



WHITEPAPER

Who are my Profitable Customers and how Can I Find More Just Like Them?

| MAXIMIZER CRM



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Who are my profitable customers and how can I find more just like them?

This report will review the importance of Customer Lifetime Value and understanding the impact of each of your customers on your bottom line.

Introduction

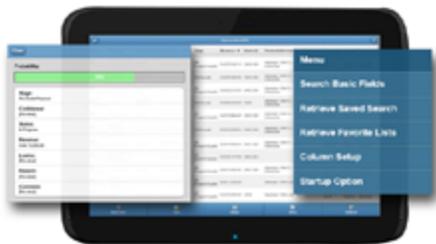
The business world is full of CEOs, company owners, directors and managers who profess to 'know' definitively who their best customers are without resorting to number crunching and Big Data-related analysis. But do these company leaders, going by just their experience and instincts, really know which customers are making them money?

Many may have some grasp on who their best customers are, but all too often, the majority don't. A back-of-the-envelope portrait in many instances will be incorrect. Failing to analyze which customer segments are most profitable opens any business to risk, so having the numbers to back up decisions is essential. In short, an educated guess is no longer good enough in today's uber-competitive business environment, where accountability and profitability are at the forefront, whether you are analyzing your customer base, or gauging the potential of prospective buyers.

Understanding who your most profitable customers are, is critical for those overseeing marketing and sales and wanting to

generate new opportunities that drive a higher Return on Investment (ROI). Clearly, not all customers are created equal or loyal; some are more demanding, eating into your profitability. It is vital to use data to determine the characteristics of different customers and assign resources accordingly. Indeed, companies now have a wealth of data which can be analyzed using business tools such as a Customer Relationship Management (CRM) solution.

Any business not using its customer data or analyzing the information to identify profitable clients is, in effect, flying blind. A CRM solution tells you who is worth retaining. Customer retention should not be underestimated and is vital for profitability. A number of studies show that it costs five to seven times more to acquire a new customer than it does to generate further business from an existing customer. In fact, research from Marketing Metrics indicates that a business has a 60-70% probability of selling to an existing customer versus 5-20% to a new prospect¹. A company's success in this area is driven by its use of data and understanding the level of each individual customer's profitability. To increase profitability and grow margins, a company has to ensure its retention activities are focused on profitable clients. This is only possible if you know who these clients are!



¹ Help Scout, 75 Customer Service Facts, Quotes and Statistics

By using the data to first identify your most profitable customers, you can develop profiles based on traits they share, and then focus on your activities on these profitable individuals, while shifting resources away from those the data shows are not contributing to your bottom line. You can also then use the same information to find and target prospects just like them.

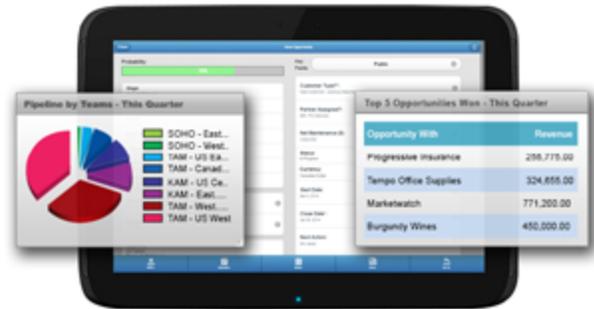
This report will review the importance of Customer Lifetime Value (CLV) in understanding what makes a customer profitable; how to identify which customers yield the best margins; how to build buyer personas that help the business target new customers; and finally, the importance of finding the right CRM solution to support these activities and increase ROI.

Do you know who your most profitable customers are?

Knowing who your most and least profitable customers are will have a huge impact on your bottom line. Not all customers offer the same value, so it is important that you treat them accordingly. Reynolds Consulting believes that 40% of business' customers are unprofitable². Knowing which customers fall into this category can keep your company on a sound financial footing.

It is vital not to focus only on revenues when prioritizing which customers to invest in. Spend tells you only half the story about their value. For example, a customer may spend a considerable amount with your company; but if they have unrealistic expectations about the ongoing post-sales and service attention they are due, they can quickly drain your resources, eating away at profits or actually creating a loss. High maintenance accounts will generally not match your ideal customer

profile unless they're on a service agreement that adequately compensates you for the time decided to supporting them.



On the other hand, a more modest spender may require little investment to win over, and so provide a higher margin. To understand what an individual customer is really worth to your organization, you need to calculate their CLV.

Avoid focusing on transactional value and consider instead the acquisition cost, along with the investment required to maintain the ongoing relationship. This calculation should include further marketing communications, post-sales follow-up, servicing and time invested in managing the customer relationship throughout its lifetime – all play a significant part in the post-conversion tally of CLV. In most businesses, 20% of customers account for 80% of a company's margins³, so there is huge value in knowing who your 20% are!

² ReynoldsConsulting, Breakthrough Masters, July 2013

³ Business plans kits for dummies, How to describe your business plan's ideal customer, December 2013

Without tracking the lifetime value of your customers, it is impossible to optimize your profits. To paraphrase the US department store magnate, who once lamented that he knew half his marketing budget was wasted but didn't know which half: if you don't ascertain the CLV for all your customers, you don't know which are burning up your investment in marketing, sales and support.

Building ideal buyer personas

Once you have started tracking CLV, you need to segment your customers and create buyer 'personas' for each group, noting shared attributes. Personas are fictional representations of your ideal customers, but based on real data. They highlight customer demographics, buying behaviour, preferences, personal details and individual circumstances. These personas help you to understand the needs, motivations, concerns and spending patterns of customers in various segments.

Where customer personas differ from back-of-the-envelope portraits based on gut instinct, is that they utilize CLV and other hard data to yield actionable insight, providing the basis for fact-based segmentations. According HubSpot, inbound marketing specialists, companies which use marketing personas have the insight needed to make their websites 2.5 times more effective and easier to use by both their existing customers and prospects⁴.

While CLV is critical to defining personas, it is the other information in your customer database that fills in the gaps in fleshing out detailed descriptions of your most valuable customers. This is what makes your buyer personas functional. You start the process by identifying the key segments and creating a detailed description of each, including name, job title, industry, company information along with demographic information and other characteristics. This is only possible if you have the customer information infrastructure in place to capture, access and analyze the necessary data: namely, a properly configured CRM solution.

SEVEN STEPS TO BETTER CUSTOMER RETENTION

The following seven steps will enable you to leverage your data to secure higher retention rates. Your company can tap into a combination of structured and unstructured data (queries, notes, emails, etc.) as part of the process.

1. Complete a customer lifetime analysis on all customers
2. Segment your data to create a retention plan
3. Ensure you are sending the right communications to relevant customers
4. Streamline your processes by implementing an effective CRM software that automatically tracks and records customer data
5. Proactively provide customer service via social media platforms
6. Continuously exceed customer expectations in order to instil loyalty
7. Value and take action on your customers' feedback.

⁴ Hubspot, The Science of Building Better Buyer Personas, December 2014

You can then create the composite personality of each persona, which aids in developing marketing and sales initiatives. Using research and analytics based on your current customer base enables you to construct a hypothetical customer profile which depicts behaviour, lifestyle, demographic and product/service use⁵. This can then be matched against prospect data. A detailed buyer persona allows you to more effectively focus your time, concentrate your spending, target your efforts and even steer product development. As a result, you will be able to attract website visitors, leads and customers that are more likely to provide higher margins.

Your buyer personas also help you to create content geared specifically towards your ideal customers, ultimately generating better quality leads. Your buyer personas can also be used to guide targeting of desirable customers based on inbound marketing data. Inbound activity provides detailed information on needs, interests and other common qualities that prospects share with existing customer segments. Personas can also be used to target social media groups (e.g. LinkedIn, Facebook and Twitter) whose demographics, areas of interest and member traits appear to overlap with those of your ideal customer personas. This activity can be fine-tuned as you evaluate which content-driven marketing is working best in guiding promising prospects through the customer journey.

Using CLV to generate existing customer sales

Utilizing customer information and personas to build stronger client relationships seems like a fairly logical step for most companies in an era when data is driving more and more business activity. However, a surprising proportion of companies fail to take advantage of their capability to leverage data and technology to better target their best customers. According to an Econsultancy report based on a survey of more than 1,000 digital marketers and ecommerce professionals, only 40% of these respondents say they understand customer journeys and adapt the channel mix accordingly⁶.

CLV CASE STUDY: NETFLIX

Netflix, the online video streaming platform, is a great example of a company that is not afraid to spend money on marketing and customer acquisition, and even lose money initially. This is because it has done CLV projections and knows that over the long term it will make a healthy profit as long as it restricts expenditure on certain customers while working to extend its relationship with others.

Netflix has also extended CLV by using a full range of data to track customers' viewing habits and determine how to better engage each. In this way, the company has reduced churn to 4%. The fact that Netflix has utilized CLV and other customer data puts the company in a position to make the investments necessary to grow the business because it knows exactly what the ultimate ROI will be⁷.

⁵ Hubspot, The Science of Building Better Buyer Personas, December 2014

⁶ Econsultancy, Cross Channel Marketing, August 2014

⁷ Kissmetrics, How Netflix measures you to Maximize their revenue & how it can help your business, 2012

Many companies are failing to utilize data in any form to build bonds with existing customers. Moreover, a significant proportion of businesses are failing to utilize CRM and other technology to track CLV and understand the common traits of key clients. The Econsultancy research showed that 22% of the digital professionals surveyed did not do any relationship marketing, with 13% citing lack of technology being the reason for this⁸. The research indicated that this failure to invest in relationships is largely because many companies do not value their existing customers as much as their newly acquired customers. Failing to focus on profitable customers limits your ability to upsell and cross-sell.

Using CLV to guide retention activities towards the most profitable customers can impact margin in two ways. It helps your company retain clients who are contributing higher margins and allows you to spend less replacing them. According to the UK's Chartered Institute of Marketing, it costs between four and 10 times more to acquire a new customer than it costs to retain one⁹. Indeed, the Econsultancy research shows that 70% of the respondents confirm that it is cheaper to retain a customer than to acquire a new one, while 49% say that, pound for pound, they achieve better ROI by investing in relationship marketing instead of acquisition marketing¹⁰.

Understanding CLV is central to relationship marketing and building the personas necessary to support it. Without a doubt, it is difficult to know what marketing channels to use, how to set pricing or what messaging to use until you have a clear idea of who your most profitable customers are and what characteristics they share. For this, you need to utilize customer information via an accessible, complete view of

each client. To leverage all this data, you also need a platform to store it and make it readily accessible. A CRM solution makes customer information easy to retrieve with just a few clicks.



With the right data at your fingertips, calculating CLV is a fairly straightforward procedure. CLV is the projected profit that you expect to make from a customer during the full period of the company's relationship with that client, taking into account not only the anticipated revenue but the full cost to maintain the customer's loyalty. Calculating CLV involves looking at the projected revenue minus the cost of an individual customer over the lifetime of the relationship (it can be taken in total or broken down by marketing and sales costs). It is important to note that CLV is not fixed in stone and how it is calculated varies from company to company. You can use this data to refine your engagement strategies and improve initiatives that extend the lifetime value of your existing customers.

⁸ My Customer, The Gartner View of delivering benefits and ROI from CRM, 2002

⁹ The Chartered Institute of Marketing, Cost of customer acquisition vs Customer Retention, 2010

¹⁰ Econsultancy, Cross Channel Marketing, August 2014

Leveraging data to profit from upsell and cross-sell opportunities and new business

A better understanding of customers, especially a detailed picture of who the best clients are, will help your company build relationships that are ripe for expansion. Retention of your company's most profitable customers is a desirable goal, but utilizing customer data enables you to do much more than that. You can leverage your data to generate additional, highly profitable business from your best customers. This goes beyond basic retention, which is simply getting customers to continue buying what they have already been purchasing; it involves using your data to find entirely new areas in which to sell to these clients.

Winning favour with the most profitable and loyal customers, even encouraging them to become brand evangelists for your business, is hugely beneficial. Once you have acquired a profitable customer and cultivated his or her loyalty, it is far more cost effective to upsell and crosssell to that customer than to acquire a new one. After all, existing clients are already happy dealing with you, and you've established a certain level of trust, if you have used their data effectively to maintain relationships. Moreover, the better the customer experience you provide, the greater the likelihood of capitalizing on opportunities to sell additional services, related goods, new offerings and higher margin products.

These upselling and cross-selling opportunities can be captured via a CRM solution and flagged for followup by Marketing and, when the time is right, Sales. It could be a customer who previously purchased a certain product or service suddenly downloading content on another, even more profitable offering.

You need to ensure that your marketing automation software is set up to feed into the CRM platform, so such information is captured and visible to sales and key account managers. That way, the full intelligence held on that customer can be used to re-engage when the time is right.

CRM is critical to expanding your relationship with a customer, particularly one that has proven to be profitable. You need to know the full history of the relationship: what has worked, what has not, their specific situation, inclinations, any past difficulties and other pertinent details. Comparing them with others in the same customer segment can also help guide your approach, and indicate a successful path to upselling or cross-selling to similar clients.



Having the right tool to get the job done: CRM

Once your customer data reaches a critical mass, then CRM is crucial to managing that information. Otherwise, you will struggle to effectively organize and share the data necessary to further develop profitable customer and prospect relationships, across all relevant departments. Your CRM solution needs to integrate all the data you have acquired from different sources by individual customer and segment, enabling you to manage the use of that information from Marketing to Sales to post-purchase follow-up to servicing.

A CRM solution doesn't just show who you should be targeting according to the CLV data; it allows your company to track all interactions with customers and prospects. CRM uses your acquired data to trace where you are in the lead nurturing and purchasing process, signalling what the next stage should be in engaging a prospect or customer. This makes it a critical tool for a business aiming to employ data to boost profitability.

CRM systems need to be straightforward to use. However, successful implementation is not always a given: 45% of enterprises attempting to employ CRM technology fail to achieve measurable ROI by failing to address customer analytics, behaviours and processes¹¹. The key lesson here is that you need to find a CRM solution that matches your needs, and will be used by employees who understand its value and are trained to use it. The payoff is a substantial ROI and improved competitiveness.

CLV in action

Evidence from case studies demonstrates that tapping into customer data enables a company to understand CLV, focus on profitable customers and impact ROI:

- Chubbies Shorts, an apparel firm, used data to see how geography and different customer attributes impacted CLV. The result was that it got more out of its customers and learned that shifting investment into existing clients instead of new customers was more profitable¹².
- Hootsuite, the social media management website, managed to transition its entire business model by analyzing customer usage patterns. Hootsuite was able to differentiate its customers and saw sign-up rates increase significantly¹³.
- One King's Lane, the home decor company used CRM to segment high value customers and find which product categories, price points and messaging worked best for every customer segment. This resulted in a 4% increase in incremental revenue¹⁴.



¹² RJ Metrics, Casestudies , <https://rjmetrics.com/customers/chubbies-shorts>

¹³ RJ Metrics, Casestudies , <https://rjmetrics.com/customers/hootsuite>

¹⁴ Custora, Custora powers One King's Lane's segmentation and predictive CLV, 2012

Conclusion

Many companies fail to understand that their most important asset isn't their building or their inventory or even their brand but is, in fact, their customer base. CLV enables businesses to put an exact value on that asset. What's more, it gives companies the structure to evaluate their customer database and determine whether their business is geared to increase, or maintain, a profit. They can then take action based on what they have learned. The result, inevitably, is increased profitability.



It is vital that your company understands the value attributed to all your future client relationships to ensure you maximize each customer to meet their full profit potential. You can then use this information to make more accurate financial forecasts, identify the customer segments driving the business, define strategic and operational objectives, direct your marketing, manage your sales team, improve client communications, guide customer service, foster loyalty, direct management decisions, ensure strong ROI in all areas and, critically, boost your profits. But to capture and use the data necessary to do all of that efficiently, you must have the technology in place to manage the whole process. Choosing the right CRM solution is critical to taking full advantage of a CLV-based approach to customer engagement and maximizing ROI.

About Maximizer

Maximizer CRM is fueling the growth of businesses around the world.

Our CRM solutions come fully loaded with the core Sales, Marketing and Service functionality companies need to optimize sales productivity, accelerate marketing and improve customer service. With flexible on-premise, our cloud and your cloud deployment options, tailored-to-fit flexibility, state-of-the art security infrastructure, industry-specific editions and anywhere/anytime mobile access, Maximizer is the affordable CRM solution of choice.

From offices in North America, Europe, Middle East, Africa and AsiaPac, and a worldwide network of certified business partners, Maximizer has shipped over one million licenses to more than 120,000 customers worldwide.



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