



# Fire Your Customer

Stop wasting your time on the customers who really don't appreciate you, and you will find the time to develop more of the customers who are a joy to work with, and who, in turn, will refer more customers like themselves to you.

BY THOMAS REID

*Editor's Note:* A related article will appear on this topic in the January 2006 issue.

"In the last economy, owning capacity was your source of strategic control. Today, there tends to be overcapacity around the world. What's critical now is understanding the customer and, whenever possible, owning the relationship with the customer."

—Adrian Slywotzky, V.P., Mercer Management Consulting

As the U.S. economy shifts more toward services and away from manufacturing, the importance of customer service is finally getting the attention it needs. Face it, much of what is called customer service is not customer-focused and barely meets

the definition of service. Yet, it is often difficult to find ways to measure service quality. Within the contract management profession, we might all know what "quality contract management" means, but how many of our external clients or senior management appreciate the value of solid, professional contract management?

The nature of customers is changing. Whereas customers used to be isolated, unaware, and passive, modern technology and competition have allowed, if not forced, customers to become connected, informed, and active.<sup>1</sup> This is true whether your customer is from the federal, state, or commercial sector. As a bare minimum, customers expect their service providers to demonstrate three basic characteristics:

- (1) To be competent,
- (2) To perform to the requirements of the contract (including cost, schedule, quality, and quantity), and
- (3) To work reasonably toward strengthening the customer relationship.

Sadly, there are too many service providers who do not have basic competencies, never read the contract, and care little about the customer relationship. And yet customers stay with them for a variety of poor reasons. As your customers become more connected, informed, and active, they will seek out those service providers who demonstrate these three

basic characteristics and ideally will seek those who provide outstanding customer service—customer-focused effort designed to meet customers' real and perceived needs whether expressed or unexpressed.

When assessing your customer service, look particularly at the value proposition you offer the customer. This must be viewed from your customer's perspective, not your own. For example, how does your customer perceive the delivery of your goods or services? What is your company's problem-solving ability from your customers' perspectives? What innovation, if any, do you bring to the customer? What is your timeliness of delivery as compared to your customers' true needs? How competitive is your pricing? What are the value-added features you bring to the table, again from the cus-

tomers' perspectives?

Outstanding customer service also requires that you pay particular attention to who has direct customer contact. Is there a person within your company who is accountable for the profitability of any given customer or customer segment—someone who "owns" the customer? How hard is she working toward the development of that relationship? And please do not say that "everyone" owns the customer. That is a sure recipe for disaster. It might be appropriate to say that when a customer calls, whoever answers the phone owns the problem, but that does not relieve the person who owns the customer from following up and ensuring that the problem has been solved.

Bob Lewis, author of the on-line magazine, *Keep the Joint Running*,<sup>2</sup> has promoted the idea that you

should be ROTten to all of your customers. In fact, he advocates that you should be as ROTten as you want to be and should, in fact, make being ROTten a way of life. How's that? He uses this acronym to remind you that you should always put relationships over transactions (ROT). Good advice.

When working to develop outstanding customer relationships, 10 guidelines are useful:

#### About the Author

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**(1) Communicate Continuously**

One of the reasons that customers leave is because they have not heard from you. If your focus is on simply “making the sale,” you are not developing the relationship. Customers will stay with a supplier or vendor because they like the sales representative even if the overall cost or service is not the best in the market. Talk to your customers. They want to hear from you. And, use a variety of media to communicate—publish a newsletter, send copies of recent articles related to their business, or drop them a personalized e-mail.

**(2) Spend Some Time in Your Customers’ Shoes**

Have you ever called your business number and experienced what your customer experiences? When was the last time you visited your own Web site and verified that all of the links work properly? Have you called your customer service line and timed the response that you get? You have to experience your company the way your customer does. Without that experience, you can’t determine how to improve your customer service. Likewise, have you sat at the help desk for a day or even a few hours? Do you understand what your employees face every day?

**(3) Make the Transaction Memorable**

There is an old saying that you should underpromise and over-deliver. Every transaction should be viewed this way. Customers like to get a little something extra. In New Orleans, they call that “lagniappe.” Give them a reason to come back to you. Special incentives should be given to those customers who refer new business to you.

**(4) Show Customer Appreciation**

Sponsor a dinner. Buy a table at

the local Chamber luncheon and invite clients. Hold a client appreciation day. Give a client tickets to a local sporting event. It’s all about the relationship. Make them feel special. Just remember that in the government marketplace, any gift given to a public employee is generally improper, if not illegal. Public employees can usually accept only some benefit that is offered to the public generally. Even then, the creation of the “appearance” of a conflict may prevent them from accepting. Do not put public employees in that awkward situation.

**(5) Learn to Say “Thank You” in Every Conceivable Way**

Send a note after a successful deal. Put a “thank you” of some sort on every invoice. Call them up and just tell them that you appreciate their business. Send them a gift subscription to a favorite magazine. Whole books have been written on how to say thank you. Make use of them.

**(6) Facilitate Two-Way Communication**

Don’t you just love calling a service provider, being asked to punch in your account number, after you’ve selected the language you speak, and then listening to 15 separate lists where you have to select one of the options in each list and none of them are what you called about? No? Well, neither does your customer. Make leaving a message easy. When possible, have a real person answer your phone. It really makes a difference. And, if your Web site does not have a “contact us” page that is actually monitored and where responses are provided promptly, add it today.

**(7) Develop the Relationship**

Customers are people too. Really! They have birthdays, anniversaries, and other special events. Remember them. This is

what builds relationships. Take an interest in their interests. Remember, too, the personal situations. Make a note in your contact file about a family illness, graduation, or marriage. Ask them about it directly, using the name of the person involved—“How is your sister, Sue, after her surgery?” rather than “How is the family doing?”

**(8) Make Referrals**

There is absolutely no better way to show a business owner that you respect what he does than by referring others to look into his products or services. Know what your clients do and help qualify prospects for them. They will absolutely remember you for sending them new business.

**(9) Ask Directly How to Improve Your Service**

Part of the two-way communication has to be a very basic question—what can we do better? Everyone has an opinion, and they will gladly share it. But not everyone is an extrovert. You have to ask. You may even have to convince them that you are sincere in wanting to know. This isn’t a promise that you can do what they ask, but until you ask, you don’t even know what they consider to be important. Be sure to also ask the positive question—what did you like best about our service? It is probably a small thing that, if not emphasized, could be overlooked in future sales.

**(10) Recognize That Each Client Is a Group of One**

It is easy to group things and people together. We just naturally do that. Don’t ever forget, however, that each client you have is unique in many ways. Letters that are addressed “Dear Client,” or worse, “Occupant” are just insulting. Treat each person as an individual. If this is difficult for you, buy a copy of Dale

**10 Rules for Outstanding Customer Service**

1. Communicate Continuously
2. Spend Some Time in Your Customers’ Shoes
3. Make the Transaction Memorable
4. Demonstrate Customer Appreciation
5. Learn to Say “Thank You” in Every Conceivable Way
6. Facilitate Two-Way Communication
7. Develop the Relationship
8. Make Referrals
9. Ask Directly How to Improve Customer Service
10. Recognize That Each Client Is a Group of One

Carnegie’s *How to Win Friends and Influence People*. The timeless advice contained in those pages is priceless.

With all this talk about improving customer service, when do we get to part where I can fire them? Good question. The answer lies in a simple cost-benefit analysis. What are your costs of serving your customers properly, and what is your revenue stream from those customers? Most businesses, if they measure such factors at all, do so in a consolidated fashion. All revenue is balanced against all costs. And yet experience demonstrates that all customers are not alike. Some customers simply require higher maintenance than others. How would your bottom line be improved if all of your customers were as profitable as your best customers?

This is part of what Jack Welch was saying when he made his famous pronouncement that each division of General Electric was to be either number one or number two in its market, or it would have a plan to get to number one or number two, or it would be sold or closed. This is just another way of saying that unless each division could

capture the “A-list” customers, thus making it a leader in its market, it did not make sense to continue in a business that could only attract the “B-list” customers.

With the technology available to us today, you can gather some very important data about your customers, and you should. What you will find is that the Pareto principle is accurate. Eighty percent of your profits will come from 20 percent of your customers. Likewise, 80 percent of your problems come from 20 percent of your customers. If all of your customers were like the 20 percent who are contributing the most to your profits, you would have a very successful business indeed.

In the same way, if you could lose the 20 percent causing you 80 percent of your problems, you would have more resources to apply to developing new customers. So, why don’t you? The most common answer is fear—fear that losing any customer will hurt your business. As we will see, just the opposite is true. There is also that sense of loss when you think about how hard you may have tried to please that customer. Like so many other things in business, it is important to know when to cut your losses.

There is a perception that once you have invested in finding that customer, you should do everything possible to keep him or her. If a realistic picture is taken, however, you will find that your cost of capturing a new customer can be less than what one problem customer is costing you today. Do not be afraid of losing that bad customer. You will thank yourself later.

**Take-Away Selling**

Supply and demand is the key to successful take-away selling. The goal is to make your customer want you and fear losing you. Why? For one reason, it commands respect in the marketplace. For another, it can help transform your bad or marginal customer into a loyal customer. And most importantly, it uses the normal market forces of supply and demand to help you focus on your best customers. You must concentrate on those things that set you apart in your market. You must make your customer want you by making the customer afraid he will lose you. This becomes an excellent time management tool, weeds out the “not-that-serious” leads, and ultimately allows for increased margins.

The process is fairly simple. Once you determine those customers who fall in the bottom 20 percent, draft a letter to them and thank them for all their past work and referrals. Explain that the overwhelming demand forces you to place new restrictions on accepting new work and will limit your ability to provide service to them any longer. If they call, explain that you have become stretched too thin and need to concentrate on a client segment that offers greater growth opportunities. Also explain that this overwhelming demand has caused you to raise your rates. If this is a client who you believe might become a true profit source and is not a high-maintenance customer, offer your services at your new rate. Just make sure the rate you quote them is truly worth it to you. This means that even the more difficult client can be profitable if you make your margin large enough. Those who don’t call

should no longer be considered clients or prospects. Remove them from your contact list, label them “inactive,” and start spending your time on prospecting for new clients.

Then send a letter to your remaining clients. Explain in the same way that overwhelming demand is causing you to raise your rates. For these clients, however, offer to provide the same services at your old rates for six months. If you are worth what they were paying you, then you will be worth your new rates. You have now weeded out those customers who are more demanding, those who do not appreciate what you have done (or can do) for them, you have increased your rates, and you have freed up some time to prospect for more “A-list” clients.

**Outstanding customer service is customer-focused effort designed to meet customers’ real and perceived needs whether expressed or unexpressed.**

The effect of this exercise will weed out the bottom 20 percent of your clients. You current clients feel privileged that you are sticking with them. And the fact that you, who are so in demand, are still working with them actually provides them a value-added proposition for their own business contacts. They now have the key to introducing new business to you. They will become loyal advocates and will screen out the less serious clients before they even reach you.

While this process may sound harsh, the fact is that not all customers add value to your company. For some, usually about 20 percent, the cost of serving these customers is greater than your cost of capital. For this reason, you *must* identify value-draining customers. As the wise business guru Dennis Waitley has said, “The creation of value is the only and everlasting source of profits.” Conversely, value-draining customers must be eliminated. Have you ever noticed

that during open enrollment the PPO list of doctors indicates some are “not presently accepting new patients”? Those are the doctors you want. It’s just human nature. For these doctors, their return on patients under this plan is not as great as those under other insurance plans. They have decided to not accept more “marginally profitable” patients and instead concentrate on those patients under other, more profitable, insurance plans. If you want to run a charity, go for it. But if you are serious about running your business, you will actively seek the greatest margin for your effort.

As identified by Larry Selden and Geoffrey Calvin in *Angel Customers and Demon Customers*,<sup>4</sup> most people have some form of a retirement plan where they have invested funds.

Some people manage these funds very actively; others less so. What if you were to think of your company as a portfolio of customers, much like your portfolio of stocks and bonds? Your goal should be to manage each customer for superior returns. If those returns are not being realized, you must identify clients who will yield greater returns. You must create, communicate, and execute competitively dominant customer value.

For example, most communities have a Home Depot and a Lowe’s, which compete head-to-head. Yet in Boulder, Colorado, there is a family-owned hardware store that has been around for more than 50 years. And it is going strong. Why? When I can’t find what I’m looking for at one of the “big-box” stores, I also generally can’t find anyone to ask. And if I do, the person I find “doesn’t work in this department.” Sound familiar? But, when I go into McGuckin’s, I know several things for certain. First, I will

find what I am looking for. Second, I will find someone who will gladly answer questions and actually knows the products. Third, I will find all sorts of neat things that I didn’t even know existed (OK, that’s a guy thing). And, finally, I also know that I will probably pay a little more. Yet I will drive 20 miles out of my way to shop at McGuckin’s. This is what great customer service does—it creates loyal customers.

### Analytical Tools

What tools are available to conduct this analysis? Clearly, just like a stock portfolio, this exercise will significantly increase data demands, but it is not just a technology issue. The key is to use technology in a formalized business process and to measure the right things. Once these measures are taken, you must then properly analyze this data. The most common cause of failure in this analysis is because accounting systems, by their nature, accumulate costs into pools. These pools are then allocated by some formula across some base set of costs. The result is that customer-specific overhead, unless plainly obvious, is rarely attributed to that customer.

Define your measures of profitability. They may be different for various companies and market segments. Much of it will appropriately be based on the collection of financial data. But there are other factors, less susceptible to measurement, that can hinder your ability to develop a solid relationship with your customer. For example, some people believe that the “chisel” is an appropriate negotiation tactic. After the deal is agreed to, they hit you at the end with a request for a little extra—a full tank of gas in the new car or an extra 2 percent if they pay you within 30 days rather than 10. Chiselers eat into your margins, and they usually raise the ante after the deal has been struck. Many would question the ethics of this tactic. Do you have clients who do this? Perhaps this customer should be considered part of your bottom 20 percent. Whatever the metric,

gather the information that will allow you to determine the real profitability of each customer. This may require some gyrations with your accounting data to reallocate what might be collected as “overhead” into a more direct allocation for those clients who actually use the overhead services, such as a help desk, or who have a high rate of returns. From this data, you can determine the real profitability of each customer. By making business decisions based on this data, you will be able to identify those customers who drain your profitability, better target “A-list” customers, and learn to work with the customers you have more effectively.<sup>5</sup>

So let’s review. The absolute basics of good customer service mandate that a contractor’s performance must

- Be competent,
- Follow the terms of the contract, and
- Involve working on the relationship.

You must practice the 10 customer service suggestions presented here, understand your customers’ needs even better than they do, and always remember the ROTten principle—relationships over transactions.

Outstanding customer service is a skill that can be learned. There are literally millions of excuses for not doing the little things that must be done to create great customer service, but none of them withstands the test of the marketplace. Your competition is learning the skills of good customer service. Stop wasting your time on the customers who really don’t appreciate you, and you will find the time to develop more of the customers who are a joy to work with, and who, in turn, will refer more customers like themselves to you. The guru of selling, Jeffrey Gitomer, has said it simply—“Satisfied customers are apathetic. Loyal customers will be your advocate.” If you do what is suggested in this article and fire the bottom 20 percent of your customers, you will have more customers than you can handle. **CM**

### Endnotes

1. C.K. Prahalad and Venkat Ramaswamy, *The Future of Competition* (Harvard Business School Press: Boston, Massachusetts, 2004).
2. Bob Lewis, *Keep the Joint Running* (August 2, 2004). Accessed at [www.itcatalysts.com](http://www.itcatalysts.com) on August 4, 2004. E-mail the author at [rdlewis@issurvivor.com](mailto:rdlewis@issurvivor.com).
3. Larry Selden and Geoffrey Calvin, *Much of the material in this section is derived from Angel Customers and Demon Customers* (Penguin Books: New York, New York, 2003).
4. Ibid.
5. Marc Shingles, “How to Find—an Take Advantage of—Your Profitable Customers” (July 1, 2003). Accessed at [www.darwinmag.com/read/070103/advantage.html](http://www.darwinmag.com/read/070103/advantage.html) on September 28, 2005.

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