

Do you understand your customers? V2

The purpose of this article.

- 1) Help the board of directors and C-Suite establish a common understanding of their cash paying customers and users. If your business model is a two sided market (e.g. Google would not have cash paying customers if there weren't lots of free users of their search engine) you will need to understand both cash paying customers and users.
- 2) This article provides an overall framework.
- 3) This article applies to any business that depends upon cash-paying customers. This could range from:
 - a) Early stage startups to long established global companies.
 - b) Customers that are the general public to customers that are investors in investment funds.

What are the critical learnings in this article?

- 1) If your company's customer understanding is less than your competitors, your company will fail.
- 2) If your company's customer understanding is out-of-date, your company will fail.
- 3) If your company and your competitors have little customer understanding, your company's survival depends upon luck.
- 4) You need facts about how your customers perceive:
 - a) Their urgent problems and needs.
 - b) The financial and non-financial benefits they achieve from solving their urgent problems and needs.
 - c) The benefits they are able to achieve from your solution vs the competition or status quo.
- 5) You must continuously learn from your customers via:
 - a) Customer Advisory Board;
 - b) Surveys;
 - c) Focus groups; and
 - d) One-on-one interviews.
- 6) Everyone in your company needs some understanding of your customers.

What is the process to understand your customers and users?

- 1) The eight-phase process is set out below.
- 2) The most critical part of the process is listening to what the customers and users are saying and observing what they are doing.
- 3) You start out by listing your assumptions.
- 4) Then you validate these assumptions via customer and user input.

Phase 1 Analyze third party market data.

- 1) What have been the historical trends?
- 2) What is the existing aggregate analysis of target segments e.g. geographic, social characteristics, demographic?

Phase 2 document your assumptions, whether or not you have existing cash paying customers and users.

Step 1: Define who your customers and users are.

- 1) Identify the key members of the customers' ecosystem? Users are most common. There can also be influencers, recommenders, blockers, etc. e.g. Google's cash paying customers are advertisers. Google would not have customers if there weren't a large number of free users doing searches.
- 2) Who are your target customers and customer segments e.g. geographic, social characteristics, demographic?

Step 2 What does a day-in-the life of the customers and users look like?

- 1) What are the points of the day when they have urgent problems, pains, needs which your solution may be able to help with. Rank these in terms of intensity and frequency of occurrence.
- 2) What are the points of the day when they have problems or needs? Rank the relevance in terms of size of problem or need, and frequency of occurrence.
- 3) What value would the customer achieve as a result of solving problems or meeting needs? E.g. time saving, saving money, making more money, reducing frustration, increasing happiness, increasing social standing, etc.
- 4) At which points do they touch or become aware of your solution? These include: friends, colleagues, social media, conferences, publications, website, app, email, customer service, etc.
- 5) How do the customers and users perceive the value of your solution vs the current situation and competitors?

Step 3 What is the market size?

Market size requires customers who realize they have an urgent problem or need, are willing to spend money to solve it, and can afford to spend the money.

- 1) How many cash paying customers, and what would the revenue be, if you receive 100% of customer spending, regardless of distribution channels, and geographies?
- 2) How many cash paying customers, and what would be the revenue you receive 100% of customer spending, with your current distribution channels and partners?
- 3) What is your current market share? How many cash paying customers do you have, and what is the revenue? If you're a startup, what are your assumptions for years 1,2,3?

Step 4 What is the customers decision making process and criteria?

- 1) There may be several sets of decisions. E.g. whether or not to seek a solution, whose solution to pick, whether or not to exit a solution provider to move to another solution provider.
- 2) There can be several roles involved (for customers who are individual consumers and for business customers). E.g. the decision by the person paying the cash, recommenders, influencers, etc.
- 3) What is the decision making process? Who is playing what role?
- 4) What are the criteria used by each person to assess: Is a solution required? Which solution should be selected? Should the current solution be exited and a new solution obtained?

Phase 3 Validate your assumptions by learning from your customers

You must learn from your customers:

- 1) What do they think are their urgent problems and needs?
- 2) What do they think are the financial and non-financial benefits of addressing their problems and needs?
- 3) How do they perceive the benefits they can achieve from your solution vs the competition or status quo?

You learn from your customers via:

- 1) Your Customer Advisory Board;
- 2) Surveys;
- 3) Focus groups; and
- 4) One-on-one interviews.

The qualitative data you collect will require thematic analysis.

Phase 4 Additional input if you have customers and users

The single most important question is asking "Would you recommend our solution to others?" This metric is known as NPS (Net Promoter Score)¹. Follow on questions could be "If so, why? If not, why not?"

A more detailed question would be: "How would you feel if you could no longer use our product or service?"²

- 1) Very disappointed?
- 2) Somewhat disappointed?
- 3) Not disappointed – it's not really that useful?
- 4) I no longer use it.

At least 40% of your target customers must say "very disappointed". If it's less than 40% you need to reposition/change your solution. One approach can be to segment the answers to find a customer segment where the response is above 40%.

You must understand the group above 40%. The 5 questions to ask them are: 1) who are you (demographically) 2) why did they seek out your product/service? 3) how are they using it 4) what is the key benefit 5) why is that benefit important?

Additional sources of customer input include:

- 1) Follow up emails after customer and user interaction, customer purchase, or customer/user exit.
- 2) Analysis of live chat discussions.
- 3) Analysis of sales call logs.
- 4) Analysis of app or website interaction.
- 5) Analysis of customers and users postings in social media, including review sites.
- 6) Survey kiosks at physical events.

Much of the customer input will require thematic analysis, because it will be qualitative and unstructured data.

Phase 5 Analysis of your company data

- 1) What % of customers and users do you lose each month?
- 2) What is the lifetime profit of a customer?
- 3) What is the customer acquisition cost?

Phase 6 Combine all of the above data

- 1) All of the above data may be combined and analyzed.
- 2) You'll have both quantitative data and qualitative data. The qualitative data will require ethnographic analysis.
- 3) Different customer and user views include: by cohort, customer/user segment, geography, channel, partner, etc.

What is the value of all this data?

- 1) It helps you reduce customer acquisition costs, increase lifetime profitability of cash paying customers, attract customers more quickly, and reduce churn.

How do you achieve this value?

- 1) You prioritize your time and resources on what your customer would value, especially on the criteria which determine whether cash paying customers buy from you, your competitors, or remain with the status quo.
- 2) Your team has a common understanding of customers, which enables more effective decision making and execution.
- 3) Both your marketing and solution development are focused on enabling customers to achieve more benefits than the status quo or your competition.

Phase 7 Create customer persona for each target customer segment

What is a customer persona?

- 1) It is an easy to read, no more than one page, description of the key characteristics of a target customer segment. It is based on facts you have directly collected from customers and from third party research regarding C&U.
- 2) A persona is NOT hopes, dreams, wishes, personal opinion or individual anecdotes.

What is the value of a customer persona?

- 1) A persona helps everyone in the company (from the most junior to most senior) to easily have a common understanding of the customer.
- 2) Step 6 may produce a large volume of complex and hard to understand analysis.

How do you achieve this value?

- 1) You communicate the persona throughout the company, including the board of directors, C-suite, and advisory board.

What does a simple cash paying business customer persona look like?

- 1) The persona should be personal. Two aspects of the persona may be fictional: the photos and the names of the person.
- 2) You may have more than one persona for a target segment, but then consider whether you in fact have more than one target segment.
- 3) Remember that your cash paying customers may come from different backgrounds e.g. gender, race, etc.

What components could a simple cash paying customer business persona include:

- 1) Photos:
- 2) Name:
- 3) Business role: e.g. Head of marketing and sales. decision maker, recommender, influencer
- 4) Personal demographics : e.g. age 32-49, income: between \$200,000 and \$300,000 per year, Master degree, married with no children
- 5) Urgent business problems: company is losing customers, attracting few new customers, customer feed back is that "terrible service"
- 6) Criteria for making a decision: one hour meeting with the person leading and accountable for the solution. Building trust and connection with the advisor.

What could a complex cash paying customer persona look like?

- 1) Photos:
- 2) Personal background: age, marital status, number of children, education, location
- 3) Job role: reports to xx; manages yy; key performance metrics for role; skills and knowledge
- 4) Company or business unit information: industry, revenue, # of employees
- 5) Business goals: what does success look like for this person e.g. bonus and promotion? What are the urgent problems and needs? What are critical objectives in the person's business plan? What criteria are used to assess a solution provider
- 6) What are personal goals and values: church volunteer, expedition travel, job security.

The Further Reading Section below has a link to an article with several examples of persona.

Phase 8 Continue the above 7 phases on an ongoing basis

- 1) Understanding customers and users is an ongoing process not a one-time event.
- 2) There are rapid and ongoing changes to: customer and user problems and needs, the competition, market sizes, regulation, the economy, new technology enable solutions, etc.

Your next steps

- 1) Customize the above 8 phases to your specific situation. For example, the process to understand investors in an investment fund will be different from end consumers deciding to buy a \$10 product once a week.
- 2) Carry out the above 8 phases as quickly as possible. Don't try to do a massive, 100% comprehensive and detailed effort. View this as a pilot, where you're trying to get 80% of the value from 20% of the efforts. You might not even do all 8 phases nor every part of every phase.
- 3) Establish the ongoing process. If this is not ongoing, sooner or later you will not longer understand your customers, resulting in your company's failure.
- 4) Assess the how much additional value could be achieved by improving the process. The best way to do this is via pilots and experiments.

Footnotes:

¹The Net Promoter Score concept was initially developed by Bain. The following is a link to the Bain website homepage for Net Promoter Score, which contains several short articles:

<http://www.netpromotersystem.com/about/why-net-promoter.aspx>

The following is a quick overview of using Net Promoter Scores:

<https://www.forbes.com/sites/shephyken/2016/12/03/how-effective-is-net-promoter-score-nps/#1b1391b423e4>

² <https://medium.com/swlh/in-search-of-a-better-way-to-measure-product-market-fit-584fa41d3840>

What further reading should you do?

Customer persona examples

<https://www.brafton.com/blog/strategy/persona-examples-from-around-the-web-and-why-they-work/>

Talk with 100 customers before launch your company or start thinking about potential major changes.

<https://medium.com/build-something-cool/yes-you-should-talk-to-100-customers-before-launch-afa1962f5c7>

Understand how your customers feel, by using a customer empathy map

<https://www.futurpreneur.ca/en/resources/sales-and-marketing-skills/tips-tools/customer-empathy-map-understanding-your-customer/?path=pathway§ion=explore>

Make a list of customers and potential customers to talk to.

<https://marker.medium.com/how-i-saved-my-startup-before-it-even-launched-32e565a166a1>