Customer Strategy E-book

Million-Dollar Metrics

Peak Customer Interest. Make Millions More.

new territory

CAD

Introduction

Profit is earned by creating significant value for customers.

However, different customer segments differ in needs, preferences and opportunity.

It is unreasonable for an enterprise to expect to create significant value for every customer segment.

Some customers cost an enterprise more to sell to than others.

It's long been established that less time and money is required to retain existing customers than to acquire new customers.

As the legend goes: a 5% increase in customer retention yields a 25% increase in profit.[1]

Some customers are more valuable to an enterprise than others.

Research reveals that a typical enterprise generates the majority of its profit from a minority of its customers. Amazingly, as much as *150% of profit* in some cases.

(How does one segment generate greater than 100% of profit? When another generates negative profit.[2])

Assuming cost structure is unchanged, the enterprise would be better off *NOT* selling to the *negative*-profit segment and, instead, reallocating scarce resources to grow the size of its majority-profit segment.

Some semi-valuable customers could become high-value customers.

The largest segment of a typical enterprise's customer base tends to be made up of minimally-profitable customers.

By identifying key "value drivers" an enterprise can implement hyper-specific initiatives to capture more revenue with less expense from this segment. The net effect being improved profitability.[3]

Our stance is that significant, sustained profitability is best achieved by creating value for specific customer segments.

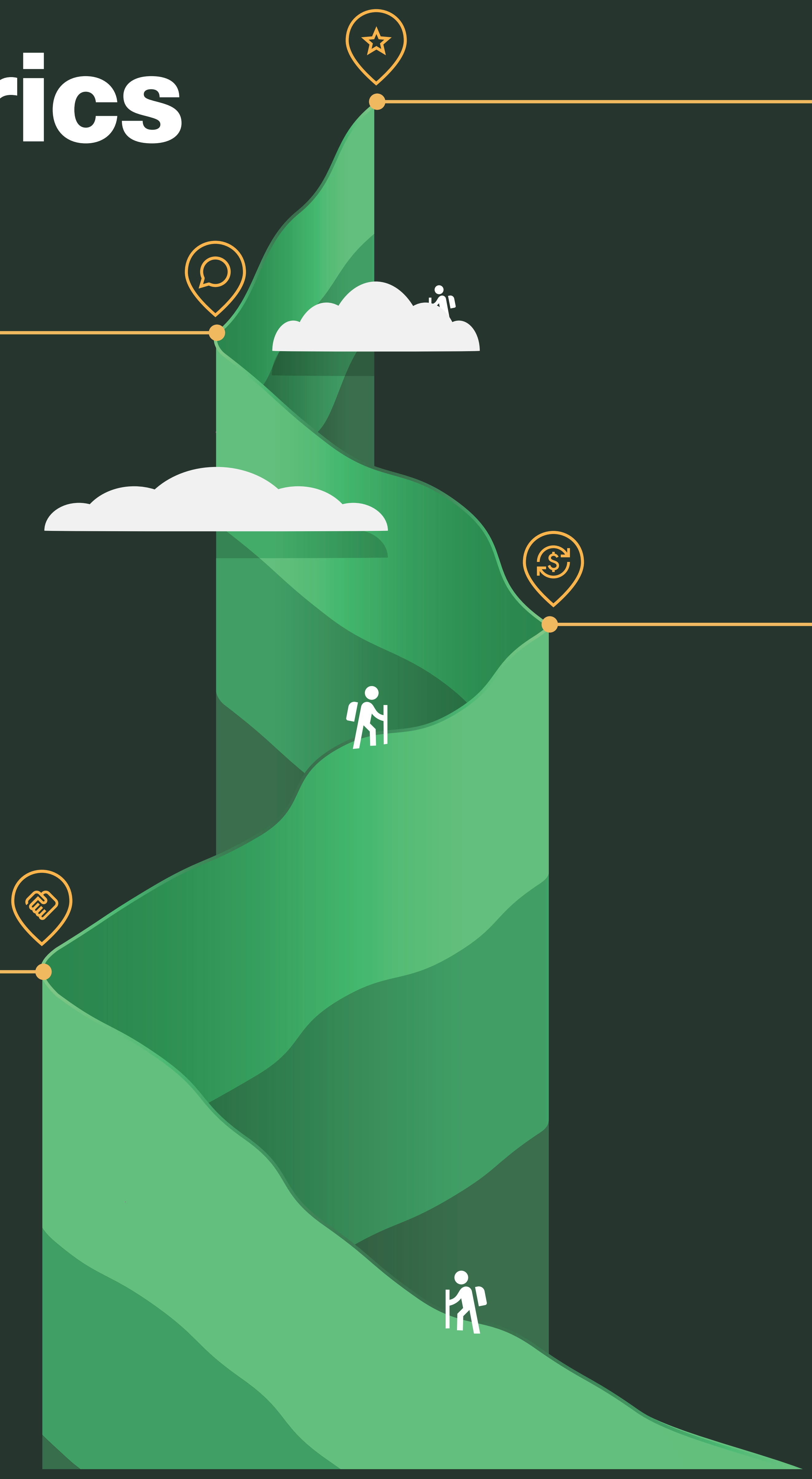
Customer Strategy is the practice of making business decisions based on a comprehensive understanding of customers.

This comprehensive understanding leads to strategically improved processes that garner greater loyalty and therefore maximize value capture from target customer segments.

In other words, Customer Strategy leads an enterprise to peak customer interest and make millions more.

Ref 1: https://media.bain.com/Images/BB_Prescription_cutting_costs.pdf
Ref 2: https://hbr.org/2021/11/theres-still-profit-potential-in-your-low-profit-customers
Ref 3. https://www.entrepreneur.com/article/314490https://sloanreview.mit.edu/article/to-cut-costs-know-your-customer/?use_credit=0bdee6270d618891314348c65892e24b

Million-Dollar Metrics



Referrals

Systematically asking customers for referrals is a good place to start for the many Canadian enterprises that aren't doing this currently.

2%
New Incentive Structure = 2% Increased Annual Growth Rate of high-value segment

$2.8M
Increased Annual Growth Rate X above average margin X higher selling multiple

Retention

An enterprise that is proactive in acquisition and reactive in retention is likely reducing its profitability. Taking a different approach could earn owners ~$1M more profit over 5 years of conservative growth.

4%
Improved Interactions = 4% Increased Retention.

$3.4M
Increased Retention X above average spend X higher selling multiple

Reputation

An enterprise that can reliably fetch prices higher than its industry peers is likely a more profitable enterprise and certainly a differentiated one.

5%
Increase in profit margin for mid-value customer segment

$3.4M
Increased Profit Margin X status quo revenue projections X higher selling multiple

Repeat Revenue

More return from less investment means much more profit. Even $3.6M more. But repeat purchases are far from guaranteed.

1%
Targeted promotions = 1% more growth per year from high-value segment

$3.6M
Increased Revenue X strategic segment margin X higher selling multiple

Calculations based on the following baseline measurements:

Annual revenue:	$10M
Profit (EBITDA) margin:	10%
EBITDA earned:	$1M
Projected annual growth rate (industry average):	4%
Typical selling multiple for SME acquisitions:	3x-5x EBITDA
Baseline selling multiple:	4x EBITDA
Improved selling multiple:	5x EBITDA

Retention

MDM#1

Significance of Retention Rate

Customer acquisition is expensive. As the saying goes (and research shows) it costs less to keep an existing customer than to acquire a new one. Save for the rare exception, an enterprise that is proactive in acquisition and reactive in retention is suppressing its profitability.

Retention Rate is the inverse of 'attrition rate' which is defined by the percentage of total customers in a given fiscal year that terminate their relationship with an enterprise in the same time period. Retention Rate is Million-Dollar Metric (MDM) #1.

How to Influence Retention Rate

Strategically adjusting the language and communication style service staff use with customers has the potential to increase customer satisfaction. This satisfaction goes hand in hand with trust which leads to more sticky and therefore more profitable relationships.

Significance of Predictable EBITDA

In other words, owners earn more every year.

The example to the right shows modest improvements in retention rate yield $1.05M more EBITDA over five years of conservative growth.

EBITDA is also likely the number that will be multiplied to determine an appropriate selling price when the time comes to exit.

Improved retention improves the predictability of EBITDA which, in turn, is worthy of a higher selling multiple.

The example to the right shows that an increase from 4x EBITDA to 5x the higher EBITDA yields an incremental $2.13M for owners.

Ref 4: https://www.grantpackard.com/PackardBerger2020_Concrete_WorkingPaper.pdf

Measurement	Baseline (Year 0)
Annual Revenue (year 0)	$10M
Profit Margin (year 0)	10%

	Status Quo (Year 5)	Customer Strategy (Year 5)
Cumulative EBITDA	$5.6M	$6.7M
Annual Growth Rate	4%	4%
Retention Rate	87%	91%
Selling Multiple	4X	5X
Selling Price	$4.9M	$7.2M

Difference in Earnings	$3.4M

Repeat Revenue

MDM#2

Significance Of Repeat Revenue

It's worth repeating: customer acquisition is expensive. One reason why retained customers require (up to 80%!) less investment than newly acquired customers is because, simultaneously, on average, more return is earned per customer. More earned from less investment means much greater EBITDA. But repeat purchases – especially of increasing size - are far from guaranteed.

Repeat Revenue (the inverse of what other sources referred to as 'churn rate') is defined by the percentage of total customers that made a purchase from an enterprise in both the previous and current fiscal year. Repeat Revenue is a Million-Dollar Metric (MDM) #2.

How To Influence Repeat Revenue

Sales staff who leave their customer to fend for themself between sales cycles forego the chance to deepen, differentiate and therefore protect that relationship from every other cold-caller vying for the same customer's attention. They also miss out on upsell opportunities.

For example, an enterprise can perform timely check-ins in order to proactively address FAQs (increasing satisfaction) and uncover new opportunities (increasing revenue.) The timing and nature of these check-ins can be designed to contain costs and maximize benefits.

Significance Of Higher EBITDA

An enterprise that programmatically promotes additional products and services to existing customers also increases its attractiveness to potential buyers because doing so leads to a higher EBITDA. In turn, the selling multiple for the enterprise increases.

Ref 5: https://www.mckinsey.com/industries/retail/our-insights/personalizing-the-customer-experience-driving-differentiation-in-retail

Measurement	Baseline (Year 0)
Annual Revenue (Year 0)	$10M
Profit margin (year 0)	10%

	Status Quo (Year 5)	Customer Strategy (Year 5)
Cumulative EBITDA	$5.6M	$6.4M
Annual Growth Rate	4%	4% + 1% additional growth/year
High-Revenue Segment prop. of total customers	20%	30%
Selling Multiple	4X	5X
Selling Price	$4.9M	$7.7M

Difference in Earnings	$3.6M

Referrals

MDM#3

Significance Of Referrals

Customer acquisition is expensive – but necessary. To survive (in the black) virtually every enterprise must acquire new customers.

Some means of acquiring customers are more effective than others. One particular means may just be the holy grail: Referrals.

Referrals are defined here as instances when an existing customer (or business partner) of an enterprise recommends that enterprise to a person they know (ipso facto, a prospective customer.) Referral Rate – the percentage of total customers in a given fiscal year that were acquired by the enterprise through a referral – is Million-Dollar Metric (MDM) #3

How To Influence Referrals

Actively asking customers for referrals (that a surprising number of Canadian enterprises are not systematically doing yet) is a good start. But, after a certain point, asking more often is unlikely to yield more referrals. Instead, strategic enterprises can increase referrals by framing the ask – and associated incentives – in a way that serves customers' sense of altruism. Essentially, a way that positions customers as the hero.

Significance Of Increasing EBITDA

The implementation of such a customer referral initiative achieves a rich variety of good things for the enterprise.

- Referred customers tend to be retained longer (MDM #1) and spend more (MDM#2) than those acquired by other means.[7]
- More new customers + more existing customers + more earnings per customer equals an increasing EBITDA trend.
- And – you guessed it – a trend of increasing EBITDA is very attractive to potential buyers.

Ref 6: https://knowledge.wharton.upenn.edu/article/how-to-increase-word-of-mouth-referrals/
Ref 7: https://hbr.org/2011/06/why-customer-referrals-can-drive-stunning-profits

Measurement	Baseline (Year 0)
Annual Revenue (year 0)	$10M
Annual Growth Rate	4%

	Status Quo (Year 5)	Customer Strategy (Year 5)
Cumulative EBITDA	$5.6M	$6.4M
Profit Margin	10% (Year 1)	11%
High-value segment proportion	20%	22%
Selling Multiple	4X	5X
Selling Price	$4.9M	$6.9M

Difference in Earnings **$2.8M**

Reputation

MDM#4

Significance Of Reputation

New Territory defines Reputation, Million-Dollar Metric (MDM) #4, as the greater affinity or preference customers have for an enterprise compared to its direct competition. Reputation can be quantified by a customer's willingness to pay – how much an enterprise can charge for a product or service relative to the market. Apple is a classic example of how one player can charge a higher price than the rest of the market because of customers' positive attitudes towards the brand. If an enterprise has similar costs but higher prices (and, potentially, greater market capture) than its industry peers it will be much more profitable and, in the right hands, able to further differentiate itself.

How To Influence Reputation

Without systematically auditing customer experience and attitudes, an enterprise cannot - and should not – assume it is meeting customer expectations. More so, without proper measurement, an enterprise cannot demonstrate that the systems in place (sales and service protocols) have a reliable, positive impact on target customer (satisfaction, loyalty) and financial (revenue, profit) metrics.[8]

Instead of tracking customers' wishful thinking through Net Promoter Score, Canadian Enterprises should measure customer attitudes that research has proven are actually related to (indicative of) future behaviours such as buying more, paying more and referring more.[9]

Significance Of Higher EBITDA

By systematically measuring and improving customer experience and resulting attitudes, an enterprise will be able to charge higher prices. This means a higher EBITDA and, down the road, a higher selling multiple - generating millions more in earnings for owners.

Ref 8: https://www.forbes.com/sites/shephyken/2018/01/28/would-you-rather-clean-a-toilet-or-contact-customer-service/?sh=3caff8e04f88
Ref 9: https://www.apexscore.ai/blog/apex-scoring-system-vs-nps

Measurement	Baseline (Year 0)
Annual Revenue (year 0)	$10M
Profit Margin (year 0)	10%

	Status Quo (Year 5)	Customer Strategy (Year 5)
Cumulative EBITDA	$5.6M	$7.6M
Annual Growth Rate	4%	4%
Average Profit Margin	10%	15%
Selling Multiple	4X	5X
Selling Price	$4.9M	$8.2M

Difference in Earnings	$3.4M

We Are New Territory

New Territory helps Canadian Enterprises operationalize customer loyalty to maximize profitability.

New Territory is a customer research consultancy that specifically serves the growth ambitions of midsize Canadian Enterprises.

We creatively combine progressive academic thinking with real-world practicality to offer midsize Canadian Enterprises a practical path to prosperity through the delivery of a single, modular Strategy Development Program.

New Territory believes mid-market prosperity leads to people prosperity: more choice for customers, more opportunity for job seekers and more resources for communities. By helping midsize Canadian Enterprises grow, we support the creation of new socio-economic value.

New Territory hires Canadian Youth to develop advanced skills on the job.

New Territory, in collaboration with non-profit University Consulting Group (UCG), offers qualified post-secondary students the opportunity to further their skills and career while recognizing and rewarding their existing experience.

Student Associates are trained, coached, introduced to lesser-known markets within the Canadian private sector and paid appropriately for their time.

This one-year experience increases the value of these youth to their future Canadian employers and therefore the Canadian economy.

START YOUR ADVENTURE

or visit **newterritory.ca** for more information.

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