

## 5 Tips for Improving Margins and the Bottom Line

**There are really only 4 ways to increase profits – sell more, improve margins, cut costs or do all three.** Costs always have a habit of creeping upwards over time. So, periodically, it pays to take a hard look at them and then eliminate the things we can live without. But there's a limit to the extent to which we can cut costs before we hurt our company's long term growth potential. To get steady, incremental increases in profit we have to sell more and improve margins.

**There are only 2 ways to sell more – add new customers or increase sales to existing customers.** In my experience, when we talk about selling more we tend to put the focus on adding new customers. But we know that it costs at least 6 times more to sell to a new customer than to an existing client. That's not hard to understand when we consider the "acquisition" costs – e.g. advertising, telemarketing, etc.

**So, the first tip is to avoid losing your least expensive prospects – existing customers.** They must be convinced that we do a great job; otherwise they wouldn't buy from us. Every business loses some customers over time, but when customers leak away, replacing them with new ones cuts into profits. The key is to focus on our "retention rate". We need to have a process that alerts us when a customer stops purchasing from us. And we must find out why exactly they're leaving – not simply make assumptions. Keeping customers satisfied is better for your bottom line than replacing them.

**The second tip is to remember that all customers are not created equal when it comes to profitability.** Pareto's rule tells us that 80% of our profits will come from 20% of our customers. But, how many of us slip into the situation, over time, of treating all customers as equally important? That actually hurts our profits because we waste money using the same marketing and selling techniques on everyone and treat them the same way when they contact us.

**So, how do we recognize the 20% of customers who give us 80% of our profits?** They are the companies who buy from us regularly and understand the value of what we do for their business. They focus on quality and reliability rather than price and they pay on time. Because they are successful in their field, they have the potential to grow, allowing us to grow with them. They may even refer potential clients to us. These are our "A" customers. Can you identify yours?

**Tip number 3 - it makes good business sense to treat "A" customers differently than the others.** Everyone in the organization should know who they are. So, when they talk to them on the phone or face-to-face, answer their email, make product for them or pick their orders, these "A" clients get the most prompt, attentive, efficient service we can give. We should market differently to them too. Stay closely in touch personally and via email, e.g. send them our newsletters, and develop the relationship by figuring out how we can help them respond to the changes in their industry.

**Next tip – watch the customers who offer some, but not all, of the benefits of our “A’s” very closely.** They still focus on quality and reliability but may not have been around as long as “A’s” and so may not buy as regularly and/or as much. These are our “B” customers, and apart from what they do for our bottom line today, they have the potential to be the “A’s” of the future. Identify them and build a strong relationship with them. They may get fewer face-to-face visits than the “A’s” but they do get regular calls from our internal sales staff – a very effective but much less costly method of maintaining contact. They are also on our email database.

**Then there are customers who buy smaller amounts consistently but who have very little potential for further development.** These customers – our “C’s” - are solid contributors to the remaining 20% of our profits but the ones who may be most likely to drift away. Our sales and marketing strategies are designed to maintain these relationships in a cost effective way. Primary contact is via regular (but less frequent than for “B” clients) calls from internal sales and email contact about the products or services they buy.

**The final group is easy to recognize – they complain most and buy small quantities of our products irregularly.** That’s because they are focused on price and discounts. They buy from us only when we’re cheaper than our competitors - they have no loyalty. When they do buy from us, they are abrupt, demanding, they always need delivery immediately and people hate dealing with them. Processing their orders requires our staff to drop everything else and get them to the front of the line. They are our “D” accounts. Dealing with “D’s” can be so disruptive that occasionally they even cause us to make mistakes with the orders for the profitable customers.

**So, the fifth and final tip is to “fire” your “D” accounts.** That’s correct, if orders from “D” customers are profitable they’re at the bottom end of the margin scale and the amount of resource required to get them out the door wipes out anything we were going to make. Yet we all have “D” accounts – why don’t we just get rid of them? We don’t have to be rude, simply play them at their own game – quote high prices or long lead times. They’ll make the decision not to deal with us. Do it often enough and they’ll stop calling.

**Focus on your “A” and “B” customers and you’ll improve your margins. Match your sales and marketing resources to customer type and get rid of your “D’s” and you’ll improve the bottom line.** Make retaining “C” customers a priority; work hard at turning your “B” accounts into “A’s” and get your sales staff focused on understanding your “A” accounts’ business - then you’ll not only sell more but you’ll make more profitable sales.

To share your experiences, to take issue with anything I’ve said or to get some insight in how to execute send me an email [jimstewart@profitpath.ca](mailto:jimstewart@profitpath.ca) or call me at 416-258-9610.

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