Thriving in a Hostile Environment

Beachgrass Consulting

Customer-base Management

Customers are a company's assets: they produce revenues over time. Theodore Levitt said that the main objective of any enterprise is to develop customers and retain them.

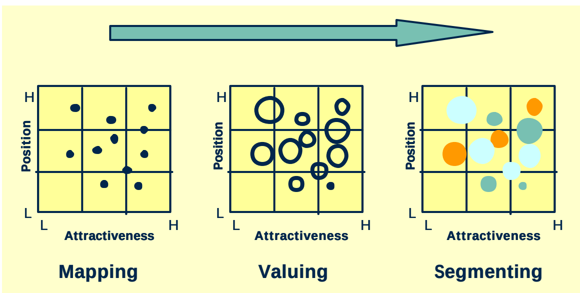
Robert Kaplan's works have shown that, **a large majority of a company's customers destroy profit** and only a small fraction of them generates all the profits, the final one and the one destroyed by the other customers. ABC accounting is a means to identify how much each customer contributes to (or destroys) profit. But it does not tell in which customers the company ought to invest to meet its strategic objectives. It may be worth investing in a customer that today destroys profit, if this customer is a strategic target (physical assets too have to be bought); but it may be not worth it, if that customer is not a strategic target. **How can management know, not only which customers are worth the investment (lost profit), but also how much they are investing to develop them and whether their efforts are fruitful?**

For instance, management could consider the **"attractiveness"** of each of its (main) customers or groups of customers. But how do we define attractiveness? In our opinion, attractiveness should be defined as a set of measurable characteristics that support the company's strategy. These characteristics have to be independent of the relationship between the company and the customer; they should be exclusively based on the customer and be measured with rock-solid yards. For example, a company may consider that rapid growth of the customer's revenues is a characteristic of attractiveness. Hence it should be able to get reliable data about the customer's revenues over time. So defining the parameters of attractiveness is not simply a matter of identifying parameters that will reflect strategy deployment, but also to selecting those parameters that can be reliably and easily measured. Usually one starts with general terms such as "financial stability", or "sales growth", or "market reputation"; the next step is to define a measurement, the components of which can easily and reliable accessed. This will indicate the attractiveness (in terms of strategy) of each customer or target. After this, each parameter has to be weighted with respect to the other ones.

To draw a more interesting picture, it is useful to introduce another dimension. For instance, the position the company has within each of its major customers (contact level, share of wallet, quality of mutual planning, etc.) or, for prospects, the likelihood to develop business with each one (e.g., geographical proximity, cultural (language) proximity, industry in which your company has many references) could be such dimension. The same care has to be paid to the selection of the parameters. However, this dimension's measurements are less objective than for the attractiveness and hence more judgmental; but they nonetheless need to be consistent over time and across customers to avoid distortions.

The measurements of these two dimensions allow drawing a map in which each (main) customer is represented by a dot. At that stage, it is useful to add a third dimension in the form of the radius of a circle around that point to identify the weight. This radius can be proportional to the revenues, the gross margin or even better the **contribution margin** generated by each customer.

To complete this map, one can add colors to the circles to indicate the action plan to address this customer or group of customers (segments).



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