



Profit as a Result

By Steve Major

Where does profit come from?

It is not the surplus in your bank account. We a profit and loss statement but what is that amount recorded on the bottom line called profit. Where does it come from?

There are many economic or accounting definitions of profit. The accounting definition broadly defines profit as that which is left over from revenue less expenses. Economics talks about the three factors of production, being land, labour and capital. Finance theory might even look at profit from the perspective of risk.

Profit comes from customer behaviour.

The success or failure of a business comes from the behaviour of its customers. The real action of business takes place in the hearts and minds of the customers.

Not only is profit a result of customer behaviour it is also a lagging result. The profit comes about from the customer behaviour in the last month or the last year. This years profit can be affected by last years customers behaviour. Profit does not tell you an adequate story about whether the customers are going to continue to behave in the same manner.

Accountants will tell you that if a business has had three years of solid profits then this business is a sound business in which to invest. It is a business doing the right things. But is the profit from a constant significant turnover of customers or is it from a sustainable customer bases. The better question which is not answered from our profit and loss statement is what is happening to the retention of the customers and/or the re-purchase rate of the customers. Additionally, how many of their customers are referring new customers to the business.

Of course none of these metrics are found in our profit and loss statements. The accounting statements can not examine the customer behaviour, only summarise the end result.

It is not the purpose of this article to go into the economics of loyalty suffice to say that there have been numerous studies all of which have found that a 5% increase in customer retention leads to between 30% and 100% increase in net profit. It cannot be ignored as a metric.

So what are we doing to examine, improve and measure customer behaviour?

Everything we do and say affects our customers behaviour.

Customer service has been a widely discussed topic for decades. There are many management ideas from Total Quality Service to Moments of Truth. Technology has given us many tools to know more about our customers behaviour eg CRM. Despite all this customer service and customer behaviour is still the biggest issue for business.

It is the simple fact of whether the business is caring for the customer that matters. That is not to say that any of these tools are of no advantage. These tools are helpful. We need to always be remember, how are we affecting customer behaviour by the actions of everybody and everything of the business.

The Harvard Business Review study found that between 65% and 85% of customers who choose a new company said they were satisfied or very satisfied with their former supplier. Customer satisfaction is not good enough.

Customer satisfaction measures what the customer thinks of you today, Customer loyalty and customer retention measure the future. We need to watch what people do not what they say. As that study quoted earlier stated, up to 85% of customers were actually satisfied with their previous supplier and yet still changed.

So whilst they were satisfied they didn't feel that they got superior customer

service and therefore there was no reason to remain loyal to that business.

Profit obtained from satisfying customers means that the business will have to continually fine new customers. Satisfied customers leave. With the need to find new customers comes a cost structure. These increased costs would include:- advertising, marketing, administration of processing a new customer.

But with a higher retention rate and referral rate there will be decreased costs, increased profits and importantly a sustainability of the business. This is only delivered though through consistent superior service.

To improve these metrics and the sustainability of your client base it is necessary to really understand your customers. Who buys your products / services? What age are they? Where do they live? What income do they earn? Know everything about your customers. It is necessary to know why they buy your product and service. This question will have some parts as your product / service may have different appeal to different age brackets or income brackets.

Only with a complete understanding of your customer can you begin to understand customer behaviour and then design systems to positively affect your customers behaviour.

Customer behaviour is a fascinating subject but we all want to be cared for at

any point in time. The businesses that care for their customers and give them an experience to remember will be the businesses that succeed into the future.

They will be the businesses that have a growing profit that don't need to do it by continually chasing new customers. How are you affecting customer behaviour.

Profit is a result: - a result of your customer's behaviour.

Thank you.

Steve Major is the principal of Bizmetrics a business focusing on helping service business becoming client focused. An important aspect of this is to Measure what Matters.

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