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Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.



When It's Time to Say Goodbye: Cutting Ties with Customers

Have you heard of the Pareto Principle? Italian economist, Vilfredo Pareto, put forth this law during the 19th century stating that 80 percent of the wealth was in the hands of 20 percent of the population. After a couple of adaptations, this principle is known today as the 80/20 rule. Sound more familiar? This rule says that 80 percent of your revenues come from 20 percent of your customers. Frightened? Well, think about this. Could it be that 80 percent of your time is spent producing 20 percent of your profits? To find out, you may need to take a hard look at the composition of your customer base.

Exactly what makes a good customer? Is it the one that writes you the biggest check? Or, could it be the customers that keep their account current? That's a good start, but could there be more to it than that? What about customers that treat you or members of your staff with respect? During difficult economic times like these, you are probably thinking, "Who cares if I have some difficult customers. Despite the aggravation they cause, they help me keep my doors open." Or maybe you are thinking, "I can handle my tough customers. It is far more difficult to cultivate new customer relationships than to deal with existing ones no matter how irritating they can be." If this describes you, it may be time to rethink your position. Beyond this, have you really considered how each of your customers fit into your strategic plan?

Show Me the Money. When you think about it, there are two types of non-paying customers out there – those that have fallen on hard times and those that are habitual, nonpaying customers. Sure, it may be good business to work with those in a tough financial situation. You may have found an easy way to transition a good customer into a lifetime customer. But, what should you do about customers who follow a deliberate strategy of ignoring bills and payment requests? Have you ever considered the time your collections person may be spending to procure those accounts receivable? And, let's say s/he does squeeze some dough out here and there. What type of customers are these in the first place? Chances are good that these customers are marginal at best.

Tough Customers. Again, there are two types of tough customers – the ones with a genuine complaint and the ones that are chronic whiners. Needless to say, you do need to dote on the ones that have a real issue with your product or service. You don't want anyone to have negative thoughts about your business if you can help it. But, what should you do about those incessant squeaky wheels? Have you ever considered the price you may be paying by keeping these customers in terms of bad morale, low productivity, and turnover. If not, maybe it's time you do.

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Strategic Issues. Beyond the obvious issues of payment and pleasantries are a few more strategic issues that deserve mention. What if you have simply outgrown some of your customers? You know you could continue to serve them, but are you really meeting their needs? Would you be doing them a favor by letting them go since you are not as well positioned to serve them as you used to be?

Some company owners, once they gain a comfort level with untying ties with customers, take an across-the-board-approach — such as firing all your customers that generate revenues below a certain number. Think hard before moving forward on this type of general strategy. Your smallest customer, in terms of revenues, may be in an industry that you want to specialize in — a goal established in your business plan. Or, maybe this customer is extremely loyal and constantly sends referrals your way. Taking an across the board strategy is not necessarily the right answer. Instead, establish some minimum criteria and rate each of your customers accordingly.

Replacing the Business. So, you have evaluated your customers, decided to let go of a few, but realize you have a very real need to replace the business quickly. In addition to procuring new business, consider focusing on the loyal customers you already have. What if you could increase the services or products you provide to them? Once you know what your ideal client is, how can you find more customers like this? By taking this approach, you will not have to rebuild your business processes to serve them. They will be a natural fit.

When was the last time you cut ties with a customer? If handled with finesse, it could be the most profit-producing step you take all year. After all, it might be worth your while to spend a little more than 20 percent of your time on those customers that generate 80 percent of your revenues.

Not sure where to start? We can help. Give us a call today. ■