



Management Strategies

Should You *Fire* Some of Your Customers?

You'd certainly be forgiven if you took one look at this headline and thought, "Are you out of your mind — fire customers in *this* economy?" But upon closer inspection, saying goodbye to problem or unprofitable clients is often a smart move, regardless of the economic environment.

That's right: You might be better off not doing business with some of your customers. Of course, this isn't a decision you should make lightly. Following is a structured process to help you decide whether to fire any of your customers.

How Profitable Are They?

The first step is to perform a profitability analysis. Determine what you consider to be a minimum level of profitability for your customers, and then have an open and honest discussion among your management team about any that fall below this level.

Just because a client is minimally profitable or unprofitable right now doesn't automatically mean you should fire them. For example, new customers may start out below your target profit level, but there may be a good chance of increasing your sales to them in the future. Can you cross-sell different, more profitable products and services to these customers to help bump up their overall level of profitability?

You may also have low-profit or unprofitable customers that are kind of like "loss leaders" for your business. For example, having a particular high-profile customer's name on your client roster might help you get your foot in the door with other clients, even if this customer isn't one of your most profitable.

Potential referrals are another factor to consider. Low-profit or unprofitable customers may have relationships and influence with other good prospects for your company that make them worth holding onto. For these reasons and more, everyone on your management team — as well as salespeople who may have a personal vested interest in the client relationship — should provide input before a final decision is made.

Other Factors

Profitability (or a lack thereof) isn't the only reason to consider firing a customer — here are a few other things to think about:

- **Does the client pay you on time?** The time, cost and aggravation involved in collecting past-due receivables from customers that consistently pay outside your agreed-upon terms may make

them candidates for the firing squad. You must create and maintain accounts receivable agings in order to identify these late payers.

- **Is the client overly demanding, or even abusive?** The old saying “The customer is always right” is only true up to a point. You need to decide what level of customer service demands are heavier than normal, but still within reason, and what level crosses the line. Continuing to do business with customers who are rude and abusive to your employees can send the message that you condone otherwise unacceptable behavior.

- **Is the client a good fit for your business?** Businesses change over time, sometimes in ways that negatively affect business relationships. For example, maybe you landed a small customer when you were first starting out whom you were glad to have, but that company now has a different focus that no longer fits with your company’s direction. In this case, you should make every effort to refer the customer to another company (see sidebar).

Sending a Wake-up Call

Sometimes, letting a customer know that you are considering firing them serves as a wake-up call that prompts them to change their behavior or practices.

If a customer voices a sincere desire to change in order to stay with you, it may be worthwhile to set a deadline by which time certain benchmarks must be achieved, such as a minimum level of profitability, on-time payment or treatment of your staff.

Sidebar

Breaking Up Is Hard to Do

If you do decide to fire a customer, do it very deliberately and carefully — in person, if possible, rather than over the phone or in an e-mail.

Keep it professional, and be prepared to explain exactly why you’re taking this action. Try to give the customer some advance notice, so they’re not left out in the cold without a key supplier. The best-case scenario is to refer them to another company (even a competitor) that is better equipped to help them. You might even be able to collect a “finder’s fee” from the company to which you make the referral.