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Word to the Wise: Know Thy Customers

If manufacturing and distribution companies had a list of commandments set in stone, one of them would be "Know thy customers."

Customers set the direction of your company. They drive your manufacturing mix and they pay your bills. Knowing each customer's value to your company allows you to proactively and appropriately manage your customers over the lifetime of your relationship.

The fact is, all customers are not created equal. That's why it's smart to engage in a thorough customer assessment to determine which customers are worthy of the most attention and resources.

You Be the Judge

Many elements contribute to the success of a customer relationship. As an owner, you may not be aware of all the nuances that go into each order. To start the conversation, you'll want help from an internal, multi-disciplinary team representing sales, marketing, operations, customer service and accounting.

Discuss each customer from a 360-degree perspective, from sales through production and accounts receivable. Focus on these areas in particular:

- **The hard numbers** – Dig into your costs to determine the profitability of each customer. This requires going beyond standard cost allocation to capture the less obvious expenses associated with the manufacture and distribution of the customer's order. Remember, you're looking for true margin.

  For example, some orders may be easy to fill with standard products and no special adjustments. Others may require special plant processes or delivery protocols that, while not onerous, take more time and effort. Does your pricing reflect the extra work involved?

  Pay special attention to the allocation of overhead costs. It may be that the overhead you think is associated with every order is actually only applicable to certain customers.

- **The soft stuff** – In addition to profitability, other factors put customers on (or off) the A-list. Some customers are terrific to work with. Others, not so much.

  In addition to being profitable, the customers you like doing business with typically pay on time, value your expertise, refer business to you, and/or enrich your company in some other way — by enhancing your reputation by association, for example. Questionable customers may pay late, complain excessively, disregard your guidance or expertise, and/or exhaust your staff.

These "softer" qualities can be important if they positively or negatively impact performance or employee morale.

Create a Ranking System

Once you've gathered all of your data points, give each customer an A, B or C ranking. Then, customer by customer, create a plan to optimize each relationship in terms of account penetration and wallet share.

For example, is there anything you can do to move the B customers up to As, and the Cs up to Bs? What can you do to solidify your A customer relationships and cross-sell more products to them?

The point is to manage your customers according to their potential lifetime value. Ultimately, your A customers should get more attention and resources than your Bs or Cs.

By identifying which customers present the most opportunity for your company and creating a plan to maintain and grow their business, you'll be on your way to better profitability and customer engagement.

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We hope you find this information valuable. We are committed to your success. Give us a call to get started with a customer assessment, or discuss your needs and any other questions or needs you may have as year-end draws near.

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