

Found Money: Want It or Not?

Finding the payoff in reducing customer service breakdowns

MULTI-UNIT FRANCHISEES HAVE tremendous potential to increase their current revenue and future growth simply by reducing customer service breakdowns and improving service recovery. I call this “found money” because these dollars come from existing customers.

Our research with restaurant, retail, and consumer service businesses revealed that it's typical to find \$50,000 lost for every \$1 million in current revenue. These losses are self-inflicted because of a failure to appreciate the impact of customer defections from operations management failures.

Let's start with the basics. Customers who experience problems are not as likely to return as those who don't. Customers who feel highly satisfied with problem resolution are very likely to return. However, in the B2C segment, most customers are *less* than highly satisfied with how

the business handled their problem. Let's translate this into actionable insights for your multi-unit operation.

Do you know the rate of problem occurrence in your business? You should be able to find out easily: just ask your customers. Your franchisor should already be surveying customers at each of your locations as part of an ongoing customer experience measurement program, and you should be receiving customer scores every month for each of your locations. A valuable question for multi-unit companies to ask on a customer survey is, “Did you experience a problem?” You don't have to ask every customer this question; a representative sample of 30 to 50 per month provides a sample large enough to be statistically valid.

Sadly, it is typical to find that 8 to 15 percent of customers say they experienced some kind of problem. (You might want

to take a look, right now, at your stores' customer satisfaction survey results for this question during the past few months.)

Once you know how often problems are occurring, you'll want to know how many of them were reported to your staff so they could be fixed. As you know, many problems are not reported. Customers either were too busy to take the time, or the staff were so incompetent or indifferent the customers didn't believe it would matter if they complained. Lots of customers do that. They just quietly leave and never return.

“Intent to return” is a vital question to ask on a customer survey. This percentage is a crucial number to review in your customer survey results. When we analyzed the results from customers who indicated they had a problem but did *not* report it, we found that approximately 40 percent were unlikely to return. How do

we know? The customer said so, right on the survey! We've also done studies to see if customers who had a problem and who paid with a credit card did or didn't come back, so we have proof this is true.

If just 10 percent of your customers experience a problem and 40 percent of that group don't tell you, then 4 percent of your customers experience problems you don't hear about. Our research shows that 40 percent of that 4 percent (1.6 percent of your total customer base) is just quietly going away.

To translate this into dollars, roughly 1.6 percent of your revenue (\$16,000 on every \$1 million) is going away. This is an extremely conservative calculation, as the \$16,000 is just the

Cost of Customer Defections from Problems

Description	Amount
Revenue (based on 1 million transactions at \$1 each)	\$1,000,000
Total customers who experience a problem	10%
Customers who experience a problem but don't tell (10% x 40%)	4%
Proportion of those who don't tell who quietly do not return	40%
Reduction in revenue if these customers buy one time a year (4% x 40% = 1.6% x \$1 million)	(\$16,000)
Proportion of customers who do tell about the problem (10% x 60%)	6%
Proportion who tell us about the problem and yet are still not highly likely to return because of ineffective problem resolution	57%
Reduction in revenue if these customers buy one time a year (6% x 57% = 3.4% x \$1 million)	(\$34,000)
Total annual reduction in revenue from customer problems	(\$50,000)*

*For simplicity, assume each customer buys one time per year and spends \$1 per transaction. If customers buy 10 times per year, multiply the reduction in revenue by 10. If customers spend \$8 instead of \$1 per transaction, also multiply the reduction in revenue by 8.

lost revenue if your typical customers buy from you only once a year. If they usually buy 10 times a year... you get the idea. This calculation does *not* include the lost lifetime value of the customer revenue, nor the negative word of mouth that reduces your future growth.

And that's not the half of it. There also are the vocal customers who do complain to your staff.

Of the 10 percent who have a problem, 60 percent will complain about it, or 6 percent of all customers. On average, more than half of customers (57 percent) who register a complaint will not come back. That is an additional 3.4 percent of your customers who state—right there on their survey—that they are unlikely to return. That is, very conservatively, another \$34,000 lost on each \$1 million of revenue.

Although a complaint could—and should—be an opportunity to save a customer (and their revenue) from walking out the door, most B2C franchise firms do a poor job with service recovery. Customers are so dissatisfied with the way their complaint was handled that they feel unappreciated and will deliberately seek your competitor the next time they need your service.

Conclusion

The value of this analysis is that it provides a different way to quantify the financial impact of poor customer service. The calculations are very straightforward, and everything is based on survey data your franchisor is—or should be—collecting for every location.

By looking at your customer survey scores, you can see the percentage of customers “unlikely to return.” And you can see how much of that loss comes from service problems and poor service recovery. By reducing problem occurrence and increasing the quality of your response to customer complaints, you can typically reclaim at least \$50,000 (\$16,000 + \$34,000) you are losing, right now, on every \$1 million in revenue. That is found money, and yours for the taking. **MUF**



SMG Vice President **Jack Mackey** helps multi-unit operators improve customer loyalty and drive growth. To request “Creating Customer Value by Delivering a Great Customer Experience,” contact him at 816-448-4556 or jmackey@smg.com.

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— Robyn Vescovi, Area Developer, Southeast FL

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