

How to build a valuable customer base



STEP 01

What is a 'valuable' customer base?

Your **customer base** is a critical component of your business' value. But how do you know if your base is 'valuable' or not? Start by asking the following questions:

1. How often do clients purchase from the business and what is the ticket size of their purchase?

The more often a customer purchases and the larger the ticket size (in isolation of other factors), the higher the quality of that customer.

2. How diverse is the customer base?

A firm with \$1M revenue and 10 customers is usually a much stronger proposition than a firm with \$1M revenue and three customers.

3. To what extent do those customers pay for what they buy?

A quality customer is one who pays on time. If half of a business' customers are in arrears 90 days you have to question whether the business has a quality customer base.

4. What market are the customers operating in?

It's no good having customers in a market that is suffering, unless the business has a proposition that can make money in that situation. You must look at both the quality of the customer and the quality of market they operate in. Diversity of market exposure is important.

STEP 02

Don't take the customer for granted



There is a risk that people in business will just sit back and expect customers to come to them. For a start, no one has to deal with you, so don't take the customer for granted. That's old business economics. Secondly, by sitting back and thinking 'business is good - I'm busy - I'm servicing customers', you're not designing the outcome that may be best for you and dynamically servicing the changing needs of your customer in the future.

It's important that customers' needs are met, but it's also important that the business's needs are met.



STEP 03

Have a plan

The key is to have a deliberate strategy for building a quality customer base. Ask yourself:

- What is my business providing to the market?
- What's the size and geographic spread of each market?
- What are the customers' needs in each market?
- What's the special thing I'm bringing that no one else can bring i.e. what's my point of difference?

1. Now do a mud map of the potential customers that would see value in your proposition.

2. Consider how you can penetrate that market, but don't seek market share for the sake of it. It must be profitable market share.

3. Once you've figured out what your customer portfolio needs to look like, you need to figure out what business model will deliver to that.



STEP 04

Think strategically

When you're building a customer base, **you're building a portfolio**. That portfolio needs to:

- provide you with a **return in the short term, medium term and longer term**;
- contain customers of different sizes and shapes, and from different markets, that can offer a portfolio of different revenue streams.

As a business owner, take the time to sit back and look at your customer base analytically.

You may see 'I've got a gap here', or 'I've got business lines a, b and c, but all my customers are in business line c - how do I add diversity?'

This sort of thinking makes you more attuned to the environment and the markets you're exposed to, rather than the business you're working in. It's about **being deliberate in getting a diversity of quality customers**.

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