

CPA Question

.Apex International, a Sri Lankan company located in Jouvenerville, is a distributor of pharmaceutical products. It records all transactions in dollars. Its Activity Based Costing (ABC) system has five activities:

Activity area	Cost driver rate (2017)
1. Order processing	\$40 per order
2. Line-item ordering	\$3 per line item
3. Store deliveries	\$50 per store delivery
4. Carton deliveries	\$1 per carton
5. Shelf-stocking	\$16 per stocking-hour

Richard, the controller of Apex International, wants to use this ABC system to examine individual customer profitability within each distribution market. He focuses first on the single-store distribution market. Two customers are used to exemplify the insights available with the ABC approach. Data pertaining to these two customers in August 2017 are as follows:

	Sams Pharmacy	Healthguard Pharmacy
Total orders	13	10
Average line items per order	9	18
Total store deliveries	7	10
Average cartons shipped per store delivery	22	20
Average hours of shelf-stocking per store delivery	0	0.5
Average revenue per delivery	\$2,400	\$1,800
Average cost of goods sold per delivery	\$2,100	\$1,650

Required:

- i. List three advantages for an organisation of creating an effective Customer Relationship Management (CRM) system?
- ii. Argue on the importance of *customer-profitability analysis* to managers.
- iii. Use the above information to compute the operating income of each customer in August 2017. Comment on the results and what, if anything, Richard should do.
- iv. Richard ranks the individual customers in the single-store distribution market on the basis of monthly operating income. The cumulative operating income of the top 20% of customers is \$55,680. Apex International reports operating losses of \$21,247 for the bottom 40% of its customers.

Make four recommendations that you think Apex International should consider in the light of this customer profitability information.