Episode 17: **Know Your Numbers – Value of a Customer**

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Mark S: Hey, everyone and welcome to what surprisingly enough is Episode 17 of the CAS – The Custom Apparels Startups Podcast, my name is Mark Stephenson.

Mark V: And I'm Marc Vila and today we're here to talk about Knowing Your Numbers.

Mark S: How much is a customer worth and why all that matters. So tell me what that means to you Marc Vila.
Mark V: Okay.

Mark S: When I say, know your numbers. If you're an apparel decorator or in any business, what are we talking about.

Mark V: Well, we're talking about to paraphrase real quick you specifically said how much is a customer worth, so, I'm going to start saying that, how much is a customer worth, so what does that mean? When you get a new customer or you have an existing customer how much revenue or how much profit are they worth to you in the short term and the long term.

Mark S: It's the over-time thing that really gets me, because most people will take a look at an individual order and not realize or not think about what's going to happen down the line. So for example, most of you probably know that are listening to this, I'm the director of marketing for ColDesi and we sell apparel decorating equipment, but not just one kind, so we sell direct to garment printer, embroidery machines, rhinestone machines and a large chunk of the machines that we sell every month are from customers that own a different technology. So somebody buys an embroidery machine, they come back when they are ready to do printing, they buy a DTG printer, eventually they add a Rhinestone machine or Prospangle. So we assign a very high value to that initial customer and it's one of the reason other than the goodness of ours is that we treat people so well, is because there is a value to that.

Mark V: Yeah, it's very similar to how most any industry works when they think about bringing you either into a store, whether it is a retail store coz they are bringing you in for a sale, so they might put coca cola on sale at a price that they lose money on. However they know that every time somebody walks into that store, they've got a value of this and every time somebody is a loyal customer, they've got a value of that overtime.

Mark S: That's a great example, if I got into 7-11 for an 80 cent big gold sale , I'm going to spend 3 or 4 dollars on candy bars or on something else. So they know that their average customer value or my customer value is 4 bucks a visit, so they can afford to give away 50 cents worth of soda.

Mark V: Yeah, they also know that there are all these other things that are going to build up meaning that you are going to possibly become loyal to buying gas from there because when you stop for gas, it is time for a diet coke too, so while I am in there I am getting this. So you build this whole value for your customer on what they are worth to you and then you make use that value to make lots of decisions.

Mark S: Yeah, you run your whole business basically on that, I mean you decide when it is time to buy new equipment, You decide when it will be worth to add technology to your business, how much to spend on advertising. That's going to be the topic of a future podcast. So right now though, I think everybody's got a pretty good idea of what it is, how do you figure that?

Mark V: Okay, so we've broken down it into basically 3 parts.

Mark S: We got a formula, if we had a whiteboard now, I'd stick my hair up, I'd put on a lab coat and I'll be standing in front of the white board.

Mark V: And you would look sharp.

Mark S: I would, I always do, I always do.

Mark V: We got three things that we want to calculate, the first one to get into is the initial value, so when you get that customer they are going to place an order with you today and it's going to be worth a specific dollar amount of revenue, so it's going to be this order, this is a $500 order.

Mark S: That's what the revenue is by the way folks, it's the sales numbers, they are going to write you a check or you're going to ring something up on your credit card or they are going to hand you five crumpled up suspicious $100 bills and that's the revenue of the sales, that's the initial value.

Mark V: Moist dollar bills, they were in the pocket.

Mark S: That's the initial value.

Mark V: So, that's the initial value and then also you factor in that value how much profit you made from that transaction.

Mark S: And each one of those are important numbers, When you go in. If ever go in for a bank loan, they're going to ask you what are your sales and what are your profits and what are your costs, that's the next thing. You've got to know your sales value your initial value, you've got to know what percentage of that is going to be overhead for cost, what percentage is going to be labor, what percentage is going to be supply, so you actually have to have a good profit number for the job.

Mark V: And do your best on taking some time to back up and look at that profit number, don't just do the cost of my shirt and cost of the ink.

Mark S: HUGE mistake.

Mark V: Look into other things, what other costs could be involved in this, you can take your electric bill and divide it amongst each day.

Mark S: How many hours is it going to take.

Mark V: So if you have 8 dollars a day in electricity, and this is going to take half of the day, you have about four dollars in electricity.

Mark S: Your percentage of your rent goes into overhead, definitely and don't skimp on labor, do an actual labor cost even if it is you. Even if you're a one person shop, then you still got to assign some kind of value to your time.

Mark V: Yeah and when you do all of that, which we can have a whole podcast on just doing that formula.

Mark S: And we will, I have a feeling we will.

Mark V: And we will, but in that just consider, really consider how much am I making off of this transaction, now I got a value to this. However it doesn't end there, the value of that customer doesn't end there because they probably will come back for more.

Mark S: Very few people will order a custom T-shirt or an embroidery job or direct to garment print or anything just once. They are only ever going have one family reunion or one church picnic, they're only going to hire three people for their plumbing company and they'll never hire anyone else and those people will never need new shirts, that is just not going to happen.

Mark V: Now there is a difference between not having a repeat customer, because everyone has a customer that buys once and you never hear from them again.

Mark S: Right.

Mark V: But that goes back to a lot of other podcasts we've talked about.

Mark S: Yeah, Customer Experience Matters, and the Sales Techniques and the Not Wasting Money on Marketing because you're keeping track of your customers.

Mark V: Yeah, exactly, with that we've got how much we're going to spend now and then we've got a frequency number. So let's say that the frequency numbers we could say plumbers – you mentioned, their employees might go through two sets of shirts a year.

Mark S: And let's say there is five guys, it's a small shop.

Mark V: There is five guys and they have five shirts a piece maybe, they've got five polos that they wear a piece, Monday through Friday Polos.

Mark S: Right.

Mark V: So now it's 25 shirts every time that they need to place an order, and they replacing those maybe twice a year.

Mark S: So that customer now is going to buy 50 shirts.

Mark V: They're going to buy fifty shirts plus anything else they might buy in between. Buy if we put that value on and they are saying every year they are good for 50 shirts or whatever that value might be in your profit or your revenue. Let me do some quick math, 50 times let's say they're $25, they buy particularly nice polo shirts, that customer is worth $1250 a year.

Mark S: As you can see, we went up, first it was just a small order, that we're going to do just 25 shirts but now we've assigned a real value to what could this mean for your business.

Mark V: Now what about there is a third factor to consider in this customer now.

Mark S: Right and that's how long are you going to keep them. It's the longevity of the customer. So right now we've got Joe's plumbing shop, I like Joe he does a lot of different things for me and he's buying 50 polo shirts a year, how long has he been in business and how long you think you can keep him as a customer?

For example if you think you can hold on to a customer for three years which seems a reasonable number for me, if you don't have any history, if you're already in the business and you know how long a customer that you take care of lasts, maybe it is 18 months, maybe it is 3 years, maybe it is 10 years, then you can figure out what the value of that customer is in longevity.

Mark V: So if we say that the plumbing company that we're working with and if we're going to be able to keep them for three years as a number, if we want to go with a conservative number, so we times that number times three now getting this one order from this plumbing company has got a value, a lifetime value of three thousand seven hundred and 50 dollars.

Mark S: So and again that does a couple of things, first of all that's a big difference. You're going to do your profit numbers and figure out what percentage of let's say, it is 50% profit or something along those lines then you have 1600 or 1800 bucks but you can see, you now have a clear idea of what getting a customer and keeping a customer is worth to your business. This a power of how much is a customer worth, you're not pricing out or talking to somebody about a single 25 piece order, now you're talking about planning the next three years of your business by taking care of this customer and you'll be able to see revenues accelerate overtime.

Mark V: And we've got to think about this when we're doing things when we're doing marketing when we're spending time to get new customer, this is the number that's important to think about. So at Colman and Company we sell the patch kit which is one of our most popular products.

Mark S: And it's a great product by the way.

Mark V: It's a great product, it is cool if you want to do custom patches, and I'm going to plug it, check out one in the webinars because it is really cool and easy to do. But the reason why I bring this up is because a small patch kit the smallest one we sell, which is kind of the bare minimum you need to get started is about 50 dollars and is no big deal, if we make a mistake on shipping and order than it costs more than 50 dollars to fix it.

Mark S: True.

Mark V: But we know that if somebody gets into patches and we teach him how to do it correctly and they spend that 50 dollars on that initial kit and they are successful with it, they are going to come back and buy more patch material and more patch kits and the value of them increases overtime, so it is worth it to spend the time and go out there and find people who need to make patches so that we can teach them how to do it and make it right. So that's was not just thinking about is this worth it for a 50 dollar sale?

Mark S: Right.

Mark V: Is it worth it for hundreds of dollars over hundreds of customers over years.

Mark S: And the patch kit is a great example because we've done two dozen videos over the years on the patch kit, we do live webinars and we do all of this stuff that basically supports a 50 dollar product. So it's not the initial sale value that makes a difference it is because that Colman and Company looks at -Okay, somebody that uses the patch kit will create patches as long as they are in business so let's say that is four or five years, now that total value calculation is the initial 50 dollars the supplies and the times of longevity with the customer now you can see why there is a one hour webinar.

Mark V: Yeah, and that's what we need all of us as anybody who runs a business, owns a business or handles marketing or sales for a business needs to factor in on our time, we need to figure out what are we spending time on and what is the lifetime value of that whole thing. So we talked about the Tripping Over Pennies Podcast, if you haven't listen to that one, you have to because coming from the supply world I think about that all the time because we have people that are tripping over pennies looking at all these little things that…

Mark S: They are trying to save 20 cents on a cone of thread when they could be using that same time, now you know the value of a single customer, why in the world would you waste 30 minutes trying to save 20 cents on a cone of tread? Once you have this number it will really inform the rest of the decisions for your business.

Mark V: Yeah, there is so much to it. And then there is another factor.

Mark S: Yeah, the 'R' factor. I'm going to take credit. We were talking about how do you allow for referrals, because there are different kinds of people and I am going to let Mr. Vila talk about that in just a minute but what is the value of word of mouth of having that customer, how likely are they to spread, now that's the referral factor that you can use as a multiplier for this business.

Mark V: And what are the chances that plumbing company that you gotten business from, that the owner of that company he probably has to refer to somebody else for other pieces of his business. Generally if you've had plumbing work done in your house they rip open the walls and then they leave the hole there and say we don't do that.

Mark S: Right.

Mark V: "But I know a guy".

Mark S: Right.

Mark V: He always knows a guy that does the different things, that fixes the floors and fixes the walls and does the electrical work and all of these things and so he is already connected to other people and what are the chances that he is going to say "oh by the way, Mary did these shirts for me, they look awesome, I've been ordering them twice a year for the past three years and a 100% of the time I just have a great experience working with her" and all that.

Mark S: And that's a good example, that's kind of a personality judgment on your part. The plumbers that I talk to they would never talk like that, they wouldn't think of talking like that, it's just a shirt and they are just going to wear it. But there are other circumstances, so you might say "okay, this plumber he talked to me the entire time I was there and I know that if I ask him to mention me to these other vendors that he actually will refer me business".

Mark V: Yeah, absolutely.

Mark S: Or you go into the plumbing shop and the guy doesn't say three words to you, he just wants to order the shirts and for you to leave or to get off the phone then he is likely that way with everyone else that he talks to. So you might want to assign a lesser value to potential referring.

Mark V: So, in regards to a couple of numbers, then we'll talk about how to factor that.

Mark S: Sure.

Mark V: So, what are a few numbers that you would use in this calculation. So you said, 3750 is the value of this one customer that we are talking about, what's the math on the "R" factor?

Mark S: The math on the "R" factor that we kind of kicked around some ideas is to assign a percentage value to a customer, so if you've got somebody that is projected to spend 3750 and you know that they are kind of taciturn, they don't really have that bubbly personality, they don't run into a lot of people, maybe there is no referral factor because you think that they'll never talk about you. But on the other hand, let's say there is a possibility they know some people and you ask them to do a referral, so maybe there are point two (0.2) What that means is I am going to assign a potential value of point two (0.2) of whatever my sale is or whatever my long term value of the customer.

Mark V: So it's the 3750.

Mark S: Right, that's the total value of a customer.

Mark V: times point two (0.2) is 750 dollars.

Mark S: Okay, so that's a pretty big number, so what you're saying is if you get this customer in and you treat them right, there is a relatively small chance, a 0.2 chance I would say of them referring you to somebody else and getting that business.

Mark V: That's going to bring you another 750 dollars.

Mark S: Yeah, that's our estimate.

Mark V: So, then you've got 750 dollars plus 3750 and now what we're saying is that now that customer that we've gained is worth about 4500 dollars.

Mark S: Right, that's because that's the initial value of the sale which we talked about is 1250 dollars, the frequency which is twice a year, the longevity which is 3 years equals to total value of 3750 and then we're kicking in the "R" factor which is 0.2 of that total value and that's kind of a personal judgment on your part, how active do you think they would be in referrals and also you have to look in a little bit and see if do you suck at customer service. Because I mean… Look! I love all you guys but there are some of you that just you really just want to print a shirt and hand it to somebody and get paid. Your R value on everybody is going to be low. It's going to be lower than somebody that really takes joy in their customer experience and wants to deliver the shirts and wants to talk to people about their business then your average R value is going to be high.

Mark V: The reason why the R value is so important is because in the apparel decorating industry it is a lot like some other industries, it is heavily weighed on referral business,

Mark S: it is all word of mouth.

Mark V: Plumbers are similar since we mentioned that, web developers…

Mark S: That's a good one.

Mark V: There is a lot of industries but you don't see a lot of giant bill boards that say's call me for custom T-shirts.

Mark S: Right, that's true.

Mark V: You don't see that as often, that's for other things, you see giant bill boards for emergency rooms by the way.

Mark S: Yeah, that's weird.

Mark V: You see giant billboards for maybe a jewelry store, they need to get people who are about to engaged to be married to come in, it's not a lot of referral business of where did you get it necessarily.

Mark S: And it also plays in some of our earlier podcast, where the vast majority of the people that are listening to this podcast don't have a website, or they don't have a good website. So they are relying on, all of you are relying on word of mouth or those personal connections that you make and that your customers make to drive your business.

Mark V: We, have to factor in the referral value of every customer, and I think that it should be from Zero, meaning that they are a band from out of the country and they forgot to get their shirts and they forgot to ship their shirts and they need shirts for tonight and then they are going back to Austria.

Mark S: And it's in Surrelic for some reason, nobody knows why.

Mark V: They are never coming back to the US, they told you that, so you know for sure this customer is worth Zero R factor.

Mark S: And the frequency is going to be one. That's it they are never coming back.

Mark V: So you have to make sure that the value of that initial sales is high, you are not going to do this to make five dollars profit. And then we got this other factor where this is a local Church, they said we had a guy, he moved and we need a new guy, hopefully it is you we order shirts every single month. And by the way like all of our members are always looking for different things and we just need somebody who is reliable.

Mark S: And we'll talk about it.

Mark V: And we'll talk about it, and that's got a high.

Mark S: Because of couple of things, they say that they like you, they tell you that they'll tell other people, you talk to them about telling other people and there is a reasonable chance that they will be able to tell other people.

Mark V: So, that last sentence is there is reasonable chance that they'll be able to tell other people, not just that they will but their community organization, they get together often on a regular basis, people ask for referrals for all different things, when they go there because it is a trusted community, so the numbers I think that are good either a Zero for the band from Austria or a 0.5 which would be the church that told you that they are going to tell other people and they consistently refer business.

Mark S: Agreed and that is really important. And we're going to talk about how you might figure that out if you're a newbie. A couple of questions that you can ask to get a jump-start on the total value, especially the "R" factor calculation, but you would talk to me about… and we've talked about it in a previous podcast as well on Spaghetti Sauce and Apparel Decorating, Malcolm Gladwell's tipping point, the book that he did, and the kinds of people that you should be looking for.

Mark V: So, he wrote a book called Tipping Point.

Mark S: It's an awesome book.

Mark V: Yeah, one of the first sociology/business books I probably ever read, it might have been the first actually when I really found that interesting. He talks about three types of people and when you run into these three types of people especially for the "R" factor this customer is going to be particularly valuable for you on the referral side. And the three types of people that he talks about are:

1. Connectors
2. Salesmen
3. Mavens

One is connector, okay, so connectors are people who seem to know everybody.

Mark S: You have a connector in your life I guarantee you, because it's going to be like I need a body shop for my 1957 Cadillac, who would you talk to if you needed that guy.

Mark V: I think a connector even, if I remember correctly from the book, he talks about like sitting next to somebody on a plane or you're having a conversation with them and no matter what you bring up they know somebody who does it or they know somebody who's been there.

Mark S: By the end of their flight they know you too, you'll be their best friend at the end of the flight, you'll exchange business cards and if you're in sales that is the guy to know.

Mark V: They are the people who link the world together, they link the world together because they just know a vast amount of people, they are connected.

Mark S: That's the guy if you tell him that or if you make a shirt for him or that you tell him that you're in the custom T-shirt business the next people that he talks to that's having a conversation (for the rest of his life) about apparel or custom apparel or charity work or church work, they're going to say, I know this great guy and I met this guy on the a plane and he seems awesome, I happen to have his card right here.

Mark V: I always happen have.

Mark S: Yeah, that's the guy.

Mark V: So, that's a connector, the last sentence leads into the next one which is the salesmen. The salesmen -these are the type of people that they want you to buy your car from the dealership that they bought it from.

Mark S: They get some kind of a pleasure from "yeah I sent him there and he got what I got".

Mark V: They just have this indefinable trade that they just want to tell you about it -why it is great, why you should go there and why you should buy this T-shirt or this hat from this guy or from this woman who runs this shop.

Mark S: It's almost like the people, for some reason you always get into conversations about directions, if we had to go from our office to the University of South Florida we ask three people, not only would you get three different answers but they would somehow develop a vested interest in you choosing the route that they recommended.

Mark V: If you ask five people there might be two or three that give you directions and walk away, but there might be one or two who really want you to take their route.

Mark S: Right!

Mark V: Okay? That's the sales person.

Mark S: And that's a great test.

Mark V: So if they are a sales person, they are going to have a higher R value, you can tell this person is going to try to sell other people to go see you.

Mark S: Yes.

Mark V: High R value. So we got the connectors because they know everybody, they tell everybody; we got the salesmen and then we got the Mavens. Okay, the mavens are the information connectors, they are the information specialists, they know everything about the marketplace, and they are going to be the people that say “if you want embroidered hats you want to go see Josephine, but do not order T-shirts because she does it this way. You want to order T-shirts from here”

Mark S: And they are also the deal people, because honestly my wife is a Maven and we even had this conversation when you were remodeling your house and you were looking at flooring. My wife spent six months researching the exact kind of flooring that she wanted, researched all over the world to find the best price and delivery and shipping and warranty and that would be the person to talk to, she would dump all this information on you if you said the word “laminate floor” it would just spill out of her and you would have exactly the information you need to make a good decision. That is also somebody that should have a high R value, once again provided you do a good job.

Mark V: And so the Mavens are the information brokers of the world, they know information, they like to share and trade this information. So that’s another thing and these are the things to look for when you are talking to somebody, it is not a bad idea to have these things written down within your sales sheet and if you feel that they are one or more than one of these things.

Mark S: Which is a big deal.

Mark V: to circle it, because you want to give them a higher R value. So it’s not even a bad idea on your sales sheet to put like – CMS are they a connector, a Maven or a sales person, if they are then circle one of them and know that you’re going to put a higher value to this customer.

Mark S: And it seems like we are plugging other podcast every three minutes or so. But we also did one on Wasting Your Money on Marketing and its Losing Customer Follow-ups because you are not using any kind of a contact management software. So if you are using a CRM like we recommended that you do to keep track of your customers that’s a great thing to put in your notes. So that’s where you would keep track of if they are a salesmen? Are they a maven? or are they a connector?

Mark V: And all of this is not a waste of time it is important, it is really important because you want to know when you are looking at your customers and you are always trying to assign a lifetime value for this customer then it is going to determine a lot of things on how you handle this sale on what you are willing to do or not do to get it, what might price breaks might you be willing to give? what hoops might you be willing to jump through? and how hard are you going to work to get this sale?

Mark S: And it also, once you have a little bit of this data you will be able to figure out that is it worth advertising to find a customer like this?

Mark V: Yeah.

Mark S: Let’s say you work out that … trying to think of a different example, let’s say you work out the American Cancer Society Chapters in your city is a fantastic place because the R value is very high because everybody that does the cancer walks ends up buying something else from you. The initial value is pretty good, the frequency they locks twice a year, the longevity, they last for five years each. Now you have a great number of five or six thousand dollars that’s a lifetime value for the customers, you have motivation and know your numbers enough to call the cancer society chapter in the next county over and say wow look at how much this customer is over, let me pick up the phone and call this one and say "hey, you know what I love doing this work for the Hillsborough County chapter, you guys are right next door, let me talk about doing the same thing for you."

Mark V: Yeah, so it helps you define some of your customer base, who you want to go after, who do you want to avoid. Also how much work are you willing to put into the sale of these as well because the band from Austria if you say "Here is the price, it is a fair price, if you want to buy it good, I'll follow up with you tomorrow" and you follow up with them, the guy ignores three of your phone calls, okay i'm kind of done with this one.

Mark S: Done.

Mark V: However, you keep calling that cancer society, the person who orders the shirts, you might follow up with them three times as many times, so you might not only follow up with the other guy twice, the cancer society person you might follow up with them ten times to get that sales.

Mark S: It could be for the rest of your life you're always following up with these people because the value is so high, and you know that if you connect it would be worth those 12 or 14 calls.

Mark V: So I have a question now, I am brand new to the business.

Mark S: Yes, congratulations. Where did you buy your printer?

Mark V: (laughs) I can't tell you.

Mark S: Okay.

Mark V: So, how do I start figuring this stuff out when I got no history to base it off on.

Mark S: That's a great question, it is a little tough because you don't have the history but you can certainly figure out the initial value, because that is going to be the sales numbers and if you are part of the customer apparels startups Facebook group, we get that question posted and some great answers all the time on how do we quote this job, how do I quote that job, they'll give you some reasonable ways to do that. So the initial value you'll be able to figure out, you can do your profit estimates just by estimating your costs. Say I think it is going to be this much in supplies, I work out of my house so this percentage of the rent, I want to make this much an hour so this is my labor cost (so you can figure that out) and as far as frequency, there is one big question you should be asking every customer and that is – How long were you with your last vendor? How long were you with your last vendor?

Mark S: So if someone calls you up and they have an emergency order for 27 shirts and 27 embroidered caps. Great! I am excited to quote this, let me ask you something, did something happen with the previous vendor? How long were you with them? "Yes, they really dropped the ball, I only ordered from them once". That's a low percentage deal, because they only ordered from them once. You know what? We had the same vendor for like 3-4 years and they just retired, well that's a great estimate and now you have a better frequency calculation.

Mark V: If you have like a serial shopper that they have never seen to order from the same person more than once, you know the frequency is probably going to be low and your lifetime value is going to be low and your R factor is going to be low, so you want to think about all these things when you are trying to get all these customers. But that's a perfect example, we had a great woman she was fantastic, she retired and moved to Alaska, so I need somebody new, I probably bought shirts from her 40 times.

Mark S: That's the ideal candidate.

Mark V: You right down that number, you write down lifetime 40 and this order 500 dollars, and then you start doing the math, 500.

Mark S: I think… that's 20,000 dollars.

Mark V: 20,000 dollars and this woman that you are talking to seems to be a bit of a maven.

Mark S: Yeah.

Mark V: So now you say, she knows a lot of people, and lot of information,

Mark S: And you can even ask, do you know anybody else that used to be your customer that I can help with.

Mark V: Then I can say, 20,000. If I say 20,000 dollars I've given this person an R factor, let's just say 0.3 a little higher than a middle, that's another 6000 dollars. This one sale could potentially make you 26,000 dollars for your business; you could buy a couple of embroidery machines to add to your business if you get this one sale.

Mark S: And that's a great way to look at it because this is what that's going to happen and I do recommend that you look back at your decisions as you grow your business, so you're new and you make these estimates upfront maybe at the end of six months or a year, you take a look back, okay I assigned an R factor to these guys of point five (0.5) and they haven't sent me anyone then maybe want to reduce that and change your lifetime value of the customer or if you want to flip it around and figure out what you're not doing to encourage them to send referrals.

Mark V: Yeah, and all of this information is important to write down so you could look at it and pass it on and also the other thing is you want to find out where your customers are coming from and track that as well. We talked about another podcast in which we talked about using CRM and using customer relationship software and managing customer information and if you have a field in there where you put the source where they came from, how did they find you? Did they look you up on Google?

Mark S: And that's the question that you ask them on the phone when they call "Hey how did you find us?" Bob told me or….

Mark V: How did you hear about us? Yeah and if you find that Bob has referred four people to you.

Mark S: I love Bob.

Mark V: Then you go back and you look back at his information "I gave bob a point two (0.2) R factor I am going to change it to point four (0.4) or a point five (0.5) because he has already referred three people, in fact let me look at my math, I gave bob a lifetime value of three thousand dollars ($3000) and I gave him a referral value of 600 dollars in the beginning, well I am looking at how much he has referred me? He's referred me 1200 dollars worth of information, I need to double my R factor, I really need to take care of Bob."

Mark S: Yeah! Absolutely, buy Bob lunch, send him a T-shirt.

Mark V: So, when Bob calls you up, now this is something a little tricky thing. Bob calls you up now and this is why this information is really important, one reason Bob calls you up and say's "Hey I am participating in a charity event, I am trying to get hats for everybody who's participating and I am trying to maybe 75 hats, would you be willing to donate these 75 T-shirts to my charity event?" When it is okay to give stuff away for free?

Mark S: That's tough, that's tough, for Bob it's a personal decision whether or not I am going to do it for free or do a discount or do it at all, from a business perspective the only way … there is a couple of ways to make that judgment. Know the guy's R factor and it is low the answer is NO. If you know the guy's record and his R factor is low BUT he will let you put the website on the back of the shirt and the crowd is a potential customer for you, so another words if there is a charity event and you want to make sure it's for the Austrian quire that Marc was talking about earlier.

Mark V: They turned into a quire?

Mark S: I don't know why I just pictured the roads and they are doing a charity concert here then… probably it is not going to be great. But if it is a salesmen's convention, if it is a maven's convention if it is a connector's convention then you do a great job and you put the website on the back of the shirt then maybe that's the decision that's you're going to make.

Mark V: That's important in knowing this information. If it was me and it was Bob and I look at his lifetime value and I look at his referral value and then I can actually track how much he has referred me then I do the math and I say, these 75 shirts are probably going to cost me this much labor and this much time and this much money I am going to be out 400 dollars total when I add everything up it's worth it to me for Bob?

Mark S: He is a 26,000 dollar customer

Mark V: He is a 26,000 dollar customer and I have a feeling that this might make that R factor go up again because he has already proven that he can go from point two (0.2) to a point four (0.4) I could probably get it up to a point five (0.5).

Mark S: And I have to point out, just because Marc and I are both sales people, don't be shy about asking, if you do this job for Bob or for anybody and you've looked at the math and not your heart strings to figure out whether or not it is a good idea, then if you've looked at the math then don't be shy about saying "You know what? I'm happy to donate this, but here is what I'd to do, I'd like to put my website on the back of the shirt somewhere, it doesn't have to be at an obvious place, so the people will remember, I also would like to stand up for a minute just to stand up and introduce my business or I'd like to be able to distribute business cards or I'd like to ask you personally to talk to the people there to make sure that I at-least a couple of new customers out of it". All those things are perfectly reasonable requests and you can judge by the relationship with your customer and which one will work best.

Mark V: And if you get a phone-call from a person that you've never heard from before, someone never talked to before and he is asking for free shirts. The question that you want to ask is, this is like a brand new business and a brand new charity or no it is the American Cancer society, they've been around for a long time, why don't they already have somebody that's going to do it for free.

Mark S: Right.

Mark V: Don't take the promises of if you do this, I'm going to do this for you.

Mark S: Yeah, you've got to have some kind of a relationship there has to be a reason for you to think that is true.

Mark V: Yeah, because when we do the calculation on that person the initial value is Zero, the frequency is Zero, the lifetime is Zero and the R factor is we have no idea. So potentially it is all Zero it is worth of nothing to you and that's where you said well maybe it is worth it to me in marketing because maybe I get to put my name in the back of a pen where there is going to be a bunch of business owners. Because it is business owners supporting Cancer and Research, okay, worth it, that's marketing. So all these things are things to consider but when we are doing this math and we go across the board where we are thinking about it for every customer. and we got a little formula, even in the beginning if you are guessing you'll get better at it overtime but also you can go back into your data and look and adjust.

Mark S: Honestly if the only thing that you got out of this whole podcast, you just heard bla-bla-bla in the middle when we were talking about the formulas is that you think about lifetime value of your customer in both revenues and profits along with their likelihood of sending you referrals then you'll have a better business next year.

Mark V: Yeah, absolutely-absolutely because this is one of those things that we've said a lot of times before but most businesses don't do this, don't think about it and don't write it down, don't even consider it, what they consider is what's happening right now and at this moment and that's it. I don't want to deal with this job or he told me that he was going to call me but he didn't he doesn't want me to do his work for him. Are you talking to somebody who is really busy? What's the value of this customer, what's it worth it for maybe for you to take.

Mark S: You're not doing them a favor by printing shirts or by doing the embroidery for them, okay? just think about that.

Mark V: I think since most people aren't doing it and if you do it, you're going to put yourself at an advantage VS all the other businesses out there all your competition, you're going to put yourself at an advantage because you'll be spending time on the customers that are going to make you more money overtime, you're going to be spending an effort in thinking about doing all of these things and you're not going to be wasting your time and money on lost causes or somebody that's not going to make you a lot of money overtime.

Mark S: Let's do this one last time and then we'll let all these people go back to driving.
Initial value of the customer in terms of sales and process?

Mark V: That's how much the actual sale is.

Mark S: The one that you're working on right now.

Mark V: The cheque that they're going to give you tomorrow.

Mark S: The frequency of how often they're going to order.

Mark V: So ask them, talk about "do you do these events often, is this something you do on a regular basis, how often do you order shirts."Just ask them a few questions and make an educated guess.

Mark S: So the longevity, how long you think you'll be able to keep that customer.

Mark V: How long have they been with their last vendor or how long have they been in business. Do they seem to be somebody who is really-really loyal or they seem to be a shopper all the time.

Mark S: And are you terrible at customer service. You got to keep that in mind because you're out there and I know you are. Now all that equals the total value of that customer and then there is the R factor.

Mark V: The R factor, so think about what is the likely hood of you getting a referral. Are they a one time buyer from out of town or are they a local organization that refers a lot, are they a connector? Are they a maven? Or are they a sales person? Think of all of these things and put a value that you have to just make a guess on. You have to guess based on your conversation and evaluating all the things that I just mentioned and them a value somewhere between zero and point five (0.5) and add that to the end of it.

Mark S: And then keep enough information on hand that you can look back at the end of six months or a year and see how right you were and make changes from there.

Mark V: And then ask your customers that where they came from so you can go back and check all this math in the future.

Mark S: Agreed. So that has been, this has been; I don't think I say this every time, but I think this is my favorite episode of all time.

Mark V: You say it every-time (laughs)

Mark S: I do… okay, so this has been episode 17 of Custom Apparels Startups Podcast Know your Numbers, How much is a Customer Worth.
Mark V: And I'm Marc Vila thank you for listening and definitely stay tuned for the additions to this because we're going to talk about how this relates to marketing and how this relates to future sales. Anything else Mark?

Mark S: Everything…

Mark V: Everything is going to relate to this. So knowing the value of your customers is extremely important. Thank you for listening.

Mark S: Yup, this is Mark Stephenson signing off, have a good business.