
PRACTICAL
CSM
practicalcsm.com
Certified Customer Success Management Professional
CCSMP


PRACTICAL
CSM
practicalcsm.com
Certified Customer Success Management Professional
Module Two:
Business Fundamentals
Workbook One

Welcome to Module Two of the PracticalCSM.com Certified Customer Success Management Professional training course. As you know, my name is Rick Adams and I am the senior consultant here at Practicalcsm.com, and I am also your instructor for this course.

Module Two takes a departure from the book and indeed from the topic of customer success management itself, and instead focuses on the fundamentals of business. The reason we have included a module on Business Fundamentals is because a good level of business awareness is important for customer success managers to have – especially if they work for a company that sells its products or services to other businesses rather than directly to consumers – yet relatively few CSMs ever receive any training or even any formal information about how businesses work. Additionally, relatively few CSMs come to the role already *with* this knowledge. Finally, there is perhaps less out there in terms of accessible training content that CSMs can get hold of to educate themselves on the topic of business compared to say soft skills like time management and negotiation, or harder skills such as project management or data analysis. It therefore often remains as a knowledge gap for CSMs, which in turn reduces their effectiveness in the performance of their duties.

In Video One we will be covering the following topics:

The connection between customer success managers and business awareness, the reasons why businesses exist in the first place, how businesses create value for their owners and who else businesses create value for, and finally how expenditure and profits are calculated.

Customer success managers exist to help customers, and for many companies that CSMs are employed by, their customers are other businesses. Therefore, the CSMs of those companies must be familiar with the fundamental concepts of *why* businesses exist, *what* businesses do and why they do those things, and finally *how* they do those things.

Depending upon what it is that the CSM's company sells, the CSM may have to engage with business owners, business leaders and/or senior managers as well as with the specialist users or lower level managers of whatever it is that the CSM's company sells (for example the IT department for IT equipment, the Manufacturing department for manufacturing equipment, the Finance department for accountancy services, and so on). Generally speaking, the likelihood of the CSM engaging with business leaders and senior decision makers increases when the customer is purchasing higher priced, wider ranging and more complex products and services with the intention of them providing comprehensive solutions to complicated business challenges, and reduces when the customer is purchasing less complex equipment or services at lower costs, that are intended to provide specific functionality to fulfil a particular technical requirement.

.

So for example, if a customer purchases new coffee machines as a fully managed service to replace older, less efficient models in employee's kitchen areas that the company has to employ people to manage and maintain, this may not need as much attention from senior business leaders as if the customer was purchasing a new production facility that for example was intended to double their manufacturing output and increase their manufacturing quality and efficiency. Obviously in the case of the manufacturing facility, this will have a profound impact on the company's capabilities and will be a major capital and ongoing investment that will demand senior leadership involvement at every step in the process. However, even in the case of something like the coffee machines, there is still an investment decision being made, and although the CSM may in this instance be less likely to be talking directly to senior decision makers, the CSM still needs to understand how businesses work in order to be able to help the perhaps more junior manager that they do meet to understand how to measure and report on cost efficiency savings, staff time and productivity savings and increased employee satisfaction levels, so that those decision makers are able to calculate the return on investment from the coffee machines service in order to decide whether or not to renew the contract when it comes to its end, and at what level to renew it.

The point I want to make is this – when selling complex solutions aimed at solving complicated business problems, the customer success manager will need to have a profound understanding of how businesses work, and should expect to be liaising with, reporting to and providing assistance to senior business leaders and decision makers who will expect the CSM to understand their world and to react to their needs accordingly. But even when the products and services the CSM's company sells are relatively simple and solve less complex challenges, it is still desirable and indeed oftentimes necessary for the CSM to be able to help the customer's stakeholders to get the product or service onboarded, adopted and generating value for the company and then to know how to measure and report on that value to prove a return on investment to those higher up the business chain who may not be involved in the day-to-day operations but who still need to know that value is being realized from the initiative in order for them to consider renewing the contract and/or purchasing more of the same product or service in the future.

All businesses are different in their details, but a basic understanding of the why, how and what of business such as we will be going through can be applied to *any* type of business, from a large, multi-national manufacturer through to a small, local legal firm, or from a relatively new, hi-tech startup to an older, more well established retail store chain.

It also applies to non-commercial organizations. By "commercial" incidentally, I am referring to a company's existence to make financial profits, rather than to the size of the company, which the expression "commercial" sometimes refers to. Whilst not-for-profit organizations such as government departments and charities may not be attempting to provide profits for their owners, they do still share most of the basic features of commercial companies, in that they still have customers for whom they need to deliver some kind of service, they need to prove the return on investment into them in terms of the amount of value they create, and they will have to employ people in various roles to perform the functions and activities that are required to give them the capabilities they need in order to generate that value.

When it comes to reporting on outcomes, customer success managers for non-commercial customers may need to think a little harder about how those outcomes need to be expressed, and may sometimes need to express them in terms other than or in addition to financial terms, but the basic role and functionality of business remains the same, and the role of the CSM in helping the customer to attain its outcomes also remains the same.

Most businesses exist in order to generate *value* for the business's owners. This may seem like a statement of the obvious, but in fact it is a very profound statement, and one which needs to be fully appreciated in order to really understand what businesses are, how they work and why they do the things that they do.

The first thing that CSMs need to be aware of is that types and amounts of value differs between different customers and even between specific initiatives within any one customer organization. Value can mean all sorts of things, and one of the first tasks of a customer success manager when faced with a new customer engagement is therefore to learn what "value" means to that specific customer and/or to the particular initiative their company's products and services have been purchased to assist with.

The reason why businesses are used as the medium for generating that value are basically threefold.

The first reason is *specialization*. There is a very finite limit to what any one individual can know or do. An individual might be a great farmer, or a fantastic salesperson, or a wicked mechanic, or a wizard at finance. Each of those are entirely possible, but being *all* of those is asking too much of even the cleverest of people. So if the society in which the businessperson resides has needs for more than the most basic of products and services then working together as a business is a great way of enabling all of the different specialists required to create those more complex products and services to come together under one banner to do so.

The second reason is *scales of economy*. Some things just cannot be done efficiently except at scale. For example, it would be very difficult to make a complex product such as an automobile at anything like an economic price if one person was making them by hand, even assuming they *did* have all the knowledge and skills to do so. Far more economical to have a larger production line for manufacturing and assembling *lots* of cars simultaneously so that each individual automobile becomes affordable for customers to purchase.

The third reason is *funding*. Maybe the individual who makes an automobile by hand would *love* to have a big factory and employ hundreds or even thousands of people to design, make and sell their cars, but how many individuals are likely to have the sort of money needed to pay for all the premises, equipment, peoples' salaries, raw materials and parts, marketing and sales activities and so on that even a relatively small automobile manufacturer requires? So instead of this, a person or a group of people can form a company. The benefit of this approach is that each person can then have just a *part ownership* in that company. So now the person with the idea can form their company and can for example sell half of the ownership of the company to an investor. The investor provides the money, the founder does the work, and the two of them divide the profits equally between them.

In this way, ownership of a business can be shared between multiple people, or even between *other* companies that in turn are owned by yet other companies, or by people, or by a combination of the two. Each part-owner has a share of the business that is proportional to the value of their investment in that business, and indeed the divisions of ownership are generally referred to as “shares”. So for example one investor might own twice the amount of shares in a business as another investor, or twenty times, or two thousand times the amount. It all depends of course on both how much they invested and on what each individual share of the company was worth at the time they made the investment.

Each company’s profits are calculated every year and the tax they owe to the government is paid based upon the profits made by the business as shown within the financial statements that the company will provide to the government.

Some companies are what is called privately owned. Shares in a privately owned company are not freely traded anywhere and cannot be easily bought and sold except by private negotiation between an existing shareholder and a prospective investor. Other companies’ shares *are* freely traded on a market and this is often referred to as a stock market or stock exchange. Examples of stock markets include the New York Stock Exchange, NASDAQ and the London Stock Exchange, although many hundreds of other stock markets exist around the world.

With a publically traded company, the rules and regulations are greater in order to protect the general public who are now able to purchase and sell their shares. These companies' finances are independently audited each year by specialist accountancy firms called auditors, who are duty bound to produce fair valuations of the company's financial dealings. A financial report detailing the financial operations of the company over the previous twelve months has to be published for the public to be able to view. There is therefore an additional cost (and quite a considerable one) associated with "going public" over remaining as a privately held company. However, it may be much easier for companies to attract the levels of investment required to fund their operations by having their shares publically traded than if they can only be purchased privately.

In essence then, companies exist in order to create value for their owners. The financial value they create is shared between its owners, based on the number of shares they hold. Shares can either be privately held or publically traded on a stock exchange. In the latter case, the company has access to a wider number of investors to buy their shares, but in return needs to make public more information about their financial situation.

As we have seen, businesses exist as a vehicle for value creation. The first and most obvious beneficiary of this value is the business owner, who may own all or a large proportion or even a very small share in the overall company. So how are owners rewarded for their investment?

Each year the company might decide to pay its owners an amount of money called a dividend. This amount is calculated based upon the previous year's profits and is divided equally between shareholders based upon the size of their shareholding. This is one way in which shareholders get paid for their continued investment in the company. Obviously the longer the shareholder holds on to their shares for, the more annual dividends they will receive.

The second way in which investors receive value from their investment in a company is by purchasing shares in a company at a lower price, then holding those shares until the price goes up and then selling the shares at a higher price. The difference between the price the shares were purchased at and the price the shares were sold at is therefore the profits that an investor makes on the deal. The act of buying and selling shares is referred to as "trading" and a "trader" is a person or company that specializes in making money on the trades they make. Traders therefore tend not to be pure play "investors" as such because they do not hold on to the shares as an investment but instead sell the shares after a few months, weeks, days or in some cases even hours once they have made their anticipated profit. Investors instead tend to purchase and hold on to their shares either for a number of years or sometimes even forever.

As previously mentioned, shares in a business can be owned by another company as well as by individuals. Investment firms such as venture capitalists who fund higher risk companies in return for (hopefully) spectacular rewards later down the road, and pension companies that invest their pension funds in a broad range of safer companies in order to get a more risk averse annual return for their pension owners are two examples of companies that specialize in owning shares in other companies.

Another example of a business owning another business would be a government department. In this instance the inverted commas “business” that owns the government department is of course the government itself, which in turn owns it on behalf of the public. In the case of the government department, it may not be trying to turn a profit, but it will still be audited each year and its finances scrutinized to ensure that it is acting in the best interests of its owners (ie the government and ultimately the public) by creating value for the department’s users and by doing so in an effective and productive manner that ensures that tax payers’ money is being used efficiently and wisely. In this instance then, the value that is being created for the government department’s ultimate owners is the service they receive from that government department at an economically efficient level compared with the taxes they have paid in order to fund that service. A similar financial case can also be made for charities. Therefore, even in the case of a not-for-profit organization, the concepts of value generation for owners (or at least for funders) still stand.

Much more could of course be discussed about corporate ownership and value creation for those owners, but we will need to leave the topic there. CSMs who are interested in the topic are of course encouraged to continue their learning via books and other training courses aimed specifically at how businesses work and how money is made from them.

Aside from the shareholders or other business owners, who else do businesses generate value for? The other categories of beneficiaries from a business are:

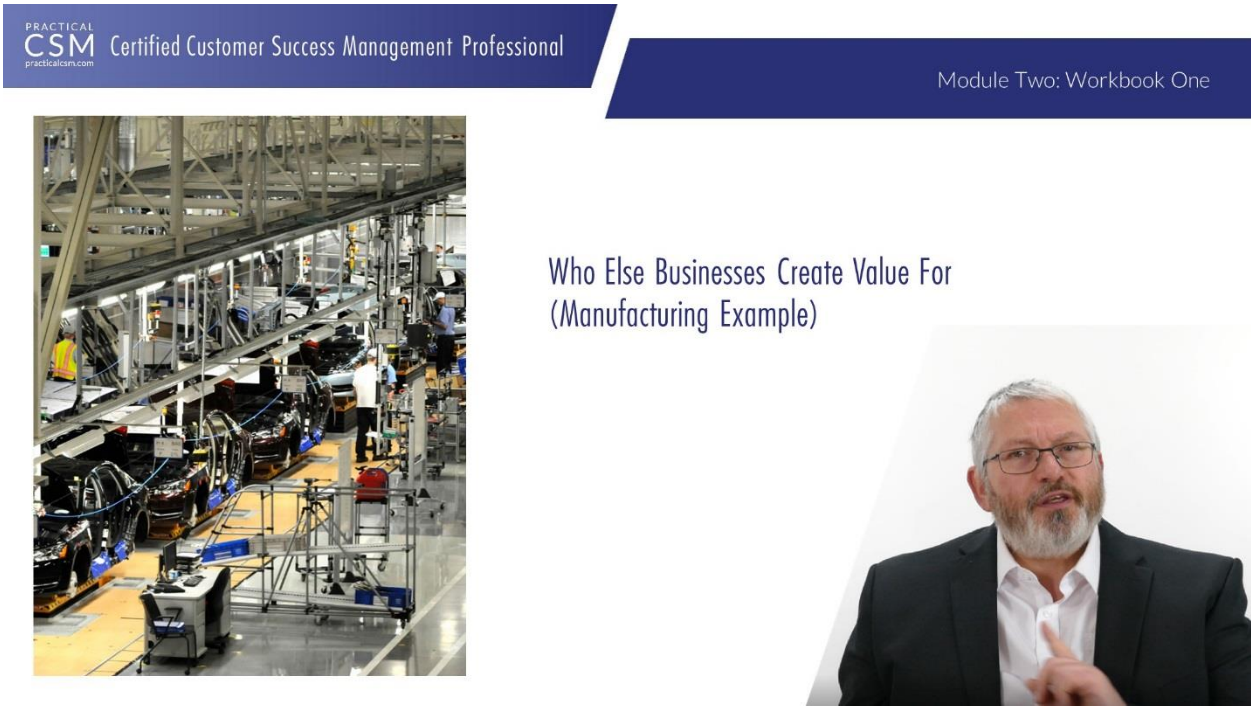
- Customers
- Employees
- Lenders
- Partners
- The government

and potentially…

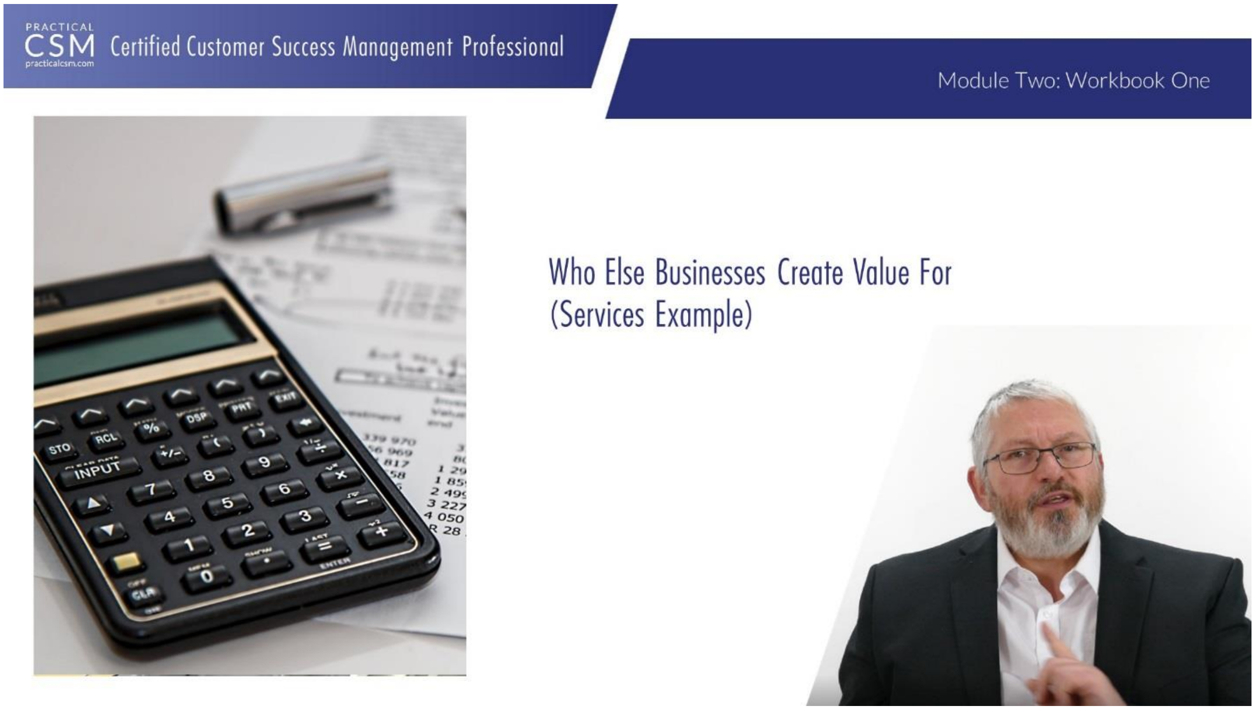
- The wider public at large

If it is argued that businesses exist to create value for their owners, then it also has to be said that businesses can *only* create value for its owners after first having created value for its *customers*. The defining role of a business is to do exactly that – create value for customers. Of course they might not always be called customers – sometimes they're called clients, sometimes they're called guests, sometimes they're called patients, or students, sometimes they're called tax payers – but it doesn't matter what they are called, they are all customers.

The way that value is created for customers is at its heart always the same in the sense that the business takes pre-existing resources and uses its assets to turn those resources into products and/or services that customers want and/or need and are therefore willing to pay a price for which is higher than that of the costs involved with supplying the product and services, thus leaving a profit for the business's owners. Let's briefly look at a couple of examples.



Firstly let's refer back to our automobile manufacturer. If the automobile manufacturer is able to manufacture and sell its vehicles at a price that offers good value to its customers then customers will be likely to purchase that manufacturer's vehicles. The secret therefore is for the automobile manufacturer to be able to make and sell each automobile at a price that remains attractive to its customers yet still leaves a reasonable margin for profits for its owners



Now let’s take the example of an accountancy firm. The accountancy firm doesn’t have to purchase lots of materials and parts in order to make automobiles, but instead it needs to employ highly skilled and professionally qualified accountants. Again, the accountancy firm needs to balance the costs associated with providing its accountancy services carefully against the fee it asks for the provision of those services in order to remain competitive and therefore attractive enough for customers to use its services whilst at the same time leaving a sufficient profit to pay its owners.

Different companies will have different ways of making this balance work. For example, one company might charge more than another competitor because it provides a premium service that generates more value for customers than its competitor's service. Another example might be that one manufacturer deliberately keeps its costs and its selling price as low as possible in order to be able to sell more of its products than its competitors and although it might make less profit per product sold, it still makes a healthy profit overall because it sells such a large *volume* of its products.

Aside from owners and customers, employees are perhaps the most obvious beneficiaries of businesses. This of course is because they are remunerated for the work they are employed to perform on behalf of the company. Typically this will be in the form of a fixed weekly, monthly or annual wage or salary, and may also include additional rewards such as an overtime rate for working additional hours, bonuses for hitting individual, team or corporate productivity or efficiency targets and/or commissions for closing sales. For senior management however, the situation is likely to be a little different. For the senior leadership team, a remuneration package is likely to be highly weighted in favour of rewarding each leader based upon the longer term performance either of their department or in the case of ‘C’ level executives of the company as a whole.

This is often (though not always) accomplished by providing the exec with a share option. For example, a company’s shares might currently be worth say $2 per share, and the shareholders decide to employ a new CEO and ramp up investment to try to get the share price up to $5 or more in a few years’ time. The new CEO might be given a very nice salary and benefits package to attract them in, but might also be given say a four year option to purchase one million shares at $5 per share. What that means is that right now, the option is worthless, since the CEO could go to the open market and purchase the same shares at $2 per share. However, if under the CEO’s expert guidance the company’s share price increases after three years to say $6 per share then the CEO can still purchase those shares at the guaranteed price of $5, making them (on paper at least) an immediate profit of$1m dollars (net of taxes and costs of buying and selling the shares of course).

Once again, because of the restrictions of time I am deliberately being a little simplistic here in presenting how it works, but the basic point is hopefully clear to you, which is that senior business leaders and especially 'C' level executives and equivalents are often *highly* motivated by medium to long term company growth and profitability. And that is something worth knowing about and worth bearing in mind when talking to people who are in these sorts of positions.

In order to discuss costs and profitability we will use two examples – the example of the automobile manufacturer, and the example of the accountancy firm.

The automobile manufacturer has two types of costs to consider. Firstly it has the costs of the raw materials, parts, energy consumption used to actually make each vehicle and commission given to the salesperson for the sale of each vehicle. These are usually referred to as *direct* costs (since they can be directly related to each particular product or service being sold) and are also sometimes referred to as COGS or *cost of goods sold*.

Direct costs go up and down dependent upon the number of products or services supplied. So for example if the manufacturer makes 20,000 automobiles it will need to purchase 20,000 car stereos to fit inside them, 20,000 cabin heaters, 80,000 shock absorbers (one for each wheel) and so on.

Second, it has other costs to consider that will need to be paid *regardless* of how many automobiles are made. These costs are usually referred to either as *indirect* costs or *fixed* costs. Examples of these are salaries (since staff need paying every month regardless of how much was or was not sold), buildings maintenance and management, marketing, research and development, legal and accounting services, HR services, staff canteens, and so on.

As stated, these costs always need paying every month and remain constant (or pretty much so anyway) no matter how many or how few cars get made and/or sold. Just as a note, there are some subtleties and differences between how indirect and direct costs are calculated and shown which vary from company to company or even between different applications of their use. For example an automobile manufacturer might include a proportion of salaries that relate to their assembly workers within their direct costs or COGS in order to get a more realistic figure for the true cost of production of each vehicle, even though in reality they would have to pay those salaries anyway regardless of the specific number of vehicles made (unless they decided to hire more workers or make redundant some existing workers of course).

How Expenditure and Profits are Calculated (Manufacturing)

- Gross Profits = Revenues – Direct Costs
- Pre Tax Profits = Gross Profits – Other Costs
- Tax can then be calculated and paid
- Net Profits = Pre Tax Profit - Taxes

If the manufacturer subtracts its Direct Costs (ie just those costs that are directly associated with producing its products) from its Revenues then it will have calculated its Gross Profits. If the company then subtracts all other costs (ie Indirect Costs and things like depreciation and interest on loans) from this Gross Profit figure then it will have calculated its Pre Tax Profits. This is the amount that is used by the government to determine how much tax should be paid. Once the amount for tax has been subtracted from this figure, what is left is the company’s Net Profits, which is the money it made from that year’s trading and which it now has in hand to do whatever it wishes to do with – for example paying dividends to shareholders, investing in more staff, better facilities, new equipment, more R&D, increased marketing, and so on.

This of course is a fairly simplistic view of how profits are calculated, and there are many, many complications and intricacies that apply in all sorts of circumstances and that would need to be properly accounted for within a company’s actual annual report on its finances, but the information provided is enough for our purposes, which is to grasp the fundamentals of how it all works.

PRACTICAL CSM practicalcsm.com Certified Customer Success Management Professional

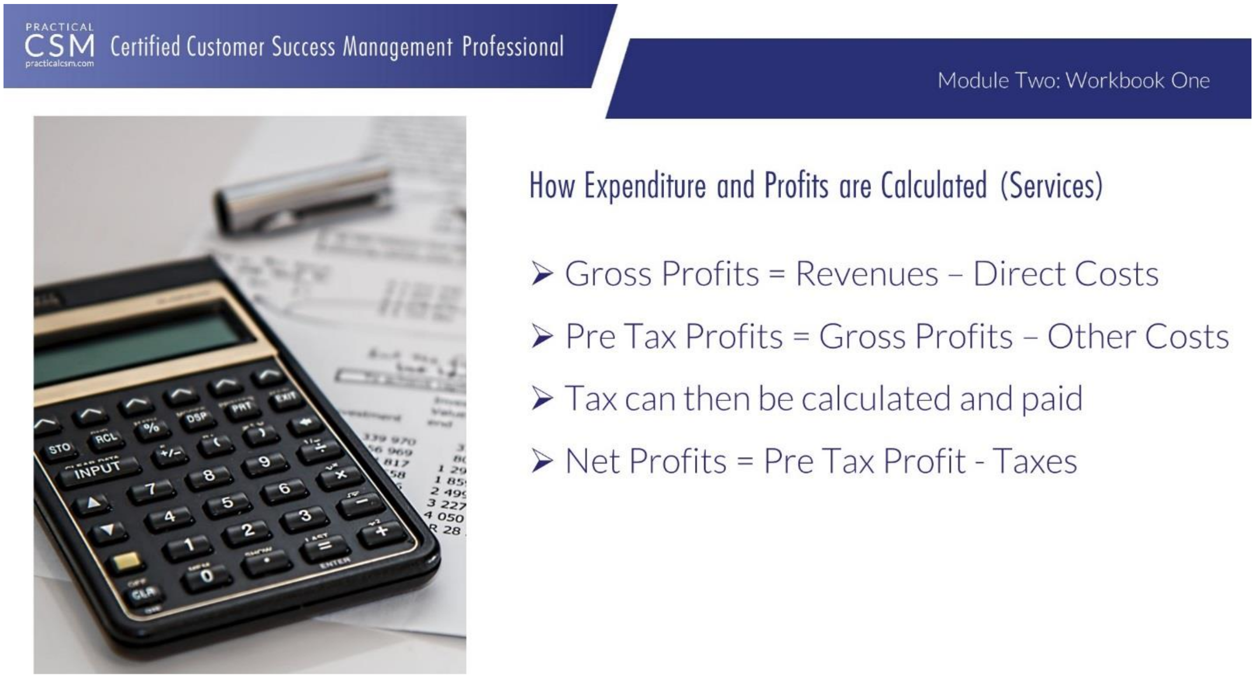
Module Two: Workbook One

How Expenditure and Profits are Calculated (Services)

- Direct Costs = costs associated with delivering each service
- Indirect Costs = "overheads" which must be paid regardless of whether services are delivered or not

Now let's take another example. This time let's use the example of a firm of accountants that provides accountancy services to its customers. In this case the accountancy firm does not have to purchase much in the way of raw materials or pre-manufactured parts, since it is not manufacturing a product. Instead, the vast majority of its costs come from the employment of highly skilled and professionally qualified accountants. The best accountants demand high salaries, and if the accountancy firm is not willing to pay the market rate for good quality accountants then they will have to make do with employing *less* good quality accountants, with all the concomitant considerations around the levels of quality of service they offer to their customers that this implies.

So for service providers such as accountants, almost all of the costs involved in supplying their services to their customers goes in paying the salaries of the accountants who perform those services. Incidentally for their own financial accounting purposes, the accountants' salary costs are considered to be *direct* costs rather than fixed costs, even though as with the automobile manufacturer's assembly workers, those accountants' salaries are arguably fixed in the sense that they would need paying regardless of how much or how little accountancy work on behalf of customers is coming in to the business. Of course there are still *other* costs which do go down as fixed or indirect costs such as HR, training, IT, legal, buildings and facilities maintenance, marketing and so on, which are treated in the same way as they would be for the automobile manufacturer.



As with the car manufacturer, the revenues generated from sales of the company's accountancy services minus Direct Costs provides the firm with its Gross Profits, from which other costs can be subtracted to determine its pre-tax profits, and then once the tax has been deducted the remaining balance forms the company's Net Profits.

As we have seen, companies need to provide value to their customers in order to get those customers to purchase (and even more importantly to *continue* to purchase) its products and services, which in turn of course generates revenues that in their turn create profits. But here's the thing – why should customers choose to purchase one particular company's products and services over that company's competitors' products and services? What makes those customers choose Company A's products and services over those from Companies B, C or D – especially when those products and services are ostensibly very similar in what they offer to the customer?

The concept of a value proposition comes from the marketing profession. The value proposition defines what value the customer receives in return for their investment in and utilization of the products and/or services they have purchased from the company. This doesn't describes the products or services themselves, but instead describes the value gained from putting those products and services to use. The thing is however that not all customers necessarily desire the same value from any particular product or service. So before the value propositions for each product or service can be decided upon, it is important to know what these different values are that different groups of customers want. This pretty much defines the role of *market research* within a company. To perform this task, customers are segmented (or divided) into groups based upon the value they are looking for.

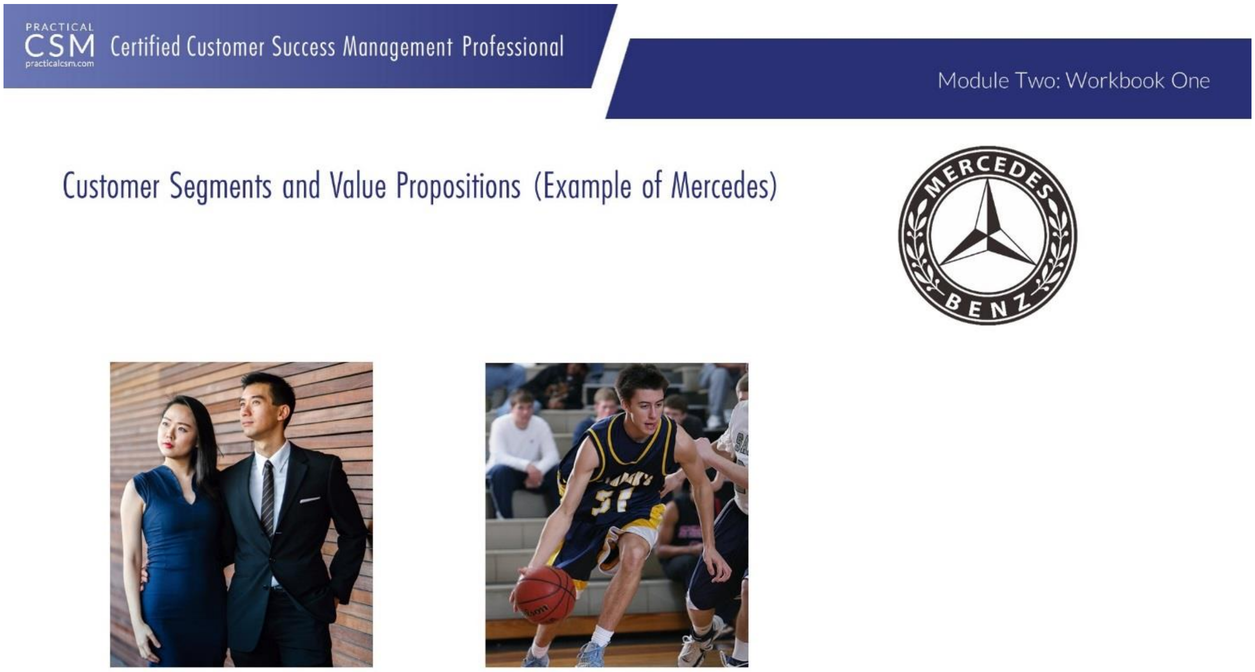
Let’s take a look at an example of how this works. Let’s consider a company such as Mercedes Benz and let’s focus in just on their range of automobiles for private purchasers. What different values might the Mercedes Benz market researchers uncover for private purchasers of their cars?

PRACTICAL CSM practicalcsm.com Certified Customer Success Management Professional

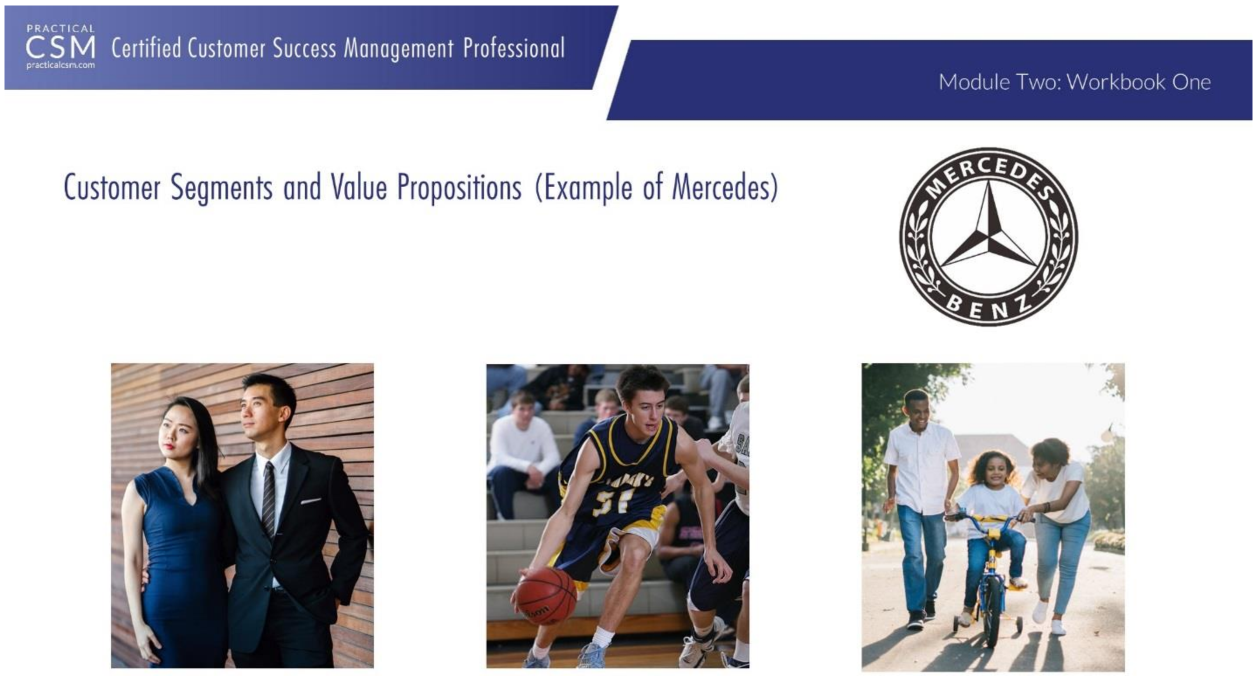
Module Two: Workbook One

Customer Segments and Value Propositions (Example of Mercedes)

Maybe they find a group of customers who are looking for an automobile that gives them an experience of luxury and refinement when they use their vehicle. This might include a quiet and luxuriously appointed interior, a high quality hifi level sound system from the very best music system manufacturer, electronic gadgets everywhere and a powerful and refined engine that makes driving effortless. Let’s call this group of purchasers “Prestige Buyers”.



Maybe they uncover another group of customers who are looking for excitement from owning and using their vehicle. For these users perhaps its less about luxury and more about the feeling of the wind in their hair when driving at higher speeds, the ability to hold the road at any speed and under any driving conditions, the speed to accelerate from a standing start to 60 miles per hour, the seat-of-the-pants level of responsiveness of the steering, and so on. Let’s call this group of purchasers “Sports Buyers”.



Finally, perhaps they also determine a further group of customers who wish to own a car that has long intervals between services and retains its value well so that it is relatively inexpensive to own, whilst providing a wide range of interior options to enable the vehicle to be used for a range of tasks including shopping, transporting children, going on vacation, taking the grandparents out for a drive, and so on. Let's call this group of purchasers "Family Buyers".

Of course in the real world there would no doubt be multiple other groups of buyers with other requirements, but for brevity let's leave it at these three. These three groups are referred to as "market segments" and each segment defines the set of values that members of that market segment are looking for from the purchase of an automobile. In order to be (and to continue to be) successful as an automobile manufacturer, it is essential that companies such as Mercedes Benz are aware of both what value these market segments are looking for, how many potential customers are contained within each segment and what the members of each segment are prepared to pay in order to get what they want. Knowing this information enables the company to decide what features and functions to provide in each model of their cars, how many of each model of car to make and what price point to sell each model at.

Now that Mercedes is armed with this market information, perhaps Mercedes might decide to make three separate ranges of car – one range that appeals to the prestige buyers, another range that appeals to the sports buyers and a third range that appeals to the family buyers. By doing this, the products that Mercedes makes provide greater value for each segment than would be the case if Mercedes attempted to make just one range of cars that attempted to provide value to *all* types of buyers. The upshot of this should therefore be that Mercedes Benz is able to sell more automobiles and therefore generate more revenues and thus more profits than they would otherwise be able to do.

Of course there is no rule that states that a company has to offer products and/or services that are attractive to every market segment. For example perhaps Mercedes Benz uncovered a fourth customer segment which they called “Economy Buyers” but Mercedes might have decided that they are not really in the market of making low priced cars for lower income purchasers, or even that doing so might be detrimental to their brand value for existing market segments such as the prestige buyers and the sports buyers.


PRACTICAL
CSM
practicalcsm.com
Certified Customer Success Management Professional
CCSMP