

Guarantee Your Profits

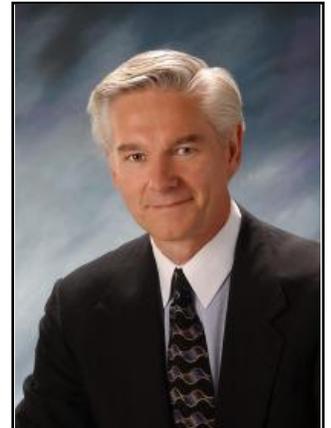
Extraordinary guarantees give customers confidence in your product, generate new business and can even reduce operating costs

Gary D. Zeune, CPA

One technique to light a fire in your company is to provide an extraordinary guarantee. Extraordinary Guarantees are above and beyond the industry standard. Extraordinary Guarantees "signal" customers (that's a fancy word for sending customers a "message") that you stand above the crowd. Second, Extraordinary Guarantees also signal employees that you believe they can satisfy customer demands. Extraordinary Guarantees nearly always result in reduced operating costs, because the threat of pay outs to compensate customers for failure focuses employees' attention on streamlining operations and internal cooperation.

Extraordinary Guarantees send a powerful message to customers. Automatic Data Processing in Roseland, NJ monitors the frequency of phone calls from clients to forewarn ADP of problems in the making. American Business Information in Omaha, Nebr. provides a money-back guarantee on its CD-ROM products. So far, only about 200 of 450,000 annual customers have asked for their money back. To combat a poor service image, cable TV companies are giving customers \$20 refunds if service calls or installations aren't made on time. Indiana University in Bloomington offers "gradpact," assuring students with passing grades that they will get a degree in four years.

I try to put my money where my mouth is and follow my own advice. In late 1994, I got a call from the Corporate Controller of a \$1 billion public company based in Houston. Each year the company holds a three-day meeting, bringing in all division controllers from around the world — about 25 or so. The Controller had read one of my articles on benchmarking in *The Financial Managers' Report* (AICPA), and asked me if I give private presentations. When he asked how much I would charge for a half-day class, he about fell off his chair, saying that even though I would be the first outside speaker the company had ever engaged, the \$6,000 price seemed awfully expensive. I told him that I don't carry receivables, and that I get paid at the conclusion of the presentation. I further told him I guarantee my presentations, and pay my own travel expenses. So how does all this work? The class would be a flat fee, including travel. The controller was to bring a check with him to the class. If at the end of the class he wasn't happy and didn't think they got at least ten times the cost of the class in benefit, he didn't have to give me the check. No questions asked. Following is my guarantee.



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100% No-RISK GUARANTEE

Mr. Zeune's courses are consistently rated at least 4.7 on a 5.0 scale. If you are not satisfied for any reason, there are no fees or expenses. Period.

Why do I give this guarantee? Because when customers and clients give you their hard-earned money, they do not want to take any risk with an unsatisfactory product or service. I am risk for my fee and all travel expenses every time I give a presentation. But the guarantee overcomes resistance to my high fee. The guarantee signals that I'm confident in my work product. My accounting friends, billing by the hour for their work, can't believe I give this guarantee. "Too risky," they say. My response? "How many clients do you think have refused to pay me? (None.) After all, if a client isn't happy with my work when it's done and won't pay me, then what's the likelihood the client will pay me in 30 days if I send them a bill? And if clients aren't happy with my work, why should they pay me?"

An example: During the presentation, the controller of the stainless steel tubing division asked how his division could use an extraordinary guarantee to differentiate his product in the marketplace. Like all his industry competitors, his division guaranteed to meet customer specifications. He further explained that most of the division's product is used to make shock absorbers and struts for automobiles. Quality is very high in this industry – meeting customer specs 99½% of the time. If there was a defective unit from the division caused a shock or strut to fail, the division gave the customer a credit for the cost of the defective component. The cost of the component was less than \$2. However, the cost of the failed component to the division's customer was more than \$100 to \$400, the cost of installing a new set of shocks or struts. So I suggested that the division should give the customer credit for the full cost of replacing the shocks or struts on its customer's vehicle, not just the cost of the division's component.

Another example of an extraordinary guarantee is Selectron. Based in Eden Prairie, Minnesota, Selectron repairs computer motherboards. Management at Selectron knows that if they repair a motherboard, and it malfunctions a short time later,

the customer will assume Selectron either did not repair it correctly or damaged it while fixing the original problem. Selectron's solution? The company has enough experience that employees repair not only the original problem, but also parts likely to fail, and then guarantee the *entire board* for two years.

Selectron doesn't charge its customers for the additional repairs. Selectron found it was cheaper to repair an item likely to fail, while they had the board, than to deal with an angry customer, repair the motherboard, and still lose the customer's future business. How much business do you think Selectron has?

A couple of years ago, a consulting client introduced me to another business owner, a local roofing contractor. The economy was slowing down. The contractor didn't want to lay off employees, but didn't have the money to do any kind of advertising or marketing. Of course, the home improvement business doesn't have a very good reputation, and barriers to entry are low. Anyone with a tool belt and a hammer can hold themselves out as a contractor. Word of mouth, through satisfied customers, is the most effective advertising tool for a small contractor.

But how do you spread the gospel? I asked my client if he guaranteed his work. "Yes, we guarantee materials and labor for a year," he said. "Have you ever called a customer near the end of the warranty period to find out if they need any more repairs done?" I asked. "No," he said. So, he set about calling customers whose guarantees were about to expire. The result? For every dollar he spent on repairs of items he probably would not otherwise have had to spend under the guarantee, he earned \$11 in additional revenues from word-of-mouth advertising, plus more through referrals. When was the last time you called a customer asking whether you could repair something under warranty? However, you must state early in the conversation that the call is NOT an attempt to sell

an extended warranty.

There was a benefit of the calls that I had not anticipated. The owner took the original estimate of the job to the client's home or business. He often found that the homeowner initially wanted more work than was actually done. For example, the homeowner many times wanted a roof, siding, gutters and downspout. But upon getting an estimate of \$15,000, the homeowner would have the roof repaired for \$8,000. When visiting the homeowner to inspect the roof, the client would ask if the homeowner still wanted the siding installed. The answer was nearly always yes. Now who do you think the homeowner would have install the siding? My client. Marketing cost? Time to visit the customer.

What prevents an Extraordinary Guarantee? Principally three things:

1. If you don't have the ability to track and identify customer needs and wants.
2. If you can't generate enough enthusiasm in your employees.
3. If your organization structure is cumbersome and prevents front-line employees from taking care of customer problems.

What is required to implement an Extraordinary Guarantee? Four things:

1. Hold an executive round-table discussion to answer this question, "Why do customers do business with us?" Then hold focus group sessions to get some preliminary ideas of what your customers think. Next, prepare a preliminary survey instrument. Finally, do a large scale survey.
2. Most companies find they have to streamline operations. If you make it cumbersome for customers to trigger your guarantee, you've defeated its value, and taught customers they can't trust you.
3. Push decision-making down. This usually means you need to give front-line workers the training they need to take care of customers. Think of how much more time executives will have to work on really important issues if they don't have to take care of minor customer problems. And, think how much happier your customers will be if their problems are

solved while they are on the phone, rather than having to wait for a call-back, after the customer service representative gets an OK to solve the problem. Enthusiastic customers are much more profitable.

4. The first three changes are for naught if you don't improve the original service.

When are Extraordinary Guarantees a good idea? If your company has achieved a high level of quality and the market hasn't recognized it yet.

When Extraordinary Guarantees are not a good idea. Avoid Extraordinary Guarantees if you aren't prepared to produce quality that you are willing to stand behind, or if your quality can't be recognized quickly enough to offset the costs of achieving it.

Secondly, if there are significant factors outside your control, an Extraordinary Guarantee does not make sense. For example, an airline would be foolish to offer an unconditional on-time arrival guarantee. Few airlines can control the weather. But, airlines should offer a no mechanical breakdown guarantee. Such a guarantee would "signal" flyers that the airline maintains its planes in top condition. Finally, if the company has a few large customers, any one of which could trigger the guarantee and do serious harm, avoid an Extraordinary Guarantee.

Conclusion

Extraordinary Guarantees are a powerful message to your customers. But they have to be used with care. Extraordinary Guarantees can generate more business than you can handle – and that is dangerous. Find out what your customers value, and guarantee that attribute. Don't guarantee something that is not critical to them. Hold focus groups. Send out surveys. Call your customers. Show them their opinion counts. Good luck. Email me if you have any questions. I'm glad to help.

Gary D. Zeune, CPA, teaches 100+ classes each year in fraud, auditing, corporate strategy and performance measurement. He is the author of more than 35 professional articles, and the books *The CEO's Complete Guide to Committing Fraud*, and *Outside the Box Performance*. To stay up to date on all thing strategy, subscribe to his FREE electronic newsletter email his at gzfraud@bigfoot.com with subject line "strategy". To order copies of his books and watch videos of white collar criminals, go to www.TheProsAndTheCons.com.