OPTIMIZING CUSTOMER PROFITABILITY AS A KEY FINANCIAL PERFORMANCE INDICATOR FOR ACCELERATING MARKET SHARE GROWTH

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Abstract

This study examines the effectiveness of Customer Profitability compared with Unit Profitability as alternative corporate-level Key Financial Performance Indicators (KPIs) for accelerating market share growth in the banking sector. While previous studies primarily treat Customer Profitability as an operational analytical tool, limited research has examined its role as a strategic performance indicator at the corporate level. Using a comparative case study of two national commercial banks operating in similar market segments over ten years (2014–2024), this research applies a Regulatory Impact Assessment (RIA) framework to evaluate the implications of different KPI regimes. The analysis combines financial performance indicators including assets, loans, deposits, CASA, and profit after tax with qualitative insights from internal policy documents and expert interviews. The findings indicate that banks adopting Customer Profitability as a corporate KPI demonstrate stronger and more consistent market share growth than those relying on Unit Profitability indicators. Customer Profitability strengthens organizational focus on high-value customers and supports strategies that increase share of wallet and long-term competitive performance.

Keywords: customer profitability, key performance indicators, market share growth, customer lifetime value, banking strategy, performance management

INTRODUCTION

In general, companies establish two groups of indicators from the customer perspec-tive. The first group includes indicators that are general in nature and commonly used by almost all companies. These indicators such as customer satisfaction, market share, and retention rates are often found in various balanced scorecards and are therefore catego-rized as core indicators (Kaplan & Norton 1996). For example, a number of empirical studies in the banking sector show that customer satisfaction and loyalty are positively and significantly related to financial performance and market share growth (Kim et al., 2024). The second group of indicators reflects performance drivers or differentiating fac-tors that influence customer outcomes. These indicators focus on strategic questions about what value a company needs to offer in order to achieve high levels of satisfaction, reten-tion, acquisition, and ultimately market share. Performance drivers describe the value proposition that a company wants to convey to customers in its target market segment. In the banking industry, for example, the implementation of retention strategies and customer relationship management (CRM) has proven to play an important role in strengthening customer loyalty while increasing the competitiveness of banks (Hadiyanto 2021).

However, success in the four core customer metrics market share, retention, acqui-sition, and satisfaction does not necessarily guarantee that a company has a truly profitable customer base. Several studies show that high levels of customer satisfaction and loyalty do not always correlate directly with organizational profitability, especially when low-price strategies are used to retain customers (Kim et al. 2024). One way to have highly satisfied customers but not necessarily profitable ones is to sell

products or services below the optimal margin, which can ultimately reduce financial returns (Kičová et al. 2023).

Therefore, companies are advised to not only measure customer satisfaction and market share as measures of results, but also assess customer profitability to ensure long-term value sustainability. In this context, activity-based costing (ABC) plays an important role in identifying customer segments that generate added value as well as un-profitable business relationships (Kičová et al. 2023). This system enables management to assess cost effectiveness at the customer level and reengineer business processes when necessary to maintain profitability.

In addition, recent research confirms that customers who are responded to effectively and managed well contribute significantly to increased sales, profitability, and market share (Enad and Gerinda 2022). Thus, financial measures such as customer profitability help organizations focus on customers who actually contribute to profits and avoid an excessive orientation toward customer satisfaction alone. This measure is also important in the strategic decision-making process to balance customer retention and cost efficiency.

Customer Profitability (CP) measures can reveal that certain target customers are not profitable, especially new customers who are still in the acquisition stage, where marketing and onboarding costs have not yet been covered by the revenue margin generated. However, newly acquired customers are still valuable because they have positive long-term growth potential (lifetime value). In this context, customer profitability analysis (CPA) is an important tool for determining strategies to retain potential customers and manage existing customers who no longer contribute sufficient profits. This profitability-based approach is in line with the principles of the modern Balanced Scorecard, which emphasizes a balance between customer orientation and company financial results (Kičová et al. 2023).

Some corporations use different key financial performance indicators depending on their respective strategic objectives. Several corporations face the challenge of establishing performance measures that are truly appropriate and have the most significant impact on driving aggregate performance to win market share. For example, some corporations may use Customer Income/Revenue (Customer Profitability) performance indicators or other (non-customer Income/Revenue) performance indicators such as Unit Income, ROI, ROA, market share, etc. Corporations are often faced with strategic or policy challenges in choosing and using financial performance indicators that are suitable and can align with both short-term and long-term Strategic Management Objectives, which is commonly stated on the Corporate Plan or Business plan. More specifically, which financial performance indicators can directly impact the achievement of new business acquisition strategies to become market leaders in their industries.

Previous studies generally use Customer Profitability (CP) as a unit-level metric, for example to evaluate profitability at the branch, portfolio, product, or specific customer segment level. Various studies use CP primarily for operational purposes such as measuring cost-to-serve, assessing branch efficiency, analyzing portfolio profitability, or activity-based cost allocation without raising it as a corporate-level Key Performance Indicator (KPI) that guides organizational strategic decisions (Järvinen & Väätäjä 2018; Fang et al. 2016; Lueg & Ilieva 2024).

Méndez-Suárez and Crespo-Tejero (2021) used CP to assess customer profitability in the context of cost management and relationship management, but remained at the operational process level. Similarly, Kičová et al. (2023) applied CP to analyze branch profitability and service activities. Other studies across various sectors including telecommunications (Meraghni et al. 2021), the service industry, hospitality, and manufacturing (TDABC case studies, 2018–2024) also consistently show that CPA/TDABC is primarily used to improve internal efficiency and understanding of service costs at the unit level (Järvinen & Väätäjä 2018; Lueg & Ilieva 2024). Thus, CP functions more as an analytical tool or indicator of operational efficiency, rather than as a strategic measure that drives cross-unit coordination, corporate resource allocation, corporate KPI redesign, or market share expansion at the company level.

While previous studies have primarily treated Customer Profitability as an operational or analytical tool, little empirical research has examined its role as a corporate-level Key Financial

Performance Indicator. In particular, no study has directly compared Customer Profitability and Unit Profitability as alternative KPI regimes in terms of their effectiveness in accelerating market share growth. This gap is particularly important given the increasing pressure on banks to enhance share of wallet, deepen corporate relationships, and expand their market position in an environment characterized by digital transformation, falling margins, and intensified competition.

Without a clear understanding of which financial performance indicator is more aligned with long-term growth strategies, organizations risk reinforcing internal efficiency at the expense of customer-centric value creation. This may ultimately limit their capacity for sustainable expansion, weaken customer loyalty, and reduce competitiveness in both domestic and international markets.

Therefore, this study aims to examine the comparative effectiveness of Customer Profitability and Unit Profitability as Key Financial Performance Indicators in accelerating market share growth. Through a descriptive qualitative approach, supported by a ten-year comparative case study of two national commercial banks operating in similar market segments, this research seeks to: (1) assess the impact of different performance indicators on market share development, (2) explore the strategic and organizational implications of implementing Customer Profitability at the corporate level, and (3) propose a framework for integrating Customer Profitability as a core element of corporate performance management.

This study introduces a conceptual contribution by examining Customer Profitability and Unit Profitability as alternative corporate-level Key Financial Performance Indica-tors an aspect that has received limited scholarly attention. Existing research predominantly treats Customer Profitability as an analytical instrument for assessing customer value, yet empirical work has not compared these profitability metrics within a strategic performance measurement framework. By repositioning Customer Profitability as a potential corporate-level KPI, this study advances current discussions on the relevance of customer-based financial metrics in guiding strategic decision-making and organizational performance management.

The study further contributes to three bodies of literature. First, it enriches the KPI literature by broadening the scope of profitability indicators considered at the corporate lev-el. Second, it extends the Customer Profitability Analysis literature by conceptualising CPA not only as an operational diagnostic tool but also as a strategic management device. Third, it contributes to the market share strategy literature by proposing a conceptual link between customer-based profitability measures and strategic efforts to accelerate market share growth.

LITERATURE REVIEW

Customer Perspective in the Balanced Scorecard

In the Balanced Scorecard, the customer perspective is used to assess the extent to which an organization is able to create value for its target customer segments (Kaplan & Norton 1996). One of the main measures is market share, which is the proportion of business that a company controls in a specific market. In addition to market share, companies also use account share or share of wallet, which measures the portion of a customer's total spending in a particular category that is allocated to the company. Empirical studies demonstrate that higher share of wallet is strongly associated with cross-buying behaviour and long-term profitability, particularly in the financial services industry (Kumar, Shah & Venkatesan 2006). In the banking industry, for example, share of wallet reflects the proportion of customer financial activities such as savings, deposits, credit, investments, or digital transactions, carried out through the bank compared to the customer's overall financial activities across various financial institutions. The greater the share of wallet, the stronger the bank's position in meeting customer financial needs

Furthermore, customer retention is an important measure for understanding a company's ability to retain existing customers. A high retention rate indicates success in building loyalty and long-term relationships. On the other hand, customer acquisition measures a company's ability to attract new customers, making this indicator relevant for assessing the effectiveness of growth, marketing, and market penetration strategies (Kaplan & Norton 1996). As previous research shows, banks follow real options theory in their decisions to retain seemingly unprofitable customers by identifying optimal

divestment points, and the added value of reputational isolation. (Suárez M. & Crespo-Tejero, N. 2021). Similarly, empirical studies in digital banking also confirm that acquisition when followed by rapid onboarding and product penetration significantly increases the probability of long-term customer engagement.

Customer satisfaction is also a key driver from the customer's perspective. High levels of satisfaction are consistently associated with customers' tendency to make repeat purchases, provide positive references, and increase loyalty. However, Kaplan and Norton (1996) emphasize that customer satisfaction does not always correlate directly with profitability. Therefore, customer profitability becomes an important indicator for assessing the economic contribution of each customer or customer segment, including considering service costs through approaches such as activity-based costing.

Overall, these indicators including market share, wallet share, customer retention, customer acquisition, customer satisfaction, and customer profitability form a comprehensive evaluation framework for organizations to assess the effectiveness of customer-focused strategies and link them to long-term financial performance (Kaplan & Norton 1996).

Entry Strategy and Exit Strategy

Entry Strategy and Exit Strategy are core constructs in strategic management that guide whether firms should enter, expand within, or withdraw from markets and segments as they reallocate resources under uncertainty and competitive pressure. Recent research stresses that entry–exit is not a linear path: firms may cycle through expansion, partial withdrawal, and re-entry depending on performance, institutional frictions, and the strategic value of retained options. Accordingly, "exit" should be treated as a heterogeneous strategic phenomenon (e.g., full divestment versus partial exit) rather than a single outcome, and its rationale often reflects resource-based, industry-based, and real-options logics. (Sousa et al. 2021; Cefis et al. 2022; Schmid & Morschett 2023).

From a competition perspective, incumbents can shape entry conditions via entry-deterrence mechanisms. Empirical evidence indicates that pre-emption through product proliferation can suppress residual demand and make entry less profitable for challengers. In addition, multiproduct strategies such as bundling/tying can function as strategic instruments that (under specific market conditions) deter entry or leverage market power by raising effective switching frictions and constraining rivals' room to compete. However, recent evidence also suggests that the relationship between bundling, perceived lock-in, and switching behavior is context-dependent; in some bundle-dominated service settings, switching costs may not reduce switching intention as expected, implying that bundling does not uniformly translate into durable lock-in and must be evaluated empirically in each industry context. (de Haas et al. 2022; Greppi & Menicucci 2021; de Cornière & Taylor 2021; Koo et al. 2026; Ribeiro et al. 2024).

This theoretical lens is particularly relevant for customer-centric industries such as banking, where entry/exit decisions can be interpreted at the level of customer segments and relationship portfolios. Customer Profitability Analysis (CPA) supports these decisions by providing customer-level profitability transparency and by enabling managers to align operational actions with strategic objectives, including segmentation, service design, and resource allocation. Importantly, exit from "unprofitable" relationships is not always optimal under a static profitability rule: in banking contexts, real-options logic suggests firms may rationally delay customer divestment when uncertainty and reputational spillovers imply option value and threshold-based abandonment decisions. Thus, CPA integrated with forward-looking valuation logic can function not merely as a measurement tool but as a strategic decision framework for planning market/segment entry and disciplined exit to support sustainable market-share growth. (Lueg & Ilieva 2024; Méndez-Suárez & Crespo-Tejero 2021).

Customer Lifetime Value (CLV)

Customer Lifetime Value (CLV) is classically defined as the present value of all net cash flows generated by customers throughout their relationship with the company. In modern marketing literature, CLV is not only viewed as a financial measure, but also as a strategic framework for managing customers as long-term assets of the organization (Čermák 2015; Kumar 2018; Kumar & Reinartz 2016). This perspective emphasizes that companies should not merely calculate customer

value, but also manage the process of creating two-way value: companies create value for customers through perceived value, while customers generate economic and non-economic value such as engagement and recommendations which are ultimately monetized in CLV (Ascarza et al. 2017).

In its development, CLV research has moved from simple mathematical formulations to more operational predictive systems. Transparency of model assumptions including costs, discount rates, churn probabilities, and time horizons is important so that CLV estimates can be applied consistently in various business contexts (Ferrentino et al. 2016). Additionally, research indicates that incorporating non-financial behavioral variables, such as lifestyle or customer engagement, can improve the accuracy of customer segmentation and value prediction compared to models based solely on transaction data (Dahana et al. 2019). In line with developments in data analytics, modern CLV models have also begun to utilize machine learning approaches to improve customer value prediction capabilities in various market environments (Yan & Resnick 2024).

From a managerial perspective, CLV becomes highly relevant when used as a basis for marketing decisions, particularly in retention strategies and resource allocation. Stud-ies show that profit-based or CLV-based targeting can result in more profitable retention campaigns than approaches that focus solely on churn probability (Lemmens & Gupta 2020). In industries such as banking, customer relationships can even be viewed as assets with strategic flexibility under uncertainty, making it a rational decision to retain seemingly unprofitable customers within a real options framework (Méndez-Suárez & Crespo-Tejero, 2021). However, the stability of CLV predictions can be affected by changes in consumer behavior or external shocks, making temporal validation and cross-cohort analysis important for maintaining the reliability of CLV as a strategic decision tool (Tudoran et al. 2024).

Synthesis of Literature and Theoretical Gap

Across the Balanced Scorecard, CPA, entry–exit strategy, and CLV literatures, three overarching insights emerge:

1. Customer-focused financial indicators provide deeper insight into long-term economic value than unit-based indicators;
2. Profitability-linked customer strategies such as cross-selling, bundling, and retention are central mechanisms for expanding share of wallet; and
3. Share of wallet plays a pivotal role in driving sustainable market share growth.

However, the existing literature lacks an integrated explanation of how Customer Profitability, when elevated to a corporate-level Key Financial Performance Indicator, shapes organizational behaviour, customer management strategies, and competitive outcomes. Prior studies examine CPA, CLV, and cross-selling independently, yet none empirically compare Customer Profitability vs Unit Profitability as alternative KPIs or assess their differential impact on market share growth. This gap limits theoretical understanding of how profitability-based KPIs influence relationship management, business acquisition, and long-term competitive positioning.

To address this gap, the current study synthesizes these theoretical streams and proposes a set of research propositions that articulate the mechanisms through which Customer Profitability functions as a strategic KPI capable of accelerating market share growth.

P1: The adoption of Customer Profitability as a corporate-level KPI increases organizational focus on high-value customers.

P2: A stronger organizational focus on high-value customers enhances the effectiveness of cross-selling and product bundling.

P3: Improved cross-selling and bundling effectiveness leads to higher customer share of wallet.

P4: Higher share of wallet contributes to accelerated market share growth.

P5: The adoption of Customer Profitability as a corporate KPI enhances strategic business acquisition from both existing and new customers.

P6: Customer Profitability as a corporate KPI strengthens cross-unit organizational integration, improving customer experience and retention.

P7: Higher customer retention, combined with increased share of wallet, jointly drives sustainable market share growth.

METHOD

This study uses a descriptive qualitative approach with a comparative case study design. This approach was chosen because the study not only assesses financial performance numerically, but also aims to understand corporate internal policies and how performance indicators are applied in the strategic decision-making process. National banks were selected as the research subjects because they share similar characteristics, including: both are included in the Book 4 business group; both operate in the corporate segment; but use different Key Performance Indicators (KPIs). Bank AA uses Unit Profitability as its main financial performance indicator, while Bank BB uses Customer Profitability. The similarity in business characteristics allows for a more valid comparison of the impact of each KPI on market share performance. The data analysed includes total assets, credit, third-party funds (DPK), low-cost funds (CASA), and earnings after tax (EAT) over ten years (2014–2024). Data collection was conducted between August to November 2025, encompassing in-depth interviews, document analysis, and the compilation of secondary financial data.

The research data was obtained from primary and secondary sources. Primary sources were obtained through in-depth interviews with the Group Head of the Performance Measurement Unit of one of the banks, who provided technical and conceptual explanations regarding the differences between Customer Profitability and Unit Profitability and their implications for the behavior of Relationship Managers and the achievement of corporate strategies. Meanwhile, secondary data was obtained from internal policy documents, corporate annual business plans, KPI structures at various organizational levels, banking portfolio performance reports from the Central Statistics Agency, and the annual financial reports of both banks. This document review also revealed a gap between the company's main objective namely, accelerating market share growth and the KPIs used, which then became a major issue in the RIA analysis.

Informed consent was obtained from all interview participants before their involvement in the study. Participants were informed about the purpose of the research, the voluntary nature of their participation, and the confidentiality of their responses.

This study was conducted as part of a PhD dissertation project at the School of Business, IPB University, under institutional supervision. According to an official statement issued by Research Ethics Committee IPB University (Ref. No. 44/IT3.S2/PK.01.06/M/B/2026, dated 2 January 2026), this research did not involve clinical or experimental procedures, nor did it involve human subjects in the sense of intervention or experimental research, or the collection of personal or sensitive data. The interviews conducted were expert interviews focusing on organisational policies and institutional practices. Therefore, in accordance with institutional policy, no additional ethical approval was required.

The use of the Regulatory Impact Assessment (RIA) framework in this study is based on its recognised role as a systematic, evidence-based method for evaluating the impacts of alternative policy options. Although RIA is traditionally applied within governmental regulatory processes, contemporary scholarship emphasises that it is a flexible analytical tool that can be adapted to different institutional settings and organisational contexts (OECD 2012). Hertin et al. (2009) further highlight that RIA is designed to integrate diverse forms of knowledge into decision-making processes, making it suitable for any organisation that formulates and evaluates rules governing behaviour. In the corporate context, Key Performance Indicators (KPIs) function as internal regulatory instruments that shape managerial incentives, guide resource allocation, and influence strategic behaviour. Therefore, assessing the effectiveness of Customer Profitability relative to Unit Profitability constitutes an evaluation of alternative internal policy regimes. The RIA method offers an appropriate analytical structure for this purpose because it provides a systematic framework for identifying problems, defining objectives, comparing policy alternatives, and assessing costs and benefits (Kirkpatrick & Parker 2004; Hahn & Tetlock 2008). By applying RIA, this study is able to evaluate how different financial performance indicators affect a corporation’s capacity to accelerate market share growth,

thereby extending the application of RIA beyond public regulation into corporate strategic management.

By definition, RIA is an analytical method that emphasizes the efficiency and effectiveness of processes in improving policy quality in a systematic and participatory manner (Kirkpatrick and Parker 2004), by systematically integrating existing knowledge into the process (Hertin et al. 2009). The stages in the use of RIA in Figure 1 include problem formulation, goal definition, policy alternative formulation, determination of the best policy, and policy implementation formulation.

Problem Formulation Defining Goals Alternative Policies Formulation Formulating the Best Policy Alternatives using Benefits/Cost Analysis Implementation Strategy Formulation

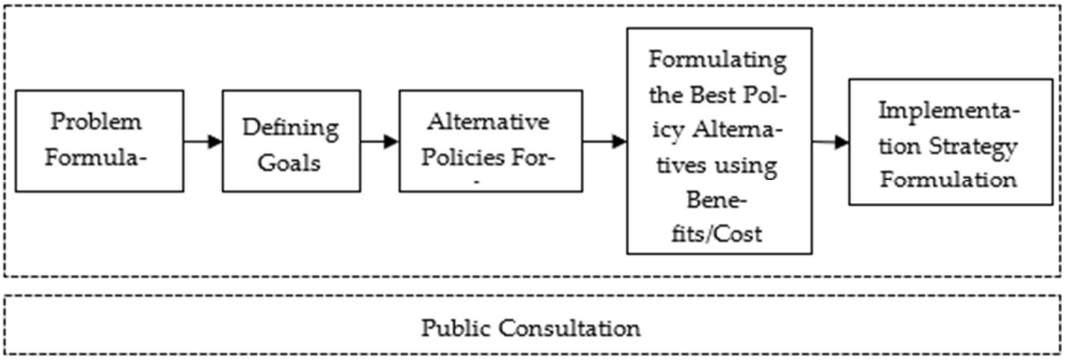


Figure 1. Regulatory Impact Assessment (RIA) framework applied in this study, adapted from OECD (2018)

The analysis process follows the stages in the RIA framework as recommended in international literature. The first stage is problem formulation, which is done by identifying the root causes of the problem and the perceptions of decision makers within the organization. The second stage is setting policy objectives that are relevant to the research context, namely, determining the financial performance indicators that best support the business acquisition and market share growth strategies. The third stage is the development of policy alternatives, which in this study includes a comparison between maintaining Unit Profitability as the status quo and adopting Customer Profitability as the main financial performance indicator. The fourth stage is a cost-benefit evaluation of the two alternatives, which is carried out by assessing the impact of each bank's strategy during the 2014-2024 period based on data on assets, credit, DPK, CASA, and profit after tax. This analysis shows significant differences in the ability of each indicator to drive market share growth. The final stage is the preparation of policy implementation recommendations, including steps to restructure KPIs, adjust the chart of accounts, improve the information technology system for profitability calculations, and integrate Customer Profitability into all levels of the organization, from the Board of Directors to Relationship Managers.

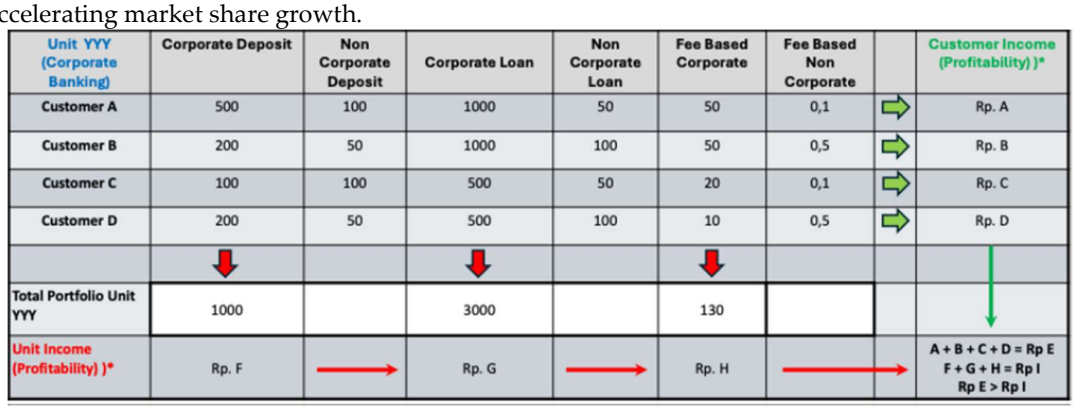
In the implementation of RIA, activities such as consultations with stakeholders are carried out during the RIA process. The use of RIA in this study is based on considerations of the suitability between the objectives and substance of RIA and the study. RIA is capable of accommodating all the requirements for formulating a regulation (Suska 2016). This participatory nature will enrich the substance of the policy to be selected, to improve public welfare (Satria 2015). With a research focus on corporate policy formulation, RIA can explore corporate regulatory data, competitor financial performance indicators, and internal financial performance indicators in depth to understand existing problems and answer research questions. Despite challenges in its implementation, RIA is an appropriate method for improving the quality of policies in solving problems.

Combining in-depth interviews, policy documents, banking statistics, and financial performance data over ten years. This triangulation ensures that the findings and policy recommendations have a strong empirical and theoretical basis. Thus, the use of RIA in this study is not only methodologically appropriate, but also provides a comprehensive understanding of the effectiveness of financial performance indicators in supporting corporate market share growth strategies.

RESULT

Stage 1: Formulation of the Problem

The initial stage of the Regulatory Impact Assessment identifies the core problem ad-dressed by this study: the limitation of Unit Profitability–based Key Financial Performance Indicators in explaining and accelerating market share growth.



Unit YYY (Corporate Banking)	Corporate Deposit	Non Corporate Deposit	Corporate Loan	Non Corporate Loan	Fee Based Corporate	Fee Based Non Corporate		Customer Income (Profitability))*
Customer A	500	100	1000	50	50	0,1	⇨	Rp. A
Customer B	200	50	1000	100	50	0,5	⇨	Rp. B
Customer C	100	100	500	50	20	0,1	⇨	Rp. C
Customer D	200	50	500	100	10	0,5	⇨	Rp. D
	⇩		⇩		⇩			↓
Total Portfolio Unit YYY	1000		3000		130			
Unit Income (Profitability))*	Rp. F	→	Rp. G	→	Rp. H	→		A + B + C + D = Rp E F + G + H = Rp I Rp E > Rp I

Figure 2. Conceptual comparison between Unit Profitability and Customer Profitability calculations.

Note :-)* The Profitability of both is obtained after all portfolios (Loan/Deposit) are multiplied by Fund Transfer Price (FTP), plus fees and minus costs

Figure 2 illustrates the difference between Unit Profitability and Customer Profitability calculations. The components used to calculate Unit Profitability and Customer Profitability are obtained from the sum of interest income or expense, Fund Transfer Price (FTP), fee-based income, minus credit risk reserves, and direct and indirect costs incurred in servicing the product. However, Unit Profitability is derived from the total customer portfolio managed by a specific business unit (red arrow). In the figure, total Unit Profitability is the sum of F + G + H = I, while Customer Profitability is derived from each customer's portfolio (not the total portfolio, green arrow), which is the sum of A + B + C + D = E. It can be seen that E is greater than I because the non-corporate product portfolio is not included in the profitability calculation component of the Unit Profitability KPI. From this difference, we can see the limitations of the Unit Profitability performance indicator, including first, the profitability performance and the components of income and expenses of each customer managed cannot be monitored directly because they are not connected to the accounts of each customer managed by the unit, so that the Relationship Manager (RM) does not know the income performance of each customer he manages. Second, RMS can't create scenarios for their customers' profitability, whether they will make a profit or a loss when faced with a product-bundling (package deal) negotiation situation.

In reality, a RM can only negotiate pricing in relation to the size of the business volume being negotiated. Third, with Unit Profitability, when offering total solutions (multi-product offerings), the ego-centric nature of each Business Unit will be more prominent than being oriented towards customer profitability itself. If this happens, the corporation's goal of becoming a Ring-1 customer will be very difficult to achieve. Unconsciously, the corporation is trapped in an inward-looking orientation towards business unit profits (Product Centricity) rather than an outward-looking orientation towards customer satisfaction (Customer Centricity). Fourth, with Unit Profitability KPIs, each RM product will fight independently to penetrate its product to the same customer because it carries a mission for its own unit's profit. This spirit will take precedence over consolidation efforts that should be led by the corporate RM who is most responsible for managing the customer's account. Even if they work together, customers will be confused by the arrival of many salespeople offering products representing the mission of their respective products.

Prior empirical studies largely support this observation, as Customer Profitability (CP) has predominantly been used as an operational or analytical tool rather than as a strategic performance indicator (Méndez-Suárez & Crespo-Tejero 2021; Kičová et al. 2023).

This finding is consistent with the Balanced Scorecard (BSC) literature, which warns that financial metrics disconnected from customer value creation may fail to capture long-term competitive outcomes (Kaplan & Norton, 1996). In contrast to studies that treat CP as a cost-efficiency measure, the present study reframes the problem as a misalignment between KPI design and strategic growth objectives, particularly market share expansion.

Stages 2 and 3: Defining Objectives and Formulating Policy Alternatives

Considering the formulation of existing problems, the objective of this study will focus on what alternative key financial performance indicators are needed so that corporations have the ability to accelerate market share growth through the acquisition of new business from both existing customers (Existing to Bank) and new customers (New to Bank).

The response to these issues and objectives can be achieved through two alternative approaches. The first proposal is to implement Business as Usual based on the current financial performance indicator (Status Quo), namely Unit Profitability. The second proposal is to optimize the financial performance indicator Customer Profitability (Customer Income) at the Board of Directors (BOD) level and cascade it down to the Divisional level to accelerate business growth through new business acquisitions.

The first alternative means leaving the current situation as it is with the existing Key Performance Indicator policy. Meanwhile, the second alternative aims to focus and optimize the Customer Profitability (Customer Income) performance indicator to drive share of wallet growth through new business acquisitions, thereby achieving the ultimate goal of becoming a Ring-1 customer.

The study's findings demonstrate that firms adopting CP at the corporate level exhibit a stronger organizational focus on high-value customers and improved coordination across business units. These results extend prior CLV-focused research, which emphasizes long-term customer value but does not explicitly integrate CLV logic into corporate KPI systems (Venkatesan & Kumar 2004; Kumar et al. 2006). Thus, the objective of the intervention aligns with CLV theory, operationalized through CPA at the organizational level.

Stage 4: Cost–Benefit Analysis of KPI Alternatives

The fourth stage of the Regulatory Impact Assessment evaluates the relative costs and benefits of maintaining Unit Profitability as the primary financial KPI (status quo) versus adopting Customer Profitability as a corporate-level Key Financial Performance Indicator.

Comparative Conceptual Assessment

From a conceptual perspective, the second alternative adopting Customer Profitability has greater benefits than costs (weaknesses) compared to the first alternative in the context of accelerating market share growth. While Unit Profitability is important for ensuring operational efficiency and profit margins, but Customer Profitability provides deeper insights into customer value and helps companies make more strategic decisions for long-term market share growth his reasoning is consistent with the Balanced Scorecard framework, which emphasizes the alignment between customer value creation and financial performance outcomes (Kaplan & Norton 1996). Importantly, the two indicators are not mutually exclusive. A combined approach can provide a more comprehensive view of financial performance where Unit Profitability ensures efficiency discipline, and Customer Profitability drives customer-centric growth.

Prior to examining the observed performance outcomes, a structural comparison of the two KPI frameworks is required. The divergence between Unit Profitability and Customer Profitability represents two distinct measurement regimes that embed different incentive structures and strategic priorities within the organization. In economic terms, these regimes influence how value is attributed, how capital is allocated, and how growth drivers are internalized. Such differences may generate heterogeneous expansion trajectories at the aggregate level. The following comparative framework

outlines the analytical dimensions through which each KPI alternative potentially transmits its impact on market share growth.

Tabel 1. Characteristics of Financial Performance Indicators

Aspect	Unit Profitability	Customer Profitability	Impact to Market Share	
			Unit Profitability	Customer Profitability
Focus	Profitability of products or services produced by a business unit	The profitability generated from each customer or customer segment.		
Measurement	Unit revenue minus direct and indirect costs associated with production or service.	Revenue generated from a customer minus the costs associated with serving that customer (acquisition, service, marketing, etc.)		
Perspective	Internal: Assess operational efficiency and cost management within the unit.	External: Assessing the value of customers to the company and identifying the most profitable customers.		
Purpose	Increasing unit profit margins and optimizing resource utilization.	Increase customer loyalty, retention, and cross-selling/up-selling to maximize long-term customer value.		
Decision Making	Pricing, product development, operational efficiency.	Customer segmentation, marketing and sales strategies, personalized customer service, and resource allocation.		

Sources: Authors' analysis.

As explained in Table 1, both are important and have their own characteristics and objectives, but Customer Profitability has a more direct and strategic impact on the company's market share growth for the following reasons. First, Focus on Customers. Customer Profitability enables companies to understand the value of each customer and customer segment, allowing companies to 1). Focus resources on the most profitable customers. 2). Develop more effective marketing and sales strategies to attract and retain high-value customers. 3). Increase customer loyalty and reduce churn (termination of the relationship). 4) Increase positive word-of-mouth and new customer acquisition. Second, Personalization and Retention. By understanding the different needs and preferences of customers, companies can personalize products, services, and customer experiences, thereby increasing satisfaction and loyalty. Loyal customers tend to stay longer, make repeat purchases, and recommend the company to others, contributing to market share growth. Third, Marketing Efficiency. Customer Profitability helps companies allocate their marketing budgets more effectively by focusing on the channels and campaigns that are most effective in reaching and acquiring profitable customers. Fourth, Competitive Advantage. Companies that understand Customer Profitability have a competitive advantage because they can make more informed decisions about 1). Pricing. 2). Product development. 3). Customer service.

Empirical Comparison: Market Share Performance (2014–2024)

To move beyond conceptual reasoning, the analysis proceeds to an intertemporal performance comparison between the two banks operating under different KPI structures. If KPI design functions as an internal governance mechanism affecting strategic alignment, its effects should be reflected in sustained differences in market share accumulation over time. By comparing multi-period market share indicators across key financial variables, this study evaluates whether the alternative KPI regimes are associated with heterogeneous growth outcomes.

Table 2. Market share performance comparison between Bank AA and Bank BB (2014–2024)

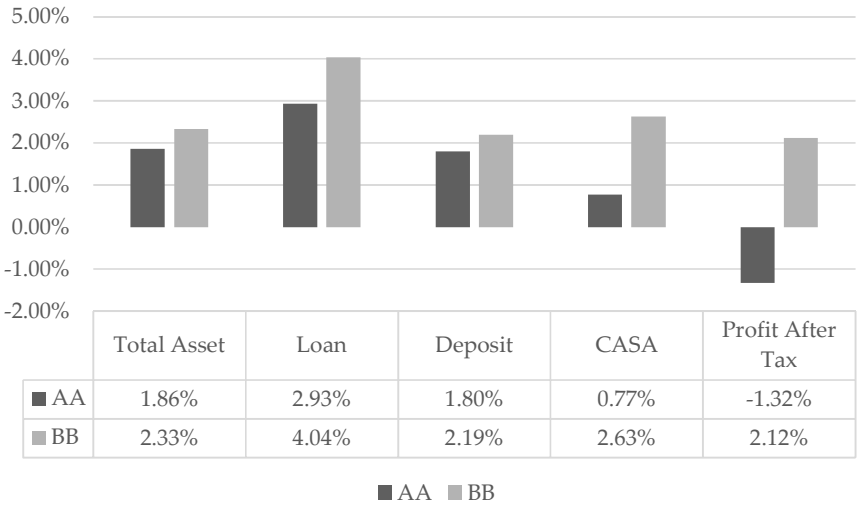
Indicator	Bank	Market Share 2014 (%)	Market Share 2019 (%)	Market Share 2024 (%)	Market Share Changes	
					2014 - 2024	2019 - 2024
Total Asset	AA	7,42	9,88	8,92	1,50	-0,96
	BB	15,23	15,39	19,17	3,94	3,78
Loan	AA	7,55	10,25	10,08	2,53	-0,17
	BB	14,61	16,67	19,17	4,56	2,50
Deposit	AA	7,63	10,24	9,12	1,49	-1,12
	BB	14,87	15,56	19,17	4,30	3,61
CASA	AA	9,32	12,00	10,06	0,74	-1,94
	BB	15,32	17,87	17,72	2,40	-0,15
Profit after Tax	AA	9,61	9,83	8,41	-1,20	-1,42
	BB	14,87	17,56	21,86	6,99	4,30

Table 2 shows contrasting market share dynamics between Bank AA and Bank BB over the period 2014–2024. Bank AA, which applies a Unit Profitability approach, experienced moderate growth during 2014–2019 but subsequently showed stagnation or decline across several indicators after 2019. For example, its asset market share increased from 7.42% in 2014 to 9.88% in 2019, but declined to 8.92% in 2024. Similar patterns appear in deposits and CASA, where market share decreased between 2019 and 2024. Profit after tax also declined from 9.61% in 2014 to 8.41% in 2024, indicating weakening profitability competitiveness over time. These patterns suggest that while a unit-based profitability focus may improve short-term efficiency, it may not sustain long-term expansion in customer base and funding franchise.

In contrast, Bank BB, which adopts a Customer Profitability orientation, demonstrates consistent market share expansion across all major indicators. Asset market share increased from 15.23% in 2014 to 19.17% in 2024, while loan and deposit market share also grew significantly during the same period. Most notably, profit after tax market share rose sharply from 14.87% to 21.86%, reflecting stronger profitability growth alongside balance sheet expansion. This pattern suggests that a customer-centric profitability strategy, which emphasizes long-term customer value, cross-selling opportunities, and deeper relationship banking, may provide a more sustainable pathway for market share growth compared with a unit profitability approach.

CAGR-Based Growth Interpretation (2014–2024)

The CAGR results strengthen the inference that the performance divergence is not merely cyclical but structurally embedded in the banks' strategic orientation. Sustained compounding growth in assets, loans, funding base, and profitability suggests that Customer Profitability-based KPI adoption is associated with more efficient capital deployment and customer-level value extraction. While this study does not claim strict econometric causality, the longitudinal consistency of the growth differential supports a plausible strategic linkage between KPI design and market share acceleration.



	Total Asset	Loan	Deposit	CASA	Profit After Tax
AA	1.86%	2.93%	1.80%	0.77%	-1.32%
BB	2.33%	4.04%	2.19%	2.63%	2.12%

Figure 3. CAGR of Market Share for Bank AA and Bank BB (2014–2024).

Figure 3 presents the comparative Compound Annual Growth Rate (CAGR) of mar-ket share for Bank AA and Bank BB across five key financial indicators over the 2014–2024 period: Total Assets, Loans, Deposits, CASA, and Profit After Tax. The results indicate a consistent growth advantage of Bank BB relative to Bank AA across all indicators.

First, in terms of Total Assets, Bank BB achieved a CAGR of 2.33%, exceeding Bank AA's 1.86%. Although the numerical difference appears moderate, over a ten-year compounding horizon this differential translates into a substantially larger cumulative expansion. Second, for Loans, Bank BB recorded a CAGR of 4.04%, significantly higher than Bank AA's 2.93%. This suggests stronger credit portfolio expansion and more effective customer acquisition or penetration strategies. Third, regarding Deposits, Bank BB (2.19%) outperformed Bank AA (1.80%), indicating a more stable funding growth trajectory. The most notable divergence appears in CASA, where Bank BB achieved a CAGR of 2.63% compared to only 0.77% for Bank AA. Since CASA represents low-cost funding, this differential implies that Bank BB strengthened its funding structure more effectively, improving its cost of funds and competitive positioning. Finally, in Profit After Tax, Bank BB demonstrated a positive CAGR of 2.12%, while Bank AA recorded a negative CAGR of –1.32%. This divergence is particularly significant because profitability reflects not only expansion but also financial sustainability. The negative growth rate for Bank AA indicates declining relative profitability within the industry, whereas Bank BB strengthened its competitive earnings position

DISCUSSION

This study evaluates whether Customer Profitability (CP), when institutionalized as a corporate-level Key Performance Indicator (KPI), is more effective than Unit Profitability in accelerating market share growth. Using the Regulatory Impact Assessment framework, the findings suggest that KPI architecture operates as an internal governance mechanism that influences managerial incentives, capital allocation, and long-term competitive positioning. This interpretation is consistent with the Balanced Scorecard framework (Kaplan & Norton 1996), which emphasizes that financial outcomes are strengthened when customer value creation is structurally embedded within performance systems. While Unit Profitability promotes operational efficiency and margin discipline, it reflects an internally oriented measurement logic. In contrast, Customer Profitability integrates financial performance with customer-level value creation, aligning with strategic performance management theory.

The longitudinal market share comparison and CAGR analysis demonstrate that Bank BB, operating under a Customer Profitability-based KPI regime, achieved superior compounded growth across total assets, loans, deposits, CASA, and profitability over the 2014–2024 period. The persistent

growth premium particularly in Profit After Tax suggests that embedding customer-level profitability metrics into corporate governance structures enhances long-term value extraction. These findings are consistent with Customer Lifetime Value (CLV) theory, which argues that sustainable profitability depends on managing acquisition, retention, and expansion across high-value customers (Pfeifer et al. 2004; Venkatesan & Kumar 2004). Unlike prior studies that treat CLV and Customer Profitability Analysis (CPA) as operational analytics tools, this study shows that elevating CP to the corporate KPI level institutionalizes customer-centric value logic within strategic decision-making processes.

The results also align with industrial organization and Entry–Exit Strategy literature (Besanko et al. 2013), which emphasizes selective resource allocation toward economically attractive segments. By identifying high-value customers and supporting cross-selling and bundling strategies (Greppi & Menicucci, 2021), CP enhances ecosystem penetration and share-of-wallet expansion. The stronger CASA growth observed under the CP regime further indicates improved funding structure and cost-of-funds advantages, reinforcing competitive positioning in the banking sector. In this sense, KPI design functions as a strategic control variable influencing market share accumulation dynamics rather than merely reporting past performance.

Although the qualitative design does not establish strict econometric causality, the ten-year compounding growth divergence provides convergent evidence that KPI structure may generate structural rather than cyclical performance differentials. This extends prior literature by empirically comparing alternative profitability regimes at the corporate level and by repositioning Customer Profitability from a diagnostic metric to a financial governance mechanism capable of shaping long-term competitive expansion.

Managerial Implications

This study has policy implications, providing a strong basis for proposing organizational policies and a Customer Profitability Analysis model that is more customer-oriented. The objective of the research is to produce policies that will optimize the implementation of the proposed Customer Profitability model. In other words, trend analysis provides data that supports the argument that corporations need to adopt an approach that is more focused on Customer Profitability performance indicators for new business acquisitions that have an impact on increasing market share, which directly supports the research objectives.

This study provides managerial implications by demonstrating that adopting Customer Profitability (CP) as a corporate-level KPI requires not only analytical capability but also strong organizational governance to effectively support market share growth. The findings suggest that CP should be institutionalized as a strategic performance indicator rather than treated merely as an operational metric.

First, top management commitment emerges as a critical success factor. Prior performance measurement literature emphasizes that strategic KPIs influence organizational behaviour only when actively supported and enforced by senior leadership (Kaplan & Norton 1996; Lueg & Ilieva 2024). Without such commitment, CP risks remaining an analytical tool with limited strategic impact.

Second, the implementation of CP-based KPIs should be integrated with risk management and compliance functions. The literature indicates that customer profitability–driven strategies, if not accompanied by adequate risk controls, may encourage short-term profit orientation and regulatory exposure, particularly in regulated industries such as banking (Méndez-Suárez & Crespo-Tejero 2021). Integrating CP within enterprise risk management frameworks ensures that customer acquisition, cross-selling, and retention decisions are aligned with both profitability and risk considerations.

Finally, these managerial actions are theoretically grounded in the CPA–CLV–Balanced Scorecard framework. CPA provides customer-level profitability insights, CLV offers a long-term value perspective, and the Balanced Scorecard explains how corporate-level KPIs align organizational behaviour with strategic objectives. From an entry and exit strategy perspective, institutionalizing CP as a corporate KPI enables firms to allocate resources more effectively across customer segments, supporting sustainable market share growth.

CONCLUSION

The key financial performance indicator Customer Profitability is more appropriate for market share growth because the Customer Profitability performance indicator has proven to be more effective in driving accelerated market share growth compared to the Unit Profitability indicator. This is due to the advantages of Customer Profitability in focusing on customers, personalization and retention, marketing efficiency, and competitive advantage.

The main financial performance indicator of Customer Income needs to be applied at all strategic levels of the organization. The financial performance indicator of Customer Profitability (particularly Customer Income) needs to be applied at the Board of Directors (Corporate-Wide) level and cascaded down to the divisional level. This aims to accelerate business growth through new business acquisitions.

The policy implications of this research provide a strong foundation for proposing organizational policies and a Customer Profitability Analysis model that is more customer-oriented. In other words, this research concludes that companies need to shift from an approach that focuses solely on Unit Profitability to a more comprehensive and customer-focused approach (Customer Profitability) to increase market share, especially through new business acquisitions.

Limitation

This study recommends that firms institutionalize Customer Profitability (CP) as a strategic Key Performance Indicator at the Board of Directors level and cascade it throughout the organization, including divisional and relationship management levels. From a Balanced Scorecard perspective, elevating CP to the strategic level aligns financial and customer dimensions, ensuring that organizational behaviour consistently prioritizes long-term customer value rather than short-term unit margins.

To support this strategic shift, companies should evaluate and redesign their chart of accounts to explicitly link customer accounts with relevant profitability drivers. Grounded in Customer Profitability Analysis (CPA) theory, this restructuring enables more accurate cost-to-serve measurement and facilitates integrated analysis across parent accounts, subsidiaries, and corporate partners. Such visibility is essential for understanding customer ecosystems and for making informed entry, expansion, and exit decisions.

Furthermore, firms should implement an integrated corporate-level information system that functions both as a Management Information System (MIS) for executives and as a decision-support toolkit for Relationship Managers. Consistent with CLV theory, this system should enable forward-looking account planning, support cross-selling decisions, and facilitate interactive negotiations based on Tactical Account Plans, thereby translating analytical insights into actionable customer strategies.

Effective implementation also requires continuous training and capability development for Relationship Managers, particularly in applying CP-based KPIs and interpreting customer income and profitability metrics. The literature emphasizes that custom-er-focused performance systems deliver value only when supported by appropriate managerial competencies and incentive structures.

Finally, organizations should realign their corporate strategy management processes to embed CP-based KPIs into strategic planning, performance evaluation, and governance routines. From an entry and exit strategy standpoint, this alignment ensures that customer acquisition, retention, and divestment decisions are guided by long-term profitability considerations, ultimately enhancing market share growth, customer retention, and sustain-able financial performance.

This study has limitations because it uses a qualitative comparative case study approach that only covers two national commercial banks, it would be more representative if additional banks with similar characteristics were included. In addition, this study has not examined the operational and organizational risks that may arise from the application of Customer Profitability as a KPI at the corporate level, including obstacles to information technology system integration.

Supplementary Materials: The data that support the findings of this study are available from the corresponding author upon reasonable request. Due to confidentiality agreements with the

participating organisations, the data are not publicly available but can be shared in anonymised form for academic purposes.

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Institutional Review Board Statement: This study was conducted as part of a PhD dissertation project at the School of Business, IPB University, under institutional supervision. According to an official statement issued by Research Ethics Committee IPB University (Ref. No. 44/IT3.S2/PK.01.06/M/B/2026, dated 2 January 2026), this research did not involve clinical or experimental procedures, nor did it involve human subjects in the sense of interventional or experimental research, or the collection of personal or sensitive data. The interviews conducted were expert interviews focusing on organisational policies and institutional practices. Therefore, in accordance with institutional policy, no additional ethical approval was required.

Informed Consent Statement: Any research article describing a study involving humans should contain this statement. Please add "Informed consent was obtained from all subjects involved in the study." OR "Not applicable." for studies that did not involve humans. You might also choose to exclude this statement if the study did not involve humans. Written informed consent for publication must be obtained from identifiable human participants. For studies involving client-owned animals written informed consent must be obtained from the owner of the animals (or an authorized agent for the owner).

Data Availability Statement: The data that support the findings of this study are available from the corresponding author upon reasonable request. Due to confidentiality agreements with the participating organisations, the data are not publicly available but can be shared in anonymised form for academic purposes.

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Abbreviations

The following abbreviations are used in this manuscript:

UP	Unit Profitability
CP	Customer Profitability
CPA	Customer Profitability Analysis
CLV	Customer Lifetime Value

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