
Overview

This standard focuses on the need to monitor and review the financial performance of customers. 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. . It includes using financial tools to assess and prioritise new customers, assessing business and financial risks associated with customers and maximise profit by monitoring and taking action on unprofitable customers. This standard is for sales professionals who review the ongoing financial potential of customers.

**Performance
criteria**

- You must be able to:
- P1 use financial tools to assess and prioritise new customers in order to measure potential value
 - P2 estimate the lifetime value cash flow that will be generated if a 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 customers
 - P6 determine costs of fixed overheads and administrative support and apply them following company management accounting procedures
 - P7 use a customer profit statement for ongoing measurement of customer performance
 - P8 where appropriate, use financial ratios to analyse customer accounts to ensure the customer is financially secure carry out external checks to assess customer creditworthiness and set appropriate credit limits
 - P9 assess the business and financial risks associated with each customer and draw up a risk profile
 - P10 form a judgement about the value of each customer using all available financial and qualitative evidence
 - P11 continuously review the financial performance and other features of each customer to identify key trends and variances
 - P12 make business decisions about the future direction of a customer relationship based on financial performance
 - P13 prepare contingency plans when there are problems in financial performance of a customer
 - P14 consult and communicate with stakeholders to ensure that they have access to appropriate financial performance data

Knowledge and understanding

You need to know and understand:

- K1 legislation relating to customer finance arrangements, including Data Protection and Financial Services legislation
- K2 standards and regulations for financial accounting and reporting
- K3 company financial reporting formats and processes for sales and customer data
- K4 the relationship between customer retention and enhanced profitability
- K5 the concepts of lifetime value and lifetime profitability as means of measuring customer value
- K6 information needed to be able to carry out financial evaluations
- K7 how to develop cash flow forecasts
- K8 discounted cash flow techniques and why they are important for measuring the potential profits of customers
- K9 how to develop a profit statement for a customer
- K10 the difference between fixed and variable costs and how they can impact on customer profitability
- K11 the internal and external market and stakeholder causes of variable costs
- K12 how to use financial ratios to interpret the financial health of an organisation
- K13 different types of external credit checks
- K14 how to use financial information to determine credit limits and manage customer credit activities
- K15 how to undertake a risk assessment and develop risk criteria
- K16 risk management assessment tools already in place and the risk criteria used
- K17 methods of financial reporting and how they can be used to report customer information
- K18 how to undertake comparative assessments of financial information
- K19 how to undertake trend analysis
- K20 how to undertake contingency planning
- K21 how to write financial reports and assessment

Developed by	Skills CFA
Version number	2
Date approved	December 2013
Indicative review date	December 2016
Validity	Current
Status	Original
Originating organisation	Skills CFA
Original URN	CFASLS35
Relevant occupations	Marketing and sales managers; Business sales executives; Sales accounts and business development managers; Telephone salespersons; Sales related occupations
Suite	Sales (2013)
Key words	Financial performance; financial tools; assessing business and financial risk; maximising profit; measuring potential value of customers; lifetime value cash flow; achieving target profitability; discounted cash flow techniques; customer profit statement; analysing customer accounts; business and financial risks; preparing contingency plans; communication with stakeholders; customer retention and enhanced profitability; using financial ratios; risk assessments; financial reports and assessment; trend analysis