



This article first appeared in the September issue of *My Business*  
– for more My Business articles please click here

**mybusiness**

[click here]

## RETAILING TONY GATTARI

# Find your most profitable retail customers

**REMEMBER THE 80/20 rule?** It says 80 per cent of your sales come from the top 20 per cent of your customers.

The rule might sound a bit clichéd, but it really does apply to most retail businesses. Nurturing that precious 20 per cent means focusing your retail marketing programs on those customers who drive your company's profitability, instead of expending too much effort on lower-profit customers.

Before you target your best customers, remember that profitability does not necessarily correlate with the amount of money a customer gives to your business. In many retail businesses, smaller sales can be highly profitable, while larger commodity sales can cost the company a lot to administer or deliver and have a lower margin due to increased competition.

To help you target your most profitable customers, here are four tips to help you unearth them:

### 1. Calculate acquisition costs

To assess customer profitability, you need to determine how much it costs your business to attract each customer. Many retail businesses will be able to get away with a cost-of-sales analysis that is much simpler than those larger companies use. Keep in mind that the cost-of-sales numbers produced through these calculations are averages, to be used only for rough evaluations of your customer base.

To conduct a simple analysis, first review the effort involved in closing a typical sale. Be sure to include expenses like a salesperson, direct mail, web site development or other advertising costs. Estimate the total cost of your outreach and divide it by the number of sales you close annually to do a "quick and dirty" analysis.

### 2. Calculate the cost of customer service

It is important to track your customer service expenses to measure how profitable your current customers are. The equation is similar to the cost-of-sales analysis. Apply costs for service-related items such as order-taking personnel, project manager salaries and delivery of your product or service to each customer. Estimate the average cost of servicing each customer by dividing by the number of customers you serviced during the year. If you need help determining key service expenses in your industry, ask your accountant for industry standards. Keep in mind that the cost-of-service figures produced through these calculations are averages, to be used only for very rough evaluations of your customer base.

### 3. Create a high-potential profile

With the two figures above and the revenue that each of your customer provides, you can determine a rough sense of individual customer profitability. You can use this information to develop a profile of your high-potential customer. Look for common characteristics and behaviours. Do they fit into specific demographic or geographic categories? Do they have certain shared attitudes or values? Do they make their buying decisions in a similar way? This profile will help you develop the most effective marketing programs to reach these targets, extend their value to your company, and attract more high-profit customers.

Some retail businesses might want to go a step further and develop a customer potential pyramid – a three-segment hierarchy that breaks out the company's high-potential, medium-potential, and low-potential customers. The purpose of this profile is to look for

marketing tactics to migrate customers into the high-profit categories.

### 4. Reallocate efforts around least profitable customers

In support of your focus on the top 20 per cent of your customer pool, you should make an effort not to attract unprofitable customers. Review your records for those customers who cost you valuable time and money and create a profile of them in the same way you built a high-potential profile. To the degree that you can, be sure that your marketing programs exclude these customers, to keep you efficient and profitable.

Since every relationship is an important link to other customers, try to avoid alienating anyone by telling them you don't want their business. Instead, just avoid focusing resources on them.

Finally once you reach your ideal customer the key is to delight them so much that not only do they come back, they tell all their friends and associates. Essentially they become raving fans of your business and work for you to get you more new customers

Remember the 80/20 rule and focus on not just attracting any customer. Be like a sniper, have a clear vision of what you are looking for and you will hit it. ●

■ The author is founder and Chief Energy Officer of Achievers Group. He is a much in demand passionate professional speaker, business educator, author and corporate business advisor. Tony has worked with over 140 businesses around the world.

Website: [www.achieversgroup.com.au](http://www.achieversgroup.com.au)  
Email: [tony@achieversgroup.com.au](mailto:tony@achieversgroup.com.au)  
Phone: 0410 538 521

As a special gift to *My Business* readers email me and I will send you \$60 worth of business building audio recordings free of charge.