



Measure direct, indirect sales costs for complete picture

By Naras Eechambadi

originally seen in the Charlotte Observer's "In Closing" column October 14, 2007

THE SITUATION FOR "THE ANALYZER"

- Selling costs more than the salesperson's time.
- Costs that aren't tracked can't be well managed.
- Some customers cost more than others.

In recent years, many companies have focused on measuring customer profitability and have started to manage customer value proactively. This is critical to increasing overall profitability and long-term value.

The revenue side of the customer profitability equation is typically easy to measure. Determining costs is more of a challenge. The hardest to capture are sales costs because it can be difficult to track the time spent by sales people as well as support staff on existing customers, but particularly on prospects.

Most companies deal with this problem by ignoring it. Sales costs are considered part of overhead or a cost of doing business and often do not factor into customer profitability.

Our experience, however, is that introducing sales costs into the mix can have a dramatic effect on customer value and can vary greatly by customer. Ranking of customers can change significantly when this cost is taken into account. Squeaky wheels tend to get oiled and the oil can be expensive. Some customers are hard to sell into and if you do not measure the cost and recognize that fact you might be focusing your sales efforts on the wrong customers and prospects.

The customers who suck up the most time can also be the least profitable. There are plenty of tire kickers out there who love to be wined, dined and informed about the marketplace. These conversations can feel good but unless they are followed up by orders, they are expensive and unproductive.

Measure sales costs, direct and indirect. Factor them into your customer profitability; it helps provide a measure of how much you can invest in each customer or prospect. Take all of your sales costs into consideration. Salaries and commissions are obvious but don't forget travel, meeting and entertainment costs not just for front line sales people but for others who help out in the sales effort.

[MORE >>](#)



Here are some ways to measure these costs:

- ▶ Create a charge code for every existing customer and serious prospect.
- ▶ Have sales and sales support staff enter time and expenses to the right codes. Sometimes these costs are already available in some existing system and may just need to be pulled in and organized appropriately.
- ▶ Aggregate these costs by customer or project and compare them with revenues and/or profitability by customer.
- ▶ Communicate this information to sales management so they can re-allocate resources as needed.

Analyzing and re-allocating sales and support resources to profitable accounts can help strengthen those relationships, boost revenues and make these customers even more valuable. On the other hand, investing in unprofitable accounts rarely helps to turn them around, and is a strategy driven more by hope than by intelligence.

So when measuring customer profitability, make sure you are taking all of your sales costs into account and allocating it appropriately by prospect or customer. You don't analyze what you don't measure and what you don't analyze may be hurting you.

.....

About Quaero

Quaero is a marketing and technology services company that helps Fortune 500 enterprises accelerate and improve marketing performance globally. The company helps organizations generate significant growth by bridging the gap between marketing and technology and create a culture of effective marketing. Quaero serves hundreds of category-leading clients in the Financial Services, Pharmaceutical/Healthcare, Travel and Leisure, Retail, Telecommunications and Business Services industries.

Naras Eechambadi is the CEO of Quaero, a marketing and technology services company that helps companies looking to improve the effectiveness of their marketing efforts and marketing technology investments. He is the author of *High Performance Marketing: Bringing Method to the Madness of Marketing* (Kaplan Professional Press, 2005).

For more information, call 1-877-570-2199 or visit the Quaero web site at www.quaero.com.