



## ADAMS ON PVF Supply

■ by Joan Adams

# A Little Pruning – A Lot Of Growth

*More of  
everything is not  
necessarily  
better.*

Over time, all companies increase their number of customers, products and vendors. A careful sorting of these three important groups can show you where you are making money, breaking even and losing money.

Call these groups *Platinum, Gold and Bronze*, and start thinking about ranking all your customers, products and vendors to help you understand which are the most strategic for growth – and which are not.

All customers are not alike, and there is no reason for your company to treat them the same. In most companies, a small percentage of customers (the Platinum group) brings in the largest chunk of the revenue.

You should analyze customers by looking at their contribution to revenue, their average profit margin, their on-time payment performance, their special needs (if any), their strategic importance (Is this customer growing? Does this customer buy high-margin products?) and customer activity (Does the customer buy one or many products from you? Does the customer have a consistent buying pattern?).

Analyzing all your customers using these criteria will show you who the Platinum customers are and what the Platinum customer profile is. Platinum customers contribute to cash flow and profitability, have consistent buying patterns and are strategically important. They represent about 20% of your total customer population.

The Gold customers are good customers. They just don't contribute as much to the growth and stability of the company. Many Gold customers have the potential to become Platinum, and this is exactly what your sales force should focus on with them.

The Bronze customers have slid over time. They have special demands, they buy erratically, and they don't buy much, or they buy low-margin, outdated product, and they pay late. These companies are costing you money. As long as they are in the bottom 20%, they don't merit special treatment. Get them to pay up front.

Be sure to quote them prices with a hefty margin — something to cover the cost of servicing these clients.

### Products

All products are not alike, either. Many companies figure out the purchasing and handling costs, and add some “standard margin” to the price. This is not the best approach to pricing, as all products are not equal. Some products are more important to the growth and even the survival of the company. As with customers, a small percentage of your products brings in a large part of your revenue.

You need to examine all your products to understand their contribution to revenue, their average profit margin, as well as any special handling requirements, and of course, the product's strategic importance. (Is the market growing for this product? Does one of your strategic customers require this product? Is the product unique, patented or protected in some way?) You should look at the sales activity of products as well. Regular, steady sales are the best.

Platinum products are those with high margins, are new/unique and show sales growth. You will also see which products are your Gold products. They may have steady sales, but no uniqueness or slowing growth. These products are good, solid cash cows – there's no reason to dump them – but realize some are on the way out. Lastly, this will identify the Bronze products, those products that have lost their uniqueness and perhaps are suffering from the introduction of overseas competitors. They typically have eroding margins, plus slowing or erratic sales.

### Vendors

Vendors are as important as the customers and the products. They are your lifeblood. Some vendors perform better than others. Over time, companies tend to collect many vendors, and yet at the same time find themselves completely dependent on one or two vendors for key components. This can be a dangerous situation.

It is time to look at the total vendor pool and evaluate them according to how easy they are to do business with. Are the vendors healthy? Do they deliver your products on time? Do they deliver quality products and deal effectively with quality problems if and when they arise? Are their lead times short, and are they working on getting those lead times shorter? Do they require you to buy large quantities? Do they offer other services, like managed inventory or weekly deliveries?

Platinum vendors deliver on time and frequently, and have little or no quality problems. Gold may have longer lead times, require bulk purchasing and have the occasional quality issue. The service level of the Bronze vendors is slipping. Lead times are getting longer, they consistently miss their delivery date and their quality has become shoddier over time.

### The Impact

Sorting out your customers, products and vendors into these three categories will help you better manage your resources and will make you more profitable. You will know where to focus your efforts. You will be able to see which customers, products and vendors are the most important to your company's bottom line and to its growth.

Here are some of the benefits of performing a strategic evaluation of your customers, products and vendors:

#### Understanding your customers –

- You will increase both sales and revenues by focusing on your “Platinum” customers.
- You will reduce sales force costs. Sales will target customers with a Platinum profile.
- Platinum customers pay on time – increasing cash flow.
- Sales will develop programs to bring “Gold” customers up to the Platinum level by increasing sales volumes and/or margins.

- By reducing the level of service and requiring upfront payment, you will no longer lose money on Bronze customers.

#### Understanding your products

- Now you know which products to stock (you never want to be out of stock on a Platinum product), resulting in increased revenues and margins.
- You will know which products sales should present to customers as new and unique (increased margins).
- You can increase the price on slow-moving items (in order to cover the cost for carrying inventory).
- You can decrease the amount of Bronze products on hand, freeing up warehouse space, and reducing inventory and warehouse costs. (Charge them extra for special or rush orders.)

#### Understanding your vendors

- Demand quality and frequent delivery from vendors – this will prevent the aggravation of returns and will free up warehouse space.
- When possible, find two vendors for your most important products (allow vendors to compete for your business).

### The Program Plan

You probably have the customer and product data. You will have to start tracking vendor performance. Keep a log of every time a vendor's shipment is late or there is a quality problem: a product defect, a short delivery, a billing error.

Put together a ranking matrix that ranks company priorities and run your customers, products and vendors through the matrix. You must have at least three criteria for customers, products and vendors. Give the most points to the things that are the most important to your company.

- **Customers Ranking.** For your company, revenue may be the most

important – so revenue gets three points, timely payments get two points, margins get two points and customer buys new products gets one point.

- **Products Ranking.** Revenue gets three points, “newness” gets two points and margin gets one point.

- **Vendors Ranking.** Short lead time gets three points, frequent delivery gets two points, quality gets one point and company health gets one point.

Run all your customers, products and vendors through the ranking. Now you are ready to develop action plans for the three groups.

Bend over backwards for those Platinum companies, products and vendors. They are strategically key to the success of your company.

Push and prod those Gold companies toward Platinum status.

And look very hard at the Bronzes. They are using up the same amount of resources as the Platins and Golds, and they don't deserve it. You don't have to dump them, but you don't need to subsidize them any more either. <<

*Joan S. Adams has consulted for industrial clients for more than 15 years. She headed DITT, the consultancy arm of the French National Utility, Electricité de France, and was a managing consultant at A.T. Kearney. Later, she started Pierian, a consultancy that brings sustained and measurable success through operational excellence, customer focus, and competitive market strategy. Joan Adams speaks French and Spanish. She has worked on projects in Europe, Central America, Africa, Asia as well as North America. She has engineering degrees from the University of Wisconsin-Madison and MIT. She also has an MBA from the Wharton School. She can be reached at adams@pierian.net.*