3 Metrics to Help You Thrive in The Age of The Customer

By Laura Patterson, President

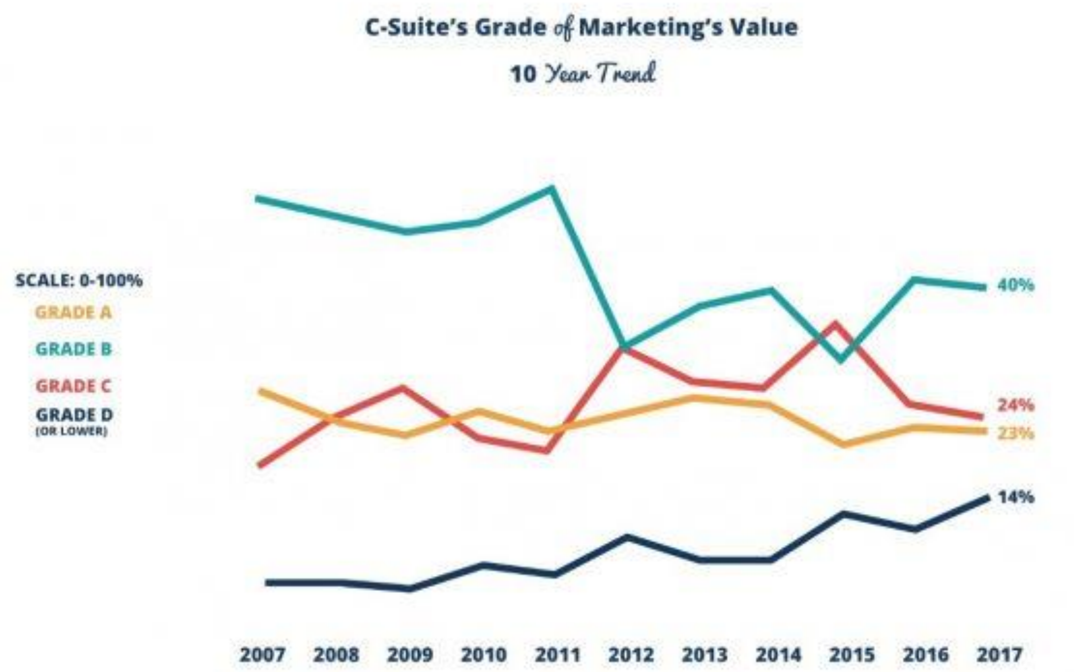
We are well into what Forrester coined as the Age of the Customer, where "empowered customers are shaping business strategy." And Marketing plays a key role, as posited by Andrew Spender, VP of global corporate communications at Gartner, when he said, "Marketers can take the lead in managing change, risk, and opportunity in the era of the empowered customer."

Finding, keeping, and growing the value of customers is Marketing's reason for existence. Some Marketing organizations are able to prove their value, impact and contribution to the business far better than others. In fact, the Marketing Performance Management Benchmark study, now in going on its 17th year has consistently revealed that between 20%-25% of Marketing organization earn high marks from the C-Suite for being to connect the work of Marketing to business results.

Do these Marketing organizations produce better results for the business? The data would suggest they do.

These Best-in-Class Marketing organizations known as Value Creators outpace their counterparts who earn the B grade (the Sales Enablers) and those that earn C and D grade (the Campaign Producers) are nearly every key business customer metric.

Let's explore what some of the best practices used by these organizations.



Source: Cook Up Your Best Marketing Performance, MPM Benchmark Study 2017

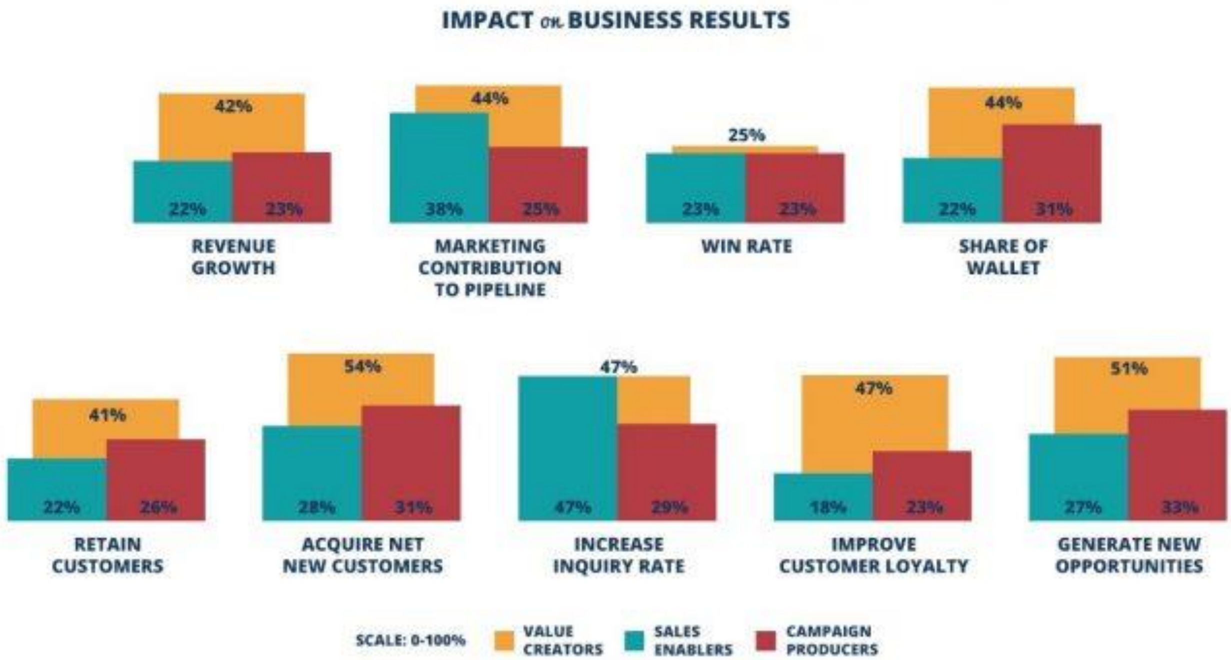
Cultivate These Best Practices to Ensure Customer Centricity

In our work we have found companies that employ these four best practices stand out regarding customer centricity: culture, reversing the value chain, keen focus on relationships and experiences, and fostering purchase readiness.

- **Culture.** Organizations that are committed to customer centricity have a culture that is passionate and sincere about doing business with their customer in a way that creates a positive experience across every point of interaction. They believe that the customer is vital to their success and see the world through their customers' eyes. Marketers inside customer-centric organizations understand what customers want and expect. They leverage and value customer data and have a methodology for capturing customer insights and sharing this data across the organization.
- **Reversing the value chain.** Organizations that are committed to customer centricity reverse the value chain to deliver what customers truly value. Customers' needs, wants, and priorities are the catalysts for developing products and services and selecting channels.
- **Focus on relationship and experience.** Organizations that are committed to customer centricity focus on creating mutually beneficial relationships designed to maximize the customer's product and service experiences. They

have processes, systems, and tools in place to develop and [optimize touch points and channels that create positive customer experiences]().

- **Fostering purchase readiness.** Organizations that are committed to customer centricity analyze, plan, and implement a carefully formulated customer strategy that incorporates programs that create a state of purchase readiness and focus on creating and keeping profitable and loyal customers.



Source: Cook Up Your Best Marketing Performance, MPM Benchmark Study 2017

Implementing these four practices almost always changes the metrics used by the Marketing organization. Although most marketers track something related to pipeline opportunity development (e.g., qualified leads, conversion rates) and something related to customer satisfaction, metrics that demonstrate how Marketing strategies resonate with customers and tie back to the bottom line need to be developed, employed, and incorporated into the [Marketing dashboard]().

This leads to the perennial question we are often asked, “What customer metric should we use?”

The Most Useful Customer Metrics for the Engagement Economy

We wish there was a magic number. There really isn't a one-size-fits-all list for every company all of the time. Also, it's almost impossible to come up with one set of metrics that will be in place forever. However, the best in class group consistently employs three broad customer metrics that have financial implications for every organization. If you want to thrive in the age of the customer, we would recommend you start with these three metrics and use them as a barometer for your Marketing organization.

1. Share of Wallet

Growth comes from acquiring new customers as well as expanding your footprint with an existing customer. This expansion can be a result of a customer buying more of a product they already purchase to address an increase in volume, buying more of product they already use to utilize in a completely new application, buying additional products they are not currently purchasing from you, or some combination of these. This notion of an existing customer buying more falls into what is referred to as "share of wallet."

The wallet of a customer is defined as the total amount that the customer can spend in a specific product category. The share of wallet, then, is how much the customer spends with a particular seller. The simplest way to calculate share of wallet is to measure how much of a customer's total category spending you own vs. what the customer spends in that category, and then compute the resulting ratio.

Using share of wallet as a metric improves your understanding of where added value may exist among your existing portfolio of customers. You may have noticed in the research that the Sales Enablers lag behind in impacting share of wallet. Why? Because this group tends to be overly focused on lead generation and front end of the funnel.

By understanding the total wallet and the share of wallet, you can identify which customers are the most loyal and which customers have the greatest growth potential. Both the ratio and the actual difference are important: The first tells us the share of wallet, the second the potential value.

2. Customer Stickiness

Most research supports the claim that acquiring new customers is more expensive than retaining current customers. Some studies suggest that a 2% increase in customer retention has the same effect on profits as cutting costs by 10% and that a 5% reduction in customer defection rate can increase profits 25%-125%, depending on the industry. There is solid data that suggests that companies with high retention also grow faster.

Therefore, you need to know how "sticky" your customers are. You can determine your stickiness by measuring and monitoring both your customer churn and your customer retention rate. A simple way to calculate churn is by measuring the number of customers who discontinue a service during a specified time period, divided by the average total number of customers over that same period. While it is important to understand the rate at which you are losing customers, you will also want to calculate the revenue lost or churned as a result.

Churn Rate = Customer loss during a specific period/total customers at the start of the period

The customer retention calculation is slightly different. Take the number of customers at the end of specific point in time and subtract any new customers acquired in this same time period. Divide this number by the total number of customers at the start of the time period and multiply by 100.

*Retention Rate = [(Number of customers at the end of a time period) – (Number of customers acquired during the time period)/(total number of customers at the start of the time period)] *100*

The key is knowing how many are defecting and why, as well as how many are staying and why. The reasons customers leave and why they stay are often different. A customer doesn't necessarily leave for the exact opposite of the reason they stay. For example, A customer might be staying because switching may be extremely difficult. They might choose to leave because the technical support is poor. It is important to work both sides of the equations.

3. Customer Lifetime Value

Without customers there is no business. Therefore, customers are a company's most valuable asset. The longer a customer is a customer, the more valuable that customer is and the more value that customer creates both in terms of real revenue and hopefully referrals. Customer Lifetime Value (CLV) is a measure that reflect the value of the customer over the customer's life cycle. CLV represents the value of your organization's relationship with the customer. CLV helps you determine in which existing customers to invest and which types/profiles of customers produce the highest CLV.

There are various approaches for calculating CLV. At its core, CLV is built from the following equation:

CLV = (Frequency of Purchase) X (Duration of Loyalty) X (Gross Profit)

Compared to their colleagues, the Best-in-Class group is significantly better at impacting this metric.

It All Starts with the Right Tools

Implementing these four practices and choosing the right metrics for your organization is not an easy task. It requires a process and the right tools for capturing customer insights. It may necessitate stronger collaboration among Marketing, Product Development, Service, and Sales in order to ensure that the right products are available at the right price in the right channel. In some companies this may lead to organizational changes. If your team is small or is missing certain skills, it may make sense to hire a consulting company to accelerate the change and resulting benefits (increased revenue and decreased costs). Feel free to contact us with any questions.

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