

allocating time to customers

The important few – the unimportant many

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Theoretically, for every customer, there is a call frequency that will give you your maximum volume, or profit, per call. There is a bell-shaped curve for every customer – a little curve for a little customer, a big curve for a big customer. The maximum return per call might be realized from 3 calls per year for one customer, 6 for another, and 17 for another.

It's just not practical to establish a different call frequency for each customer, however, so we advocate using a short-cut. Presented here is an accurate method of allocating your time based on both your present and your potential business. This method, which requires you to divide your customers into three categories, is based on a principle we call 'IFUM' – the Important Few and the Unimportant Many.

Rank your customers

This principle – and it works for every salesman who spends most of his time making repeat calls on regular customers – states that if you rank your customers by volume, the 15% of your customers that are the biggest give you 65% of your volume; we'll call those the A accounts. The next 20% of your customers – call them the B accounts – give you 20% of your volume. The rest of your customers, 65%, give you only 15% of your business. That breakdown is represented in Fig. 1.

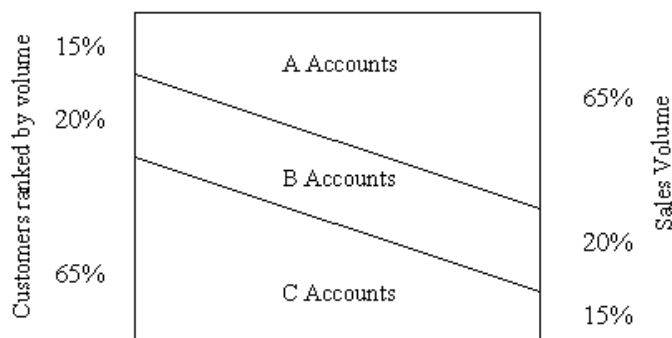


Figure 1.

Those percentages hold true whether you rank customers by volume, by profits or by units. Different bases of classification might change the specific customers that fall into each category, but the percentages would be about the same. This principle applies in most industries, and it applies whether you have 20 regular customers or 200. To show you how it works, let's create a hypothetical salesman who sells to 200 customers, an effort worth an annual volume of \$500,000 (See Fig. 2. overleaf).

A hypothetical case

200 customers

\$500,000 in Sales

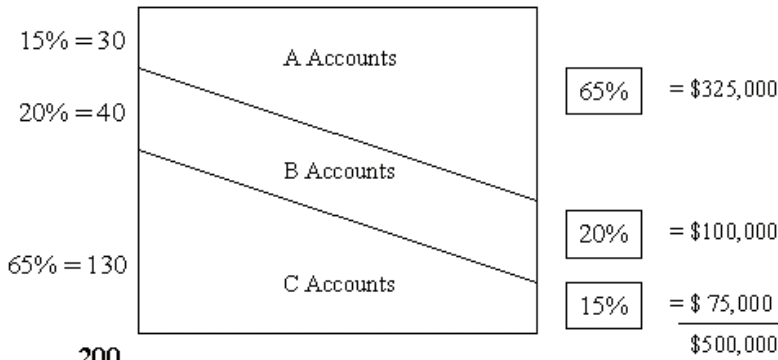


Figure 2.

Fifteen percent of 200 is 30, so his top 30 customers will be giving him 65% of his sales volume – \$325,000. Twenty percent of his customers is 40 customers; those middle-sized customers give him 20% of his sales, or a total of \$100,000. The remaining 65% – a total of 130 out of 200 – altogether give him only 15% of his sales, or \$75,000.

Does that breakdown apply to your territory? You bet it does. Maybe not exactly, but your actual figures will come so close that it'll surprise you. Prove it to yourself by filling out Fig.3.

Figure it out for yourself

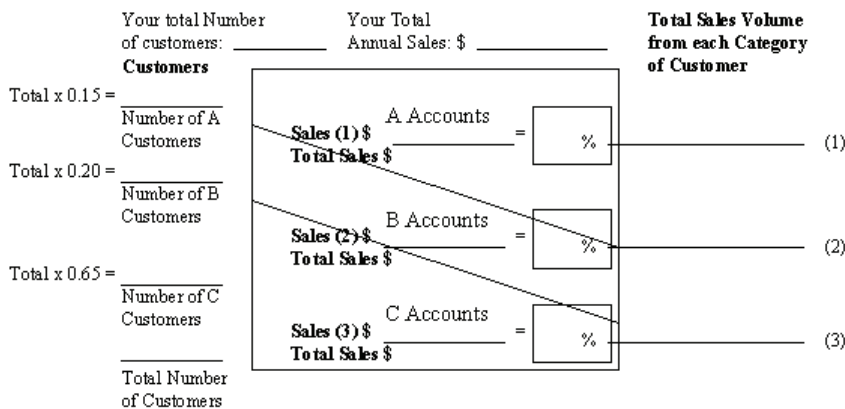


Figure 3.

First, at the top, fill in the number of customers you call on regularly, and your total annual sales volume. Then take 15% of your customers - your total number of customers multiplied by .15 – and write that number in the top blank of the left-hand side. Similarly, multiply your total number of customers by .20 and enter that figure in the second space; then multiply the same total by .65 and enter that in the bottom blank. As a check, add up the numbers you entered in the blanks - the total should equal the total number of your customers.

Now, calculate or estimate the total sales volume you got during the past year from all the customers included in your A category, and enter it in the top blank of the right-hand side; ditto with the annual sales volume from your B and C customers. If you can't get the actual figures, estimate them as closely as possible.

To see how closely your actual distribution matches the IFUM formula, divide your total A customer sales – blank No. 1 at the right – by your total sales shown at the top of the page, and enter that percentage in the box opposite blank No. 1. Then divide the total sales from B customers by your total sales and enter that in the middle box. Next, divide sales from C customers by total sales and enter that figure in the lower box. Based on the responses of many salesmen, those percentages you entered in the three boxes should come out to approximately 65% for the A's, 20% for the B's, and 15% for the C's.

By now you should understand how important it is, in planning your sales calls, to take into consideration the principle of the Important Few and the Unimportant Many. But let's carry the analysis a bit further. Let's figure out your average annual sales from each A, B, and C customers.



The hypothetical salesman

| 1 | 2 | 3 | 4 |
|---------------|--------------------------------------|------------------------------|----------------------------|
| Customer type | Number of Customers in This Category | Total Sales in This Category | Average Sales per Customer |
| A | 30 | \$325,000 | \$10,833 |
| B | 40 | \$100,000 | \$2,500 |
| C | 130 | \$75,000 | \$577 |
| Total | 200 | \$500,000 | |

Figure 4.

Fig.4 shows the statistics for our hypothetical salesman, who has 200 customers and \$500,000 in sales. The amounts shown in columns 2 and 3 came from Fig 2. This salesman has 30 class A customers who give him \$325,000 volume per year. Dividing 30 into \$325,000, we find that the average customer in his A category gives him \$10,833 a year. Similarly, by dividing the second column into the third in each case, we find that each B customer gives him an average of \$2,500 per year, and each C customer gives him an average of only \$577 per year.

This makes the IFUM principle even more dramatic. Notice that one A customer gives this salesman almost 20 times as much business as one average C customer.

Now, using Fig. 5, figure out the same averages for your territory.

Figure it out for yourself

| 1 | 2 | 3 | 4 |
|---------------|--------------------------------------|------------------------------|----------------------------|
| Customer type | Number of Customers in This Category | Total Sales in This Category | Average Sales per Customer |
| A | | | |
| B | | | |
| C | | | |
| Total | | | |

Figure 5.

It's easy: transfer the figures from Fig. 3 into columns 2 and 3; then divide the figures in column 3 by the figures in column 2 to get the average sale, and enter that in column 4. This will prove to you that your average big customer gives you about 20 times more sales than your average small customer.



Now let's see what this tells us about planning the allocation of time. Is it important to do this kind of planning? Let me illustrate two mistakes that are almost invariably made by salesmen who don't plan their time carefully; either one of these mistakes can cost you thousands of dollars in sales.

1. The first mistake (illustrated in Fig. 6) is to overbudget time without realising it.

30 customers x 24 calls on each = 720 sales calls
 70 customers x 11 calls on each = 770 sales calls

Total budgeted sales calls: 1,490

Calls actually available:

25 per week x 48 working weeks = 1,200 sales calls
 Neglected calls: 1,490 - 1,200 = 290 sales calls

Figure 6.

Many salesmen don't divide their customers into three groups. They often use two groups. They'll say, 'I have about 30 key customers I call on every two weeks, and another 70 I call on every month.' However, let's say that this salesman works 48 weeks (subtracting four weeks for vacations and holidays). He sees each A customer every 2 weeks; in 48 weeks that would be 24 calls on each A customer. There are 30 A customers, so that amounts to 720 calls on his A group. He sees each B customer every month; again allowing one month off, that's 11 calls on each B customer. There are 70 B customers, so that totals 770 calls he plans to make in that category of customer. This is a total of 1,490 calls he has budgeted for himself.

But how many sales calls can this salesman really make in a year? Let's say he averages 5 sales calls a day, or 25 a week. In 48 weeks that's 1,200 calls a year - yet our hypothetical salesman is kiting around his territory as if he had 1,490 calls to allocate.

What happens? A total of 290 calls he thinks he's going to make just don't get made; he's accidentally neglecting 290 calls. Very often he lets too much time go between calls on his important customers, without even being aware of it. Remember that calls are always a scarce commodity. You can't afford to allocate them on the basis of cockeyed assumptions about the number of calls available to be allocated - and don't forget our hypothetical salesman wasn't allowing any time for calls on prospects or new companies.

2. The other mistake that can cost you money is to spend too big a portion of your time with those little guys. The man who's buying \$400 a year from you often expects just as much service and attention as the man who's spending \$4,000 a year with you - maybe more. He's a nice guy, his receptionist is fun to talk with, he truly appreciates the service you're giving him - and because most salesmen are nice guys at heart, there's a natural tendency, and even a lot of pressure on you, to spend about the same amount of time with every regular customer.

Fig.7 shows what you're doing to yourself if you do that.

| Customer type | Number of Customers | Number of Calls | Sales Volume | Sales Volume Per Call |
|---------------|---------------------|-----------------|------------------|-----------------------|
| A | 30 | 150 | \$325,000 | \$2,167 |
| B | 40 | 200 | \$100,000 | \$500 |
| C | 130 | 650 | \$75,000 | \$115 |
| Total | 200 | 1000 | \$500,000 | X |

Figure 7.

In it we meet our hypothetical salesman again. To make the arithmetic easy, we'll assume that he makes 1,000 customer calls a year - the rest are prospect calls and service calls. And let's suppose that this salesman calls on all customers with equal frequency. One thousand calls per year divided by 200 customers equals 5 calls per year on each customer. Column 3 shows the total number of calls he'd make on each category of customer; column 4 picks up the total sales volume from those customers. Divide the volume by the number of sales calls to get sales volume per call, and enter those three figures in the right-hand column.



If he saw everybody with equal frequency, this salesman would be picking up \$2,167 per call on his big customers, but only \$115 per call on the little ones. How much time can he spend on those \$115 calls?

Now, using Fig. 8, let's see how this applies to your territory.

Figure it out for yourself

Average Customer Calls Per day = _____ x 200 = _____ Total Calls Per Year
 (not service, prospecting, etc.)

1 2 3 4 5

| Customer type | Number of Customers | Number of Calls | Sales Volume | Sales Volume Per Call |
|---------------|---------------------|--------------------|--------------|-----------------------|
| A | | Total Calls x 0.15 | | |
| B | | Total Calls x 0.20 | | |
| C | | Total Calls x 0.65 | | |
| Total | | | | |

Figure 8.

At the top of Fig. 8, estimate the average number of sales calls you make per day – don't count service calls, troubleshooting calls, or prospect calls. Multiply that number by 200 days and enter the product in the upper right-hand blank.

Now, in this hypothetical example, we're assuming that you call on all customers equally. That means you'd make 15% of your calls on A customers, 20% on Bs, and 65% on Cs. Calculate those percentages and fill in column 3 only. The total at the bottom should equal the total number of calls you entered at the top.

The rest is easy. You can pick up the figures for columns 2 and 4 from Fig. 5. Then, on each line, divide the sales volume, column 4, by the number of calls in that category, column 2, and that'll give you the volume per call to enter in column 5.

You have now found out how little you'd be making per call on C customers if you called on everybody with equal frequency. Obviously that's no way to become a millionaire.

This article is based on material in Porter Henry's 'Investing Your Sales Time for Maximum Return' a combined 45-minute cassette and 50-page workbook, published by Sales Builders Div., Sales & Marketing Management, 633 Third Avenue, New York, N.Y. 10017.