Leadership Insight

# Are your customers ruining your business?

By Andrew Hall

## Are your customers ruining your business?

'What is that all about?' you might ask. 'If we didn't have our customers, we wouldn't HAVE a business', we hear you say. So far so true. However, is every customer you have a good customer?

What makes a good customer? They give you the right profit margins, supporting your long term growth objectives and are inspiring to deal with.

When have you last looked at the **real value and cost** of each of your customers to your business?

Over the years we have worked in and for a whole range of different types and size of businesses, in many different sectors and countries. In many cases those businesses didn't really know how valuable/costly each of their customers was to them and - what is almost worse - they didn't know how valuable/costly they were to their customers.

In the course of assisting these businesses with this analysis, we have come across quite a few different scenarios, as you might imagine. We have also found quite a few similarities in those scenarios.

This has led us to distil them into 5 customer types, which we are describing below. Have a look and see whether any of them resonate with you.

## 1. Can't live without them – but we'd like to

***Likely characteristics:***
They provide a significant % of revenue and/or their work occupies a significant % of your resources; you treat them as a "favoured" client **–** and they play on that; they are a pain in the a*** to work with; they don't value what you do for them; they always squeeze you for lower prices (& you give-in).

***What you need to do:***
Do you know how much of your profit comes from each client/customer? Do a thorough analysis of what it **really** costs you to do business with this customer.

How much time and effort do they take to maintain – from sales, finance, maintenance, technical support….etc? How much discount do they get on every order? By which we mean identifying all those things you have agreed to do that were perhaps not in the original contract or scope of work. Also, account for those additional support activities, reports, reviews, etc. that have gradually crept in and were omitted from your price calculation. Now you **really** know how profitable they are for you.

Decide if you are getting an acceptable return from their business.

***If they are worth it:***

Work on how to develop a more productive relationship with them.

***If they are not worth it:***

You need to get out of there – so plan your exit. That may hit your revenue in the short-term, but it won't do any serious damage to your profitability.

***Result:***

You know which clients of this type you really want to retain and develop and which you must cut loose. Consequently you can re-focus your resources on more valuable business and your staff will, almost certainly, breathe a sigh of relief!

## 2. No trouble – but no growth and wouldn't notice if they went away

***Likely characteristics:***

They are a relatively small % of your business; they are easy to do business with; you don't make much profit from them; they were one of your earliest customers and they come back to you now and then.

***What you need to do:***

Do an annual review of these customers and decide if you can afford to continue doing business with them in the future – i.e. do you get a good enough return? This might be in terms other than profit – such as reputation, referrals, testimonials and so on.

***If they are worth it:***

You now know why and you can match your resource commitments to match their value.

***If they are not worth it:***

You now have a very good reason to discontinue business with them and, in all likelihood, they won't be difficult to replace with better value clients.

***Result:***

You have an important additional step in your business planning process – deciding what you are NOT going to continue doing. This will immediately release resources, at no additional cost, to apply to new opportunities and growth.

## 3. Wish they would never come back – but they don't go away!

***Likely characteristics:***

They are difficult and demanding; you have tried to price yourselves away from them – but they always accept the higher costs; you make a good margin on their business.

***What you need to do:***

Conduct a thorough assessment of the value they bring to your business and, if possible, the value you deliver to them. The latter can be difficult, especially if it relies on your customer sharing with you the value they derive from your products and/or services. However, it's a worthwhile investment for you to make if it helps to be recognized for delivering high(er) value. If you make good profits from a client and they don't know or recognize the value you are delivering to them, they will not be a good client for the long term.

***If they are worth it:***

Seek a dialogue with them based on how you might work differently together. That means telling them a few home truths and also being willing to understand where they are coming from first.

***If they are not worth it:***

Tell them that you don't wish to continue doing business with them and why. Be prepared for them to be shocked and, potentially (depending on how much they value what your products/services do for them) to seek ways of remedying the situation (i.e. they may become worth it after all - see above).

***Result:***
You will have stopped avoiding difficult conversations with difficult clients and discovered how much better it is for your business when you focus on working only with the right clients in the right way.

# Get in touch don't go away!

If you are interested in discussing the content of this White Paper in more detail, or would like to talk to us about your competitive challenges, please get in touch with us:

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