

#### **PROBLEM B-4 Customer Profitability and Managerial Decisions [LO1, LO3]**

Advanced Pharmaceuticals, Inc., is a wholesale distributor of prescription drugs to independent retail and hospital-based pharmacies. Management believes that top-notch customer representatives are the key factor in determining whether the company will be successful in the future. Customer representatives serve as the company's liaison with customers—helping pharmacies monitor their stocks, delivering drugs when customer stocks run low, and providing up-to-date information on drugs from many different companies. Customer representatives must be ultra-reliable and are highly trained. Good customer representatives are hard to come by and are not easily replaced.

Customer representatives routinely record the amount of time they spend serving each pharmacy. This time includes travel time to and from the company's central warehouse as well as time spent replenishing stocks, dealing with complaints, answering questions about drugs, informing pharmacists of the latest developments and newest products, reviewing bills, explaining procedures, and so on. Some pharmacies require more hand-holding and attention than others and consequently they consume more of the representatives' time.

Recently, customer representatives have made more frequent complaints that it is impossible to do their jobs without working excessive overtime hours. This has led to an alarming increase in the number of customer representatives quitting for jobs in other organizations. As a consequence, management is considering dropping some customers to reduce the workload on



customer representatives. Data concerning a representative sample of the company's customers appears below:

	Leafcrest Pharmacy	Providence Hospital Pharmacy	Madison Clinic Pharmacy	Jenkins Pharmacy
Total revenues . . . . .	\$272,650	\$2,948,720	\$1,454,880	\$155,280
Cost of drugs sold . . . . .	\$211,470	\$2,234,480	\$1,119,440	\$115,920
Customer service costs . . . . .	\$10,640	\$74,400	\$42,000	\$4,480
Customer representative time . . . .	190	1,240	560	80

Customer service costs include all of the costs—other than the costs of the drugs themselves—that could be avoided by dropping the customer. These costs include the hourly wages of the customer representatives, their sales commissions, the mileage-related costs of the customer representatives' company-provided vehicles, and so on.