POHMER ON...

THE LIFETIME VALUE PHILOSOPHY

BY STAN POHMER

How many of you are in the business of selling products to consumers?

Now that sounds like a pretty stupid question, doesn't it? Of course your answer would be an overwhelming, probably even a unanimous, YES! For my next inane question…what is the value of that sale? Is it $5.00, $25.00 or $50.00?

If you asked this same question of Coca-Cola, you'd expect that their response would be $1.25 for a can, $3.00 for a 6-pack or maybe $6.00 for a 24-pack. The management at Coke, however, looks at that individual transaction as a small down payment on the $6,000 you might be worth to them over your lifetime.

If you're a Chevrolet dealer, they don't think of the $15,000 purchase you spend for a Cavalier; they look at this as the first installment on the $276,000 you are worth to General Motors over your lifetime.

Because of the high frequency of purchase opportunity, Safeway and Albertson's supermarkets take a slightly shorter view of measuring their customers; they measure the buying potential of their customers at $4,800 per year. And Gateway computer estimates that their loyal customers will spend $25,000 over their lifespan.

Yet, too often, in the horticulture industry we sell products one at a time — one season at a time, one project at a time, one visit at a time. Rarely do we take the time to think long term. We think in terms of individual transactions, rather than taking the longer view of building relationships with our core customers.

Successful marketing companies are starting to focus on the lifetime value of a loyal customer, not just the sale made to them today, next month or next year. This customer is the one who keeps you viable and in business for the long term — five, 10 and 25 years down the road. This is the customer who should be most important to you, the one where you place the bulk of your emphasis and the one you strive hardest to satisfy.

LIFETIME LESSONS

Peppers and Rogers, industry leaders in the field of customer relationship marketing, a process also known as 1 to 1 marketing, maintains that, "You don't have to think about all customers. You just have to think about the right customers." Commenting on the Coke lifetime value example noted above, they explain, "If I'm Coke, I really want to know what 10 percent of the customers in the U.S. drink 75 percent of the colas. I want to get as big a share of those customers as possible. I want them to be Coca-Cola loyalists, not just cola loyalists."

Lowe's home improvement warehouses embarked on a major project in 2001 to change their company culture from product- to customer-centric in an effort to improve bottom-line sales by building stronger, more appropriate relationships with high-value customers. Instead of trying to sell just more items, Lowe's began thinking about how it could sell more appropriate SKU's to the right customers, and how it could better penetrate certain key customer groups. They accomplished this by using their POS data capture and store associate input to segment and target direct mail offerings, building programs around customer interest groups such as the Garden Club. These targeted mailings generated double-digit responses versus general mailing responses of less than 2 percent!

DETERMINING VALUE

It's impossible for you to focus all of your marketing efforts on every customer and expect the same results from each one of them; you need to invest your available resources — time, money and effort — on those customer segments that will generate the highest rate of return for you.

In context of the lifetime value philosophy, let's take a look at the two most important customer groups to take aim on. First are your Most Valuable Customers (MVC), those who currently do the most business, yield the highest margins, are most willing to collaborate and tend to be the most loyal. You probably enjoy the highest "share of customer" with them because you are their preferred place of purchase. The key focus with this group, because of their current importance to you, is retention, ensuring that you maintain their loyalty over the long term.

HOW CAN THEY DO THIS?

The second customer segment is the Most Growable Customers (MGC). This customer can be a current MVC with high potential to become even more important to you, or a new or existing small-volume customer who has the capacity to become an MVC. This growth can be generated with cross-selling, through keeping customers loyal for a longer period of time or by changing customers' behavior and getting them to operate in a way that is more efficient (and profitable) for you.

We've been taught over the years that every customer is important, but that said, we also recognize that some customers are more important than others. You have limited marketing resources, so it's crucial that these be used on those customers who can generate the highest Return on Customer, or have the best potential of growing into MVCs. Whether you are a retailer or a producer, the need to focus on your core customers, the ones who will provide the greatest payback to you, is equally important.

The key to developing the basis of the lifetime value philosophy is to positively engage your target audience frequently. These customers want to feel special, they want a reason to spend their time and money with you, instead of one of your competitors. Simple activities like customer surveys and POS data capture analysis can help identify your high-revenue customers and those with a higher level of interest in a given product or category. Try to get this information at the lowest level possible (i.e., interest in small container plants, specifically flowering perennials or landscape shrubs, specifically flowering varieties or trees, specifically fruit varieties) so you can tailor mailings that match each customer's specific needs and interests.

The lifetime value philosophy requires changes in the way you think, the things you do and how you do them. The longer it takes to start this approach in your business delays the lifetime benefits you can start to accrue.

THE LOYAL CUSTOMER SHOULD BE MOST IMPORTANT TO YOU, THE ONE ON WHOM YOU PLACE THE BULK OF YOUR EMPHASIS AND THE ONE YOU STRIVE HARDEST TO SATISFY.

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