Defining Good Customers

I'd like to propose a quick exercise today that will help you to better understand your business. Draw a line down through the middle of a sheet of paper. On the left side of the line, list your three best customers, in order of their importance to your company. On the right side of the line, list the three most important factors you consider in deciding which are "good" customers, and which are not. The point of the exercise is to compare the three customers you've listed to your definition of a "good" customer. If you see any conflict between what you're looking for and what you're getting, I think you'll agree that you have a problem!

Defining "Good" Customers

What criteria did you choose to define a "good" customer? If you're like most printers, you probably started with sales volume. It's just about automatic to consider our biggest customers to be our best ones. But what about profit margins? I'd like to think that a reasonable margin of profit would be one of the factors every printer would choose. After all, the bottom line in your business *is* a healthy bottom line.

I'd be willing to bet that 99% of all printers will have volume and profit as the first two items on their list. The third factor? That will be more of an individual choice. Among the numerous possibilities, I'll suggest such things as loyalty, a reasonable expectation of quality and service, a general ease of doing business with, and good bill-paying performance.

What If?

You have to be able to take a hard, objective look at your current customers—especially the ones you now consider to be your best customers—to see how they compare to your list of "good" customer factors. And what if they don't? Then you have to be willing to do something about it! The key issue here is the profitability of any individual customer. I've been saying for quite a while that there is no such thing as a bad customer; but there may be customers who aren't paying high enough prices to compensate you for the negative factors that they bring to your business relationship.

I hope the solution is obvious to you: If your hard, objective consideration finds that any of your three "best" customers are lacking in terms of profitability, loyalty, a reasonable expectation of quality and service, a general ease of doing business with, or good bill-paying performance, the best step you can probably take is to raise the prices you charge them!

I know that many readers will consider this bad advice. Many printers will be convinced that all you'll accomplish by raising your prices in cases like this will be to lose the customers. But here's the key question: Even in you did lose the customer, would you be better off if you were then able to take the *resources* you were using on the "bad" customer and apply them to the development of a better one? By *resources*, I mean front-end sales and customer service time and effort, production time, and "back-end" administrative and problem-solving time and effort.

If the answer is yes, you can afford to lose that customer! In fact, it's the best business decision for you!

Case Study

Here's an example from my own experience. Some years back, I joined a printing company as VP/Sales & Marketing. One of my first visitors on my first day on the job was the company's estimating/pricing manager, who wanted to tell me that he believed our second biggest customer to be a "bad" customer based on their overall profitability. I challenged him to prove his theory to me with hard facts, and within a couple of weeks, he was able to do that. The decision I made was to increase the prices we charged this customer by about 9%.

Something interesting then happened. When I made the decision to raise prices, I was willing to lose that customer's business. But it didn't work out that way. We only lost half of their business! And the half that they still gave us at higher prices was nearly three times more profitable than it had been. We ended up with the best of all situations: more profit from less of our resources spent on that customer, and significant resources reclaimed to use to develop other customers.

Bottom Line

I hope you'll agree that your company would probably be in better shape if all you dealt with were "good" customers. The good news is that you can turn pretty nearly any customer into a "better" customer if you can increase their profit contribution to your business. The first step is to make sure you clearly understand who's a "good" customer, and who's not. Then *act* accordingly!