



Building the Value of Your Business

**Three of Five - *Investing Your Time and
Resources in the Right Customers***

BUILDING VALUE:
*It is what we have been
doing for over 40 years*

Whether you want to build value for a future acquisition, build value to pass on to the next generation, or build value for your personal benefit, the JBL Specialists will use their years of experience and knowledge of best practices to help you reach your goal.

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Which Customers Do You Invest Your Time and Resources In?

It is easy to become overly dependent upon large customers because of the volume they generate or the volume they promise to generate. But in many cases the larger customers, while generating more transactions, are more demanding in terms of services and generate lower profit margins. In some cases, you are better off with less demanding higher margin customers.

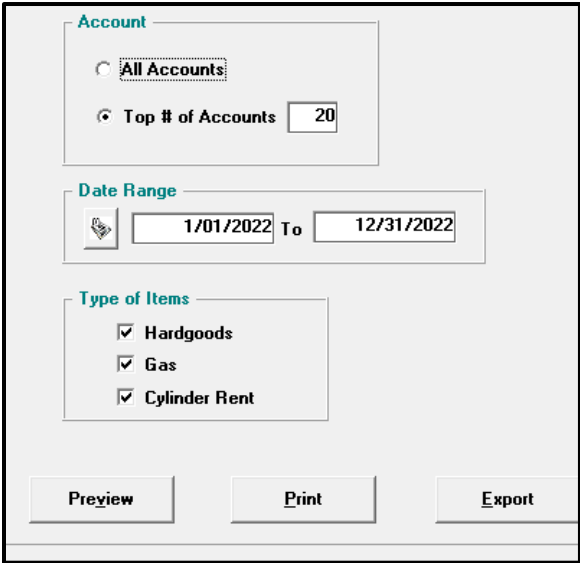
Of course, all customers are important to you. But not all customers are equal in terms of how much value they create for you. You only have a limited number of salespeople on your team and a limited number of hours to sell. Your sales team needs to prioritize their efforts on your top customers. But your top hard goods customers may not be your best customers overall when you factor in cylinder rent and gas sales. To help you get a clearer picture of the value a customer brings to your business, JBL has developed a unique tool that will help your sales team invest their time in the right mix of customers.

To explain how it works, let's start with the 80/20 rule. Everyone has heard the adage that 20% of your customers generate 80% of the sales. So, if all customers are important but some are more important than others in terms of revenue, how do you as an owner, general manager or sales manager guide your team to focus on the 20% of your customers who generate the most revenue while not ignoring the rest of your customer base?

The first thing you want to do is to rank your customers based on revenue. That sounds simple, just look at gross sales. But your company may place a higher value on gas sales than hardgoods sales because of the higher margins on gas sales. \$100,000 in gas sales is more profitable in most cases than a similar number in hard goods sales. And where does cylinder rental revenue factor into your evaluation of the importance of a customer? The answers will be different for every compressed gas distributor. But what you need is to be able to rank your customers by the type of revenue they generate, gas sales, hardgoods sales or cylinder rental revenue.

The Top Customer Query

Continuing with the 80/20 rule, if you have 500 customers, 20% would be 100 customers. So, you and your sales team



need to focus your attention on your top 100 customers. While the concept is to invest time wisely in your best customers,

you don't want to ignore the others. We will talk about them later.

The fastest and easiest way to identify your top 100 (or 200 or 1,000) customers is to use JBL's **Top Customer Query**

The Top Customer Query lets you pick the number that best matches your customer base. Using the 80/20 rule in the previous example, approximately 100 customers would probably generate around 80% of your sales. You choose the option: "Top # of Accounts" and enter 100. The date range lets you look at whatever period you choose. You might look at the last quarter or the last year.

After you enter the date range, you can select the type of revenues you want to see:

- Hardgoods
- Gas
- Cylinder Rent

When you are setting up your system, be sure you select the option to include cylinder rent in your sales history so you can make this comparison.

What you can see now is the number of customers you selected, and their revenues broken out by hard goods, gases and cylinder rent. The customer who has all hard goods sales may not be generating any (or minimal) gas sales and minimal cylinder rental income. Conversely, the customer with lots of gas sales and rental income may not have any real hard goods sales. Which one is more important to you? That is the

customer you will want to invest your time in.

Now Drill Down

In this analysis of your top customers, you want to know the revenue which you now have. But the second step is to analyze profitability. You do this with **The Investigator**. The Investigator gives you the ability to analyze profitability. This query will show you everything a customer has purchased from you and their total profitability. One customer may generate \$100,000 a year in sales and you make very good margins. Another customer may generate the same sales volume but at a much lower profitability.

The Investigator will let you drill down by customer, period or class of products to see how much profit a customer has generated on the selected product lines over the chosen period of time.

With these two tools you can identify your top customers and refine it based on profitability.

Now that you know which customers are generating the bulk of your business and which ones are generating the most profit, you now know which customers to invest your time in.

Earlier we said that you have an option to include cylinder rental income in your sales history so you can get a clearer picture of the revenue a customer generates. You also have an option to define what percentage of your cylinder rent is profit.

Each distributor has a different view on what percentage of the cylinder rent is profit. This option allows you to set the margin.

Keep in mind that any plan to allocate your resources is going to be directly impacted by the ratio of salespeople to customers. If you have 500 customers and one salesperson you will have a different plan than if you have 500 customers and five salespeople. Regardless, the important part of the exercise is identifying the customers you should be investing your time and resources into and eliminating overdependence on the wrong customers.

Invest in Your Customers

Focusing your attention on your top customers will allow your salespeople to invest more quality time with each one of them.

One powerful way to invest in your top customers is to go in armed with information that will help both them and you make educated buying decisions. One of the best ways to do this is for the salesperson to have available a history of what the customer has been buying.

This information is available through a series of customer specific reports that can be printed out before your salesperson calls on the customer.

But the best way to invest in your customers is to arm your sales team with

the right technology, either a laptop or a tablet.

The benefit of this type of investment is that your sales team can sit in front of a customer and help them with their purchasing decision. They can see what the customer has been buying, how much they have been buying and the type of margins you are making on each item. This helps your team make more educated pricing decisions on the spot.

By knowing what the customer has been buying, your team also knows what they are not buying which allows you to sell items the customer may need but are not getting from you. By looking at the history of purchases while talking to the customer your sales person might be able to see that while the customer has been buying oxygen, they are not buying CO2 from you. They also might not know you just took on that new line of Tillman gloves.

This approach gives your sales team the time to differentiate themselves from your competition by becoming a consultant as opposed to an order taker. The benefit to the customer is by showing them the quantity purchased over a given period, you can help them order the quantity that best fits their needs. If they buy 100 pounds of welding rod each month, they might benefit with a better price or reduced shipping charges by purchasing a larger quantity. You benefit by having to process fewer orders and maybe even a better price from your vendor.

In summary, knowing which customers are generating the most value for you allows you to invest more quality time with your most important customers; the ones generating the most revenue and profits for you. Your customers will recognize this, and you will see huge dividends in terms of future sales and customer relationships.

What About the Other 80%?

If you are investing a significant portion of your available sales time in the top 20%, what about the other 80% that only generate 20% of your revenue?

You don't want to ignore them. Small customers can become big customers as they grow their businesses. So showing them they are important to you when they are small will make them remember you as they grow their business.

Next time we will discuss an easy and economical way to show the other 80% of your customers that they are important to you by staying in touch with them on a regular basis.

Summary

Investing in your top customers absolutely increases the value of your business and helps you build a loyal customer base. Identifying your top customers is important to help you with the allocation of sales resources. But avoiding overdependence on larger customers and continuing to

promote your company to the 80% of customers with lower volumes is an excellent way to increase sales and build future value for your company.

For more information on any of the techniques discussed or for more information about JBL Solutions (DataWeld) call 800-334-1987 or email to sales@jbl-solutions.com.