Stop Paying Your Unprofitable Customers To Keep Coming Back!

From 15% to 40% of your customers are money losers for you, costing you cash out-of-pocket every time you sell to them. Identifying and eliminating these upside down transaction will significantly increase your company's net income, oftentimes doubling it.

Study after study, including those conducted by prestigious institutions such as the Harvard Business School and top-flight consulting firms have proven this conclusively. Others have shown that up to 140% of a company's profit comes from as little as 15% percent of its customers.

Yes, your profitable customers – and ultimately YOU – are subsidizing the rest.

The pressure on management to increase both profitability and market share is tremendous. Most managers have been taught from their first days at business school that increasing sales is the number one way to improve their bottom line and build market share. They push their sales forces to chase more and more business with abandon. Unfortunately, this strategy almost always backfires, resulting in decreased profits.

There are several reasons why profitability goes down as revenue increases.

To build sales, many, if not most, companies try expensive special-offer programs. They dole out premiums in the forms of trips, or prizes, or quantity discounts, all of which cost a significant portion of the revenue that might be earned from any new sales. Other companies cut prices, requiring significant volume increases just to earn the same profit as was earned before the price cut. To make matters worse, most times competitors match any price cuts so that nothing is accomplished in the long run except that everyone in the industry ends up selling the same amount of product at lower prices. Finally, chasing sales tends to bring in marginal customers who are often bad debt risks or who demand extraordinarily high levels of high-cost service.

One of the easiest and surest ways to increase net income — to simply stop selling to unprofitable customers — is seldom used. Restructuring relationships or ceasing to do business with money-loser customers will quickly and substantially grow a company's net income. Yet very few firms make the effort to determine the profitability of each one of its customers.

Start by putting in place a regularly scheduled review of customer profitability. Do it as often as makes sense – maybe quarterly, but at least once a year. Apply the same standards to all. You might well want to factor in allowances for some customers because of referrals they make to you or the potential for higher profitability in the foreseeable future. But remember who you're working for.

When you see the results overall, develop a sensible – and profitable – strategy for keeping and encouraging your best customers, and for finding the best way to stop losing money on the rest without causing your organization long-term damage.

Today, proven technologies and processes are available that can make it possible for a company's management to accurately know how much profit or loss comes from each of its customers, and to do so in real-time. The use of these customer profitability tools can quickly and significantly increase profitability and cash flow to the tune of several thousand to even millions of dollars per year

If you would like more information on how to retain high profit customers please contact Fat Margins either by sending an email to info@FatMargins.com or by calling (925) 579-2166.