

## *The Best, the Worst, the In-Between*

### **Can Your Customer Base Pull You Through?**

After more than a year of recession, marked by an unrelenting contraction of manufacturing activity, many hope the U.S. economy will improve this year. But most experts predict a longer and deeper downturn than any since the 1930s.

Whatever its ultimate depth and duration, the recession is testing inventory-based companies severely, and greater tests lie ahead. Some companies will fail, while others will stagger through only to emerge too weak to ride the eventual recovery.

And, as happens in every downturn, some companies will adapt and come out stronger. Unfortunately, there's no "Ten-Minute Manager" for this situation. Virtually all manufacturers and distributors must figure out how to boost sales, drive down cost, find credit, plan tax strategy, conserve cash and make other necessary changes.

Beyond these steps, some companies succeed in a difficult economy with a strategy that focuses on their existing customers — and not just the good kind.

#### ***Customers, Profitable and Otherwise***

An old saw says, "the upsell is the cheapest sell." Existing customers require no prospecting, qualifying, or advertising, so the ROI is automatically high.

Especially in hard times, some companies seek, and find, the keys to survival and profitability in their existing customer bases.

These customer-focused companies begin by developing detailed profitability reports on every customer and analyzing the data. They also seek input from employees, because every department has its own unwritten rankings for customers. They know the "perfect fits," whose transactions are always smooth, and the "crazy-makers," who create endless chaos.

With this knowledge, it's possible to identify which customers are golden, which are sure losers and which are somewhere between. Results vary widely, of course, but nearly every company is surprised by how much of its profit comes from the high-scorers and how little from the bottom ranks.

#### ***Golden Customers***

The top priority is keeping the "best of the best." For initial clues on how to keep these clients, review their record of past complaints and returns. How can you make sure these mistakes are never repeated?

Every employee must know exactly who these golden customers are. Clear instructions and meaningful rewards can align the entire workforce to deliver stellar customer service.

#### ***Is There a Clone Out There?***

A thorough analysis of existing customers' profitability can benefit manufacturers and distributors in another way, particularly if they have one or more single-customer niches.

Typically, these customers are intrinsically lower-margin because they demand unique configurations and processes, so it can be tempting to consign them to the loser pile automatically with little hope of change.

But before giving up, it's worth noting that one move can change matters dramatically: finding a similar customer. That alone can lead to immediate production efficiencies, and deliver decent ROI from both customers.

The task then becomes finding new ways to deliver value to these top customers, and this means more than sales reps making more calls to more purchasing offices. Instead, set up a high-level meeting where you go not to *sell* but to *learn*. It's a time for big ears and plenty of questions about their processes, challenges and plans.

A company should also take a close look at its relationship with the customer and explore ways to strengthen it. This type of review will also help protect the manufacturer itself — because business owners find out too frequently that an employee or sales rep has left for a competitor, and taken a key customer along.

To broaden out the relationship, a smart supplier will begin engaging more fully with its customer's employees at different levels — offering more consultation on the shop floor, for example, or working through price quotes together. That's also the best way to learn just how much confidence the customer really has. Does it take for granted that the supplier will fill its orders in full and on time, helping it minimize downtime, deliver on time and remain profitable itself?

A proactive supplier seeks out its customer's pain points. For example, you probably already know a lot about red tape or inefficiencies in the sourcing process. Both parties might save significantly by discussing these issues openly and making improvements. Plus, a competing supplier might be about to walk in with the very same "great new idea" for improving processes.

Meeting every challenge is impossible, but a recession demands a new look at what's possible and what's not.

### ***Less-Than-Golden Customers***

For suppliers and distributors, loser-customers come in many varieties, from the never-loyal to the too-loyal. Certain customers, for example, are extremely loyal to the overly generous deal the supplier offered in hopes of winning more business — which it won, but only at the same lowball price.

Some customers buy only low-margin products. Others create busy work — for both sides — by limiting purchase orders absurdly or demanding separate invoices for every item. Still others generate a flood of returns or demand constant stroking.

On the profitability scale, most of these problem customers will stand somewhere in the middle.

It may be possible to make these accounts vastly more profitable, and even turn some of them to gold. The process to do so is similar to that of enhancing partnerships with golden customers, with two differences. First, analyze the golden customers: *How did they come to be golden? How did we get in so good with them? How can we replicate that?* Second, the supplier can afford to ask more from the customer.

For the customers unwilling to change, the time has come for a decision. A new proposal on pricing is usually the next-to-last step; the last step is either acceptance of higher prices or a gentle farewell. A good end to a bad fit either saves money on resources or frees them to take better care of golden customers.

After implementing this customer-focused strategy, the next step for many companies is to repeat the process to achieve the same goals of retention, transformation or separation — this time with their next-to-golden customers and their almost-zeroes. As these efforts bear fruit, the overall profitability of the customer base will rise.

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