

"Sobering Facts" on the Lifetime Value of A Customer

by Richard Harshaw

Lodestar Consulting Systems, Inc.

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In his book, *How to Win Customers and Keep Them for Life* (Berkley Publishing Group, 1989), author and consultant Michael LeBoeuf relates some stunning market research statistics that relate to your business.

Contractors who apply the implications of this research to their day-to-day operations will gain an edge on the competition.

SOBERING FACT #1: "A typical business hears from only 4 percent of its unhappy customers. The other 96 percent quietly go elsewhere."

Business people usually don't like to receive complaint calls. But you can benefit from them if you view them as indicators of where there are problems with your service.

Think of it: For every customer who calls when things don't go well, there are 24 who don't. They just go to a competitor! Therefore, when you get that one complaint call, listen to this person! He or she represents 24 more who won't call but will contact your competitor next time they need service.

SOBERING FACT #2: "A typical unhappy customer will tell eight to 10 people about the problem, and one in five will tell 20! On the other hand, it takes 12 positive service experiences to make up for just one screw-up."

No news travels as fast as bad news! Look at these odds: Your service staff would have to do 12 flawless calls to atone for one that didn't go well! On average, that means if just one of your service techs screws up just once on Monday, it takes all the rest of Monday's work and all of Tuesday's just to make up for the damage.

Then, think about those 24 people who won't bother to call you. By combining this with Sobering Fact #2, it means as many as 24 people each could tell eight to 10 others about how you messed up their day. Altogether, for the one complaint you received, there may be about 275 people who may hear that you provide poor service!

SOBERING FACT #3: "Seven out of 10 complaining customers will do business with you again if you resolve the complaint in their favor. If you resolve it on the spot, 95 percent will do business with you again."

In the article "Customer Lifetime Value", I showed that the typical customer would be worth about \$41,000 to a business over 30 years. If you bite the bullet and settle a complaint in the customer's favor, odds are seven out of 10 that you'll keep him. If you give your service techs the authority (and the training and the trust) to settle on the jobsite before any problem gets out of hand, you're almost guaranteed to keep this \$41,000 asset

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Suppose an angry customer says a charge of \$180 to replace a failed contactor is out of line. If you offer to split it with him, how do you fare? Does he win? No! He's still going to feel ripped off. He will still tell eight to 10 people about it—

and you'll be out \$80, for nothing.

You're far better off giving in all the way, or not at all. Give in and you'll probably keep him. On the other hand, if you don't see much chance of future success, or the person has a history of chronic complaints, it may be better to lose him. Consider it carefully.

I generally advise that when a customer has a dispute over a bill, ask them this simple, powerful and disarming question: "Mrs. Jones, I do not want you to be unhappy with our service or our charges. So tell me—what would you like to see done in this case? What will make you happy?" Rarely does a customer say to drop *all* the charges. Most will say something to the effect of, "Well, if you'd knock off \$50, I'd be happy." My experience in talking with contractors all over America who use this approach is that they tell me that the customer usually is happy with a much lighter "settlement" than the contractor might have suggested!

SOBERING FACT #4: "The average business spends six times more to attract a new customer than it does to keep existing ones."

In today's market, it costs roughly \$400 to attract a new customer by advertising—not including the salary of the salesperson who makes that sale.

Most contractors would not spend more than

\$30 to \$50 in write-offs to make an angry customer happy, *although that customer is worth \$41,000 over the next 30 years!* Sometimes in defending their position of being "right," they win the battle and lose the war.

Now, mix these four sobering facts with those that were stated in the article about the lifetime value of a customer. The astute reader will conclude that you have to: (1) offer a quality job with quality service at a high enough price to keep doing it, so you (2) grow market share three times faster than your competitors are losing it. That's because (3) each of those new customers represents \$41,000 in your pocket over the next three decades.

Anything that disrupts this process—any irritation, any complaint— must be settled quickly, preferably by your service technician on the job.

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