



## *CostPerform adds a missing dimension to your Big Data*

*Our UK based partner, Brian Plowman wrote an interesting article on the missing dimension in big data. Many companies invest in Big Data Analytics (BDA) and report significant results. The Internet is crowded with success stories. It is interesting to see what BDA actually showed in each case. All are useful insights, which saved money or increased revenues. We did not find any story that also claims any insights into 'net profitability' in the way that CostPerform would provide using multidimensional cost allocations techniques. In that respect we believe CostPerform is a missing dimension in the big data landscape.*

### Missing dimension?

Understanding all the costs that the customer relationship drives is vital to knowing which customers are profitable or not - and why.

Technology rushes on. Now you can record and process all available facts about your customers. Just as good as salespeople, but at a fraction of the cost, you can package and price offers not to target a niche, but an individual.

So where's the catch?

In fact there are **two**. The **first** is that all your competitors will be doing the same thing. The **second** catch is that all the marketing hyperbole usually has a different message to the customer. It says lower prices. So instead of being able to pass on to the customer the cost of all the expensive technical wizardry, you find that margins are squeezed even more! Key big data analyses maximize the attractiveness of

the offer and the convenience of the sale by matching the products and the selling process to the right customers. But in making the match it risks driving hidden costs into the business, be it by shortening delivery lead times, by encouraging complex product variants, by offering high levels of personal service, or by attracting customers whose behaviors trigger excessive and largely hidden costs.

The challenge is the need to anticipate every interaction the customer might have with the business, before, during and after the sale - and to cost it.

Identifying customer revenue is easy: it's called the sales ledger; but when the dust has settled on the new Big Data implementation the real customer profitability stays hidden deep in the business.

A clear understanding of customer profitability allows your business to differentiate the level of service it provides to various customer segments



according to their needs and their value to the company. For example, you may offer higher service levels to prized customers in the form of dedicated telephone lines, more individual attention, incentive pricing or customized products. At the same time, you might choose to reduce service to unprofitable customers or increase prices.

A comprehensive view of the costs that customers drive allows a business to refine its policies and focus its resources where they will have the greatest effect on profits: cementing relationships with the right customers; avoiding excessive costs; matching prices to the service given. All these costs need to be identified and analyzed if you are to ensure that the initial terms are profitable and that the customer segments you target have a high probability of being profitable over the lifetime of the relationship.

The fundamental task is **two-fold**.

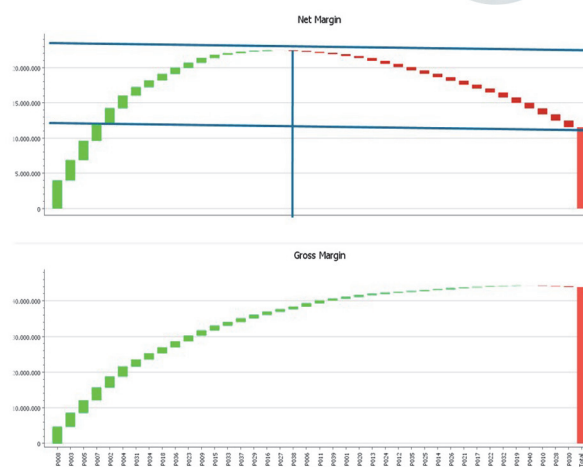
**Firstly**, the unit costs of activities in the business need to be identified and related to internal processes. **Secondly**, customer interactions need to be captured from all the various systems in the company in which they reside. Linking these two sets of data enables a picture of customer profitability to emerge.

*“Combining customer analytics with a clear understanding of how costs are driven in the business provides the winning formula.”*

The devil of unprofitable customers is in the detail of the costs that give you the true net margins. **This is a missing dimension of Big Data.**

## Net margin & true costs

Big datasets normally do not contain cost allocation facts. A sales transaction contains many measures like amount, volume, revenue and dimensions like, client, country and channel. Without proper cost allocations to the dimensions in the sales transactions, the net margin of each transaction stays imprecise. Companies might inject direct product costs into the sales transaction in order to gain gross margin insight. But gross margin is not enough and can even lead to wrong decisions. Finding the proper cause and effect (or driver) of the indirect costs is crucial to calculating the true costs and net margin of a single transaction an its aggregated views.



These two graphs show the Pareto net- and gross margin per sales transaction, pivoted per product. As you can see, the net margin Pareto (top graph) shows more products being unprofitable than the gross margin Pareto. Net margin= more insight = better decisions.

## CostPerform can do the job

The multidimensional capabilities of CostPerform allow precise and true “cause and effect” cost allocations to the lowest level of granularity: the actual transactions. With an excellent built-in pivot function, multi-dimensional-net-margin-analysis adds a missing dimension to your big data.



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