



**CUSTOMER PROFITABILITY ANALYSIS
USING ACTIVITY-BASED COSTING APPROACH
TO IMPROVE THE COMPANY'S COMPETITIVENESS
(A Case Study of Pangeran Beach Hotel)**

THESIS

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ABSTRACT

Profitability analysis is a tool which enables the users to evaluate company's performance. Customer profitability analysis idea is to figure out the customer service activities and cost drivers to determine the profitability of each customer or group of customers. The use of customer profitability analysis appears as a powerful tool to allow management to consider the cost and profit from a customer perspective. The information is applicable in decision-making process to support long and short-term customer related decision. The research is accomplished by using a case study over the data of 2009. Under activity based costing approach, the cost-to-serve for each customer segment has already identified. Based on its revenue and cost level some customer types are found; individual segment and group segment as an opportunistic customer who needs a low cost-to-serve and company segment classified as achiever customer who has the highest income but also requires the highest cost-to-serve. The result allows the hotel management to identify the non-value added activity and which customer segment requires the high customer cost-to-serve, so that the management can set the strategy to manage the cost and improve its competitive advantage.

Keywords: customer profitability analysis, activity-based costing, value added, non-value added, competitive advantage

CHAPTER I INTRODUCTION

1.1 Background

Profitability analysis is a tool which enables the users to evaluate company's performance. It is used to estimate both the return and risk characteristic of a company. It also allows us to distinguish between performance primarily attributed to operating decisions and those that are tied to financing and investing decisions (Wild, 2004).

Customer profitability analysis idea is to figure out the customer service activities and cost drivers to determine the profitability of each customer or group of customers. The customer service here means all activities to complete the sale and to satisfy the customers' demand.

Using customer profitability analysis will bring significant advantage towards the company. Management will not only receive information about their revenue but also measure whether their key customer is as profitable as expected or in contrast decrease a significant portion of company's value. Thus, the customer profitability analysis is critical to the company since it enables the management to re-evaluate the customers and take a strategic decision over which customer segment should be kept and improved, or even eliminated (www.pwc.com, 2009).

As profitability analysis can be applied to many areas of industry, hotel sector exists within a tight competitive market. In order to improve its financial performance, hotel industry segmented their customers by

expanding multiple product features and services. Since it offers services, the existence of this business depends on the number of its customers. The more customers it has, the higher the revenue. No wonder, the main goal of the hotel is to attract more guests to use their service. The use of customer profitability analysis in hotel industry will help the management to identify which customer contributes a higher income and which brings loss to company.

Along with the effort in determining the most profitable customers, hotel industry is the best area to do a research about customer profitability analysis because hotel management has segmented its customers based on the various services. It means each customer or group of customer will contribute different amount of profit.

Pangeran Beach Hotel, as one of the most favorite hotel located in Padang, offers different services toward its customers. The various type of service offered by Pangeran Beach Hotel is the reason why author would be likely to do a research in the company. The implication of customer profitability analysis in this company can perfectly reflect the group of customers who contribute a higher income to the company.

Since its income contributed mainly by its customers, Pangeran Beach Hotel's management focuses most at customers' satisfaction. The management purpose is the satisfied customers will spread a positive word-of-mouth, and recruit new customers, which decrease customer acquisition cost. Moreover, management believes that customers'

satisfaction can reduce the risk associated with cash flow from its customers.

In order to maximize its profit, cost to serve customers is also a main consideration of a company. To determine the cost of serving customers and set the basis for evaluating the profitability, there are two approaches that can be applied; traditional method and activity based costing method. Under traditional method, management assumes the cost used is equal that is why in term of hotel industry, the cost-to-serve to the customer is the same. Activity based costing treats cost with different way as the traditional does. Under this method the cost is assigned based on the service offered. Activity based costing simply provides useful information for pricing its services and identifying activities where the costs can be reduced or value added.

The use of customer profitability analysis in hotel industry appears as a powerful tool to allow management to consider the cost and profit from a customer perspective. This information is applicable in decision-making process to support long and short-term customer related decision. It simply is a key to improve hotel operating performance.

For above reasons, the author would like to do the research entitled:

“Customer Profitability Analysis Using Activity Based Costing Approach to Improve The Company’s Competitiveness; A Case Study of Pangeran Beach Hotel”

1.2 Problem Definition

Based on the background above, the proposed issue can be formulated as follow:

- 1.2.1 What are the activities related to customers?
- 1.2.2 Which customer segment contributes a significant income; individual, group or company customers?
- 1.2.3 How could customer profitability analysis be used to improve the company's competitiveness?

1.3 Research Objective

The purposes of this paper are:

- 1.3.1. To identify the activities conducted by the hotel which are related to customers
- 1.3.2. To define the most profitable customer segment between several types of customers
- 1.3.3. To show how the customer profitability analysis could improve the company's competitiveness

1.4 Research Benefit

- 1.4.1 Describes the implication of profitability analysis using activity based costing to current hotel industry.
- 1.4.2 Allows management of hotel to calculate and understand profitability at the individual customer and service level and to analyze the revenue and cost driver
- 1.4.3 Provides the revolutionary insight over company's value
- 1.4.4 Shows some of the customer segments which were found unprofitable
- 1.4.5 Allows other parties to do similar research since the research relating to profitability analysis in service companies particularly in hotel industry is still limited
- 1.4.6 Defines which customer contributes a higher income between various types of customers
- 1.4.7 Improves the understanding of hotel market segment and customer profitability

CHAPTER III RESEARCH METHODOLOGY

3.1 Research Method

The research is accomplished by using a case study over the data of 2009 since the new data of 2010 has not been prepared by the management of hotel. This type of research is chosen because it enables the description of specific problem and the action to solve it. This approach includes a cyclical process in which the researcher starts with the initial analysis, fact-finding, observation through planning, actuation and evaluation, and back to fact-finding and repeat the process again.

3.2 Scope of the Research

- 3.2.1 The research focuses only on room service
- 3.2.2 The cost used is limited to cost related to customer activity excluded room cost such as depreciation of building and facilities
- 3.2.3 This research focuses on the customer profitability over type of customers of Pangeran Beach Hotel, those are: individual, group and company customers.
- 3.2.4 The data used for this research is internal data of hotel for 2009

3.3 Research Variable and Measurement

- 3.3.1 Customer cost: is measured through ABC
- 3.3.2 Customer revenue: is measured by room revenue in 2009 based on customer segment

Customer profitability = customer revenue – customer cost

CHAPTER V CONCLUSION

5.1 Conclusion

Based on the research conducted, there are several activities to customer identified in Pangeran Beach Hotel. Those are; welcoming guest activity which handles all administration process of guests, guest service activity which is aimed to maximize the customer satisfaction, room maintenance activity included cleaning up the room while the room booked or after the check-out process, and billing activity which is used for billing customer with indirect payment.

All customer segment; individual, group and company customer, contributed significant income to the hotel with the relative profitability up to 70%. Each customer segment then classified into several types of customer; company segment as achiever which contributes high amount of revenue and needs high cost-to-serve, individual and group segment as opportunistic customer having low revenue as well as low cost.

The customer profitability analysis using activity based costing in Pangeran Beach Hotel has successfully examined the customer cost-to-serve for each customer segment. The result allows the hotel management to identify the non-value added activity and which customer segment requires the high customer cost-to-serve, so that the management can set the strategy to manage the cost and improve its competitive advantage.

5.2 Research Limitation

In doing this research, there are several limitations that prevented the perfection of the result:

- 5.2.1. The cost used in this research is provided by the management of hotel without further inspection for the reliability of the data
- 5.2.2. The calculation of salaries and uniform cost to activities is based on the estimation since the actual rate of employee is not obtained
- 5.2.3. Since the hotel has not adopted the activity based costing approach yet, it will reduce the accuracy of customer profitability analysis

5.3 Recommendation

- 5.3.1 The hotel management should make a new strategy to lower the customer cost-to-serve in order to maximize the profit.
- 5.3.2 The next research should be conducted in other companies which have various market segments so the result of customer profitability analysis can be clearly seen.

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