Customer Profitability and Customer Value Models

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Measuring customer profitability remains a top five CFO priority¹ to improve efficiency in allocating company resources

The Challenge

- **Globalization necessitates informed decisions.** Global competitive pressures are increasing and the winners will be those who can align with markets that create the best returns from limited resources

- **Forecasting demands speed.** Agility in forecasting customer profitability is critical for sustainable differentiation but can your forecasting scenario turnaround time meet the demands of your dynamic business?

- **Spreadsheets are risky.** Unmanaged spreadsheets can represent significant enterprise risk. How dependent is your business on a web of free-form, linked spreadsheets that massage and transform your enterprise data?

Our Solution

- Utilizing the Pariveda Customer Value Maturity Model, we systematically test the components of profitability models and construct a plan to seize customer profitability opportunities

- Our approach matures unmanaged spreadsheet silos into production applications without compromising the flexibility of the customer profitability model, resulting in reduced organizational friction and reduced risk

- A four week assessment results in a refreshed customer profitability model and a spreadsheet-based prototype application, with spreadsheet data residing in an enterprise class database
Customer profitability is a strategic focus to create sustainable shareholder value but identifying the most profitable customers is no trivial task.

Desire to set strategy and manage customer relationships based on customer segment profitability

<table>
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<tr>
<th>Business Barriers</th>
<th>Technology Barriers</th>
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<tr>
<td>Sales and Marketing costs not aligned to revenue</td>
<td>“What-if” analysis limited in traditional BI paradigm</td>
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<tr>
<td>IT maintains control of enterprise data</td>
<td>Various levels of enterprise data integration</td>
</tr>
<tr>
<td>Diverging file version, model unintentionally altered</td>
<td>EDW may be expensive, monolithic, inflexible</td>
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These barriers often lead to one-off spreadsheet-based analysis prototype engines that have become critical business “applications” but spreadsheet silos are typically outside the purview of IT, creating organizational friction, multiple versions of the truth, and exposing the business to risk.

Organizational friction, multiple versions of the truth, and application version control are pain points.
Organizational friction exists in the gap between business needs and IT delivery, where two metaphors are useful for discussion

- **“Databases are rocks, spreadsheets are water”**
  - Sean McGrath, IT World

- **A gray or black market of data may emerge** because it can be more efficient for an analyst to simply “do it themselves” in Microsoft Excel or Microsoft Access with whatever data they can acquire.

- These spreadsheets are most often without spreadsheet version control, typically apply local and non-standardized business rules, and usually are absent of the typical safeguards of a production application.

- These spreadsheets often lack application rigor including security, application variables, protected formulas, validated values, clearly marked input cells, annotations, etc.

- Compounding the problem, these spreadsheets are often connected to each other creating a web of dependent decision making objects that may live on local hard drives, in multiple places on networks and in inboxes throughout the enterprise.

Data in spreadsheet silos are not an enterprise asset.
Opportunity exists to “unite the clans” by providing a middle option to unleash the power of enterprise data to the business without compromising IT governance

- **People** want flexibility, a familiar interface and tools with which they are comfortable
  - Typical consumers are power users, business analysts and executives with a high appetite for data

- **Structure** defines profitability measurements and targets, establishes governance, addresses politics

- **Processes** for customer profitability are in varying states of maturity
  - Forecasting and “what-if” analysis typically requires fluidity and new sources of data
  - Customer Value models drive maturity for pricing as well as cost and revenue alignment

- **Applications** range from sanctioned IT applications to rogue line-of-business prototypes
  - Rich application visualizations drives insight
  - Familiar tools with enhancements improves adoption

- **Frameworks** like the Pariveda Customer Value Framework enable the organization to leverage its enterprise data to its fullest potential

- **Infrastructure** is reigned in with disaster recovery and appropriate production application safeguards

The Value Chain is optimized with continuous improvement, increased knowledge of supply cost, and focused selling to the right customers
The Pariveda Customer Value Maturity Model provides a structured framework for identifying and evaluating opportunities to increase strategic agility in customer profitability analysis.

Customer profitability processes evolve through a series of levels before they become optimal:

- **Ad Hoc**
  - Customer costs unknown

- **Repeatable**
  - Customer costs approximated and allocated to revenues
  - Revenues segmented

- **Defined**
  - Customer costs are measured and applied to revenues
  - Customer value calculations are prototyped and corrected
  - Model inputs are manual

- **Measured**
  - Customer costs are controlled and aligned with revenues by segment
  - Customer value is able to be modeled and calculations are refined
  - Model inputs are controlled with automation

- **Adaptive**
  - Customer costs are optimized and aligned with revenues by customer
  - Continuous improvement of customer value model
  - Respond to conditions through near real time adjustments
Our proven Customer Value Framework provides a practical roadmap for swift time to value while preserving an adaptive, incremental and evolutionary approach.

Pariveda Customer Value ("CV") Framework

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<tr>
<th>Assess Key Steps</th>
<th>Strategize Key Steps</th>
<th>Plan Key Steps</th>
<th>POC Key Steps</th>
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<tbody>
<tr>
<td>Capture Current State and Goals</td>
<td>Optimize Process</td>
<td>Devise Solution Iterations</td>
<td>Construct Functional Prototype</td>
</tr>
<tr>
<td>• Identify stakeholders</td>
<td>• Define initial CV inputs, calculations, outputs, and dimensions</td>
<td>• Prioritize requirements</td>
<td>• Include architecturally significant components</td>
</tr>
<tr>
<td>• Evaluate existing profitability and cost analysis processes and tools</td>
<td>• Identify input owners from the functional areas for each CV input</td>
<td>• Estimate level of effort</td>
<td>• Collect inputs, calculate outputs, examine results, refine calculation</td>
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<tr>
<td>• Understand strategic direction</td>
<td>• Develop optimized process flow</td>
<td>Develop Implementation Approach</td>
<td>• Identify opportunities to improve input data quality</td>
</tr>
<tr>
<td>• Determine target level on customer value (&quot;CV&quot;) maturity model</td>
<td>• Establish architectural guiding principles</td>
<td>• Propose team structure</td>
<td>• Capture ROI candidates for business case</td>
</tr>
<tr>
<td>Collect Functional Requirements</td>
<td>• Document systems of record</td>
<td>• Model phased implementation</td>
<td>• Prototype portion of security model</td>
</tr>
<tr>
<td>• Confirm user story themes, personas</td>
<td>• Record design decisions for inputs, calculations, events, workflow, master data, BI, integration, etc.</td>
<td>• Create high-level budget by phase</td>
<td>• Prototype portion of reporting</td>
</tr>
<tr>
<td>• Collect user stories</td>
<td>• Measure organization alignment delta to process</td>
<td>• Plan data conversion / migration</td>
<td>• Collect user feedback</td>
</tr>
<tr>
<td>• Determine input availability, maturity</td>
<td>Design Application Architecture</td>
<td>Prepare Change Management</td>
<td></td>
</tr>
<tr>
<td>• Identify reporting requirements</td>
<td>• Confirm existing software</td>
<td>• Recommend communication and training planning</td>
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</tr>
<tr>
<td>• Assess application architecture and data integration needs</td>
<td>• Determine server and storage requirements</td>
<td>• Propose organizational and corporate policy changes</td>
<td></td>
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<tr>
<td>• Consider security and compliance</td>
<td>• Define backup and recovery plan</td>
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<tr>
<td>Plan Roadmap Phase</td>
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<tr>
<td>• Plan schedule and stakeholder involvement</td>
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<table>
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<th>Assess Deliverables</th>
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<td>Logical Architecture Diagram</td>
<td>CV Prototype Design</td>
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<td>Application Architecture Diagram</td>
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The Pariveda Customer Value Model application improves control of customer profitability analysis allowing for more accurate and timely strategic financial decisions

- The native Excel-based application provides a familiar interface but with additional, fit-for-purpose functionality.

- Allows line-of-business personnel to create dynamic and flexible models, in a way that can be governed by IT.

- Features an enterprise-class data warehouse for centralized storage.

- Microsoft Visual Studio Tools for Office (VSTO) facilitates the ODBC database-connected version of the Excel calculation engine, with enhanced data validation and user security.

- In-memory toolset allows for more intuitive end user experience and faster development time to reduce application investment.

- Improves data quality through validation and reduces decision latency resulting in more accurate and timely decision quality.
The Customer Value Model is best suited for companies with high volume, low margin, annuity/subscription revenue that sell business-to-customer

- Industries with high-volume, low-value transactions amplify the financial implications of profitability

- Markets with a high level of maturity or saturation, where market growth potential is diminishing and the value of maximizing returns from existing customers increases are good targets

- Companies with significant range between the most profitable and the least profitable customers

- Any for-profit company with a department responsible for customer acquisition and pricing

Ideal contact within target company is CFO or Director of Financial Planning and Analytics