Increasing Profitability

Segment

Know your most profitable customers, industries served, products, services, markets and locations.

Why does customer and segment profitability matter?

Grouping customers with similar characteristics and targeting specific markets helps identify the prospects (or existing customers) who will be responsive to your marketing and sales efforts. Designing the right products or services using the channels, positioning, and offers preferred by each customer segment will minimize your sales and marketing costs and increase your profitability. Profitability points you to the areas where you are delivering the most value to your customers, where you are doing things better than the competition and where you have figured out a way of doing things with special appeal to the market. Monitoring customer and market profitability allows you to properly allocate your time and selling resources where they can have the greatest impact and where your customers vote with their wallets in endorsing your most valuable products — areas where you should concentrate your efforts.

Key actions to take:

- **Assign direct costs to customers and jobs to track profitability**: Most businesses track basic direct cost information such as labor and materials. Build on this information by setting up your accounting structure to assign direct costs to jobs and customers. Work with your staff and financial management software to revise how cost data is gathered to tie it to specific jobs. You might want to implement timesheets or other record-keeping tying hours to specific jobs and customers. If time-tracking is not feasible, you can estimate these costs as well and get an approximation of labor inputs. You will then be able to assess profit margins on specific customers, products and services.

- **Use customer-, product- or service-level financial reports to focus on driving higher profitability**: With your newly organized data, you will be able to generate profit and loss statements by product, project/job, customer or market segment. By filtering profitability reports based on the categories you have developed, you can now quickly generate reports showing profit margins with specific insights about your most profitable products and customers. For example, you may find that certain products cost more than you thought because of expenses that were previously disguised when only looking at costs in aggregate. If you have done a good job of segmenting and focusing on selling efficiency, you may have already lowered your selling costs for your products. As you now look at profitability considering all costs, you can prioritize and allocate resources to the most profitable products, customers, locations and market segments.

- **Immerse yourself in the customer buying process**: At the core of market segmentation is a deep understanding of your customer, including what motivates that customer.
to look for a solution to a need, how they choose among competitors and what triggers them to make a purchase. Look at a current customer’s or prospective customer’s behavior patterns, interests and buying preferences. Identify commonalities in shopping behaviors, channel preferences, product research activities and valued services as they make buying decisions. It might be useful to review the last ten purchases — more as appropriate for your business — and walk in the customers’ footsteps, noting customer demographics, industry, history with similar solutions to yours, and steps along the buying journey. Small businesses often derive a competitive edge from finding, reaching and serving customer niches better and more efficiently than larger companies.

- **Target marketing/sales strategies for efficiency**: With an understanding of your customer segments, you can then set marketing/sales and production plans to effectively target and service these groups. Well-designed product/service strategies find niches where you won’t need expensive, broad marketing spending. Tighter messaging and positioning to connect faster with the customer and speed the sales cycle minimizes your sales and marketing costs and increases your profitability. Further, these plans will allow you to prioritize and allocate resources to the most effective method, decreasing resources used for less profitable strategies. Use profit margins to forecast and benchmark throughout the year so that you can make the necessary adjustments to your marketing approach.

- **Nurture and grow the profitable segments**: Profits are the clearest sign that whatever you are doing should be supported and expanded to grow share. Spend on the products, customers and markets that are creating profits. The result should be increased loyalty, retention and more profits by supporting your winning products and services. You can leverage your loyalty even further by cross-selling additional products and services to build on your goodwill and generate more profits from your leading offerings.

- **Prune the unprofitable**: Products that are costing you time and money can be a drain on your financial and management resources. One of the quickest ways to free up time and money while still making a profit is to actively manage your most unprofitable customers. This can be done by raising prices, changing terms and/or renegotiating contracts to reflect your “true” economics. You might also consider cutting back or even dropping your most unprofitable product lines.

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Click below for additional resources:

- **5 Questions to Ask When Focusing on Your Target Market**
  Steps to identifying your target market.

- **Optimizing Your Pockets of Profitability**
  Use accounting history to create meaningful customer groups.

- **From the Export: Understanding Focus**
  Identify your target market to clarify your company’s goals and objective.

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1 SunTrust conducted research with 397 small business owners ranging from $100,000 to $2,000,000 in annual revenue in the first quarter of 2017. The high-growth segment was derived from the fastest growing twenty percent of those companies.

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