

WHAT IS A SATISFIED CUSTOMER WORTH? -- CALCULATION FORM

1. Profits From Additional Sales Due to Satisfied Customers

- A. % customers at highest level of satisfaction¹ _____ %
- B. % sales due to customer referrals..... _____ %
- C. Rate of referral sales per satisfied customer (1.B ÷ 1.A)..... = _____
- D. Average profit per sale \$ _____
- E. Profit from sales due to a satisfied customer (1.C x 1.D)..... = \$ _____

2. Profits From Sales Price Premium Due to Satisfied Customers

- A. % sale price premium due to satisfied customers²..... _____ %
- B. Average sale price _____
- C. Total number of homes sold..... _____
- D. Number of customers at highest levels of satisfaction (1.B x 2.C) = _____
- E. Gross profits from sales price premium (2.A x 2.B x 2.C) = \$ _____
- F. Adjustment for Section 1³ (2.E x 1.B)..... = \$ _____
- G. Net profits from higher sales price per satisfied customer
((2.E - 2.F) ÷ 2.D) = \$ _____

3. Marketing Costs Avoided With Referral Sales

- A. Annual marketing costs (for promotional activities) \$ _____
- B. Fixed marketing costs⁴ \$ _____
- C. Variable marketing costs (3.A - 3.B) = \$ _____
- D. Total number of homes sold..... _____
- E. Number of sales due to referrals (1.B x 3.D)..... = _____
- F. Marketing costs avoided per referral sale (3.C ÷ (3.D - 3.E))..... = \$ _____

4. Sales Costs Avoided with Referral Sales

- A. Annual sales cost (for developing prospects into sales) \$ _____
- B. Fixed sales costs⁵ \$ _____
- C. Variable sales costs (4.A - 4.B) = \$ _____
- D. Total number of sales prospects _____
- E. Variable sales cost per prospect (4.C ÷ 4.D)..... = \$ _____
- F. Sales conversion % for referred prospects⁶..... _____ %
- G. Total number of homes sold (2.C)..... _____
- H. Number of sales due to referrals (3.E) _____
- I. Sales cost for all referral sales (4.E x 4.H ÷ 4.F)..... = \$ _____
- J. Sales cost per referral sale (4.I ÷ 4.H)..... = \$ _____
- K. Sales cost for all non-referred sales (4.C - 4.I) = \$ _____
- L. Sales cost per non-referred sale (4.K ÷ (4.G - 4.H))..... = \$ _____
- M. Brokerage fees avoided per referral sale \$ _____
- N. Sales cost savings per referred sale (4.L - 4.J + 4.M)..... = \$ _____

¹ Consider % of customers with levels of satisfaction that are strong enough to provide an effective reference for the company.

² As compared to competitor's homes with similar features and amenities.

³ Discount profits already calculated in Section 1.

⁴ Minimum marketing cost that would be incurred even if all sales were referral sales.

⁵ Minimum sales costs that would be incurred even if all sales were referral sales.

⁶ Typical closing ratios on referrals range between 25% and 95%.

WHAT IS A SATISFIED CUSTOMER WORTH

5. Warranty Costs Avoided with Satisfied Customers⁷

| | | |
|---|-----|--|
| A. Total warranty costs of satisfied customers in sample | \$ | |
| B. Number of satisfied customers in sample | | |
| C. Satisfied customers warranty costs per home (5.A ÷ 5.B) | =\$ | |
| D. Total warranty costs of less-satisfied customers in sample | \$ | |
| E. Number of less-satisfied customers in sample..... | | |
| F. Less-satisfied customers warranty costs per home (5.D ÷ 5.E) | =\$ | |
| G. Satisfied customers warranty cost savings per home (5.F - 5.C) | =\$ | |

6. Worth of a Satisfied Customer

| | | |
|--|-----|--|
| A. Profits from price premium (1.E) | \$ | |
| B. Marketing costs avoided per referral sale (3.F)..... | \$ | |
| C. Sales Costs avoided per referral sale (4.N) | \$ | |
| D. Rate of referral sales per satisfied customer (1.C)..... | | |
| E. Marketing and sales costs avoided per satisfied customer ((6.B + 6.C) x 6.D) | =\$ | |
| F. Warranty costs avoided per satisfied customer (5.G) | \$ | |
| G. Total costs avoided per satisfied customer (6.E + 6.F)..... | =\$ | |
| H. Profits from sales due to a satisfied customer (1.E)..... | \$ | |
| I. Profits from higher sales price due to satisfied customers (2.G) | \$ | |
| J. Worth of a Satisfied Customer (6.E + 6.F + 6.G + 6.H + 6.I)..... | =\$ | |

7. Cost of a Dissatisfied Customer

| | | |
|--|-----|--|
| A. Productivity of less than satisfied customers versus satisfied customers ⁸ | | |
| B. Worth of a satisfied customer (6.J) | \$ | |
| C. Cost of a customer at lowest levels of satisfaction (7.A x 7.B)... | =\$ | |
| D. Difference in worth between customers at highest and lowest levels of satisfaction (7.B + 7.C) | =\$ | |

⁷ Select two study samples: 1) satisfied customers and 2) less-satisfied customers due to non-construction problems.

⁸ Typical productivity to produce negative referrals by less than satisfied customers range from 2 to 5 times the productivity of satisfied customers to produce positive referrals.