

THE PRODUCT MANAGEMENT AND MARKETING AUTHORITY

PRAGMATIC MARKETER

WINTER 2016



METRICS

Separating Fact From Fantasy



IN JUNIOR HIGH, I DID A SCIENCE PROJECT on how different imagery could affect your overall health. I showed participants a series of pictures and measured their blood pressure before and after. There were three groups: those who saw happy, pleasant images; those who saw violent images; and those who were shown a series of artworks by Salvador Dali.

The result: The blood pressure change of those who saw the Dali images mirrored that of those who saw the violent imagery. I was surprised. How could images from one of my favorite artists have the same effect as images of war and destruction?

The answer was surprisingly simple (or so said my science teacher while grading my report): Most participants were seeing these images, these paintings, for the first time. They were trying to make sense of them, to find meaning in the abstract imagery. And it was causing them stress.

It's the same type of stress and anxiety we face as we try to make sense of the mountain of data we collect today. Which metrics are really important? What are they trying to tell us? Which ones truly demonstrate the health of our campaigns, products and businesses?



That's the concept behind this issue of *Pragmatic Marketer*: how to turn all of these numbers, formulas and abbreviations into meaningful information that we can use to lead our businesses. Helping us do that is an all-star lineup of authors. These individuals have successfully found the meaning behind the metrics at their own companies and have practical advice to help you do the same at yours.

Happy reading,

Rebecca Kalogeris
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PRAGMATIC MARKETER

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METRICS

Separating Fact From Fantasy

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Q&A

Pragmatic Marketing recently held a Pragmatic Product Forum in Philadelphia. This high-energy, interactive panel discussion focused on the challenges companies face in becoming market-driven. The four panelists shared their thoughts about how to overcome these barriers based on their own experiences. Below are excerpts gleaned from the advice they shared.

PRAGMATIC PRODUCT FORUM

DON NORBECK, senior director, solutions and services portfolio at VCE

Having an outside-in approach is key to understanding your customers. You must determine what a customer needs, not just what they want. If you include a customer's perspective in the facts you provide, it will justify your argument and make your product better. After all, someone's opinion may outweigh your opinion, but your facts will always outweigh their opinion.



ELLEN DERRICO, senior director of product marketing for healthcare and life sciences at RES Software

To drive better efficiency and productivity, it's essential to have alignment around the importance of building a market-focused organization, with clear roles and responsibilities that support the business and market. This understanding must start at the top and cascade through the organization. Because if the company leaders and executives are technology- or product- or solutions-focused, the organization will no longer be market-focused or positioned to deliver higher revenues or better products for the market. Speed of the leader = speed of the pack. And, if marketing has siloed roles and responsibilities that don't align with the market, marketing won't be able to efficiently support the business or the market. As a first step, gain both alignment and agreement for being a market-focused organization, and then define what that means, how each person contributes to that mission, and what constitutes success.



FRANK TAIT, senior vice president, product at Frontline Technologies

As humans, we have a communication challenge. We all use the same words and assume we mean the same thing. Then we have disagreements about things because we're using the same words with different meanings.

Use the Pragmatic Marketing Framework to work through and

establish common definitions with your teams. Build buyer personas and user personas to ensure an accurate and consistent understanding of market problems. Then when you go back and test potential solutions, you can be confident that your solution actually solves the problem because everyone accurately understood it.



Someone's opinion may outweigh your opinion, but your facts will always outweigh their opinion.

ROB SHEA, senior director of portfolio management at Elsevier Clinical Solutions

We have about 800 people in our division. All of them are exceedingly smart and they usually have expertise in one or two domains. But we don't want them winging it without an anchor in user insight or market understanding. So, we encourage them to focus on user personas and their problems and also on market segments, the collections of people who have those problems. It adds a layer of rigor and evidence to support our smart employees who have great ideas.



To join the conversation, watch for a Pragmatic Product Forum in your area.
pragmaticmarketing.com/events



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TRAVEL TIPS FOR ROAD WARRIORS

Long-Standing London

History and tradition abound in London, but it's also a surprisingly modern city. The metropolitan area encompasses 32 boroughs and 610 square miles. But the City of London is surprisingly compact, and the old city still includes the outline of the Roman walls erected 2,000 years ago. Pedestrians have ample time to explore the variety of architectural detail that traces the city's long development.



◀ [Coca-Cola London Eye](http://www.londoneye.com) | www.londoneye.com

The world's tallest cantilevered observation wheel is a major feature of London's skyline, providing some of the city's best views from its 32 capsules, which hold up to 25 people each. On a clear day you can see for 25 miles, gaining an unforgettable perspective on more than 55 landmarks in just 30 minutes.

[Tower of London](http://www.hrp.org.uk/tower-of-london) | www.hrp.org.uk/tower-of-london

Established by William the Conqueror, the tower has a long and bloody history: It has served as a fortress, royal residence, home to the Royal Mint and the Crown Jewels, a storehouse for military paraphernalia and weapons, and a notorious prison. Iconic Beefeater tours allow you to steep yourself in the tower's history and stand where famous heads have rolled.

Dog and Duck Pub | www.nicholsonspubs.co.uk/restaurants/london/thedogandducksokolondon

Take a well-deserved break at this beautiful late 19th century pub. The Dog and Duck has a well-preserved interior furnished with tiles, mirrors and polished wood (though it's often so packed that it may be hard to get a good look). The bar features a good selection of ales, and an upstairs restaurant serves standard pub dishes.

London Theater | www.officiallondontheatre.co.uk

If you have time to catch a show, head for the West End. With an estimated 40 theaters, the West End represents some of the highest-quality theater in the world. You'll find everything from blockbuster musicals to small, independent productions.

Westminster Abbey | www.westminster-abbey.org

One of England's most iconic buildings, the current structure dates from the 1240s, although an abbey has stood on the site since the 7th century. Approximately 3,300 people, from kings and queens to artists and writers, are buried or memorialized here. And the site has hosted 38 coronations—beginning in 1066 with William the Conqueror—and 16 royal weddings, including that of Prince William and Kate Middleton in 2011.



▲ **St. James's Park** | www.royalparks.org.uk

In a city of royal parks, this one—bordered by the Palace of Westminster, St. James's Palace and Buckingham Palace—is the most regal. Not only is it London's oldest park, but also the smallest and most ornate. Today, waterfowl—including pelicans, geese, ducks and swans (which belong to the Queen)—breed on and around Duck Island at the east end of the park.

The British Museum | www.britishmuseum.org

This immense museum contains some of the world's most important treasures from antiquity, including the Parthenon Sculptures, the Rosetta Stone and the Sutton Hoo Treasure, which represents a wealth of Anglo-Saxon artifacts. Best of all, admission is free.

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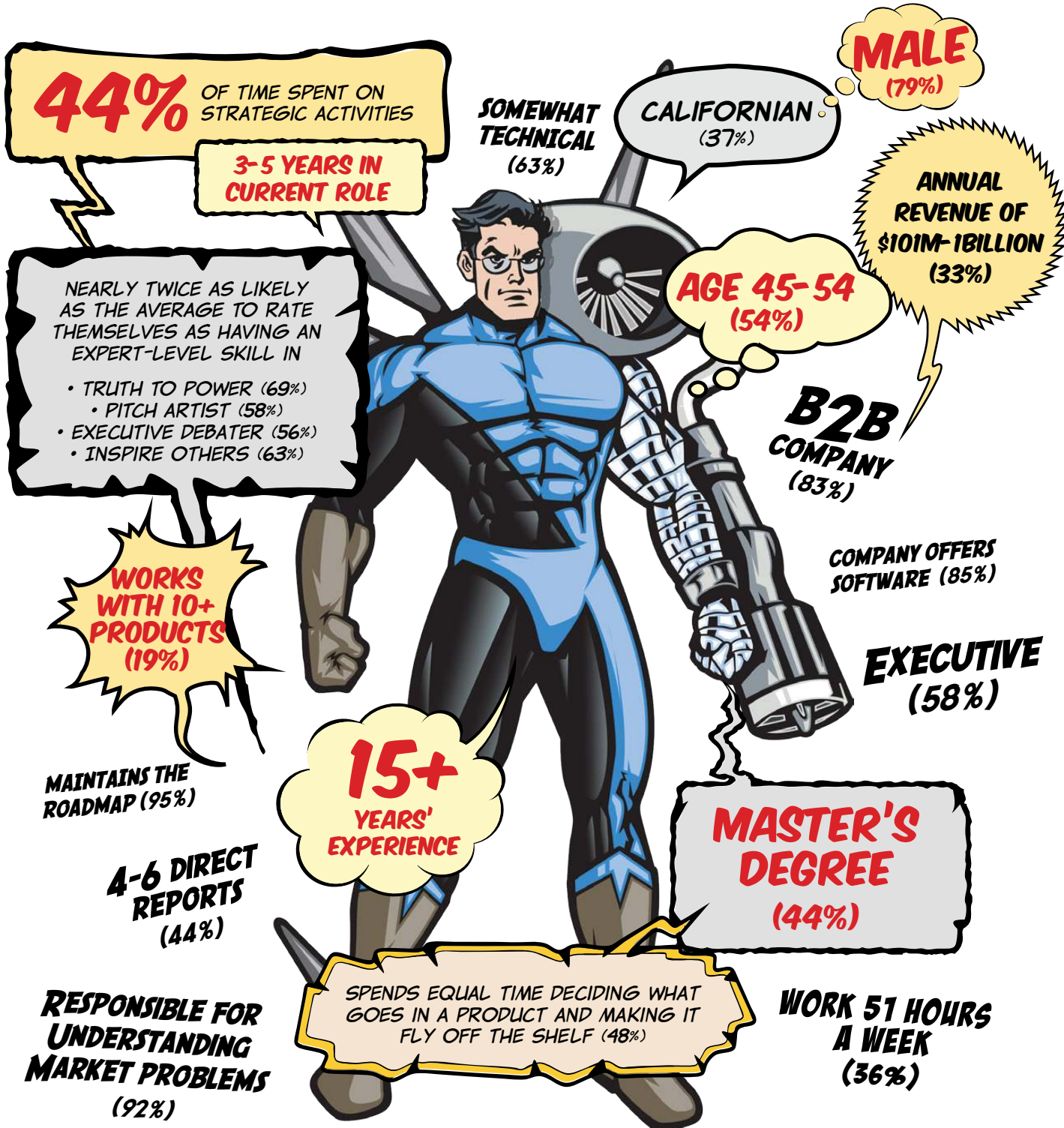
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THE BIONIC EARNER

WHAT TURNS AN AVERAGE EARNER INTO A SUPER EARNER? WE STUDIED ALL RESPONDENTS FROM OUR ANNUAL PRODUCT MANAGEMENT AND MARKETING SURVEY WHO REPORTED SALARIES OF MORE THAN \$200,000 AND IDENTIFIED THESE COMMON TRAITS.



Infographic based on survey results from Pragmatic Marketing's 2016 Annual Product Management and Marketing Survey. See the complete survey at pragmaticmarketing.com/survey.



Ask the Experts:

Are there advantages to creating product add-ons vs. bundling?



Mark Stiving, Instructor
Pragmatic Marketing

THERE ARE ADVANTAGES TO BOTH OPTIONS, depending on the circumstances. Before you make a decision, here are some things to consider.

An add-on is when we create a new product capability and sell it as an option to another product. An advantage of add-ons is that they are often “Will I?” products; they have no direct competition because they are options to our products. This generally implies we can charge more money for add-ons.

Another advantage of add-ons is that they present an opportunity to segment the market. Those who want the new capability will pay more for it, and those who don’t want it won’t pay.

When there are too many options, however, buyers become confused. They don’t buy because they are afraid of making a mistake. The main advantage of bundling is that it simplifies product offerings.

Competition is another reason to bundle. If your competition includes a capability that your product doesn’t, you could be at a competitive disadvantage, particularly with buyers who want the new feature. Buying a complete product is always easier than buying a base product and then choosing the options that are best for you. Also, pay attention to whether the price of your base product plus the option is competitive with the price of your competitor’s bundled product. If it’s not, be sure that your sales team is prepared to explain the associated value.

If you are creating a new capability for a single product, consider a hybrid of the two techniques. Instead of selling the new capability as an add-on, create two product versions: one with the new feature and one without. You now have good and better products (and of course, the intention to create a best version in the future).

Alternately, if you have a product or even a product line in which only a small number of customers will want the new capability but those customers find it very valuable, it probably makes more sense to sell it as an add-on.

Other characteristics also help drive this decision. For example, how different is the new capability? How big is the segment that wants it? What is the distribution of willingness to pay for that option?

There are a lot of nuances to consider before choosing between product add-ons and bundling. It’s not an easy choice to make; consider your options and your goals carefully. **PM**



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5 SMARTETING METRICS TO EMBRACE

This article highlights the key “smarketing” metrics to focus on for the next 12 to 18 months. Smarketing = sales + marketing. Mike Volpe, then vice president of marketing, and I invented the term in 2007 when we worked together at HubSpot, the world’s leading inbound marketing and sales platform. It never made sense to either of us that sales and marketing were often placed in separate silos, instead of working side by side. We thought we could generate a competitive advantage by setting common goals, defining standard vocabulary, sharing information, watching the same dashboards and meeting monthly to measure performance. And we were right!

THE FIRST QUARTER OF THE NEW YEAR IS ALWAYS FUN. Marketers emerge from the budget cycle wasteland to implement their plan for the next 12 months. It’s an important time to have your proverbial ducks in a row. To do that, you need to gather data. You need to gather the facts. You need to line up the right information, in an easy-to-understand presentation, so that you and the senior executive team can see the appropriate marketing correlations and make the right decisions to drive company revenue.

That’s right. The marketing team is responsible for driving company revenue. Although sales gets a lot of the credit, marketing has to do the heavy lifting. And I say this as someone who has spent his life leading sales teams. Modern marketers have all the power—and all the responsibility—to feed the sales beast. You must use the right metrics and then overperform so the company can meet or exceed monthly and quarterly revenue numbers. You must have enough qualified leads to call to generate the right number of opportunities and create corresponding pipeline activity that leads to more business and exceeds the quota.

Metrics are critical data. They are statistics. They are also the foundation of how to manage a company in 2016. Metrics could be the key to getting you more headcount, a bigger budget, more responsibility, authority and a seat at the senior management table. Without the right statistics, you are just an opinion, on equal footing with everyone else. If you have the right metrics, you can drive more powerful solutions in a way that it is hard to ignore.



AND 5 TO IGNORE

BY DAN TYRE

Some marketers have a love-hate relationship with stats or metrics. They love them when they help the cause; they hate them when they are hard to collect or interpret or don't help the decision process.

Metrics should be generated automatically or it's simply not worth it. User-generated metrics, calculated in a Google doc or spreadsheet, can frequently be inaccurate or simply too hard to create or correlate. Plus, the last thing you want is to give up your Sunday to creating charts that no one will look at or understand. There are lots of tools to measure prospect and customer interactions that can lead to greater productivity. Use them.

Most marketers know the broad categories that are essential to measure: website and blog activity, email performance, number and quality of leads, conversion numbers and percentages, social media interaction and most importantly, content that leads to revenue. Most of this information is important for managing the marketing process. But since some is fluff, you've got to be selective. This means ignoring certain data and focusing on the important stuff. Because I believe in efficiency, here are five key metrics for you to focus on and five others to ignore.

IF YOU HAVE THE RIGHT METRICS, YOU CAN DRIVE MORE POWERFUL SOLUTIONS IN A WAY THAT IT IS HARD TO IGNORE.

METRICS TO FOCUS ON

Revenue Metrics

Marketing is all about bottom-line results. Senior managers have no problem investing in marketing that generates a solid ROI. But almost 75 percent of senior executives don't think marketing departments are focused on results to truly drive customer demand. You need to be one of the departments that does focus on it. But how?

First, define your goals for revenue by month, quarter and year, then set budgets. Studies show that unless you set a specific, definable, trackable goal, it is hard to determine if you are on track. I recommend setting your own goal and then comparing it to the budget that senior management gives you. Lots of marketers say to me, "I wish I could set my own goals (guttural laughter followed by maniacal head-shaking)." The reality is you can and you should, so that you can stress-test and ensure that your defined goals are fair, achievable and meet company objectives.

You should set a revenue and customer number (customers, users or transactions you want to acquire) by month and quarter, preferably defined by persona or segment, that adds up to at least 105 percent of your quota or budget. It should

be based on year-over-year comparisons and include seasonal influences. And it should be evaluated by your marketing team, sales management and individual sales teams. A focused marketer will know how they stand against the goal every minute of every business day and will build in the programs to make sure they are tracking ahead of the goal. If you are on top of your revenue goal, other metrics become a tad less important.

If you are ahead of your goals, feel fortunate and bask in the light of overachievement. If you are behind, at least you will know it before everyone else and can work to fix it.



Lead Metrics

An essential part of generating revenue is gaining new customers to sell to, which means generating leads to call or visit. There are wide variations in types of leads: leads by personas, segments, influencers, buyers, partners, standard leads, marketing-qualified leads and sales-qualified leads.

Inbound marketing—or content marketing—is a great way to generate the leads you need to exceed your lead goal. You need to understand which content influences buyer decisions as they move from stage to stage. If a specific blog article moves people from the education mode to the evaluation mode, it is important that you can identify it and then act on it by making it even easier for people to find.

The Buyer's Journey

As part of digging down into your content-marketing strategy, it is important to track the buyer's journey. The buyer's journey is the action that unique users perform on your website, how they respond (or don't) to your emails, and how they interact on social media as it relates to your product or service. Tracking the buyer's journey can help you understand where to put your time, effort and money and how to demonstrate ROI to senior management. The following are a few of the ways you need to define that journey:

- **By persona:** the fictional characters that define your target demographic
- **By channel:** email, social media, organic traffic, paid media, referrals, etc.
- **By content element:** blog content, offer content, web content, etc.

Equally important is tracking the segment of one. The segment of one is the individual track that prospect, user or customer takes to go through the education, evaluation and, ultimately, the buying stage. This information is helpful for your sales teams and can result in lead scoring and predictive lead scoring that helps correlate the right sales actions to the right person at the right time. It also supports upselling and cross-selling opportunities.

Lifetime Value (LTV)

LTV helps define the parameters for what you spend to acquire new customers. It is a strong indicator of whether you are doing marketing right and whether your business model is sound. This metric shows the value of a customer for the entire duration that you work with them. It can be defined as a dollar value based on the present and future projected cash flow from working with that customer.

$$\text{LTV (\$)} = \frac{\text{Margin (\$)} \times (\text{Retention Rate (\%)})}{1 + \text{Discount Rate (\%)} \times \text{Retention Rate (\%)}}$$

LTV lets you predict the most profitable group of customers, understand those customers' common characteristics, and focus more on them instead of on less profitable customers.

Customer Acquisition Cost (CAC)

CAC is the total sales and marketing cost (all the program or advertising spend, plus salaries, commissions, bonuses and overhead) for any time period, divided by the number of new customers during that time. For instance, if you spend \$100,000

on sales and marketing in a month and add 10 customers that month, your CAC is \$10,000.

CAC shows how much your company spends per new customer acquired. The lower the average, the better. An increase in CAC means you spend comparatively more for each new customer, which can imply a problem with your sales or marketing efficiency. If your CAC is too high, you can go out of business because it costs you too much to acquire customers. A pragmatic marketer will look at CAC to find the ratio of marketing to sales expenses, determine if the marketing expenses are too high and search for clues about the sales team's performance. A high CAC isn't always an issue. In certain scale-ups, you may be in an investment phase, spending more on marketing to provide more high-quality leads and improve your sales productivity.

METRICS TO IGNORE



Individual Page Views

Page views are interesting because they are a leading economic indicator. However, while there is a correlation between page views and leads and revenues, it might not be a strong correlation. Different web pages serve different functions: Some are static information, some provide educational content, some are evaluation content, and sometimes people just click all over the map without regard to what they are looking for. Measure the total of the aggregate page views on your website and include the information by page, but don't obsess about the details.

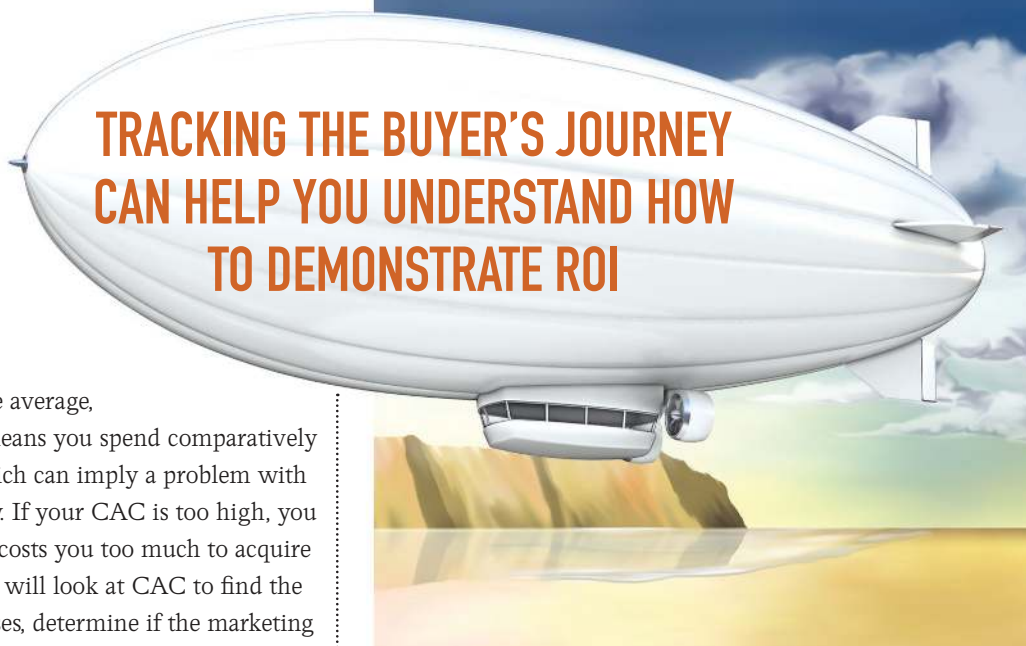
Time Spent on Each Page

This is an interesting but meaningless metric. It is hard to determine the right amount of time someone should spend on a page because all pages are of different lengths and difficulty. What if a user finds the right information at the top of the page? What if they walk away from their computer while that page is open? What is the goal anyway?

Social Media and "Likes"

This is the age of the opinionated. You "Like" something or you don't. Most people are optimistic about content and will vote it up. In fact, several studies show that people will vote up social media content without actually reading it. "Likes" don't translate into leads. Figure out which social media channels turn into leads and customers. Don't obsess about the rest.

TRACKING THE BUYER'S JOURNEY CAN HELP YOU UNDERSTAND HOW TO DEMONSTRATE ROI



Comments on the Blog

I used to think of blogs as electronic water coolers and I imagined that blog comments were a great way to make a site interactive. But after a few years of blogging, I have a different view. Blog comments are rare and they are typically authored by a certain personality, someone who feels strongly about the subject. Most blogs I visit are less interactive, therefore metrics around blog comments are less important.

Impressions and Clicks on Display Ads

The average click-through on display ads is 0.06 percent, according to recent reports. In addition, 50 percent of the clicks are accidental. Plus, millennials register a strong dissatisfaction with this medium. With ad blocking becoming a more relevant factor, it becomes increasingly difficult to recognize a return. Maybe it is time to move on.

Okay, there you have it. Five important metrics and five unimportant metrics. Metrics can be powerful when you focus on the right ones. Not only will you achieve your goals, but you will gain a reputation as the driver of powerful solutions that increase your company's revenue. [PM](#)



ABOUT THE AUTHOR

Dan Tyre has spent a lifetime dedicated to sales, sales management and company growth. His extensive work with startups, small businesses and rapidly scaling teams gives him a unique perspective on business, sales and life, which he enthusiastically shares through public speaking, group mentoring and team coaching. Dan joined HubSpot in 2007 as a member of the original team. He continues leading the growth and training of the HubSpot team while serving other companies as a director, advisor and angel investor. Contact Dan at dtyre@hubspot.com.



BETTER METRICS FOR NEW PRODUCTS

BY JIM SEMICK

WITH SO MANY NEW ANALYTICS TOOLS AVAILABLE, it's common to have a firehose of data and metrics available soon after your product launches. But the real challenge is determining which few metrics to focus on, and the sooner the better.

By defining the right metrics early in the validation and development cycle, well before your product reaches customers, you can get better insight to guide your product decisions and your roadmap.

THE SCIENTIFIC MINDSET

To set the right metrics and product goals early, you'll need to think like a scientist. Scientists first describe their hypothesis, define a test and then measure. Product management can do the same by setting goals and then setting metrics for those goals. This scientific mindset is one of the best ways to guide new products to success.

For example, you may decide that a conversion metric, such as the percentage of trial customers who convert to paying customers, is important to measure. Even without solid customer data, you can create a hypothesis about what you think you will see and an ideal target. This will lead to incredibly valuable team conversations about the business model and—once the customer data begins arriving—the ability to spot challenges early.

Luckily, product management has more tools than ever to gain insight into customer behavior and business success. And these tools and approaches are by no means limited to digital products. I've spoken with product managers in industries as varied as education, healthcare and financial services who are

taking advantage of the new breed of analytics products for data-based decisions, including:

- Analytics tools (web analytics, product-usage analytics)
- Customer engagement tools
- A/B testing tools (for acquisition, product or pricing testing)
- Usability and customer research tools
- Portfolio management and product management software

And let's not forget spreadsheets. Spreadsheets are indispensable in the early stages for digesting or sharing metrics. It is often easiest, in fact, to focus on using a shared spreadsheet or other simple tools before moving to a more sophisticated dashboard.

IDENTIFY METRICS FOR YOUR PRODUCT

If you don't already have success metrics, how do you find the right ones?

Begin by researching metrics discussed in your industry. Whether you are in SaaS, retail, media or another industry, there are experts who discuss those metrics online.

Look at information about competitive products. Companies that are publicly traded will often discuss these key metrics during earnings calls.

Don't spend much time looking at metrics that companies provide through news or PR outlets. These metrics are often vanity metrics that look good in a press release but don't relate to the business results.

Generally speaking, business goals such as revenue, margin, acquisition cost and retention are good places to start. Customer-specific metrics such as product usage and retention are also good starting points.

Below are a few examples of metrics to help measure success of new products from a customer and business standpoint. The metrics you select will depend on your business and product. Choose only a few to start—the fewer the better—so you can focus.

Customer-Oriented Metrics

- **Product usage/adoption.** Measure overall sign-in frequency, sharing and other metrics to gauge whether your users are increasing usage or adoption over time.
- **Percent of users who take a specific action.** Look for actions that might be a predictor of higher customer lifetime value. For example, is their data entry increasing and is that a predictor of future license purchases? Rather than measuring every action, focus on the usage that matters.
- **Feature usage.** Are there particular features that you believe will be indicators of customer success? Over time, further segment this data by understanding which customer personas are using certain features.
- **Retention or churn rate.** For new products with recurring revenue, it's essential to measure churn early as it directly relates to the lifetime value of a customer.
- **Quality.** Although your product is new, begin to measure improving quality by tracking average bugs, net promoter score and other metrics.

Business-Oriented Metrics

- **Customer acquisition cost (CAC).** Measuring the cost to acquire a typical new customer is essential in the early stages of a new product. CAC is your total sales and marketing cost and helps you identify where you're spending money.
- **Lifetime value (LTV).** Like CAC, the LTV of a typical customer is one of the key metrics to include for new products, especially for software. It helps ensure that you have a profitable model.
- **Monthly recurring revenue (MRR).** This is an important metric for recurring revenue products. Similarly, annual recurring revenue (per customer) is important for many software businesses to ensure that you don't lose more than you gain.
- **Average revenue per user.** If MRR isn't relevant to your product, the average revenue per customer or user might be important to reflect the depth of user engagement.

- **Conversion.** For many software products, conversion rates, such as site visit to lead conversion or trial to paying customer, are an important metric to track.

These metrics are a great place to set your baseline, but ultimately you'll want to refine them for your business. Work with your team to get consensus on the metrics that matter.

Whatever you select, be sure the metrics are actionable and tie back to the strategic goals and initiatives you put on your product roadmap. Periodically revise the goals and metrics; as the product matures, the metrics will likely need to change and grow with it.

USE QUALITATIVE METRICS

Up to this point, we've discussed quantitative metrics, but there is a place for qualitative information in your metrics. This is especially useful for early stage products where customer data is scarce. It's also where you often begin formulating your next round of hypotheses.

Track information such as customer demographics, acquisition source, pricing feedback, expected deal size, features used, customer frustrations, sales objections and other data. Use a spreadsheet to make it easier to digest the massive amount of qualitative information gathered.

These data points serve as great source material for metrics discussions and for future quantitative metrics. They also provide customer evidence for justifying product initiatives to stakeholders.

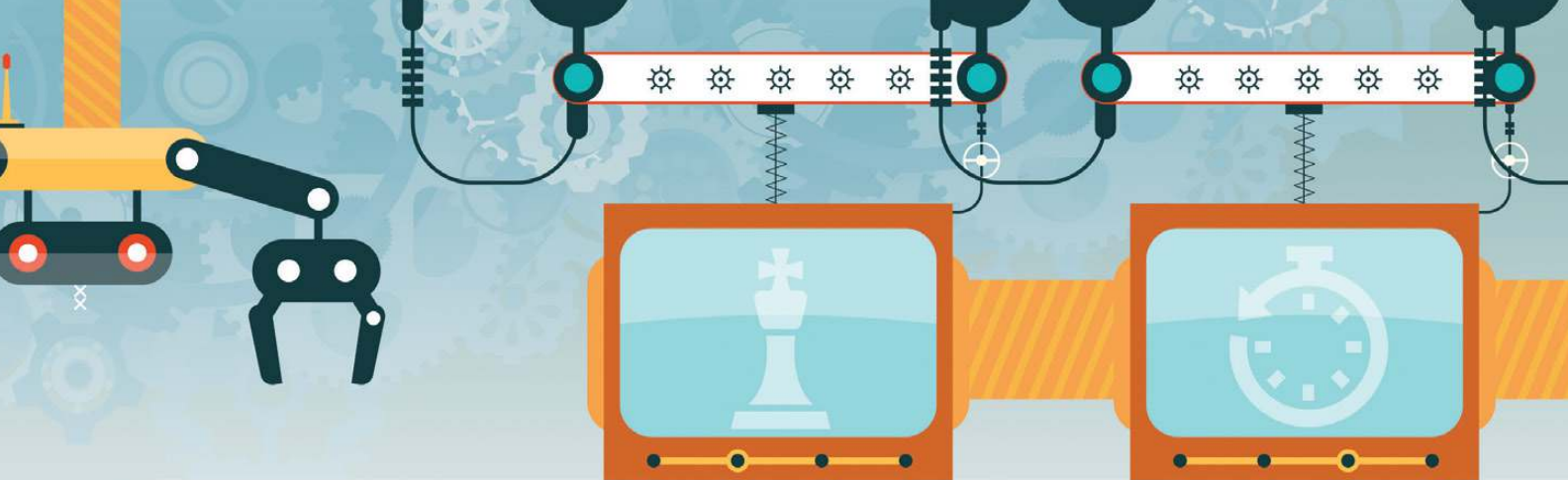
Ultimately, the metrics you choose depend on the stage of your product, your industry, the type of product and company size. But the most important consideration is to focus on a limited number of metrics that really matter. These are metrics that tie back to your organization's top-line goals and business results.

Regardless of the metrics you choose, begin formulating your list as soon as you start validating the concept with potential customers. You'll be able to make better decisions to guide your product and product roadmap and focus on the metrics that make a difference to the business. [P.M.](#)

ABOUT THE AUTHOR

Jim Semick is co-founder of ProductPlan, a leading provider of product roadmap software for product and marketing teams. For more than 15 years he has helped launch new products now generating hundreds of millions in revenue. He was part of the founding team at AppFolio, a vertical SaaS company. Prior to AppFolio, Jim validated and created product requirements for the launch of GoToMyPC and GoToMeeting (acquired by Citrix). Jim is a frequent speaker on product management and the process of discovering successful business models. He contributes at productplan.com/blog. Follow Jim on Twitter at [@JimSemick](https://twitter.com/JimSemick).

THE METRICS YOU CHOOSE DEPEND ON THE STAGE OF YOUR PRODUCT.



HOW TO IMPROVE YOUR DEMAND

BY TED CHEN

DEMAND GENERATION—FROM STRATEGY CREATION TO MARKETING program management—is a primary responsibility of product marketing. So how can you improve the demand-generation process to help sell even more products? The same way you would go about improving any process: apply Plan-Do-Study-Act (PDSA):

Plan: Develop a plan with specific objectives

Do: Execute the plan while measuring performance metrics against the plan

Study: Analyze deviations, identifying causes or barriers to performance

Act: Implement and standardize on the process improvements

When you apply PDSA to demand generation, focus on measuring metrics that reflect the quality, quantity, effectiveness, ROI and timeliness of marketing deliverables. In particular, keep your eye on product revenues (or orders). This is, after all, the intended end result of demand-generation activities. And the more you tie or correlate actual product sales to your marketing programs, the more you are able to define your required demand-generation budget, create and articulate strategies, and gain management support of your strategies.

You should also systematically forecast product revenues to produce metrics for comparison against plan. This forces you to analyze and compare actual and forecasted product revenues in a periodic and timely manner. It also forces you to apply models and judgment to forecasting, making you think more

thoroughly about how you can affect demand. You will detect deviations earlier, gain insights into their causes and get a jump on reacting to them.

Below are two methods for forecasting product revenues. The methods complement each other and provide different measurements to improve demand generation.

SALES FUNNEL METRICS

Many marketing and sales organizations use lead nurturing and CRM software to track metrics that correlate product-line revenues to demand-generation programs, such as win rates, average revenue per deal, new sales opportunities and marketing qualified leads. Since they pertain to a company's sales funnel, let's call them sales funnel metrics.

To begin, each quarter calculate the sales opportunities needed to support your product line's revenue goal. Use actual results to calculate average deal size, win rate and cycle time. Then apply them to the formula shown in the next column. Working backwards, you'll be able to model the number of new marketing qualified leads needed to generate the required sales opportunities.



DEMAND-GENERATION PROCESS

$$\text{New Sales Opportunities} = \frac{\text{Product Line Revenues}}{\left(\frac{\text{Sales Win Rate \%}}{\times} \right) \times \text{Avg Revenue Per Deal}}$$

in Month M in Month N

Where: Month N is ahead of Month M by the number of months in the Average Sales Cycle

$$\frac{\text{Qualified Mktg Leads per Month Needed}}{\text{New Sales Opp per Month}} = \frac{\text{Sales Opp Conversion Rate}}{\times}$$

You now have the monthly sales opportunities and marketing qualified leads objectives that your demand-generation plan must support.

Then on a monthly basis, determine the actual funnel metrics for the prior month and reforecast your sales funnel metrics—sales opportunities, marketing qualified leads, win rate and cycle time—based on the actuals. Use those to generate

a forecast for product-line revenues and compare it against the revenue plan.

If you see any deviations between actual sales funnel metrics and plan, perform an analysis to determine the cause and formulate a demand-generation strategy to get back on track. A forecast that shows a lower trend than plan provides an

early warning. It allows you to identify problems sooner and provides a head start in creating and executing a get-well plan.

PRODUCT FORECAST METRICS

Product forecasts are created using a combination of judgment and time series statistical analysis algorithms applied over historical sales to discern levels, seasonality and trends. At most companies, they are created monthly and result in product quantity and product revenue forecasts. The forecasts are usually rolled up to create revenue forecasts at the product-family level (i.e., a group of similar and related products) and further rolled up to the product-line level.

The product forecast is often developed in marketing or sales, since they are in the best position to shape, drive and therefore predict demand. They can be sliced by region (e.g., North America, Europe, Asia, rest of world), by distribution or manufacturing location, by channel, by major account, or any combination of the above.

Finance uses product forecasts not only to predict revenues, but to provide a forecast for overall gross margin based on the forecasted product quantity, net price and cost of goods sold. Product forecasts are used by supply-chain operations as input to the manufacturing or procurement plans. Marketing departments use product forecasts for product planning and to track product, product-family and product-line performance.

In addition, marketing can use product forecasts to develop and adjust strategies for demand-generation programs. More sophisticated marketing organizations track and model the revenue impact of specific demand-generation programs, such as pricing promotions, and fine-tune their forecast models based on actual outcomes.

The more you correlate actual product sales to your marketing programs, the more you are able to gain management support of your strategies.

A PLAN-DO-STUDY-ACT EXAMPLE

When used in combination with forecasting, PDSA can help improve demand generation. The following example is hypothetical but closely mirrors an actual experience of mine.

Sally, a director of product marketing at a B2B company, is responsible for tracking and managing a compute server product line that consists of two product families. TowerServer is an older, more mature compute server product. ThinServer, a newer product, was recently launched by Sally's team.

ThinServer is a more competitive product that enables Sally's company to penetrate the hot cloud-computing market. The company markets and sells to enterprise companies and service providers worldwide and has just completed the first six months of its fiscal year.

Plan

Six months into the fiscal year, Sally's product-line revenue goal is still the same as the one published in the annual company business plan. Sally created a demand-generation plan at the beginning of the year to drive the number of marketing-qualified leads and sales opportunities required to meet the revenue plan. Her product line is tracking closely to plan.

Do

The product marketing team is executing well on the demand-generation plan. As part of her management-by-objectives process, Sally has diligently tracked the status of her department's demand-generation deliverables—such as website content, marketing collateral, direct mailing campaigns, advertising, etc.—using a management dashboard. On a monthly basis, her department works with the product management team to review and develop the product forecast.

In addition, Sally works closely with marketing operations to model the product-line revenues based on the sales funnel metrics. She compares the sales funnel model's product-line revenue forecast against the one created by rolling up the product forecasts. If both forecasts point to roughly the same number, that gives Sally more confidence in her demand-generation plan.

Product management published a new product forecast at the six-month mark and Sally's team quickly noticed that the negative gap between the product forecast and the business plan continued to widen. The last month of the quarter produced orders that were below plan, resulting in a lowering of the product-line forecast. At the same time, however, the forecast that resulted from the sales funnel metrics forecast was still on track to plan.

Study

Based on the latest product forecast, Sally rallied her team to perform an in-depth analysis of what caused the gap and make recommendations on how to close it. The team immediately observed that the product family forecast for the older

TowerServer was holding to plan. However, the new ThinServer product family's forecast was not ramping as expected.

The team then turned its attention to the sales funnel metrics. Why did the sales funnel metrics forecast predict revenues that were aligned with plan, but the product sales forecast did not? After analyzing the actual sales funnel metrics, including the latest win rates and sales opportunities, the team determined that the win rate had declined significantly compared with the expected win rate used in the forecast model.

They analyzed the last quarter's losses and wins and found that the sales loss rate for ThinServer was significantly

higher than for the mature TowerServer product. Although ThinServer was a newer, more comprehensive product, it was being used to penetrate the new cloud space, which was not only hot but also more competitive. TowerServer, on the other hand, was sold mainly to existing repeat customers, so its sales win ratio was naturally higher.

Sally confirmed her team's hypothesis with a few regional sales directors. In response, the team decided to focus on increasing the win ratio for ThinServer by creating more effective materials, including more competitive analyses for sales, specifically aimed at cloud computing. In addition, the team agreed it needed to generate more marketing-qualified leads for ThinServer than previously expected.

When organizations don't track, analyze and forecast their product sales, they lose out to competitors.

Act

Based on her thorough analysis, Sally convinced the vice president of marketing to allocate more money for demand-generation programs for cloud computing. She created a simple statistical model that quantified the number of additional total leads needed to generate the required marketing qualified leads and sales opportunities. Several additional mailings and a traveling mini trade show were added to the marketing calendar.

Also, Sally and the vice president of sales set a monthly goal for the win ratio and tracked it. Not only was it important to have an accurate win number for her forecast model, it served as an additional metric to track her demand generation's effectiveness in helping sales close deals.

Sally's story is a good example of PDSA in action and demonstrates some of the benefits of forecasting sales funnel metrics and improved product performance. In this instance, tracking and forecasting product sales helped Sally make faster decisions on allocation and improvement of demand generation programs at the product-family level.

It's important to remember that when organizations don't track, analyze and forecast their product sales, they are slower to react to deviations and lose out to competitors. Combining the forecasting process with PDSA will help you think more thoroughly about how to affect demand, detect deviations earlier, gain insights into their causes and get a jump on reacting to them. [PM](#)

ABOUT THE AUTHOR

Ted Chen is president of Demand Analytix LLC, demandanalytix.com, which helps companies develop product demand shaping strategies to achieve their financial objectives. Before founding Demand Analytix, Ted led marketing, product marketing, product management and engineering teams for computing and storage systems, virtualization and management software at HP, EMC, Cisco and multiple small and medium-size companies including startups. Contact Ted at ted@demandanalytix.com.

THE BENEFITS OF FORECASTING

-  **Short-Term Demand Shaping**
Model the impact of past product promotions, such as pricing promotions, to more successfully predict the revenue and profitability impact of promotions and determine which promotions are worthwhile. Companies can use this information for short-term demand shaping, like shifting demand from a product in low supply to another product through a price promotion. Dell is a master at this.
-  **Channel Programs Improvement**
Product marketing is often responsible for supporting the indirect channel marketing program, which covers value-added resellers and major distributors. Track and forecast product sales through each major distributor and reseller to gauge and improve the effectiveness of channel partners in marketing and selling specific products.
-  **Regional Programs Improvement**
Review regional sales funnel metrics and regional product forecast metrics against plan in order to react faster and reallocate or improve demand generation in lagging regions. This becomes especially important when companies rely on international expansion for much of their growth.
-  **Annual or Quarterly Business Planning**
In many organizations, product management and product marketing teams are expected to create product-line forecasts for the annual business plan. Once created, the product forecast plan also serves as an important document for creating the marketing plan. Having a product forecast process in place makes it easier to keep plans up to date.



15


 PRODUCT
MANAGEMENT
METRICS YOU
SHOULD KNOW

 BY
BRIAN
DE HAAFF

THE WORLD IS MORE DATA-DRIVEN THAN EVER. And although data has an impact on most jobs, it is amplified for product teams, especially at SaaS companies. Product professionals there have never been more challenged, or rewarded, if they get the role and the product right.

So, how do you help your software offering stand out? It's actually quite straightforward: Combine a specific vision with quantifiable metrics to measure your progress.

Metric-driven goals are fundamental to building great products. As the CEO of Aha!, I have made it a high priority for our team to identify and track the right ones. You can only improve what you measure, and we strive to not only set up the right metrics but outpace them every quarter.

This growth does not happen by accident. We look at how our business is doing against our goals each week and measure how well we are responding to our customers every day. We also speak with hundreds of product teams every week about their own strategies and roadmaps, so we have a sense for what leading organizations are measuring.

Every business is different, but the following metrics are important to us at Aha! and, we think, imperative for other companies, especially SaaS, to track. They focus on three core areas: marketing, customer success and business operations.

MARKETING

Marketing is an integral piece of our customer-acquisition process. To continue growing, we set detailed goals each year that break down into monthly targets. The following are a few of the metrics used by our marketing team.

1 Monthly Unique Visits

Monthly unique visits indicate the number of unique individuals visiting your website each month. For example, one person visiting the site multiple times counts as one unique visitor, as long as they visit the site using the same device each time. Monthly unique visits is a standard benchmark for marketing teams. Since this data is readily accessible from third-party websites, it is commonly used for competitive analysis as well.

2 Customer Acquisition Cost (CAC)

Customer acquisition cost or CAC is the estimated cost of gaining each new customer. For example, if you spend \$1,000 on a campaign that directly results in 10 new customers, the CAC will be \$100 per customer. Use this with the annual contract value and customer lifetime value to understand if your customer-acquisition model is profitable and sustainable.

Understanding how much it costs you to acquire new customers is key to profitably scaling a SaaS business. You can also gain a holistic picture of your marketing channels by segmenting CAC by source (organic, paid, email, social).

3 Organic Traffic vs. Paid Traffic

Organic traffic measures how many people find your website via an unpaid organic search; paid traffic measures how many people visit your site from a paid source, such as an ad. Measuring traffic both by organic and paid channels is essential to understanding where and how your business is growing. It also allows you to make better decisions about which marketing campaigns are most valuable.

CUSTOMER SUCCESS

Customer-success metrics are a way to track our activity and ensure that we continue to grow in a methodical way, responding to support requests from our 30,000 users within a few hours. Here are the key metrics used by our customer success team.

4 Conversion Rate to Customer

The conversion rate to customer is the percentage of potential customers who started a trial and end up converting to paid customers. It is most commonly measured by taking the number of leads or trials (depending on your model) in a given month and dividing that by the total number of new customers added during the same month.

Your conversion rate is a benchmark for how successful you are at turning prospects into buyers. Increasing your conversion rate to customer by even a small amount quickly increases customers and revenue.

5 Number of Support Tickets Created

The number of support tickets created is a measure of how many customers request help. An increase may indicate more users or point to a deeper usability problem. This data allows the team to work on improving self-service options or adding more team members when heavier volume is expected.

First response time is critical to keeping customers happy and engaged with the product.



6 First Response Time

First response time is the average measure of how long it takes for customer support to respond to a customer or act on a support ticket. For example, if a customer sends a support request at 7 a.m. and receives a response by 8 a.m., the first response time for that interaction is one hour for that day for that customer.

By tracking this metric each day and week, you can easily see areas for improvement and the times when help is most often needed. The first response

time is critical to keeping customers happy and engaged with the product.

7 Time to Close Support Ticket

The time to close a support ticket measures how long it takes the support team to completely resolve an issue. This is different from first response time and shows a more holistic perspective on customer satisfaction. No matter how quickly you respond to the original request, the ticket or request will not be closed until the problem is completely resolved and the customer is satisfied.

8 Churn

Churn measures what is lost during a given period in terms of customers, dollars, etc. It's important to understand that no matter how good your software is, some customers will naturally cancel each month; planning for a healthy amount of cancellations is not a bad thing.

To calculate churn, divide the number of customers lost in a month by the prior month's total customers. While it is good to know customer churn, in software companies it is even more important to know the revenue lost each month. Over time, you can work to reduce the number of customers who cancel and the revenue associated with it.

Measuring traffic both by organic and paid channels is essential to understanding where and how your business is growing.



BUSINESS OPERATIONS

One of the key ways we measure how we are doing and how much customer value we are creating is by tracking key growth metrics around account and revenue growth. Here are a few of the operating metrics we review weekly, monthly and annually.

9 Active Users

Active users are the people actively using the product. Generally, this metric is determined by adding up the total number of users who have logged in at least once during the prior 30 days. This is another common benchmark used to determine the growth and relative size of a software company's customer base. Active users do not include past users who have cancelled.

Add-on MRR is an excellent indicator of how useful your product is to the customer base.



10 New Monthly Recurring Revenue (MRR)

New MRR refers only to brand-new customers added in a given month; it does not include expansion revenue or upgrades to existing customer accounts. It is a great way to track new revenue growth on a consistent basis and measure the amount and size of new customers added each month.

11 Add-on Monthly Recurring Revenue

Add-on MRR measures revenue attributed to add-ons—through additional product purchases or additional users—from existing customers. A healthy software company should simultaneously add new customers each month and expand relationships with existing customers. In many cases, add-on MRR is an excellent indicator of how useful your product is to the customer base: It is a good sign if they increase their investment with you each month.

12 Total New Monthly Recurring Revenue

Total new MRR is different from new MRR because it includes add-on and churn (cancelled customers). The simplest calculation to use is (new MRR + add-on MRR – churn MRR = total new MRR).

From a financial standpoint, measuring total new MRR allows you to roll up every aspect of your customer base into

a single number that measures net change in revenue. For example, if you see a high new MRR but low total new MRR, you are likely losing as many customers as you add each month. By adding total new MRR to existing MRR, you can easily calculate your total annual revenue (see next metric).

13 Total Annual Recurring Revenue (ARR)

Total ARR is your MRR x 12. It is the annual value of recurring revenue from all customers, excluding one-time fees and other variable fees.

14 Annual Contract Value (ACV)

ACV is the value of a customer over a 12-month period determined by their billing plan. Your ACV is important when determining the type of customers you are converting (segmentation), as well as the ROI of your sales and marketing investments. Ideally, you want ACV to be more than four times the average cost to acquire that customer.

For example, paying \$4,000 to acquire and sign up a single new customer might sound like a lot, but it is a wise investment for a company whose ACV is greater than \$16,000. You would make your money back in the first quarter, assuming your average customer does not churn in that time period.

15 Lifetime Value (LTV)

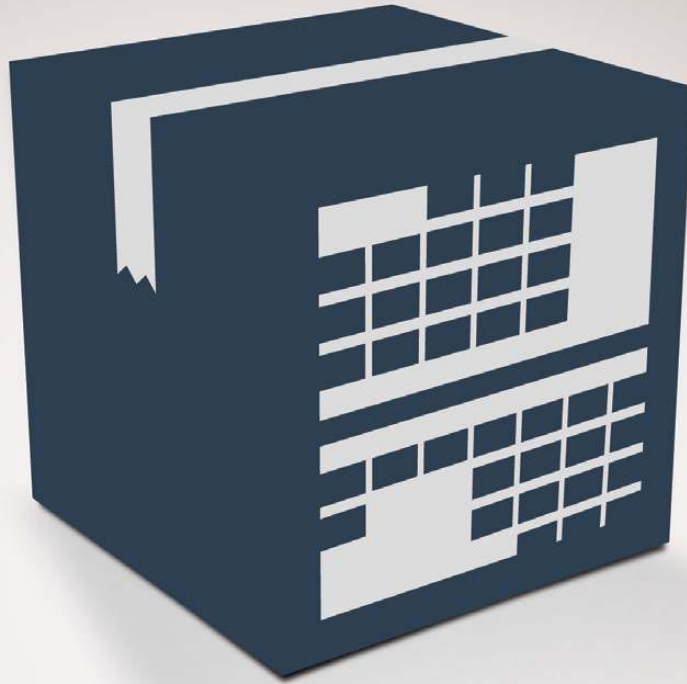
LTV is the estimated net revenue from the customer over the life of the relationship. You determine LTV by understanding the average revenue per month and multiplying it by the average lifetime of a customer in months.

These are the core metrics that we track regularly at Aha! There are hundreds of possible data points to capture and study, but we do our best to match data that brings the greatest insights to the organization with what is needed to continue to rapidly and efficiently grow.

Metrics are a necessary part of business. Once you become comfortable understanding and applying quantifiable metrics that matter most for your business, it will be easier to spot trends, make decisions and look ahead with more confidence. [PM](#)

ABOUT THE AUTHOR

Brian de Haaff seeks business and wilderness adventure. He has been the founder or early employee of six cloud-based software companies and is the CEO of Aha! — the world's No. 1 product roadmap software. His last two companies were acquired by Aruba Networks and Citrix. Learn more about Aha! at www.aha.io/. You can follow Brian at [linkedin.com/in/bdehaaff](https://www.linkedin.com/in/bdehaaff) or on Twitter at [@bdehaaff](https://twitter.com/bdehaaff).




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PRODUCT MANAGEMENT:

When Your Market Is Your Mission

BY PAUL YOUNG

WHEN YOU TALK ABOUT PRODUCTS OR PRODUCT MANAGEMENT, the conversation can quickly turn to gross margins, volume, average revenue per unit or how to achieve scale. While those metrics are important at for-profit companies, they are less important at non-profit organizations. Think of the Red Cross providing aid during a natural disaster, a nongovernmental organization drilling wells to ensure that villages have clean drinking water, or an organization that provides educational services to poverty-stricken areas of the world. Or, in this case: Compassion International.

The goal of Compassion International is to release the world's poorest children from poverty. As I entered the headquarters in Colorado Springs, CO, I was struck by how different it felt from most organizations I visit. The lobby was filled with bronze statues of children playing. Everyone was smiling, and I felt a sense of family. This is where I first met Paul Anderson, director of IT management services, and Chuck Boudreau, IT product management advisor.

As we shook hands, it was clear that working with Compassion International would be unlike any of the profit-driven organizations I had previously trained. Pragmatic Marketing provides training all over the world for organizations of all stripes. We've taught companies selling B2B enterprise software, routers and switches, B2C social networks, professional services, medical devices, specialty grain feed for livestock, light bars for police cruisers, and even pumps to drain septic tanks and porta potties. But none of that prepared me for what I was about to see.

Paul and Chuck led me into a small room off the main lobby that was set up to resemble the schools and homes of the families that Compassion International supports. I could see a small, one-room cabin with a rusted, corrugated tin roof haphazardly nailed together, the floor cramped with beds where a family slept. You could almost hear the rain dripping through the leaky roof and the cry of a hungry child.

Compassion International's mission is to attack poverty on a global level. Unlike other organizations that directly fund poverty programs, Compassion International uses what many in the for-profit world call an indirect or channel-oriented strategy. Specifically, Compassion International partners with more than 7,000 churches globally to serve more than 1.7 million children.





Because Compassion focuses directly on affecting children in poverty, it creates a set of managed interventions, or precisely implemented support systems, that church partners in the field deliver to produce specific outcomes. Often, these interventions are packaged together into programs, similar to what for-profit companies call products.

The managed interventions and programs are more than a direct transfer of money to the child or family in need. They are designed to provide experiences and outcomes that money alone can't provide, such as education, medical care, clothing, shelter, food and job training.

"One of the other things Compassion tries to do is give children their childhood back," Paul says. "Part of the outcome we want is for children to be children; we want to give them hope." As children grow in the program, they blossom physically, emotionally and spiritually. And they realize that they can have an impact on the world.

No one at Compassion is there for the paycheck. While employees certainly make a fair living, they could earn more elsewhere. What motivates employees is that they see a world where poverty is not just the lack of things but includes a subliminal message that says, "You don't matter. Your parents don't matter. You will never matter." Working at Compassion, employees have an opportunity to see the results of their work at a personal level.

Of course, lifting children from poverty isn't free. In many ways, Compassion acts as a responsible marketplace, connecting supporters in first-world countries with children in poverty-stricken areas. Most supporters contribute about \$38 per month to support one child. Sponsors choose from a wide range of children who need support.

But Compassion International wants more than a monthly donation from its sponsors—it wants engagement, and the positive effects engagement brings.

"Our former president, Wess Stafford, was working on his Ph.D. at Michigan State and was doing empirical research on children who have gone through sponsorship programs," Paul said. "One of the questions they asked was, 'Did you correspond with your sponsor?' They found a statistically significant correlation between those kids who prevailed in life and those kids who had regular, written correspondence with their sponsors."

To stimulate the sustainability of its services, Compassion encourages a strong connection between sponsor and child. Sponsors can track the progress of their children in school, receive pictures of them as they grow,



BUILD BETTER PRODUCTS

send pictures of their own family and exchange letters until the children reach 18 and age out of the program. At that time, other sponsorship options are available, like subsidizing college.

By listening to the market, Compassion has developed programs for sponsors who want a more immediate impact or more meaningful connection with their sponsored children. Sponsors may now designate funds for things like vaccinations. Because longtime sponsors report such a feeling of connection with those they help, the organization now arranges trips to the children's home countries. This allows sponsors to volunteer, perform missions of their own and meet their sponsored children face-to-face.

A top priority of Compassion is to be a responsible steward of sponsors' money and time while demonstrating the measurable impact of their products. The organization has enlisted external groups that audit and report on the efficiency and efficacy of nonprofit efforts, such as Charity Navigator. In fact, Compassion measures more aspects of its business than many for-profit counterparts. The organization tracks six key metrics:



Employee Engagement

Do employees actively buy into the organization's mission?



Capacity Management

Can the organization deliver what it promises, matching needs with sponsorship?



Partner Relationships

Are adequate controls in place to avoid fraud and abuse in field programs and ensure that children are positively affected?



Sponsor and Donor Engagement

Are our sponsors and donors raving fans who will actively engage in meaningful relationships with their sponsored children and promote Compassion to others?



Child Experience

Do the children enjoy the experience they receive, and do they want to participate? If the children don't want to be there, Compassion finds it difficult to affect them in a positive way.



Child Outcomes

What are the outcomes on the children's lives? Is the model sustainable?

Learn more at compassion.com

The day after my visit, I chose my sponsored child. Mariel is now 8 years old and lives in South America. Because of our sponsorship, her family can afford to provide her with good medical treatment and send her to school, instead of working full time. We've put her on a better trajectory, for less than my Starbucks habit each month. Every few months, Mariel writes us a letter. I grin as I read her big third-grade letters, so similar to the ones my daughter writes. I hope that she stays in the program. I hope that we will meet someday. I hope that her life is better because of me.

Compassion International embodies best practices of both a mission-driven organization and product management. Its use of key metrics not only ensures the responsible oversight of its sponsors' time and money, but also supports the achievement of its core mission to mitigate poverty. [P&M](#)



About the Author

Paul Young is an instructor for Pragmatic Marketing who has more than a decade of experience in hardware, software and services product management and marketing. He has launched and managed dozens of products, started his own business and successfully implemented the Pragmatic Marketing Framework at several companies. Contact Paul at pyoung@pragmaticmarketing.com.



Building an Online Community to Increase Revenue

BY LIZ ACTON-TRIMALOFF

AS EDUCATIONAL REQUIREMENTS CHANGE, concerns about workplace readiness and global competitiveness have led to a greater focus on student success through personalized learning. Increasingly, teachers are held responsible for learning outcomes and curriculum decisions. They must ensure every student makes adequate yearly progress and tailor learning paths for individual students based on interests and abilities. In a classroom of 25 students, there could be 25 different curriculums; this is personalized learning.

The school environment is heavily regulated and the workday is structured, making it difficult to build loyalty and effectively communicate with teachers. During formal research and customer conversations, the idea of a community bubbled up and the notion began to take shape of using knowledge and information as rewards. We knew we wanted this community to position us as the vanguard of this shift to personalized learning.

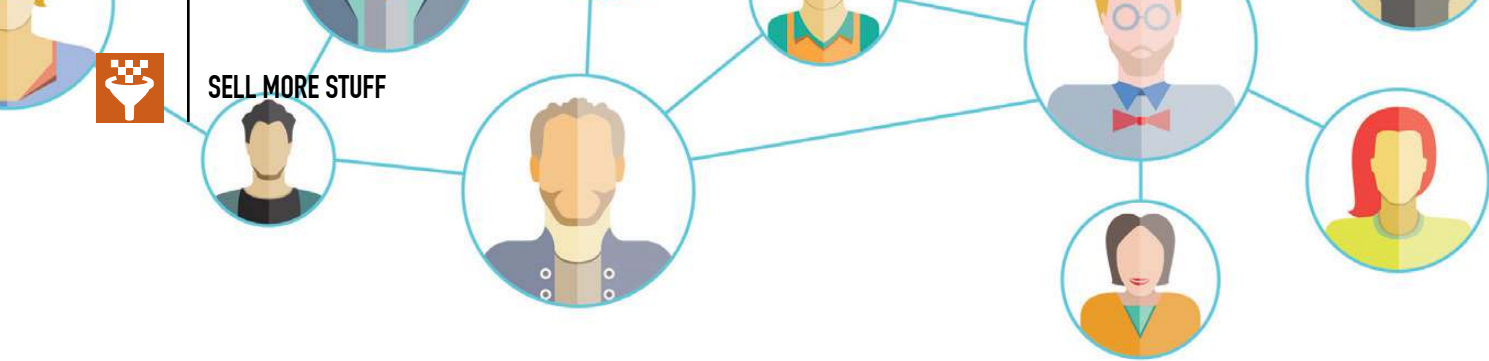
We created a three-part framework to guide our effort, comprised of people, learning and results: →

For us, the online community was a way to connect with teachers, the most influential and actionable piece of the education market. For these educators, this virtual gathering place created opportunities to broaden their networks, share firsthand learning with peers and experts, and engage in professional development.

As this notion of community evolved, an equally powerful notion took shape about all the things we could say online. A group of people from across the company, representing key functional disciplines, came together to manage resources, expectations and the roadmap. This was important not only to complete our work, but also to ensure that every arm of the business had a stake in the successful launch and life of the community.

The community requires not only two-way communication channels, but also ownership of the connection. Partnering with a seasoned platform provider enabled the development of a straightforward, collaborative environment that fit the larger business technical requirements and allowed for maximum utilization.

	QUESTION	SOLUTION
People	How do we best connect with the people who actually use the products and services?	An online environment that provides location-agnostic, asynchronous access
Learning	What is of value to these people? To us?	Information, knowledge
Results	How do we impact the business?	eCommerce, lead generation, increased loyalty



Red tape was reduced by repurposing a platform used internally, allowing for bridge skills. The entire staff already knew how to use the platform because our intranet had recently migrated to it. With a lean team, this has been a force multiplier, allowing for integration across the business.

With the technology established, the first question was: What do we talk about? Teachers were engaging online, but about what? Market research revealed that student engagement was their primary concern. Demands on their time was another prominent concern. This gave us a place to start. Further, there was a blank space for practical, student-focused discussion and ideas, which made it easy to establish a unique voice.

Chat groups were established on a variety of topics including STEM (science, technology, engineering and math), first-year teaching and personalized learning. As communities become viable marketing channels, the



community adapted by expanding to market-specific communities like Canada Connect, designed for Canadian teachers, and actual content campaigns like The Seven Minute Challenge, which encourages teachers to find seven additional minutes during each day for students to actually read.

Knowing that the community would only be effective if people joined and participated, the obvious approach was to build acquisition campaigns through direct-marketing channels. This revealed effective tactics and offered straightforward results tracking. We now have a streamlined monthly email campaign that invites people to become members, and we are included in many of the company's outgoing marketing programs and web environments.

We have just begun integration into marketing activities, and already the community site is a leader in website traffic generation and registrations for live and online events as well as a key contributor of timely market intelligence. Engagement and participation have grown from less than half a percent of membership into the 3 to 5 percent range. We are now recognized and respected at the many live education conferences we attend around the country.

Today, member-created content accounts for 15 percent of the total content and has led to discussions that span years. For example, the topic "Do you wish you had a computer for each student in your classroom?" originated in 2011, yet the conversation actively continues. These discussions also offer insight into what is on teachers' minds. To assist with developing a web series on Common Core, members were asked about their biggest concerns with Common Core. Not only did it change the topic direction of the series, but so far 18,000 people have viewed the discussion.

Our online community now serves more than 100,000 educators annually and our content brings in 30 percent of the visitors. An estimated 30,000 member-educators around the world rely on the community to find great ideas and connect with other passionate educators. Market-focused and topic communities have even paved the way for product-user communities that allow for a direct link to ecommerce and sales pipelines. By focusing on who is important to our business and what is valued, we have created a dynamic marketing channel that will continue to serve our business well into the future.

Teaching is an isolated profession with rigid scheduling and little time for peer-to-peer interaction. Initially, the question was, "Is there room for another social network in teachers' lives?" After a little digging, it was found that only half of teachers had personal or professional social profiles. This presented a huge opportunity to get the business behind true marketing efforts to build our member base. We found the asynchronous nature of our online life to be a perfect fit for bringing teachers together. By providing an ongoing, reliable communication channel to our most influential market segment—teachers—we have earned not only their trust, but their loyalty as customers. **PM**

About the Author

Liz Acton-Trimaloff is head of communities for strategic marketing at Pearson North America. An avid marketer, Liz started out in telecom, matching people with communication solutions. She became obsessed with getting the right message to the right person to maximize profit and resources. In 2008, she began running lifecycle marketing for Pearson, exploring how to build loyalty in a regulated, enterprise business. This led to a six-year journey to build an online community for connecting with educators, keeping up with changes, and becoming part of the conversation. Contact Liz at elizabethacton@yahoo.com.



Value Propositions That Sell



BY ABDUL RASTAGAR

CUSTOMERS DO NOT BUY FEATURES, they buy solved problems. So why do product teams still struggle to communicate coherent and differentiated value propositions that focus on solving the customer's business pain?

A major challenge for product teams prior to launch is the ability to translate features into customer-centric business benefits. We tend to fall back on feature-talk because it's relatively easy; it's something we're intimately familiar with, having spent countless hours developing those features. And, since features are tangible items, it makes it easier for the sales team to sell. You can readily show features in a product demo or slides. Marketing also loves them because it's easier to promote features than to prove ROI to the customer. But when buyers demand evidence of how your product will yield business benefits, you will not gain any credibility if you reply with common tech-speak: "Um, well, our system is based on an event-driven SOA."

It's unfortunate that after hundreds of hours of market research, requirements development and product design, we place so little importance on messaging. Instead of creating value propositions that sell, we sell our product short. Rather than explaining benefits that address the business problem, we provide messaging laden with incomprehensible tech-speak, jargon and



vapid feature-talk. The goal should be to clearly differentiate ourselves, not to inadvertently position ourselves as me-too products.

Product professionals frequently come from a technical background and often lack the training and know-how to speak to the market in customer-centric language. Worse, we often fail to think from a customer's perspective. And, we commonly insert ourselves into the buyer persona: "Well, this is how I think about it, so it must be true for everyone." This is a fundamental mistake. Don't assume that the users think about it the way you do. Even if they do, how do the buyers think about it? Users and buyers are often different people with distinct, even contradictory, buying motivations.

Many value propositions are not designed to sell because they are not written with the right target audience in mind. Creating the right value propositions requires implementing a defined and structured methodology.

The Value Propositions Methodology

Successful value propositions explain how specific products solve customer problems. A structured value proposition methodology addresses four topics:

1. The broad context
2. The buyer persona
3. Business benefits
4. Competitive differentiation

The Broad Context

Customers rarely purchase technology for the sake of the technology itself. They're probably not buying a system because they want to be more efficient, either. They want to solve an underlying business problem; becoming more efficient is merely a means to get there.

It's important to think about the context in which the customer seeks a solution. What is the fundamental problem the customer wants to solve? What business problem keeps the CEO awake at night? Something is prompting the customer to buy in the first place, and efficiency gains are rarely the principal reason.

"But my customers say they want to speed their processes," you say? Remember, Henry Ford's customers also told him they wanted a faster horse. If they can solve their underlying business problem without becoming more efficient, they will.

To understand the customer's business pain—the impetus for a solution—you must take a more holistic view of the broader business context. Is their industry growing rapidly,

or is it stagnant? Must they meet regulatory compliance requirements? Are external disruptive forces affecting revenue? Is the competitive landscape or buyer behavior changing? What do the economy and labor markets look like? What challenges face the customer's customers? Are those end-users becoming less loyal to your customer? This broader contextual awareness is a foundational requirement and, unfortunately, an area where product teams may fall short.

The Buyer Persona

Users and buyers are often different people with distinct motivations. This is important when developing value propositions. Are the users also the buyers, are they influencers, or do they simply provide initial requirements with no further decision-making authority? Which department holds the budget? Who makes the ultimate buying decision? Is procurement involved? Is legal a stakeholder?

Each person or department will evaluate their choice of solutions through the unique lens of their own buying motivations, requirements or concerns. These contradictory requirements often negate the needs of end users and can lead to decisions that are not in the organization's best interest. Therefore, value propositions must be developed not only to convince decision-makers, but also to help them overcome possible objections from the other, tangential stakeholders.



	INFORMATION TECHNOLOGY 	DEPARTMENT HEAD 	OPERATIONS MANAGERS 	END USERS 	FINANCE/PROCUREMENT
Budget	X	Z			X
Compliance	X	X	X	Z	
Vendor/Brand	X				Z
Features			Z	X	
Usability			X	X	
Efficiency			X	X	
Effectiveness		X		Z	
Technology	X				
Peer Network	X	X	X	X	

Hypothetical purchasing committee with different buying motivations. X indicates significant requirements and Z indicates minor considerations.

Business Benefits

Once you understand customers' underlying motivations and business pain, it is time to think about how your product solves their needs. At this point it's acceptable—indeed, necessary—to think about



product features, on the condition that they are translated into tangible business benefits. Identify the overlap of your market's unmet need with your solution's capabilities. This represents the value proposition, or the motivation for customers to purchase from you.

The challenge is translating feature-function into business benefit. Perhaps a particular feature or capability makes the customer more efficient, but so what? The customer needs to know what that means in terms of the business problem they want to solve. It's possible that the efficiency improvement increases revenue by a certain percentage, maybe it defers future labor costs, or maybe it reduces risk of litigation or regulatory action. Or perhaps it helps the customer improve their end-users' experience. If you can quantify these business benefits, you've made a straight-line connection between your solution and customer ROI.

Competitive Differentiation

Chances are that the competition will have similar products and solutions. If the customer does not see any tangible difference between you and other vendors, the decision to purchase will fall back on price, a scenario you want to avoid. Competitive differentiation is a clear business imperative.

Communicating a differentiated value proposition is perhaps one of the most difficult aspects of this entire methodology. It is no surprise that sales reps frequently complain that they are ill-equipped to explain differentiated benefits.

One effective solution is to reposition yourself relative to the competition by broadening the value proposition beyond the product. Sometimes, there is simply too much similarity to differentiate on product alone. In that case, look for other factors to differentiate on, such as contracting and account management, exceptional customer service, a strong and loyal user community, extraordinary subject-matter expertise, a track record of perfect and proactive regulatory compliance or a strong brand.

This type of repositioning is what creates your unique value proposition. To truly differentiate, you will likely need to identify at least two, and ideally three, specific elements. On their own, each creates a challenge for the competition. Combined, the cumulative effect can create an obstacle that makes it difficult for other vendors to successfully compete. The beauty of this approach is that when you articulate unique value propositions, you do not need to compete on pricing.



Creating a unique value proposition is not something that can be churned out on a Friday afternoon.

Put the Methodology Into Action

Creating a unique value proposition is not something that can be churned out on a Friday afternoon. It requires an investment of time and resources. Getting it right means organizing a structured workshop with a defined format and methodology, perhaps at an off-site location. It can require anywhere from half a day to a whole day, or more.

Product marketing should own this effort (or product management, in the absence of a product marketing function.) It requires active participation from a customer-facing, cross-functional team that intimately understands the market, the larger context, the customer's pain, the competition and the sales environment.

In practice, participants will include the product manager, a marketing representative and a sales rep. It is also helpful to have a sales director involved. By giving the sales director a stake in message development, you will have more credibility (and an ally) when it's time to train the sales organization. Also, consider including subject-matter experts, such as implementation consultants, since they are down in the trenches with customers and can advocate as a customer voice.

Once the team is assembled, set clear expectations. Try to speak with each person ahead of time to ensure their understanding and get buy-in. To ensure everyone is focused on the value propositions, ban computer and phone usage, unless directly related to the topic.

A successful workshop needs a leader who will ensure that the team is focused on explaining business benefits, not features. This is easier said than done. Customer-facing teams have been so conditioned to sell features that sheer inertia will keep taking them back to this route. When the discussion



inevitably veers toward features and functions, the leader must steer the group back on track.

While it is possible to conduct a virtual workshop, I discourage it, because participants tend to be less focused. Your company has already made an enormous investment in building the product, so make the additional small investment to get the value propositions right. Now is not the time to take shortcuts.

Finally, you will need external validation of your value propositions. Start with a channel partner and a close customer or two. Once you have gathered initial feedback, float a trial at a couple of prospect sales opportunities and start to gather the larger market's feedback. Sales reps will need to gauge the audience's reaction. This is tricky, because no one wants to risk jeopardizing a sales opportunity. Ideally, sales team members who participated in the workshop will test the new messaging.

The Output—The 3x3 Value Proposition Matrix

What does the output from a workshop look like? Aim to generate a set of three focused, customer-centric messages about how your solution addresses the business problems. Your differentiated value proposition will make you the clear, logical choice; the other vendors will resemble banal clones of each other.

More than three value propositions will dilute your message and confuse the audience. However, not every customer is identical, so you want to give yourself some flexibility to massage the message.

Here are some examples of customer-centric benefit statements that explain the business benefit. With each main bullet point, provide specific proof points of how your product or company delivers the stated benefit. Ideally, these proof points will include metrics that make a direct connection to ROI for the customer (e.g., X% process efficiency leads to Y fewer FTEs hired next year, which translates to \$Z reduction in labor costs).

Increases customer satisfaction through consistent data, simplified processes and accurate billing

- Proof point 1
- Proof point 2
- Proof point 3

Enables fast, evidence-driven decisions

- Proof point 1
- Proof point 2
- Proof point 3

Maximizes revenues with a more efficient and productive sales organization

- Proof point 1
- Proof point 2
- Proof point 3



BUZZWORDS TO AVOID

If you want to differentiate, avoid overused buzzwords. Leave the feature-laden tech-speak and meaningless jargon to your competition.

- ▶ **Best of Breed**—Everyone else uses this term. If everyone leads, no one does. Customers see right through this.
- ▶ **Cloud/SaaS**—The cloud is quickly becoming the standard. It's like bragging that your car uses an internal combustion engine.
- ▶ **Cost-effective**—Don't use this unless your current customers are willing to stand in front of a conference audience and vouch that you are truly cost-effective.
- ▶ **"[Feature does action]"**—This is a proof point, not a value proposition. It has no place in a benefit statement. Save it for the demo.
- ▶ **Innovative**—Few products are truly innovative. It's an empty buzzword that says you were unable to quantify business benefits.
- ▶ **Leading**—See "Best of Breed."
- ▶ **Scalable**—Yawn.
- ▶ **Technology**—You're a software company. Of course it's technology. By definition.

The 3x3 matrix represents the core of your differentiated value proposition and should inform all messaging. You will use it to train the sales and marketing teams, for collateral, the website product description, as talking points for executives, for public relations, and for customer-facing sales slides and demos. All messaging should revolve around these value propositions. It's the best way to demonstrate your ROI, ensure consistent messaging and help customers understand how your product will solve their business pain. Even better, it will set you apart from your competition. [PM](#)



About the Author

Abdul Rastagar is a B2B marketer, fierce customer advocate, digital and future enthusiast, and all-around curious guy. When not expounding about all things marketing, he can usually be found outside climbing trees with his kids. Connect with Abdul at [linkedin.com/in/rastagar](https://www.linkedin.com/in/rastagar).

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21 TIPS

for Leading Product Teams

BY TYRELL MARA

THERE IS ONE COMMON THEME THAT RUNS THROUGH TECHNOLOGY leadership teams, from entrepreneurs and startups to product and program managers: Nothing is the same. From listening to the market to user-feedback programs, these initiatives look vastly different from organization to organization.

Despite the different methods, terminology and processes, I have found there is a playbook of key leadership skills that transcends a team's unique characteristics and applies to this fast-paced field as a whole. Here are 21 tips to help you lead, whether you're heading up a department or a cross-functional product-launch team.

1 Start with why.

This is arguably one of the most critical and widely accepted priorities of product management. You must have a deep and clear understanding of the market need, the product or feature's unique value proposition, and the total impact on the business.

2 Begin with leadership; focus on the team.

Don't overlook the importance of gaining alignment and insight from your top leadership. Do this early and check in often. Once alignment on vision is established, amp up the transparency and ownership with your development team; this is where your best ideas will come from.

3 Facilitate the gray area.

As you grasp the scope of your product development efforts, take time to bring core stakeholders together to work through the initial strategic planning process. Focus on informing, guiding and digging into meaningful conversations that will create the most valuable product for your customer.

4 Right-size your meetings.

Keep strategic planning sessions as small as possible

while still including those with a vested stake. You open yourself up to scope creep whenever you add stakeholders.

5 Guide the product plan with iterative releases.

Take an iterative approach to releasing your product wherever possible. Use this to guide conversations about how the product roadmap is continually updated and defined. Know that despite having a well-planned minimum viable product (MVP), these conversations will inevitably arise. Lean in.

6 Understand the goalposts within the goalposts.

With the launch or release of your product, you're aiming for the specific goalposts determined back when you defined the why and created a strategy. As you work through the product development process, keep an eye on where business goalposts shift to ensure that you maintain alignment.

7 Share the story.

What's the emotional hook your product creates with the customer? How does it link back to the why of the business?



Great leaders know how to quietly fade into the background and allow their fully engaged team members to shine.



Transform this into the product's internal story and share it. Create versions you can share in a 15-second elevator ride and during a five-minute coffee break.

8 Practice the art of communication.

As headcount and complexity increase, the need for clear, concise and consistent communication becomes more important. Leave no assumption or conflict unchecked; practice the art of constant—but not overbearing—communication.

Remember, a requirement that seems completely obvious to you may have been missed by someone else in the room. Take an extra five seconds to ensure everyone is on the same page.

Be sure to spend time each day communicating with stakeholders. This could be a stand-up huddle or a weekly check in. It doesn't have to be long, it doesn't have to be formal, it just needs to involve a conversation and human connection.

9 Ask if it's critical or non-critical, continually.

When your timeline is at risk, ask yourself and key stakeholders, "Is this story or feature critical? Is there iterative value to the customer without it? Can it fit in a future iteration?" What is the customer impact if you choose to postpone a feature until post-launch?

10 Create metrics and measure outcomes.

What is your measurement for success? Is it recognized and understood across the organization? And have you developed a list of criteria that will indicate a successful product launch?

What will tell you something isn't right before it's too late? Can you measure on-site engagement trends, bounce rate or shareability to determine whether a desired behavior or

outcome is not taking place? Turn these measurements into a KPI dashboard and share it with your engineers and key stakeholders.

11 Harness executive superpowers.

Have a clear understanding of the mission-critical pieces of work for a successful product development plan and launch. If potential roadblocks occur, use your regular executive check-in to raise a flag and request some leadership muscle to clear the path.

12 Sprint through the finish line.

Achieving product launch does not mean the job is done. Early on, spend time considering how the product will continue to evolve through the launch date and beyond. Think small tweaks, be iterative and strive for fast feedback.

13 Empower, autonomize and then let go.

At its best, leadership sets the foundation of a high-performing team early on, providing the opportunity to inspire engineers with the product vision and empower autonomous decision-making throughout the project's course. Great leaders know how to quietly fade into the background and allow their fully engaged team members to shine.

As you see opportunities to empower your team, be confident in the shared understanding of vision you have created. The more direct impact your team believes they have on the product, the more driven they will become.

14 Solicit continuous feedback.

Company demos should be a ritual in your process. Demos provide continual feedback from a range of meaningful perspectives and provide your organization an opportunity to rally behind the team's work. If you understand your market



problem and your solution, you can easily identify customers or users who will be a good fit for fast feedback. There are people out there who want to be your early adopters and champions. Are you finding them?

15 **Bring in marketing from the beginning.**

The world is a noisy place. How will your product slice through this noise and reach your market segment? If you're thinking "Build it and they will come," you've already lost. You can guide and facilitate the right launch or release strategy by involving the marketing team early on. Provide the relevant context that will empower them to bring the product to market most effectively and focus on the one or two biggest go-to-market opportunities.

16 **Get creative with beta.**

At first, the concept of an alpha or beta launch was intimidating. Over time I realized these terms can mean anything you want them to. The key is to define the purpose and outcomes of your beta as they relate to the entire product development process. For example, are you working out bugs? Soliciting user feedback? Running an influencer program? Measuring engagement? Ask yourself how long something will take and how it will significantly improve your public launch.

17 **Celebrate and acknowledge.**

Whether an engineer is making a final push to get a story across the line before sprint end or it's the completion of a major integration, celebrate and acknowledge the work of your team. It doesn't have to be a huge display, but it needs to be genuine and consistent. Take a minute to walk over and tell them how much you appreciated their effort. You'd be amazed at how far a handwritten thank-you card will go in building the morale and pride of your team.

The ability to stop and reflect before jumping onto the next piece of work will put you ahead in the long run.

18 **Commit to your standups.**

For these daily five-minute meetings to remain relevant, they must create value transfer between team members and stakeholders. While you may not be directly involved, you must ensure that these stand-ups are kept tight and run effectively. Some days it will feel like these meetings are the last thing the team needs to do, but have your standup anyway. The alternative is the beginning of a very slippery slope.

19 **Apply what works, then share that information.**

From the strategic planning process to the daily execution of product development, you will try things that work and things that don't. It seems painfully simple, but if something doesn't feel like it's working, discuss it with the team and brainstorm alternative solutions. Don't be afraid to question whether it is needed at all.

Be sure to share what you've learned with other leaders in your organization. Chances are, you're doing something that someone else could leverage; it's your responsibility to share that information.

20 **Just say "no."**

Apply the critical/non-critical lens to meetings, conversations and your work. Ask yourself: "If I don't attend this meeting, how will it negatively impact a feature or MVP, my team and the business as a whole?" If you have a hard time coming up with an answer, you've already found your answer.

21 **Reflect.**

The world of technology and product development continues to speed forward. Despite this, much of your work can be extracted from the technology or method you use and distilled into a more universal leadership approach. These are the lessons to acknowledge and share with teams in the future. It may seem counterintuitive, but the ability to stop and reflect before jumping onto the next piece of work will put you ahead in the long run. **PM**

About the Author

Tyrell Mara is a technology product leader at BuildDirect, the world's largest online marketplace for home-improvement products. With a background in entrepreneurship and marketing, Tyrell has an innate customer-first approach; he combines this with his passion for building high-performance engineering teams. When he's not in the boardroom, you can find Tyrell training for the 2020 Tokyo Olympics in track and field, coaching peers in leadership and intentional goal-setting, or traveling the coast in search of adventure and surf with his wife Natasha and daughter Olia. Connect with Tyrell at [linkedin.com/in/tyrellmara](https://www.linkedin.com/in/tyrellmara) or email him at tyrellmara@gmail.com.



HUG YOUR HATERS:

How to Embrace Complaints and Keep Your Customers

BY JAY BAER

RECENTLY I PARTNERED WITH THE HIGHLY RESPECTED attitude collection group Edison Research to take a close look at the current state of hate. We discussed customer-service expectations and outcomes with more than 2,000 American consumers who have complained about a company in the previous 12 months, with the study participants representing a statistically valid cross-section of ages, incomes, racial make-ups and technology aptitudes.

And what we found shocked us, both in its comprehensiveness and in its simplicity: *Answering complaints increases customer advocacy, across all customer-service channels.* This is true in some more than others, but the effect is present in every channel. If you answer complaints anywhere, it increases customer advocacy.

Conversely, *not answering complaints decreases customer advocacy, across all customer-service channels.* This is true in some channels more than others, based on traditions and corresponding expectations. But the negative effect of staying silent is also universal.

Customers feel better whenever and wherever you respond, and they feel worse whenever and wherever you don't. Our exclusive research found that answering complaints has a massive, consistent and linear relationship to customer satisfaction or dissatisfaction. What else could you possibly do as a business that would produce similar results across the board, other than perhaps dramatically raising or lowering prices?

This research was augmented by more than 50 interviews to form the strategic and tactical basis for my new book, *Hug Your Haters: How to Embrace Complaints and Keep Your Customers*. The book has a simple, powerful success equation that sadly isn't de facto among companies today: Answer every complaint. In every channel. Every time.

In every channel. This concept of interacting with customers in the venues they prefer is a critical part of the *Hug Your Haters* approach. It's about respecting the customers' right to select their own feedback mechanism and approaching customer service accordingly.

Admittedly, it's not easy to hug your haters. It takes cultural alignment, resource allocation, speed, a thick skin and an unwavering belief that complaints are an opportunity. But there are businesses that are already living by the rules of *Hug Your Haters*, and I hope you'll join their ranks.

How KLM Royal Dutch Airlines Hugs Their Haters

If there is one company in the world that epitomizes the philosophy and lessons of *Hug Your Haters*, it's KLM, the official national airline of the Netherlands, based in Amsterdam.

Compared to airlines in the United States, KLM's home market is quite small, with a population of approximately 16 million people living in the Netherlands. Consequently, KLM's primary business model is to transport as many people as possible from one part of the world to another. A major reason KLM has been able to succeed in that endeavor is that they differentiate their brand with customer service.



twitter

According to Karlijn Vogel-Meijer, global director of social media at KLM, "We believe that service is the basis of everything we do on social media, and that providing excellent customer service, that is the basis of everything we do."

In social media alone (not counting telephone and email support), as of this writing, KLM has 150 employees answering questions and addressing complaints, 24 hours per day, seven days a week, in 14 languages. They are hugging haters in Dutch, of course, and also in English, Japanese, German and even Turkish. They leave no interaction unanswered and even provide a response-time estimate at the top of their Facebook and Twitter pages, updated every five minutes. So, if you want to ask a question of KLM, or sound off to them on Twitter, a quick glance at twitter.com/klm shows that you can expect a response within 11 minutes (at the exact moment I wrote this sentence).

How's that for accountability and setting expectations for customers?

But KLM's journey to fully formed customer-service powerhouse was triggered not by a strategic planning session or executive decree, but by a volcano. In 2010, a massive eruption of the Eyjafjallajökull volcano in Iceland caused the cancellation of 107,000 flights over an eight-day period, impacting the travel plans of approximately 10 million passengers.

As Vogel-Meijer recalls, it was chaos at KLM. "We had thousands of our customers trying to reach us, all at once. Obviously, back then, they first turned to e-mail and phone. But then they turned to social media. We had a social media presence at the time, just like a lot of other brands, but we were just trying to figure out what to do with Facebook and Twitter. We just posted some nice stuff and that was mainly it. Suddenly, there was a flood of questions coming in from people asking us 'I need to go to my wedding. How do I get to my wedding? I'm not able to get out of the Netherlands. I'm not able to get out of wherever.'"

One decision changed the short-term nature of how KLM dealt with their volcano-impacted customers, and this decision ultimately altered the corporate culture and fundamental DNA of the company. Vogel-Meijer remembers it clearly: "There was this specific moment where an employee went into the office of our vice president of e-commerce at the time and said, 'Listen, we can either pretend the questions are not there or we can start answering. But be aware, if we start, there won't be any way back.' And our vice president said, 'Answer them all.'"

Because planes were grounded, many KLM team members were sitting around the airline's home base at Schipol airport, talking about airborne ash. So once the decision was made to engage every customer and answer every question and complaint, it was an all-hands-on-deck scenario.

"There were hundreds of people from all over KLM at tables with their laptops, answering questions from customers, and that was the start of our social media service program," Vogel-Meijer recalls.

KLM didn't stop responding to their customers once this particular crisis ended. Rather, they've just codified and expanded their service. And how could they stop, even if they wanted to do so? You can't very well say to your customers, "Yeah, that amazing customer service we provided on Facebook and Twitter? That was just a volcano special!"

They never stopped, and neither will you. Because once you start hugging your haters and embracing complaints, you'll never want to let them go.

Answering every complaint and question, in every channel, every time, requires substantial effort and commitment. But there is a significant—and often, transformative—business case for this method, beyond just the psychically satisfying notion of answering complaints because "it's the right thing to do."



Why Hugging Your Haters Makes Business Sense

Your business improves in four ways when you hug your haters.



Benefit 1: Turning Bad News Good

At its core, the most important reason to answer complaints and hug your haters is that it at least gives you a chance to recover and retain an unhappy customer. Far too many businesses care too little about retention, placing much emphasis on outbound marketing and the attraction of new customers, with comparatively little attention paid to keeping the customers they've already paid to get. After all, a 5 percent increase in customer retention boosts profits by 25 to 85 percent.

You may have heard the saying, "Advertising is a tax paid for being unremarkable." It's usually credited to Robert Stephens, the founder of the computer and electronics repair company GeekSquad (now part of Best Buy). A better and more accurate phrasing of that concept might be, "Advertising is a tax paid when you're not good enough at retaining your current customers," and you can attribute that one to me.



Benefit 2: Creating Customer Advocacy

It is a remarkable psychological phenomenon. When people have a problem and that problem is solved, they love you for it. It's the business version of the axiom, "The best measure of a man isn't when things are going well, but rather when things are going poorly."

This dynamic—the ability to actually create customer advocacy using complaints and problems as a springboard—has been documented for decades. In his book *The Squeaky Wheel*, Guy Winch, Ph.D, recounts how, in 1978, John Goodman and his fledgling company, the Technical Assistance Research Program (TARP), were tapped by the RAND Corporation to oversee studies on customer service in the U.S. government.

This and a second set of studies found that when complaints are handled to our satisfaction, we actually become more loyal than we were before we had the problem.

That loyalty produces not just happy, talkative customers, but real revenue. You probably believe in your heart that customer satisfaction matters, but it matters in your wallet as well. Remarkable research from the Bain & Company management consulting firm found that in the U.S. banking industry, customer advocates are each worth \$9,500 more than detractors.



Benefit 3: Gathering Insights and Intelligence

Answering customer complaints can recover customers and cause them to rush to your defense and actually spend more money with you over time. But one of the least discussed benefits of hugging your haters and paying attention to customer feedback is the potential to glean insights about your business that can improve your operations and processes. After all, very few people complain without a reason to do so. Are you listening—really listening—to each of them?

It's important to recognize that haters actually take time to let you know what they think, giving you an opportunity to take action that not only could potentially mollify them, but also fix the underlying cause of the problem, eliminating complaints from the next batch of customers. Haters are the canaries in the coal mine. They are the early warning detection system for your business.

Remember, haters are not the problem. Ignoring them is.

The real problem for your business are the people who have a poor experience but are not passionate enough about you and your company to take the time to say something about it in a form

Haters are the canaries in the coal mine. They are the early warning detection system for your business.





Unhappy customers who care enough to complain give you a roadmap for how to fix your business.

or fashion that you can find and act upon. They are the “meh” in the middle, and they are what kills businesses.

Renowned digital marketer, technology investor and author of *Jab, Jab, Jab, Right Hook*, Gary Vaynerchuk has a blustery style that draws complaints from people who do not like his approach. But that’s the group to which he pays the most attention historically. “I’m a big fan of people that are publicly negative about you, because the ‘invisible negative’ crew is the thing I’m most scared about,” he says.

John Goodman’s research at TARP also found that 95 percent of disgruntled customers never complain to the entity responsible for their dissatisfaction.

That 5 percent of your unhappy customers who do care enough to complain give you a roadmap for how to fix whatever ails your business. Because while the people who take the time to complain are a small percentage of your overall customer base, the conditions of their dissatisfaction apply to all customers. In this way, the haters are the vocal representatives of everyone your company serves.



Benefit 4: Differentiate From Your Competition

So few companies hug their haters today that those that make this commitment are almost automatically differentiated and noteworthy when compared to their competitors.

Customer service and customer experience matters. And it’s going to matter even more in the future. The world is inextricably linked now, by transportation and technology that was unthinkable 20 years ago. This global interconnectivity mutes the advantages of price and location that businesses formerly used to create market inefficiencies and gain a disproportionate share of customers.

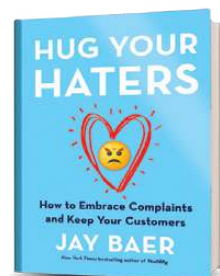
In today’s world, meaningful differences between businesses are rarely rooted in price or product, but instead in customer experience. How does each provider make you feel when you interact with them? It is in the provision of standout, noticeable customer experience (the real-world embodiment of the brand promise) where great companies shine and mediocre companies shrink.

The customer intelligence consultancy Walker Information released a research report in 2014 that stated that in business-to-business scenarios, customer experience will be more important than price by 2020.

Realize, however, that to truly differentiate your business with customer experience, you have to clearly outpace your competition in this regard. Making a commitment to “be better at customer service” isn’t going to get the job done. Instead, as Walker suggests, you need to “create an unrelenting focus on the customer.”

The best marketers are those that can weave together customer acquisition, customer retention and customer experience in a coherent and holistic system. But it’s not easy, especially given that customer care has traditionally fallen outside the realm of the marketer. But with so much of today’s customer interactions playing out in public in social media and beyond, marketers have a role (and a responsibility) to broaden their scope. **PM**

Book excerpt from *Hug Your Haters: How to Embrace Complaints and Keep Your Customers Happy* by Jay Baer. Copyright © 2016 Convince & Convert. All rights reserved. Published by Portfolio | Penguin.



Hug Your Haters is full of resources to assist in this transformation: many case studies; the Hatrrix—a poster that illustrates who complains, where, why, and what they expect; a full discussion of cutting-edge blends of marketing and customer service; and much, much more. Find more at HugYourHaters.com.

About the Author

Jay Baer is president of Convince & Convert, an online customer service and digital marketing consultancy and media company that advises some of the world’s most iconic organizations, including the United Nations, Oracle and Adidas. He is the *New York Times* bestselling author of five books, including *Hug Your Haters: How to Embrace Complaints and Keep Your Customers*. The world’s most retweeted person among digital marketers, Jay writes for *Inc.*, *Entrepreneur*, and *Forbes* magazines online. He owns the world’s No. 1 content marketing blog and produces multiple award-winning podcasts. Find him online at ConvinceAndConvert.com, JayBaer.com, and @jaybaer on Twitter.



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