

# Construction Update: Customer Segmentation Helps Construction Companies Prioritize Value



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Not all clients are created equal — and some may even be costing your construction business money. For example, customers who are habitually late in paying invoices can slow cash flow and make it difficult to initiate new projects. Clients who constantly ask for out-of-scope work may trigger increased costs and workloads, as well as schedule delays. For these reasons and more, you need to know which ones are truly profitable and which aren't. One way to determine your clients' value is through customer segmentation.

## What is It?

Customer segmentation is the practice of dividing a company's customers into groups based on their needs, behaviors and other factors. Many organizations use it so they can accurately market to different audiences and deliver targeted value propositions.

Segmentation can also be used to rank clients based on such factors as how quickly they pay and how cooperative they are when a project is underway. Once you've ranked your clients, you can prioritize high-value customer segments.

## Making the Grade

The first step is to list the characteristics you deem important in a client. Does the customer make timely payments? Do you have a good working relationship? Does the client embrace technologies you use, such as building information modeling software? You might want to prioritize customers that offer the potential for future projects, higher-value work and referrals.

Also consider whether the client:

- Awards work based on qualifications (vs. always accepting the lowest bid),
- Communicates clearly defined plans, resulting in fewer requests for information and change orders, and
- Matches the services you offer and is generally a good fit given your construction niche.

Once you have a list of criteria, rank customers on a scale of one to 10. Tally the numbers and divide clients into groups, such as A for the best scorers, B for the next tier and so on. From there, develop a standardized sales and

service approach for each grouping. Top-scoring customers in the A and B segments should probably be your company's highest priority. Return their calls quickly and attempt to meet any requests they make. Communicate regularly with these clients about future jobs and ensure you're on their bid lists.

For the lower segments, such as "D" and "F," decide whether you want to continue working with them. "Firing" a customer or turning away work might sound outrageous to some contractors, but survival in today's construction market often comes down to numbers. Your focus must remain on your profit-margin and net-profit targets.

When combined with job costing (adding direct and indirect costs to produce accurate estimates), customer segmentation provides the insight you need to evaluate specific jobs and opportunities. Jobs or clients that are unlikely to produce revenue — or worse, cost you money — should be declined.

### **"Survival" Bidding**

When competing for projects in tight markets or during unfavorable economic conditions, some contractors feel pressure to bid on every job they come across — no matter how unprofitable the work is or how difficult the client may be. Try to resist this temptation.

To bid competitively for the right projects, it's important to understand what it costs to complete various types of jobs. Regularly track job costs, including labor, and review project histories to see where actual costs differed from estimated costs and why. What role did the client play in these deviations? This process will help you calculate the markup needed to cover overhead and make a profit on new projects.

### **Worthwhile Exercise**

To improve profitability and efficiency, customer segmentation is a worthwhile exercise. Be sure to re-run your numbers as your business grows and you gain and lose clients.