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Target Clients or "Purchasers" – *Do Employees Know the Difference?*

It's extremely hard to get new customers. We then bend over backwards to satisfy customers to keep them coming back, make them loyal, and raving fans of ours. A customer is a customer, and they are always right. Right? But are all customers equal to your business and to be treated equally? Most importantly, *do your managers and employees know there's a difference?*

Given the 80/20 rule, it should be easy to determine which clients bring the most value to your business, and who does not. But from my experience, the biggest challenge is actually changing the behaviors of managers and employees to take advantage of this revealing data.

Taking 80/20 To Another Level

We'll start with a quick overview of an expanded view of "the 80/20 rule". The basic rule of 80/20 says that 80% of your revenue comes from just 20% of your customers. Similarly, you likely only wear 20% of your clothes, 80% of the time. You only use 20% of the things in your garage, 80% of the time. And 80% of your challenges with employees come from just 20% of the employees, etc. Experts with experience applying the 80/20 rule to organizations take the math one step further. They tell us that if we divide our customer list into quartiles, the data becomes even more revealing.

1. Generate a sequential list of *all your customers* – everyone that has purchased something from you over the last few years, starting with the largest revenue generator during that period, down to the customer with the smallest purchase.
2. Start at the top and divide that list into quartiles. (four equal sections with 25% of the total number of customers in each section)
3. Then, add up the total revenue generated within each of the four quartiles.

Because 80/20 is a general "rule", experts tell us that your data will look very similar to this:

	Customers	**Revenue**
First Quartile	25%	89%
Second Quartile	25%	7%
Third Quartile	25%	3%
Fourth Quartile	25%	1%
	100%	100%

The Top Quartile alone, will likely have generated about 89% of the total revenue during that period. The last 25% of your customers generated only about 1% of your revenue! (It works. I did this in my previous business, and these numbers were very close.)

Since we tend to treat *all* our customers to the best of our ability – that means 75% of the time and resources in your business are spent on those generating just 11% of your total revenue! **HALF of your time and resources are generating only 4% of your revenue.** For most of us, this is eye-opening data. But, what do we DO about it? That's a lot of resources that could be redirected or reduced. *The challenge is getting your team to work in a meaningful way given that data.*

But First - It's Not *Only* About the Numbers

Just a caveat before we go further. The data is the data, but you also cannot throw judgement out the window. The primary goal is to *know* your customers. Who really are your ***Target Clients***, and who are merely ***Purchasers***? Total revenue is one data point about your customers (a big one, but only one). The goal is to truly know your customers and prospects. *Target Clients* are those clients and prospects you strive to get, and do all you can to retain. They are a perfect fit for your products and services, and they value what you uniquely bring to the market. You have an actual relationship with them. *Purchasers* are simply that. They have purchased from you, but there is no special tie or value that you bring them, they would easily purchase from another if a couple dollars cheaper or a little more convenient.

For the most part, your top quartiles often are your Target Clients. They generate almost all your revenue! Yet, there may be customers in your top tiers that are only Purchasers. Given their large revenue, you should do all you can to add more value, to retain them as a Target Client. On the flip side, there are also likely some customers in your lower tiers that have a high probability of one day being a top tier client as they grow. Treat them accordingly!

What Should You Do Differently?

To keep it simple, I've divided the four quartiles into just two customer groups – your *Target Clients* and *Purchasers*. The quartile position is a key indicator for you, but as noted above, only you can make the final judgement about who are your Target Clients and prospects, and who are just Purchasers. Once that is determined – what do you do differently?

The number one objective of this entire exercise is to retain, grow, and add to your Target Clients! Those higher tier revenue generators that are a perfect fit for your business. You want to know them better, serve them better, and grow together with them. But where do you get the extra resources to do that, when your people are already too busy? From the resources spent on the lower tier Purchasers.

Given your new understanding of this customer data, there are many resources that could either be reduced to save costs, or redirected to Target Clients and prospects (usually it will be a combination). This does not mean that you have to "fire" lower tier customers, or treat them poorly. You just treat them *differently*. A customer is not a customer. You have Target Clients and Purchasers. You no longer spend time and money to find more lower tier Purchasers, there is no benefit to your business.

For current Purchasers, you no longer bend over backwards to cut them deals, or spend significant time doing all you can to keep them. Sure you will sell to them, and you remain friendly and professional. But the objective is efficiency. "Here is the price and terms." Done. No dedicated account rep trying to learn their business, a customer service rep should quickly take the order. Better yet, *automate* as many of those sales as possible! *Keep in mind the worst case scenario:* Even if you lost every single customer in the fourth quartile, which you won't, you would only lose 1% of your total revenue. But you would gain an incredible amount of time and resources to better serve others – about 25% more!

Additionally, if you are able to reduce costs by changing to this approach, not only will you become more profitable, making you more healthy and efficient, but you are then able to more effectively service Target Clients, and possibly improve prices when necessary.

NOTE: Sales people, including Sales Management often have a very difficult time implementing this practice. They work hard to get and keep every customer they can – and are usually compensated for *all* sales! The last thing they may want to do is give less attention to any possible sale. Top management must be relentless in training employees and constantly communicating to everyone the facts and new strategy for their business.

Sales people should be accountable for spending the majority of their time learning more about, serving, and growing higher tier Target Clients. Some portion of their time should also be carved out for generating new business from potential Top Tier businesses.

How do you get the entire team to actually work differently? Here are just a few examples:

- Your customer data base should designate the Tier or type for each customer. (We color coded our Target Clients, and also put a special designation on our "Top Two Hundred" Clients.) Then every employee, at any level or department would know what process to follow when in contact with a customer.

- Training and constant communication is required to ensure all employees understand the concept, the data, the strategy – and how to handle the two types of customers.

- Success stories should be continually shared! You will be surprised to see that when you lose a few lower tier Purchasers, it doesn't even effect your bottom line – yet frees up more time for Target Clients. (Sometimes it is the lower tier customers that want the most for nothing, and can be your biggest challenges!)

- Sales compensation plans should change. Lower tier sales to Purchasers should no longer be commissioned to sales people. This should be as efficient a process as possible. You can make the sale to them, but you no longer *pursue* these sales.

- A review should be done regularly (likely annually), to ensure that customers remain in the correct category given any changes in their business, or their business with you, over the year.

- *SUGGESTION:* Ease into this. I wouldn't recommend strict hard and fast rules out of the gate. Everyone has a lot to learn about your various customers, so don't act hastily simply using current numbers. Begin by getting all customers ranked and coded, then focus on educating employees and communicating progress/successes. Immediately there will be obvious Target Clients and very low tier Purchasers – so begin treating each of them accordingly. But there will be many in-between that will take time to truly know before accurately designating. *(it's ok to have a middle category as well – clients that you are giving some time to make Target Clients)*

In Summary

We all want to do our best to please customers. But all customers are *not* equal to your business. The data tells us we spend about HALF of our time and money on customers, or "purchasers" that equate to only about 4% of our revenue. Those are resources that could be dedicated to better serving and growing true clients and getting more like them. The improved efficiency also makes for a healthier company.

Yet, understanding the numbers doesn't automatically change our behaviors. The 80/20 rule is not difficult to understand. What is difficult, is altering our management practices and culture to do what it takes to successfully apply this process - for the benefit of your true clients, and your business.