

Finding Your Most Profitable Customers



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Not all customers have equal value to your organisation. The 80/20 rule – that 80 percent of your sales come from the top 20 percent of your customers – applies to most small businesses. Identifying that top 20 percent will allow you to focus your marketing programmes on the customers who REALLY drive your company's profitability, as well as identifying customers who may simply return so little as to be not worthwhile keeping. But what is a 'profitable' customer and how do you identify them?

What is a 'profitable' customer?

Let's just consider first what we are talking about here. It's not enough to look just at the bottom line and see what a customer has spent with you. That ignores the fact that there were costs in acquiring that customer in the first place, and continuing costs in maintaining the account – everything from dealing with their complaints to taking them to lunch. All these represent costs attributable to that customer and need to be considered against what they spend with you – because these costs can add up to a significant amount, possibly enough to tip the balance and make the customer just too expensive to maintain in some cases. So profitability does not necessarily equal the amount of money a customer gives to your business. In many businesses, smaller sales can be highly profitable, while larger sales can cost the company a lot to administer or deliver, and therefore provide a smaller profit margin. So how do you discover your 'profitable' customers?

How to calculate the 'profitability' of a customer

Estimating 'profitability' consists of calculating the two main cost areas associated with a customer – their acquisition cost and the cost of supporting them ongoing. This need not be too difficult; in fact, it may even prove easier for the smaller firm than the larger. But it probably does require some professional help in assessing all the costs that go towards the acquisition cost and then tracing other expenses associated with retaining a customer. The system doesn't need to be complex and much of the raw material to trace costs to customers probably already exists in your systems, albeit in forms requiring transformation. For example, customer transaction histories show all orders, returns, and collection efforts and you can use that information to create lookup tables in your database that map activity codes to activity costs.

Putting the information to work

If for every 'profitable' customer you could get another one just like them, would you agree that your reward would be greater profits? One of the powerful things about profitability analysis is that it can lead on to looking at the common characteristics and behaviours of your top customers – of profiling them. Do they fit into specific demographic or geographic categories? Do they have certain shared attitudes or values? Do they make their buying decisions in a similar way?

Profiling customers like this will help you develop the most effective marketing programmes to not only extend the value to your company of current high profitability customers, but also to target and attract new ones.



Want to find out more? Need some assistance retaining your most profitable customers?

Call today on 01743 249992, or

Email: outsourcing@cb-solutions.co.uk

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