

CRM Sobriety

Building On Past Success To Build Profit Margins

by Ronald E. Lang

The holidays are over and now it's time to realize what's in front of us this year. Have you planned accordingly for a business development push? Many companies find very little if any time to plan for business development efforts for the following year. Some companies will just cross out the last year on their business development plan and change it to this year. Some justify the lack of planning with the following statement: "Since last year wasn't too bad, why not do the same for this year?" The reason: people and companies change. You might not change your sales process if that is working well, but your messaging and lead generation efforts should always be fine tuned. If last year was a good to excellent year for you, are you drunk with complacency?

Let's try and analyze this phenomenon. CRM (customer relationship management) is about increasing the positive experience working with your company. As things change and evolve in the marketplace, what technology do you have in place that can evolve with change? What tools and resources do you have in place to strengthen relationships with your customers? Many mainstream thinkers are looking at existing customers, not new or potential customers. Existing customers provide the highest profit margin and the greatest chance of expansion because the trust has already been established. Trust is a huge factor and will ultimately end up either winning or losing a sale. Same goes for existing clients, if they don't trust you anymore, they will go elsewhere.

So last year was better than expected and the reality of the "new year" has not sobered you up yet. When do you like to plan? Who else in your company do you or should you include in that planning process? Have you ever performed an analysis on your clientele and your expectations for new clients? Forecasting is an art, not a science. Any specific formulas that you wish to apply should not be considered for precise resource planning purposes.

Planning for future revenue from existing customers is somewhat easier than for new clientele. Customers tend to run in cycles. If they are on a service contract that is coming due, anticipate at least an 80 percent renewal rate on those contracts. We realize that many of you are greater than 95 percent, but when forecasting, you should always be pessimistic. If you are less than 80 percent renewal rate, you need to completely overhaul your customer service department. Attrition will happen, it is inevitable, but losing more than 20 percent of your customer base is a huge problem. As you know, many of these customers that went elsewhere for

what they deemed a better deal or better service will come back if you want them. Remember, only take on and take back customers that are profitable. Once they are back, they make even better references since they had worked with a competitor previously. Make sure you track that in your CRM system. Take the total amount of existing customer revenue from last year (not including service contracts) and multiply that by 30 percent. This should be the baseline of minimum revenue you should expect from your existing clients. Based on the clientele you have, this might be less, but many companies are experiencing greater than 50 percent from their existing customers. While that is a reality some currently experience, at some point you need to add new clients. Take your average existing customer revenue plus the expected 80 percent renewal rate on your service contracts. That number should be a solid number to plan some support and operations people. The tougher job is to figure out what the company needs to develop for new business and plan accordingly.

New business comes from a variety of areas. Some from advertising, lead generation calling efforts, some direct mail, email broadcasting, industry publications, trade shows, alliances and referrals.

Have you considered outside-of-the-box ideas? For example, put on a "Customer Conference" and invite manufacturers there to review the latest and greatest technology. Remember many customers cannot make the national trade shows or send more than a handful of people. Another example would be "training" or "certification" workshops. This would help strengthen relationships with your clients. Some of these events you could charge for, but you might see huge dividends if you charged a nominal fee or nothing at all. For prospective customers, invite them to your "Customer Conference." Let them talk to your customers and here their experiences working with you. You can't pay for that level of advertisement. Invite prospective customers to a client site that would be comparable or larger in size and scope to their future prospect. They get a chance to see your quality of work and speak to a reference first hand.

Ronald E. Lang (rlang@majestictechnology.com) is president of Majestic Consulting Group, developers of AVLogix sales and customer service automation software.

» MARGIN BUILDERS

Have you tracked where your business comes from and how much revenue you get from each source? Focus on several sources of business and initially focus on strengthening the top three. This is to see how those sources perform this year in order to plan for next year. Take the next three revenue sources and develop a plan to expand those initiatives.

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