

# What's A Customer Worth?

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I once read a book by Carl Sewell, a Cadillac dealer in Dallas, who related the following story about an unhappy customer:

The customer, who had been quail hunting, left his Cadillac at Sewell's dealership for service before leaving for a two-week vacation. The customer had forgotten that he left several quail in the trunk. No one at the dealership knew about the birds, and after two weeks in the hot Texas sun the car acquired a most peculiar aroma!

When the customer picked up the car he was furious, claiming he had told the mechanic he could have the birds—although the mechanic said the birds were never mentioned.

Try as they could, Sewell's mechanics could not rid the car of the odor. So, what did Sewell do?

He gave the customer a new Cadillac— free of charge!

Now, why would any businessman in his right mind give a customer a \$50,000 car over an incident like this? For that matter, why would an air conditioning contractor give in on a customer complaint and write off an \$1,800 compressor replacement?

Carl Sewell gave away a car because **he understood the lifetime value of a customer.** And HVAC dealers who understand this principle see their customers differently too.

Let's assume that with diligence and care you can keep a customer happy for 30 years. If you think it's too high, use whatever number seems right to you. (My reasoning is that although the average customer today moves every seven years, the building does not move, and if you

play your cards right, you'll be there to service the equipment for the new owners.)

Let's fill in a worksheet to see what can happen:

Quantity	Retail Price	Sub-total	% Having	Total \$
Furnaces	\$			\$
CBUs <sup>1</sup>	\$			\$
Humidifiers	\$	\$	%	\$
EACs <sup>2</sup>	\$	\$	%	\$
Svc Agree <sup>3</sup>	\$	\$	%	\$
Svc Calls <sup>4</sup>	\$	\$	%	\$
			Total Value	\$

Footnotes:

- 1) CBUs are compressor-bearing units (condensing units, heat pumps, etc.)
- 2) EACs are electronic air cleaners
- 3) Svc Agree are service agreements
- 4) Svc Calls are cash service calls

In 30 years, how many furnaces might a homeowner buy from me? Let's say two furnaces at an average installation cost of, say, \$2,800, bringing the total furnace sales to **\$5,600.**

How many condensing units or heat pumps? As I conduct workshops around the country, I hear an average of three. Let's say the average replacement runs \$2,500. That's a total sale of **\$7,500** for CBUs.

My typical customer might go through three humidifiers in 30 years, at \$300 per installation, for a total of \$900. Let's say 40 percent of my customers have humidifiers. Multiplying \$900 by 0.40 produces an average total humidifier sale of **\$360.**

Air cleaners? Two in 30 years (one installed

with each furnace) at \$1,000 per job, amounts to a total of \$2,000. Since only 20 percent of my customers have air cleaners, the total sale is 20 percent of \$2,000, or **\$400**.

Now for service agreements. If I sell two furnaces and three condensing units in 30 years, I'll have basically five years of the 30 under first-year warranty conditions. I could sell 25 service agreements at, say, \$180 each, for a total of \$4,500. Since only 20 percent of my customers have service agreements, I have a total sale of **\$900**.

That means the 80 percent of my customers who don't have service agreements must rely on regular cash-paid service calls. Suppose I run one service call every four years, which amounts to 8 service calls over 30 years at (let's suppose) \$250 per call. Multiplying the total of \$2,000 by 0.80 gives us a total sale for service calls of **\$1,600**.

What's a customer worth over 30 years? The sum of these sales is a staggering **\$16,360!** And that's in 2008 dollars. If I run a future calculation using the historical annual rate of inflation over the last 30 years, I can multiply that sale by 2.879 to find the equivalent number of future dollars that this customer might spend with my company. In this case, it amounts to an unbelievable...

**\$47,100!**

Therefore, when old Mr. Crabbyton walks through my door to raise a ruckus over that

repair bill last week, what do I see tattooed on his forehead? **\$47,100!**

If, in my opinion, Mr. Crabbyton would be happy and sing the praises of my company if I would only give in and write off a disputed \$100 contactor charge, so what? If this keeps him happy and on my customer list, I'd be a fool to dig in my heels and hold my ground. I might win this battle, but I'd lose the war.

In fact, when I ran a service department and had a complaint like this, I'd ask the customer what he thought would be fair. The customer almost always asked for *less* than I was willing to give!

In another article in this series ("Sobering Facts"), I will share some market research that will demonstrate why it is important for you to think of your customers in these terms.

In the meantime, you may want to spend some time working up a chart like the one in this article to see what each of your customers is potentially worth to your company. And then, if you really want to get dizzy, multiply that result by the number of customers in your files!

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