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When is it Time to Fire a Customer?

BY Drew Greenblatt

One of the hardest things to do as a business owner is one of the most important.

My suspicion arose after a machine operator at my factory told his foreman he didn’t like working a particular job: It seemed impossible to hit his production bonus.

The foreman could have responded, "Well, go work harder then," but he knew the guy wasn’t a slacker. The time it took to build this particular job -- a customized housing made of sheet metal -- was simply much greater than the price at which it was going out the door. It couldn’t be built fast enough to meet the production benchmark to bonus.

The foreman related the comment to me. That triggered a cost analysis by our chief financial officer. And that led to a revelation: The job that was frustrating that machine operator’s wallet was also killing us.

We had priced that metal enclosure too low. We were losing hundreds of dollars on every product for that client, based on our cost of material and labor. It was a reminder: Job costing is an essential exercise, and it's often overlooked. Had I mailed that particular customer a check for $350 for each order instead of making the product, I would have been better off.

Our solution: We informed the customer we had to double his price. I deduced we'd win either way. Either the customer would seek another vendor and we'd stop bleeding money on his job or the customer would pay us enough to make that job profitable. If he quit, I could make more money doing less work.

How did we get into a fix on that one? We initially priced the job low with an understanding -- or at least a perception on our part -- that it would lead to higher margin jobs from that same customer later. Those richer jobs with higher margins never materialized. I don't know if we envisioned the initial order as a "loss leader," but in reality we were left with the loss without the "leader." We also had assumed that as we learned how to make that particular job, it would get easier and our cost of labor would go down, but it didn't work out that way.

Job costing is not a black and white exercise. Sometimes, a business will take a slim profit margin for the prospect of a longer, fruitful relationship or to fill capacity -- a quick sale on an empty hotel room for the coming weekend, for example, or a grocer's sale on day-old bread, or, in my case, an idle robot. But you have to continually assess the situation so it's not a black hole. Sometimes, you get so focused on winning an order you don't see the problems beneath the surface.

Here are four ways to ferret out bad jobs and get rid of them:

1. Listen to your employees. Had it not been for that first employee's complaint, we might not have identified the problem pricing on that job. Our product to them would have continued to roll out and their payment would have continued to roll in.

2. Share that focus. My salesman, whose commission is based on revenue and not profit, will lose money if this job goes away. But he realized it was a problem and didn't try to preserve it. He understood that a stronger company is a more sustainable workplace. You need to focus on profit, not just revenue.

3. Have a competent money manager. Crack job-costing by my CFO revealed the problem.

4. Leadership candor. My foreman didn't disregard the initial complaint and he didn't hesitate to relate it to me. He knows the character of the people who work for him, and he took the comment to heart.

That's the kind of openness and response that helps an organization get stronger. And helps ferret out customers who need to be "let go."

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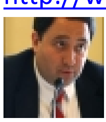
http://www.inc.com/drew-greenblatt/time-to-fire-a-customer.html



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