CFAM7.1.5
Manage and assess ongoing financial viability of key customers

Overview

This is about managing the financial performance of key customer relationships. It has been suggested that it costs up to five times as much to win a new customer as it does to retain an existing customer. However, often organisations fail to realise the costs of maintaining customers, and this unit assists in providing insight into how to get the balance between sales volume and profit.

It is important that you realise that measurement of financial viability of key customer relationships should be undertaken at the commencement and during the relationships, assessing viability of the relationship at all times.

To understand and measure key account profit ability is in essence to direct and define the destiny of your customer relationships and their overall impact upon the business.

This unit is recommended for marketing/sales directors, senior marketing/sales managers, senior key customer managers and for directors of SME's responsible for business development and sales.

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Performance criteria

You must be able to:

P1	assess and prioritise new accounts in order to measure potential lifetime value of the customer using a variety of financial information provided by the key customer and the organisation
P2	estimate the likely cash flow that may be provided by the customers should the key customer achieve an average loyalty level at the commencement and pre-determined intervals during the period of the relationship
P3	identify the level of sales volume required to achieve the necessary profitability to achieve key customer targets determined for at the commencement and pre-determined periods during the relationship
P4	utilise the concept of net present value to calculate the potential profits which could potentially flow from customers in the customer life type based upon profit margin objectives, at the commencement of the relationship and at pre-determine periods during the relationship
P5	assess the potential variable costs that could impact upon the profitability of the accounts at the commencement of the account and on an ongoing basis
P6	determine costs of fixed overheads, administrative support and expenses allocated against key customer cost centres, at the commencement of the course and on an ongoing basis
P7	develop a key customer profit and loss account for ongoing measurement of key customers
P8	assess the business and financial risks associated with the relationships
P9	produce a risk profile of the customer organisation, and determine a risk criteria to support financial analysis and decision making
P10	make an ultimate assessment on the worth of the account and the long-term value based on the above criteria
P11	continuously review the account using the above criteria at pre-determined periods in order to assess the ongoing viability of the account
P12	undertake comparative assessments over periods of time of establish key trends and variances that continuous arise within the relationship
P13	make business decisions about the future direction of the account based upon validity of financial performance on and ongoing basis and consider the consequences and implications of the information and decisions made
P14	prepare for contingency arrangements where problems in financial performance are exhibited in order to bring business and financial performance back on track
P15	establish communication formats and platforms to consult and communicate with stakeholders the necessary financial performance information required

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Knowledge and understanding

You need to know and understand:

General knowledge and understanding

K1 the importance of customer retention to organisations, as a means to enhancing profitability of the organisation
K2 the concept of life time value and life time profitability as a means of measuring customer loyalty and customer value
K3 information needs to be able to carry out financial assessments
K4 how to develop cash flow forecasts, using appropriate financial information
K5 how to undertake the calculation of net present value and why it is important to measuring potential key customer profits
K6 how to develop a profit and loss account for key customers
K7 the difference between fixed and variable costs and how they can impact upon customer profitability
K8 the various causes for variable costs arising – ie internal and external market and stakeholder factors
K9 how to undertake risks assessments and develop risk criteria
K10 the various methods of financial reporting and how they can be utilised to report key customer financial information
K11 how to undertake comparative assessments of financial information
K12 how to undertake trend analysis
K13 how to undertake contingency planning
K14 how to write financial reports and assessments for presentation purposes

Industry/sector specific knowledge and understanding

K15 the sectors in which the organisation operates
K16 standard regulations for financial accounting and reporting
K17 current and emerging external market trends
K18 typical risks experienced within the sector

Context specific knowledge and understanding

K19 marketing/sales objectives and targets proposed for key customer relationships
K20 financial history, credit worthiness of key customers
K21 costs centre processes and costs associated with key customers
K22 financial reporting formats and processes for the organisation and customer
K23 mechanisms for consulting and communicating financial reporting to internal and external stakeholders
K24 risk management assessment tools already in place and the risk criteria used
K25 systems for storing and retrieving financial information relating to key

	customers
K26	proposed frequency of assessment of financial viability
K27	who to report to where anomalies arise and action needs taking
K28	own level of responsibility and autonomy

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Additional Information

Behaviours

1. assess the ongoing viability of key customers and prioritise key customer relationships accordingly
2. be sensitive to stakeholder needs during the assessment and measurement process
3. collect and collate necessary financial information upon which financial assessments will be undertaken
4. utilise key accounting tools for measuring ongoing financial viability of key customers
5. identify and consider the implications of key variances to the original profitability targets for key customers
6. balance risks against the benefits that arise from entering into key account relationships for a pre-determined period of times
7. take personal responsibility to ensure that ongoing measurement of the account takes place, and is sensibly managed and responded to
8. proactively monitor trends in financial performance
9. respond to financial variations and implement contingency arrangements where possible
10. use appropriate consultation and communication techniques to relay financial performance information relating to key customer performance

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