CEO MINI-BRIEF #2
FORGET THE CUSTOMER…

By Dan Wasserman

"Forget the customer" what a concept!

On the surface you'd assume its meaning would be pretty straight-forward and something virtually everyone understands, especially since it seems to be what much of industry already has done. We can all count the numerous instances where "customer service" is effectively an oxymoron and degraded to such a point the only reason we marginally tolerate using a given vendor is often because there are few alternatives and they are just as bad.

In the old days the joke was used car salesmen. Now, some of the most maligned are communication giants like the cable companies, cellular/wireless suppliers, satellite TV providers, and even the good old phone company.

Add to that the airlines where JetBlue, one of the darlings of the industry, made one of the biggest errors in their history when they cancelled all their flights during a single snow event and stranded 100,000 travelers across the USA for days.

Although I normally have nothing but praise for most air carriers recently I too found out how frustrating an airline can be. I had a travel certificate (voucher) that I wanted to use to pay for a one-way flight home from another city. Having reserved the flight online all I needed to know were the hours for the ticket sales counter at the "other" airport so I could pay for it using the voucher. Sadly, this "simple" task took over thirty minutes of futile Web searching that was further exacerbated by another forty of waiting on hold listening to Gershwin (I <u>like</u> Gershwin, but not the same refrain over and over). Naturally, the Web information was either totally buried or non-existent. However, once I had a human on the phone, the answer was delivered in less than five seconds!

In spite of the airlines having the most experience with customer loyalty programs, going back over 25 years, there are times where even their best customers are likely to bolt.

It's been a long time since the generally accepted maxim was "the customer is always right."

Financial institutions proved this point when they outsourced their customer service departments to distant shores. In certain circles, those in the know discovered that if an institution's representative conveniently named "Tom" addressed the caller with a deep, nearly impossible to understand accent during normal business hours, they were no longer one of the bank's preferred customers.

Add to this growing list some of the stalwart retail institutions. Most people understand "consolidation" has occurred as a direct result of the well-publicized mergers, which has resulted in staff reductions. Now when I can't get personalized help in one of these department stores, I trot over to the nearest abandoned "service center," since the occupied one often has a checkout line in the double-digits, pick up the phone and dial the manager's extension (TIP: normally if the printed list next to the phone isn't in alphabetical order, the manager is usually the first name on the list).

This seems to get really fast action such as the time not long ago when my local mall anchor store was advertising stove-top grills. Naturally, there was nobody in the housewares department. But, after using the above-mentioned technique, within a minute I had two people hustling down converging aisles both gasping "Jim said you needed help!"

Unfortunately though, I learned another lesson from this…the store now carries much less inventory and were sold-out of the grills within hours. However, since these were brought in only for the sale, the store couldn't even offer a raincheck.

About two weeks later my wife gleaned a further truism about the same store's retailing philosophy when she went there to purchase a pair of jeans.

Before the merger, this store was a great source for petite sizes (and at size 4, my wife is definitely a petite). However, right afterwards they cut-back from about eight hundred square feet of petites to around two hundred. Initially, screams of protest had them return to their former size and selection. But, over the next few months, they gradually dropped the designer lines for many items including petite jeans. Now they're only stocking their house brand, but, surprisingly, for regular sizes they still carry all the designers although that too could be short-lived. As you can appreciate, the 800 square feet looks pretty sparse these days.

We can all vent about how we've been mishandled by various establishments across a wide variety of product and service providers. Moreover, we often believe that as customers we have been forgotten.

However, maybe there's another way of looking at the phrase. Perhaps, this is just a fragment of a larger one that actually reads "forget the customer…***<u>at your peril!</u>***"

What got me thinking about an alternative way of looking at this was an article called "Doing the Math," which I read in my CPA's weekly bulletin (from Frank & Company, P.C. with content supplied by BizActions LLC). The premise is based on calculating a lifetime value of a customer.

There are two interesting factors at play here. The first is that customers actually have a value! Second, on examination, it is definitely worthwhile to try to retain them.

Before trying the actual calculation, which happens to be relatively simple to perform, let's further examine the overall premise of customer value.

Customers are the life blood of any enterprise. They buy the products and often support the business in ways rarely considered. Brand loyalty is something companies cherish. Furthermore, they are especially desirous of achieving the esteemed pinnacle of becoming a "branded generic" for their category. Think of Kleenex, Jell-O, Band Aid, Google, etc, all of which became generics and against which their competition has the added burden of fighting for share of mind of a "perceived" market leader.

The CPA article used the following example to determine a customer's marginal net worth.

It hypothesized that a company ran an ad for $4,000 which landed 20 actual customers. If each customer spent an average of $450 when you subtract the cost of production and distribution of $240 (combined) the gross profit on each sale is $210 or a total of $4,200. Once you subtract the cost of the ad the net marketing profit is $200 ($4,200 – $4, 000 = $200). Then, when you divide the cost of the net marketing profit of $200 by the 20 customers, it is obvious each one netted only $10.00. This may not sound like much, but when you look at the longer term potential it really mounts up.

For instance, if each of these 20 new customers made an average of three purchases over the subsequent two years and the profit on each sale increases to $300.00 (through incremental sales volume and efficiencies), by multiplying the $300.00 for each of the three purchases against 20 customers generates a gross profit of $18,000. As shown above only $10.00 in net marketing profit (per customer) was generated in the first year, but it is obvious that $900.00 is what could be generated by each customer from subsequent purchases. This final figure is what the article called "the customer's marginal net worth."

It then determined that the real value of this data resulted in three outcomes; smarter advertising spending, better cash flow tracking, and making a business more attractive to investors.

With respect to the first item, if you know a customer is worth potentially $900.00 from carry-on sales, then spending something to ensure those additional sales should justify that expense. As for cash flow, you can better manage your marketing expenses knowing that you'll generate a given amount of gross profit over the period. Finally, when it comes time to go after investors or exit the business, what you show a prospect is a projection of the customer's marginal net worth based on facts, rather than generic revenue estimates that are often significantly discounted.

The only issue I have with the article is the cost to retain a customer should be proscribed and based on a well-trusted truism. Applying the concept "it takes ten times as much to land a customer than it does to keep them," then using this example one should budget at least $400 per purchase cycle on ***retention advertising*** ($4,000 X 1/10 = $400) or $20 per customer. Therefore over the next 3 purchases, this translates to $60.00 dollars per customer in retention cost which still leaves $840.00 ($900 - $60 = $860) as a truer measure of marginal net worth.

However, if an enterprise feels it wants to spend more than $60 per customer for retention, they are free to do so and using this approach definitely will have sufficient discretionary funds to cover a higher amount of advertising.

Since the variables used to determine the foregoing are fixed and known amounts that would apply irrespective of the type of business, one has to ask, why don’t companies pay better attention to retaining one of their most important assets (even if it doesn’t show up as a line item on the balance sheet)?

In some cases it may be their customers are too complacent since they continue to accept bad or worsening service. Or, they feel there isn’t an alternative. However, if the premise of the article is correct, these companies are certainly putting themselves in peril.

One aspect Corporate Growth Strategies LLC addresses is finding a measurable level of customer satisfaction. This is not done by simple Internet surveys where fixed response questions are often geared to a predetermined set of responses. Perhaps this approach works for travel suppliers like hotels and car rental companies, but for most industries the real level of dissatisfaction can’t be determined on a scale of one to five about a room’s decor.

There are far more pragmatic questions to be asked and about which one can’t expect to get a full and honest answer by way of an online survey’s open text “comments” box, (often further constrained by a limited a number of characters for the response). These questions can only be asked after a careful work-up by the consultant and their client.

It takes a concerted effort to construct a reliable set of questions from which one can then probe for usable data. However, once executed the company is better able to see the problem areas and take remedial action.

Customers deserve to be viewed as an asset with a determinable marginal net worth. As such, a company’s core goal should be to increase the sales volume from every customer while at the same time maximizing their retention.