



The Raphel Report

**Observations on marketing,
advertising, sales and
promotions
by Murray Raphel,
Chairman, Raphel Marketing**

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Selecting the Best Customers for Your Business

The climax of every episode of Donald Trump's hit TV show "The Apprentice" is when "The Donald" gathers the candidates in his boardroom, looks one of them straight in the eye, and says, "You're fired!" (Or, like last week, when he fired four at a time.)

Ouch. Firing hurts. But you have to take the same attitude to some of your customers. If they're costing your business money, or if they don't fit into your market niche, you may have to get rid of them.

Sol Price founded Price Club, the first store that only let customers shop if they belonged to a certain group or paid a fee to be allowed to shop. Price Club was the predecessor of stores such as Sam's Club and Costco, which offer their merchandise only to members.

Sol Price believed in the concept of "the intelligent loss of business." The intelligent loss of business is achieved by only meeting the needs of customers who agree with the goals of your business. For example, if you sell high-end jewelry you may decide not to carry imitation diamonds for people who cannot afford your products. On the other hand, by opening a store that only sells items for less than one dollar, you are turning away people who want higher priced brand-name merchandise. In both cases, your store format declares your willingness to lose a portion of the marketplace, in order to concentrate on the customers you want.

Sol Price only wanted to deal with customers who believed in his philosophy that his stores were the "purchasing agent of the customers." The foundations of Price's business model were:

- The retailer would try to buy merchandise at the lowest price from the manufacturer, charge the bare minimum markup to the consumer, and stand behind the quality and workmanship of the product.
- Price Club would engage in very minimal advertising.
- Price Club would not let consumers use any form of credit.
- Price Club would charge customers a yearly membership fee to defer its expenses.

Like Price, you have to determine where you want to exercise the intelligent loss of business. You can choose to limit variety to increase your specialization and inventory on items you sell best. You can make it harder for people without loyalty cards to buy merchandise from you at discount prices.

Many companies who have adopted loyalty programs have made the determination that a portion of their customers is not contributing to the bottom line. In fact, many supermarket companies have increased their net profitability 30 percent without increasing gross sales at all.

How do they do it? Supermarkets have traditionally offered specials that were available to all of their customers. Supermarkets with loyalty-card programs only offer the specials to customers with loyalty cards; the rest of the customers pay much higher prices. Thus by instituting a loyalty program, they can offer specials but still receive high markups from customers who do not bother to sign up for a card.

Even more important than discouraging unprofitable customers are promotions and marketing initiatives to encourage profitable customers. Businesses that are successful at gathering customer information are ahead of the curve in providing benefits to their best customers. They can:

- Have private parties for certain customers based on their spending habits.
- Offer bonuses (free turkeys at Thanksgiving, 20 percent off any shopping trip, a free pair of sunglasses) to customers who meet specified spending criteria.
- Offer rewards such as tickets to sporting events and/or artistic performances and/or museums and zoos, based on amount spent over a specified time period.
- By offering special benefits, retailers can make reward programs the core of their business. One example of this strategy comes from Best Buy, which began its “Reward Zone” loyalty program in 2002. Within two years the company had signed up more than 3.5 million customers for the loyalty program.

Best Buy’s program costs members \$9.99 a year. Some of the benefits to members include the following:

- They get exclusive free CDs.
- They are allowed to critique new music releases.
- They are invited to sneak previews of hit movies and attend other members-only events, such as getting free tickets to music festivals.

Future possibilities for the Best Buy program include tiered membership (where rewards vary according to your tier) and a possible business-to-business program.

Any business can develop ways to practice the “intelligent loss of business” and the “intelligent encouragement of business.” Knowing how profitable your customers are can be a very important feature of your loyalty program – for selecting the best customers for your business.