Article Review

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Summary

There is a debate in this article about the possibility of separating the value delivered to the customer by the business and value which is received by a business in terms of profit from the customers. There are financial measures to analyze company performance but they cannot be considered strategic. A long term approach will be to analyze the whole value creation process and take measures that rectify the situation. It will not be appropriate to analyze only one aspect of value alone. Some customers may be profitable but accessing them may be proving too costly for the company in the long run. These figures provide total figures for the company and profit per customer may yield a very low figure. A better choice is to analyze individual customer in terms of value delivered and value attained from him. There should be some space for the company to change the tactics in the middle of a process so that improvements can be brought about. There should be some measure to differentiate between a profitable and non-profitable customer. Both revenue generated and costs incurred have to be taken into account if the profitability of customers has to be assessed. A detailed account of each customer has to be maintained to know the exact value of a customer to the business. The hardest part of this practice will be the allocation of fixed costs to individual customers. Clear identification of core competencies of the business will mean that the most important aspects of business for customers are accurately identified. The company has to put the required systems in place so that value can be delivered to customers (Lau, Nakandala, Samaranayake, & Shum, 2016). The scenario requires that value, growth, and focus go side by side so that value created for customers leads to the growth of business and it can focus on those specific customers who create the maximum value for the business. If the company is not focusing on the right segment of customers, the growth will come at a higher cost than desired. There is an option for the company to take on mass marketing but there will be a mismatch between company value proposition and new customers attained; the company will not be able to match the core competencies with the customer value proposition, wrong customers will not enhance the sales of the company. The market will become less profitable as the costs of the company will go up. Once it is determined that there is a mismatch between CVP and new customers, a company can take one of three approaches. Specification of customers with whom profitable relationships can be developed and maintained. To control the costs associated with attaining and retaining customers, there must be minimal marketing expenditures incurred. Offer a lower-priced package for customers which includes many services. This will give the impression that customers are getting higher value (Breur, 2006).

**Answer 1**

Aggregate numbers represent generalized results related to company performance. A net profit will give a good view of the financial performance of the company. A higher net profit will mean that the company has been able to control its expenses appropriately. When this figure is divided by the number of customers attained, it will be seen that there is a very low profit per customer. In the customer value proposition, the matching of customer characteristics with core competencies will work much better as a performance measure.

**Answer 2**

               The companies will have to focus on managing the lifecycle of customers. Customer relations have to be developed in a way that they go through the whole life of a customer. Several customers are a criterion that is used to measure company performance. The generally accepted accounting principles do not allow the treatment of marketing expenses as investments but the companies consider these expenses as investments over a long period. This brings us to the conclusion that there is a difference between performance evaluation using GAAP and the way it is done by financial service companies. This approach will raise costs because there will be customers with lower quantity sales, there will be more deliveries of orders. Inventory costs will also be higher because the company will have to store more and more goods (Kara, 2019).

**Answer 3**

               This method is important because it takes into account both aspects of value related to customers. The value delivered to customers from business and value given by customers to the business in the form of profit. By measuring the performance of a business in terms of several customers, it can be analyzed to see which customers are the most profitable for the business. This may also help the business to segregate its services according to the transaction size of customers. In a financial institution like a bank, this approach will be particularly beneficial and can be used to divide customers according to balance kept with the bank.

**Answer 4**

This approach can be successfully applied to businesses that have a specific number of customers. Another factor is that the transaction limit of these customers is known to the business. A service provider like car repair center can apply this approach so that there are more regular customers for the business. With the passage of time, there will be a large number of customers. Controlling the costs will make sure that there will be a higher profit per customer for the business.The business like a retail store cannot apply this technique because all customers will have different and small denominations of transactions. There is very little differentiation between the companies which offer retail products if a company does not cater to a customer based on the size of his purchase, he can easily go to other retail stores to make a purchase.

# **References**

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