Wire Harness Business & Strategy

The Golden Rule of Customer Retention

by:
Loren M. Smith, CEO
Blue Valley Capital LLC
211 South Ninth
Marysville, KS 66508, USA
lms@blvcapital.com
www.bluevalleycapital.com
www.linkedin.com/in/lorensmith

In my last column, dealing with the dilemma of engaging manufacturers' representatives versus employing direct sales people, I concluded that in the wire harness business maintaining an in-house sales capacity usually holds a distinct advantage. Doing so enables the owner to exercise more control over the sales staff's priorities and time spent with each customer while maximizing product knowledge and "customer linkage".

This follow-up column extends that point, highlighting how an in-house sales team dramatically raises a harness company's ability to excel in the crucial matter of customer retention by practicing the golden rule: maintaining frequent, face-to-face content with every existing customer. To violate the golden rule is to flirt with upheaval. But embedding it in your culture provides you with an invaluable insurance policy.

Although I didn't invent the golden rule concept, I certainly have preached it. That's because I believe regardless of the strength of your quality delivery and price performance with a given customer, you risk losing that customer unless your company has regular contact with that customer. Here are a couple of illustrations.

When I was in the wire harness business, myself, I got a call from a major customer who wanted to visit my plant. Our track record with this customer was ideal. Consistent on-time delivery. Impeccable quality. Feedback that our pricing was very competitive. To my great surprise, however, shortly after the buyer arrived and we exchanged pleasantries, he told me his firm had found lower pricing on everything we were doing with them, and if we didn't meet those prices they were going to move the business.

When I weighed his expectations against our cost structure, I didn't see how we could possibly meet the price reductions he was demanding, so I asked for time to take a harder look. But further analysis did not change the picture, and I had to tell the buyer we needed to keep our prices where they were. We lost the business, we lost the account and we never got it back.

When I reflected on how we might have prevented this total loss, I concluded that if we'd had early indications that our longevity with the company was in jeopardy, we might have been able to work with the customer to avoid this outcome. So to avoid repeating the scenario with other customers, we immediately conceived and implemented a program to ensure regular, face-to-face contact with all our major customers.

Happily, my second illustration occurred after we had made that commitment to ongoing contact:

One of our customers was sold to a much larger company. Through our regular contact with the customer's engineering folks, we learned the buyer was market testing all purchased components including electrical wire assemblies. Armed with this information, we told the new company's purchasing group that we wanted to put a team in place to look at the designs of their top-10 harnesses to see if we could lower both material costs and labor costs through design modifications.

Our idea was enthusiastically embraced, which resulted in our ability to stay ahead of their cost reduction process. The net result: We were never given a price reduction ultimatum, and we experienced strong growth with the customer over many years.

The golden rule reaps untold benefits for two primary reasons:

1. Face-to-face contact solidifies relationships and yields information that might otherwise never be revealed. The sources of this information can come from a wide variety of functions within any company.
2. Companies routinely get bought and sold. Ongoing, personal contact heightens the chances of knowing something is afoot and preparing for potential changes.

Given all the pressures of running a business and the need to douse daily fires, it's human nature to slack off with a loyal customer. That's why institutionalizing a system of regular, face-to-face contact with every important customer is essential.

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Author & Company Profile...Loren M Smith is CEO and sole shareholder of **Blue Valley Capital LLC**, a position he has held since 2001. From 1976 to 2001, he was CEO and majority shareholder of **MWC**, a manufacturer of electrical wire harness assemblies. During that period, by acquiring and integrating a number of mid-market wire harness manufacturers, MWC became the world's leading supplier of electrical wire harness assemblies serving the construction equipment industry. Loren eventually sold MWC to a private equity group.

As CEO of MWC and Blue Valley Capital, Loren has spearheaded the sale and purchase of dozens of mid-market (US$2M-US$200M) manufacturing companies.

Early in his career, he was with **Texas Instruments (TI)**, rising to general manager of TI's connector division. Smith earned a BS degree from **Miami University** in Oxford, OH, USA, and an MBA from **Northeastern University** in Boston, MA, USA. **www.bluevalleycapital.com**