

In the next five years, which software related businesses will grow faster or slower than others and why?

2013: The year of the customer centric enterprise

Software companies, which are successful in transforming their organization and business processes around customers, will grow faster than others over the next five years.

It is obvious that a customer centric transformation is required.

Most software companies intuitively understand that they should pay more attention to their existing customers. On average 61% of software revenues now come from existing customers and with the widespread adoption of pay as you go pricing and land and expand selling models this percentage will grow further in the years to come.

There is much research to back up a claim that customer centric companies will grow faster than their peers. Aberdeen research shows that companies which collect, analyze and act on customer events from multiple sources have 3x greater customer retention, 20x greater account value growth year-over-year, 17x better revenue preservation from existing customers, 5x larger customer lifetime value and 2x greater overall revenues. Those are some pretty compelling numbers.

[Also research that shows a 20x greater valuation, but need to find source]

The transformation to a more customer centric organization is well underway.

In a survey conducted by Totango in the fourth quarter of 2012, we found that 57% of software executives are implementing more customer centric metrics such as 'customer retention' and 'customer lifetime value'.

Software companies are also transforming their organization chart. The most recent Totango 'Customer Centric Scorecard', conducted in February 2013, found that of more than 100 early adopter software organizations, 57% have a dedicated customer marketing function, 69% have a dedicated customer success team and 63% have a dedicated account management (or former sales) team. It is not difficult to see how five years from now 100% of software organizations will have these functions.

Customer facing business processes are lagging behind.

Whereas new teams are being established to focus on the customer, the tools and processes that these teams work with are lagging behind. The same February 2013 Totango 'Customer Centric Scorecard' revealed that significantly less than half of companies were able to provide

their customer success team with a prioritized list of accounts at risk and an equally low percentage of companies were able to give their account managers a prioritized list of customers which are most likely up sell candidates. A recent report by [source] on Customer Lifecycle Marketing shows that most companies struggle to know who their most loyal and profitable customers are, let alone know how they can influence customers to become more loyal and profitable.

At Totango we analyze and manage the customer engagement with over 10 million software end users. From this we know that, on average, half of users are not using the software they paid for. Software non-use is a major factor in churn, yet most customer facing personnel do not have access to such information. For example, when we recently signed up for the free trial of ten well known software companies we found that that seven out of these ten did not have a way to alert their sales team to the fact that we were totally passive during the free trial.

So if you want to become a customer centric enterprise, what should you do?

So what should you do after establishing new customer facing functions such as a dedicated customer marketing, customer success and account management team? Here are five steps to take to ensure that these teams (and your company) will be successful:

1. Define the customer journey(s)

A good place to start when designing your company around customers is to map the journey your most loyal and profitable customers are making to reach the ultimate value of product or service. Churn often starts with customers getting stuck somewhere on this journey.

2. Create a central customer engagement database

Next, create a central database, shared by all customer-facing personnel, where you collect customer events from multiple sources. The first thing to monitor is whether customers are on track or off track on their journey to value.

3. Use predictive analytics

New big data and predictive analytics technologies make it possible to cost-efficiently process customer events at a large scale and tease out buy or churn signals in real time. For example, you can create risk (churn) or opportunity (up sell) alerts based on correlating customer events from disparate sources, behavioral trends or customer benchmarks.

4. Define the appropriate action for each customer alert

Collecting customer insights is good, but only if you also define the right follow-up action for each alert. A follow-up could be a call checking in with the right customer at the right time or a special offer delivered automatically via e-mail.

5. Automate as many of the follow-up actions as possible

Even when customer follow-up involves a (sales/customer success) person, automate the creation of a task and where possible use marketing automation and personalized email campaigns. Only when you automate some of your customer facing processes, can you be sure that they are executed consistently.

Customers are not names in a database. Customer actions speak louder than words. If you listen to customer actions in real-time you will find opportunities (for up sell) and risks (of churn). It is your job to proactively act on these signals and you too can create customers who will love you for life and, in doing so, outperform your peers.

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