10 KEYS TO UNLOCK CUSTOMER PROFITS

MARKET
FIT

OUTLINE

A LETTER FROM KURSTEN

How to Use this Guide

At Market Fit we know you want a growing and profitable business and you want to be a successful business owner. To achieve this, you need a simple and proven framework and plan to increase your customer profits.

We understand that marketing has become more complex, confusing and lacks accountability. But we believe it doesn't need to be that hard, and there are hidden customer profits that you are leaving on the table, you just need to unlock them.

This guide is designed as a framework to help you ensure that your marketing strategies are optimised and effective.

You can work through this guide on your own, or with your team. Use the **scoring sheet included at the end of the guide** to rank your business' performance.

Take note of the opportunities you discover in the relevant sections, for example in Repeat, Retain and Refine.

You can use this as a roadmap to either rework your existing strategies or create new ones, to unlock the hidden potential within your business.

This is the companion book to our eBook titled Unlocking Hidden Customer Profits.

It is best read in conjuction with that ebook, but can also be used as a standalone guide. <u>You can download the eBook here</u>.

PURPOSE OF THIS GUIDE

Within this guide you will find 10 key capabilities that you can use to review your business' performance in unlocking hidden customer profits.

As previously mentioned, it can be used in tandem with our eBook **Unlocking Hidden Customer Profits**. In that guide, we go over in detail how to embed the 3R's framework into your business.

At the end of the guide, we include our **Market Fit 3R's Review Survey** that you can use as a 'scoring sheet' to help you get a better understanding of where your company currently stands with each of the key capabilities listed.

The scoring works as follows:
- 1-3 is below NZ's Best Companies
- 4 is on par with NZ's Best Companies
- 7 is operating at World Class Companies standards.

Example of how the scoring works:

01 **Customer Lifetime Value (CLV)**

1 —— 2 —— 3 —— 4 —— 5 —— 6 —— 7

Customer lifetime value isn't known or understood

Customer payback is understood and commercial decisions are based off payback

Customer lifetime value is known and understood. Commercial decisions are based off CLV

SUMMARY OF THE 3R'S

There are three important aspects when trying to grow your business. To increase these three areas:

- the number of customers you have
- the amount in which they spend
- how often they purchase from you

Most marketing efforts focus only on increasing the number of customers. Businesses focus less (if at all) on increasing basket size and repeat purchases.

This is a big mistake because that is where the majority of your potential profit can reside, meaning money is being left on the table.

Implementing the 3R's into your marketing strategy solves these problems by allowing you to regain control of your business, while increasing the profit generated.

Repeat is focusing on and understanding your existing customers. This includes increasing frequency and increasing basket size.

Retain by understanding your customer base and you'll create raving fans. Understand how they think and feel about your business and adjust your products and processes to meet their needs. It also includes ensuring that you have strategies for all levels of customer loyalty.

Refine is simplifying your business. This includes removing the parts of your business that are unprofitable or unlikely to grow.

For the key capabilities outlined in this guide: #1 is an overview of understanding of the value of a customer, #2-#4 are based on **Repeat**, #5-#9 are about **Retain** and Capability #10 is about **Refine**.
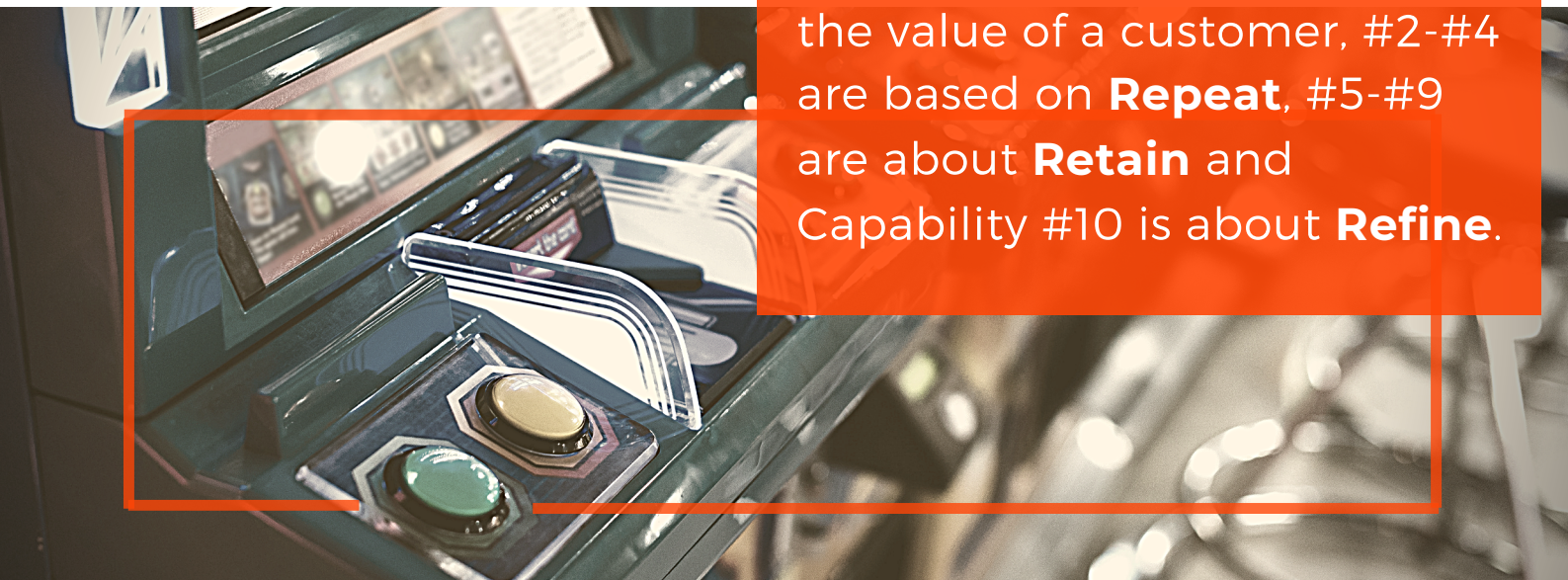
3 IMPORTANT METRICS

To understand how much money you are generating from each customer, and their potential profit, there are three important metrics to understand before completing this guide. They are **CLV, Churn Percentage and NPS**.
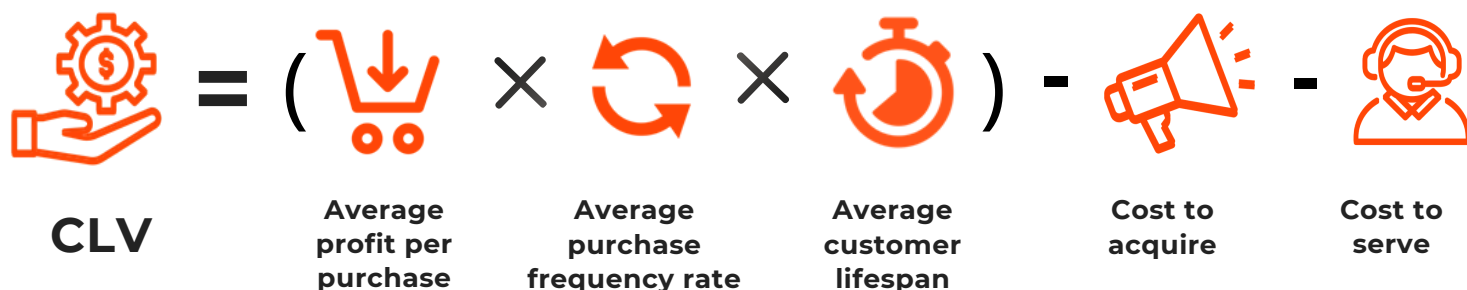
HOW TO CALCULATE CLV

Customer Lifetime Value (CLV) is the net profit your business will make from a specific person over the course of their relationship with you.

It's one of the most important customer metrics for companies to be across if they want to effectively target the most valuable customers and predict what their customer base will look like down the road.

To start calculate the customer value which you get by taking the average profit per purchase of your products/services, and multiplying by the average purchase frequency rate and multiplied by your average customer lifespan.

From this take away the cost to acquire and the cost to serve, which gives you the CLV.

$$CLV = (\text{Average profit per purchase} \times \text{Average purchase frequency rate} \times \text{Average customer lifespan}) - \text{Cost to acquire} - \text{Cost to serve}$$

CALCULATING CHURN PERCENTAGE

Your churn rate is the number of customers or subscribers who have cut ties with your service or company during a given time period. These customers have "churned".

To calculate your company's churn percentage, you take the number of customers you have lost in the past year and divide that by the average number of customers you started with in that same year.

Alternatively, you can calculate churn based on the number of customers you have, the value of recurring business lost or the percentage of recurring value lost.

It is extremely important to understand your churn rate so you can make effective strategies to retain those customers.

It is usually cheaper to retain existing customers than it is to acquire new ones.

You need to have a solid understanding on how good your business is at identifying what actions can be taken to ensure the highest retention rate possible.

$$\text{CHURN RATE} = \frac{\text{\# OF LOST CUSTOMERS DURING THE YEAR}}{\text{AVERAGE CUSTOMERS OVER THE YEAR*}}$$

*Average customers = (Customers at start of the year + Customers at the end of the year) / 2

CALCULATING NPS

Your Net Promoter Score, (NPS), is based off a simple question: **how likely is it for your customer to recommend your product or service to a friend?**

It is rated on a scale of 0-10, 0 being very poor and 10 being very happy.

The scoring is based on the number of detractors (which is the zeros to sixes), the percentage of promoters (which are 9s and 10s) and you subtract the percentage of the detractors from the percentage of promoters.

This gives you the Net Promoter Score. Based on product penetration or profitability, you can group your customers into four segments -

**Friends
Raving Fans
Hostages
Strangers**

Then you can start to deliver strategies specific to each segment. I have an eBook dedicated to understanding NPS, which you can download here.

NET PROMOTER SCORE = % PROMOTORS - % DETRACTORS

DETRACTORS   NEUTRALS   PROMOTORS
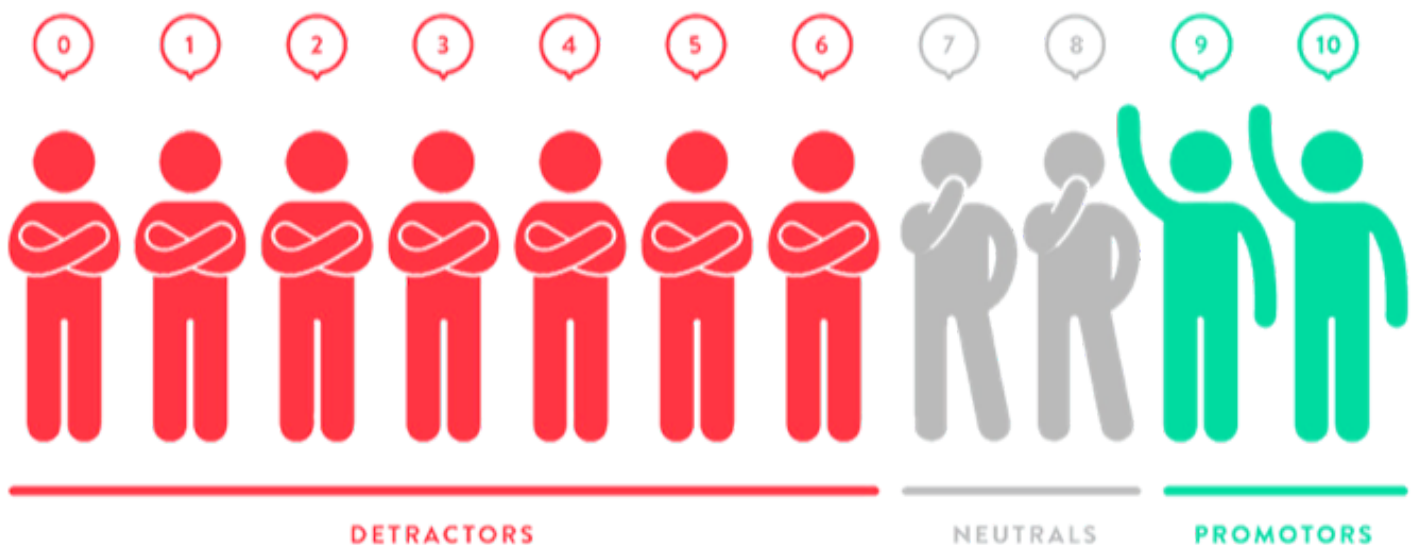
KEY CAPABILITIES

#1 CUSTOMER LIFETIME VALUE

Customer Lifetime Value (CLV) is a prediction of the net profit attributed to the entire future relationship with a customer. It represents the total amount of profit a customer has expected to spend with your business over the duration of their lifetime with the business.

> "
>
> The most important number in marketing is understanding what a customer is worth to your business
>
> - Kursten Shalfoon

Can you increase that value of each customer? And more importantly, it gives you a better idea on how to plan your customer acquisition and retention strategies.

How much can you afford to spend to acquire a customer?

How much can you afford to spend on retaining or renewing the customer?

Next action: derive strategies to increase purchase value, increase frequency of purchase and increase tenure (reduce churn).

#2 UPSELL, CROSS-SELL & REFERRAL PROGRAMS

These are effectively product penetration strategies that leveraging pricing to encourage the customer from their initial purchase, up into something that has significantly more value.

Upselling is about getting the customer to buy a larger version of the same product, like 'upsizing' your fries at McDonald's.

Cross-Selling is getting customers to buy an additional item, packaged as as a complimentary bundle, like purchasing a combo meal instead of just a cheeseburger.
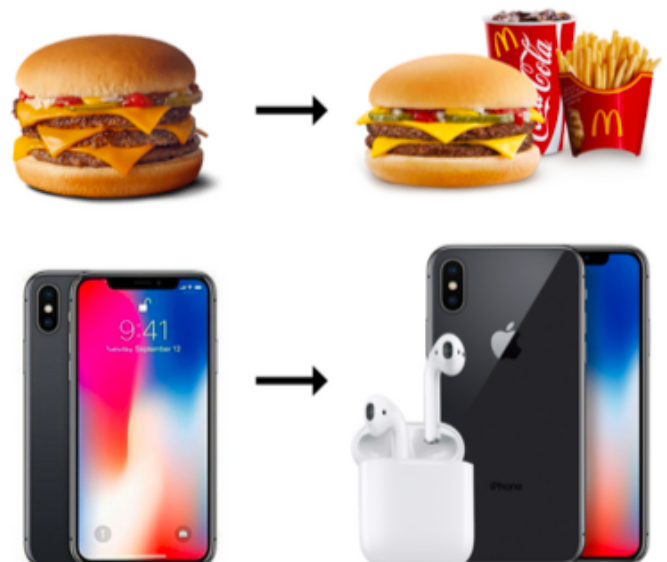
Referral Programs means getting customers to refer you to other customers and incentivising them to do so they become your sales machine.

It's important to use pricing and the existing customer relationships that you have to give the customer more value to drive loyalty and happiness. Secondly, it's important to increase their customer value.
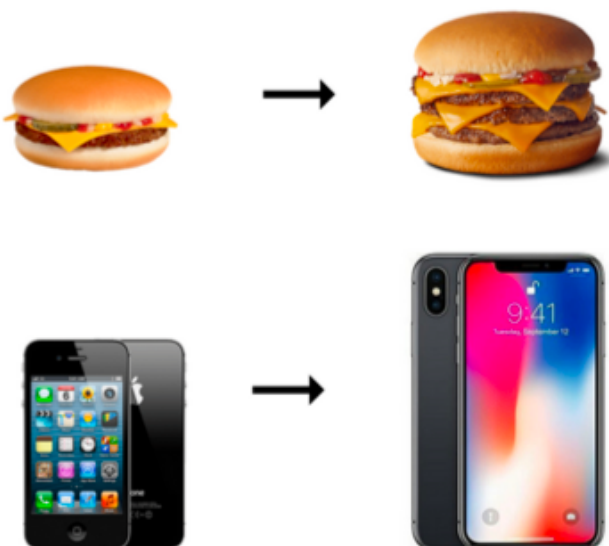
#3 LOOK-A-LIKE CUSTOMERS

Look-a-like customers takes your existing customer base, and sorting them into groups of customers with the same behavioural and demographic trends, and breaking them into target segments. Once you start to see a customer behaviour, you can start to map and predict where their customer behaviour will go. Then you can encourage those customers to move along that value journey.

So an example of that is, if you've got a lot of customers that buy one product from you, let's say it's a voice and text in the mobile market and they own an iPhone. If you group those customers together, you'll see there's a segment of customers that have an iPhone with a large data bundle.

By looking at this look-a-like customer, do they 'look like' the customers with a large data bundle? If they do, you can consider cross-selling to those customers.

The more you can understand about your existing customers' behaviour and segments, the better you can help encourage and move new customers through those segments.
You can target the right customers with the right offer to increase their value and satisfaction.

This is important because you can target the right customers with the right offer to increase their value and satisfaction.

#4 PRICING

Analyse the pricing model you provide for your customers; Do you have a standard (one size fits all) pricing model, or do you use pricing strategies based on customer segments?
An advanced option is to have private pricing. This means one customer pays one price for the service, whereas another customer pays a different price for that exact same service, based off a number of factors?

Ultimately, you're trying to maximize the value equation for the customer and the profit for your business.

You want to ensure that your customers are getting significant benefits for the value that they are paying. At the same time, it's important that you as a business are getting increased value.

#5 CHURN MANAGEMENT

It's important to identify any valuable customers who are likely to churn from your company. Many businesses don't really understand or have facts around why customers leave, and they largely rely on anecdotal evidence. Executing steps to try and retain those customers delivers your incremental profit and is extremely important.

Good companies capture the reasons why customers are attuned, and based on certain behaviours they'll have saved campaigns or triggered campaigns to try and retain a customer.

Excellent companies have propensity modelling in place so if a customer starts to behave in a certain way, where they are likely to churn, then they can implement has a program to try and retain that customer even at a lower price.

You can proactively manage your customer base, reducing churn and increasing profit in your business, and it's important to enhance your offering to remove the issues that are causing customers to churn.

#6 CUSTOMER SATISFACTION MANAGEMENT

Understanding how your customer thinks and feels about your products and services is paramount to the long term health of your business. A happy customer will tell six others about your business, whereas an unhappy customer will tell up to 15 people about their experience. So there's a big disparity there.

Similarly, a happy customer will spend 2.6 times more with you increasing their customer lifetime value, than an unsatisfied customer. Take a look, do you have a periodic measure of satisfaction within your business?

And if you do, how do you action it? Do you contact customers if/when they give you positive or negative feedback? And do you have a program within the business to drive changes in improvements, based on customer feedback questions, or even customer segmentation in strategy?

You need to understand the health of your customer base, to improve it, maintain it and to fix any issues.

#7 CUSTOMER SEGMENTATION

As you grow your business, understanding your customers and segmenting those customers into different usage profiles or demographic and usage profiles becomes increasingly important.

Having strategies associated with those behavioural qualities of a customer, and linking the strategies to understanding that lifetime value of each of those segments, can help to optimise the strategies you have in place.

Every customer is different and you need to treat them as such, and modify your strategies accordingly. All customers will act subtly differently, but they will act similarly to other groups.

This will help your business to drive uptake while reducing churn.

#8 RELEVANT COMMUNICATION

Once you've segmented your customer base, you need to ask a few questions.
How are you communicating to them?
Is it a way that works for them or is it based off what works for you?

Do you have a one size fits all communication strategy?
Do you have a targeted communication strategy based off the customer needs?
Do you give them relevant communications based off their wants?

Does information you need and the way you add value to them differ, or is it merely a one size fits all strategy?

As with customer segmentation, every customer is different, the more you can treat customers as individuals, the better. This allows you to match to their specific needs, creating a more satisfied customer base.

#9 SERVICE EXCELLENCE

Are you leveraging your understanding of customers, be it research, customer sentiment or satisfaction management? Are you leveraging that to improve the customer service experience?

Ultimately you should be doing that, because a happy customer spends 2.6 times more with you over their lifetime and they will also tell their friends. We call this segment your raving fans. They are a key driver to unlocking your hidden profits

So are you taking customer feedback onboard and delivering to their expectations? Do you differentiate based off segments and how they like to be communicated with?

Maybe some customers like a digital channel only, while other customers like a physical channel - have you curated a different service experience based off what the customer needs and wants are?

Improving customer satisfaction and therefore spend and will allow you to focus where to spend your product development resources.

A targeted segment strategy is based on understanding service excellence

#10 PRODUCT PROFITABILITY

> "
> That's been one of my mantras - Focus & Simplicity. Simple can be harder than complex; you have to work hard to get your thinking clean to make it simple.
>
> - Steve Jobs

Do you understand the product profitability of your of your products?

This needs to be at least to a gross margin (preferably a net margin)

It is important to constantly refine your product portfolio. Removing those with low profit.

Low growth and potential then you increase penetration to your base of those that have high growth potential and high customer utility.

Take the time to review your profit portfolio, on a periodic basis. It will allows you to optimise the resources and focus of your business.

This key metric will unlock hidden customer profits to grow your business.

WHAT'S NEXT?

What results can you expect by implementing these key capabilities?

You will get a simplified business. You will get increased customer profit. And you'll have more satisfied customers. Most importantly, your marketing will start to work and will start to deliver profit. You will discover where your money is being spent effectively, as well as areas that you can refine and restructure your marketing spend. You will get the business you know you deserve.

What can you do moving forward?

Start to implement and better understand your business' product penetration. Start to understand what your customers are currently thinking and how you can turn them into raving fans. Finally, you need to understand the product restoration matrix, and start to remove some of your most ineffective products and services.

I've helped many NZ companies and I can help you implement all of these steps.

If you want to fast track unlocking your hidden customer profits I can help you prioritise and apply these keys to your business. So you don't need to reinvent the wheel and you will see the results faster, and start taking money off the table. The time to act is now so call me to get started.

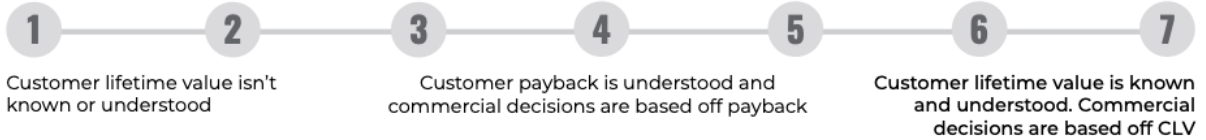**CLICK HERE TO BOOK FREE 45 MINUTE STRATEGY SESSION**
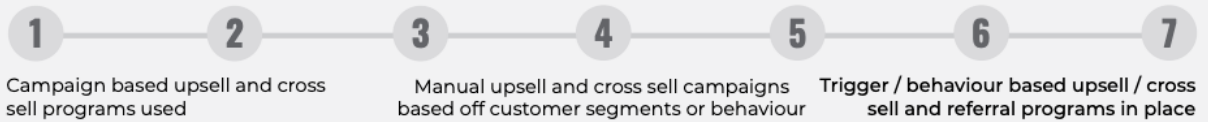
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MARKET FIT 3R'S REVIEW

01 Customer Lifetime Value (CLV)

1 — 2 — 3 — 4 — 5 — 6 — 7

Customer lifetime value isn't known or understood

Customer payback is understood and commercial decisions are based off payback

Customer lifetime value is known and understood. Commercial decisions are based off CLV

02 Upsell / Cross Sell and Referral Programs

1 — 2 — 3 — 4 — 5 — 6 — 7

Campaign based upsell and cross sell programs used

Manual upsell and cross sell campaigns based off customer segments or behaviour

Trigger / behaviour based upsell / cross sell and referral programs in place

03 Look-a-like Customers

1 — 2 — 3 — 4 — 5 — 6 — 7

Limited or high-level segmentation periodically completed

Customer analysis undertaken to identify look-a-like customers

Automatic tagging of customers into look-a-like segments based off behaviour

04 Pricing

1 — 2 — 3 — 4 — 5 — 6 — 7

Standardised 'one size all' pricing

Pricing steps and bundling drive increased usage and incremental revenue

'Private pricing' completed to maximise revenue vs. retention

05 Churn Management

1 — 2 — 3 — 4 — 5 — 6 — 7

Anecdotal understanding of churn reasons

Churn is 'tagged' and understood, programs in place to minimise churn reasons and win-backs

Churn propensity models in place with proactive retention measures

06 Customer Satisfaction Management

1 — 2 — 3 — 4 — 5 — 6 — 7

None or only periodic measurement of satisfaction

Regular customer satisfaction measurement and follow up

Customer satisfaction measure is embedded in the business and Voice of the Customer improvements led by the Leadership Team / Executive

07 Customer Segmentation and Strategy

1 — 2 — 3 — 4 — 5 — 6 — 7

Limited or no segmentation of customer groups

Customers grouped by usage or product categories and relevant strategies developed for each segment

Customer segments based off behavioural attributes with each segment having an identified executable strategy

08 Relevant Communications

1 — 2 — 3 — 4 — 5 — 6 — 7

All messages focused on upsell / cross sell

Communications add value to the customer and relationship as well as upsell messages

Marketing communications based off what the customer wants to see including preferred channel and frequency

09 Service Excellence

1 — 2 — 3 — 4 — 5 — 6 — 7

Service improvements only looked at during product development and incremental processes added or amended

Continuous improvement of customer experience and lower cost of delivery

Service excellence built into proposition development to reduce failure demand and increase customer delight

10 Product Profitability

1 — 2 — 3 — 4 — 5 — 6 — 7

Product profitability not reported or managed

Product profitability reported and managed

Product profitability and potential regularly reviewed and products grandfathered or retired

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