CHAPTER 1

AN APPLICATION OF CUSTOMER PROFITABILITY ANALYSIS IN A COMPANY

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Introduction

The rapid developments in today's business world have led companies to think about profitability. One of the reasons is that traditional management accounting systems offer limited information to provide the profitability information that companies need to be used in management decision. However, profitability measurement is becoming more important at many different points where companies need to take precautions, such as the presence of companies focused on low cost, the variable profit share rate of the products, the insufficient knowledge about the cost of new products released to the market (Stuchfield & Weber, 1992, p.53). It can be said that estimation and analyzing elasticities of different kind of products is mostly about profitability of the company. The main products that cover this commodities are food and non-alcoholic beverages, alcoholic beverages, clothes, housing, furniture, health, transportation, communication, entertainment, educational services, restaurants and other various services output (Guneysu Atasoy, 2019, p.175). In this context, profitability is important in terms of covering many sectors and products directly.

In markets with increased competition, in addition to product profitability, companies are expected to have knowledge about profitability of customers, markets and distribution channels. Because better understanding of customer profitability contributes to the continuity of the companies (Özdemir & Kaygusuz, 2009, p.89). In many sectors, it is necessary to purchase more input items to produce any additional output (Guneysu Atasoy, 2018, p.839). The profitability of customers and the business relations between the customers of the companies are analyzed by businesses and academics. Comprehensive information obtained from customer or customer groups has a major impact on the financial performance of a company (Čermák, 2015, p.15). With customer profitability analysis, companies can determine the contribution of customer or customer groups to

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customers. Therefore, CPA can be a tool used by management to improve the efficiency of a company (Özdemir & Kaygusuz, 2009, p.107).

In the traditional profitability analysis, customers appear to be profitable, considering only the sales revenue and the cost of goods sold. From a traditional point of view, all customers are handled together and profitability is determined by subtracting the total expenses from total revenues traditional perspective. However, when calculating the profitability, it should be determined not only the cost of the product sold to the customer but also the additional costs. In this way, the resulting total costs should be deducted from the sales amount and the profitability should be calculated. Customer profitability analysis makes the contribution of customers to the company more visible.

In this study, it is determined that the customers have different contributions to the profitability of the company. While some customers provide high level of profitability to the company, it has been determined that some of the sales result in loss. For this reason, companies need to analyze their customers and make sales increase or profit-raising activities for their customers who do not provide profit.

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