

YOUR BUSINESS: *James Watson*

Know the Value of Your Customers

[Copyright](#) © 2006 Blethen Maine Newspapers Inc.

In 1916, a merchant in Freeport placed a notice on the wall of his shop. The notice read, "I do not consider a sale complete until goods are worn out and customer still satisfied." That merchant understood the importance of managing satisfaction and growing Lifetime Customer Value.

Lifetime Customer Value (LCV) is defined in accounting terms as the net present value of the future revenue stream generated by a single customer. The important thing to know about LCV is that it changes. LCV can increase or decrease based on the customer's desire to do business with you.

Everything you do to a customer today can affect the customer's desire to purchase from you tomorrow. The employees that interact regularly with customers can significantly affect LCV. Dramatic changes in LCV often occur during those "moments of truth" when something is done to cause a customer to become a zealous supporter of your company - or a vindictive detractor.

A good friend shared a recent experience that illustrates such a "moment of truth" and the enormous effect it can have on LCV. This individual has historically purchased about \$500 worth of groceries and household items each month from a national warehouse chain. A few months ago, she requested a refund on some items. The store agreed to refund a portion of the purchase but explained that an internal policy prevented them from refunding \$16 worth of items.

Three separate employees of progressively higher rank cited "company policy" as a reason for not refunding the additional \$16. My friend accepted the partial refund and moved on, perhaps permanently. She has not done business there since. Within a single moment of truth, three employees combined to destroy \$6,000 of annual customer value.

Moments of truth also can be turned into great experiences that grow LCV. That merchant in Freeport was so successful in using moments of truth to delight his customers that his local hunting boot business has since grown to a \$1.5 billion enterprise: L.L. Bean.

How well is your company positioned to handle "moments of truth?" Do your employees recognize them when they occur? What steps can you take to assure that you create value rather than erode or destroy it?

Start by measuring customer value. Use the data in your current systems to measure and project potential future revenue and service costs for each of your customers. Get to know the potential value of each of your customers, and invest your efforts where they're likely to generate a return. What gets measured gets managed, and if you know the value of each customer, you're better equipped to effectively manage their value.

Share the customer value information with those who can affect the value. The national warehouse chain knew my friend's value as a customer, as they frequently sent her special offers based on that "value." If the marketing department shared that information with their customer service counterparts, they may have refunded the \$16 in order to keep a \$6,000 per year customer in their portfolio. Information is most valuable in the hands of those who can put it to productive use.

Re-evaluate your customer-facing policies and procedures. Are they designed to build long-term customer value, or were they established to maximize the short term value from a single transaction? Do policies make life easy for the customer, or do they inconvenience the customer in order to simplify your internal procedures? Consider changing policies and procedures to make your business more customer-friendly.

Empower your employees to make decisions that increase customer value. Are they trained to adhere to policies regardless of the circumstances, or are they given latitude to make decisions that will satisfy and delight the customer in order to build loyalty and value? Lead your employees to recognize moments of truth, and equip them with the right information to make sound decisions that grow Lifetime Customer Value and long-term profitability for your firm.

James Watson is a senior consultant with Systems Engineering in Portland. His practice focuses on Customer Relationship Management solutions. Watson can be reached at 772-3199 or jwatson@syseng.com.