



Are the wrong customers hurting your business?

Read time 2 minutes Executive Brief #6: By Jeffrey Cullen

“The customer is always right” is an old adage that may or may not be true, however “Is this the right customer?” is an even more important question that businesses should be asking themselves.

One of the cornerstones of an effective business strategy is deciding who is your customer, and by exception who is not. Yet I've seen many examples of mid-market companies that fail to answer this question or if they do, fail to stick to their answer at great cost to the company over the long run.

A typical example of this often occurs in manufacturing or production shops where a company is securing large contracts but still services very small jobs and walk-ins the same way they did when they were just starting out. Why?

The reasons vary, but often are based on sentimental arguments about core customers that “gave us our start” or that “small jobs keep the doors open” when times are slow. These reasons may resonate emotionally, but often fail to make sense financially and the math can prove it.

Once an organization has grown to the capacity that allows the handling of large scale projects, the systems and resources within the company (quoting, production, invoicing, administration, etc) begin to incur both variable and fixed costs that make very small jobs (say a \$250 welding job) impossible to complete at a profit if the customer is only charged for labour and materials (even at healthy margins). The costs associated with processing the job simply overwhelm the available margins.

Once the hidden costs associated with disrupting the scheduling, workflow and possible delivery of the larger contracts to accommodate these small (and invariably rush) jobs, the negative impact of this approach is even more significant.

Prominent business author Alan Weiss recommends dropping a certain percentage (say 10%) of your least profitable customers each year in favour of making space for larger and more profitable opportunities.

The most effective ways to accomplish this are to raise the minimum charge for small jobs to a level that adequately covers the actual costs, or to refer these customers to smaller competitors who are better suited to their needs and position your business as a leader in value creation in the market.

So, I urge you to take a long hard look at your customer list and ask the hard question “Is this the right customer?” then act accordingly.

PS. If you're unsure if a customer is right for your business, feel free to contact me at jcullen@basecamp4.ca and we can talk it over.

