HOW TO MANAGE CUSTOMER RISKS

CPA AUSTRALIA

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TIPS FOR MANAGING CUSTOMER RISKS

What do you do when events lead your customers to stop buying your products or services?

Managing customer risks means identifying what can go wrong in your relationship with customers and taking actions to minimise the impact on your business.

Events that can lead your customers to stop or reduce buying your products or services include economic downturns, emergence of competitors, a poor relationship with customers, technological disruption, changing customer preferences, natural disasters, geopolitical tensions, reputational issues, changing laws and many more.

Here are **CPA Australia's recommendations** for small businesses on managing customer risk.

MANAGING INTERNAL RISKS

Internal risks are those within your control including customer relationships, customer experience, brand reputation and debtors control. These are risks that you can monitor and respond to through regular review and customer feedback. Steps to mitigate those risks include improving quality contol over your products and sevices, increasing your focus on customer services and customer experience - in your premises or online - and improving the effectiveness of your internal collections process.

Below are some **tips on how to manage internal risks.**

1. Build rapport

Building rapport with your customers can enrouage their loyalty through good times and bad. Such rapport can be built through regularly reaching out to them and getting to know their name, especially your key customers, and consistently treating every customer with the same level of service. These interactions should also improve your understanding of what is and what is not working in your business.

2. Hire the right employees

Having the right staff can do much to build and sustain customer loyaly. You should, therefore, focus on hiring employees at every level with excellent people skills. Ensure everyone in your organisation understands the value of customer retention and the role each of them plays in ensuring customer satisfaction. Build those into key performance indicators (KPIs) of all staff. Further, treat your employees the way you expect them to treat your customers.

3. Solicit customer feedback

Regular customer feedback can help ensure your products or services meet the changing needs of customers, reducing the risks of changing preferences leading to significant falls in demand. Pay close attention to feedback, including on social media and ensure open, clear and timely communication in response. Have a plan for every avenue of communication and make sure your team follows this plan.

4. Protecting/growing your brand

Customer risk can be reduced by strong customer and community trust in your brand. Key to developing and maintaining this trust is consistently delivering on your brand promise, whether that be quality, low prices, speed, etc. Trust is also linked to building solid relationships with customers and responding to their feedback with positive communications. Social media channels are critical to your brand image and should at least be monitored as part of your risk mitigation strategies.

5. Improving collections

Refer to our "*Tips to Manage Credit and Accounts Receivable*".

MANAGING EXTERNAL RISKS

External customer risks are those that may not be within your control. These include economic downturns, natural disasters, technological disruption, changes to laws and regulations, and competition. If left unmanaged, such risks could impact the viability of your business.

Below are some **tips for managing such external risks**.

1. Review your existing customer base

<u>Know who your customers are</u> and their significance to your business. Of course, all customers are important, but determine which of your customers your business is most reliant on and focus on them.

<u>Know who your customer's customers are</u>. Understanding the supply chain or value chain that your customer is in will give you better insights into what is important to them. After all, your customer's ability to purchase your goods and services, and pay you, depends on their customers' demand for their product or services.

2. Keep abreast of significant events that may directly or indirectly impact your key customers

Customers, like your business, are constantly being disrupted. Their success depends on how well their customers are performing. Their continued ability to purchase your goods and services may be impacted by economic conditions, regulations, product safety standards, and how your product or service is delivered. Their willingness to purchase your goods or services could be impacted by the availability of cheaper alternatives, and so on.

As part of reducing customer risks on your business, it is important to be aware of and be flexible enough to adapt to changing customer behaviour brought on by political, economic, social, technological and/or environmental (PESTE) events.

Up-to-date market intelligence and a sound understanding of the ecosystem your customer operates in will give you a better understanding of the implications of PESTE event on your customers' risk profile.

To illustrate this, take a simple example of a coffee cart at a university that sources its coffee beans from you. Due to technological advances, the university moves to online education delivery, reducing the number of people on campus. This reduction in the coffee cart's customer base will impact their purchase of coffee beans from you. Possible steps to reduce the impact that such an event could have on your coffee bean supply business includes:

a. diversify your client base by pursuing new customers to make up for the anticipated fall in sales to the coffee cart;
b. diversify your product range into other areas;
c. adopt or improve your digital sales platform to directly sell coffee to the coffee cart's customers;
d. work with the coffee cart to maintain/improve its sales levels e.g. by diversifying its customer base and products, or leveraging technology to serve customers no longer on campus.

3. Enhance your reach

a. Leverage technology

- Where there are challenges that restrict you from reaching your customers physically, consider online/mobile sales platforms and online marketplaces as an alternative.
- Where your products would normally go through a distributor, consider making use of technology to reach the end customer directly. Without such a distributor in the chain, you may be able to enjoy better margins and offer cheaper prices to the end customer, although it can be difficult to build your own customer base from scratch. When considering a direct-to-consumer strategy, you could start with targeting customer segments that are poorly served by traditional distributors or by supporting downstream businesses (as in the coffee cart example).
- Where you are reliant on customers from one market, consider using technology and new partners to establish a presence in new markets. Please be aware that just as consumer preferences for products and services vary between markets, their preference for which online platforms including social media they use to acquire goods and services can also be different, so do your research first.

MANAGING EXTERNAL RISKS

- Work with your existing customers to identify technologies that will improve your products or services, or their delivery.

b. Expand your business network

- If you have a multi-market operation, having business partners or networks in particular geographies will allow you to use alternate routes for reaching your customer, should your “main route” be cut off.
- Establishing business networks in multiple markets means you can redirect your products or services in the event that you are unable to access one market.

4. Curb over-reliance on certain customers

If a few key customers make up a large share of your sales, then your risk exposure is higher. Therefore, reduce this overreliance by seeking to sell to new customers through technology or expanding your networks – and if feasible reduce the proportion of sales that go to high risk customers.

Use your terms of trade to hedge your risks e.g. by modifying the sales terms to collect payment, fully or in part, up front. Alternatively, if product delivery or product origin poses an issue, consider increasing your focus on customers in other locations or complete transactions through intermediaries who are better at product delivery.

5. Review your offerings

Commonly, the relevance of product or service offerings are evaluated by reference to historical purchasing information. However, such information can have little relevance in unique circumstances such as COVID-19 where customer behaviour changed very quickly.

This experience emphasises the need to stay abreast of PESTE events and to understand how they are likely to impact your customers and how you can adapt or change your product or services offerings to meet future demands.

Test how fast your business can react to unexpected changes in demand. Consider what processes and back-up plans are needed to meet rapid shifts in demand.

6. Seek other ways to transfer the risk

Purchasing insurance is a common method of transferring risks.

Based on your assessment of the risks present in the market(s) you service, consult your insurance advisor on the availability of insurance products that may assist you to manage risks – for example, transaction insurance, climate risk insurance and product guarantee/recall covers. For larger projects in emerging markets, insurance providers may provide bespoke products to cover financial losses caused by events such as government regulations, political violence, currency inconvertibility, economic policies and so on.