

CFAS3.5

Evaluate the ongoing financial potential of key customer accounts



Overview

This unit focuses on the need to manage the financial performance of key customer accounts. It can cost five times as much to win a new customer as it does to retain an existing customer. However, organisations often fail to realise the costs of maintaining customers. This unit is about how to maximise profit by monitoring and taking action on unprofitable accounts.

You need to understand that measurement of potential and financial performance of key customer accounts must be undertaken at the opening of the account and throughout the relationship with your customer.

If you measure and understand the profitability of key accounts you can direct and define the development of your customer relationships and their overall impact on your business.

This unit is for; Senior Sales Managers, Key Customer Managers and Sales Managers

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Performance criteria

You must be able to:

- P1 use financial tools to assess and prioritise new accounts in order to measure potential value
- P2 estimate the lifetime value cash flow that will be generated if your customer maintains an average loyalty level
- P3 calculate the sales volume required to achieve target profitability
- P4 calculate the potential profits from customers in the customer life cycle using discounted cash flow techniques
- P5 assess and continuously monitor the potential variable costs that could impact upon the profitability of accounts
- P6 determine costs of fixed overheads and administrative support and apply them following company management accounting procedures
- P7 use a key customer account profit statement for ongoing measurement of key customer performance
- P8 assess the business and financial risks associated with each account and draw up a risk profile of the accounts for which you are responsible
- P9 form a judgement about the value of each account using all available financial and qualitative evidence
- P10 continuously review the financial performance and other features of each account to identify key trends and variances
- P11 make business decisions about the future direction of an account based on its financial performance
- P12 prepare contingency plans when there are problems in financial performance of an account
- P13 consult and communicate with stakeholders to ensure that they have access to appropriate financial performance data

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Knowledge and understanding

You need to know and understand:

- K1 the relationship between customer retention and enhanced profitability
- K2 the concepts of lifetime value and lifetime profitability as means of measuring customer value
- K3 information needed to be able to carry out financial evaluations
- K4 how to develop cash flow forecasts
- K5 discounted cash flow techniques and why they are important for measuring the potential profits of key customer accounts
- K6 how to develop a profit statement for a key customer account
- K7 the difference between fixed and variable costs and how they can impact on customer profitability
- K8 the internal and external market and stakeholder causes of variable costs
- K9 how to undertake a risk assessments and develop risk criteria
- K10 methods of financial reporting and how they can be used to report key customer account 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

Industry specific knowledge and understanding

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

Context specific knowledge

- K19 sales objectives and targets for key customer accounts
- K20 the financial history and credit rating of key customers
- K21 costs centre processes and costs associated with key customers
- K22 company financial reporting formats and processes for sales and customer data
- K23 company procedures 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 customer accounts
- K26 company guidelines on the frequency of assessment of financial viability
- K27 who to report to where problems arise and action needs taking
- K28 your own level of responsibility and autonomy

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Additional Information

Behaviours

1. you are sensitive to stakeholder needs during the account evaluation process
2. you balance risks against the benefits that arise from entering into key account relationships for a pre-determined period of times
3. you take personal responsibility to ensure that there is ongoing evaluation of the account and that the information is used
4. you are proactive in all aspects of financial measurement
5. you respond to financial performance problems on an account and implement contingency plans
6. you consult continuously with key internal and external stakeholders
7. you communicate effectively using a of variety of techniques
8. you balance the risks and benefits of each account
9. you work effectively with others

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