



White Paper

Developmental Stages of the Customer Relationship

How to map the development of your customer relationship structure and processes to reduce churn and increase new revenue from existing customers.

by Josh Forman, Principal

Move Your Customers Forward

Executive Summary

In a world where customers consume technology on a recurring-revenue basis and can more easily switch vendors, revenue is at risk with each renewal cycle. In addition, new revenue from existing customers costs 20% less than new revenue from new customers. This has amplified the focus on the customer. To ensure renewals and create opportunity for up-sell, it is important to understand where you are in enabling your customer’s success.

Companies grow through developmental stages. The developmental tasks relevant to each stage must be mastered in order to progress and realize future growth. Developmental tasks can be categorized into developmental lines. The developmental lines relevant to providing value to the customer are: On-boarding / Professional Services, Technical Support / Day-to-Day Care, and Continuous Value Creation. This white paper presents a model that can be used to assess where you are in the development of your customer relationships, and plan and anticipate what you need to do next. By applying this model, you can ensure you are taking the required action to make your customers successful, reduce churn, and fuel your future growth.

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Introduction

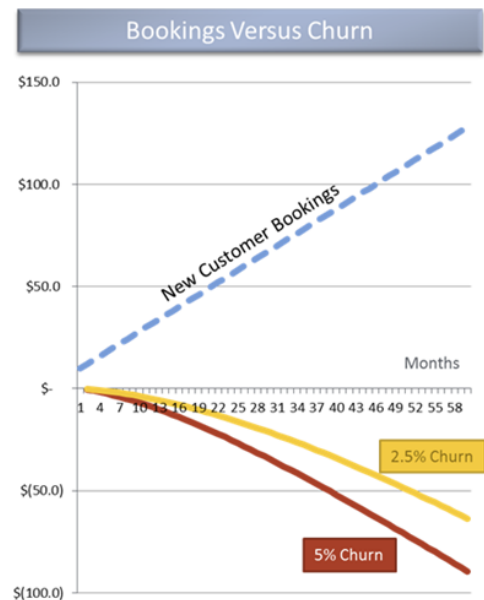
Jean Piaget taught us that we move through developmental stages as we grow. To be able to move from one developmental stage to the next, you have to master the relevant developmental tasks for your current stage. In other words, you have to crawl before you can walk. This paper will present the developmental stages of how a company builds relationships with its customers, and will outline the developmental tasks for each stage.

Customer Success Evolution

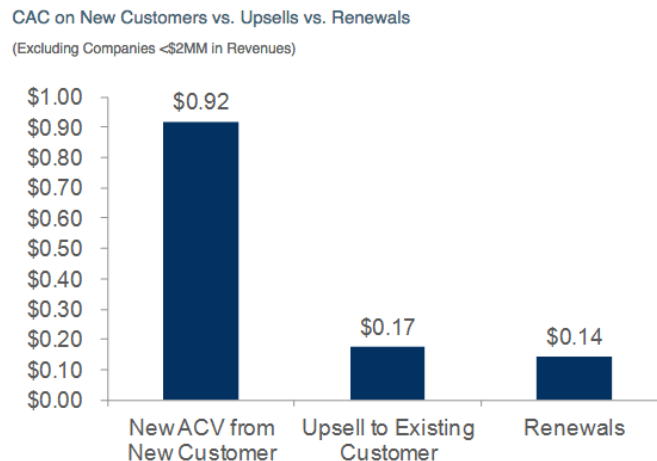
Customer Success is a result of moving to a recurring revenue model, where customers have to renew year after year. You have to continually provide value to your customers or they will not renew their subscriptions or pay their annual maintenance. This is measured by renewal rate, which is the percentage of customers that have renewed their subscription in a given period. Churn is the inverse – the percentage of customers that have decided not to renew in a given period.

The graph to the right from David Skok’s blog forentrepreneurs.com (<http://www.forentrepreneurs.com/why-churn-is-critical-in-saas/>) is an example of what churn can do to a company’s revenue. This is a graph of a company starting with recurring revenue of \$10,000 in the first month, and then adding an additional \$2,000 each month thereafter. The loss of revenue as a result of 2.5% churn can eat away at revenue, especially as the company gets to the 2 year mark, and beyond.

As Kasireddy and Kupor state on the Andreesen Horowitz blog, churn, and the related metric Customer Lifetime Value (LTV), are now very important indicators of a subscription-based company’s health and valuation (<http://a16z.com/2014/05/13/understanding-saas-valuation-primer/>). LTV is a projection of how much revenue we can expect from this company in the next 3 or 5 years. Kasireddy and Kupor use LTV to argue that we are not in another dot-com bubble. Many companies today are considered over-valued by some, due to insufficient revenue and high operating costs. In fact, many actually are not; their LTV is high, they simply haven’t been in business long enough to reap the full revenue that will be obtained by the money they spent acquiring those customers, and thus are not yet profitable.



Reducing churn and retaining customers can increase customer LTV. Upselling existing customers can also increase customer LTV. As shown in the graph below, it is much cheaper to acquire revenue from existing customers than from new customers (<http://www.forentrepreneurs.com/2013-saas-survey/>).

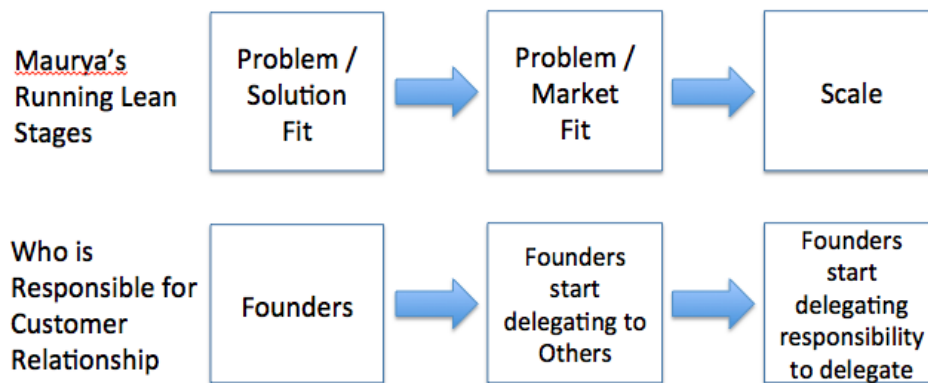


The goal of Customer Success is continually increasing customer lifetime value. You increase your customer LTV by continually increasing the value you are providing to your customers. You provide value to them and they will provide value to you. The strategy to accomplish this goal is to master the developmental tasks for your stage and plan for the developmental stages ahead.

Customer Relationship Development: Initial Stages

First we are going to look at the customer relationship in the early stages of a company. Then we will look at how the relationship develops as the company starts to scale. For a look at the early stages, we will map the customer relationship development to how the company and product are progressing as outlined by Ash Maurya in his book *Running Lean* (2012).

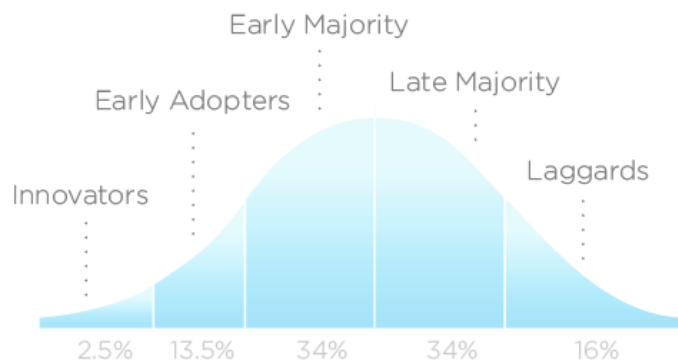
He outlines three distinct early stages. First you experiment for problem/solution fit, then problem/market fit, and then you scale. If we look at how the responsibility for customer interaction maps to these three phases it looks something like this:



In the beginning the founders are the ones who are responsible for the customer interactions. According to Maurya, they should be having these relationships before there is even a product. They interview customers to ensure they have identified a problem, and have a solution that customers will pay for. The founders or whoever builds the product owns the customer interactions through the problem / solution fit. When you get to problem / market fit the founders start delegating the responsibility for direct customer interactions to others. They get to a point where they can't do everything, which is why they start hiring and look for funding if necessary. Once you get to scale, the responsibility to delegate interactions with customers begins to be delegated. Also, operational decisions on how relationships with customers will be built are delegated. The founders and owners always have ultimate responsibility for the relationship with the customer; it is the direct interactions that they delegate.

You also need to look at the customers you are trying to attract. To help think about this, let us refer to the Technology Adoption Lifecycle, made popular by Geoffrey Moore in his book *Crossing the Chasm* in 1991.

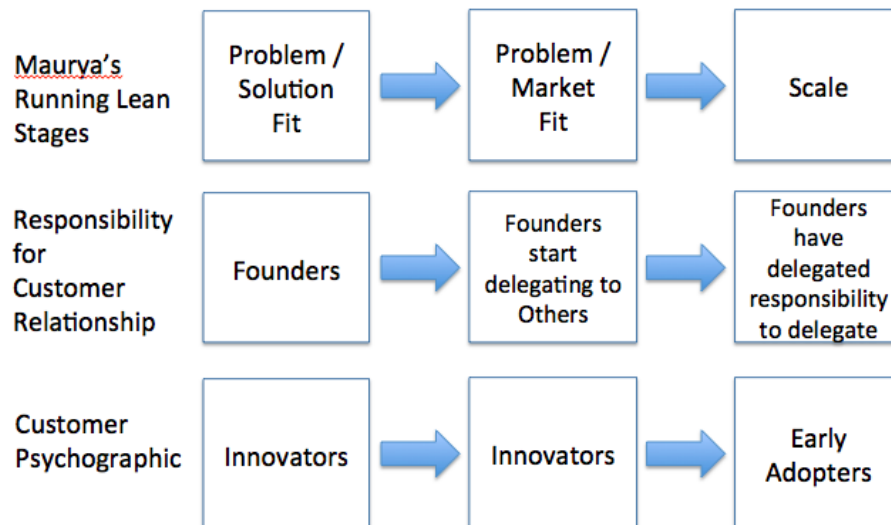
As Moore explains, typical user characteristics of a new product change as a product enters and evolves in the marketplace. He called this the "customer psychograph". The first wave of customers to use a new product, which comprises about 2.5% of all users, are called "Innovators". Innovators love technology for technology's sake. They want to do something new and are willing to take a risk to get a competitive advantage. The early adopters are the next 13.5% of customers. The early adopters won't start to use the product until the innovators have put it through the paces. The early adopters love technology, but it has to provide value to them. The early majority needs to see value, and has to hear from people that



The early majority needs to see value, and has to hear from people that

have received that value. Whereas the early adopters need to believe value will be achieved before they buy, the early majority has to talk to references that will validate that the value will be realized.

It is important to keep in mind how the customer perception of value changes as your product matures in the market. If you put the technology adoption lifecycle onto the matrix presented earlier, you will notice where the customer psychograph maps to the stages.



Developmental Lines Overview

To be capable of performing more functions at greater volume as the company grows, you must differentiate. Differentiation is an essential developmental task to master. What developmental tasks must be mastered to decrease churn, increase upsells, and drive continual value to the customer? These developmental tasks can be categorized into developmental lines. There are two different categories: one for how you provide value to the customer, and another for how you provide value back into the organization. There is also an important role that Customer Success plays in the pre-sales process, to assist with customer acquisition. That is not included here.

Developmental Lines of the Customer Relationship	
Providing Value to the Customer	Providing Value Back to the Company
<ul style="list-style-type: none"> • On boarding • Technical Support: Day to Day Care • Continuous Value Creation 	<ul style="list-style-type: none"> • Feedback • Creating Referral Customers • Discovering Market Advocates

Providing Value to the Customer

First, you have to onboard the customer so they derive initial value. Then you have to provide technical support. This is about making sure the customer's day-to-day needs are met. Last is a bucket of activities to proactively provide value to the customer on a continuous basis. These three developmental lines will be covered in the remainder of this white paper.

Providing Value to the Company

In addition to providing value to the customer, Customer Success (CS) brings feedback from customers into the organization, primarily the product team. The CS team also provides referral customers to help the sales process. This is critical when you get to the early majority customers that have to have references in order to justify a purchase. Last, the CS team finds market advocates for marketing activities. This is the only mention that these three activities will get in this white paper. They are very important, but this paper is focused on what happens between the CS team and the customer.

Developmental Line Maturity – Capability Maturity Model

The Capability Maturity Model (CMM) is how we track these developmental lines through developmental stages. It was first developed to measure the performance of Department of Defense software developer contractors (http://en.wikipedia.org/wiki/Capability_Maturity_Model). It has been used in many other contexts since then.

Every new process starts in the Initial / Adhoc stage. It is okay for a process to be in this stage, as long as you know you are here, and you have a plan to mature the process. Eventually you figure out what works, and you start repeating it. Now you are in the Repeatable stage. Maybe you start to document something, but mostly you get an “ah-ha” and say I know how to repeat this now. In the Defined stage it becomes known as “this is how we do it”. Formal documentation is put in place. Next you get to the Measured & Managed stage. You figure out how to get measurements about the process. You start tracking time to complete, time to respond, or tracking usage of your product, for example. There are many

Capability Maturity Model (CMM)

Optimizing / Continuous Improvement	Process is being continually improved
Measured & Managed	Measurements are in place, and reviewed regularly, leading to ability to manage process
Defined	Process is defined as “the way we do it” and documented
Repeatable	Process is repeatable, some learning has taken place, and some documentation
Initial / Adhoc	New process in initial stage

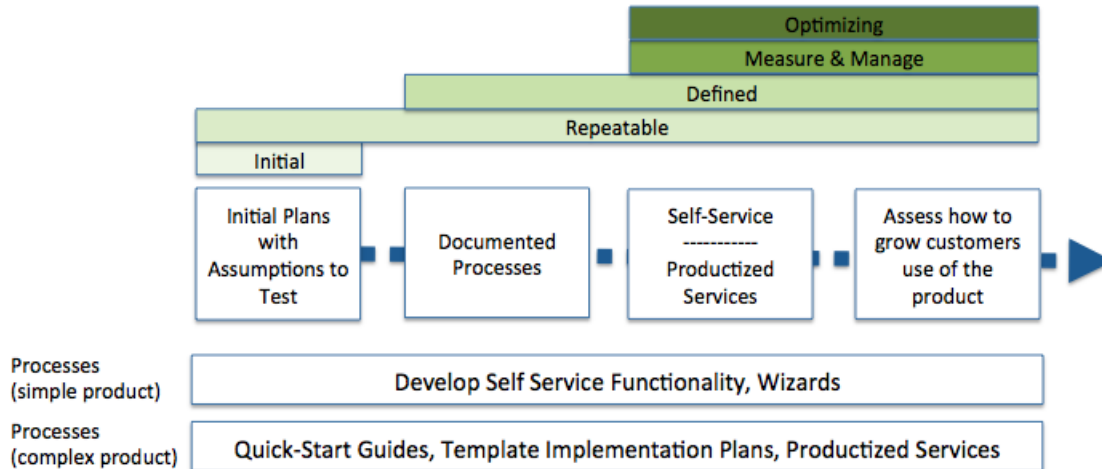
ways to measure your customer relationship processes. The key is you cannot only measure, you have to manage what you measure. There is the old adage; you can’t manage what you don’t measure. You also should not measure what you are not willing to manage. The last step (Optimizing / Continuous Improvement) is when you are constantly looking at measures and figuring out how to do things better, faster, cheaper. Let’s now go through each developmental line in more detail.

On-boarding / Professional Services

The goal of this developmental line is to deliver initial product value and ensure the customer understands the benefits they are receiving.

Developmental Maturity

The developmental line of this activity looks like this:



Initial Stage

In the beginning, you are figuring out how customers are actually making your product work for them. You should have an initial plan for how to get them there, but your plan is not yet repeatable, because you don't yet know what works.

Repeatable & Defined Stages

You eventually do find a repeatable process and can start defining that process. For simpler products, you can add self-service wizards and capabilities into your product, which inherently makes the process repeatable and defined. For more complex products, you may create process templates, quick-start guides, and project plans.

Measured & Managed Stage

The on-boarding process evolves into the measured and managed developmental stage when you measure both the on-boarding process and the state of the customer after on-boarding is completed. Example measurements are:

- Project completion time
- Customer satisfaction at the end of on-board process
- How quickly customers move through self-service workflow
- Customer behavior metrics
- Post on-boarding interviews

It is important to note that you must use your metrics to manage your processes or take action as a result of metrics gathered. Simply measuring is not enough to move to this developmental stage.

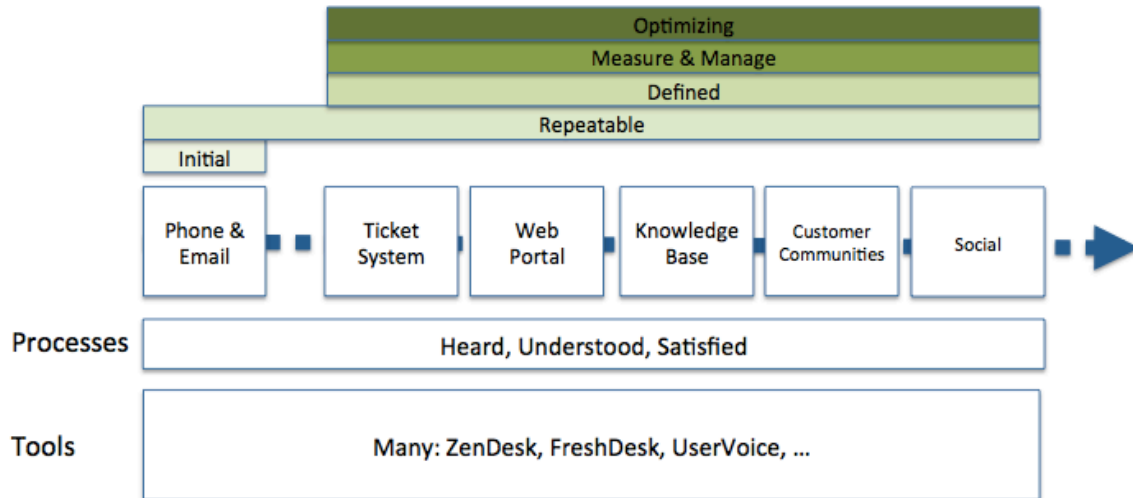
At the end of the on-boarding process you should know what needs to happen next in order for the customer to receive more value from your product. Do you need to roll it out to the next set of end users? Is there additional functionality that can be deployed next? Hopefully you can plan this with the customer. The action plan may not happen for weeks or months, but at a minimum you should know what that next step is in adopting and expanding the use of the product.

Optimizing Stage

In the Optimizing Stage, you input learning, metrics, and feedback into a continuous improvement cycle. This could look like regularly occurring team discussions about the inputs that lead to ideas and action plans on how to improve the way things get done. You need to have enough autonomy in the team that people can try different things and share their learning about it.

Technical Support: Day to Day Care

The goal of this developmental line is to ensure that your customers receive the support they need on a day-to-day basis to keep your product working and providing value. It is always important to be thinking of long-term value, and this developmental line specifically targets the discrete support requests that have a beginning and an end.



Before we discuss the maturation of this developmental line, let's look at the underlying desired process outcomes of the discrete support interaction.

Heard, Understood, Satisfied

The first thing customers need when they reach out is the need to be heard. Very important here is quick response. You do not need to solve their problem before you let them know their request has been heard. The discrete support process should maximize feedback. When you are due to respond to a customer anywhere in the support process, you want to respond as quickly as possible, even if it's just a message of "we are looking into it". This is particularly important when the ticket is first opened.

Heard, Understood, Satisfied	
Process Step	Key Factor
Customer Heard	Quick Response
Customer Understood	Customer knows you understand them, the context, & the problem
Customer Satisfied	Customer Satisfied with Interaction

Letting them know you understand the problem is the next step. Again, you do not need to solve the problem yet. You do need to make sure you are quickly iterating with them, gaining information, and fully understanding what the problem is. You may even show them a different way of looking at the problem. For example, they may be trying to make your product do what it is not designed to do. And you can reframe their problem and what they are trying to do, based on best practices.

Last you satisfy the customer. You may not actually solve the problem in this step. You may have submitted a bug ticket, or you may have reframed their problem such that they have a new way of doing what they need. They can receive value from the interaction in many ways, and receiving value is ultimately what satisfies the customer.

Developmental Maturity

Initial Stage

In the beginning the founders are calling and emailing customers, making sure they are heard, understood, and satisfied. There is no system in place, and conversations are not centrally routed or tracked. Possibly it becomes repeatable, and you can start to copy and paste answers into emails.

Eventually you will want to offer more and more support vehicles. The vehicles are generally implemented in the order they are presented in the table to the right.

Support Vehicle	Reason
Email & Phone	You always need the personal touch available to customers
Support Portal	Allows customers to easily track their requests
Knowledge Base	Enables customers to find their own answers
Customer Communities	Allows customers to answer each other's questions
Social	Customer will use Social, you must respond

Repeatable & Defined Stages

To more readily move into the repeatable and the defined stage, a ticket system can go a long way. When you implement a ticket system, you have to setup your workflow, which forces you to define the process. Most tickets systems will provide functionality for all of the support vehicles listed. When you are ready to setup that vehicle in the support system, you have to define the workflow.

Before you expose your knowledge base (KB), you need to have enough solutions or articles posted to make it useful. Start by going through all your solved issues, and creating a KB article on that problem and the solution. Continue to turn solved issues into articles to continually grow your KB.

To make Customer Communities effective, you have to be at a tipping point of customer count, such that customers will spend time on the community to answer questions. You also need to assign a moderator who is an employee of yours that will monitor all discussions, make sure no advice given is going to cause damage if acted on, and make sure that no question goes unanswered.

Managed & Measured Stage

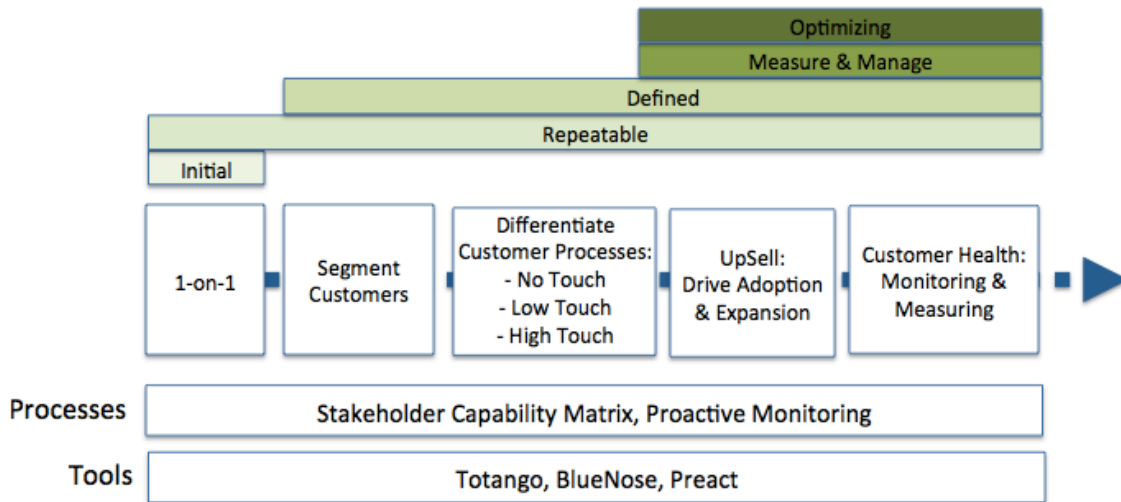
To progress into the Managed & Measured stage, all support systems have built-in reports and provide the ability to create your own. You start with measures like first response time, resolution time, average response rate, and customer satisfaction level. Again, you must manage what you measure. So, for example, if you notice that your first response time is too long, then perhaps your support team needs to get a pop-up or text message when a new ticket is opened.

Optimizing Stage

The Optimizing stage or continuous improvement takes as input your learning, your measurements and feedback and you determine how to improve your processes, better serve your customers, and also what else you need to measure so that you can improve how you improve, and do so more quickly.

Continuous Value Creation

Being proactive in driving additional revenue, and increasing customer lifetime value (LTV), is the goal of this developmental line. Below is an overview:



Stakeholder Capability Matrix

Underlying the ability to continually drive product value to your customers is the Stakeholder Capability Matrix. To drive value and sell you must know the territory. And there are two overlapping territories – that of the customer organization and that of your product. How they interact, and most importantly, where they intersect, must be understood and used.

There are two main phases to the approach. First, the technology company internally defines their basic matrix. Then you develop a process on how to approach and work with customers, using the matrix as the map.

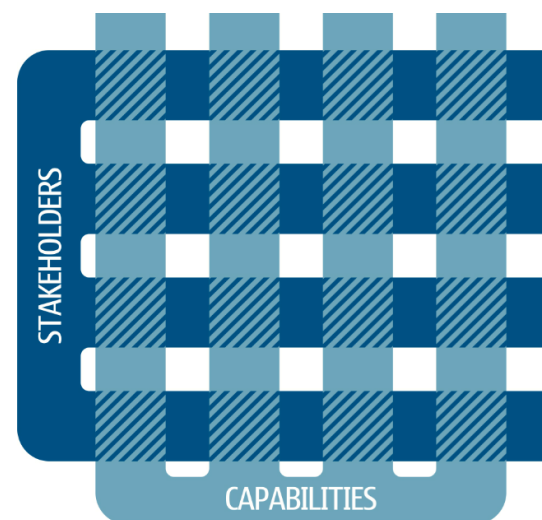
First Phase: Build Basic Matrix:

- Define the Stakeholders inside your customer organizations that your product serves.
- Define the Core Capabilities of your product. How does your product create value for customer end users?
- For each Stakeholder / Capability intersection, define how that capability could potentially serve those stakeholders.

Second Phase: Design Customer Approach:

How do you espouse this to your customers? You can't just tell them "that stakeholder group within your organization should use our product to do this." The basic process includes:

- Identity Named Stakeholders (real people)
- For each named stakeholder / capability intersection:
 - Determine Current State
 - Educate on Capability
 - Plan Future State
- Build roadmap to future organizational state



The customer approach can be a service that you offer free of charge or a fee-based project. This can be sold to customers as the way to achieve maximum ROI realization. You can also use this approach in defining and selling your initial on-boarding services.

Developmental Maturity

Initial Stage

When you are in the initial phase of providing continual value, you are conducting “regular check-ins” with your customers. There is not yet a repeatable process on how often or what should trigger a check-in, and there is nothing defined as to what the check-in should look like.

Repeatable & Defined Stages

You start to get repeatable and defined when you determine what should trigger a check-in: is it a time interval, or maybe there a customer usage pattern that alerts to an issue or opportunity. You also need to document the flow of the check-in: what questions do you ask, what reports do you present to the customer, etc... The Stakeholder Capability Matrix is helpful to define the check-in format.

Measured & Managed Stage

To move to Measured and Managed, you measure your customer’s behavior. There are many metrics to be aware of, and it does depend some on what your customers and product is. Here are a few to consider:

Customer Behavior Metric Examples	
Generally Stored in:	Example Metrics of Interest:
CRM System	<ul style="list-style-type: none"> • When did someone last talk to the customer? • When is the subscription up for renewal?
Ticket System	<ul style="list-style-type: none"> • How many support tickets have they opened? • How many support tickets are unresolved?
Marketing Automation System	<ul style="list-style-type: none"> • How many email blasts have been sent? • Which outbound email messages did customer click on?
Product Usage Records	<ul style="list-style-type: none"> • Have they been classified as no touch, low touch, or high touch? • How many times has customer users logged into the product? • How often did they use the basic features? • How often did they access features that are exclusive to their pricing tier?

The more metrics you collect, analyze, and use to manage your customer relationships, the more you move up in maturity and into the Optimizing stage. The first sets of metrics are found in the CRM system. The CRM system is generally something that is setup by the sales team, which can be used as a broader perspective account management tool. The next sets of metrics are found from the Ticket System, which was discussed in detail earlier. Next is the Marketing Automation system, where you learn about what you are saying that is generating interest to the customer. Last, and certainly not least, is the set of metrics about the customer’s actual engagement with your product.

It can be difficult to look at all this information from these disparate systems and combine them into one view that you can use to take action. There is a new set of tools that have emerged in the market to accomplish this task - Customer Success (CS) systems. The tools pull in information about your customers from these multiple systems, aggregate that information, and perform predictive analytics so you can report on customer health. For other third party systems, APIs are used to pull the information in. For your product, you insert JavaScript calls (or similar) into your product code that calls the CS tool API. The system then tracks what users at which customers are accessing what parts of the product.

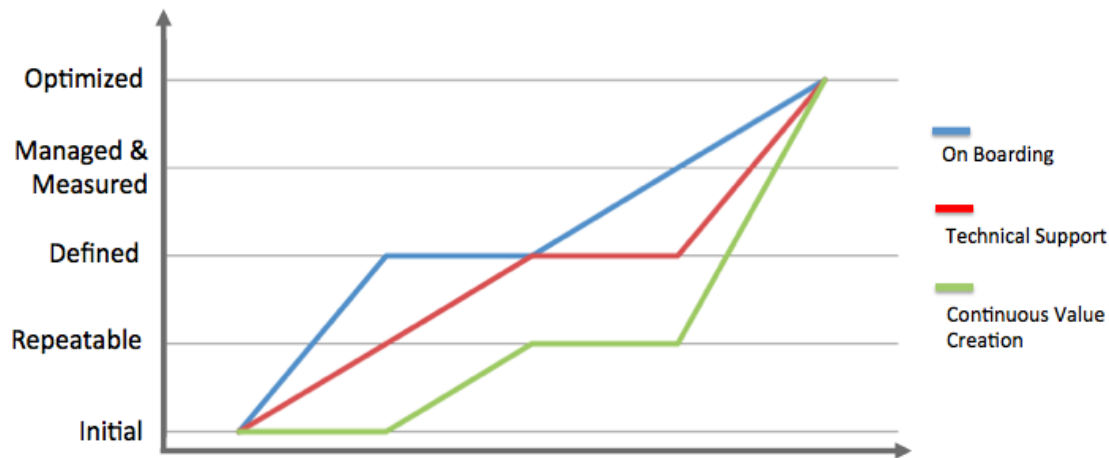
This is combined with the information from all the other systems, and analytics are applied for dashboard and detailed views that give a comprehensive view of customer health, and alerting to let you know when there is danger of losing a customer or when there is an opportunity for upsell. You do not need Customer Success tools to do this; they just make it easier. You can collect this data yourself and create the needed reports and dashboards.

Optimizing Stage

The monitoring and managing methodology creates the foundation for moving into the Continuous Improvement stage. In this stage, you are continuously figuring out how to better predict customer outcomes based on their current behavior patterns.

Relative Maturity Lines

It is difficult to give exact details on when you should move to a specific developmental stage. Certainly, when your product is first released you will not have a clearly defined knowledge base and be measuring its use. That would be a waste of time. It is not possible to say exactly when, as the territory of your product, your customers, and your market will dictate that. What is presented here is a general picture of the maturity lines relative to each other. This too will vary based on the specific territory, but it will give some sense of how to look at it.



Conclusion

The ability to assess where you are and plan and anticipate what you need to do next to ensure success for your customers protects you against risk of customer churn and lost revenue, and better positions you to drive up-sells and cross-sells to increase revenue. New revenue from existing customers cost less than 20% of new revenue from new customers. Customer success processes can be categorized into three developmental lines of activities: On-boarding / Professional Services, Technical Support / Day-to-Day Care, and Continuous Value Creation. Evaluating the maturity of these developmental lines and planning for growth will position you to achieve maximum lifetime value from each of your customers and grow your business with the most efficient form of new revenue – that from existing customers.

About Forman Consulting

Forman Consulting offers services to assess and enable Customer Success, Professional Services, and Technical Support organizations to drive continually increasing customer lifetime value. For more information, contact info@forman-consulting.com or call us at 303-588-9941.