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# Enhancing Profitability for Healthcare Distributors (Pt 3 of 4)

## Measuring and Tracking Customer Profitability

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# Customer Profitability

**The net profit you make from serving a customer.**

# Customer Profitability

**The net profit you make from serving a customer.**

$$\text{Customer Profitability} = \text{Total Revenue from Customer} - \text{Complete Cost to Serve}$$

- **Direct Costs: Production, shipping, delivery, returns.**
- **Indirect Costs: Customer service, marketing, discounts, and rebates.**

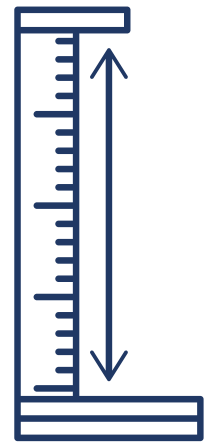
# Becoming Data Driven



## Locate

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Data helps identify new opportunities and potential risks quickly.



## Measure

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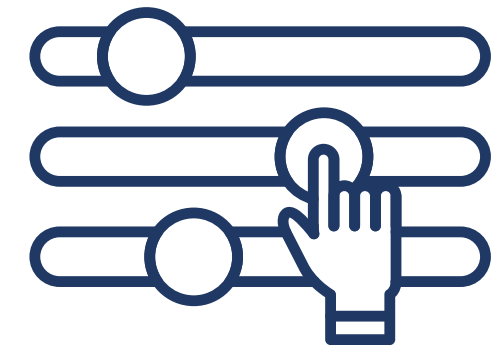
Accurate measurement of performance helps understand impact and guiding future actions.



## Decide

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Informed, data-driven decisions reduce uncertainty and improve outcomes.



## Refine

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Tweaking and iterating ensures that strategies remain effective and aligned with overall objectives, leading to sustained success.

# Whale Curve: Visualizing Customer Profitability

**Cumulative customer profitability, ranking customers from most to least profitable.**



# **Whale Curve:**

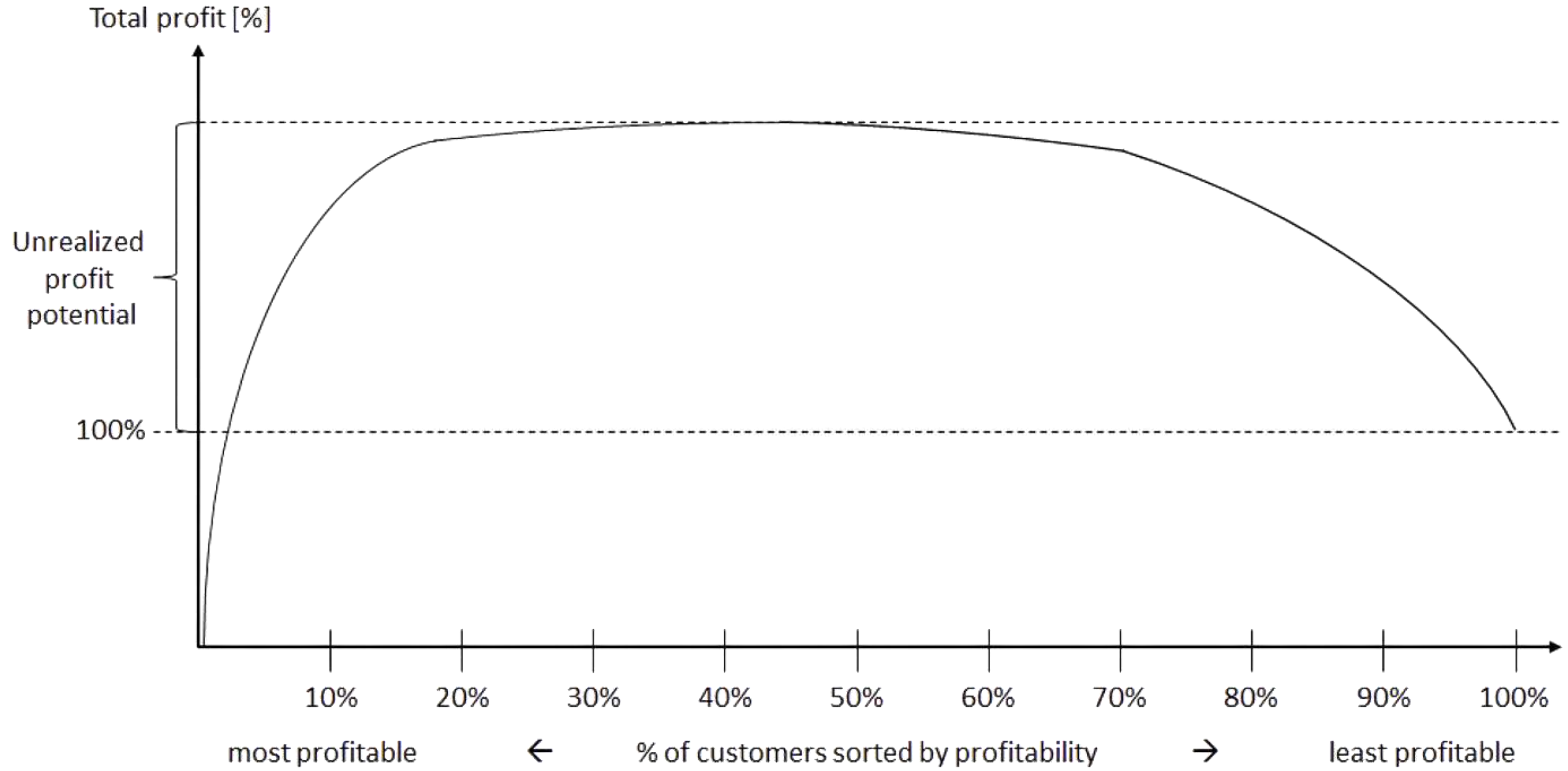
## **Visualizing the Profitability Conundrum**

**20% of Customers contribute to  
> 130% of net profits.**

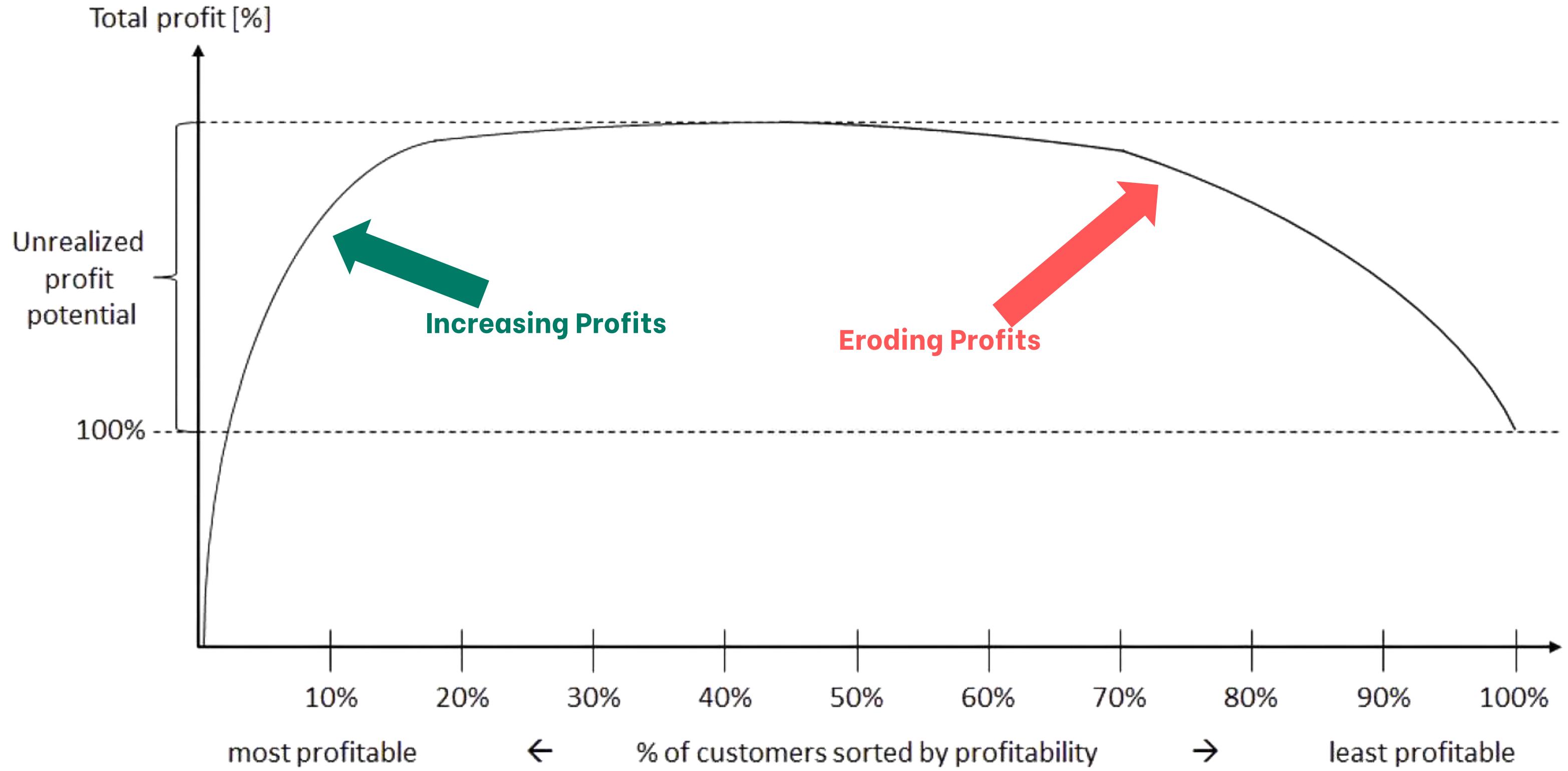
**60% of Customers are profit neutrals.**

**20% of Customers are profit takers.**

# Whale Curve

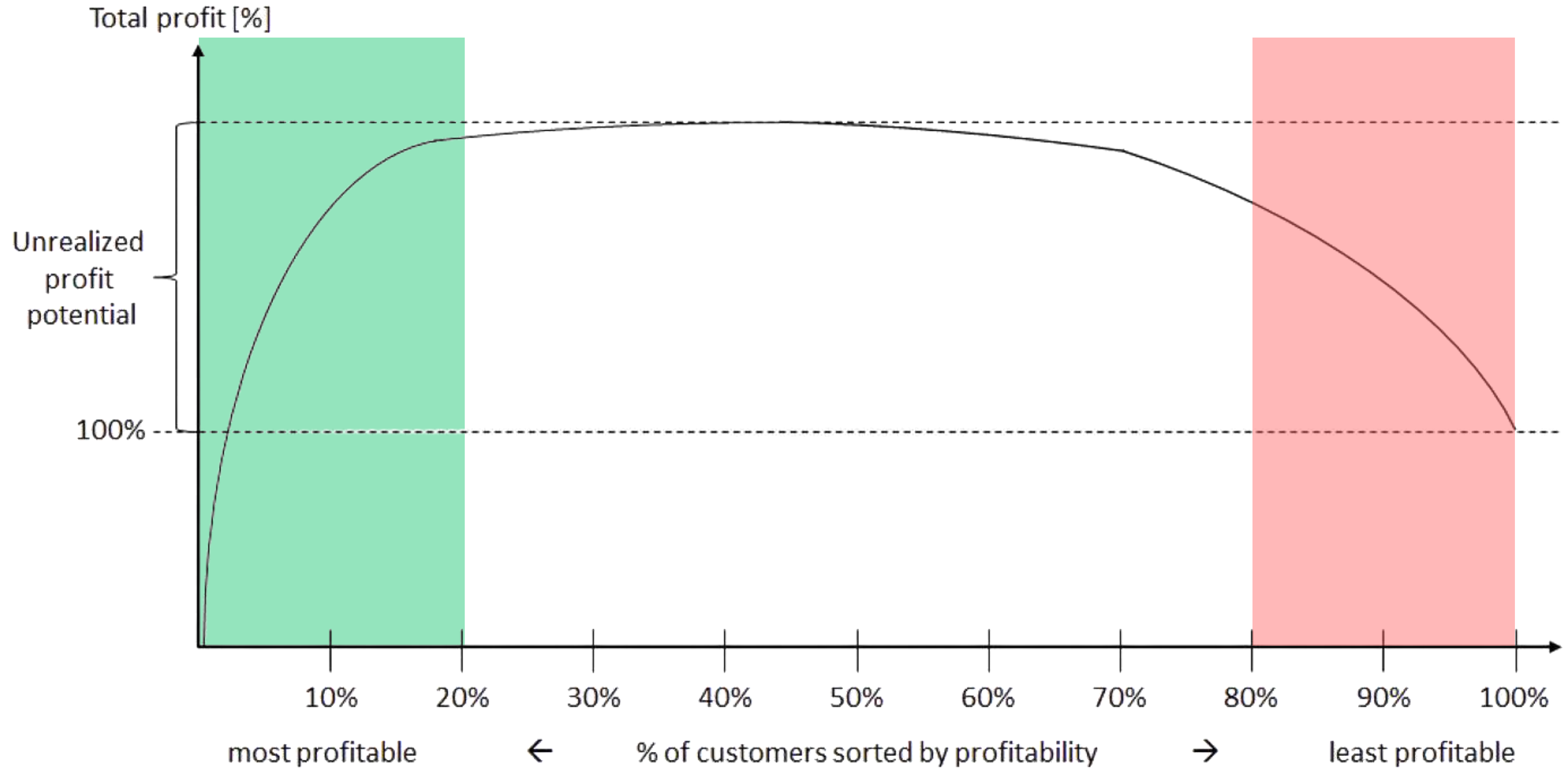


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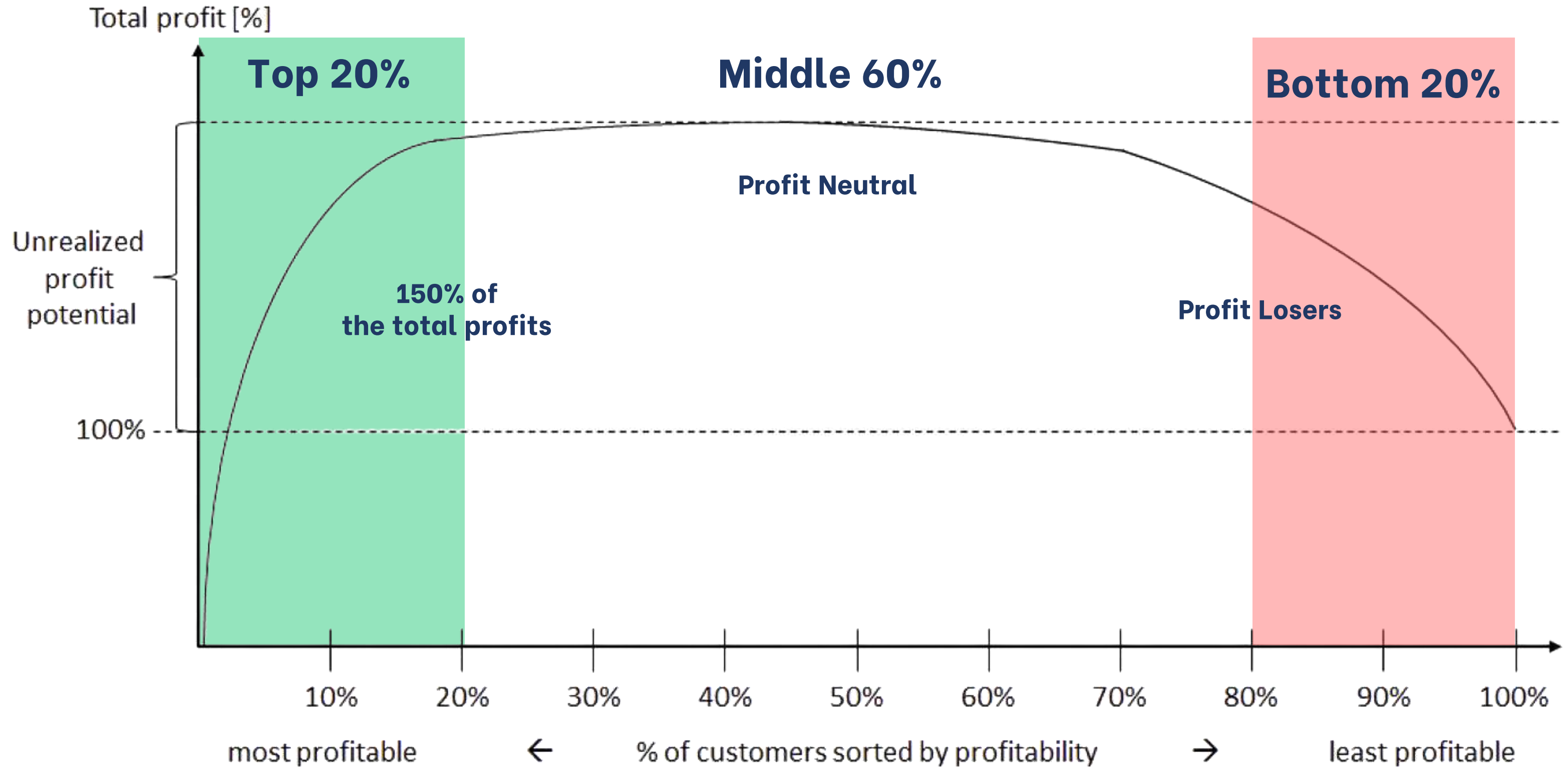




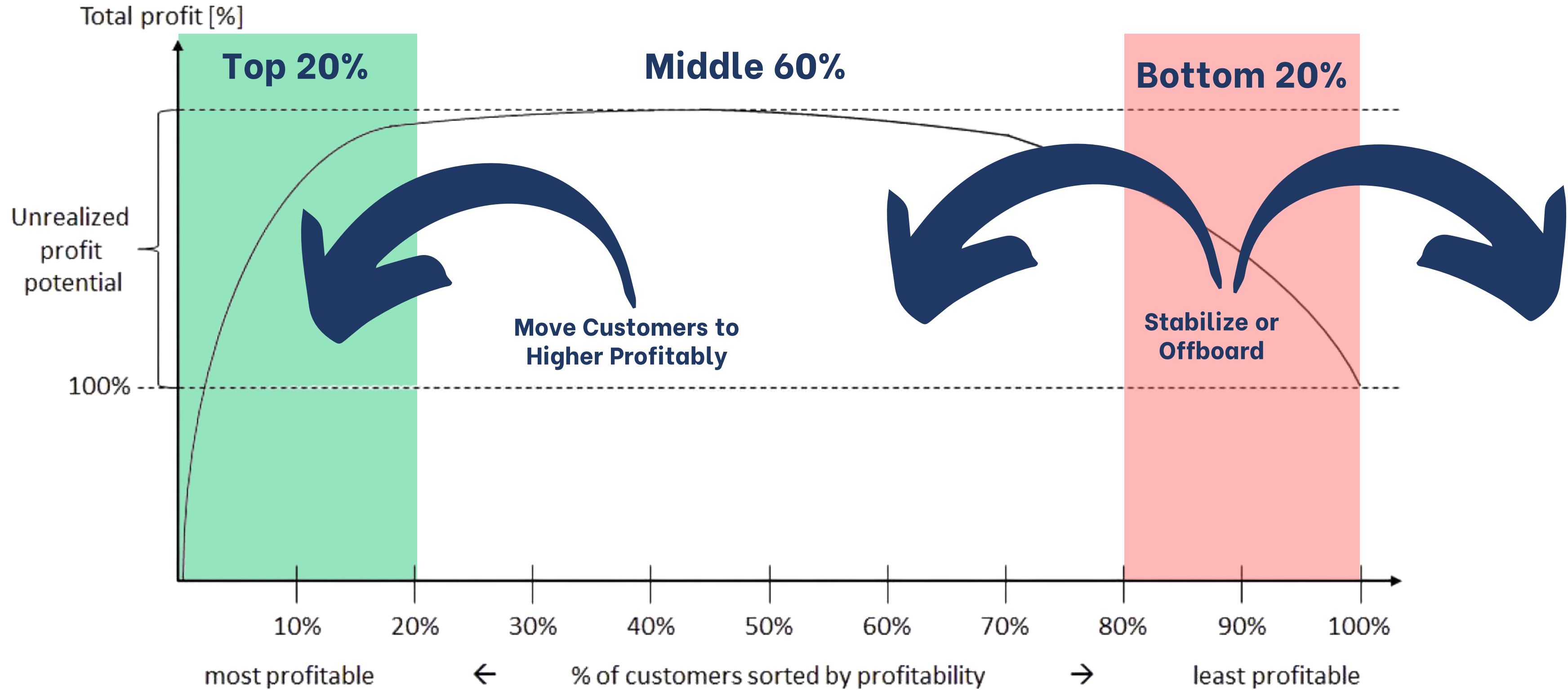
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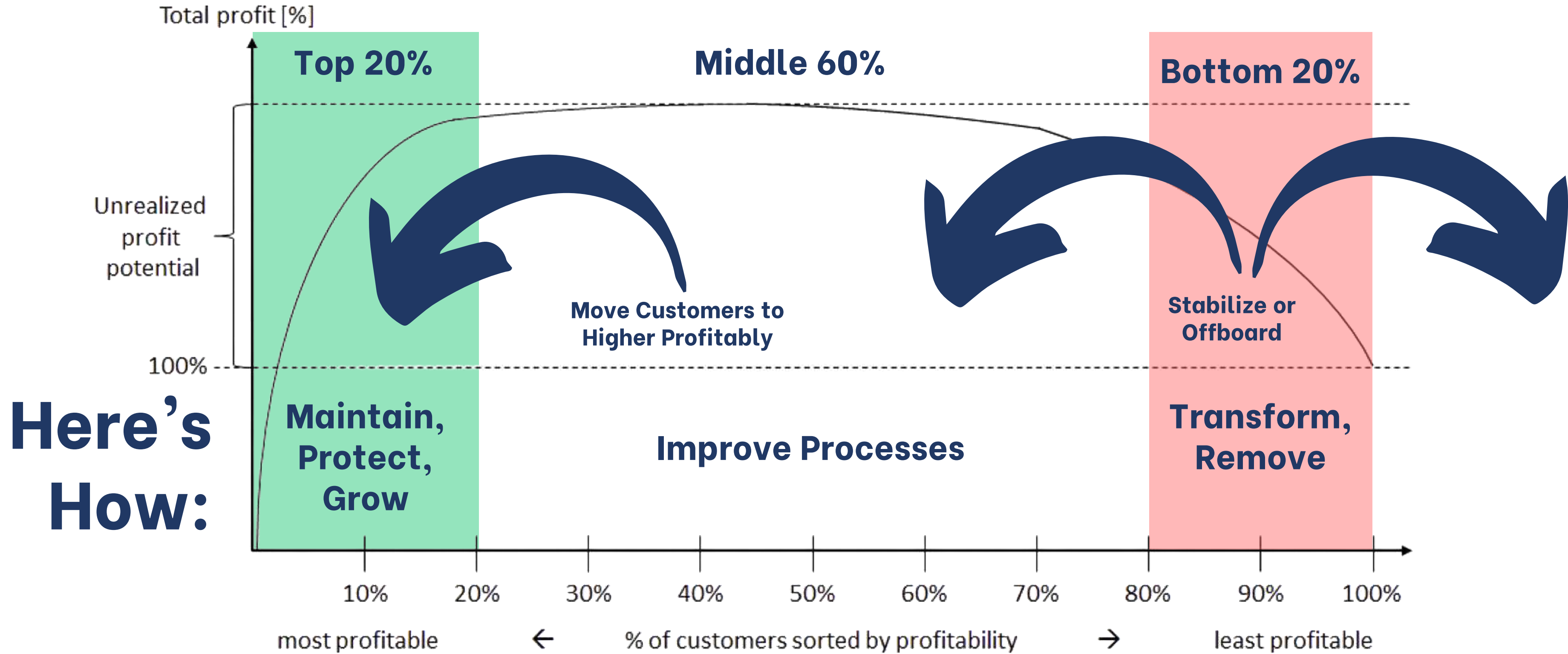
# Whale Curve



# Whale Curve



# Whale Curve



# From 0 to 1 with Customer Profitability

## Here's How You Can Start



- **Align with Business Goals**
  - Start by ensuring the customer profitability model supports your company's strategic objectives, like maximizing long-term profits or improving customer retention.
- **Integrate Enough Data - But Not Too Much**
  - You know what the big drivers are - from running your business
  - Use comprehensive data from all customer interactions (sales, service, marketing) to get a full picture of costs and revenues.
- **Segment Customers - But Not Too Much**
  - Group customers by profitability to focus on high-profit customers and find opportunities to improve or cut costs for lower-profit ones.
- **Tech Helps, but is Not the Goal**
  - Microsoft Excel or PowerBI are enough to get started
  - More advanced tools and techniques can come in later
- **Act on Insights**
  - Use the model's insights to make strategic decisions, such as investing in profitable customers or adjusting service levels for less profitable ones.



# Implementing Customer Profitability

Activity Based Cost Drivers	
Cost Per Order	\$ 50.00
Cost Per Line	\$ 3.50
Cost per return as percent of dollars returned	30.0%
Sales & Admin as percent of sales dollars	10.0%
Capital Cost of DSO and Inventory	20.0%

Customer	Sales \$	Cost \$	GP %	Orders	Sales / Order	Lines	Sales / Line	Return \$	Return % Sales	Avg DSO	DSO Cost % Sales	Order Cost	Line Cost	Return Cost	SG & A Cost	DSO Cost	Outbound Freight Cost	Net Profit \$	Net Profit %
Unified Universal	\$ 175,000	\$ 122,500	30.0%	75	\$ 2,333	300	\$ 583	\$ -	0%	30	1.6%	\$ 3,750	\$ 1,050	\$ -	\$ 17,500	\$ 2,877	\$ 1,200	\$ 26,123	14.9%
Best Products	\$ 285,000	\$ 202,350	29.0%	96	\$ 2,969	2,000	\$ 143	\$ 3,000	1%	30	1.6%	\$ 4,800	\$ 7,000	\$ 900	\$ 28,500	\$ 4,685	\$ 2,250	\$ 34,515	12.1%
International Corp.	\$ 100,000	\$ 69,000	31.0%	100	\$ 1,000	800	\$ 125	\$ 7,000	7%	60	3.3%	\$ 5,000	\$ 2,800	\$ 2,100	\$ 10,000	\$ 3,288	\$ 3,000	\$ 4,812	4.8%
American Widget	\$ 400,000	\$ 296,000	26.0%	25	\$ 16,000	1,000	\$ 400	\$ 30,000	8%	120	6.6%	\$ 1,250	\$ 3,500	\$ 9,000	\$ 40,000	\$ 26,301	\$ 12,000	\$ 11,949	3.0%
National Inc.	\$ 500,000	\$ 410,000	18.0%	10	\$ 50,000	50	\$ 10,000	\$ -	0%	15	0.8%	\$ 500	\$ 175	\$ -	\$ 50,000	\$ 4,110	\$ 21,000	\$ 14,215	2.8%
Acme Inc.	\$ 100,000	\$ 75,000	25.0%	52	\$ 1,923	520	\$ 192	\$ 1,000	1%	90	4.9%	\$ 2,600	\$ 1,820	\$ 300	\$ 10,000	\$ 4,932	\$ 3,000	\$ 2,348	2.3%
AAA Mfg.	\$ 225,000	\$ 171,000	24.0%	64	\$ 3,516	5,000	\$ 45	\$ 20,000	9%	90	4.9%	\$ 3,200	\$ 17,500	\$ 6,000	\$ 22,500	\$ 11,096	\$ 4,500	\$ (10,796)	-4.8%
Conglomerated	\$ 200,000	\$ 164,000	18.0%	22	\$ 9,091	1,200	\$ 167	\$ 20,000	10%	120	6.6%	\$ 1,100	\$ 4,200	\$ 6,000	\$ 20,000	\$ 13,151	\$ 6,000	\$ (14,451)	-7.2%
Diversified Ind.	\$ 50,000	\$ 38,500	23.0%	35	\$ 1,429	600	\$ 83	\$ 6,500	13%	180	9.9%	\$ 1,750	\$ 2,100	\$ 1,950	\$ 5,000	\$ 4,932	\$ 1,500	\$ (5,732)	-11.5%
<b>Total</b>	<b>\$ 2,035,000</b>	<b>\$ 1,548,350</b>	<b>23.9%</b>	<b>479</b>	<b>\$ 4,248</b>	<b>11,470</b>	<b>\$ 177</b>	<b>\$ 87,500</b>	<b>4%</b>	<b>82</b>	<b>4%</b>	<b>\$ 23,950</b>	<b>\$ 40,145</b>	<b>\$ 26,250</b>	<b>\$ 203,500</b>	<b>\$ 75,370</b>	<b>\$ 54,450</b>	<b>\$ 62,985</b>	<b>3.1%</b>

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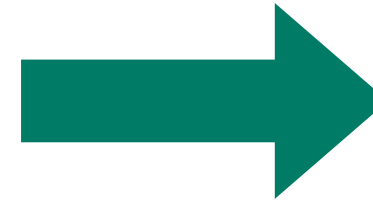
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# Taking Action: Segment and Stratify

Customer	Net Profit \$	Net Profit %
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## Options for Segmenting



- Revenue Tier
- Profitability
- Potential For Growth

1

### High-Profit

- Premium services
- Strategic partnerships

2

### Break-Even

- Upsell, cross-sell
- Optimize services
- Cost-to-serve reduction

3

### Low-Profit

- Strategy to improve profit
- Dramatically reduce cost
- Reduce level of service
- Discontinue relationship



# Customer Profitability Pro Tip



## Start

- Establish baselines
- Set Clear Goals
- Engage Stakeholders
- Quick Wins

Strategic Focus



## Improve

- Optimize Resources
- Refine the model
- More Data
- Test interventions

Competitive Advantage



## Sustain

- Monitor Trends
- Benchmark Performance
- Adapt to Changes
- Involve in daily decisions

Increase Profit Margins



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