

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

Thursday, March 8, 2007

On divorcing your partners while protecting your customers' interests.

The RegisterFly debacle has reached new heights in a cyber-age parallel to the Great Western Schism which saw Papal succession bifurcate into Pope vs. Antipope in the 14th century. The ICANN accredited registrar seems to be operating under a similar disassociation with one side running the operation under registerfly.com (which actually wound up here on our nameservers this week) while the other runs a conflicting operation by the same name on the registerfly.net domain. No doubt, this is further exacerbates the problems for Registryfly customers, and seeing as one of the parties is now a customer, I'll leave it at that.

But what is clear to me is that there is a right way and a wrong way to have irreconcilable differences with your partners and if it leads to a dissolution of the association, it can and should be done in a way that is transparent to the customers and the business as a whole.

When it came time for the partners at easyDNS to go our separate ways, we did it with maturity and professionalism. Our customers were unaware anything had transpired until the deal was done, the papers signed, handshakes were exchanged and I posted it to the company blog later that day.

From the time the situation came to the fore to the time the agreements were signed was over a year, roughly the same amount of time this Registerfly trainwreck has been unraveling. In that time, no injunctions were filed, no lawsuits launched, no criminal charges were laid and no animals were harmed in the breakup of our partnership. Our own lawyers never even had communications with each other until closing day when we all showed up at the corporate law firm's offices to sign the papers.

What we did do was engage a third party mediator and held all of our meetings at their offices, on neutral ground. Tempers flared, patience was tried, opinions clashed. But all in all it was a very civil process and as a result, we're still on cordial terms. You can put us in a room together and we won't go at each other like Siamese Fighting Fish.

This all seemed very normal to us. I think we all knew it could have gone a lot uglier, but I doubt it crossed anybody's mind that it could have gotten downright nasty the way this registerfly situation has.

Knowing my former partners the way I do, I can attest to their ethical standards. I know had things gone differently, we still would have all worked together to ensure the interests of our customers. For that, I am grateful to have been in business with person's of such high ethics, because this other situation has shown me that not everyone is as fortunate.

Posted by Mark Jeftovic in Taking care of business at 15:01

Friday, February 23, 2007

One man's minor bug is another man's tipping point

I've been on the fence about dumping once of my outsourced solutions providers and bringing the functionality they provide in-house. We've been with them a long time, I have regular lunches with some of their VPs and trade phone calls with the CEO on a semi-regular basis. They're good guys, we like each other. It's all very friendly.

But business is business. I can save a nice sum of cash each year if I ditch them and bring the functionality in-house. But I didn't pull the trigger on this during a round of cost cutting last year because the service was good and it was one less thing to worry about.

Lately tho, we've had some issues and we end up having to worry about some of the stuff anyway. Looking at the future roadmap, we want to go into a market they don't service and we'd have to come up with the toolset to service those functions in that market from somewhere else anyway.

Then last week, a bug rears it's head. A seemingly minor bug over there is causing daily doses of grief over here. We finally isolate it complete with process id's and transaction numbers from their side and open a ticket last night. "Hi, your system has recently started doing X twice every night instead of just once. This causes problems over here because we key off of process-X".

The response came in today:

"The Developers have looked at this and say that it is a very rare occurrence. We are not able to guarantee that [process-X never fires twice] as that would slow down the process significantly."

Okie then. We'll muddle through on our own with that. And while we're at it we may as well develop the entire toolkit over the next couple months and then we can send you our notice of termination.

Case closed and thanks for helping me with that decision.

Posted by Mark Jeftovic in Taking care of business at 16:17