



BillCutterz.com: Business Model, Strategy, and the Challenges of Exponential Growth



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Barry Gross, founder and president of BillCutterz.com, celebrated his birthday on January 21, 2014, by inviting friends and family to his Corpus Christi, Texas, home to watch the airing of his previously taped interview with Diane Sawyer on *ABC World News Tonight*. His four-year-old bill negotiation company, BillCutterz.com, was being featured on that evening's "Real Money" segment, which explained how his company was saving its customers hundreds or thousands of dollars each year on their monthly bills. The segment described how BillCutterz.com negotiated on behalf of its enrolled customers to reduce the amounts of their cable, Internet, mobile phone, and other service provider bills by as much as 50 percent. BillCutterz.com's negotiation tactic centered on convincing the provider that it was less costly to lower the customer's monthly bill than to go through the expense of acquiring a new customer to replace a dissatisfied customer. The segment also featured interviews with BillCutterz.com customers who discussed how the company's bill negotiation service had saved them \$1,500 or more per year on their monthly expenses.

Those gathered to celebrate Gross's birthday marveled at how much his customers benefited from the service provided by his company and many asked about how they could enroll to have their bills lowered as well. Gross explained that customers could enroll at BillCutterz.com and upload copies of their most recent bills to begin the process. After telling his guests more about his business and enjoying the evening, he received a call from an employee telling him that 6,500 new customers had enrolled

and 19,500 bills had been uploaded in the first 1½ hours since the segment aired. Gross expected the segment to boost enrollees, but he was not prepared for such a spike in new business.

Within days of the *ABC World News Tonight* segment, Gross also appeared live on *Fox Business News* to discuss his company's approach to saving money for its customers on their monthly bills. The exposure from the two news segments brought in more than 30,000 new enrollees by February 2014. The vast increase in enrollees immediately focused Gross's activities on recruiting, selecting, and training new employees and ensuring that the bills of its new customers were properly negotiated to receive the greatest possible savings. At the end of its first quarter in 2014, BillCutterz.com was adding 20 to 30 new enrollments every day and had seen its revenues increase by more than 400 percent over the same period in 2013. However, it was far too early to tell if the company's business model, strategy, and operating approaches could withstand the challenges of exponential growth.

COMPANY HISTORY

BillCutterz.com was launched in May 2009 when Barry Gross decided to pursue a business opportunity presented to him by a close friend. During a visit with long-time friend and mortgage banker Mindy

Niles, Gross asked if she could give him advice for lowering his mortgage payment. Niles told Gross he should request that his lender eliminate his PMI insurance requirement since the equity in his home had grown since the time of purchase. Gross called his lender and was able to save \$180 per month. He thanked his friend and told her he had successfully negotiated reductions in his monthly cable and mobile phone bills and he could try to lower hers as well if she wished. Niles agreed and was later thrilled when she learned that Gross had reduced the amounts she was charged for the services by 50 percent. It was then that Niles pushed Gross to turn his negotiating skills into a business.

Before becoming a stockbroker in 1980, Gross had spent four years in telephone sales, most notably with the Houston, Texas, originator of crime scene tape. As marketing manager for Reef Industries, he was assigned responsibility for marketing the company's products, including Banner Guard. The company's caution tape had annual sales of only about \$60,000 in 1976 when Gross began calling police chiefs and sheriffs across the United States to explain how the product could be used to keep curious citizens from disturbing and contaminating crime scenes. He shipped free samples after each call and later set up accounts with third-party distributors after demand from police departments began to grow. Within two years, Gross's strategy and near-constant television broadcasts of taped-off crime scenes produced a 5,000 percent increase in sales to \$3 million. Reef Industries' caution tape soon became ubiquitous in law enforcement and extended its application to construction and industrial sites. When Gross left the company in 1980, Reef Industries' annual sales had grown to \$18 million from \$4 million in 1976.

Gross's career later focused on telephone sales at E. F. Hutton before he launched an investor relations firm in 1993. Gross's representation of publicly traded companies for investor communications matters continued in 2014. However, Gross ensured that his schedule included time for fishing off the Texas Gulf Coast since fishing was something that had been important to him most of his life. In fact, his career included a stint as a professional bass fisherman between 1990 and 1993.

Gross actually had quite a bit more time for fishing and serving his four investor relations clients until the January 2014 Diane Sawyer interview. The interviews on ABC and Fox resulted from

e-mails sent to eight consumer blogger sites by BillCutterz.com's marketing director in April 2013. Sydney Alcala offered to work the personal bills of the bloggers to demonstrate BillCutterz.com's effectiveness. A blogger at lifehacker.com accepted the offer and within 24 hours of enrolling with BillCutterz.com, the blogger saved \$400. The blogger wrote about the experience the very next day, which led to 3,000 enrollees at BillCutterz.com within the next three weeks. Among those impressed with the lifehacker.com review of BillCutterz.com was a contributor at *Men's Health*, who featured the company in the magazine's "How to Do Everything Better" section. Employees at both ABC News and Fox News saw the lifehacker.com piece and decided that BillCutterz.com would make a great story for television as well.

BILLCUTTERZ.COM'S BUSINESS MODEL AND STRATEGY

BillCutterz.com's customer value proposition was easy for potential customers to understand. The company would negotiate lower rates on their monthly bills for such services as electricity and utilities, Internet, phone, waste management, and cable or satellite television. No fee was charged for BillCutterz.com's services unless savings were negotiated on behalf of its customer. Once savings were obtained and the customer had received revised bills from providers, BillCutterz.com would receive one-half of the savings for the first year. Customers could elect to pay the fee to BillCutterz.com in a single payment or in 12 equal payments over one year. Customers paying in a single payment received a 10 percent discount on the bill negotiation fee. Service providers usually provided the discount for 12 months, at which time the discount could be renegotiated.

The company's profit formula was largely dependent on the efficiency of the company's Savings Experts in coming to terms with customers' service providers since its fixed expenses were very small. BillCutterz.com was a business incubator client of the Coastal Bend Business Innovation Center, which provided Corpus Christi, Texas, entrepreneurs with low-cost, all-inclusive office space and mentoring on issues typically confronted by startup businesses. With low fixed costs limited mostly to computer

hardware and software and office furniture purchases, labor expense became the determining factor on the profitability of the company. Gross explained the variability of this cost by commenting, “Our largest expense is payroll. Our profitability boils down to time and money. We train our Savings Experts to be as proficient and efficient as possible. They all know that the more calls they make, the more money we make.”

Gross believed that nearly every U.S. citizen over the age of 18 was a potential customer since all adults had some type of monthly bill. Any bill other than a regulated utility bill could be negotiated. “People would be shocked at how many bills they really have that can be negotiated. It’s not just power and cable. Things like landscaping, pet boarding, health club memberships can be negotiated as well,” said Gross. In addition, the company sought to negotiate bills for businesses and nonprofit organizations. Just like individuals, businesses and other organizations had Internet provider bills, utilities, and maintenance contracts. For example, BillCutterz.com successfully obtained an \$800-per-year discount on an elevator maintenance contract for a local church. The savings for organizations and businesses tended to be much larger than those obtained for households because of the larger expense amounts and greater number of services.

The company’s strategy was also keyed to gaining referrals from existing clients, asking clients to provide more bills to negotiate, and building name recognition through social media marketing. The exposure from *Men’s Health*, *ABC World News Tonight*, and *Fox Business News* had resulted in tens of thousands of new enrollees in just a matter of weeks. Gross was excited about the rapid growth in clients but was also investigating the possibility of developing a referral system to produce a steady stream of new enrollees. The only drawback to free media exposure was that it had produced large spikes in enrollments that stressed the company’s ability to serve new customers in a timely manner. Barry Gross believed that a referral system would provide predictable growth that would allow personnel to be added and trained on a planned schedule. The appeal of BillCutterz.com’s business model and strategy had allowed its revenues to grow to \$92,000 during the first five months of 2014. The company’s income statements for 2013 through May 31, 2014, are presented in Exhibit 1. The company’s balance sheets for 2013 and the first five months of 2014 are presented in Exhibit 2.

OVERVIEW OF THE BILL NEGOTIATION INDUSTRY

While no formal bill negotiation industry existed, BillCutterz.com did have indirect competition. Mint.com and BillsShrink.com provided tools to help consumers monitor their budgets and compare the prices of competing service providers. Barriers to entry in the bill negotiation industry were limited primarily to experience in negotiating with service providers and capital necessary for office space and equipment. However, as of mid-2014, Gross knew of no direct competitor providing bill negotiation services.

Any leverage that BillCutterz.com had with creditors or service providers was related to a service provider’s churn rate. *Churn rate*, sometimes called the *attrition rate*, was a measure of the number of customers leaving a service provider or other business over a specific period of time. For subscription-based businesses, even a small reduction in the churn rate of customers could have a large impact on the company’s revenues and profitability.¹ Customer churn tended to occur when either (1) the quality of the customer’s experience fell below a specific threshold relative to the competition (comparison churn) or (2) the quality of the customer’s

EXHIBIT 1 Income Statements for BillCutterz.com, 2013 and Five Months Ending May 31, 2014

	Jan–May 2014	2013
Revenues	\$92,170	\$89,612
Wages	76,496	16,429
Computer and Internet	656	685
Merchant processing fees	2,686	1,117
Office supplies	5,037	4,209
Rent	4,066	7,188
Telephone	1,164	1,830
Other expenses	2,028	568
Total expenses	92,133	32,027
Net Income	\$ 37	\$57,585

Note: Financials have been disguised for confidentiality purposes but reflect actual growth rates and percentage composition.

EXHIBIT 2 Balance Sheets for
BillCutterz.com, 2013
and Five Months Ending
May 31, 2014

	Jan-May 2014	2013
Assets		
Current assets		
Cash	\$32,810	\$24,054
Accounts receivable	4,337	24,621
Total current assets	37,147	48,675
Furniture and equipment	8,223	8,222
Total assets	\$45,370	\$56,896
Liabilities and shareholders' equity		
Current liabilities		
Revolving line of credit	\$ 1,724	\$ 387
Total current liabilities	1,724	387
Long-term liabilities		
Bank loan	20,400	17,017
Total long-term liabilities	20,400	17,017
Total liabilities	22,124	17,403
Shareholders' equity	13,676	13,676
Retained earnings	9,569	25,817
Total equity	23,245	39,493
Total liabilities and shareholders' equity	\$45,370	\$56,896

Note: Financials have been disguised for confidentiality purposes but reflect actual growth rates and percentage composition.

experience fell below a threshold relative to his or her own expectations (frustration churn).²

Unfortunately for service providers and subscription-based businesses, customer satisfaction surveys rarely predicted the possibility that a customer might leave. Customer satisfaction surveys could not measure the desire to leave after a customer had already left.³ Exit surveys were also of little utility; information provided by these surveys was often too generic to provide company management with insights regarding where to focus company retention efforts. Also, retention efforts with dissatisfied customers were difficult since most customers canceled after they had established a relationship with a competing service provider.⁴ However, many service providers were willing to negotiate with dissatisfied customers if they had the opportunity. Such a

willingness to negotiate new terms with a customer made BillCutterz.com's business model possible. The degree to which service providers would negotiate with customers or their representatives over terms varied based on the importance of customer retention to the provider. One of the company's customers in Corpus Christi explained how much success BillCutterz.com had in negotiating with service providers:

When I registered with BillCutterz.com, I really didn't expect much. I thought that I might get free HBO for six months or a better data plan on my cell phone bill. I was amazed when BillCutterz.com saved me \$100 per month on my power bill alone. After paying BillCutterz.com their fee, I still saved \$1,200 per year.

BILLCUTTERZ.COM'S COMPETITIVE RESOURCES AND CAPABILITIES

Barry Gross's 30-plus years' experience in telephone marketing was among the company's greatest competitive assets. Gross was skilled at politely keeping customers on topic if they began to wander into a conversation unrelated to their bills and was effective in convincing customer retention personnel to accept his proposed terms. He honed his negotiating techniques over time to ensure that BillCutterz.com used the best possible leverage points with service providers to achieve large savings.

Much of Gross's daily activity involved training and coaching existing employees to become more skilled Savings Experts and recruiting new employees. The company's spike in enrollments in early 2013 created pressure on its existing three Savings Experts, with contact wait times increasing to seven days in some cases. By March 2014, Gross had been able to add new employees to handle the volume of calls to service providers, but he was still heavily involved in employee training. The bill negotiation process and the company's training focused on minimizing negotiation time and maximizing savings. A bill negotiation phone call could be completed in as little as 3 minutes or as much as 30 minutes—depending on the experience and expertise of the Savings Expert.

The training program for Savings Experts began with instructions on how to conduct consultations with customers to determine whether their current services matched their specific needs. Gross

explained that the consultation was not the biggest factor in reducing the amounts of monthly bills. "We never try to convince the customer to eliminate features that they wish to keep. The point is to not convince the customer to accept less value, but to help the customer obtain more value," said Gross. After features were confirmed, Savings Experts contacted the customer's service providers to go through the bill line-by-line to negotiate the lowest possible rate for the service. New Savings Experts needed to learn negotiation tactics such as not only how to overcome objections but also how to find all the potential leverage points and how to avoid long hold times. Gross commented, "We know what to say and how best to say it to ensure the highest possible savings for the customer. The key to negotiating is to have all of your ducks in a row and be prepared to overcome all possible objections." The company utilized a proprietary software system that tracked all communications with customers and service providers.

Once all of a customer's bills had been negotiated, BillCutterz.com notified the customer by e-mail of the amount of the negotiated savings for each bill. Typically, service providers would agree to the discount for one year and require a new negotiation at the end of the agreement period. The savings would appear on the customers' regular bills from their service providers. Then BillCutterz.com invoiced the customer for one-half of the savings approximately 7 to 10 days after service provider bills were made available. Customers could pay BillCutterz.com the fee in monthly installments or in a one-time, pay-in-full, lump-sum payment that included a 10 percent discount. BillCutterz.com contacted customers during the end of their discount period to determine whether they wished to have their bills renegotiated for another year.

THE FUTURE

Going into the close of the company's 2014 second quarter, Barry Gross was thrilled with the

company's ability to obtain discounts for thousands of its new customers. However, the company's Savings Experts had yet to successfully work through the backlog of new enrollees, and Gross believed too much of his time was spent on training rather than business development. The strain of large enrollment spikes following favorable media exposure did not seem sustainable to Gross. A referral-based customer acquisition approach would allow the company to grow at a more predictable rate that would require perhaps one or two new employees per month to be added and trained rather than several. Gross was attempting to determine what type of company would be interested in creating an alliance that would yield 1,000 new customers per month on an annual basis. Of course, certain types of companies would be unable to enter into such an alliance because of customer privacy matters. Gross also believed that with the company's growing volume, BillCutterz.com could enter into prenegotiated savings agreements with high-volume service providers like Verizon, T-Mobile, Time Warner Cable, and AT&T. Such agreements would eliminate the need for individual negotiations unless an account involved a large amount needing nonroutine negotiation.

Until Gross was able to modify the company's business model and strategy to better accommodate scale, much of his daily effort would be put into selecting and training new employees. In addition, the company had grown to such a size that it would soon become a graduate of the Coastal Bend Business Innovation Center. Ample office space was available in the community for the growing company, but relocating to a new space would be another task that would take away from Barry's time and would alter the company's cost structure. The company's meteoric growth had made it a standout among entrepreneurial startups, but its rise had also created a need for new strategies and operating practices to flourish as an established business.

ENDNOTES

¹ M. Kon, "Customer Churn: Stop It before It Starts," *Mercer Management Journal* 17 (2005), pp. 53–60.

² *Ibid.*

³ *Ibid.*

⁴ *Ibid.*