



# MONDAY MOTIVATOR

CREATED BY PERFORMANCE STRATEGIES  
MANAGEMENT CONSULTING GROUP

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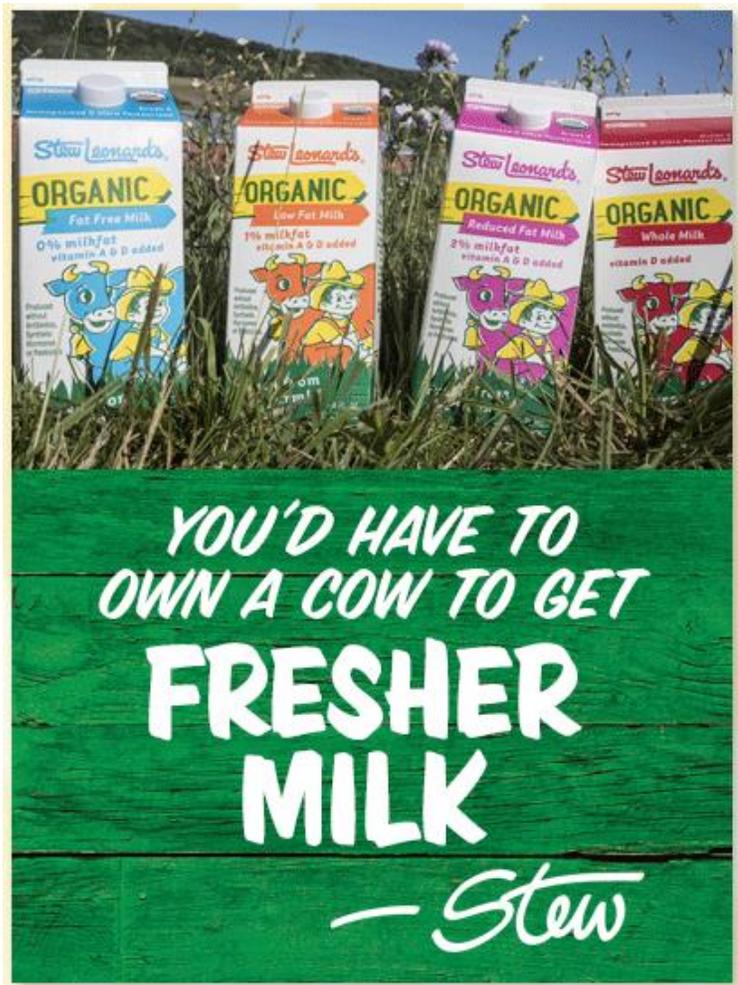
## Customer Service & Net Present Value

Most people will tell you that money you have in your hand today is worth more than money you have coming to you later. However, a lot of people get confused about the math and the consequences. This edition of the MM brings some clarity about a much-used term that is little understood. Net Present Value.

There is a popular groceries and convenience store in the northeast with 6 stores in operation as I write this. The little chain is called [Stew Leonard's](#) and started out as a dairy store in 1969. In its early days of operation the checkout and stocking clerks were young local kids barely out of high school and with little or no business experience.

[Stew's little dairy shack](#) was a bit out of the way for most folks so he hit on the idea of buying a worn-out school bus, restoring it and painting it green. There were no green busses at that time so his vehicle really stood out. He hired a retired school bus driver to drive it into the farming areas of his county so older folks could get a free ride to his store and home again. He set up a few different routes and let people know when the bus would be by to get them.

The idea took off and before long Stew had the farm ladies talking it up.



Many of the senior shoppers liked the idea of a free ride “into town,” and told their friends who got together at a farm house to wait for the bus while enjoying tea and cookies. They found the ride fun and the dairy products very fresh and fairly priced. Stew’s little store soon became two and then three stores.

Plus, since the shoppers were there anyway, why not offer other items they would buy sooner or later? Stew added dry goods, produce and other food products and household cleaning supplies. He was on his way to becoming a larger store chain.

One day a long-time shopper got off the bus with five of her neighbors along to do some shopping and went to the checkout stand where she met a young man just hired in the past few weeks. His name badge read Doug. She asked if she could exchange a half gallon of milk that she found to be sour when she opened the container. Doug looked at the expiration date which was over two weeks prior to her bringing it back. Stew was not in and the store manager was busy in the warehouse so, Doug told her she could not return the product due to the expiration date on the milk container.



When she stated that she had been a customer for over eight years Doug stated that the store’s policy was not to exchange products that were expired. The cost of the half gallon of milk was 25 cents – worth about two dollars in today’s money. She asked the young man to throw it out and she, along with her five neighbors, got back on the bus to await the ride back home.

Stew found out about this a few days later and asked the young man to see him in his office. Here’s how the conversation went:

S – I understand you were asked to exchange a half gallon of milk for a customer and you told her you could not do it.

D – Yes sir. The expiration date was over two weeks prior to her coming back with it. And it had been opened. How was I to know if she put bad milk in the container or just kept it past the expiration date and was trying to get us to replace it?

S – Doug, that customer has been shopping here for the past 8 years. She comes in on our bus every two weeks. It’s possible she bought that milk just days before its expiration date and when she opened it she realized it was bad. How much do you think you saved the store by not exchanging that milk?

D – Well, we charge 25 cents for a half gallon and I’m guessing our cost is 20 cents so I guess I saved us 20 cents.

S – That’s right. But now I’d like you to do some math with me. This customer spends about \$20 every two weeks here. And she brings her neighbors who also spend about the same amount. Thus, these six ladies spend \$240 per month here. Our overall margins average about 10 percent. So our gross margin from these six customers is about \$24 per month. This means this store earns \$288 per year from these ladies. If they continue to shop here for another 15 years and our margins

remain about the same, in today's dollars we would be earning 15 times \$288 to equal \$4,320 in gross margins. That amount is the net present value of these six customers over the next 15 years if we treat them right. But since this customer feels she was mistreated, she and her five companions are now shopping at the new supermarket that just opened much closer to their homes. So, young man you saved this store 20 cents and cost us over \$4,300.

D – Wow! I had no idea this was going to turn out to be such a big deal. I thought she would understand and just keep on shopping with us. I'm sorry. The next time I'll be more courteous.

S – It's okay Doug. I spoke to her and she has decided to give us another chance. I would like you to offer her an apology when she comes in next and you have my permission to give this lady and all five of her friends a free half gallon of milk for the next two visits they make here. Mark it down and remember this because I promise you this lady and her friends will not forget that I offered it. Do we have a deal?



D – Yes sir. And thanks for giving me another chance as well!

The story here is a true one. It actually happened. Now it's time to do some math of your own. What is YOUR net present value as a customer for the following:

<b>Food</b>	The amount you spend per month.	Times 12 to equal the amount you spend per year.	Times the number of years you plan to keep on eating.
<b>Transportation</b> (public or private) such as your car.	The total monthly costs to operate your car including all costs.	Times 12 to equal the amount you spend per year on this.	Times the number of years you plan to keep on driving.
<b>Entertainment</b> (TV, online subscription services, movies, concerts, etc.)	The average monthly amount you spend on this consideration.	Times 12 to equal the amount you spend per year on this.	Times the number of years you plan to keep on living.



The numbers you ended up with in the last column is your net present value as a customer to anyone who sells you what you consume in these three (and all other) areas of your life. Now we understand why toothbrush makers pay for endless varieties of ads in prime-time TV broadcasting! The cost to make a toothbrush is about a dime. But packaged up and offered to us at the local drug store or Walmart This same toothbrush will set us back up to \$4! With these gross margins, it's no wonder the ads get put on TV to start with. And if we think about it, the

economics are solid. Virtually every human being watching that TV uses a toothbrush, toothpaste, soap, deodorant (we hope) and everything else we have in our bathrooms, bedrooms, living rooms and kitchens, not to mention the garage.

In summary, the net present value of any of us, to those we do business with, is far greater than any single purchase. Sam Walton knew this on July 2, 1962, when he opened the first Wal-Mart store in Rogers, Ark. In just five years, by 1967, the Walton family owned 24 stores, ringing up \$12.7 million in sales since their first store. [The company officially incorporated as Wal-Mart Stores, Inc.](#) Today, Wal-Mart is the largest company in the world by sales volume and has a market value of \$232 Billion as of May 5<sup>th</sup>, 2017. All this is due to their astounding average gross profit margins of 25% quarter after quarter. You don't get this big by being right. You get this big by allowing the customer to be right. However, you still get to be right; you get to go right to your bank with your deposits from loyal customers and their friends!

Would you like to see your business margins improve or get costs under control to help make it happen? Performance Strategies is expert at helping balance sheets and cash flow statements shine.

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Our consulting and coaching focus supports management, sales, customer service and operations. Included are sales and management assessments and surveys as well as leadership, teambuilding, sales operations efficiency and online tracking projects. Our other team members bring additional disciplines as well. We will showcase them in future editions of this business journal. We are all committed to driving the results you want.