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Smart Business Brief

Advice for Success!

Is it Time for You and Your Customer to Split?

Identify and evaluate problem customers to determine when it's time to restructure the relationship—or when it's time to cut your losses and move on.

Put a stop to problem clients who take advantage of you, abuse you, or fall behind in payments. Appraise the cost of keeping the accounts, consider restructuring the way you conduct business, evaluate the benefits of customer retention, and “fire” the customer if necessary.

Appraise your Accounts. Before you sever ties, gather your customer data in order to assess the costs and benefits of retaining your customer. Evaluate the cost of goods and profit margins for that customer, payment history, and the amount of time spent by you and your staff in dealing with the customer. You should come away with a clearer picture of the actual cost of doing business; you may find the account you thought yielded \$100.00 per item or per hour is actually yielding much less.

Restructure the Way You Conduct Business. If a customer demands lower prices, will he agree to purchase in bulk in exchange for a lower unit price? A small discount for early payment might be incentive enough to get late-payers on track. Changing the way you provide services or goods may be better than cutting the customer off your list.

Consider Other Benefits. If an account is unprofitable, is there another purpose the client is serving? A local bank providing a small loan to a retailer may not generate much return, but the customer may “talk up the bank” to everyone who comes into the store, and refer many good customers. If the customer was an early supporter of your business or continues to bring new customers to you, consider that as well. Also consider the percentage of business, but don't let it deter you from saying goodbye. It may be difficult to lose 25% of your income, but consider the results if you replaced that client with one or two who are easier to work with — and more profitable.

Fire Your Customer. If you conclude you would be better off without a customer, be as tactful and diplomatic as possible. Explain that you are not in the position to meet certain service expectations without raising your costs; that you have worked to satisfy a complaint or provided full restitution and there is nothing more that can be done; or that you must discontinue providing goods and services until those outstanding invoices are paid. Then use the time and energy you save to market yourself to new and better clients.

Three Typical Problem Customers

When the best customer is NOT the one you already have—meet the Demander, the Abuser, and the Dodger.

The Demander is the client who takes advantage of your services. No matter how much you deliver, he demands more and wants to pay less. Increase the amount of time you service this customer and cut your prices, and you will develop a pattern of losing money.

The Abuser is abusive to you and your staff and can sap your energy. The longer you deal with this person, the more you lose. Think of the extra hours listening to the customer complain, trying to please the customer, talking to staff about how to please the customer, and complaining about the customer. All of these add up to dollars per hour. What price are you willing to pay to retain this customer?

The Dodger is the client who avoids paying for services rendered or products delivered. If she has a history of paying late or has fallen far behind, you probably don't need her business. She's playing with your money! If you continue to extend products or services without being paid, you may be putting your business at risk.

