

Your Customer “Stickiness” Metric

A Powerful Enabler to Building Company Worth

Ask yourself this question –

If we announce today that our business is no longer accepting orders, how long will it take for our customers to find a suitable replacement for what we provide?

There is a direct correlation between the time it would take your customer to find a suitable alternative to the value, or the worth, of your company. A business with strong customer loyalty (aka Stickiness) and even better, with reliance on your product/service often drives higher valuation at time of company sale.

We often find that well-run, successful businesses today do not always translate to “exit ready” businesses tomorrow. We define exit ready in terms of positioning your company to be able to command a premium valuation from an acquirer. Being able to sell your company is one thing, being able to sell for a premium is quite another. The difference in valuations can be due to the degree of your customer loyalty measured in stickiness.

Initiating dialog with your team about your company Customer Stickiness metric could enable you to identify strategic initiatives to help protect and build this critical aspect of your business.



How to use the template:

- 1.) Establish the scoring criteria for your business using the example to facilitate ideas. Each company will have its own set of criteria and related scoring given the nuances of your business.
- 2.) Take your top 10 customers, or by grouping customer segments, and plot related to the magnitude of revenue on the vertical axis (bubble size reflects relationship of revenue scope).

Note: You can change the Revenue Scope vertical scale to Profit as another way to plot your customers.

- 3.) Discuss each customer, or grouping, and using your scoring criteria, assign each their score. Move the corresponding bubble along the horizontal axis to align with the assigned score.

If you were the CEO of the company in this example graphic, your team would be discussing what steps could be taken to evolve the largest customer, J. Prax Ltd., to the right given their stickiness scoring is only a 2. And a customer like Atlas Inc. has a great score of a 9 but is low in revenue, which begs a discussion of what can be done to build the revenue with them.

Once you have the graphic populated specific to your business, facilitate the strategic dialog with your team. Here are example questions to begin the dialog:

- If we have customers that we have a high scoring with, how do we protect and build upon this?
- If we don't have any customers or groupings that we are pleased with their scoring, what strategic initiatives could we take to build this aspect to our business?
- For those larger revenue (or profit) customers that we have lower scoring with, what steps could we take with each to begin to evolve them to the right of this graphic, increasing their score?
- What could enable us to build our customer stickiness:
 - Introduce the use of purchasing agreements of a multi-year nature?
 - Introduce or modify our product, service or customer experience to become a more critical element of our customer's desired solution?
 - Work with our customer to build a stronger eco-system to increase our value to them?

Don't leave your customer stickiness to chance. You can start today by initiating a new, productive dialog around this critical aspect of your business. It can take years to build customer stickiness so starting today will give you more time to build the worth of your company.

*About the Author: Larry O'Toole has over 20 years as an experienced CEO of manufacturing and service businesses. He founded Yosemite Associates, LLC and introduced the **Bank your moment**® campaign to help company owners extract the uncertainty associated with building their company worth. Larry serves on various corporate Boards and assists a diversified group of business owners on their worth creating journey. Larry can be reached at 949.874.0787 or Larry.OTOole@YosemiteAssociates.com.*

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