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Is Your Customer Base at Risk?

You need to protect your existing business in tough times.



by Ed Emde

IN A CHALLENGING ECONOMIC climate, you may find that prospective customers are strongly focused on downsizing and cost cutting rather than on expanding their business or acquiring the latest new product features. Companies that may have been in growth mode last year are putting projects on hold, reducing capital budgets, and paying renewed attention to *cash management*.

In the face of retrenchment, it is increasingly costly and time consuming to develop new business. Now, more than ever, it makes sense to keep your existing customers close and invest in expanding business with companies that are already buying from you. But how long has it been since you took a serious look at the loyalty of your current customers—to your sales reps, your solutions, and your company? Have you earned that loyalty by consistently focusing on how to deliver value with each meeting? Have you checked in on how they feel you have serviced their needs? Or have you been taking their business for granted?

If you aren't sure of the answers to these questions, your business may be

at risk. In challenging economic times, your key customers are more vulnerable to *lower-priced offers* and *discounting*.

Regardless of how long you've done business together, you need to understand and protect your relationship with your best customers—the ones on whom you count to meet your goals for a stable stream of revenue and a healthy balance sheet for your company.



What can you do to protect your base from price cutters, and expand your business, even in these hard times?

First, reassess your relationship with each of your major accounts and determine how likely they are to consider changing suppliers in the near future. Then develop strategies to shore up your defenses and reduce the risk of losing

customers to predatory competitors.

What Are They Buying and Why?

To better understand the relationship with your key customers, answer these *six true-or-false questions*:

1. Our products/services are critical to how the customer does business.
2. Our products/services are interconnected with the customer's business processes or procedures.
3. The customer has invested in assets (equipment/products) we provide.
4. Price has not historically been a primary concern in this relationship.
5. Execution of delivery, restocking, and other aspects of how we do business are important, but not primary, reasons to buy from us.
6. The customer sees great value in *unique benefits* we provide (consulting, sharing information about technology direction, access to special services).

If you answered *true* to these questions about key customers, you are fortunate in having strong relationships with customers who will experience high *switching costs* if they change to another supplier. Switching costs include tangible costs (such as dollars, people, equipment, and procedures) and less tangible costs (potential business disruption, increased personal

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risk to decision makers, or the loss of “added value” benefits the company receives from its current supplier).

Customers facing high switching costs are less likely to change suppliers lightly. Still, even they may feel forced to make that choice if they are downsizing or under strong pressure to cut back on capital investments and find lower-cost, long-term solutions.

If you have key customers for whom the answers were *false*, you have business that is at higher immediate risk. If your customers see themselves as buying a commodity that is not highly critical to their business, they likely care most about factors that are easy to duplicate, such as price, delivery, and product specifications. They find it easy to change suppliers because their switching costs are low. They’ll experience few disruptions, and are not concerned about having to make new long-term investments or about losing highly valued benefits only available through your company.

Ways to Protect Your Base

You can protect against erosion of your existing relationships, and even expand your share of business, by focusing on how you can increase switching costs and reduce the probability of engaging in unprofitable price wars just to keep your current customers.

- **Look at how customers use your product or service offering.** If customers view your offering as a commodity, consider how they buy it, use it, and dispose of it or re-order at the end the usage cycle. Can you link to the customer’s ordering and purchasing procedures? Can you offer innovative solutions for replacing or recycling? Such links can be developed with any customer, whether their current switching costs are higher or lower.

- **Make sure you are performing at the highest level to meet customer requirements.** Consider not only whether your customers have invested in dollars, equipment, and procedures, but also what other sources of value you are providing. If they care about delivery, conformity to specifications, and quality, is your company aligned with how they need and want to buy? Make sure your company is performing in all areas to the highest standards. Identify ways to enhance and improve performance on critical factors.

- **Make sure the customer is aware of your value.** Don’t assume the customer understands the extent to which your company is meeting and surpassing their requirements with every interaction or order. Arrange a meeting with customer executives to provide an update on what you are doing to help them meet their business requirements.

- **Look for new ways to address the cus-**



tomers’ current business issues and concerns. Ask how you can provide additional value and benefits that will help the customer succeed. Consider the expertise of your sales reps. Since they are the first line of customer contact, can they serve as business partners in solving problems and advancing the customer’s goals? Developing innovative ways to impact business results will differentiate you and your product or service, and will create unexpected value to the customer. Perhaps your company can offer financial arrangements that will provide a solution to a cash-flow problem. You might be able to improve how you are delivering products or services to help your customers gain competitive advantage in their own markets.

Most sales reps spend more time preparing for calls with new customers than with existing customers. They believe they “know their customers” and that they have already won their loyalty. In fact, rapidly changing conditions are affecting your existing base just as strongly as they are affecting prospective customers. Maintaining a keen awareness of your customers’ issues and concerns and taking steps to strengthen your relationships can make the difference between falling behind and continuing to thrive.

Keep Relationships Strong

Assess your relationship-building capabilities. Do your salespeople leverage personal and company assets to safeguard customer relationships?

Every company is looking for an edge that will open the doors to new business and serve as a protection against erosion of market share. Some are focused on renewed attempts to differentiate a product offering, some are talking about “building the brand,” while others struggle to price-cut their way to a better revenue stream and higher profitability. These strategies can’t work for every company—only one can truly be the lowest-cost provider in its category, and few can achieve sustainable differentiation.

On the other hand, strong and enduring relationships are not dependent on product features others can duplicate or price cuts that can hurt the seller’s bottom line. These relationships offer a unique competitive advantage by delivering real business value deriving from the relationship itself rather than from a product or a price. The ability of a sales team to leverage interpersonal connections and business alignment becomes the key to maintaining market share even in an unpredictable economic environment. **SSE**

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ACTION: Strengthen your customer relationships.

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