Listening to the Right Customers

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When I was managing a large facility in Denver, I would get all sorts of goofy product requests from the sales team. Since Denver was a new territory for our company, the sales team was not steeped in the products or trade focus of my company. They had a rough idea who we were going after, but we were not always on the same page. Each person brought bits and pieces from their previous experience, so we became the melting pot of the industry. Although a melting pot can provide a rich and diverse culture, it can also produce a product mix without any direction or focus. This became brutally apparent when I had to liquidate the facility. I could literally attach a name tag to all of the oddball products I had been talked into. "If you get some, this customer will buy some." Have you ever tried to put "some" on a PO?

This scenario came up in a recent conversation with my brother. He is the president of the family business and we can always share a laugh over some of the dumber things we have done in our career. He is opening up a new territory similar to our adventures in Denver. I had to remind him about the potential for product proliferation with a new sales force. Fortunately, he is bringing several veteran people with him, but the potential problem is still there. As distributors, we can easily get talked into bringing in some really strange products. We are sales organizations first and foremost, thus sales often has the loudest voice. After observing this for several years, here is my advice in a nutshell: If a salesperson wants to bring something in for a customer, make sure it is a customer who contributes to our bottom line profitability.

Over the last several years, I have been teaching distributors how to segregate their customers by profitability. One of the key benefits of this type of analysis is determining how to allocate money in the name of customer service. I typically approach this from an asset allocation discussion, but there is great deal of merit in looking at this segregation to help make product and sales investment. Essentially, the analysis breaks down the customers by contribution to net profit. Some of the key data points are: gross profit dollars, number of transactions and cost per transaction. If you would like a full explanation of the process, I would be happy to send you a copy of the article I wrote a few years ago. The analysis usually produces a small group of customers at the top that contribute positively to your net profit. By the way, biggest doesn't always translate to most profitable. For most distributors, this positive group represents 25-30% of the customer base. For some, this may be new information; but it really isn't that shocking. Let me put a positive spin on it. Since this is the group we will be looking at to help us decide what products to pick, isn't it better to have a smaller sample?

Is it easier to sell deeper into an existing customer or go out and find new customers for our products? If you have been around the sales game for a few years, you know the former to be true. Isn't it really embarrassing when one of your best customers asks if you can get a product and you have been stocking it for the past 20 years? The fact of the matter is we don't do a great job telling customers all the categories we have invested in. It's our little secret – it's only for sale if you ask.

Many sale managers have received the nasty task of analyzing our sales penetration in the current accounts. While the exercise is extremely necessary, the overall volume tends to freeze the manager in their tracks. I generally advocate a different approach. Just take a hard look at the customers who are currently producing a positive contribution to the bottom line. This group also tends to be the folks that stay within our credit terms. Since this only about 25% of the total customer base, the task is far more manageable.

I recently started this process with a client of mine. In a fit of frustration, my client fired the entire outside sales team. Come on now – you know you have fantasized about this more than once. Having realized that this might have been a bit hasty, he is slowly creating a more focused outside sales program. How do you become most effective with a limited headcount? Start with the customers in your profitable group.

In working with his marketing manager, we have begun to look at how many categories each of these customers are touching. We actually found a canned report in the system that shows sales by product category. We found that several of the customers were touching fewer than 30% of the product categories. In several instances, the dollars in a particular category were so low that it shouldn't even count. This new information gave the sale team a direction. Why is the customer not buying in certain categories? Is the category outside of their target market? Is our pricing out of line? Do they buy the product from their brother in law? By just asking the questions, we will naturally generate activity. The best part of this work is that we will be generating activity in products we have already invested in.

I have challenged this company to go beyond the product category questions. While we are developing a stronger relationship, why not ask questions that will help us shape our future customer service direction. Try asking about communication preferences. When and how would the company prefer to receive product? Is there marketing literature that would help their sales efforts? Most importantly, are there products and categories the customer is having trouble sourcing? If we are going to bring on new products and services, why not take our cues from the customers who contribute to the bottom line.

Don't make the mistake of relying on your outside sale person for gathering all the data. Remember, we want them out selling product. This is where a strong marketing coordinator can help assist the sales effort. Email correspondence and web survey technology can be used to analyze customer service direction. Don't get me wrong, I believe in the power of face to face interaction. These pieces of technology, and some person telephone interviews, can augment the information gathering process. You will be amazed at how your customers want to be serviced. Again, it is important to take your feedback from the right people.

As distribution companies, we invest a tremendous amount of money in products and services. By mining the sales data in our distribution software, and following up with some good old fashioned footwork, we can make better investments in the future. Good luck.

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