

Think Like A Customer

The Psychology and Economics of Small Business

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The Leadership Institute

Lighting the Way

"Inspiring Dreams, Realizing Potential"



Ancient Chinese
Wisdom

OPEN

TLC—Think Like a Customer

From the “The Art of War”

If you know yourself, you will be successful
50% of the time.

If you know your opponent, you will be
successful 50% of the time.

If you know yourself and your opponent, you
will be successful 100% of the time.

Sun Tzu



TLC—Think Like A Customer

Successful Sales People:

- 1) Know Their Product
- 2) Know Sales Technique
- 3) Know Their Customer's Business

Knowledge is
Power



TLC—Think Like A Customer

When you understand the customer's business:

It is easier to uncover customer needs and problems

Communication improves because you “speak their language”

You present a more professional image

Speak Their
Language



Psychology of Small Business Owners

Why do people go into business?

They inherit a business

Desire to make more \$\$\$\$\$

Independence—the desire to be your own “BOSS”

Desperation—a last resort when you’re out of work

Personality—They can’t work for someone else

Psychology
Of Small
Business





Traits of Small Business Owners

Business People Have a Bottom Line Orientation

Anyone who says, “My customers don’t want to spend money!”
Is *WRONG!!!!*

They have invested heavily in their business

Two adages most business people will agree to:

- 1) You have to spend money to make money
- 2) You only get what you pay for

“Business people want to have a reasonable expectation of a return on their investment before they spend money”





Traits of Small Business Owners

Business people are risk takers

According to Dun & Bradstreet:

50% of businesses fail in the 1st year

95% fail within the 1st 5 years

Businesses with fewer than 20 employees have a 37% chance of surviving their 1st year and 9% chance of surviving 10 years

The #1 Cause of business failures?

“An insufficient number of profitable transactions”





Traits of Small Business Owners

Business People Are Independent

D & B Annual Small Business Survey:

“36% of respondents went into business seeking more control over their future, 27% said they were tired of working for someone else”

Business people do not like to be told what to do

We need to help customers see the advantage of advertising for themselves





Traits of Small Business Owners

Business people are busy

According to a 2009 Gallup Poll:

Self employed people are much more likely to work over 40 hours than paid employees

26% of self employed people work in excess of 60 hours per week

Value your customer' s time

Make it quick and easy for customers to do business with you





Traits of Small Business Owners

Business owners are their business

Running a business is a 24/7/365 activity

The success or failure of a business is as important to the owner's ego as it is to his bank account

To make a sale we must engage a customer emotionally as well as intellectually



Why Businesses
Exist

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The Economics of Small Business

“The purpose of
business is to create
and keep a customer.”

Peter Drucker

If a business does not create enough customers it will fail!



The Economics of Small Business

From the SBA Audit Checklist for the Growing Business

“A major weakness of many of the SBI cases was lack of advertising and promotion planning....Random advertising may increase short-term sales, but it is not effective in developing market recognition for the business.”

“Potential customers need advertising regularly if it is to have long term impact. At a minimum, advertising should be scheduled on a monthly basis. Weekly advertising is even more effective, especially in business such as retail, variety and grocery stores.”

“Many small businesses have found community shoppers and newspapers to be cost effective ways to advertise”

The importance
of advertising



The Economics of Small Business

The question is not...

What is the cost of advertising?

But rather

What is the cost of not advertising?

The importance
of Advertising



The Economics of Small Business

What is important to a business

Profits

Webster's Dictionary definitions—"Excess of returns or income over expenditure in a given transaction"

Gross Profit-Business buys an item for \$1.00 and sells it for \$2.50 gross profit is \$1.50

Net Profit- Business buys an item for \$1.00 and sells it for \$2.50 and it costs \$1.00 to keep store operating net profit is \$0.50

Profit



The Economics of Small Business

What is important to a business

Two types of business costs

1) Fixed Costs (Overhead)

Rent, utilities, licenses, fees, taxes etc.

2) Flexible (Sales Related)

Merchandise, commissions, packaging etc.

Costs



The Economics of Small Business

What is important to a business

Volume

Number of transactions, units sold etc.

Volume changes flexible costs but not fixed costs

Higher volume spreads fixed costs thus increasing profit margin.

Volume



The Economics of Small Business

Case Study Dominos Pizza

Domino's Pizza profit more than doubles

Revamped pizza and a frank advertising campaign helped Domino's Pizza Inc. more than double its fourth-quarter profit as curious customers tried out its new recipe, the Ann Arbor, Mich.-based chain said Tuesday.

The company's profit climbed to \$23.6 million, or 41 cents per share, for the three months ended Jan. 3. Domino's earned \$11 million, or 19 cents per share, a year earlier.

Sales for the period improved to \$462.9 million from \$428.2 million.

The Power of volume

Sales increased from \$428M to \$462M

Profits increased from \$11M to \$23.6M

An 8% increase in sales = 100% increase in profits

Dominos
advertising
delivers

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The Economics of Small Business

How Volume Works

Wholesale unit Cost is \$1.50

Units are sold at \$3.00 each

Flexible cost per unit is \$0.50 for commission and packaging

Gross profit per unit is \$1.00

Fixed costs are \$20.00

Costs



The Economics of Small Business

How Volume Works

Business sells 25 units Net profit is \$5.00
(Sell 25 X \$3.00 = \$75 in sales - \$37.50 for stock -\$20 Fixed Costs-\$12.50 sales costs = \$5.00 Net Profit)

Business sells 28 units Net profit is \$8.00
(Sell 28 X \$3.00 = \$84 in sales - \$42.00 for stock -\$20 Fixed Costs-\$14.00 sales costs = \$8.00 Net Profit)

Business sells 38 units Net profit is \$18.00
(Sell 38 X \$3.00 = \$114 in sales - \$57.00 for stock -\$20 Fixed Costs-\$19.00 sales costs = \$18.00 Net Profit)

Costs

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How Volume Works

Customer had a 6% profit margin

10% increase in volume = 63% increase in profits

Profit margin increases to 9.5%

50% increase in volume = 360% increase in profits

Profit margin increases to 15.7%

Inventory Costs



The Economics of Small Business

What is important to a business

Cash Flow

Cash flow is essentially the movement of money into and out of your business

The cycle of cash inflows and cash outflows that determine your business' solvency

Cash flow enables a business to meet its ongoing obligations

Cash Flow

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The Economics of Small Business

What is important to a business

Inventory Costs

Cash tied up in stock can not be used to meet the business' s obligations

Many businesses borrow money to purchase inventory

Inventory has a shelf life and loses value if not “churned”

Waste is a major factor in the costs of many businesses like restaurants and bakeries

Costs



The Economics of Small Business

What is important to a business

Underutilized Capacity

Good business people strive to get the maximum return from every part of their enterprise

The ideal business has “just enough” of everything

Enough product to satisfy customer demand but not so much to incur additional inventory costs or overhead

Just enough

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The Economics of Small Business

What is the cost of one empty table?

A restaurant has ten tables

The average turn on a table is 30 minutes during the 2 hour lunch period (11:30 to 1:30)

The average “ticket” is \$20

If eight tables are occupied throughout the lunch hour the restaurant will bring in \$640.00

(\$3840 per 6 day week; \$199,680 per year)

1 more table their daily sales would increase by \$80.00

(\$480 per 6 day week; \$24,960 per year)

Cost of unused capacity



The Economics of Small Business

What if a customer is “Maxed Out”?

A contractor is fully booked. His crew works 50 hours/week

He nets \$50/Hour installing windows

He nets \$100/Hour replacing roofs

He spends 80% of his time doing windows and 20% roofing earning \$3,000

By promoting roofing the ratio changes to 50/50

The contractor increases profits by 17%, earning \$3750 without hiring additional help or working longer

Sending profits to
the roof



The Economics of Small Business

What's a customer worth?

Transactions versus Customer

A transaction is a one time event

A customer has a long term relationship with a business

When selling a business one of the factors considered is the customer base the business has built over the years

The Value
of a
Customer



The Economics of Small Business

What's a customer worth?

A restaurant runs a “free dessert” coupon

A new customer uses the coupon and spends \$12 at dinner—break even for the restaurant

Customer enjoys the meal and returns with friends the following week—spending \$75

Customer spends an average of \$65 per month until he moves away in 5 years--\$3,900

Friends he has recommended spend \$11,000 over 5 years

Free dessert coupon ROI over 5 years--\$14,987

RO-Pie



The Economics of Small Business

Make it your business to know their business

Demonstrating your knowledge and understanding of business sets a salesperson apart from the competition

Speaking the customers language and showing your interest in their problems will earn the respect of the client

When you understand the customer's business, you will be able to find better solutions for their problems

The Value
of a
Customer

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THINK LIKE A
CUSTOMER



Conclusion

Be a student of business

Read everything you can about business

Ask lots of questions, show interest in your customer's business

Think like a customer, try to see the world through their eyes

“A genius understands what others only know about.”

Frank Lloyd Wright



Thank You

Questions & Discussion

On behalf of The Leadership Institute, I would like to thank you for attending this training and wish you the best of luck with all of your future endeavors.

THANK YOU!

