

GRADE YOUR CUSTOMERS TO IMPROVE YOUR PROFITS

Sometimes in order to serve your customers better you have to get rid of the problem customers. Problem customers tend to complain about your prices or rates. They are slow-payers, and they may be rude to you and your employees. They may have had problems with your competitors, and they make unrealistic demands on your business. Problem customers are a drain on the resources of your business, and chances are they are not profitable.

- ***Separate the best and the worst.*** You should evaluate your customer base to determine your best and your worst customers. Then decide which of the worst customers can be salvaged and which should be eliminated. You can do this by determining the profitability of each customer.
- ***Some can be salvaged.*** Some unprofitable customers can be salvaged by reducing the costs of servicing them. Eliminating discounts, changing payment policies, increasing prices, and even renegotiating contracts can help. Customers who are profitable but are still problematic because of the way they deal with your company can be saved if you can eliminate the source of the problem.
- ***Change your policies.*** If an individual customer is a problem because of unacceptable behavior, refuse to deal with that individual. If the problem customer is a slow-payer, change your sales terms to them. If you sell merchandise, have the slow-payer pay for freight or have them pay COD. For any returned merchandise, charge a restocking fee. If your business is service-oriented, have the slow-paying customer pay a large deposit before you begin any work.
- ***When it's time to say goodbye.*** There are several ways to eliminate a customer. Suggest that the customer try a competitor or just be blunt and tell the bad customer in person or by telephone exactly what the problems are.

You should view the elimination of your worst customers as a way of making your business better, more productive, and more profitable. But don't let restrictive policies for dealing with bad customers affect the liberal treatment your good customers deserve and expect.