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How Vulnerable Are Your Customers? Five Keys to Protect Your Customer Assets

by Curtis N. Bingham

Last week alone my daughter received more than 20 solicitations from colleges and universities around the country. Some are creative, some are boring, some are promising a great education and others seem to be promising one long party (that one didn't make it past the parental filter!). At first my daughter was excited about receiving mail addressed to her (what's a stamp to a texting fanatic?!). But it quickly became overwhelming. How many of your customers are being bombarded by your competitors? How many are now seriously considering your competitors' offers?

Companies of all sizes have made massive cuts to their sales and marketing teams. The service and support staff have been slashed. Customer service efforts reduced. Perks and niceties that customers have grown accustomed to have been thrown out the window. While these cuts may have been deemed critical to the business health, the net result is that the infrastructure to support customer relationships has been decimated. Despite the very best efforts of those that are left, in the eyes of the customer service stinks. Account managers are unresponsive. Salespeople don't return my calls. The customer service department seems clueless.

Your customers are vulnerable.

For the first time, your loyal customers are listening to your competitors. They've always been bombarded by competitive offerings, but now they are open to exploring options.

As I wrote in a recent newsletter, customers' value equations are changing. They are trading downwards to a lower-cost alternative because they've realized they no longer need the premium products. As well, if the service they've been enjoying is no longer there, and the relationship is suffering, the barriers to exit are falling fast. What can you do? There are five things you need to do now as you update your Customer Strategy to reflect the new reality of the recession:

1. Determine who your best customers are--those that you must keep at all costs
2. Discover their core, non-negotiable value drivers and refuse to scrimp on these
3. Leverage technology to enable you to deliver more with less
4. Find more prospects trading down into your market
5. Consider letting go of your most unprofitable customers

Who are your best customers—those that you can't afford to lose?

Most every company has their "key accounts" that they will do almost anything for. It is my experience that these key accounts are often the largest by revenue, and often the least profitable. How can that be? They've mastered the negotiation art-form using vulturous purchasing agents, and reduced every possible nickel while maximizing every service you are required to deliver. If you analyze the total cost to serve your key accounts vs. the revenue generated, would this change your perspective on these key accounts ? As well, in these times, financial strength needs to be a key element of the analysis. It doesn't matter how much the customer is contractually obligated to pay if they don't pay promptly, or worse yet, are entering bankruptcy.

Beyond financial terms, which of your customers truly value the products and services that you offer? One client of mine had a huge number of customers that didn't value all the bells and whistles they had introduced to their software product--it seemed that all they wanted was a lower price. However, when I examined their customer base, I found a market segment that wanted all the functionality and more. This segment was sufficiently mature and savvy to understand how they could use this extra capability to generate far greater profits than their competitors. By focusing more heavily on a similar market segment, you can minimize the incessant price discussions.

When faced with competitive price pressures, your first recourse is to increase the value you offer to defend your price. However, this may not be enough given extreme competitive pressures and the near-certain defection to low-cost providers in the current economy. If the cost of retooling is not overwhelming, perhaps the most important thing you can do is to introduce a "lite" version of your products and services to keep customers within your franchise.

You need to be prepared to do what it takes to keep these core customers satisfied and loyal, so they are not enticed away by hungry competitors with their low-price offers.

Why do your customers buy? What are their core value drivers?

If you know the exact answer to this, you are ahead of many executives in businesses small and large. So many times we suppose we know the answer and are surprised when we find the real answer. In an article on my website entitled, "Why Don't You Understand Your Customers?", I described a Fortune 20 company in the midst of a worsening downward spiral of customer defections and plummeting margins, all because they were marketing services their customers didn't understand and didn't value.

Customers buy for one or more of the following basic reasons:

1. Increase revenue
2. Decrease costs
3. Mitigate risks
4. Assuage emotions

The more of these Customer Value Drivers you can address at the same time, the more compelling your value to your customers.

To confirm that you know why your customers buy, you need to ask them. Pick a large handful of your best customers and go talk to them. Ask them the following simple questions:

1. Why they buy from you vs. from a competitor
2. What they value the most (or, if everything else were stripped away, what are the key things that would keep them from leaving)
3. How your products and services help them satisfy the aforementioned value drivers?

By asking these questions, you will learn the real reasons why your customers buy. Most importantly, you'll learn the critical aspects of your products and services that you cannot afford to cut lest you jeopardize the relationship beyond repair.

Leverage technology to do more with less

I was speaking last week with the CEO of iLantern, a Boston-based company that helps salespeople discover potential sales "triggers" or events that typically lead to business within their target accounts. Their technology scours public information sources for these triggers and automatically alerts sales reps. The technology is brilliant, perhaps in a way that iLantern doesn't even realize. When you have fewer sales reps covering a larger number of accounts, there isn't time to pour over the Wall Street Journal or the huge number of trade rags every morning to find out what customers, prospects, and competitors are doing. Nor is there time to send a personal message to your customer, congratulating them on a recent win. Or to send a personal introduction to a prospect that just announced a new initiative that you are uniquely capable of helping them with. Without technology like iLantern's in this time-starved sales environment sales people become order takers rather than relationship builders. Which means that deals are won on price, not value. Which means lower profits.

The customers of a Point of Sale (POS) software client told me they have shaved hours off of their daily order processing times in their restaurants, enabling their servers to spend more time with their customers. Having enjoyed a much better overall experience, customers continued to return and spend even more.

Now is the time to focus your efforts on using enabling technology to do more with technology to make up for the people that you've lost. You can't afford to allow the precious customer relationships to languish and sour. By automating processes to allow the remaining employees to focus on customer-facing activities that customers truly value, you can keep relationships alive and the deal flow healthy.

Find prospects trading downwards—into your market

If you're like most companies, you have prospects that have told you that "you weren't big enough to support their needs." They may have sneered at your lack of credentials, capabilities, etc. and ended up going up-market to your larger competitor. Those prospects you thought were lost are now your best chance for profitable new customers.

These prospects are disillusioned with the lack of service they're receiving from your larger competitors who've slashed staff. They've decided that perhaps they don't need the most glamorous PR agency—and the decidedly unglamorous fees. Or perhaps they've decided that the biggest, bestest, and fastest computer hardware isn't actually as necessary as they thought. They are considering trading downwards, and your goal needs to be to present them with the perfect value for their newly defined equation.

Where do you find these? You start with all of the lost opportunities in your CRM system where they had budget? but you lost out to a competitor. You start scanning your competitor's websites and their PR announcements to find their customer lists. And you call to find out if they are interested in receiving greater value and much greater personal attention than they are receiving now.

What would happen if you let go of your most unprofitable customers?

While the vast majority of your customers are most likely value neutral, the real treasure lies in the extremes surrounding the neutral zone. I've written in the past that not all customers are created equal. One research study found that 20% of customers created 220% of profits, and Booz Allen Hamilton suggests that as many as 25% of your customers may actually be destroying value.

The top 15-20% of your customers are most likely generating the majority of value and need to be kept at all costs. Once you've figured out how to ensure your best customers remain loyal, the next challenge lies with the Value Destroyers.

One of my clients analyzed their customers and found that a handful of customers were blatantly abusing technical support, calling as often as 35 times in a single day. While the technology issues that may warrant such a need to call are a significant but different issue, the fact that the maintenance fees could in no way compensate for such high call volume.

You need to figure out how to readjust the value balance, which may include charging more appropriately for the services they use, shunting customers to self-service channels, fixing glaring problems that invariably lead to a customer service call, migrate high-cost sales people to higher-potential prospects, etc. If you cannot realign value, then these customers might just need to be let go. This is a difficult decision to make, but the simple act of removing a customer from the system might boost profits as they are no longer draining resources. Not to mention the fact that your precious (and fewer) resources will be freed up to better service the Value Creators.

Summary

By focusing on these five things, you'll be able to develop a customer strategy that maximizes profitability as it protects your best and most profitable customers. By focusing on preserving profitability, you can not only weather the storm, but even thrive as you focus your marketing and sales efforts on your most profitable prospects. With clear insight into what customers value augmented by enabling technology, you can maintain strong customer relationships and prepare yourself well for the inevitable rebound.

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