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THE ROLE OF THE CUSTOMER'S PROFIT ANALYSIS IN MAKING PRICING DECISIONS

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Abstract
The current research aims to analyze the role and relationship of the customer's profitability in the process of making decisions, especially pricing decisions. The research relied on the analytical applied approach to obtaining the research results. The research has reached several conclusions, the most important of which is that the customer profit analysis provides important information about the categories of customers that must be focused on or reducing the focus on it and the price that can be determined for each category, and the customer's profitability analysis can determine the categories of customers with high costs and low costs and how to dispose of each category to increase the company's profitability.

Keywords: customer's profit analysis, managerial decisions, pricing decision.

Introduction

Determining the prices of products or services provided by projects is one of the vital topics facing the administration in projects aimed at profit and not targeted, as most organizations need decisions regarding determining or accepting selling prices for their products or services. In some companies, prices are determined by the forces of supply and total demand in the market and small companies that work in an industry in which prices are determined by the dominant market leaders will have a small impact on the prices of their products or services in contrast to that, companies that sell products are Or the services that are allocated or distinguish between them with a high degree through special advantages, or the leading companies in the market, have some estimated authority in determining prices. So the pricing decision will be affected by the cost of the product, competitors 'actions and the extent of customer appreciation for the product. This requires the customer's profitability analysis, and this is what the current research will address.

The decision -making decision depends on many considerations that are not only related to the costs of costs, but rather to the nature of the competing products, the degree and nature of competition in the product market, the behavior of competitors and the extent of customer satisfaction. Therefore, following the transfer curriculum in pricing has become unable to compete within the limits of the prevailing price in the competitive market that requires improving quality and cost reduction. The research problem can be represented by the following question: What is the role of customer profit analysis in pricing decisions?

Research aims

1. Clarify the extent of customers' impact on making decisions for pricing and services
2. What is the relationship between the customer's effect and pricing decisions

Research importance

The importance of research can be clarified by developing and consolidating the belief of those interested and researchers, and managers working in our local organizations that the customer's profitability concepts are necessary to deal with the customer as one of the basic pillars that enhance the performance of organizations and improve their level of profit

Research hypothesis:

The customer's profit analysis contributes to making pricing decisions

Pricing decisions

Pricing decisions are one of the most complicated decisions that face any organization, although it is one of the effective planning tools in directing available economic resources, rationalizing their exploitation and improving the productive efficiency of projects.(Kostis Indounas, 2006).

Because of the spread of the phenomenon of competition and the decline in the phenomenon of monopoly in modern markets, projects have to accept the prevailing prices in the market, and the projects may resort to determining the scope of their operations and the production of production that they use to ensure their survival in the market and it uses prices to achieve the general and operational goals of the projects and according to the internal and external environment for them in a manner consistent with and corresponds to With those goals (DRURY, 2021)

Determining the prices of products or services provided by projects is one of the vital topics facing management in projects aimed at profit and non -profit, as on average, price increase by 5 % leads to 22 % improvement in operational profits - much more than other tools for operational management Hinterhuber, 2004)).

Pricing decisions affect planning because sales are the starting point in the budget situation, and therefore the discovery of the right price is art and not a science (Raiborn et al, 1993, p.411).

It also directly affects the marketing capacity of the economic unit, so this type of decision is highly complex, and in light of this importance, the concepts that were presented to this concept have been multiplied, for example (2009: 121, saunders * others) on pricing decisions as a decision Administrative is directly based on the group of information and internal and external factors, with its impact on the profitability of economic unity. He adds, (MARES, ET Al 33: 2003) that the decision to pricing is a complex decision and a high degree of importance, with its impact on the competitive position of the unit and its achievement of cash flows against the costs that have been affected and the risks that may be exposed to, either (Khadr, 2005: ٢٣) The decision of pricing is only an alternative to the final product presented, which is determined on the basis of information, cost, marketing and competitive factors, which are decisions with fateful results on the reality of the state of economic unity and its competitive advantage in exchange for the monetary flow planned to reach in light of those decisions (2017: 601, Horngren et al) Through the concepts presented by researchers and writers to the concept of pricing decisions, you find that they are administrative decisions with a strategic dimension based on a set of information and internal factors related to the extent of the efficiency of the cost system and its harmony with developments and changes, and external in light of the customer's needs and competition market.

The goals of pricing decisions

Economic units seek to achieve many goals through pricing decisions, the most important of which are (Saunders * Others 2009: 127) (Kotler * Keller, 2009: 22))

Obtaining the largest possible market share by increasing the amount of sales, the sale price is reduced in order to achieve the ability to recover costs and maximize profits.

Achieving parallel between the volume of sales and the costs achieved to reach a state of stability in the competitive position in the long term.

Choosing the competitive position in poor quality of products against the price of the seven, so that the economic unit enables to reach the customer's satisfaction and satisfy his needs.

Highlighting the amount of energy that is not used, so that the unit can work to exploit it in decisions that cover the variable cost of production.

Factors affecting pricing decisions

The prices that the company set for its products depend on a set of interconnected factors, including the life cycle of the product, the costs of elements, components, goals and strategies of the company and the operational environment (i.e. the nature of the market, the degree of competition, government intervention and consumer behavior). When the costs of an item fall with substitute products, competitors' price cuts must be met, or there is a risk of losing market share. Therefore, the managers must analyze all these factors at the same time before making a pricing decision. In addition to customer-related factors. The customer is considered one of the most important factors for which the economic unit was formed, so it has value as long as the customer feels satisfied with its products or services, and this is achieved by two basic factors, which are the appropriate price and the required quality. Linked to the competitive price offered by the unit, and vice versa, as long as the products are of a high degree of quality, the reasonable and acceptable price remains the one that achieves customer satisfaction in the light of alternative products (2007: 34 George & Kostis)

The concept of customer profitability

Customer profitability is the difference or difference between the revenue or returns earned from the customer and the costs associated with the services provided to the customer. The basic logic of caring about customer profitability is the realization that not every customer contributes equally to net income. their general earnings levels (Pfeifer, et al., 2005: 14). That is, it measures a customer's net profit, after allowing for the unique profit expenditure required to support that customer (Epstein, 2000).

What is meant by appropriate dealing is the opportunity for managing the facility to convert unprofitable customers into profitable customers through a policy of re-pricing of products or services provided to different categories of customers or reducing the cost of service provided to this category. Having profitable products means having profitable customers.
Factors, characteristics and indicators that affect customer profitability, including (2007: 20 Kujamaki):

- Prices
- Pice Sensitivity
- Responsiveness to marketing
- Sales efficiency
- Service costs
- Financial costs
- Purchase Behavior
- Customer Size
- Location
- Product mix
- Clains
- Loyalty

Customer profitability analysis

As for the customer profitability analysis (CPA): it is seen as the process of distributing revenues and costs in groups of customers or individual customers, in order to calculate the profitability of these groups and / or the profitability of individual customers (P374, 2005 Raaij) and when analyzing customer profitability, the focus increases in the relationship of the economic unit with Customers and the need to manage this relationship to improve profitability while realizing the difference in customer profitability between each of the categories of customers under study. Differences in customer profitability can be attributed to two reasons (Horngren et al, 2017):
Revenue differences between customers, which result from multiple sources, including: Differences in prices charged for each unit (product / service) for different customers. And differences in the volume of service provided to different customers.
Differences in the cost between customers, which result from multiple sources, including (Al-Daim, Safaa: 2000, p. 124): differences in the way customers use the resources of the economic unit, and differences in the size of the benefit from the different activities associated with each customer, such as marketing, distribution, and customer service.

Increasing the concentration of economic units in customer profitability analysis (CPA) leads to changing their production and marketing strategies. Instead of searching for new customers, unprofitable customers can be managed to turn them into profitable ones. The basic steps in analyzing customer profitability are as follows:

The first step: identifying active customers

In the customers database, in order to ensure that costs are allocated to active customers only, and effective customers are all customers who interact with the economic unit during a period of not less than twelve months either by receiving or ordering goods and services (Schmittlein and 1994.p 94 peterson)

The second step: designing the customer profitability model. In this step, the operations carried out by the economic unit are analyzed to find out the activities that must be performed in the economic unit, with a focus on activities that add value to both the economic unit and the customer, and the cost drivers of these activities. Example The reason for the cost of selling activities is the number of sales representative visits, and the reason for the cost of operating order activities is the number of operating orders, and so on, and then all the appropriate costs must be allocated in the activities, taking into account that for each activity there is an appropriate cost reason that must be determined according to the directly related activities with the customer. The total cost of the cost pool is divided by the total number of cost-causing units consumed in the given time period, to obtain the causative unit cost, which is used to calculate customer relationship costs such as sales costs, customer service costs, and marketing costs. costs, which are calculated on the basis of cost-causing units consumed for cost through each relationship individually (Al-Battanouni, 2006, p. 73)

The third step: Subtracting the customer's costs from his sales revenue in order to obtain the form of customer profitability. Customer profitability can be analyzed at the level of individual customers or at the level of aggregate custo groups. Customer profitability analysis (CPA) at the level of individual customers provides a clear picture of buyer behavior (services required, how to pay, etc.), supplier behavior (terms of service, discounts, marketing efforts) and comparison of revenue with marginal sales.

Benefits of customer profitability analysis

Retaining profitable customers by providing products or services at the lowest cost and with the highest possible quality for the purpose of achieving competitive advantage and gaining customer satisfaction.

Increase the value of the customer, which can be measured strategically by knowing the profitability of the customer. (Al-Ta'i and Al-Abadi, 2009: 264)

Determine the relationship between prices and the cost of the service provided to the customer, so a high price is charged if the services provided have a large cost and vice versa.

The possibility of converting unprofitable customers into profitable customers through negotiation about price, quality, product mix, delivery time, etc. (831: 2002, al et Blocher),

customer profitability measures and accounting methods

Although companies can measure customer satisfaction, only Most fail to measure and account for profitability at the individual customer level. (170; 2009, Kotler & keller) In general, there are three commonly used measures to measure customer profitability that are frequently mentioned in the literature on accounting and administrative thought, including: - (54-2007: 58, Kujamaki):

Historical Profitability Measure: Customer profitability is usually understood as historical profitability, and is defined as the future value of revenues minus (actual) costs. Scale, for example, in unstable cyclical industries, historical profitability is distorted because of the cycles that the industry goes through. Therefore, comparing two customers during two different stages of the industry life cycle using historical profits can be misleading because profitability is indicated by environmental factors. In addition, historical profitability is affected by the customer's life cycles, which express their relationships with the company in different time periods, and the customer's profitability is usually low during the beginning of the relationship period, and it is assumed to be more profitable with the increase in the time cycle. The researcher confirms that the historical customer profitability measure is good if cost and revenue information is available, and within the scope of decision-making and control, historical profitability information can be used to control the determination of expected profitability.

Profitability margin scale:The profitability margin scale measures the customer's contribution to the company's total profits and requires the definition and identification of short-term and long-term periods to be understood as the future profitability of the customer. In the short-term periods of time, the orders of other customers are fixed because the agreed orders must be delivered, and also because of the operational and operational constraints, the production scheduling with the demand cannot be modified, and in any case, the unprofitable orders in the long term can be excluded and replaced by other orders again, For example, customers may buy from the supplier text only once. Thus, it is clear how these requests affect the overall profitability of the company, and in the long run, the profit margin is not directly equal to the customer's revenues minus the costs of service and production, as in the short term. The profit margin measure is a good measure for customer selection because it measures the actual costs caused by the customer.

The measure of potential profitability The measure of potential profitability describes the profitability of a customer who is in a position or in an ideal situation (ldealsetting). Under this situation, the customer buys a large share of the total purchases from the same supplier, and on the other hand, the supplier exploits as efficiently as possible with the customer. Potential profitability can be understood as the future profitability of the customer.

Accounting treatment of customer profitability

Contemporary cost accounting has dealt with customer profitability in two ways (Soder Lund and Vilgon, 1999).

A topic related to historical records / In this sense, the customer's profitability can appear similar to the company's profit and loss statement. The main difference between them is that the customer's profitability refers to a particular and specific customer, while the statement of profits and losses refers to a group of customers. An analysis of customer profitability can be carried out historically into several levels. The common point here is in calculating the contribution margin (total contribution profit margin) and sales revenue related to all expenses. Associated with the product and for all products sold to one customer during a specific period of time, depending on the available data on marketing and administrative expenses and other expenses that are subtracted from the revenues to extract the customer’s profitability.

It also refers to a future aspect and often takes the form of outputs in the analysis of the net present value. More precisely, the case of maximizing the customer’s long-term profitability is calculated and linked to the concept of the value of the customer’s life cycle, which describes the current net value of the course of future profits expected from the purchases that the customer makes in his life. . The company must subtract the expected costs of attracting, selling and servicing the customer from the expected revenues and apply an appropriate rate of discount (between 10% and 20%) depending on the cost of capital and risks. Kotler and Keller, 2009

Analysis of the profitability of customers of the Ready-Made Garment Factory

The ready-made garment factory owns a book and documentary set to control the financial transactions arising from the sales operations, pay the expenses, record the settlement entries, and prepare the financial statements represented by the balance sheet and final accounts to determine the result of the activity and its financial position at the end of the fiscal period, but on the basis of products and not on the basis of customers. The factory has cost and inventory information Regarding production, the following data was obtained from the management of this factory for the year 2021, related to one of the production lines, which deals with ten main customers.

Table (1) data about the factory for the year 2021, according to customers.

the details	Customer 1	Customer 2	Customer 3	Customer 4	Customer 5	Customer 6	Customer 7	Customer 8	Customer 9	Customer 10
Units sold	128250	117750	124200	138,750	91800	62550	47,700	103,500	155250	232,875
Unit selling price	2100	2100	2100	2100	2100	2100	2100	2100	2100	2100
Cost of goods sold per unit	1725	1725	1725	1725	1725	1725	1725	1725	1725	1725
Sales discount	120	135	105	143	128	135	120	150	-	100
The number of purchase orders	98	75	60	38	40	53	53	60	90	90
Number of customer visits	21	18	9	12	6	14	8	20	23	30
delivery number	90	68	45	33	30	44	30	38	57	36
The number of kilometers traveled for transportation	9	21	32	11	8	14	8	29	44	44
The number of urgent requests	9	-	30	-	20	15	12	9	14	21

Source: Prepared by researchers based on laboratory data.

And that the factory activities related to the customer and the cost vectors of those activities are as presented in Table (2):

Table (2) Laboratory activities

activity	rate per wave
Purchase orders	**157,500 dinars for each purchase order**
Customer visits	**112,500 dinars for each customer visit**
Transport	**6750 dinars per kilometer**
handling	**30 dinars per unit sold**
Urgent request	**307,500 dinars for each urgent request**

Source: Prepared by researchers based on laboratory data.

Table (3) Analysis of customer profitability (amounts in thousands of dinars)

the details	Customer 1	Customer 2	Customer 3	Customer 4	Customer 5	Customer 6	Customer 7	Customer 8	Customer 9	Customer 10
Total customer sales revenue	269325	247275	260820	291375	192780	131355	100170	217350	326025	489038
Sales discount	15390	15896	13041	19841	11750	8444	5724	15525	-	23288
Net customer sales revenue	253935	231379	247779	279625	181030	122911	94446	201825	326025	465750
Cost of goods sold	221231	203119	214245	239343	158355	107899	82283	178538	267806	401709
total profit	32704	28260	33534	40282	22675	15012	12163	23287	58219	64041
Purchase order cost	15435	11813	9450	5985	6300	8384	8384	9450	14175	14175
The cost of customer visits	1575	1350	675	900	675	1050	600	2250	1725	2250
transportation cost	61	142	216	74	54	94	54	195	297	297
handling cost	2700	2040	1350	990	900	1320	900	1140	1710	2580
The cost of urgent orders	276	-	922	-	6150	4612	3690	2769	4305	6457
total customer costs	20047	15345	12614	7949	14079	15462	13628	15804	22212	25759
customer profitability	12656	12915	25585	32333	8596	-450	-1465	7483	36007	-38282

Source: Prepared by researchers based on laboratory data.

When observing Table (3), it becomes clear that there are profitable customers such as Customer No. (1, 2, 3, 4, 5, 8, and 9), and unprofitable customers such as customer No. (6, 7, and 10). As for profitable customers, their profits vary due to the different revenues and costs of each customer. It is clear that customer No. (9) It is more profitable compared to the rest of the customers, amounting to 36,007 (thousand dinars). Therefore, the factory management must take care of this customer, improve the relationship with him, maintain his loyalty, and gain the competitive advantage for the factory, Although customer No. (5) has a lower percentage of sales compared to customers (1), (2), (3), (4), (8), he achieves high profits. It is worth noting that the different discount rates granted to customers are not only due to the difference in the number of units sold, but also due to other factors such as frequent dealings and status with this factory. The difference in the customer's costs is due to the difference in the consumed cost vectors. We note, for example, that customer No. (1) consumes the activity of purchase orders, numbering (92), while customer No. (4) is the least customer in consuming purchase orders by (38) purchase orders, and so on. For the rest of the other activities. Thus, the increase or shabby in the customer of the customer leads to the increase or the reduction in the profit of the customer, and the customer can urge No. (1) to reduce the requests of the purchase of the purpose of unifying the purposes of the purchase and decreasing it and what the shadow of the purchase of the purchase of the purchase of the purchase of the purchase of the purchase of the purchase of the purchase of To reduce customer visits or reduce urgent orders, which leads to lower customer costs and thus increase customer profitability.

Conclusions and Discussion

There is a clear deficiency and fear on the part of the economic unit in collecting information related to the profitability of customers, as it requires effort, time and additional cost.

There are some customers who are responsible for achieving large profits and consuming few resources, and other customers who consume large resources compared to their few revenues.

It is possible to use some financial ratios related to the profitability indicators of the customer, such as the ratio of the profitability of each customer to the profitability of the economic unit as a whole.

The customer relationship management is concerned with satisfying the needs and desires of customers, which leads to achieving customer satisfaction, improving their loyalty, and achieving the competitive advantage of economic units.

Achieving customer satisfaction leads to retaining the customer and improving his loyalty, represented by the behavior of repeat purchases, attachment to economic units, and not resorting to other economic units.

The diversity of products and the availability of alternatives available to customers gives them the right to compare between them. In this case, the price is a factor that determines sales and competitive power.

Choosing the appropriate price policy gives its effect on customers, whether it is based on demand, cost or competition compared to the type of products and customer profitability analysis provides important information about the categories of customers that must be focused on or less focused on and the price that can be determined for each category,

Price is a very important driver for customer satisfaction, as it is useful for organizations to know customers' perceptions about prices to achieve their price strategies. Also, customer profitability analysis can identify categories of customers with high costs and low costs, how to deal with each category, and determine the appropriate price for it to increase the profitability of the company.

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