Measuring the Real Value of Your Customers

Everybody loves the big-ticket customer, right? The person or company that throws the most cash at your business deserves the most love, that's obvious, isn't it? Maybe yes, and maybe no. Let's take a closer look.

Measuring customer value by revenue is an obvious metric, but it is really only part of the whole equation. There are a number of other factors to consider.

Depending on the products or services you sell, it is a safe assumption that some products are easier and less expensive to produce than others, and some services are easier and less expensive to render than others. Similarly, some customer accounts need more personal attention in the areas of selling and support, and those services come with a price tag, as well. And, depending on the nature of your business, some big-ticket customers may demand a volume discount for repeat business, a discount that does not translate into production, sales, and support costs. So you need to look beyond the bottom line of total revenue, and analyze just how that revenue is being generated, and at what cost.

Let's look at a hypothetical situation. Let's say you have two $50,000 customers. One is a nationally known business with offices all over the world, and frankly, you are honored to have them as a customer; let's give them a cool name like Company A. The other is an up-and-coming local business that you became engaged with at a local chamber of commerce networking event, and we'll call them something clever like Company B. Revenue-wise, these are your two top customers, and they are equal in the amount of money they spend with you.

Now, big-shot Company A is going to grace your business by throwing some work your way. Perhaps one of their regional offices has an expedited need for one of your premium services, and they found that your prices were competitive, if not better than, most of the other similar service providers that they've used. You are so flattered that they've even heard of you, let alone want to engage your services, that maybe you blushingly sweeten the pot for them by waiving the expedited surcharge for their first order. And because they are, in fact, the *famous* Company A, you want the work to be perfect, so you throw your best people on their project. After all, this is *Company A*; they might tell other similar companies about your great service (don't all these Fortune 500 companies hang out together at the country club and discuss their vendors? They must!). And you certainly don't want this budding relationship to end with the first order, so you then assign your top salesperson, maybe even the head of your sales organization, to this account, hoping to cultivate more business, and not just from Company A's regional office, but maybe from their other offices, as well. And maybe from *headquarters*, too! Hey, fly the salesperson to the moon if they have an office there!

After Company A has gotten their expedited order on time and perfectly delivered, and they've given your salesperson an audience with them a couple times, they may decide that in order to continue doing business with you, they may be entitled to a bit of a volume discount. After all, your competitor, Company X has offered them a healthy 20% off of every order. And you just can't stomach the thought of those bozos at Company X actually having the *Company A* account, so you say, hell yeah, we'll give you a 20% discount, and if revenues reach $50,000, we'll make it a 25% discount! Plus, we'll give you a dedicated team for your work, with a direct phone number and email address. We'll give you 24x7 support, even though our typical business hours are 9-5 Eastern Time, Monday through Friday. And let's just forget about those expedited surcharges. We don't care! You're *Company A* and we'll do anything to hang around with you!

Now, let us compare this with Company B – you remember them, right? Local up-and-comers, met them at that quaint little networking event that the chamber of commerce threw last month… yes, that Company B. You shared a glass of generic white wine and a couple pigs-in-a-blanket with one of their VPs, and exchanged cards after she mentioned that Company B was looking for an affordable vendor of the very services your business provides.

So you get a call from them, and they want to try out one of your basic services. They're not in any rush, and they are located just a few blocks from your office.

You deliver what they need with no muss, no fuss. They're happy, and they promptly pay their bill.

Wow. That was easy. No demands. No threats about having it delivered this afternoon, *or else!* They're not looking for special treatment; just a quality product or service at a fair price. And if, in the process, they can build a relationship with another local business, so much the better for both of you. And at next month's chamber of commerce meeting, that VP may introduce you to her friend, who is president of another local business who could use your services.

All of a sudden, that $50,000 in revenue that looked so identical from Companies A and B, now seem a lot different. It may have cost you $25,000 to earn $50,000 of prestigious Company A's gold; whereas it may have cost you $5,000 to earn the same amount of revenue from the local Company B. You don't need to be a CPA to figure out that Company A is really a $25,000 customer, and Company B is a $45,000 customer.

Analyze your operation costs. Your best talent usually gets the highest pay, so there is a cost in assigning the best to any one account. Analyze your sales costs. How far do your sales reps have to go to visit the customer? How much to they have to spend on fancy dinners, ball games, theatre tickets, and other perks, just to keep the *crème de la crème* happy? Analyze other things, such as the costs associated with late payments, refunds, and product returns. Analyze the discounts you give. Are they truly deserved? If you feel the need to discount everything, maybe your prices are just too high. Otherwise, if you are offering steep discounts just to hang onto prestigious accounts for whom you have to spend more in operations in order to fulfill their needs, and for whom you need to jack up the sales expense accounts in order to treat them in a manner befitting corporate royalty, then perhaps it's time to re-evaluate your business acumen.

To earn revenue, you must treat customers well. But to keep the revenue that you earn, you must control your costs. This is not to say that some customers are not deserving of special treatment. It is just that you must be mindful of the cost of that special treatment when determining the value of that customer. Look for ways of satisfying the high-maintenance customers in a more economical fashion; maybe they don't need all of those perks, after all. On the other side of the coin, identify your high margin customers, and make sure they are happy – before those clowns at Company X get hold of them!

-- Charles Dennis