



Is Customer Profitability Important to You? Forget CRM!

Laurie Webster-Saft

Do you equate customer longevity with motherhood and apple pie? Everyone wants long term customers. Upon reflection, is it really a good thing? That's what two researchers, Reinartz and Kumar, wondered when they set out to test whether loyal customers are a "good thing."

Their definition of "good" equated to profitable customers. They poured over data from four different types of businesses. Their findings, written up in the July 2002 issue of the Harvard Business Review, are clear:

Customer loyalty does not guarantee profitability!

(To purchase a copy of the HBR article, please visit the HBR [website](#).)

How can you apply this finding to your business? Do you have long term customers who cost you more than they bring in? You need to identify the appropriate metrics to evaluate this question, including:

- margins on each purchase
- technical support costs
- other affiliated sales costs (higher than typical returns, outstanding accounts receivables, etc)
- customer retention activities such as customer visits or marketing campaigns

Technical support is an area ripe for evaluation. You might find that although a customer is paying you \$20,000 a year for your service, you estimate they are costing you \$30,000 to deliver the service.

You also see that due to their long term status as a customer, they expect better prices when coming back for more purchases. And since they are a long term customer, you are planning to spend another \$3,000 in marketing / relationship expenses this year...money perhaps better spent in new customer acquisition. When you add it all up, you see revenue, but little net profit.

Most of our clients have data about their customers. They may have a customer database, a financial system, and a help desk app. We find with our clients, many have separate systems or "lightly" integrated ones. Pulling all of this data together to make decisions on further marketing investments can be a challenge.

Many of our clients do not want to invest in business intelligence and analysis tools right now. Based on well formed questions, we counsel them on the questions to ask and methods to build data extracts for analysis with basic office productivity tools like Microsoft Excel. This type of analysis helps to identify where is the profit really being made.

So when evaluating your next marketing campaign, you need to think twice about where you want to invest your dollars. A little analysis can really help the bottom line!

For more information on how the Acelera Group (<http://www.aceleragroup.com>) can help you to market your technology product or service offerings, please contact us at 617 737-7100 or at info@aceleragroup.com.