

Monday, June 25, 2007

The Low Returns Of High Volume / High Expectations / Thin Margin Customers

There is an old expression among geeks and hackers: "fast, good, cheap: pick any two" and anybody who is a client of my company knows which two we strive for. So it has always amused me when I see any of the following:

- companies who pick ONE of the three: cheap, and think that's enough
- customers who think three of three is a realistic thing to ask for
- companies who claim to be all three

Over the lifespan of easyDNS, people have admonished me, some politely, some adamantly, that I was "playing it all wrong". I remember a chance meeting with an old friend in the KOS Diner on Toronto's College Street back in 2000: "You've only got one chance, one chance at all to make this work: YOU MUST position yourself to be bought out by Network Solutions, like do what you're doing for free and just get a whole bunch of customers, fast"

I remember some of the calls I took when I was still answering the front line support phones that went something like this:

Other guy: "You guys should be giving DNS away for free"

Me: "Why on earth would we do that?"

Them: "So you can get really big, really fast"

Me: "We're doing just fine as it is now, thanks"

Them: "But XYZ (el cheapo) Corp. does DNS for free!"

Me: "So how come you aren't using them then?"

Them: "Well, they're down all the time. They never answer emails, it's impossible to get anybody on the phone there"

Every time I thought by taking the customer through it like this, the lightbulb would click and they'd realize what was going on here. For the most part, that's what's happened, our customer base "get's it". The number of times over the years I've seen posts in forum threads discussing DNS hosting that said, in effect:

"easyDNS is not the cheapest game in town. I have a lot of my domains with XYZ (el cheapo) Corp. but I have the 5 or 10 domains that are critical to my operations with easyDNS"

And I'm fine with that, aside from the fact I personally lie awake at night wondering what else we can be doing to protect those 5 or 10 domains entrusted to us and I'm not sure the people who run that XYZ (el cheapo) Corp. are losing any sleep about the 50 or 100 freebies over there.

This morning we got an obvious form inquiry from a somebody (who I will not refer to as a potential customer because I can guarantee you, they will not go with us) who is considering migrating away from another registrar I won't name but you've almost certainly heard of them.

They have 6,000 domains and currently get them for \$6.88/year and in order for them to come over, they'd want us to "easily beat that number or its not worth it".

For those unfamiliar with the background economics of the domain registrar business, all domain registrars pay the same amount for .com, .net, .org domains (and those amounts are also all going up this year), for sake of brevity, that amount is roughly \$6. The rest of his email outlines other requirements he had for moving over (100% DNS uptime wasn't among them, oddly).

So a back of the napkin calculation: Let's say to get this business we'd have to drop to \$6.50, it means by picking up 6,000 additional domains into our DNS cluster and everything else that entails, we'd be making a gross profit of \$3,000 year. This is about the same amount we will make when we pick up the next 100 new domains at our basic DNS + Domain Registration or Transfer @ \$35/year.

Now we can and do come down in price for volume deals, but we will never do that rock-bottom price war thing. It just doesn't make any sense to us. This must be a trick question: what is the easier way to make a million dollars? The razor thin margin players want to salami shave a penny off of 100 million customers and this seems to make the most sense to a lot of internet companies. I'd rather provide value and benefits substantially in excess of, say \$100 then get 10,000 customers to pay \$100 for it.

So as a result of this strategy we've got fatter margins, lower volumes and fewer customers. No superbowl ads. But if you called us, like right now (1-888-677-4741) during normal business hours, I can virtually guarantee you that a live body is going to pick up the phone on the first or second ring, and that person is going to be clueful, and he's going to be able to help you without trying to sell you add-ons because he's paid to do a job and upselling you to stuff you don't want or need isn't it.

The problem with playing the razor thin margin game and competing on price is that there is always somebody cheaper. If your primary benefit to your customer is that you're the cheapest, your going to have a dizzying churn rate. They guy who brings over 6,000 domains at 6.50 today will be gone in a year when some other hapless outfit agrees to do it for 6.45. And with those margins, you don't have the cashflow to spend on the high end infrastructure like Tier 1 datacenters or high end DOS proofing.

After I published this entry yesterday I thought about it a bit, considered the possibility that it was a piece self-serving tripe and pulled it back into draft shortly afterwards. Then today a customer sent us the following email, quoted here verbatim and I'll close with it and republish this entry:

I recently did a domain name transfer of 10 domains away from easyDNS to take advantage of a bulk price offer at another registrar. During my time with that registrar, I have discovered that their service offering is sub-standard.

The URL forwarding does not function as well as easyDNS, the ability to create multiple records has limitations, they do not have high-availability of their service, and their technical support is lacking. I have experienced numerous down times on my web sites, and cannot continue to function with them. So, I would like to transfer all of my domains back to easyDNS.

Also, I would like to write a letter of recommendation/customer satisfaction for easyDNS to identify the benefits of your service and the pitfalls of moving to discount registrars.

I look forward to once again taking part in your value added services.

I replied that I think he just had written his letter of recommendation and after securing his permission to do so, I've quoted him here.

What we're talking about applies everywhere. Today I went over to look at a self-storage locker facility and the extremely helpful and courteous employee told me, in effect:

When I tell people our pricing I often hear that it's a little on the high side, but the truth is you get what you pay for. Everybody wants a storage facility to be clean, safe and protected from the elements, but you can't do that and still offer it at a bargain basement price.

Indeed, where do I sign up?

Posted by Mark Jeftovic in Taking care of business at 16:16