

The Really Bad News about Bad Customers

By Rebecca A. Morgan
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It's nice to grow your client list, but if you're filling it with clients who don't line up with your company's goals and mission, you may find yourself in trouble.

Ah, the excitement of landing a new customer. It represents validation of your business idea, a source of cash, and early on can bring life to an otherwise meager Client List page on your website.

New orders are often met with similar enthusiasm. And then in what appears a trifecta, the market displays interest in variations of your new offerings. You find yourself uttering those famous words: "We can do that." The walk back to your car, unfortunately, all too often is a little less confident, as you begin the process of figuring out how.

Pride in the customer base, revenue numbers and new products cannot replace asking basic questions: While business is good, is enough reaching the bottom line? Which customers are not paying their own way? Can we deliver what we're promising?

No matter how sweet the siren song, remember:

- Not all customers are good customers
- Not all orders are good orders
- Not all offerings should be made.

So how can you tell good from bad before you sign on the dotted line? Consider these three categories:

- Interests, goals and competencies
- Hot stoves
- Business 101

Interests, Goals and Competencies

Decisions about new opportunities cannot be separated from your goals for the company. Are you trying to grow it, sell it, or hand it off through succession? How willing are you to make the investment required to enter new markets, and how able to develop related technical competencies?

Is your company good at making successful major changes? While there is reason to consider many opportunities, there is also reason not to

chase all of them. Just because you can, doesn't mean you should. If you can't, don't say you will. Unfounded and unwise eagerness can be costly – to your operations, your employees, your customers, and your company's reputation.

Hot Stoves

There is no teacher quite like the hot stove personally touched; the cost high, the lesson remembered. But where possible, endeavor to learn from small, less notable, failures.

While problem prevention is preferable, there is no reason to carry dead weight once identified. Customers and offerings added over the years may provide cover for those that should be removed. Which customers are especially demanding, but paying equal or lower prices than others? Which offerings sop up key resources without bringing commensurate benefit to the top and bottom lines? With the power of hindsight, determine where your operations must improve and how decisions need to be made differently.

Business 101

They say a wise man learns from the experience of others. Here are a few of the hot stoves touched by other entrepreneurs, obviating the need for you to do so.

"Net 90 Days"

When a customer uses this term, or one similar to it, it means you are financing his business. Generally a bad move. It's hard enough to finance your own. Even if the potential customer is a large company with a large order that makes you

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salivate, don't forget who's playing banker in this transaction. Or how much it costs you to do so.

Part of the genius of Michael Dell's logistics and business model is in receiving customer payment before paying for the components that it takes to build the order. His customers finance much of his business. The relatively short delivery lead time is important to their willingness to do so.

"Pareto"

This powerful and simple concept is named for an Italian economist who first observed the phenomenon. It posits that there frequently exists an approximate 80/20 relationship of 2 variables. For example, 80% of sales may be driven by 20% of customers; 80% of personnel problems may be

associated with 20% of employees; 20% of offerings may account for 80% of sales. An examination of your business will likely find similar ratios. But if the lure of landing the big one would result in a sales to customer number closer to 100/1, it's called "putting all your eggs in one basket." Consider the havoc a dominant customer, order, or product offering could wreck on your business.

There are many Business 101 lessons. Keep your ears and eyes open, intent to learn them through the experience of others. As Leonardo DiCaprio's character Jack Dawson learned in "Titanic," one can go from "I'm king of the world!" to tragic ending in short order if not paying sufficient attention to one's surroundings.



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