

Customers: Separating Good from Bad

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I'm reviewing 2005, and thinking about what my company will do in 2006. We sell services to homeowners, and are in our 5th year of business. I'd like to know if it is important to actually have a plan to grow more of the best customers, or does it happen automatically? Should I try to wean away worst customers or keep all customers regardless?

Great that you are planning for 2006. Even better, to be thinking about who you want to do business with, in the coming year. If you want your business to grow you have to have a plan. Very little growth is automatic. Here are a few things to think about. Customers are a scarce resource, but keeping bad customers is usually not a good idea. You need to find out who are your best customers by examining your business, defining what works best for your company, and defining where to look, and how to acquire more of your best customers. Taking that route is likely to insure profits and growth, as well as a stable business in the future.

Finding and keeping loyal customers who value what you do begins with understanding and anticipating customer needs. Watch that your short term actions lead to long term customer relationships. Balance short term needs with long term returns. Sometimes good customers are made, not found. Look for customers who are

going to stick with you, value what you do, help you build your company for the future.

Look at your company, product, service from your customer's point of view. Try to understand their needs and put yourself in their shoes. Ask your customers what they want from you. Focus on what you do currently, then ask about what you could provide but don't now. Check out your database. See if customers fall into different categories. Think through how you could adapt your service, or create a service, for each different group. Try to fit customers into 4 categories: new customers vs. existing ones, customers buying existing products vs. those who want new services. Existing products are the present, new services are the future of your business. Existing customers buying existing services are today's revenue. Customers who want to help you develop new products and services are going to create revenue for your business 2- 5 years down the road.

Now, let's talk about which customers to keep, and whether or not to let go of some. Keeping "bad" customers is not always profitable. Most business owners find that 20% of their customers generate 80% of the company's profits. Note, I said profits, not volume. Evaluate which customers are high demand, but willing to pay for the demands they place on you, vs. customers

who always want something for nothing. Be prepared to treat customers differently, based on their ability to value and pay for the services you provide. Even though you can see the value in what you provide, it is only once the customer is willing to reward you for that value, that you have a great customer.

Recognize that bad customers waste time, energy, resources, while they frustrate & drain employees. When staff morale goes down, that's going to cost you time, money and effort to fix. Don't let your customers do that to you. Some customers need too much care. They complain and haggle. They irritate. They don't know how to say thank you. They are not willing to deal with the reality that it's a two way transaction, where you both have to profit. As quickly as you can, figure out how to replace those complainers with customers who can appreciate what you do, and are willing to pay a reasonable fee for your services. When bad customers are identified, wean yourself off of them. You may be doing them a favor. At the very least you will give the burden of serving them to a competitor.

Remember, additional revenue does not always equal profit. Look at the demographics of your customers, and develop a profile of your best customer. Ask questions about their business: Are they profitable and growing? What is their average order size?

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How frequently do they order? What is their return rate? Do they pay on time? What kind of service level do they require? Are they strategically important? Are they a low or high volume customer? You can use surveys, data bases, questionnaires, to get at the information you need. Ask your employees what they think, who they would like to keep and get rid of. Ask your accountant the same question. Focus on individual client profitability by building a model to evaluate the costs and profit generated by each client.

Once you have a list of best customers, start answering the following questions. What is important to them? What did they see in your business that brought them to you in the first place? In what ways could your business improve to better meet their needs? In what areas could you increase the amount of business your company does with them? What do their future growth plans have to do with your future growth plans?

Now, examine your own business. Are there any activities that do not add value to customers? What faults exist within the business that might turn a customer away? How can you get more efficient, or otherwise maximize resources to better serve your best customers, and generate even more profit at the same time?

Finally, take a look at how many customers you need, in order to achieve growth in 2006. Figure out how much your good customers will contribute to 2006, and how many new customers you need. Define a plan to get those new customers, through marketing, sales, and word of mouth. Remember, each customer that you get in the first half of the year can probably produce twice as much revenue and profit as customers you get in the second half of the year. Figure out how many additional customers you would need, in order to replace those customers who are on the "bad" list. Prioritize the list of bad customers, so you can work your way through firing them, as you bring on new business. It is all about having a game plan, that you and your employees can follow.

Looking for a good book? Try *Customer Service Nightmares: 100 Tales of the Worst Experiences Possible, and How They Could Have Been Fixed*, by Nancy J. Friedman.

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