

# Identifying Profitable Customers

## Expanding Your Business Through Selective Relationships

by Ronald E. Lang

Customers are your lifeblood. Many businesses do not support, do not have solid relationships and do not have profitable situations with their customers. This is the reason why companies do not grow, flourish and expand beyond the walls they currently reside in.

Many people identify their best customers by how much revenue they get from them during the year, but are they profitable? In many situations the most profitable customers are the bottom third in revenue. They do not ask for discounts as often and do not require as much support as larger customers.

Since customers are your lifeblood, let's create the analogy that "unprofitable" customers are like bad cholesterol in your bloodstream. They clog up cash flow to the vital parts of the business and reduce energy to the areas that need it most. For example, if some of your best engineers are working with clients on issues outside of your support contracts, are you billing them? If they are working on issues that never seem to go away and keep coming back up, are you discussing options with your clients?

There are many ways to identify

profitable and unprofitable customers, and we will explore a few methods that you can use today. One way Jay Armand, president of Advanced Audio Visual located in West Chester, PA, identifies profitable customers is, "We analyze the 'life-cycle potential' of any account, to identify potentially profitable customers. I have often said that the one investment we made in our Job Costing software was the best ever made but, the next best investment would be to buy one for my competitors." This is a great statement because Armand only takes on business that will be profitable and have a long-standing relationship with Advanced Audio Visual.

One method to try is the "80/20/30 Rule." Everyone understands the business rule that 80 percent of your business comes from 20 percent of your clientele. The "80/20/30 Rule" means that 80 percent of the cost to "retain" your clients comes from the bottom 30 percent of your clientele. The operative question is "How do you identify those 30 percent?" Below are some areas to consider when scoring your customer base:

- Total Revenue (non-support contract related)

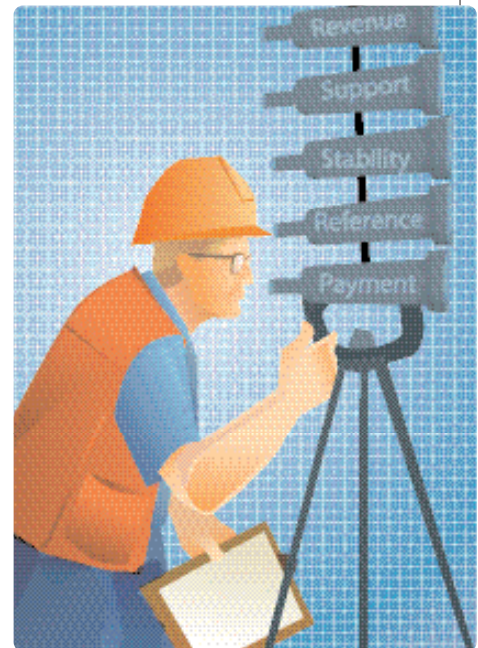
- Total Revenue (support contract related)
- Total number of support calls (legitimate)
- Total number of support calls (ongoing issues caused by the customer)
- Do they pay on time?
- Are they financially stable?
- Does the customer bid most/all its work?
- Are they "referenceable"?
- Is the potential revenue (12 months and beyond) more than 50 percent of the last 12 months of revenue?

Assign a score to each of the questions above for each client. Remember your score should be from -5 to +5. For example, when you list out your clientele by "Total Revenue (non-support contract related)" you might break it down by fifths. The top fifth gets a score of +5 and each group below gets a one point lower score as the bottom fifth get on a +1 score. Conversely, your list of clientele for "Total number of support calls (ongoing issues caused by the customer)" you would assign a negative score. If the customer is "referenceable" they get a +5, if not "referenceable," then assign them a -5.

Come up with scoring that makes sense to you and your business. This might be time-consuming, but the information should be easily accessible from your sales and financial software systems.

Another route you can take is less qualitative from your software systems. Deborah Ingram, director of marketing for Spinitar in Santa Fe Springs, CA, identifies profitable clients by, "knowing customer data, Hoovers profiles, understanding their financials, corporate structure, major strategic initiatives tells you

what they deem as important and where they are focusing their attentions. Their financials tells you a lot about how the business is doing and if they have the money to even spend on a product or service." The point drives home the fact about financial stability. Nobody needs a reminder of the business climate from the middle of 2000 to 2003. The financial facts on the state of the customer and their strategic initiatives, you now can develop a course of action to develop and/or strengthen



your relationship with them.

If customers are bleeding you of your resources and a tourniquet is required to stop the hemorrhaging, then it's time to make a decision.

It is important and paramount to your success that if your profitable customers are not doing much business with you, then resuscitate them and turn them into a client that scores well and is in your top fifth group. If customers are not profitable, take them off life support and let them be unprofitable for your competitor.

Information is knowledge, knowledge is power, and power is execution. Our company tag line is: "It's all about more sales and keeping more clients." Make your company successful by only working with clientele that is good for your success.

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