

Customer Profitability Analysis

Cost Hierarchy

	CUSTOMER			
	A	B	G	J
Revenues at list price: \$14.40 x 42,000; 33,000; 2,900; 2,500	\$604,800	\$475,200	\$41,760	\$36,000
Price discount: \$0.96 x 42,000; \$0.24 x 33,000; \$1.20 x 2,900; \$0 x 2,500	<u>40,320</u>	<u>7,920</u>	<u>3,480</u>	<u>0</u>
Revenues (at actual price)	564,480	467,280	38,280	36,000
Cost of goods sold: \$12 x 42,000; 33,000; 2,900; 2,500	<u>504,000</u>	<u>396,000</u>	<u>34,800</u>	<u>30,000</u>
Gross margin	<u>60,480</u>	<u>71,280</u>	<u>3,480</u>	<u>6,000</u>
Customer-level operating costs				
Product handling \$0.50 x 42,000; 33,000; 2,900; 2,500 unit	21,000	16,500	1,450	1,250
Order taking \$100 x 30; 25; 15; 10 batch	3,000	2,500	1,500	1,000
Delivery vehicles \$2 x (5 x 60); (12 x 30); (20 x 20); (6 x 15) channel	600	720	800	180
Rush deliveries \$300 x 1; 0; 2; 0 sustaining	300	0	600	0
Visits to customers \$80 x 6; 5; 4; 3 sustaining	<u>480</u>	<u>400</u>	<u>320</u>	<u>240</u>
Total customer-level operating costs	<u>25,380</u>	<u>20,120</u>	<u>4,670</u>	<u>2,670</u>
Customer-level operating income	<u>\$ 35,100</u>	<u>\$ 51,160</u>	<u>\$ (1,190)</u>	<u>\$ 3,330</u>