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By Ian Gordon
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Relationship demarketing: Managing wasteful or worthless customer relationships

Some managers, perhaps many, have been tempted to hit the "delete" button when dealing with troublesome or unprofitable customers. In fact, dropping customers or "demarketing" should be built in to a company's practices. As this author writes, the gains from relationship demarketing would be very large if the strategy allowed a company to focus its resources and strengthen its relationships with the customers who matter most.

By Ian Gordon

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Customers that frequent Best Buy stores fall into two categories, says the electronics retailer: "angels" and "devils." The angel customers are apparently less demanding than the devils, and spend more money on expensive, new technologies. Devil customers, on the other hand, seemingly buy products, apply for rebates, return the purchases, and then buy them back at returned-merchandise discounts. They ask the store to honour their lowest-price pledge by finding prices quoted on the Internet. In the words of Best Buy's CEO, Brad Anderson, devil customers "can wreak enormous economic havoc."

This article is about demarketing those customer relationships a company does not value.

Customer portfolio

Companies have paid much attention to managing the attitudes and behaviours of their customers for better

business results. However, they could do more to improve their performance if they also upgraded their mix of customers. Most companies manage their product markets more or less like investment portfolios, which makes sense if the main assets of the business are product markets. But if customers are seen to be the most important assets of the business, the firm must think in terms of customer portfolios, and allocate its resources to achieve profitable long-term relationships.

One way to assess a company's customer portfolio is to use a matrix similar to that described in Chart 1. By building relationships with preferred customers and managing other customer relationships for greater lifetime profitability and strategic value, companies can improve business performance. Banks, for example, encourage their perceived run-of-the-mill customers to use ATMs and Internet banking, reducing the cost of service delivery and improving profitability. Companies such as Bell, Rogers and Sears Canada seek multi-channel and multi-service relationships to achieve more complex relationships with desirable customers, which increase the strategic value of these customers.

Chart 1: Customer Porfolio

		High	
		Manage for greater strategic value	Buld deeper relationships
Lifetime Profitability	Low	De-emphasize or demarket	Manage for greater customer profitability
			Low High
			Strategic Value

The wrong customers are wrong

It is often said that the customer is always right, but most businesses know this to be a trite saying. Only the right customers are always *right*, and that is because these customers fit the company and the company wants to keep them. The right customers are satisfied. They derive value from what the company does and are aligned with the firm's processes and communications. They provide referrals and positive word-of-mouth. They make money for the company. They are the company's future.

On the other hand, customers who are not profitable now and who probably never will be, and who are perpetually and demonstrably unhappy, are the company's past. They are anchors to improvements in future performance.

If the right customers are right, the reverse is true, too. The wrong customers are wrong and should receive differential treatment. In some cases, customers that are wrong for the company's present operations might represent an opportunity for a new line of business or an entirely new venture, but in general, the company needs to consider how to handle customers that do not fit with the firm's future. This different handling can involve de-emphasizing some customer relationships and extend to demarketing the wrong customers, an initiative that requires finesse.

Before deciding whether to cultivate the wrong customers, a company should assess the gains to be had by improving its customer portfolio. How much more profitable would the company be if it had no bad customers in its portfolio? To answer this question, a firm must know the full costs it is incurring by retaining the wrong customers, not just the costs that typically precede gross margin on the financial statements. For example, what are the costs to serve and communicate with the wrong customers? What rebates or unauthorized discounts do they take? What are the costs of restocking returned merchandise? How much does it cost the firm to collect aging receivables, and so on? If the benefits to be had from shedding bad customers from the portfolio are material, the risks can be considered and the overall decision weighed to determine whether and how to proceed.

De-emphasising the wrong customers

Once companies have grouped the customers in their portfolio into clusters that reflect customer importance and have assessed the gains and risks of customer portfolio management, they know who the right customers are and where to invest to increase value to both customers and the company. They also know where not to invest and where to cut spending. Retailers and credit card companies, for example, cut inappropriate customers from their marketing lists so they do not waste money on advertising, special offers or other communications.

More generally, companies should differentiate customers and have plans for interacting with and engaging, transacting and satisfying them. Some companies identify their worst customers by name and by considerations such as contact history, purchase history, RFM (recency, frequency and monetary value of purchases), demography, behaviour profile, share of customer expenditure, customer satisfaction measures, and so on. A car rental agency examined attributes relevant to its business customer rental behaviours, prices, cost to serve by ordering channel, the likelihood of the customer reserving but not renting a car to assess customer profitability and decide how best to manage different types of customers. A small percentage of customers in this business contribute overwhelmingly to profitability; it wants to identify those who contribute and manage the others in the best interests of the company.

Best Buy has training programs for its sales representatives that teach them how to identify customers who fit into one of five angel profiles based on their behaviours, demography and interests, and how to manage these customers accordingly. A quick sales "interview" with a potential customer who enjoys a weekly movie night results in this individual being steered to the store's home theatre equipment. Some customers are directed to a private room where expensive equipment is on display in front of easy chairs and a leather couch, with popcorn at hand. Customers who do not pass the salesperson's screen receive less time and attention, and are de-emphasized, freeing up staff to focus on more likely prospects.

Even companies that are dependent for their livelihood

on a few major customer accounts can find ways to de-emphasize the least rewarding relationships, perhaps by concentrating the relationship on decision makers in departments other than purchasing. Of course, this is not always possible. For example, some suppliers report that the more they sell to the big-box retailers on whom they depend, the more suppliers actually lose. It is not a small matter for companies to deal with this problem and, at the same time, retain their big-box customers.

Demarketing customer relationships

Demarketing is a familiar concept in relation to market segments. For decades, companies have balanced supply with demand by cutting back marketing investments in segments where demand exceeds the company's willingness to supply. The process of demarketing a product or behaviour is defined as "... attempts to discourage customers in general or a certain class of customers in particular on either a temporary or permanent basis." ("Demarketing, yes, demarketing;" Kotler, Philip & Levy, Sidney J., *Harvard Business Review*, 1971, Vol. 49, No.6, pp.74-80).

In companies where relationship marketing concepts are well developed and technology investments have made it possible to individualize customer treatment, the opportunity exists to discourage the "wrong" customers from doing business with the company. This is called relationship demarketing.

Best Buy decided that 20 per cent of its customers were wrong for the firm. For some companies, this would be a conservative figure. The gains that accrue from relationship demarketing would be very large if this strategy simply allowed a company to focus its resources and strengthen its relationships with the customers who matter most. But there are more, bigger gains for companies that rid themselves of unproductive relationships, depending on the company's current position.

Institutionalizing demarketing

As well as knowing which customers to demarket, a company requires institutionalized processes and responsibilities, training and skill to manage the severing of customer relationships. Prior to a demarketing initiative at a major financial institution, senior executives were

briefed on the company's official position so they could respond in a uniform way if complaints emerged. Demarketing meetings with customers should be scripted and role-played in ways that encourage them to make choices aligned to their own needs. Then, if demarketing occurs, it will be a joint decision and less likely controversial.

Unfortunately, most companies have not adopted comprehensive plans to manage relationship demarketing. For one thing, it is not a good idea to ask the same people who are responsible for building relationships to also take care of demarketing, since their positive attitudes may be contaminated in the process. People who implement demarketing must know how to communicate and, more generally, must know how to protect the company's market, financial, regulatory and legal interests in the short and long term. Know-how and experience reduce the risk that the customer will be badly managed. While good customers can be forgiving, there is no such expectation from demarketed customers. No customer is more damaging to a company's reputation than is the customer scorned.

When Best Buy considered angel and devil customers, it knew there could be marketplace repercussions. As the CEO said, "The most dangerous image I can think of is a retailer that wants to fire customers." It likely has not been helpful to Best Buy that a *Wall Street Journal* on-line article about its initiatives received a great deal of attention. Subsequently, Best Buy has received negative mentions in blogs and underground communications.

Companies would do well to focus on relationship marketing with the right customers, and to avoid mention of demarketing the wrong relationships. Demarketing happens all the time and most customers do not even realize that it is happening. Consider the example of a financial institution that restructured its network. The right customers with accounts at branches that were shutting down were invited to move their accounts to nearby branches, while the "wrong" customers were simply asked to close out their accounts. These customers were probably unaware they were being demarketed.

Concluding comments

There are significant risks attached to ridding a company of its worst customers. Even bad customers have a constituency, and the more influential ones among them

will act to erode the company's goodwill. Some companies choose to deal with devil customers rather than run the risk of getting rid of them. However, when companies accommodate the wrong customers, the firm commits itself as much to the past as to the future, and may never achieve its performance potential. By understanding which customers merit relationship demarketing and which should be de-emphasized, a company can increase its profitability. Moreover, the devil customer who lands at the company's competitor - and proves to be a bad fit there as well - becomes somebody else's problem, so the company wins on two fronts. ■