrative customers, which becomes a source of the organisation's sustainable competitive advantage.

Successful organisations aim to maximise customer value for the receiving company and also maximise profitability for the seller, over the total customer life-cycle period.



2 Key aspects of customer value and management

2.2 The Customer Value Management Cycle (CVMC)

The recently published management accounting guideline 'Managing Customer Value' (2007) offers a model to help management accountants, and other interested professionals, understand and manage the elements of the CVMC.

The table below adapted from the CVMC model, incorporates five stages in a continuous cycle, ordered as follows, which combined and managed effectively can maximise customer value and firm's profitability:

Figure 1 Elements in the CVCMC Model

Stages	Activity	Content of activity
Stage I	Manage customer segmentation	Starting with traditional segmentation and moving to buyer behavioural segmentation
Stage II	Measure customer margin	Incorporating more complex costing mechanisms into margin calculations, like ABC which incorporates all activities and non product related overheads into calculations
Stage III	Measure customer lifetime value	Calculate the lifetime value of the customer's profitability using future estimates and discounting techniques*
Stage IV	Measure customer impact	This should incorporate behaviours over and above purchasing behaviour, including referrals, information towards product enhancement etc.
Stage V	Measure customer profitability	Using complex customer segmentation, the firm can plan for future management and customer profitability maximisation (incorporating only value-adding activities into future offerings)

* Simple calculation of lifetime value of customer is as follows, and the profit estimated per period are so adjusted, to reflect these constituents:

$$[CLV = (\text{Profit } t_1 \times \text{Retention Rate } t_1 \times \text{Discount Factor } t_1) + \dots + (\text{Profit } t_n \times \text{Retention Rate } t_n \times \text{Discount Factor } t_n)].$$

The above calculation should attempt to reflect sales and services, cross and up-selling opportunities, retention and referrals and development where possible. Hence in reality it requires a comprehensive, integrated system, that can easily provide all the required data and calculate the necessary metrics for analysis.

Inevitably, the results are as good as the predictions and metrics utilised.

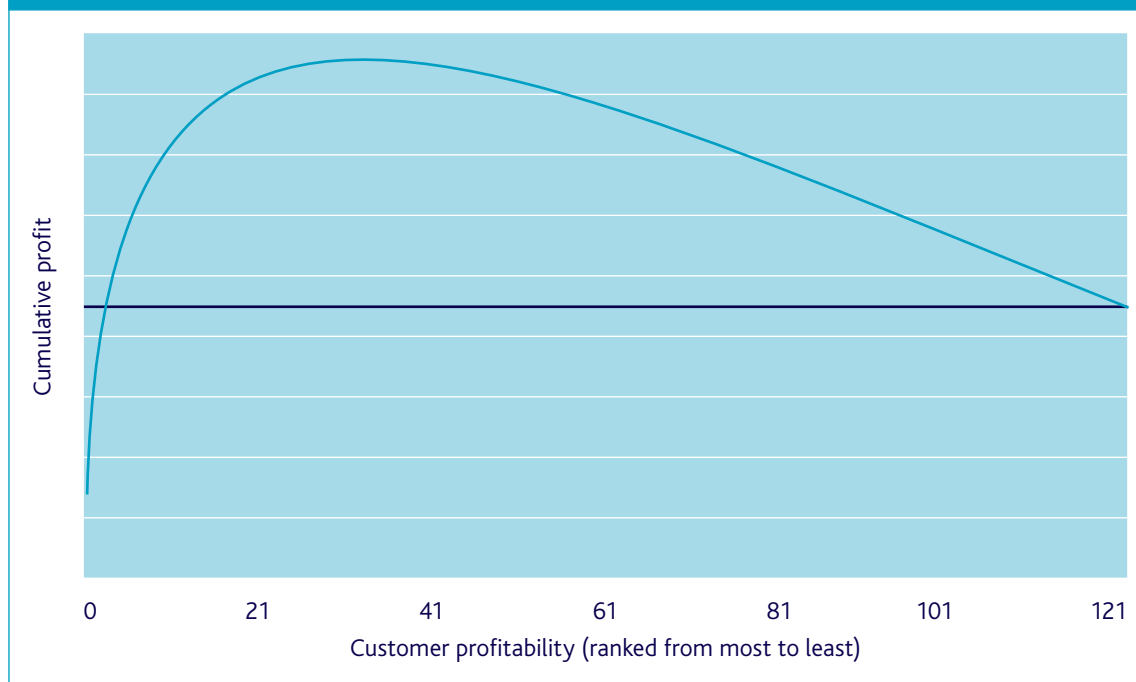
2.3 Customer profitability

Customer profitability is a complex notion but once understood drives maximisation of corporate value. Customer profitability is what remains when all enhanced customer related costs are deducted from an enhanced notion of customer revenue (Murphy et al,2006).

Customer profitability can be depicted diagrammatically using the well-known 'Whale Curve' (Epstein, 2000), which plots customers, ranging from most to least profitable; they seem to reflect the 80:20 Pareto rule, where 20% of the customers offer 80% of the profits. A copy of the curve is depicted below (adapted from Murphy et al, 2006).

Kaplan and Anderson (2004) provide some suggestions as to why customers may be more or less profitable, these include items like order frequency and quantities, levels of customisation, changing specifications, sales force behaviour, acquisition and retention costs, stock-holding requirements, delivery issues etc. Having a closer communication link and informed relationship with clients can reduce waste and improve profitability, particularly when developed in line with modern strategically driven costing and pricing systems.

Figure 2 The Whale Curve



2 Key aspects of customer value and management

Firms also have to be aware of their own conceptual understanding of customer profitability, and Epstein and Yuthas (2007) suggest incorporating the following strategic considerations in the determination of a clear profitability lens:

- robust profit margins e.g. strategic costing (ABC etc.)
- customer lifetime value (through acquisition to exit stages)
- customer impact (actions like referrals, participation and innovation in product development).

Viewing the customer as an investment is vital here, and the notion of customer equity whereby customers are seen as an additional valuable asset to the firm, is supported by many enlightened marketers.

2.4 Customer Value and customer-centric information systems

The ability of leading firms to leverage e-competencies is essential. Firms must be able to compare themselves, reduce complexity, inform decisions, switch costs, customise products efficiently and appear agile in the market place. This ability is a strategic necessity for successful customer-centred organisations and a key to optimisation in B2B and B2C relationships.

The organisation's website and related portals become the key buyer/seller interface and can be combined using integrated systems, to extend and leverage higher than average returns, through complex cross-corporate-divisional- multifunctional- multidisciplinary value chains.

These systems must have the strategic capability to support customer value and sophisticated profitability metrics, and become part of the forecasting processes.

CRM tools to support these activities and specified in the research study (as a minimum) include:

- CRM tools for call centre customer contact management
- CRM tools for managing face to face customer contact
- customer segmentation tools
- a data warehouse.

This survey asked respondents to consider the value of the above tools and their returns on investment, combined with investment returns on strategic management accounting tools which are considered in the next section.



2.5 Customer value and strategic management accounting

The importance of incorporating strategic management accounting practices and activity based management into CVM is well documented. This allows the introduction of more CRM tools to support 'real' long-term profit generation and increase the firm's economic value.

Ideally, these tools should incorporate activity based costing principles and include all costs into the product/service offering and thereby provide accurate and timely margins for decision making. Despite both ABC and CVM using cost driver principles, the breadth of costs included for CVM is greater, and concentrates on the customer as the unit rather than the product or service (as per ABC). Therefore the ABC principles are incorporated into CVM but the cost and revenue calculations and metrics have a different focus – this focus is upon the customer lifecycle value. Only then can a customer-centric focus be achieved.

These determinants combined within the total cost calculation should incorporate acquisition, recurring total costs and revenues, up-selling and cross selling, credits and returns, promotions of all types, customer migration, bad debt and removal costs. How the balance of these costs are accumulated regarding acquisition, retention and exit costs, are indisputably complex and difficult to determine.

CRM accounting tools included as a minimum in this survey include:

- customer profitability analysis e.g. life cycle profit calculations, wallet share analysis (the share of the total customer spend on a product/service/portfolio held by the seller)
- customer lifecycle metrics and analysis e.g. appropriate discount factors, referral and loyalty measures
- customer segmental reporting and analysis e.g. social-economic classification
- ABC principles extended to costing the individual profit created by each customer.

Having illustrated the complex nature of CV and CVM, the next two sections will consider the methodology and concentrate upon the findings from the research.

Key conclusions, future recommendations and limitations to the research, will then be summarised.

Finally, the future direction of customer value analysis and research in this area will be considered.

3 The research methodology

3.1 Research method and fieldwork

The research was undertaken in a single time frame, but has the potential to become an annual longitudinal study. It focused entirely on the total population of CIMA members globally, from which a large sample was selected, weighted according to the member's global locations. The total population was circa 70,000 members.

The fieldwork was conducted between October and November 2007. This was primarily a quantitative online study.

The CIMA Centre of Excellence commissioned this research in order to ascertain the prevalence of customer profitability measurement and the role of finance in reporting upon it. The study was supported by Business Objects.

3.2 The questionnaire

The quantitatively-based questionnaire was used primarily to gather data with regards to CV, CVM and profitability. It incorporated 20 questions relevant to this issue, five questions were concerning the demographics of the respondents, 15 were with regard to their involvement in customer value creation. The majority of the questions posed, were closed questions, although some questions did allow for open responses.

3.3 The sample and response rates

The target sample comprised of 17,503 CIMA members globally, equating to 25% of the total population of CIMA members. The number of respondents totalled 1,006 people, equating to an overall sample based response rate of around 5.75%; this in turn represents 1.4% of all CIMA members.

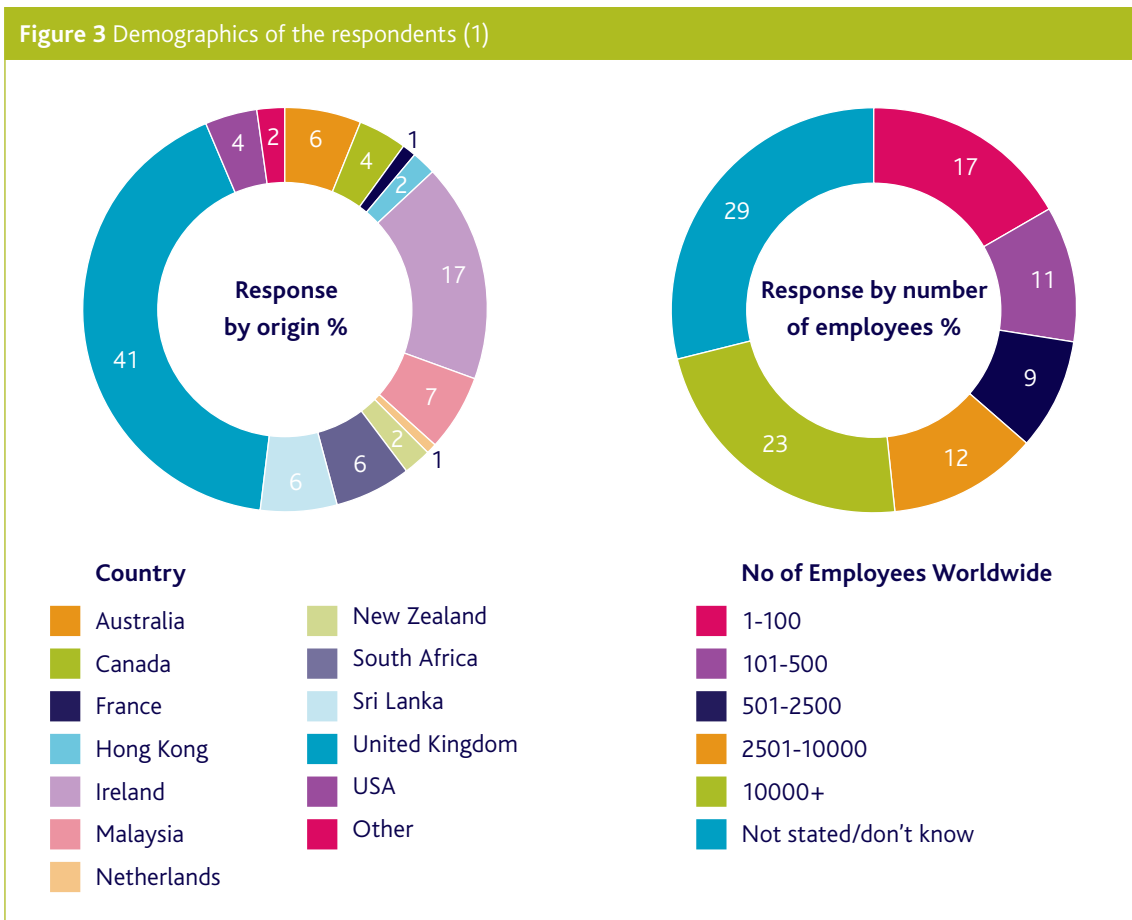


Note: the charts may not add up to 100% due to 'data roundings' during analysis

4 The findings

4.1 Demographics of the respondents

Figure 3 Demographics of the respondents (1)

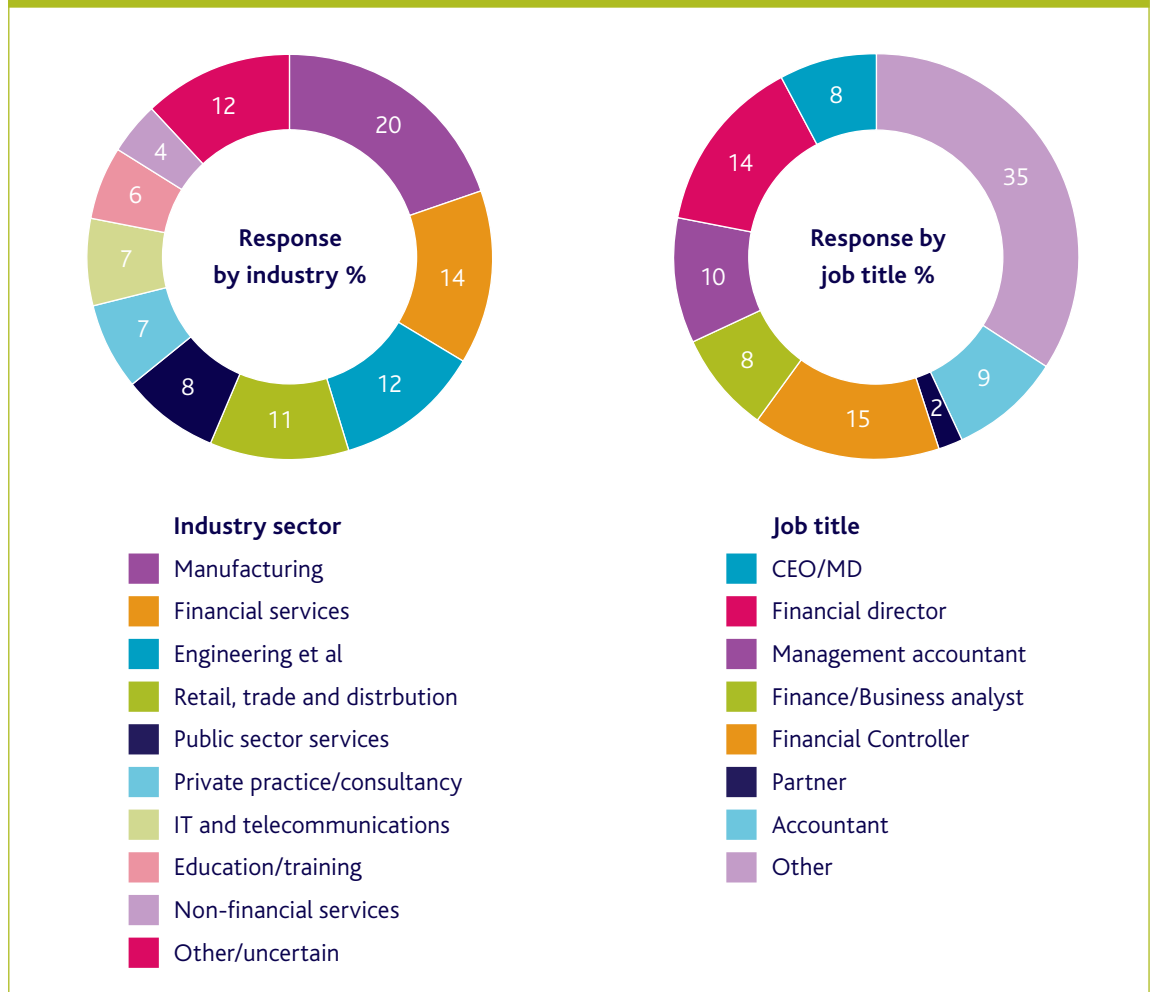


By far the largest response was from the UK (41%) where 50,000 CIMA members reside, followed by Ireland (17%), Malaysia (7%) and then 6% from each of the following, Australia, South Africa and Sri Lanka.

At least 23 % worked in organisations > 10,000 people.

4 The findings

Figure 4 Demographics of the respondents (2)



The largest proportion of respondents worked in manufacturing (20%), followed by financial services (14%), then engineering, construction, extractive, utilities and transport sectors (12%) and then retail, trade and distribution (11%).

In terms of their job function and title, 22% were CEOs or financial directors, of the remainder 35% were unclassified, leaving 43% classified as illustrated in the chart above.

Finally, in the total number of responses a substantive 85% were in full-time employment, with another 9% being self-employed, 4% being in part-time employment and 2% categorised as 'other'.

4.2 Customer Value (CV)

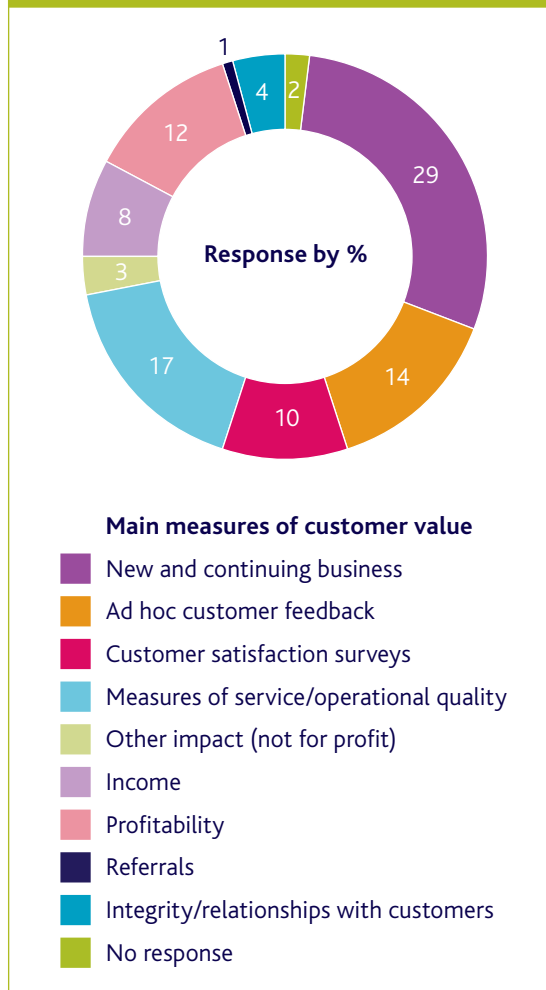
4.2.1 The Main CV measure used

Respondents were asked to detail their main customer value measure used. This was primarily an open question, which sought their responses without prior suggestion.

The pie chart was developed from a detailed analysis of their responses; it indicates that the three most popular measures were new and continuing business (29%), followed by measures of service/operational quality (17%) and ad hoc customer feedback (14%), these were closely followed by profitability and customer satisfaction surveys.

Some of the responses were more linked into how information was collected as opposed to the actual measures used. The remainder of the questions in this section concern use of measures, attitudes to measurement, and the CRM tools that were available to them (specifying accounting tools as a separate source of measurement).

Figure 5 Customer value measures pie chart



4 The findings

4.2.2 CV measures in use

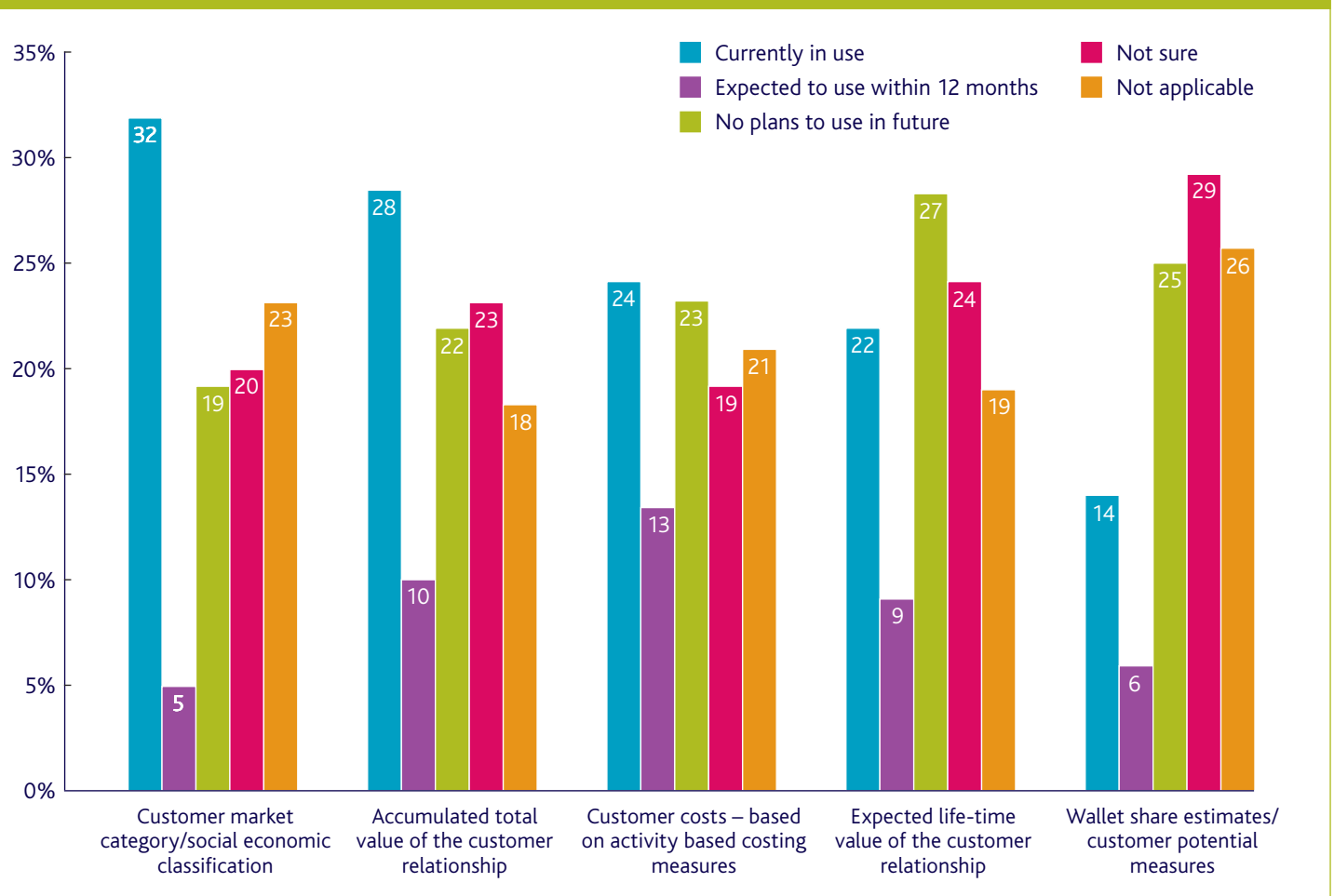
The respondents were asked to identify if they currently used or expected to use, any of the following measures of customer value:

- customer market category/social-economic classification
- accumulated total value of the customer relationship
- customer costs – based on activity based costing measures
- expected life-time value of the customer relationship
- wallet share estimates/customer potential measures.

It is evident that all methods were identified as in use, but the three most popular were customer market category/social-economic classification (32%), followed by accumulated total value of the customer relationship (28%) and customer costs came third – based on activity based costing measures (24%); this third ABC related choice, was also expected to be adopted by a further 13% of respondents within a twelve month period (totalling 37% of respondents).

However for each of the five options 19-27% felt no need to adopt any of these methods in the future, which may cast a question mark over their ability to recognise valuable customers. Wallet share overall appears to be the least popular measure (20% in use or to adopt soon), whilst expected life time value fared slightly better (31% over these two categories)

Figure 7 Customer value measures in use

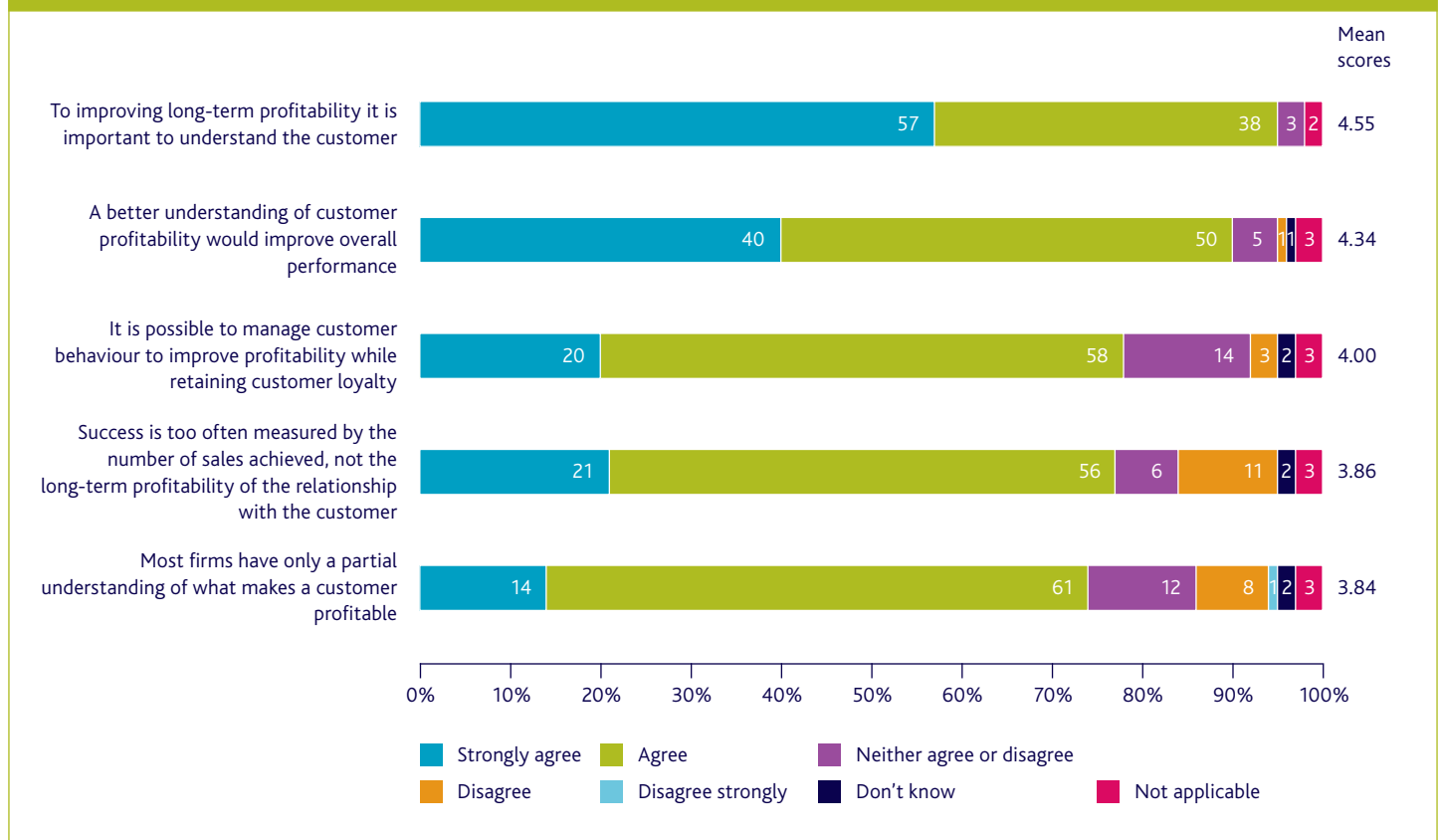


4.2.3 Attitudes to CV

Respondents were asked if they agreed or disagreed with the following statements, plotted on a 7 point Likert scale:

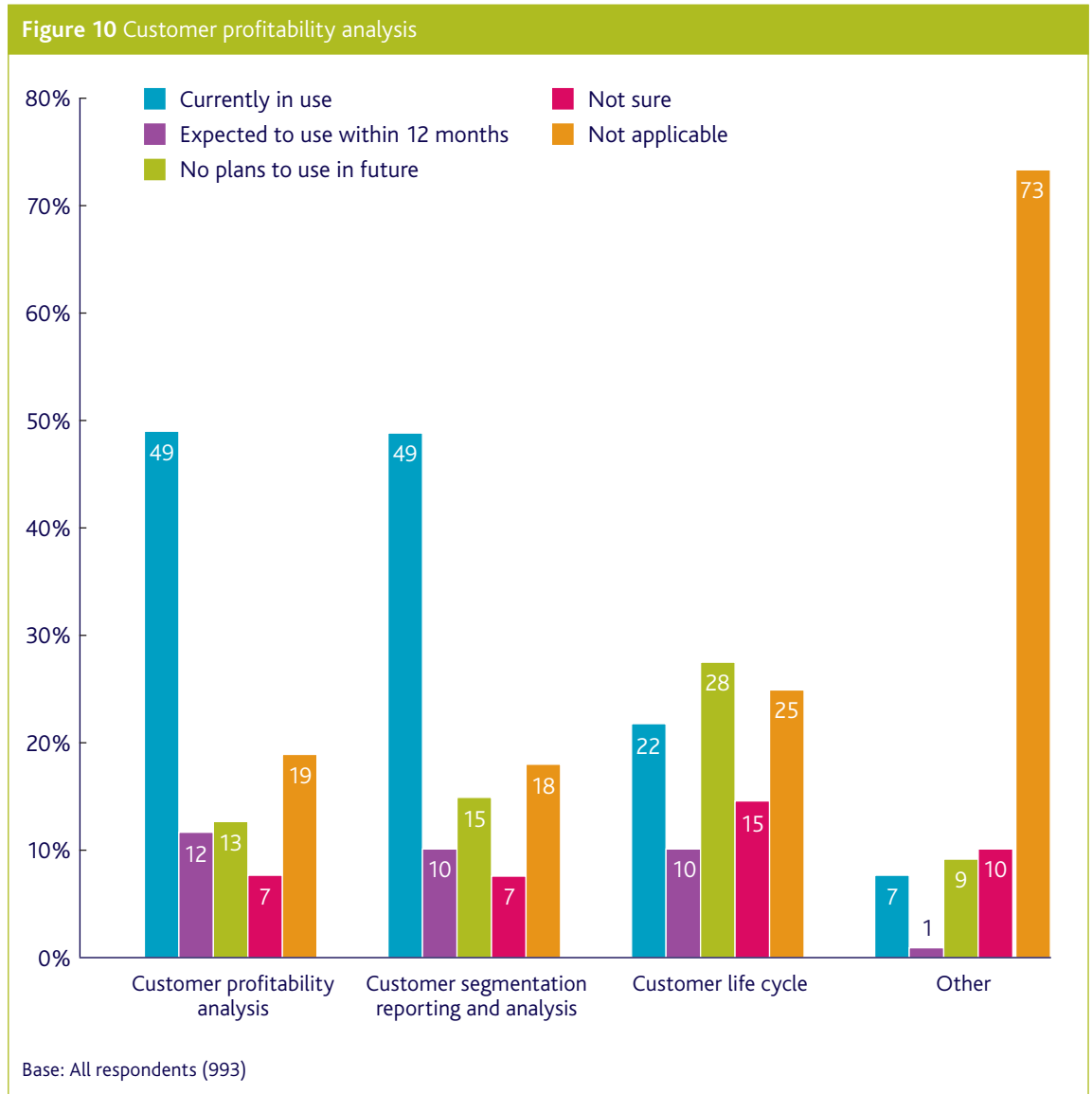
- to improving long-term profitability it is important to understand the customer
- a better understanding of customer profitability would improve overall performance
- it is possible to manage customer behaviour to improve profitability while retaining customer loyalty
- success is too often measured by the number of sales achieved, not the long-term profitability of the relationship with the customer
- most firms have only a partial understanding of what makes a customer profitable.

Figure 9 Attitudes to customer value



The responses indicated that nearly all (95%) agree that to improve long-term profitability it is important to understand the customer and a further nine out of ten believe a better understanding of customer profitability would improve overall performance. 78% believed that customers could be managed to improve profitability; also that success was too often measured by sales alone however, 75% of the responses indicated as to only having a partial understanding with regard to their customer profitability.

4 The findings



4.2.4 Management accounting tools to improve CV

The respondents were then asked which of the following management accounting tools were used to improve Customer Value.

- customer profitability analysis
- customer segmentation reporting & analysis
- customer life cycle
- other (please specify).

The responses identified customer profitability analysis and customer segmentation reporting and analysis as the most popular management accounting tools used to improve customer value, both featured as currently in use and scored 49% (a further 12% were aiming to introduce the former and a further 10% the latter, over the next twelve months).

It needs to be noted that customer lifecycle profitability measures were the least popular tool reported upon here; this is surprising due to the growing levels of importance attached to them, by practitioners and academics alike.

4.3 Customer Relationship Management (CRM)

4.3.1 Investment in CRM tools and expectations

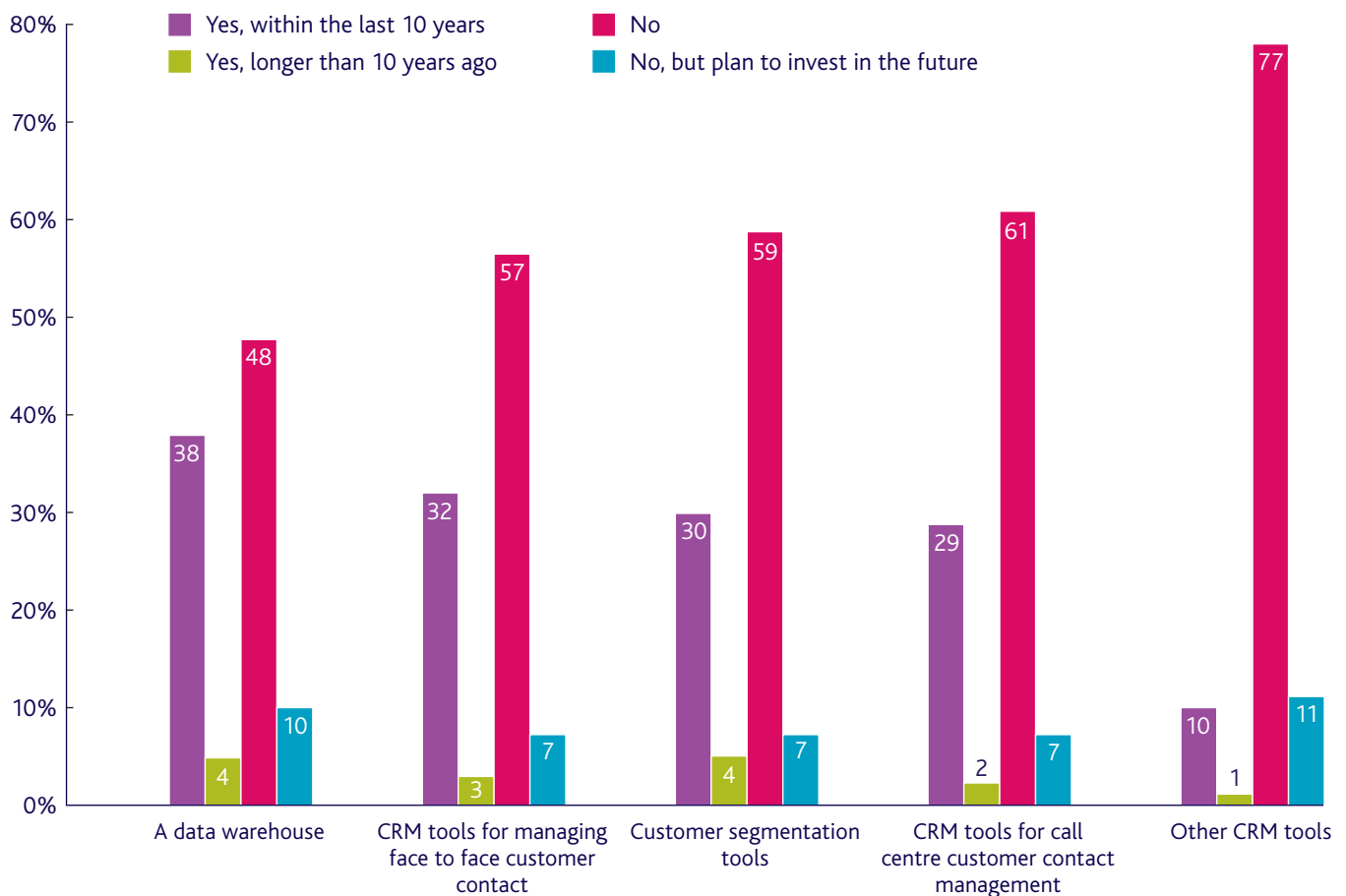
The respondents were asked whether they have invested in any of the CRM tools as specified and when this occurred, and secondly, whether their expected returns on the investment had been met.

The tools in question were as follows:

- a data warehouse
- CRM tools for managing face to face customer contact
- customer segmentation tools
- CRM tools for call centre customer contact management
- other CRM tools.

The responses indicated that in the last ten years a data warehouse was the first choice (38%), followed fairly evenly by CRM tools for managing face to face customer contact (32%), customer segmentation tools (30%) and CRM tools for call centre customer contact management (29%). However, around half of the respondents in all the categories had no plans to invest in the future, and only a small proportion (of around 10%) in all categories were aiming for future anticipated investments (as seen in the chart below).

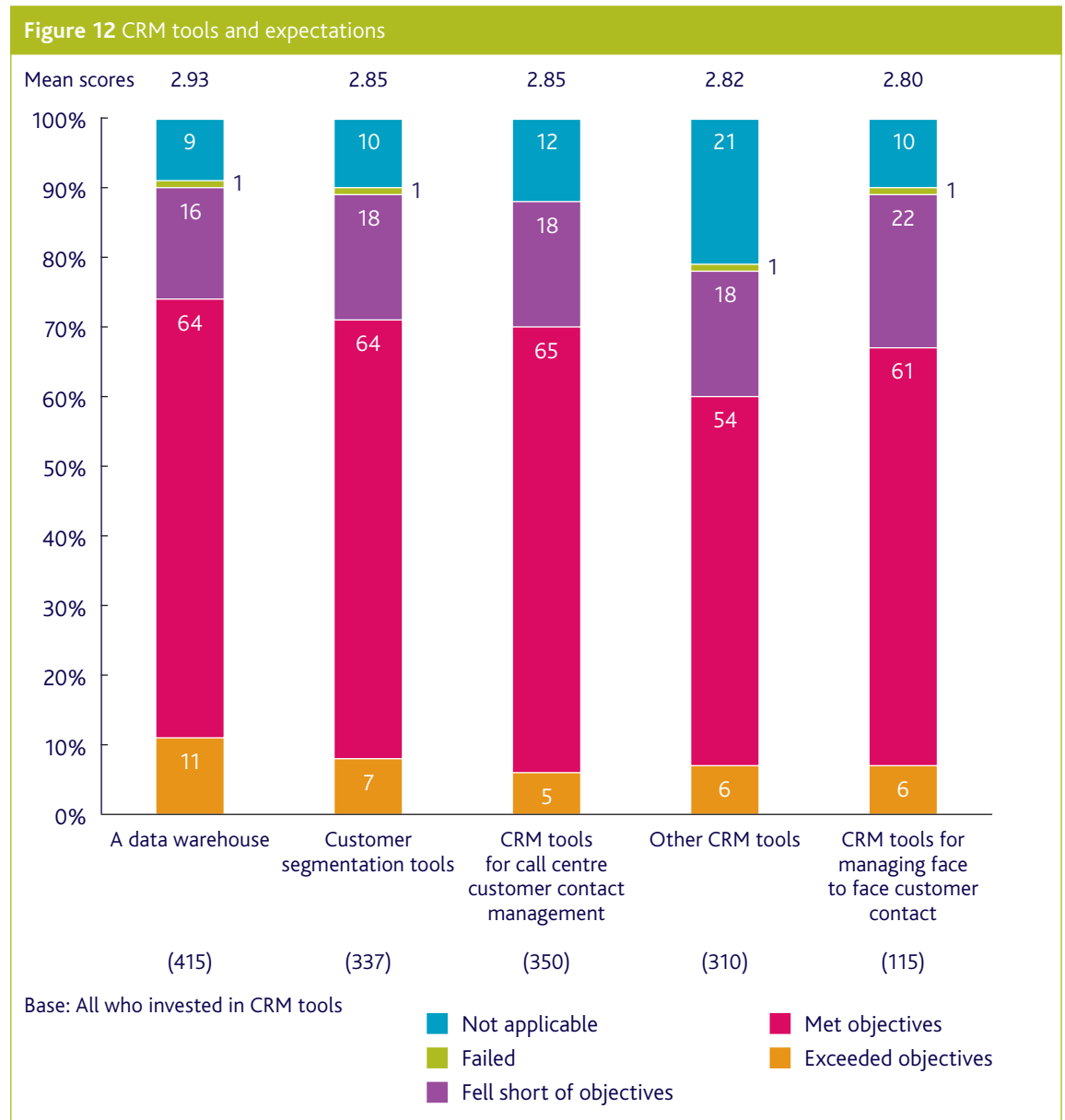
Figure 11 CRM tools in use



Base: All respondents (993)

4 The findings

When asked about their investments anticipated returns, the following results were reported:



Fortunately, in each investment category, the large majority had all met and exceeded expectations by between 54-64 % (met expectation category) and 5-11% (exceeded expectation category) for all investments; showing total satisfaction for at least meeting objectives of between 60-75% of the respondents.

The highest ranking item in both categories, for meeting and exceeding expectation, was investment in the data warehouse (75%).

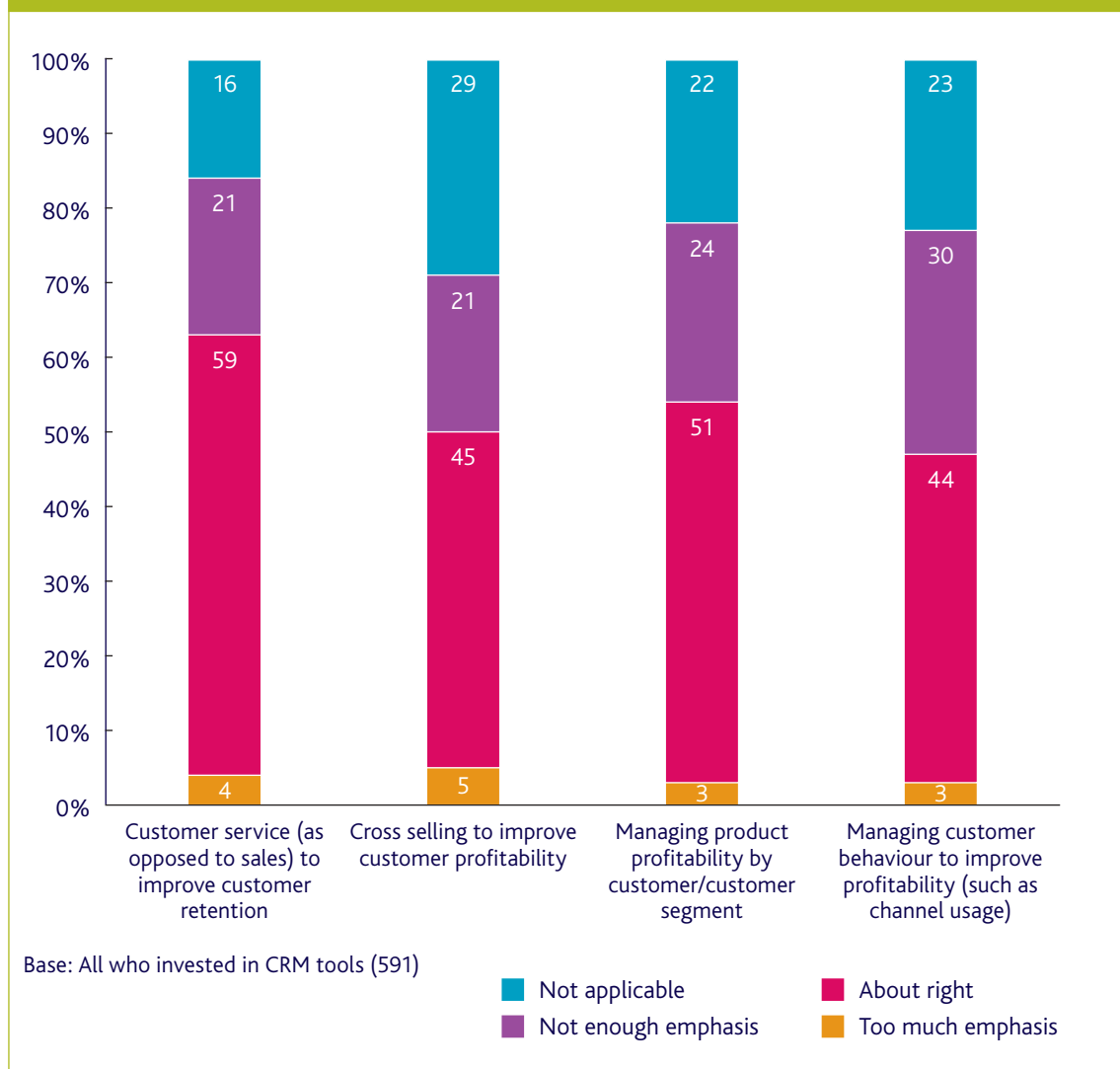
4.3.2 Emphasis of the CRM programme

Respondents were asked to give their opinion of whether their own CRM programme placed the right level of emphasis on the following four options and were asked to rank them.

- customer service (as opposed to sales) to improve customer retention
- cross selling to improve customer profitability
- managing product profitability by customer/customer segment
- managing customer behaviour to improve profitability (such as channel usage).

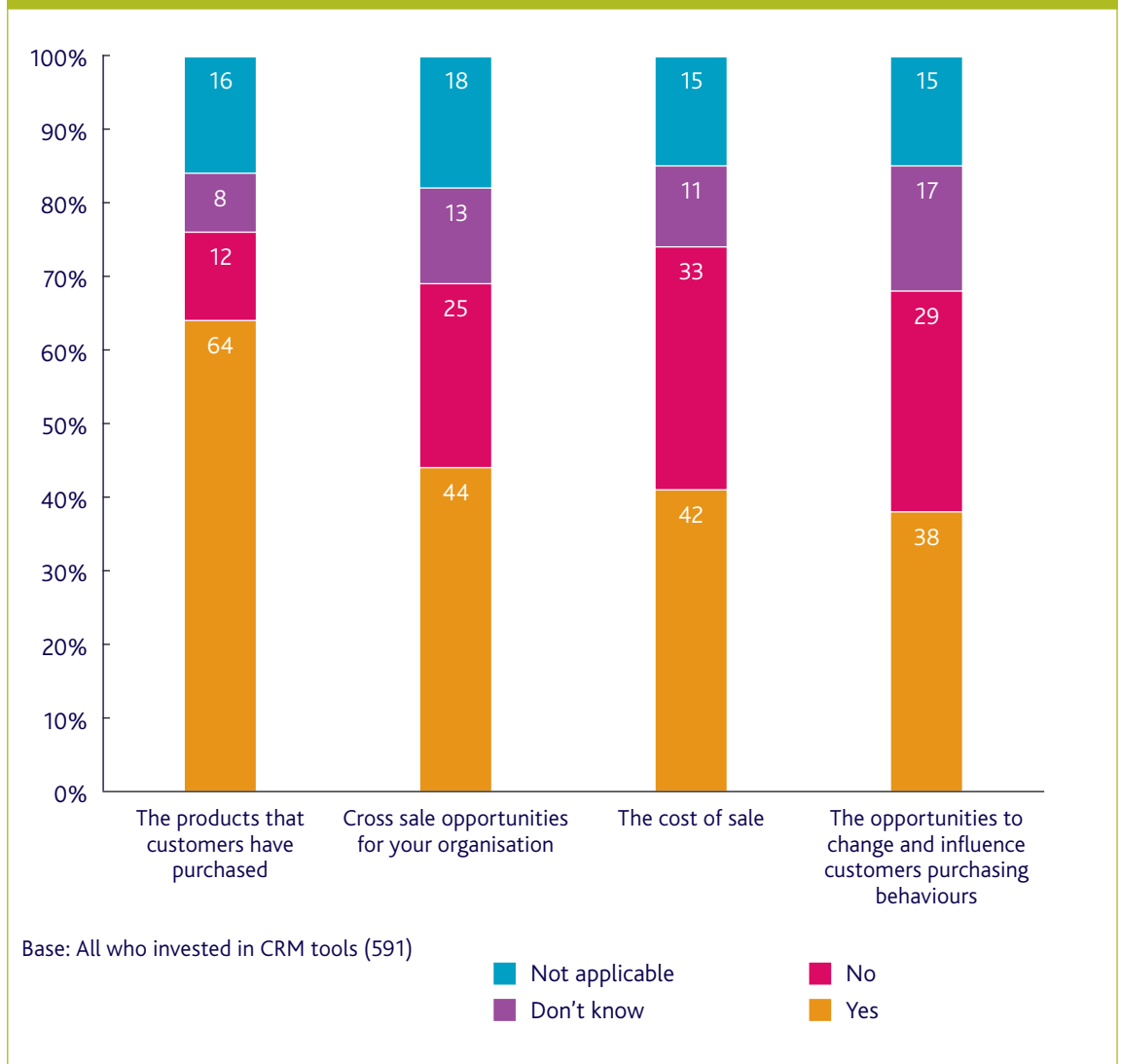
The chart below shows the response; with regard to customer service (as opposed to sales) to improve customer retention was felt by 59% and seen to have the correct emphasis, with only 21% wanting more emphasis in this area. Generally however, over 40% of respondents thought the emphasis was about right in all four areas, but managing customer behaviour to improve profitability (such as channel usage) was felt to attract too little emphasis, scoring a 30% in this category. More or equal emphasis was supported by 66- 80 % of the respondent with regard to all four options here.

Figure 13 CRM programme emphasis



4 The findings

Figure 14 CRM tools and customer value management



Then the respondents were asked if the CRM tools they had purchased improved their information about the following elements of customer value management:

- the products that customers have purchased
- cross sale opportunities for your organisation
- the cost of sale
- the opportunities to change and influence customers' purchasing behaviours.

Here the maximum benefits registered concerned the provision of information surrounding customer product choices (64%), the least benefit was recorded with regard to the opportunities to change and influence customers purchasing behaviours (38%).

These tools provided no better information with regard to the cost of sale of the products and services supplied according to 33% of the sample. This brings into question the reliability of many of the customer metrics used, as they were only felt to have improved information about cost of sales for 42% of the respondents.

4.4 Customer Profitability (CP)

4.4.1 Individual customer level CP

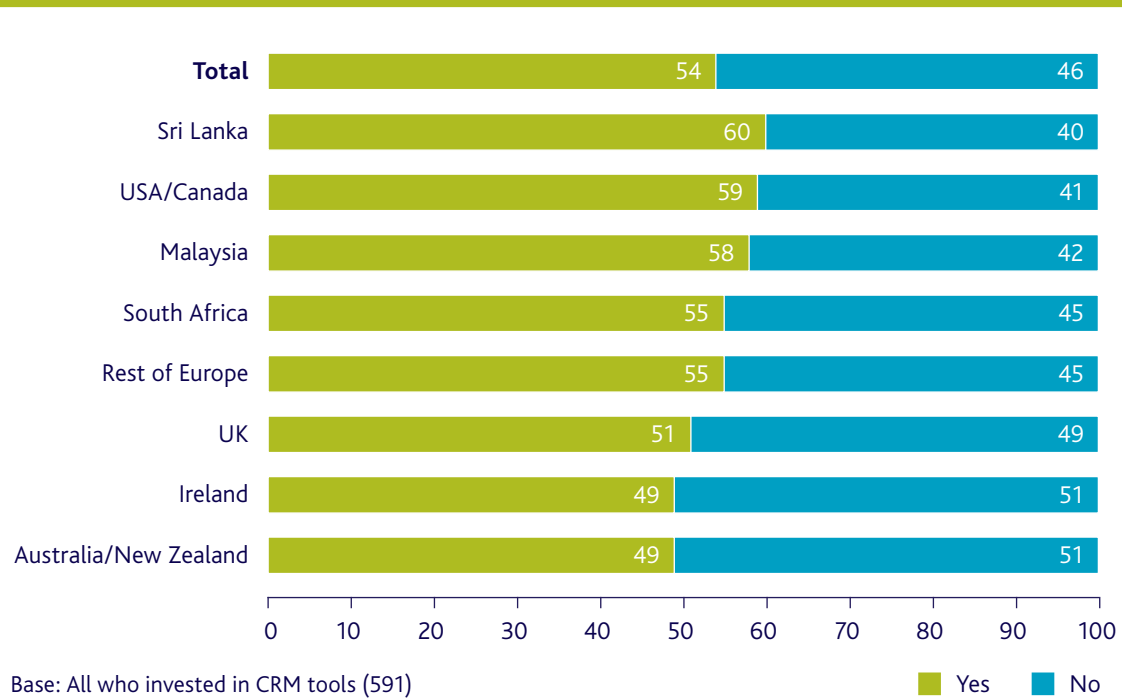
The survey queried whether the respondents knew the profitability at an individual customer level.

In the total sample 54% of respondents answered yes, which is only just over half of all those surveyed; this suggests that considerable improvements are required with regard to differentiating customers according to their individual profitability.

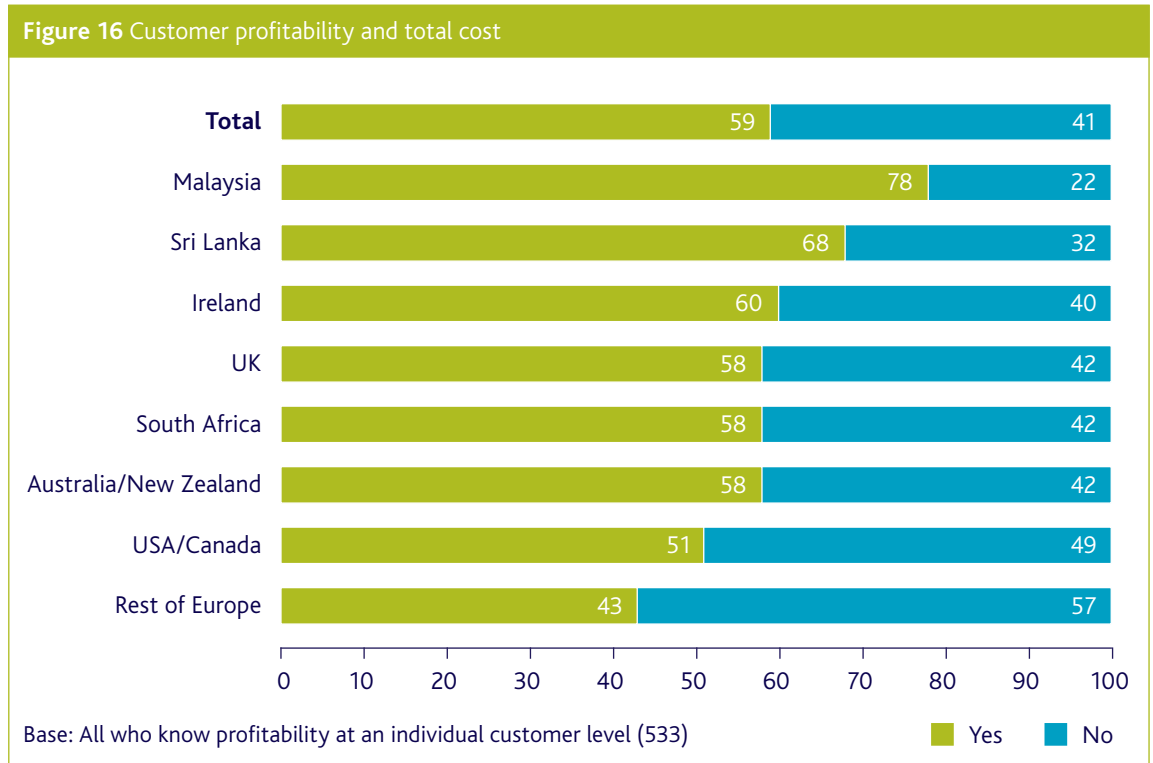
Sri Lanka (60%), USA/Canada (59%) and Malaysia (58%) scored highest, and the lowest scores were indicated by Ireland and Australia/New Zealand (49% each) in this area. The UK came in below the global average with 51%.

The question was then asked, with a specific focus on whether this profitability per individual customer incorporated 'all costs' that are associated with serving the customer.

Figure 15 Customer profitability at an individual customer level



4 The findings



As the chart above indicates the total sample responses were 59%. Here again Malaysia (78%) and Sri Lanka (68%) scored highly, the lowest score of 43% was given by 'rest of Europe' and the UK came in just below the total average.

Taking the two questions together it appears that some systems include all costs of serving whilst others do not provide the facility. Also only some systems break these down to the individual customer level, to give an example – Ireland scores 60% on including all costs to the customer, but only 49% at the individual customer level.

Here again there appears considerable room for improvement with regard to understanding 'accurate and robust' margins and profits, at the individual customer level.



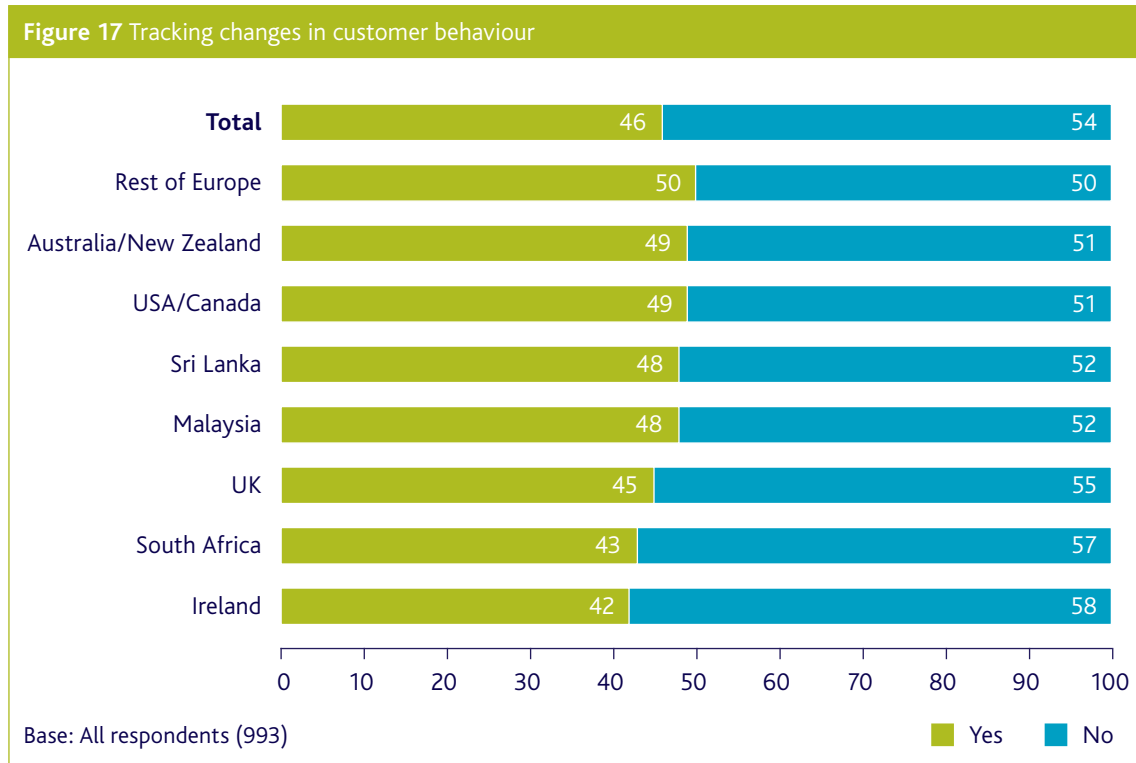
4.4.2 Tracking changes in behaviour and CP

The next question concerned whether their organisation could track changes in customer behaviour and its impact on profit. The results indicated that 46% overall could track changes, 'rest of Europe' scored most highly at 50% and Ireland reported back the lowest score at 42%.

4.4.3 CP and satisfaction

The survey then attempted to investigate the proportion of profit that respondents believed had a direct link with customer satisfaction. This asked the respondents to estimate the percentage of profit driven by satisfaction levels experienced.

Figure 17 Tracking changes in customer behaviour



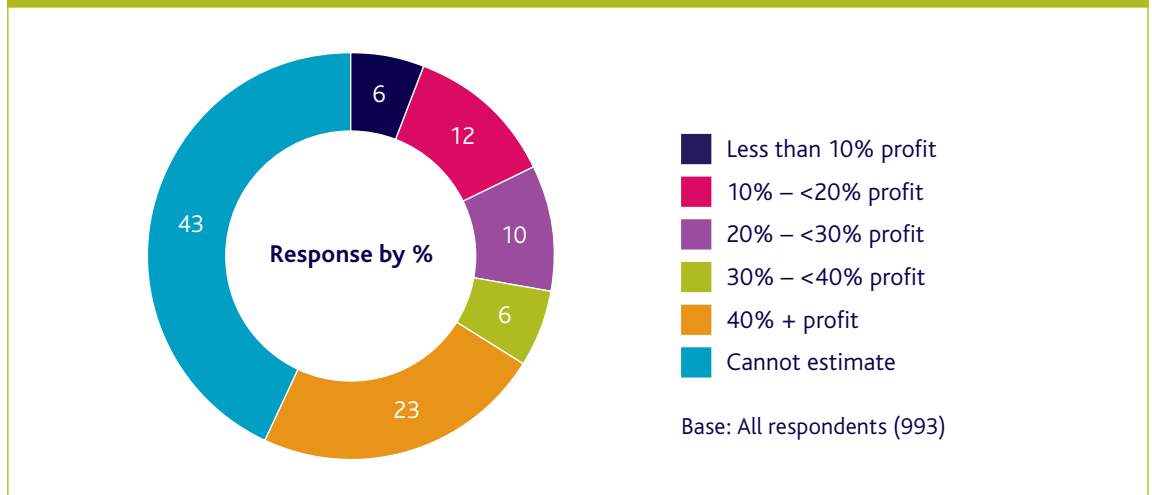
These results suggest there is a substantial scope for organisations in terms of improving their tracking systems with regard to customers' changes of behaviour and its impact on profit.

The results indicate that 43% could not estimate the proportion of profit linked directly to customer satisfaction, however 23% suggested that there was a link to 40% and over with regard to profit proportions.

This again gives substantial leverage for improving organisational knowledge of how satisfaction and profitability may be interrelated.

4 The findings

Figure 18 Profitability and customer satisfaction

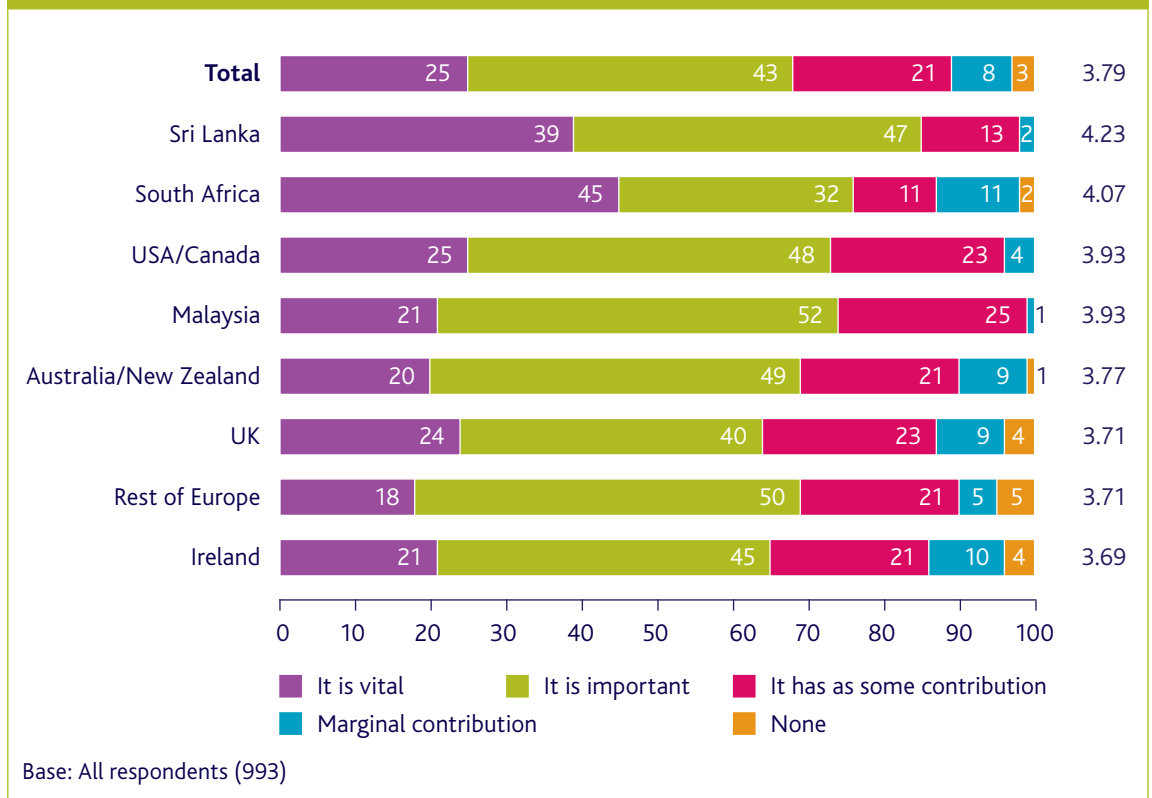


4.5 CRM and the finance function

4.5.1 Customer satisfaction and the finance function

Respondents were asked to rate the importance of the finance function and its contribution to customer satisfaction.

Figure 19 Customer satisfaction and the finance function



The responses indicate that it was viewed as vital by 25% and vital and important by 68% of the total – illustrating the perceived importance of finance in the delivery of customer satisfaction.

The highest score in the vital category was given as 45% for South Africa and the combined vital and important was 86% by Sri Lanka. The lowest score for vital here was given by Australia and New Zealand (20%) and the lowest combined vital and important was that of the UK at 64%.

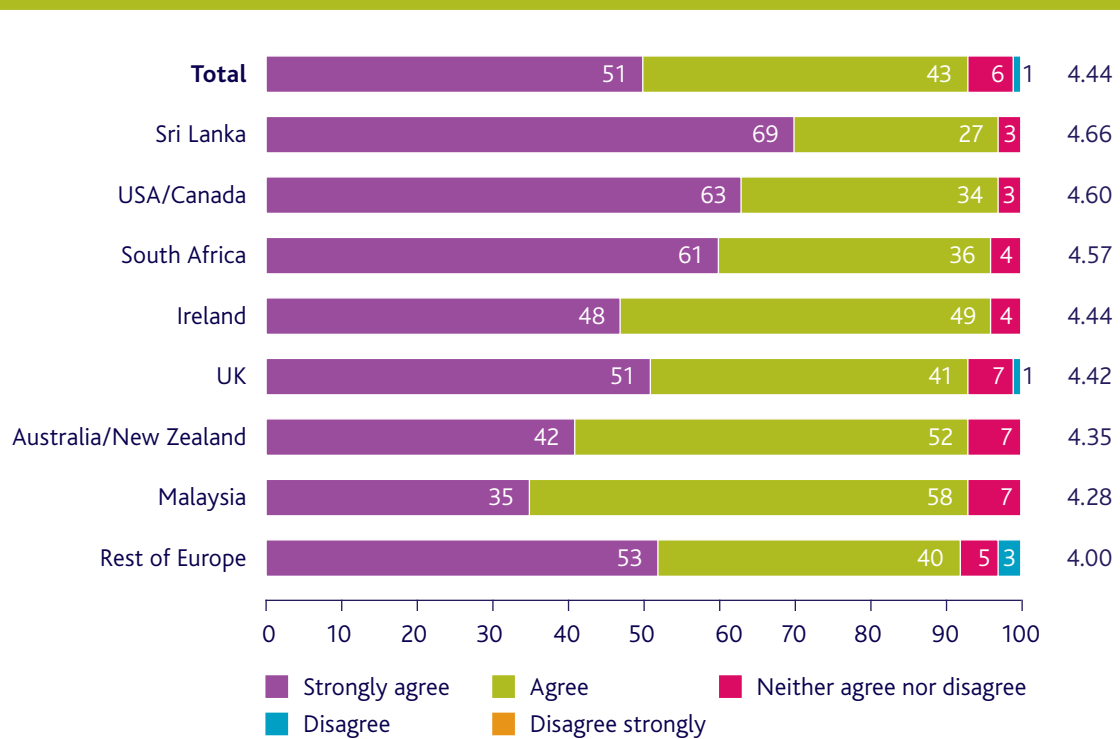
4.5.2 Customer profitability and the finance function

To further review the role of finance with regard to customers' satisfaction, behaviour and profitability,

the survey questioned respondents on the link between the effectiveness of the finance function and its impact on the profitability of the whole organisation.

The results illustrate a clear shared opinion in this area, in total 51% strongly agreed and 43% agreed (totalling a substantial 94%) of all respondents. Sri Lanka had the highest score for the stronger measure (69%) and Sri Lanka and USA/Canada shared an equally high score for the combined measure of agreement (97%). This shows the clear and substantive responsibility that accountants appear to share, in delivering an effective finance function as an important part in the creation of company profitability.

Figure 20 Customer profitability and the finance function



Base: All respondents (993)

4 The findings

4.5.3 The finance function and customer purchasing decisions

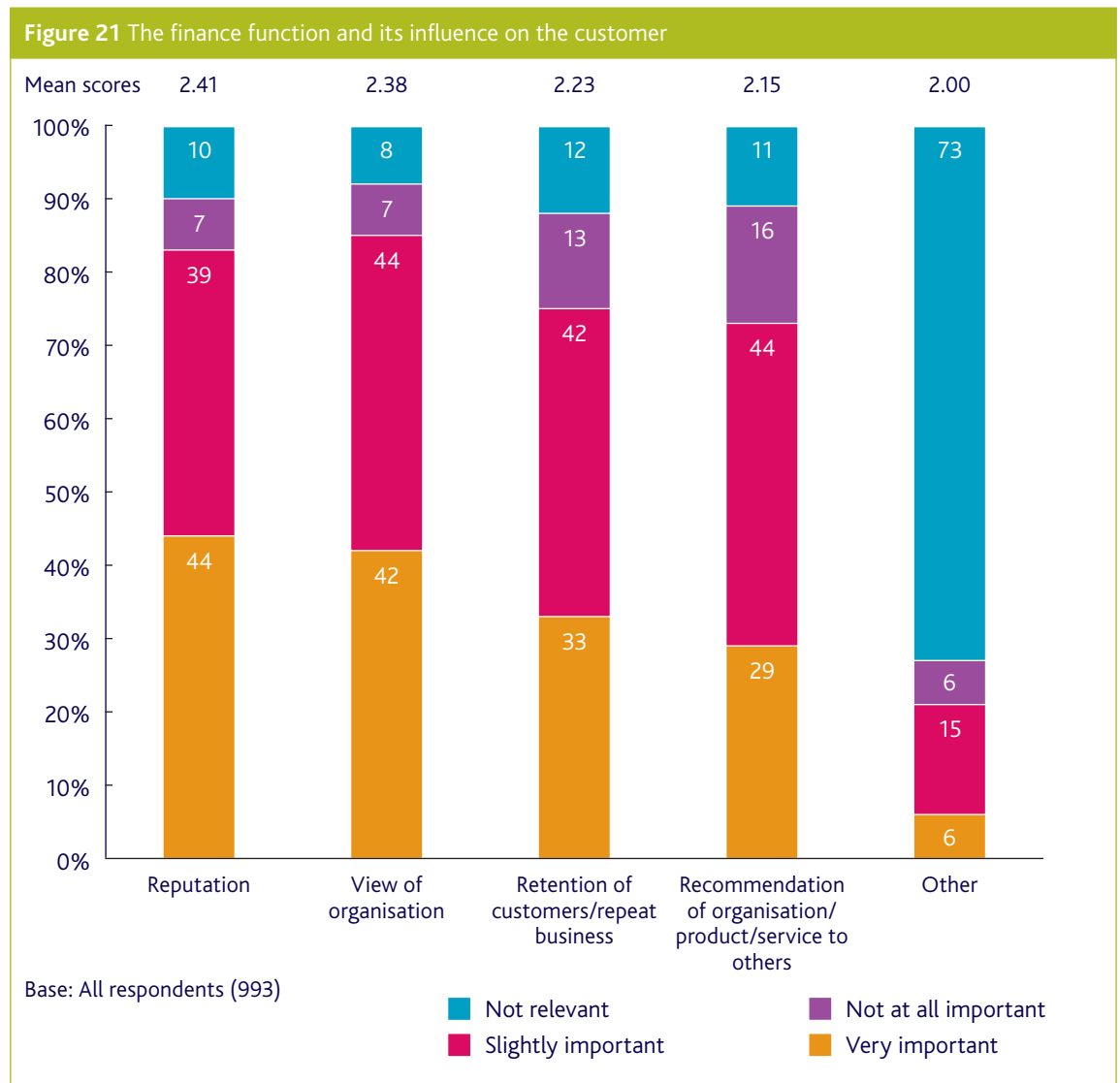
Finally, the respondents were asked how important the finance function was seen to be in terms of it influencing customer purchasing decisions. A range of options were available for selection and are tabulated below.

- reputation
- view of organisation
- retention of customers/repeat business
- recommendation of organisation/product/service to others
- other (please specify).

The reputational aspect of the decision influencing process to buy, scored most highly with 44% of the votes, the lowest score for very important was 29% for recommendation of organisation/product/service to others. The greater majority of responses in all categories (73 – 86%) felt that there was an influencing potential associated with the finance function in their organisation (excluding 'other').

Achieving the highest mean scores – reputation (2.41) and view of organisation (2.38) appeared to be most important

A summary of each section will now be presented.



5 Summary

Customer Value

- when asked for the main measures of customer value the following areas were selected:
 - new and continuing business (29%)
 - measures of service/operational quality (17%)
 - ad hoc customer feedback (14%)
- once prompted customer market/social economic classification (32%) appeared to be the most popular measure of customer value followed by accumulated total value of the customer relationship (28%)
- 95% agreed that to improve long-term profitability is important to understand the customer whilst a further 90% believed a better understanding of the customer profitability would improve overall performance
- 49% noted that the customer profitability analysis and customer segmentation reporting & analysis were currently in use
- over a quarter (28%) have no plans to use customer life cycle in the future.

Customer Relationship Management

- A data warehouse was the most likely CRM tool that companies had invested in during the last 10 years followed by CRM tools for managing face to face customers.
- Data warehouse objectives were most likely to be met or exceeded (75%) followed by customer segmentation tools (71%).

- About the right emphasis was placed on customer service to improve customer retention (59% followed by managing product profitability by customer/customer segment (51%), cross selling to improve customer profitability (45%) and managing customer behaviour to improve profitability (44%).
- Nearly two-thirds (64%) stated that CRM tools give better information on the products that customers have purchased followed by cross sale opportunities for your organisation (44%).

Customer profitability

- 54% know profitability at individual customer level and of these 59% stated that it takes into account all the cost associated with the customer.
- 54% were unable to track how changes in customer behaviour impact on their profitability.

The largest (43%) portion could not estimate what percentage of profit was a direct consequence of customer satisfaction.

CRM and the finance function

- 97% of respondents believed that the finance function had some contribution to customer satisfaction.
- Effectiveness of the finance function has a contribution to make towards delivering customer profitability (94% agreement indicated).
- Achieving the highest mean scores – reputation (2.41) and view of organisation (2.38) appeared to be most important.

6 Conclusion

Interpretations of exactly what is meant by the term customer value, profitability and satisfaction will vary by industry, sector, country, organisation size, and in this survey.

The main measures used appear to cluster according to three broad categories:

- financial measures
- marketing measures
- operational or Service measures.

The levels of robustness in setting metrics, costing techniques, integrated systems and ability to be agile and responsive with regard to customer's needs, also varied widely and between countries.

Despite these issues, all of the measures posed were seen as important, and able to improve both annual financial performance and increase long-term economic returns.

Considerable evidence suggests that most organisations only have a partial understanding of what makes a customer profitable – but that once this information was known, firms could influence customer behaviour to improve their levels of profitability.

There does appear to be a substantial CVM benefit for firms who have ABC and activity based management initiatives in place. The majority of respondents felt that the finance function and its part in the wider integrated communication system was important here.

This survey substantially supports a growing acceptance amongst professionals globally that marketing, systems and accounting (as all other functional dimensions of the firm) need to be managed in a holistic and interrelated manner, to maximise sales returns and actual profits in the longer term.

High levels of customer satisfaction and related profitability (over the life time of the relationship) once accurately measured and incorporated into decision making, provide additional and important strategic gains in the quest for sustainable competitive advantage.

However it must be noted that customer profitability is only one measure that is critical to organisational success. It should be recognised that it should not be 'overcooked' as other customer metrics are important. It should also be appreciated that not all customers can be profitable today and some provide learning opportunities, whilst others are strategically important or may be unprofitable today but are tomorrow's 'cash cows'.

Customer profitability measurement informs many important business decisions and is becoming a 'must-have' inside many organisations. It offers an interesting opportunity for management accountants to add considerable value and work alongside their colleagues in marketing, sales and strategy for value creation.

7 The future of customer value analysis

This survey concludes by considering whether CV analysis, CRM and associated tools, actually enabled firms to understand and positively influence customer behavioural patterns, and focus them towards maximising returns on customers over time.

It has considered the respondents ability to track, monitor and understand CV trends over time and to make decisions focused upon maximising customer satisfaction creation, whilst optimising their own economic value added.

It supports the ideas of enhancing the customer – seller supply and communication chains at every level, and the notion of empowering and incorporating the customer into the extended CVMC.

For these reason alone, more research is needed in developing a new customer-centric relationship paradigm and in development of the strategic cost accounting systems to support this concept.

Webcast:

Value Creation: Customer Value 2008

Visit the CIMA website to register and view a webcast discussing the main findings, trends and some of the implications of this survey research programme.

www.cimaglobal.com



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CIMA, the Chartered Institute of Management Accountants, is the only international accountancy body with a sole focus on business. It is a world leading professional institute that offers an internationally recognised qualification in management accountancy, focusing on accounting in business, in both the private and public sectors. It is the voice of 164,000 students and members in 161 countries, CIMA is committed to upholding the highest ethical and professional standards of members and students.