

INTRODUCTION TO
GENERATION 3
CUSTOMER SUCCESS



CUSTOMER SUCCESS

AND OTHER CHALLENGES

Customer Success

There's been an explosion of interest in customer success, and its corollary, delivering business outcomes. Here's what industry leaders are saying -

"Nothing is more important to Salesforce than customer success..."

Marc Benioff,
Salesforce CEO ⁽¹⁾

"Our sense of purpose lies in our customers' success."

Satya Nadella,
Microsoft CEO ⁽²⁾

"But what we're going to do is put a little more focus on customer success, so that we're capturing and documenting and codifying the business value that gets created, which helps a CIO or an IT department within their organization demonstrate the value they are driving inside their company and frankly helps us on upsells, on price realization and on landing new accounts."

John Donahoe,
ServiceNow CEO ⁽³⁾

"If you stay very focused on customers and customer success, people pay attention to that—and in turn, they also want that same type of success."

Aneel Bhusri,
Workday CEO ⁽⁴⁾

"Today, when companies are buying a service [context is Software as a Service], they're buying an outcome."

Mark Hurd,
Oracle CEO ⁽⁵⁾

"Every business in the world needs to be thinking about customer success"

Clara Shih,
Founder and CEO, Hearsay Social ⁽⁶⁾

"One of the foundations of our success at Salesforce was customer success"

Jim Steele,
President and Chief Customer Officer, Insidesales and former President and Chief Customer Officer, Salesforce ⁽⁷⁾

"The ability to succeed in this new economy will depend on how well you sell and deliver measurable business outcomes to your customers."

Jeb Dasteel,
Senior Vice President and Chief Customer Officer, Oracle; et al ⁽⁸⁾

"...especially in the world of the Cloud, customer success is, it is the do or die."

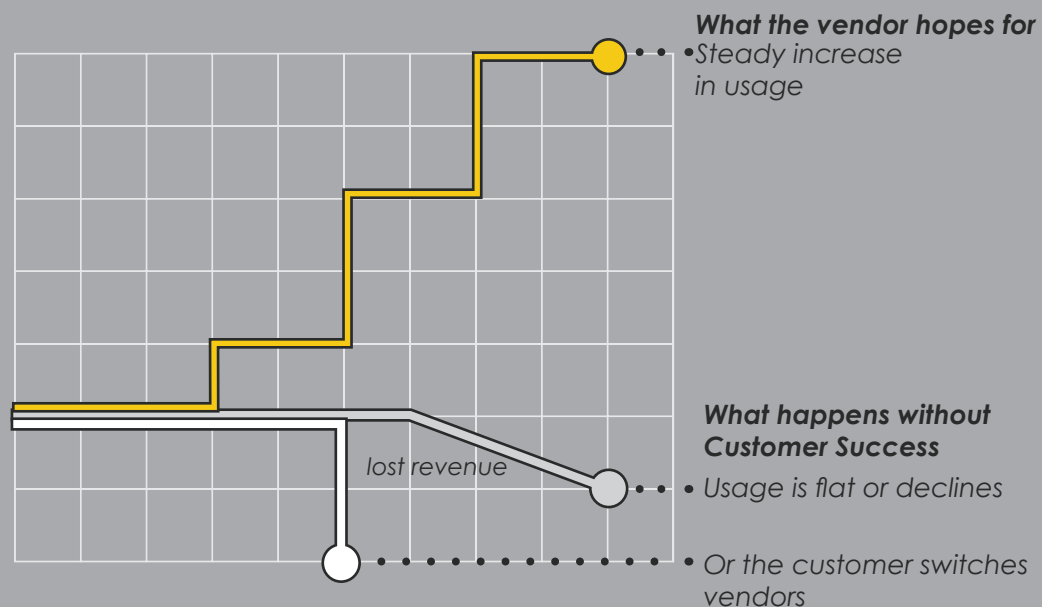
Steve Lucas,
CEO Marketo ⁽⁹⁾

Customer Success Sweeps the IT Industry

The quotes from these industry leaders leave no doubt that customer success has emerged as a central focus in the IT Industry. And it's all about revenue.

Three Challenges for Vendors

Things have changed for IT vendors. Now every vendor has a Cloud strategy. And Cloud changes the financial imperative for customer success. If the customer doesn't enjoy success, the vendor's revenue doesn't grow as they'd like. And it may even decline.



In the world of Cloud, power has shifted to the customer. In this environment, vendors face three challenges –

- 1** How to protect and grow revenue, particularly recurring revenue. How do vendors minimise churn? How do they identify and drive revenue from upsell and cross-sell opportunities?
- 2** How to differentiate. In the competitive world of IT, how does a vendor look different and better than the competition?
- 3** How to find new sources of growth that make sense for the vendor and the customers.

Tackling These Challenges

It starts with focusing on the outcomes the customer considers to be success – the bigger outcome they want to achieve. We call this a Success Outcome (more later). Helping ensure the customer achieves their success outcome reduces churn and creates new opportunities for upsell and cross-sell.

And because vendors can choose to define the bigger outcome they serve in different ways, they can differentiate from other vendors. They can look different and better. And this helps win more deals, particularly new business deals.

Finally, the focus on a bigger outcome the customer considers to be success provides a new lens through which to generate growth ideas. And to choose the ones to execute.

Is a Customer Success Program Worth it?

A customer success program drives three sources of revenue increase -

- reduced churn – reducing the loss of revenue from cancelation or reduction of current contracts
- increased upsell and cross-sell - selling more users for the current products and selling additional products to existing customers
- improved new business win rates – using the differentiation provided by a Generation 3 Customer Success program to increase the percentage of new business (ie businesses with whom the vendor has no prior relationship) deals won.

With recurring revenue, there's a compounding effect. Let's look at a three-year period. If you reduce churn by 1% in year 1, revenue isn't 3% higher over the three years – it's 5.7% higher. Here's an example using contracts worth \$100m at the start of a three-year period and reducing churn from 4% to 3%.

The Cumulative Cost of Churn <i>Beginning Value of Contracts - \$100m per annum</i>		
At End of Year	Value of these Contracts After 4% Churn	Value of these Contracts After 3% Churn
1	\$96m	\$97m
2	\$92.2m	\$94.1m
3	\$88.5m	\$91.3m
Revenue over 3 years from the original contracts worth \$100m	\$276.7m	\$282.4m
Additional Revenue over 3 years		\$5.7m

Increasing upsell or cross-sell has the same compounding effect. As does improving new business win rates. It's all cumulative.

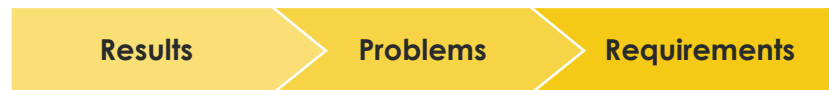
The simple message is there's substantial incremental revenue available from implementing a customer success program.

What Does Generation 3 Mean?

Companies go through three logical steps (*the logic chain*) before they invest in IT. First, the company decides their results aren't good enough. They resolve to act.

Second, they identify the problems or roadblocks causing the inadequate results.

Finally, they come up with ideas for how to fix the problems. These ideas will become a set of requirements.



With this done, the companies are ready to talk with vendors.

Generation 1 vendors, dating all the way back to the 70's, responded to the requirements. They showed how their features and functions met the requirements. And they hoped to win by having a superior set of features and functions.

Generation 2 vendors emerged in the late 80's. They focused one step back up the logic chain – on customer problems. They no longer focused only on the customer's stated requirements. They worked to understand the customer's problems and then develop a solution for those problems.

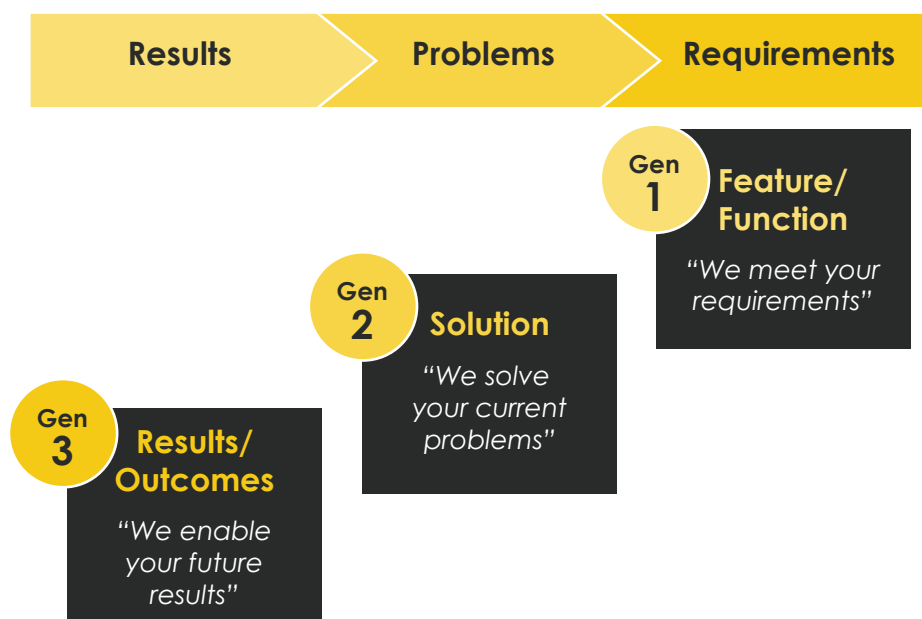
We saw the rise of solution-selling. Lots of different methodologies emerged. But they all share one focus – understand the customers problems and provide a solution. Solution-selling has served the industry well for a quarter of a century. So, why change?

Because business is now changing too fast to focus on current problems. Technology has been the major driver of this acceleration. But other innovations such as the gig

economy, share economy and the subscription economy have changed businesses. If the customers and IT vendors focus on solving today's problems, they will constantly be in catch-up mode. By the time they diagnose the current problems, come up with solutions and then implement those solutions, a whole new set of problems will have emerged. The customers will never get ahead.

Generation 3 vendors move the final step back up the logic chain. They focus on the future results or outcomes the customer wants to achieve. Their offering enables achievement of that future outcome.

By focusing on future results, customers have a chance to get ahead. Instead of reacting to current business problems, they focus on what's ahead of them. And they want vendors who can help them get there. Perhaps even lead them there.



Marc Benioff, CEO of Salesforce, has said "You must always be able to predict what's next and then have the flexibility to evolve."⁽¹⁰⁾

Both customers and vendors benefit from this mantra, from this focus on future outcomes.

What Outcome to Focus on?

Enabling customers to achieve an outcome is central to delivering customer success. But the word outcome has been used in so many ways that its meaning has become fuzzy. Let's start by clarifying the idea of an outcome in the context of Generation 3 customer success.

Whenever someone buys a product or service, they have an outcome to achieve. Think about anything people spend money on, and there'll be an outcome that it addresses. They buy a hamburger to be full; they buy a movie ticket to be entertained; they buy a sports car to be noticed.



TWO TYPES OF OUTCOME- PRODUCT OUTCOMES AND SUCCESS OUTCOMES

In business, there are two types of outcomes.

Product Outcomes are the direct benefit of using a product or service.

In most cases, however, the customer has a bigger outcome they want to achieve. The product outcome is a means to an end, not an end in itself. We call the bigger outcome the customer wants to achieve the success outcome. It's what the customer considers success.

The relationship between product outcomes and success outcomes looks like this -



To illustrate. Imagine someone goes to a hardware store to buy a drill bit. The hardware store manager knows the person doesn't want to own a drill bit for its own sake. The person wants to drill a hole in the wall. The direct benefit of owning a drill bit is the hole in the wall. The hole is the product outcome.

But the customer doesn't want a hole in the wall for its own sake either. They want to hang a photo or picture – perhaps a family photo. The family photo hanging on the lounge room wall is the success outcome.

What the customer bought



Drill bit

Product outcome



Success Outcome



Another example is a restaurant. The restaurant offers good food and service. People will go to the restaurant to enjoy the food and service. Enjoyable food is the product outcome – the direct benefit of the restaurant's product and service.

However, people don't go to the restaurant for the food alone. They go for an enjoyable evening with family or friends, or perhaps for a business meeting. The success outcome is a good evening out, or a successful business meal. Enjoyable food is part of the equation, but not enough by itself.

Product outcome



Success Outcome



Characteristics of a Success Outcome

A success outcome has two elements. First, it creates a new to-be state. When people buy something, they have a to-be state they want to achieve. When they buy a movie ticket, the state they hope for is 'entertained'. When they buy a drill bit the to-be state is family photo hanging on the wall; when they go to a restaurant the to-be state is a great night out.

Second, the success outcome has an emotional connection for the customer. The to-be state is

something they want. The person hanging the family photo wants to feel the satisfaction of hanging the photo. The restaurant goers want the emotional connection with family or friends or the strong business connection.

A success outcome, when achieved, delivers both elements – a new to-be state and emotional satisfaction.

Customers Don't Care About a Vendor's Products or Services

In IT, a product or service is a means to an end for the customer. They don't buy software because they want to own a software package. Or begin a major IT development to have a new set of code. Or contract for consulting services to have a report. They pay the money for the outcome these products or services can help them achieve.

Generation 3 vendors understand the benefits from their products and services are not an end in themselves.

Why Generation 3 Vendors Focus on Success Outcomes

Revenue

Growing recurring, loyal revenue is the primary focus. Reducing churn, increasing upsell and cross-sell and improving new customer win-rates.

Risk Reduction

In IT projects, the vendor provides products or services. But other elements affect success. For example, the customer also carries out activities and there may be other vendors involved. Sometimes these other parties make mistakes which can cause the project to fail. And failed projects cost vendors future revenue, even if it's not their fault.

Generation 3 vendors have learned they can't leave these other elements to chance. There's too much risk to their own revenue. And so they help the customer with as much as possible of what's needed to achieve the success outcome.

Stickiness - The Safest Place to be is on a Winning Team

Let's use a sports analogy to make a related point.

Think of a sports team that goes through a slump. The manager or selectors will change the team. They'll drop players. They have to take action when the team isn't successful.

Now consider the reverse. Think about teams on a winning streak. The manager or selectors don't change the team. They don't want to risk changing the winning formula. Even if one or two team members aren't playing well, they're unlikely to be dropped.

The same principle applies to IT vendors. If the customer achieves their success outcome, they won't drop any vendors. And here's the interesting corollary. Even if the vendor's product outcome isn't great, they still won't be dropped.

Achievement of the success outcome has a far greater impact on future revenue than the product outcome. Generation 3 vendors have learned to make the success outcome their top priority.

Winning Deals

The customer has an outcome they want to achieve. They know they need IT products and services as part of achieving that outcome. Some vendors will talk about their great products and most can show an ROI on the investment required. They show the direct benefits of using their products and services – the product outcome.

Generation 3 vendors know customers don't care about the vendor's products and services. Customers care about the success outcome they want to achieve. So, that's what Generation 3 vendors talk about. How to achieve the success outcome. And they show how they can enable that outcome better than any other vendor. And that's why they win. They're selling what the customer really cares about – enabling the success outcome.

Getting Projects Approved

One of the biggest issues faced by vendors is the 'do nothing' decision. Generation 3 vendors have learned the best way to get a project approved is to show the value from achieving or improving a success outcome. A success outcome is more likely to garner interest at the top levels in a customer. And it's more likely to show a return the top executives will invest in.

Generation 3 vendors identify projects that enable or improve success outcomes the customer cares about. The ROI is about the improvement in that success outcome. The product outcome is a footnote. These projects have a far greater chance of being approved. Generation 3 vendors sell the value of a success outcome, not the value of a product outcome.

The Missing Link

Generation 2 vendors have long understood they can't sell based on features. Their salespeople are taught to show the benefits. If they leave it up to the customer to make the link between features and benefits, the customer might not get it right. So, the salespeople clearly articulate the benefits. And they sell benefits, not features.

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The better Generation 2 vendors go past benefits and talk about value. They show the returns from their products and services. They often have Return on Investment models to quantify expected returns. The models are sophisticated and look impressive.

But the customer doesn't care about the vendor's products and services. They care about the broader outcome they want to achieve – the success outcome. And Generation 2 vendors don't make the link between their product value (product outcome) and what the customer really wants – the success outcome. They leave it to the customer to make that link. Which may not happen.

Selling product outcomes without showing the link to the success outcome is the same as selling features without showing the link to the benefits.

What Vendors Can Do to Improve the Success Outcome

We've discussed why Generation 3 vendors focus on success outcomes. But what can they do to improve the achievement of the success outcome? Let's go back to the drill bit example again. What can the hardware store manager do about the customer's success outcome of getting the family portrait hanging on the wall? Perhaps the store could offer tip sheets or guides. They could place tip sheets on common jobs such as hanging a picture next to the drill bit display. Or they could have a website with links to YouTube videos on handyman tasks. Or they could offer in-store advice or courses.

What about the restaurant? Perhaps they're a family restaurant and the success outcome for customers is a fun family night out. Instead of battling to get kids off their phones, the restaurant could offer some app's that engage the whole family. Perhaps a trivia quiz. Families could compete between tables with a big ice cream dessert for the winning kids. In each case, the vendor understands the success outcome the customer wants, works out everything the customer needs to achieve it, and then does more to enable that success outcome.

Most Vendors are Already on the Path to Generation 3

Most vendors reading this white paper will think ‘We’re already doing some of that.’ And they’ll be right. They’ve already worked out that just focusing on their product or service doesn’t work. But when they think about it, most realise they don’t consistently apply this thinking across their business. The business often looks something like the following –

		Gen 1	Gen 2	Gen 3	LIFECYCLE STEPS							
					STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8
ROLE	New Business Sales											
	Existing Customer Sales											
	Pre-Sales Consultant											
	Services											
	Marketing											
	Support											

The Generation 3 program aligns all elements of customer engagement around a single, simple idea – delivering the success outcome. The objective is to move the business to look more like this –

		Gen 1	Gen 2	Gen 3	LIFECYCLE STEPS							
					STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8
ROLE	New Business Sales											
	Existing Customer Sales											
	Pre-Sales Consultant											
	Services											
	Marketing											
	Support											

SUMMARY

The IT industry's leaders rate customer success as a key focus. Vendors everywhere are rushing to implement customer success programs. The key reason is to protect and grow revenue, particularly recurring revenue.

With recurring revenue, there's a compounding effect. For example, reducing churn by 1% doesn't produce an additional 3% over 3 years, it produces almost double that – 5.7%.

In addition to protecting and growing revenue, vendors also face the challenge of differentiation and of developing growth ideas that make sense for the vendor and customers.

Generation 3 vendors have learned to focus on outcomes the customers consider to be success. We call these success outcomes. By enabling success outcomes, vendors reduce churn and increase the opportunities for cross-sell and upsell.

Vendors can choose a unique success outcome. They can create a unique combination of products and services. And they can differentiate by focusing on their unique success outcome. Success outcomes also provide a new lens through which to imagine and then choose new growth ideas.

Generation 3 vendors focus on a future result or to-be state for the customers. They've moved past a focus on current problems. They understand the increasing pace of business change means customers who focus on current problems will always be in catch-up mode. They understand the direct benefit of their products and services (A product outcome) isn't sufficient. They need to understand the bigger outcome the customer wants to achieve – the success outcome. They know the success outcome for a drill bit is a picture hanging on a wall, not a hole in the wall. And that a good night out is the success outcome of a restaurant, not just enjoyable food.

Generation 3 vendors choose to focus on success outcomes to

- increase revenue by reducing churn, increasing cross-sell and upsell opportunities and increasing new business win rates
- reduce the risk of projects failing for reasons unrelated to the vendor's products or services
- create greater stickiness with the customer
- increase differentiation – to look different and better

- increase the chance of projects obtaining internal approval in the customer
- ensure there's a clear link between their products and services and what the customer considers success to be

Finally, most vendors are already on the path to Generation 3. They've moved past Generation 2 in some areas of the business. But perhaps not all areas. The Generation 3 approach unifies and aligns the whole business around a simple theme – enabling success outcomes.

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