

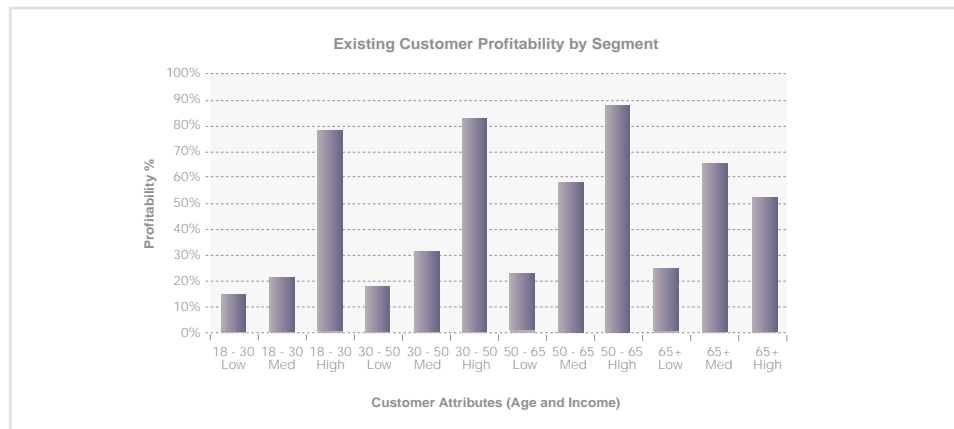
Customer Profitability Analysis

Organizations use customer profitability analysis to identify the most valuable customers or customer segments to prioritize marketing, sales and service investments. By studying profitability metrics such as lifetime value, repeat purchase rate, and churn rate, analysts can identify profitable segments, uncover defining characteristics of those segments and target similar populations for acquisition. Similarly, retention programs may be created for particularly profitable customers. Business intelligence provides the statistical and data mining capabilities to calculate lifetime value, identify product affinities for cross-sell campaigns, and perform predictive analysis of profits resulting from additional marketing investment. Customer segments or individual customers may be further investigated through ad hoc analysis, lists of customer segments may be automatically generated, or alerting rules may be applied to customer segments to automatically notify relationship managers when profitable customers have executed a transaction.

Key Performance Indicators

- Profit by Customer Quartile
- Revenue per Customer Segment
- Attrition Rate
- % Variance in Profit
- Bottom 25% of Customers by Profit
- Top 15 Products by Profit
- Lifetime Value
- Dollars Spent per Customer
- Product Affinity Rate

Sample Report: Customer Profitability Segments by Channel



This customer profitability report analyzes customer profit for a selected segment by customer attributes. Marketing strategists and campaign managers use this type of analysis to understand which customer segments to target with campaigns and loyalty rewards programs so the most profitable customers are attracted and retained and less profitable customers are not sought. A next step might be to analyze which products/services customers are buying, which channels they are utilizing, and complementary products/services to offer with promotions.

COMMON BUSINESS QUESTIONS

- What is the breakdown of customer profitability segments by channel?
- What is the current profitability of highest quartile of customers in 2002?
- What are the most profitable customers buying?
- Who are our least profitable customers?
- Which products are most often purchased with the most profitable products?
- What services do our most profitable customers use?
- How do our most profitable customers prefer to be contacted?
- How much have we spent to attract our most profitable customers?
- What is the churn rate within the most profitable customer segment?