

How to Increase Your Profits by Cultivating Your 'Top Ten Percent'

By Justin Hitt

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Not all customers have equal value to your organization; in fact, some customers are more profitable than others are. These profits come from the cost of service and total purchasing volume, not just individual product profitability. To cultivate these profitable customers, you first must identify them in your customer portfolio.

Your 'Top Ten Percent' customers are at the top of your ranking for volume, frequency, and profits per dollar invested. Group your customers by profits generated for your company, organizing them by 'Top Ten Percent', those 'Above Average', and customers with 'Below Average' profit earnings. Utilize statistical information and remember customers purchase multiple products, so do not use products as the only measure of profitability. Try to develop a full picture of each customer's contribution and expense to your organization, consider overhead costs as well as other expenses on a per customer basis. It is important to align your profitability measures with your corporate goals and always use measurable information – don't just guess!

Once you have arranged your customers by their profitability to your organization and have grouped them in the three groups mentioned above – you will get the most out of this strategy by determine the specific demographic differences between categories. Each customer tier will have specific demographic, preferences, and product expectations unique to that group. This analysis helps you better understand the differences between your customers, which enables you to serve their needs. It may be necessary to append your historical sales information with customer demographics from third party data in order to get a clearer picture of who your customers are in each category. If the differences are not apparent, then revisit this segmentation process and refine your profit measures.

Armed with a clear understanding of what makes your best customers most profitable and differentiates them from your least profitable customers; it is time to put this information to work. If for every 'Top Ten Percent' customers you could get another customer just like them, would you agree that your reward would be greater profits? In most cases, targeting your most profitable customers points your organization in a direction for gaining customers that will earn the company the most income for dollar invested. Distribute this newly gained customer profile to each of your sales and marketing people – this is your new target customer.

As your company changes its focus, to those most profitable customers, it should consider giving away its least profitable customers – if a customer is not profitable, stop serving them. Do not upset them; just orient your new services around the needs of those customers who are already profitable to your organization. Even consider charging unprofitable customers more so you can break even

on serving them. It may take a few cycles but eventually you can grow your 'Above Average' customers to be more profitable while reducing the number of customer you are serving at a loss. Over time, you will be rewarded for your efforts with an overall improved quality of customer.

Once you have obtained the larger picture of who your most profitable customers are and start addressing their needs specifically, your whole business strategy becomes more focused on the type of individual who already demonstrates the most real income to your business. This is not an easy strategy, but with the right measurable information and solid demographics, you are on your way to greater profits in your business.

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Justin Hitt, a management consultant specializing in strategic relations. Helping executive build stronger relationships that increase their profits. Learn more by visiting <http://www.justinhitt.com/>

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