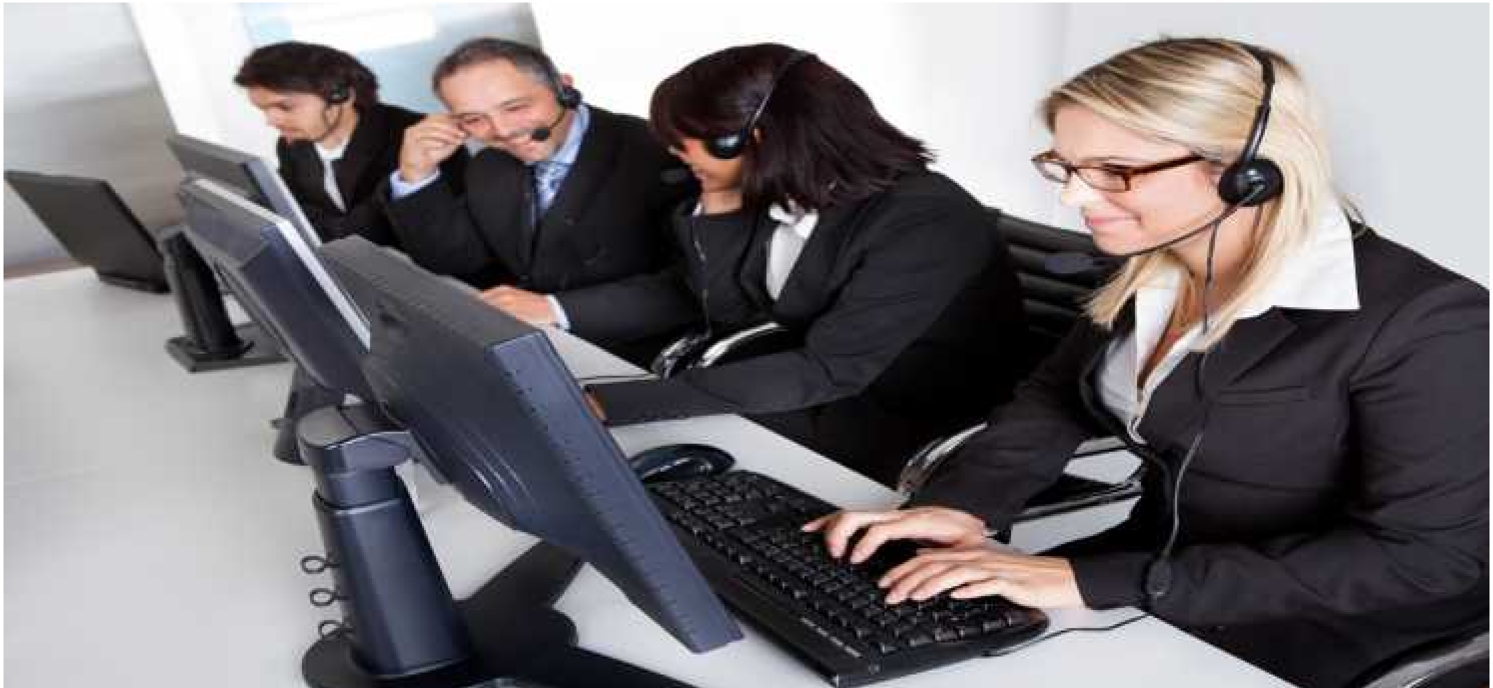

UNIT-6 Dealing with Unprofitable Customers

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Evaluate the Customer's Behaviour, Database & Value Analysis.
- ✓ Describe how to deal with unprofitable customers

Unit 6

Dealing with Unprofitable Customers

Every business has different kinds of customers that it has to deal with. Some customers are profitable i.e. they help the business to earn profit. Whereas, others are non-profitable; those who do not help the business any profit. Other than that, there are also some kinds of customers who become a liability for the organization and actually cost them money. Research indicates that any organization, on average, has 10% profitable clients (who make up for 120% percent of the profit earned by the organization), 60% non-profitable clients (who do not really have a negative impact on the business) and 30% customers who cost the organization money. Decision has to be taken by top level management to get rid of such customers.

If, for example, a customer uses the product of a company very seldom; say once a month. This profit is not as much as desirable by the company but still there is no harm in retaining him as a customer as long as his usage of the product does not obstruct a regular user's use of the product.

Consider another scenario in which the customer has a bad habit of settling his debt very late i.e. he pays for the services he avails very late and that too only when he receives threatening messages or letters from the organization. This type of customer has a direct negative impact on organization's working environment and senior management can decide to not provide any more services to this customer.

Therefore, for the businesses to deal with their customer base more efficiently, they need to gather data about their clients. This data can be used to sort the customers into different groups on the basis of their behaviour or geographic location or age or gender. This makes dealing with a whole group a lot easier. Each group can be studied individually to take decisions related to it. Costs and savings are also kept in mind.

Another factor that can help make decisions about unprofitable customers is 'what the organization believes in and stands for'? If the organization believes in having a large customer base, it would be advisable to retain even the unprofitable customers and try to find some benefits in dealing with them. However, if the organization has more focus on quality product and making profits, the organization might decide to let those customers go.

Customer Behaviour and Customer Behaviour Database

Customer Behaviour

Recording customer behaviour is extremely important for an organization because it would let them conduct research to find market trends, customer expectations and predict customer's further moves. However, customer behaviour is very complicated and it is not easy to record everything.

A customer's behaviour that can be easily recorded when he repurchases a product marketed by the organization. Organizations hold data about product repurchase and other items of the same brand purchased by the customer.

Another customer behaviour, brand/product recommendation and effect or word-of-mouth is very challenging to record. It is random at times and cannot be quantified that easily. After deciding which customer behaviour needs to be recorded in the customer database, decision has to be taken to determine what fields the database should have or in others words, what information must be stored in the database. Commonly recorded information about 'repurchase behaviour' is reach, frequency and monetary.

Customer Database

Customer data information management has become a necessity for market leaders in today's world. Most organizations use database software such as CRM or ERP to fulfil this need. However, the problem that arises is that the software is not customized to meet the organization's needs and when all the competitors are using the same software as well, the competitive edge that the organization wants to have against others is rendered ineffective. Therefore, the company needs to hire software engineers/database designers to design a custom database that would suit the organization's needs.

When the organization analyzes and decides about customer value, it needs to decide a proper time period in which the product should be used. This is known as the product/service life cycle i.e. for how long the product/service will remain effective. In case of an automobile company, this life cycle could be around 5 or more years. For a beverage company, that time could be around 1 to 2 months.

The organization also needs to decide how it would gather information about their customers as most customers don't like sharing personal information with anyone. Promotional offers can be introduced in exchange for the customer sharing purchase information. Another way this can be done is by memberships. For example, Kroger, a supermarket chain in US uses the concept of memberships to gather customer purchase information. Customers can easily become members of Kroger and receive discounts and promotional offers on products. They need to swipe their membership card before the purchase and all the information about the customer and his purchase can easily be recorded. Organizations can pay such supermarkets to provide them with customer purchase information.

Customer Value Analysis

Qualitative Analysis

When organizations have customer purchase information available, they can easily find out who their unprofitable customers are and take quick decisions about them. These unprofitable customers cost the organization money and are usually identified by the following behaviour:

- Buy products only when they're put on sale. The products put on sale usually earn the company very little profit or even no profit. Unprofitable customers take advantage of this opportunity and purchase goods when they're on sale.

Fig below shows the comparison of behaviours of different customers. Those customers with high 'total purchase money amount' and low 'purchase on sales' are the most valuable customers as they buy products on regular prices. They are loyal customers who don't wait for sales to try products.

On the other hand, customers with low 'total purchase money amount' and high 'purchase percentage on sales' are identified as unprofitable customers.

High

Purchase % on sales	Low	Total purchase money amount — High
	Unprofitable Customers	Potential Valuable Customers
	Small Customers	Most Valuable Customers

Low Total purchase money amount High

Fig: Customer profitability matrix

- Have a habit of returning products. Most organizations now have an unconditional return policy to facilitate its customers. However, some people have a habit of trying the product and returning it for no reason. These can be termed as non-serious and unprofitable buyers who cost the organization money. When the product is returned, its payment in full is returned and then this returned product cannot be sold at a regular price, this results in loss along with costs wasted in providing customer services to these customers.

Quantitative Analysis

The term "Customer value" has multiple meanings. One is the value which an organization provides to its customer. Whereas, the one we are concerned with means the value that is provided by the customer to the organization by buying its products and recommending it to others.

Profitable customers are those who are loyal to the organization and purchase their products on a regular basis. They also try new products manufactured by the same brand a well as recommend the brand to others. Organizations define a profitable customer as one whose business with the organization helps them overcome the cost they spend on manufacturing, advertising and selling the product as well as providing customer services for the product and this business keeps on increasing to help them gain profit.

We can say that the profit made by the company is the difference of the net money spent by the customer in purchasing products and the cost spent by the organization in acquiring and retaining that customer.

Marketing Actions

Hence, by using the above mentioned techniques and by applying these techniques to analyze customer data, the organization can find out who their profitable customers are and who the unprofitable customers are. They should then try to keep doing business with the profitable customers. If the unprofitable customers do not have a negative impact on the company, the company could try to find out why those customers are not helping them make profit and schemes can be used to attract those customers as well.

Maintain the Most Valuable Customers

As mentioned above, after finding out who the valuable customers are, the organization should try to keep doing business with them. The valuable customers of an organization generate most of its profit and it is absolutely necessary to retain such customers and keep them satisfied with the services. Value added services can be provided to these customers as well as overall improvement in service quality. They can be informed about new products and promotions and special attention should be given to them to improve their relationship with the company.

Let Your Unprofitable Customer Go

After organizations find out who their unprofitable customers are, they can take a decision about retaining them or letting them go. If these customers are costing the organization a lot of money, managers can decide to let them go but they can't just ask the customers to stop doing business with them. So, for this purpose, they can stop sending information about new products and promotions to unprofitable customers. They can also take an initiative of not providing them with good quality services. They can make the customer feel that he is not important to the company by increasing the waiting time for delivery of services or in case he calls the service centre to seek help. This would make him angry with the organization and leave. But there is a disadvantage with this as it would portray a bad image of the organization if that customer shares his experience with others.

Change Unprofitable Customer into Profitable Customer

Other than deciding to let the unprofitable customers go and stop doing business with them, the organization can also develop a strategy for continuing business with these customers in a way which would earn good profit for the company and perhaps, even make those customers profitable. A secondary strategy or a change in marketing and promotional strategy can be useful.

For example, instead of a direct discount offer, the company can have a "Buy one, get one free" offer. This would be a good bargain and yet still earn better profit as compared to direct discount. The change in strategies would force the customers to change their behaviour as well and this might make them into a profitable customers. Subsequently, the customer might end up leaving the company. Both cases are beneficial for the organization.

Evaluating Your Customers' Value, Segment By Segment

Every organization needs to gather customer data. This data could be about their name, age, gender, region, purchases, price-range of products bought etc. This data is extremely useful for finding out customer behaviour. When the organization knows about a customer's behaviour and the type of customer he is (profitable/unprofitable), they can use this knowledge to sort the customer into a certain group. These groups can be formed on the basis of similar age group, region, price-range, type of products purchased or similar behaviour. This makes it easier for the organization to plan a strategy about certain types of customers. The strategy can be made having a certain group in mind as target audience. This can help in improving quality services provided to the customers as well as improving customer's relationship with the organization.

After sorting the customers into different groups, these groups can be further studied and analyzed to find out who are the profitable customers? and who are unprofitable ones. This can be decided by studying factors like payment method used, value of items purchased and time taken to complete payment.

After analyzing who the profitable and unprofitable customers are, the organization needs to decide about continuing business with these customers. It is obvious that the organization would like to keep working with their profitable customers but the difficult decision is about retaining the unprofitable ones. For this decision, some calculations have to be done. The cost of retaining the customer and providing him services is compared with the cost of giving up the customer to competitors and then an informed decision is taken. In many cases, when organizations give up their customers, competitors seek advantage and develop programmes to attract those customers. Many times such customers end up becoming an important asset for their company. Hence, before letting these customers go, the management needs to decide if this would result in the competitors gaining an edge over them. Often organizations retain unprofitable customers just to keep them away from their competitors.

Another use of the creation of groups is that special promotional offers can be developed to target a specific group or segment. Whenever the organization launches a new product, introduces a new initiative or a new programme, it needs to calculate how long it will take for its target audience to become profitable. For example, in case of a first time buyer using mortgage services; it would take him around 2 to 3 years to pay off his debt and then maybe an additional 3 to 5 years to become profitable. Hence, the company needs to have a strategy to keep customers engaged with the organization for the time it would take them to become profitable customers. A good example is a mortgage company. When using mortgage services, the buyers have to keep doing business with their original dealer for the amount of time they become profitable. The terms of service state that if the buyer starts doing business with someone else in that time period, he would have to pay the original dealer. The time period is determined by the organization after analyzing the current situation and customer behaviour.

Hence, it is extremely important for an organization to gather information about their customers and also analyze that information to make strategies accordingly. This would help in the quality of products, improvement in services and would facilitate better communication and relationship between the customer and the organization. To sum up, we can say the reasons due to which organizations sort and group their customers into different segments are:

- To target new customers.
- To retain existing customers.
- To provide better service.
- To reduce risks of losing customers to competitors.

It is also important to make different strategies for targeting different segments of customers depending on their behaviour. Different segments have completely different behaviours. Therefore, each strategy must be unique and should be perfect for the segment it has been designed for. During strategy making, it has to be decided how the organization will communicate with the customers and how it will promote its services.

Should You Continue To Serve Unprofitable Customers?

The organization needs to make many key decisions. One of these is deciding the fate of unprofitable customers. Careful thought needs to be given to this matter. The organization can decide to let the customer go if the customer is impacting the organization in a negative way or if that customer is costing the organization too much money. However, it needs to be considered that if the organization lets its unprofitable customers go, the competitors might take hold of those customers and offer them great promotions to make them profitable customers. This means that even if the unprofitable customers are not giving any profit to the organization, it might still be worth retaining them to keep them out of the competitor’s hands.

So, decision should be taken after careful consideration as well as calculations. The organization should calculate the money unprofitable customers are costing them and compare it with the amount of money that they will yield to the competitors if they become their profitable customers. Organization also needs to analyze and predict whether they will remain unprofitable forever or have the potential of becoming profitable after sometime. Another important factor in making this decision is the values and beliefs of the company. If the organization is customer focused, it might retain them. Also if the organization is properly regulated, for example a water supply company, it has to provide basic services to even its unprofitable customers and can't really let any customer go.

How to Offload the Customers That Cost You Money

When the results of calculations and analysis help the organization make a decision that unprofitable customers need to go, a strategy need to be made to make sure that they stop doing business with the organization. For this purpose, the organization can choose to do just 'nothing'. This means that the organization does not need to focus on providing quality services to those customers. Also the organization should only compete with the offers of competitors by offering better promotions to other segments of customers. Using such techniques, the unprofitable customers won't be able to complain and the image of the organization will be retained as it is.

Another technique that the organization can use is not providing services to its unprofitable customers. They can instruct their staff to not handle or poorly handle their complaints. The waiting time for providing services can be increased for such customers. The organization could stop sending them information about the products and special promotional offers. All of these techniques, when implemented, would make the customer unhappy and annoyed with the quality of services that the organization provides and can ultimately cause them to leave.

However, there is one problem with implementing such techniques; the image of the organization would be portrayed in a negative way. People could say that the organization doesn't value its customers. The unprofitable customers could promote a bad image of the organization and could advise others not to do business with the profit. When profitable customers come to know of such behaviour from the organization, they could also stop business with them, thinking that the organization could do the same with them. Such a strategy could also cause internal destabilization in the organization and could make the employees question senior management's tactics.

Creating a Knowledge-Base about Serial Complainers

Serial complainers are customers who always find something to complain about in doing business with the organization. Be it a complaint about a product that they bought or continuous complaints to the customer service staff. Serial complainers are the kind of customers that no organization wishes to have.

Serial complainers usually buy products and return them, complaining that it did not meet the standards that the customer expected from the organization. The complaint could be that the product's features were not good enough for the customer or that it was too overpriced or any other random reason. Serial complainers also have a habit of constantly calling the customer service centres and lodging complaints about the product they bought. If not that, they could be asking for help.

Serial complainers can negatively impact the organization and its staff. Customer service staff could get annoyed by handling the problems of the same customer over and over again. This could also cause lowering of confidence levels of the staff. The organization needs to calculate whether it is worth resolving the complaints of such customers or not because they cost the organization a lot of money. Data needs to be collected about such customers and the staff of the organization should be briefed about the behaviour of such customers. They should also be trained to deal with such customers. The organization could also decide to share this information about their serial complainers to other parties as well as no one wants to deal with such customers.

How to Differentiate the Service Offering To Your Top 10 Per Cent

As mentioned earlier, every organization has different types of customers. Some that the organization wants to get rid of while the others are the ones who are responsible for creating profit for the organization. These are the valuable customers and according to research, usually the valuable customers constitute 10% of the total number of customers that the organization has. In order to retain these valuable customers and to keep them doing business with the organization, they need to be treated specially and different from how other customers are treated.

One way of giving special attention to these top 10% customers is by issuing them 'privilege cards'. This way, when the customer makes a purchase, he can present his privilege card and avail special offers and promotions from the organization. This would also guarantee excellent service from the staff he is dealing with. The organization should focus on having a good relationship with such customers and should gather all the details about the customer that they possibly can. This data can be stored in the database and whenever the customer calls a service centre for assistance, it can be found out that a valued customer is calling. In such a case, exemplary service should be provided to the customer.

The organization needs to make sure that their staff knows the importance of dealing with valuable customers. They should be trained to provide their best possible service to these top 10% customers. Some other things that the organization can do, to make its valued customers feel special are exclusive invitation to organization's events, special promotions, corporate entertainment, hospitality etc. The organization needs to keep interacting with its valuable customers to gather more data about them that would help them improve their services to the top 10% even further. This would help keep the profitable customers feel valued and happy with the organization.