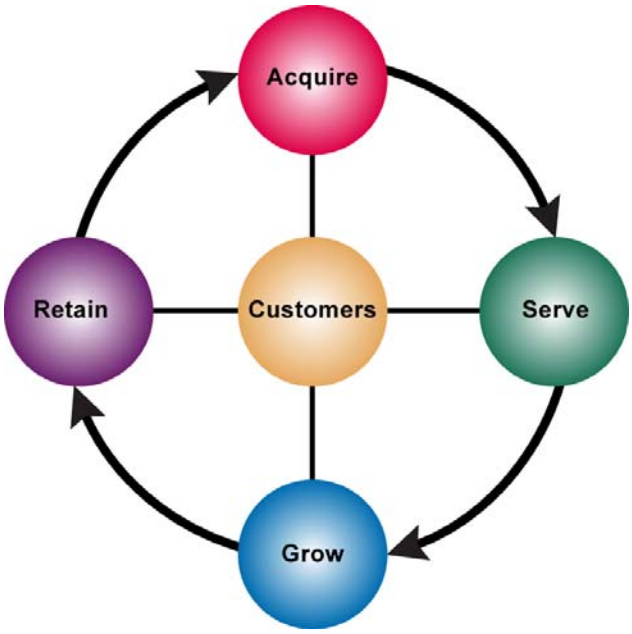
Get Better Business Results…

…From the Four Stages of Your Customer Lifecycle



Stage 1 ● Acquisition

A white paper from

Customer Lifecycle, LLC

inspiration • insight • innovation

Identify Unique Needs and Opportunities at Each Lifecycle Stage

It's a given that having good customers is a critical requirement for business success in any market. And companies spend millions of dollars on business development to get customers, convinced that more is better. But more is not necessarily better, because not all customers are the same in terms of their contribution to revenue and profitability.

As the cost of acquiring new customers increases, acquisition efforts need to focus on those customers with the highest potential to become profitable. Most companies constantly look for ways to expand their pool of profitable customers, with the ultimate goal of optimizing each customer's lifetime value.

Each stage in the customer lifecycle — acquisition, service, growth, retention — has its own unique customer needs, attitudes and behaviors. This creates the opportunity to identify and measure competitive performance requirements and metrics for both a particular stage and its relationship to the entire lifecycle.

This is the first in a series of four papers that will discuss how to get the best business results from each of these stages.

Stage 1- Acquisition

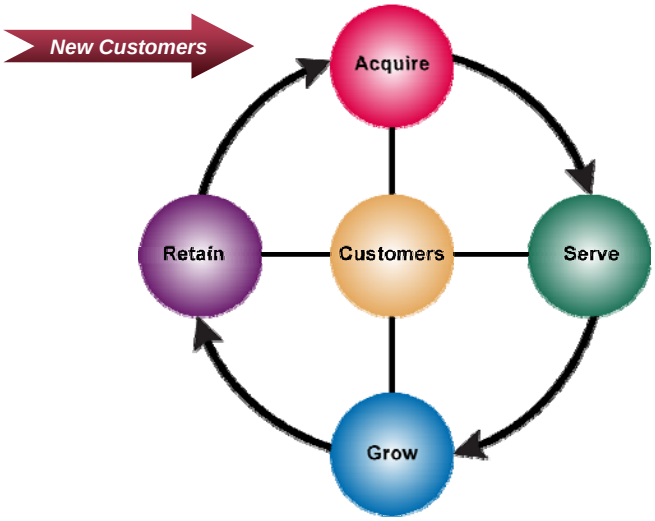


Fig 1 – The Customer Lifecycle

The goal for customer acquisition should be deciding which prospects most closely match a company's "ideal prospect" profile and also deciding which prospects *don't* meet the company's criteria for acquisition and eliminating them as acquisition targets. This simple decision helps focus marketing and acquisition efforts while saving costs and increasing return on acquisition investment.

Who is an ideal customer and why is it important to define them?

Defining an ideal customer in a target market, either a company or an individual, is the first step in developing a successful marketing strategy. It is necessary to reduce the definition to one single type of prospect that best fits a company's core competencies, its product and service value proposition, and its culture. By spending time researching the ideal customer, marketing strategy will be much more effective, and focus on a market niche may produce the best business development results.

Clarity on an ideal customer in a target market makes it possible to:

- Focus marketing efforts strategically in attracting the best prospects;
- Invest marketing dollars efficiently in reaching ideal customers;
- Establish expertise in a target market or niche; and
- Create differentiation in a fragmented market.

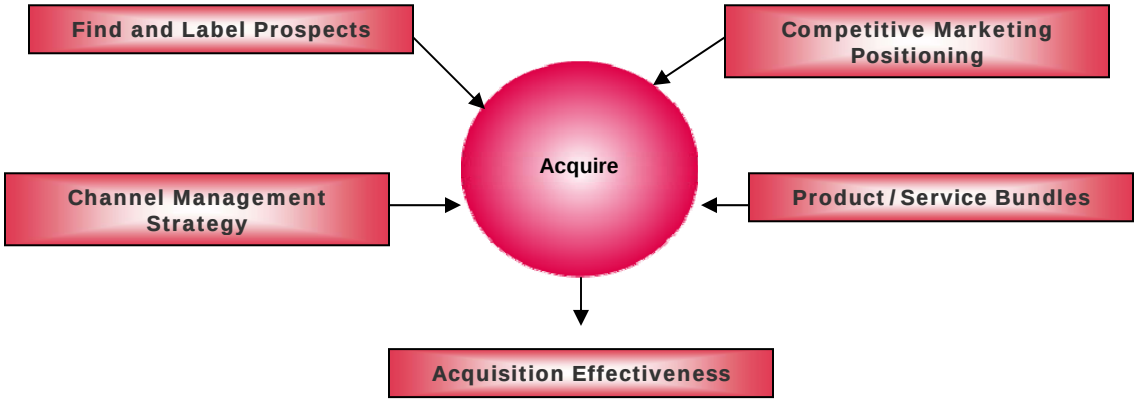


Fig 2 – Clarity on an Ideal Customer Determines Acquisition Effectiveness

How to identify an ideal customer

Careful research is the key to identifying the prospects that may be the best fit with a company's products or services. Secondary research on the Internet can provide a wealth of useful information about target market prospects, and primary research on market sizing can provide quantitative measures of market characteristics and niche opportunities.

The complexity of a company's sale cycle is a key consideration in determining the fit between a company's products or services and the ideal customer. Typical sales cycle challenges for startups are discussed in How Sales Complexity impacts your Startup's Viability.

Utilize better segmentation

Segmenting customers into specific groups to better serve them has historically been a marketing staple. Unfortunately, even today many companies still use only an *a priori* approach, one of the most basic techniques to identify customers with common characteristics. This simply splits the market according to pre-existing criteria, either by product, spend, geography, or other criteria.

Improvements in technology and analytics have made it possible to use approaches such as predictive segmentation to identify the unique needs of various purchasers and to develop value propositions and marketing communications focused on meeting those needs.

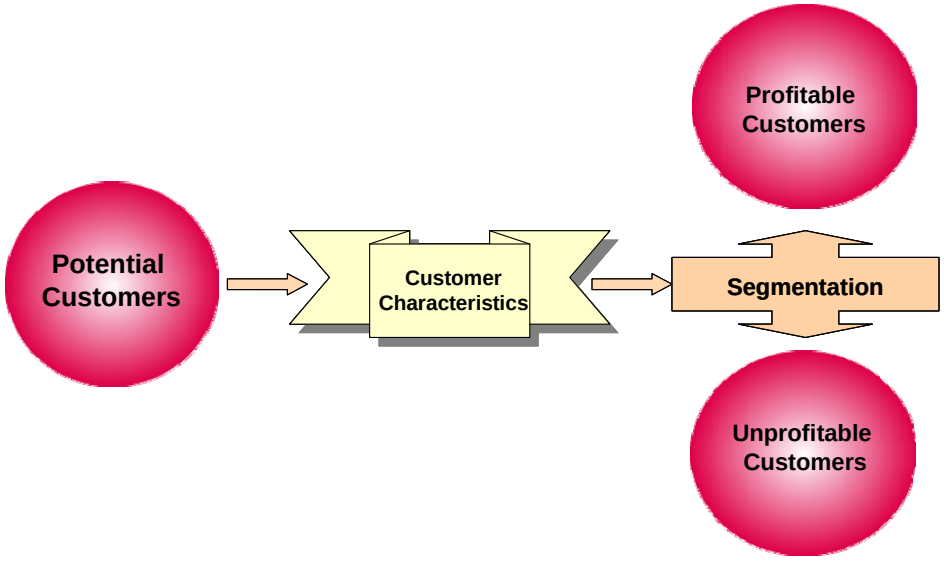


Fig. 3 – Profitability Segmentation

Connecting the right offers to the right customer segments using predictive analytics based on demographic, geographic, attitudinal and behavioral data from across the enterprise makes it possible to accurately predict customer behavior, determine customer value and retention scores, and improve customer communications. Without a complete view of the customer and an understanding of which customers are profitable and why, it's impossible to determine which types of customers should be acquired and which ones are worth retaining.

Establish customer profitability objectives

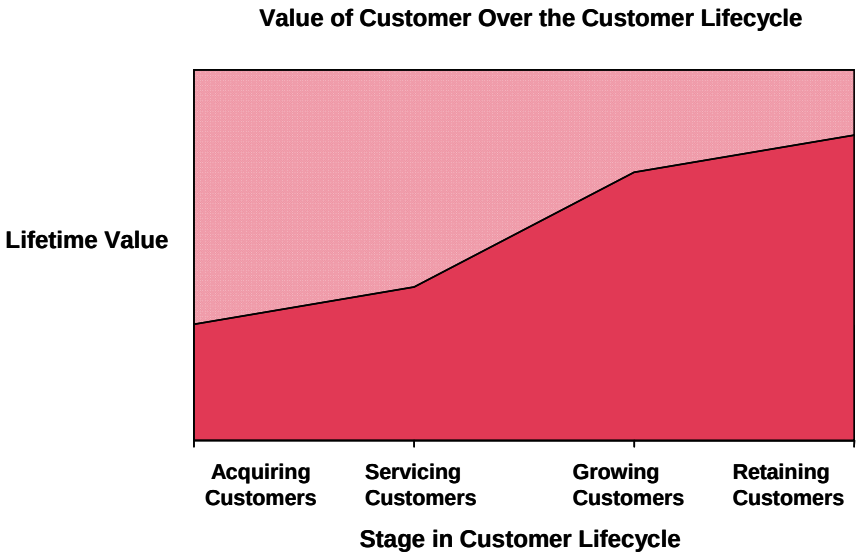
The best customers are those who are most profitable, and the major objective for a customer acquisition strategy should be to find more like those who are most profitable. Profitable Customer Profiles are useful tools to determine which characteristics identify profitable customers to enhance a portfolio of buyers.

Before focusing on more profitable customers, a customer acquisition strategy must have a clear definition of profit. Is profit measured against transactional gains, customer lifetime value, or even revenue generated over a fixed period? Each of these measures means something different, and it is necessary to establish a clear and meaningful measure of profits. Work closely with your accounting department on this, but don't let them dictate long-term strategy without looking at marketing objectives and tactics.

Know customer lifetime value

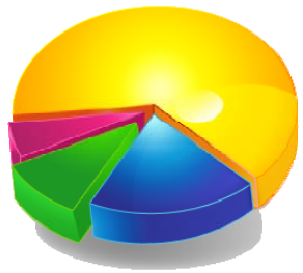
What is the total dollar profit of a customer from their first purchase to their last? Knowing this number makes it possible to understand how much you can spend on new customers. A customer lifetime value benchmark identifies above and below par producers while planning for future cash flow. Ideally, the objective is to grow this number each year by cultivating the most profitable customers.

Fig. 4 – Customer Value



Generate leads for profits

Instead of just seeing how many leads a campaign can produce, leads need to be generated with profits in mind. This requires lowering overall cost per lead, tracking profits per sale, and then feeding this information back into the lead generation strategy. By tracking lead sources against monetary measures, it is possible to identify which marketing works and which does not, and this information can be used to focus on the most profitable leads first.



In situations where leads have not been prioritized based on profitability, it is still necessary to focus marketing and sales efforts on leads that represent potential value to your business. One effective approach to this challenge is sales lead prioritization using prospect scoring.

An informative paper on this approach was developed by The Database Group, a database support organization. Sales Lead Prioritization describes the use of propensity modeling to achieve significant improvements in conversion rates and sales rates.

Use qualifying questions to focus efforts

Most companies collect business cards or the input from telemarketing, follow up, and then eventually give up before getting anywhere near a sale. Using appropriate questions to qualify prospects is a more cost-effective approach to build a revenue-producing lead funnel. These questions identify current opportunities, place a purchase on a specific time line, and determine exactly what customers want to buy.

Seek low cost acquisition of customers

An objective to gain new customers at the lowest cost possible doesn't mean that as little as possible should be spent. A low-cost acquisition is more a ratio of cost verse potential gain. Even if it is necessary to pay more up front for a qualified lead that closes quickly, acquisition costs could be less than those incurred with unqualified prospects that have to be pursued for months to close. Knowing where to find "low-cost" leads with a high potential gain reinforces the customer acquisition objective of generating leads for profits.

Conduct new customer onboarding to reduce churn

Once a company has utilized the techniques discussed above to identify and secure the right customers, it is critical to ensure that they will stay engaged and loyal once they're onboard. Churn is one of the greatest hazards and one of the greatest costs every company faces when acquiring new customers. Customer retention, and ultimate loyalty and commitment, build revenue and reduce costs.

When successful companies hire new employees, they typically conduct a thorough onboarding process. The concept behind employee onboarding is best defined as a systematic and comprehensive approach to orienting a new employee to help them get "on board." There are two high-level goals of the onboarding process:

- To make new employees feel welcome and comfortable in their new surroundings.
- To minimize the time before new employees are productive members of their new workgroup.

These same concepts apply to getting new customers acquainted with a company's sales, service, support processes, and anything else that will represent a touch point between the customer and the company.

One effective way to accomplish this is to understand the attitudinal and behavioral drivers that brought the customer to the company in the first place and what the new customer's needs and expectations are with respect to critical touch points. A highly effective way to accomplish this is some form of a New Customer Welcome Survey to provide quantitative importance and performance information at the individual and aggregated customer levels. This will identify both potential problem and opportunity areas to improve the total customer experience.

A new customer welcome survey can provide a wealth of information, offering insight into a number of areas that are vital to the continued success of a company. New customer welcome surveys can reveal what is required to gain the loyalty of new customers and identify and resolve issues leading to dissatisfaction. Studies show that 70% of dissatisfied customers are likely to return if their issues are addressed and resolved in a timely manner.

New customer welcome surveys also increase positive, word-of-mouth marketing. Conversely, if a new customer has a poor first experience, they are unlikely to return. Disgruntled customers typically share their negative experience with nine or ten colleagues or friends. This too, is word-of-mouth advertising ☐ it undermines all the hard work that went into the sale ☐ and it can have a detrimental effect on both revenue and profitability.

Now follow the money

Keeping customers over time and having them purchase particular products is important to profitability and return on customer acquisition costs. Once the customer is in the system, it is important to use appropriate analytics to determine the components of customer lifetime value, the profitability of each customer, and the likelihood of attrition.

With this information an organization can develop a targeted retention strategy, cross-selling and/or up-selling programs, and leverage the desired communication channels in order to improve the lifetime value of customers.

Optimize the entire customer lifecycle

Acquiring the right customers is just the first step in building and maintaining lasting customer retention and loyalty and improved business results. The full customer lifecycle consists of Acquiring, Serving, Growing, and Retaining profitable customers. Future white papers will discuss each of these critical phases of the customer lifecycle and how to get the best business outcomes.

References:

How Sales Complexity Impacts your Startup's Viability
http://www.forentrepreneurs.com/sales-complexity/

Sales Lead Prioritization
http://www.theidm.com/download/pdf/Lead_prioritisation.pdf

The Customer Lifecycle, LLC process is a powerful business tool

We conduct insightful research and analysis around the entire customer lifecycle and then work with you to deploy and integrate the learnings into the day-to-day management and operations of your organization. Our work is driven by what produces the best financial performance for your company.

One of the major benefits of the customer lifecycle approach is that it offers not only a comprehensive, interactive and holistic solution to organizational planning and conducting research and its subsequent implementation strategies, but also focuses on individual areas of the customer lifecycle to provide the integration and leverage that create opportunities for innovation and differentiation.

For more information on how Customer Lifecycle, LLC can work with you to improve your marketplace performance, please contact one of our principals or visit our website at www.customerlifecycle.us where case studies highlighting the benefits of our approach can be found.