

# never finished

## It's Time for a CUSTOMER Scorecard

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Many are familiar with the “Vendor Scorecard.” This is the document received from your customers from time to time that scores performance in the areas of delivery, quality and service. The Vendor Scorecard is a useful tool that enables

your customer to quantify your value as a supplier.

But is there a tool that enables you to evaluate a specific customer's value to your business? The answer is “Yes”—the *Customer Scorecard*.

Throwing tact out the window for the moment, I'll say it straight. While every customer relationship has value, some of your customers are more critical to the success of your business than others. Measuring each customer's relative importance to your business will enable you to make objective marketing, pricing and service decisions that will benefit your company's long-term performance.

I advocate the use of a Customer Scorecard that rates each of your customer relationships. In general terms, the value of each customer to your business can be quantified on the basis of the “3 M's,” using the following equation:

**Magnitude + Maintenance + Margin = Customer Relationship Value**

**Magnitude** is the annual revenue for each customer relative to your other customers. To your largest accounts, assign values of 9 or 10, to your smallest assign values of 1 or 2. Rate those accounts in between from 3 to 8 depending upon their relative size.

**Maintenance** represents the amount of time and resources that are required to service each individual customer. Most surface finishers would agree that some customer relationships require more attention than others. Regularly expedited orders, accuracy of incoming piece counts, substrate variability and unique inspection requirements are just some examples of circumstances that make certain customers high maintenance.

A global provider of PCB and electro-mechanical manufacturing services, Via-systems, Inc. has extensive powder coating and electrocoating capabilities. According to Director of Business Development—Enclosures and Metal Fabrication Kiki Nimtz, “We make it a point to consider all customer expectations in the evaluation our customer relationships. Frequency of expedites, the degree to which unique requirements fit our standard procedures and the accuracy of customer supplied information all affect the resources required to properly service a customer.”

Assign the lowest scores (1 or 2) to your highest maintenance customers and the highest scores (9 or 10) to the customers requiring the fewest resources to support. Score the remaining customers accordingly.

**Margin** is the amount of profit (as a percentage of revenue dollar) built into your pricing for each customer. If your business is like many surface finishing companies your profit margin per sales dollar likely varies somewhat from customer to customer.

The more refined your pricing strategy, the more closely your Margin and Maintenance scores will be correlated. For instance, it would follow that a customer requiring a significant

amount of resources would pay a higher price. Unfortunately, this is not always the case.

Jim Lindell is president of Thorsten Consulting Group, Inc., a Wisconsin based provider of strategic and financial consulting services. Lindell states, "In my experience, suppliers often fail to align pricing with the 'hidden services' provided to high maintenance customers. If the services provided to such customers are not reflected in the customer's price, it is often the low-maintenance customers that end up absorbing the cost of services they don't require."

Thus, it is possible that you are not only under-charging your high maintenance customers but over-charging the customers that are the least costly to support. Should a customer in the latter category decide to shop price, you could be the least price competitive in the business that you most want to keep. In this case, your risk is that your low maintenance/high margin customers find another source, leaving you with the customers that require large amounts of resources to support but provide little profit.

Score your highest margin (as a percentage of sales price, not in total dollars) customers at 9 or 10, and your lowest margin customers at 1 or 2. Then score the remaining customers between 3 and 8 based on relative profitability.

Add together your Magnitude, Maintenance and Margin scores for each individual customer and then rank your customers in descending order by total score. A large customer, requiring few resources to support and from which you derive an attractive profit will score at or near 30. A small, high maintenance, low profit customer will appear near the bottom of your list. You have now quantified which customer relationships are the most important to your business.

Make certain that you have an active strategy to retain the business of the customers at the top of your list. For the customers at the bottom of the list, set a minimum benchmark score that you will accept for any individual

customer. If a customer score falls below this benchmark, change is necessary. To move the customer above the minimum benchmark, you can either increase Magnitude by obtaining more of that customer's business, increase the Maintenance score by reducing the high-maintenance accommodations you agree to make for the customer or increase Margin by raising price.

Regularly evaluate your customer portfolio with the "3 M's," ensure that the customers most vital to the success of your business will remain your customers for years to come and take the action necessary to maximize your bottom line.

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