

Wisdom for Wednesday

Positive messages for daily living. Pass on the good feeling – forward this to your clients so they can reap the benefits as well.

Are all your customers equal? ...

When you are up to your ears in activity – busy with all the practical concerns of running your business, orders are coming in and at a glance cash flow looks OK, the question: “Who are your valuable customers?” sounds like a no-brainer. You’d probably answer: those who buy the most. And therein lies the trap. Perhaps the question is better posed as: “Who are your invaluable customers?” Invaluable clients are those who may have a critical (positive or negative) effect on your business performance. And you really need to know the difference.

This analysis identifies which clients are invaluable and why. It also enables you to forecast your sales and margin targets more accurately. Equally important, you will have clear objectives for building, maintaining and growing relationships with some clients, removing others from your database, and targeting new prospects. Sort the wheat from the chaff and have clear priorities.

Basic analysis: the 80/20 Rule

- 20% of your clients represent approximately 80% of your revenue.
These are your valuable clients – learn more about them.
- 20% of your clients will cause approximately 80% of your debts or problems.
These are your dangerous clients – tighten the terms and conditions immediately and consider getting rid of them.

It is essential to identify these two categories of clients as both can have a particularly strong impact on your business profitability. They have the capacity to make or break you.

More in-depth analysis: Is this client profitable to me?

Examine your (supplier) invoices (or client ledgers). Use this information to analyse the profitability of each client. Gather data that shows the range of products or services they purchase from you. Look at the margin on each item: note which are low, medium or high; next look at the volume purchased and the buying frequency. Profitable clients will be those who purchase high margin, high price items on a regular basis.

List clients on a chart: show amount purchased, margin, and frequency – then put an asterisk next to regular purchasers. These clients are a crucial part of your profitability and are crucial to maintaining cash flow.

Are they a ‘low maintenance’ client?

The very best of the high margin/high volume/regular order clients will be those that are ‘low maintenance’ to service. They are accurate, congenial and communicate constructively; their requirements fit easily with your systems; you have developed a sound rapport with them and any problems are solved swiftly and to the satisfaction of all parties.

Will they remain a highly valuable client?

Make it your business to know about your high value clients. Study ways their business and yours complement each other. Maintain a win-win arrangement for both parties. If you keep your most valued clients close to you then you will be in a position to know if or when they are likely to have a reduced need for your product or service. Forewarned is forearmed – you can prepare other alternatives or adapt and move into new areas alongside them.

And Finally ... Find a way to reward them for their loyalty. Give to get – it’s an investment.

Lynette Davies