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Module Eight:
Practical CSM Framework Phase 6: Value Realization
Workbook Two

Welcome to Workbook Two of Module 8, which is all about the sixth phase of the Practical CSM Framework, namely Phase 6: Value Realization. In this workbook we are going to tie together some of what we discussed way back in the first two modules, which (as I'm sure you recall) were all about customer success fundamentals and business fundamentals, but with a particular focus on the activities that take place during Practical CSM Framework Phase 6: Value Realization, which of course is the framework phase that we have recognized as being the most important one for customers, since it focuses upon the thing which is of most interest to them, namely on the creation and realization of *value*.

In Workbook 2 we are going to explore the concept of value from the perspective of *performance management*. We will start by looking at some of the problems associated with value realization and we will define two important aspects of it, namely progress tracking and financial ROI. We will then review the key steps in the performance management process and start to unpack some of those steps in more detail, starting with defining outcome requirements and KPIs, and finishing with thinking about the differences between indirect and direct value and how we may be able to help the customer convert indirect value *into* direct value.

I would suggest that whilst almost all CSMs understand the need to assist their customers through this important value realization phase, relatively few CSMs have worked out how to do it well. A friend of mine who is a senior manager in a customer success role wrote the following in an email to me not so long ago…

"…it's value realization that is probably the least understood, codified, and the most difficult to get the customer and provider on the same page. I understand each customer may have different and even unique needs and business value they are trying to achieve, however, insights into driving visibility and acceptance of achieving that is paramount."

And I completely agree with her statement. It *is* the most important part to get right because as we have said many times, the value realization phase is really the *only* phase where the customer starts getting anything back from their investment in our solutions). It *is* also one of the hardest parts to get right. One reason why it's the most difficult phase for CSMs to engage with is because whereas up until now the work the CSM has done has mostly been about the interaction between the customer's business initiative and the CSM's company's own products and services, the work that needs doing in terms of calculating value being returned has much less to do with the CSM's company's products and services and is almost entirely about the relationship and interaction between the customer's initiative and the customer's business needs and outcome requirements, and this requires a good understanding of that customer's unique vision and strategies, business capabilities, and challenges in order to be able to develop meaningful reports on progress towards outcome attainment

Every initiative is different in the detail, but there are some commonalities that we can say are going to be true if not for every single initiative then certainly for the vast majority of them. Firstly, we can say that customers will only invest in your company's solutions if they believe that doing so will be beneficial for them. Of course the details of what that value is will vary widely, but essentially the customer will be using your product or service for some sort of initiative that helps their business in some way. For example, their initiative might be to sell more products or services to their customers, or it might be to make their manufacturing processes more efficient, or it might be to reduce their energy consumption, or it might be to provide better data that helps with business decision making. On the other hand it might be an initiative to help them meet new legislative requirements, or to understand their customers' needs better, or to improve customer service levels.

The above are some common examples of the types of initiatives that customers tends to have, and what you can probably see quite clearly from these examples and indeed from your own experiences of the types of initiatives that your own customers have and therefore the types of value that your own customers are looking for that value tends to focus around the following key business motivations:

Revenue Growth (ie selling more stuff to existing customers and/or selling stuff to more new customers). Increased Profitability (ie keeping a higher percentage of revenues either by increasing selling prices or decreasing costs). Reduced Risk (ie reducing the company's exposure to potential problems that might negatively impact its revenues or profitability over the long or short term)

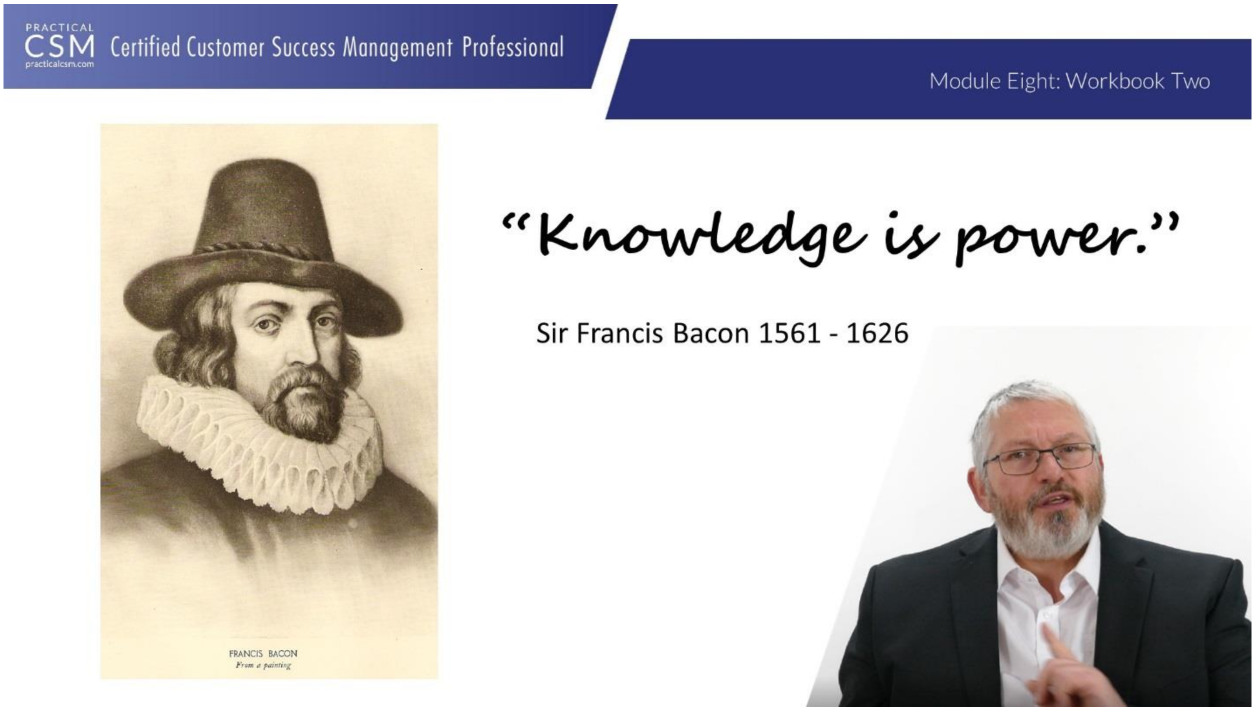
From a purely "business financial" perspective (ie if we leave aside any ethical, moral or altruistic principles, and ignoring any personal satisfaction derived from performing a hard day's work and seeing the results of that work made manifest), pretty much everything a business does is motivated by a desire to improve upon these three aspects of value. Generally speaking, the role of senior decision makers in larger businesses can be pretty much summed up by saying that it is to grow the company's revenues, increase the company's profitability and reduce the company's exposure to risk. That is essentially what they are paid to do, and they do this by developing strategies that utilize the company's assets and resources (ie its cash, its equipment, its staff, its expertise, its processes, its access to customers, and so on) to best effect in order to do exactly that.

Different companies will have different attitudes towards these three key business motivations. For example, a smaller, younger business might be prepared to take greater risks in order to achieve higher revenue growth and increased profitability than a larger, better established business that would not be prepared to take those risks and which instead develops business strategies that require it to settle for slower revenue growth and profitability increases in exchange for the desired effect of minimizing risk. What we are talking about here of course is corporate strategy, or to be more precise the underlying motivations that will determine what that corporate strategy will be, and which are the same motivations that caused our customer to purchase our products and services in the first place. Hence we have come full circle all the way through the Practical CSM Framework to arrive here at Phase 6: Value Realization, where we now have to tie all the ends together, or rather as a CSM we have to help our *customer* to tie all *its* ends together in terms of calculating the value being returned by the initiative so that this value can become known (ie *realized*).

The role of the CSM during the value realization phase is to enable our customers' business decision makers to make informed decisions about what they want to do now that they have got this far. Assuming value *is* being created, that decision might for example be to renew their services contracts with the CSM's company in order to continue to receive the value that they now know they are receiving. If things are going sufficiently well, it might also be to increase their spending on those products and services or even to adapt some more of their processes and train more of their staff, to enable them to deploy the same or additional products and services in new ways to improve one or more other business capabilities as well.

Of course if the initiative's milestones are currently not being fully met then their decision might be to take any necessary corrective action to increase the levels of value being returned in order to get them up to the desired level. This might involve the cessation of some activities, increases in other activities and even commencement of new activities. And this of course very aptly describes the process of *performance management*.

Note that performance management is very important, not just to the customer but also to the CSM, because if performance management is not done well and if therefore either the solution is found to not be helping the customer generate value or even if it might be creating value but that value is not being measured and/or reported on and so is not known about, the customer is more likely to decide not to renew any existing services and not to make further purchases of additional products and or services.



Knowledge therefore is power. Basically, by knowing what is currently happening, the business decision makers will be best placed to decide *what needs to happen next*. From the CSM's perspective I would suggest that however things are currently going (ie whether things are going badly, extremely well or merely OK) the CSM should be there to help the customer's key stakeholders realize what is happening and understand why, and then to formulate plans to rectify any problems and/or increase the value being returned as appropriate. In other words, the CSM should be an *influencer* on behalf of their own company in the decision making made by the customer's key stakeholders in terms of helping them to answer the questions "what is currently happening?" and "what (if anything) should we do to improve matters?".

Perhaps it would be helpful to think about value as having two quite distinct aspects, and then to apply those different aspects according to the need. We have mentioned these two aspects already, but we haven't really defined them in detail as yet. These two aspects are *Progress towards Outcome Attainment* and *Financial Returns from the Investment*.

Customers do things for reasons, or to put it another way, customers have a set of results that they would like to achieve from the investment in money, time and effort that they have already made and are continuing to make in order to select the products and services, implement them, manage their staff through change and ultimately use those products and service son an ongoing basis to actually attain those results. Put simply, if we know the reasons why they do the things they are doing, then we can help them measure and understand the progress towards attaining their desired results, and if we don't then we can't. What is more, sometimes even the customer's own stakeholders do not understand (or at least do not fully understand) their own company's outcome requirements from the initiative they are meant to be managing.

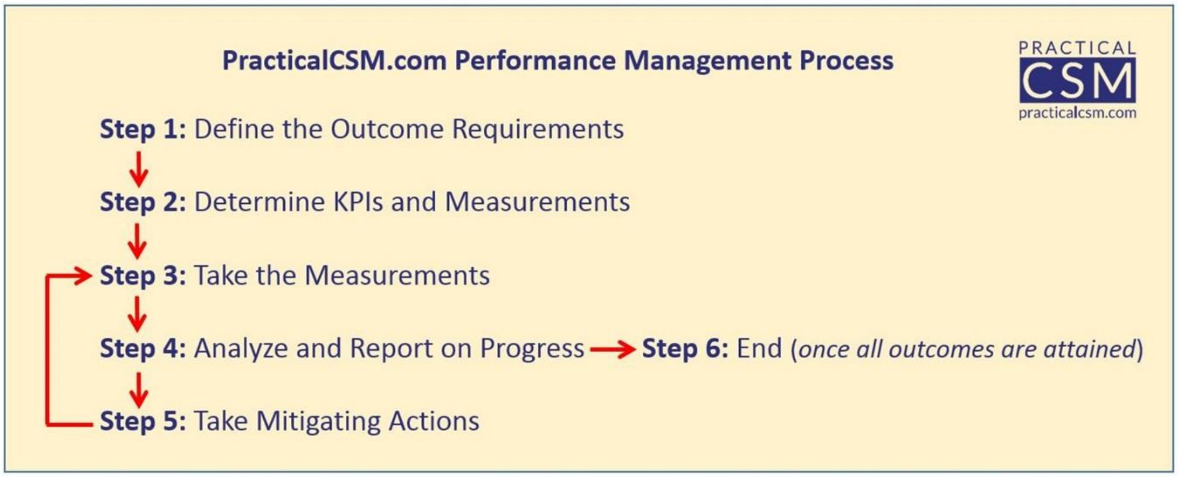
Where possible then, the CSM's role is firstly to ensure that everyone knows, understands and agrees on what the customer's outcome requirements for their initiative actually are, and then secondly to help them measure and report on progress towards the attainment of each outcome over time as the initiative progresses forwards. Ideally the initiative's stakeholders should select one or more *leading* indicators to measure, as these are helpful in the early stages of the initiative by providing meaningful information about progress, so that problems can be identified and if necessary amendments can be made to get the initiative quickly back on track in these early stages.

Whenever a business case for expenditure is submitted to the relevant authority for approval, it is unlikely to get approved unless the costs involved in getting the proposed outcomes are clearly and accurately identified in advance. Otherwise it would be like asking the capital investment panel, expenditure committee, CFO or whoever authorizes such expenditures to write an open ended check for as much money as it takes to get the results that the business case is attempting justify the expenditure for. Clearly this is a nonsense, no authorizing authority can possibly agree to an infinite amount of expenditure in order to get a finite return. The risk of failure (ie the risk of the proposed initiative costing the business more than the level of value it returns) would be too high.

Similarly then, once the initiative is under way, and certainly by the end of the initiative (though preferably as soon as possible) the financial returns from the initiative also need to be calculated and regularly reported on, so that the investors in the initiative (ie those who funded it) can directly compare what they are putting into the project with what they are getting back from it. The two problems with this is firstly that it isn't always very easy to calculate the financial returns from an initiative, since oftentimes not all the value being created is direct (ie financial) value. Secondly, the financial returns do not always start to appear in the early stages of the initiative and are therefore considered to be a *lagging* rather than a *leading* indicator, which as we discussed in Workbook 1, means that they're not going to reveal much useful information until late in the initiative, when (for example) it may be too late to make any changes.

We will start our detailed discussions by thinking about progress tracking first, and return to the concept of financial value later on. Hopefully we are agreed that the details may vary but that essentially the process of value realization in order to gain early indications of progress is an important one, and is one that will remain the same or similar regardless of what exactly "value" might mean for the particular circumstance or situation on which the customer finds itself. Because the detail varies from product to product, from customer to customer, and even from initiative to initiative, the first task in performance management is to determine and clarify what is meant by "value" in the context of the particular initiative we are engaged in. Once this is established, we can then agree how this value could best be measured. Ideally, these two steps in the performance management process should take place early on in the engagement's planning stages (during Practical CSM Framework Phase 2: Commitment for example).

After the customer has been onboarded and after adoption has been completed, the customer then needs to start using their new or amended capabilities (ie performing activities using the new products or services that the CSM's company has supplied them with) to generate new or improved outputs. Once this is under way, actual measurements can start to be taken – usually on a routine, regular basis, for example daily, weekly, monthly, quarterly, etc), and of course as soon as measurements start to be collected and recorded, they can start to be analyzed for meaning and that meaning can then be reported to the customer's managers. Finally, once the managers have been made aware of the performance information, they can decide upon whatever actions they deem necessary (ie to renew services, to make changes, and so on) and then those actions can be carried out. This last part of course is cyclical, in the sense that measurements will continue to be taken, analysis and reporting will continue to occur, further business decision making will continue to occur based upon the new and current situation, and new actions can then be taken based upon these further business decisions.



This series of activities is shown above. Of course the above diagram is fairly simplistic, and for example for some initiatives there may be no "end", whereas for others (indeed for most initiatives) external and internal influencers will occur to the customer's business, and this will cause the customer to alter its strategies, which of course will in turn alter their outcome requirements for the initiative. When this occurs the initiative's goals will get changed to align to the new strategies, and the process of attempting to achieve these new (and usually tougher to achieve) goals will need to start again. From the CSM's perspective, when this happens it's all about keeping up with their understanding of the customer's changing requirements in terms of "business value" and then informing and influencing the customer to make the right decisions regarding renewals of services and purchases of products that will help them to get where they now need to go in terms of their amended strategy in the light of the new influencers acting upon their business from outside and from within.

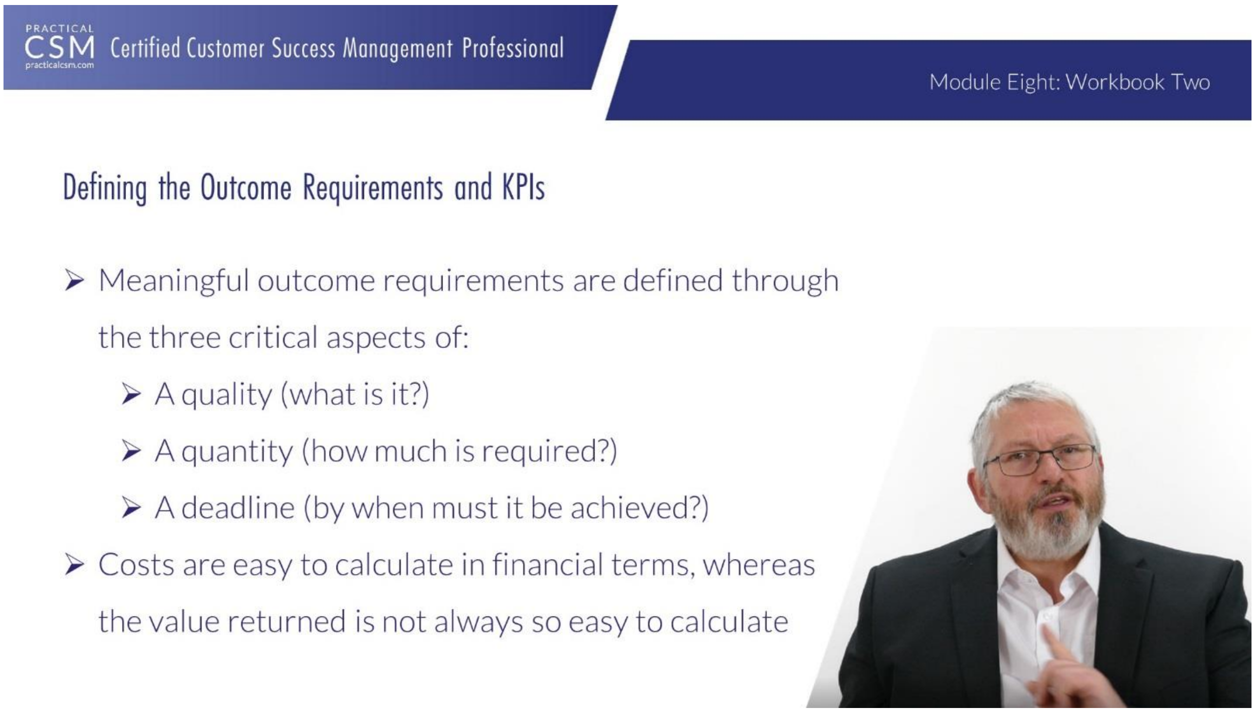
Changes of this nature may also then lead to the CSM needing to go back to earlier phases of the Practical CSM Framework to help the customer with additional onboarding and adoption requirements that stem from changes to the products and services they have purchased and/or to which business capabilities these products and services are now supporting. Thus as we originally said when we introduced the Practical CSM Framework, the framework itself becomes an ongoing and cyclical tool rather than just a linear and mono-directional one.

We've set out the challenge sufficiently well, and we've outlined the activity steps for dealing with the challenge. We have also in previous modules already looked at how to analyze data and create meaningful reports. The part we will now focus on therefore is the first of the steps, which is to define the outcome requirements. Every supplier is unique, every product and service is unique, every customer is unique, and every customer initiative is unique, therefore the engagement you are working on that involves your company's products and services that are helping your customers to perform their initiatives to attain their outcomes is inevitably going to be quite different to the engagement that another CSM working for a different company is working on. You will therefore need to work out how to apply the process of defining the outcome requirements to your particular engagement's requirements.

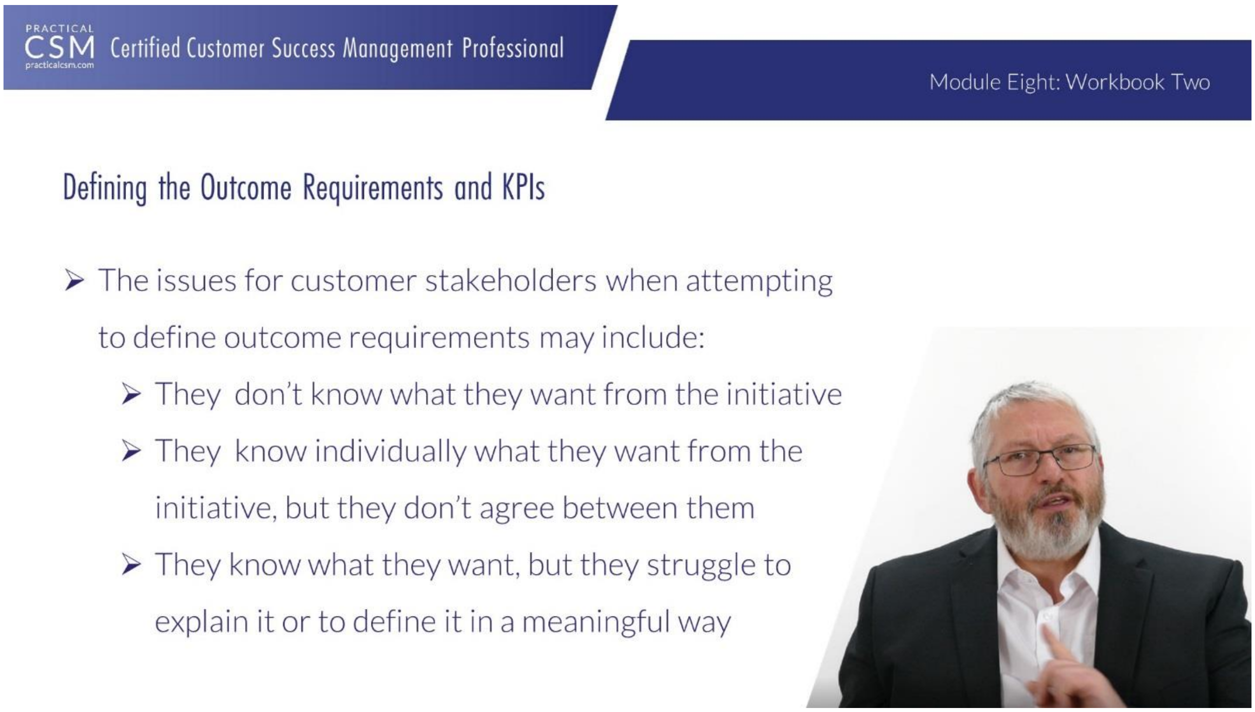
Everything hinges on Step 1. I cannot emphasize enough that helping the customer's key stakeholders to get their outcome requirements right is absolutely critical. If the outcome requirements are right then your customer will stand a good chance of creating a high quality performance management process for their initiative. If the outcome requirements are wrong (or more commonly are simply incomplete) then performance management will become much harder to accomplish, since the data being collected and analyzed will be less complete and/or less meaningful.

So what *are* "the outcome requirements"? The outcome requirements are a documented and agreed definition of the value that needs to be created by your customer's initiative. Note that the definition needs to be agreed, by which I mean not only that you and the SPL have agreed it, but that there is a *consensus within the customer's key stakeholder group* that the definition is correct. Note also that it is a *definition* for the value. This definition can also be thought of as a *prediction for what will happen if all goes well*. In other words it is aspirational, and it inevitably is talking about the requirements for what the customer will get back in the future for the efforts they put in from now until that future date arrives. So let's be clear straight away that the outcome requirements provide a *model*. It is not reality itself, rather it is a model of reality. It will not be (or at least let's say it's extremely unlikely to be) 100% accurate, since the future is not yet known because of course it hasn't yet happened.

So what we are engaging in here is an exercise in modelling the future for our customer from a business value perspective. Or perhaps it would be more accurate to say in "helping the customer to model their future" since of course we need this information to come from them rather from us. If the model ends up being thought of as "our" model rather than "their own" model then it will be likely to carry a lot less influence in the customer's thought processes. We need the customer's stakeholders to "believe" in the model. If they don't trust the model or if it is not meaningful and important to them then again we will be wasting our time.



To some extent – indeed to some large extent – we have already covered the concepts of value creation and how to create meaningful outcome requirements by defining them through the three critical aspects of a quality (what is it?), a quantity (how much is required?) and a deadline (by when must it be achieved?). You are well aware of all of this because we have discussed it at some length in previous modules. However, the typical stumbling block for CSMs (and by the way this rule applies not just for CSMs but for all sorts of other roles as well, including business analysts, business decision makers, sales executives and solution architects for example) is that for a lot of customer initiatives, the costs (or expenditure) is fairly easy to calculate in financial terms, whereas the value returned (ie the income from the initiative) is not so easy to calculate. This leaves the customer's business decision makers with a problem. Essentially if the situation is as described above, we are asking our customer's decision makers to spend a known amount in order to get back an unknown amount, and I would suggest that it doesn't take a financial genius to uncover the flaw in asking decision makers to do this. It's very hard for business decision makers to justify their decisions based on hope, whereas it's relatively easy for them to make decisions based upon data. What we need to do then is to do our best to overcome this potential problem in order to supply them with the data they need to make the decisions we want them to be able to make.



The subject of value needs to be raised and discussed with the customer's key stakeholders at some stage. As we have said in earlier modules, this will preferably be at an early stage, and the most obvious time to discuss this with them is during the Discovery Workshop that was discussed in depth in Chapter 7 of the training manual, which dealt with Practical CSM Framework Phase 4: Adoption Planning, but which might actually take place at any stage between Phase 2: Commitment and Phase 4 that makes most sense for it to occur in. Additionally, the CSM might well have conducted some initial research on the customer's outcome requirements during Phase 1: Preparation. During the workshop or other conversations with customer key stakeholders, the CSM needs to nail down with these stakeholders exactly what they want out of the initiative in terms of value returned to their company from that initiative. For some customers all that will need to be done is to ask the question and they will be able to provide a full and complete answer which the CSM can then document. However a lot of the time the CSM may encounter issues that make it more difficult than that. The issues that can arise include:

The customer's key stakeholders don't know what they want from the initiative

The customer's key stakeholders know individually what they want from the initiative, but they don't agree between them as to what that is

The customer's key stakeholders know what they want from the initiative, but they struggle to explain it or to define it in a meaningful way

Let's deal with these one by one. The first scenario where the customer's key stakeholders don't know what they want from the initiative may at first sight sound crazy, but if that's the case, please believe me that this situation is much more common than you think. Remember that businesses are very complicated things, and individual stakeholders rarely if ever know or understand the entire picture as to what is happening, and probably even less so as to *why* it is happening. If they don't know what they want from the initiative then of course your job as workshop host is to help them through the process of brainstorming ideas for what they might want, narrowing down the options to what they do want and finally agreeing on what the priorities are (ie what's critical to achieve and what's merely nice to have if possible).

To resolve the above situation you need three areas of expertise in the room. Firstly you need "customer's requirements" expertise, which is the knowledge and experience related to understanding the customer's specific business situation, business capabilities, business strategies and so on. The second area is knowledge and expertise relating to your own company's products and services, particularly in terms of how the features and functions of those products and services might potentially be used to create value in different possible scenarios. The third area of expertise is in business best practices in general, and in particular in business best practices as applied within the customer's industry. This third expertise area could be viewed as the "middleware" between the aspirations of "what we want to have happen" from the customer's perspective and the realities of "how our products and services may be able to help you" from the CSM's company's perspective. It is the area of expertise that draws the lines between what is wanted and needed by the customer and what is possible and attainable through using the solutions. As ever, it is not necessarily the CSM's role to *be* the expert in all three aspects of expertise that area required. Instead it is the CSM's role to ensure that all three aspects of expertise are sufficiently covered by the knowledge, skills and experience of those who are invited to participate in the workshop, and then to facilitate the conversations within the workshop in a way that enables high quality discussion, debate and consensus forming to take place.

You may sometimes experience the second scenario, which can either become apparent after working through the first scenario, or can simply be already present. In this situation, different stakeholders hold different opinions about what is important. This can arise due to their different roles and positions held within their corporate organization, giving rise to different viewpoints that in turn produce different opinions about what is important to achieve. Sometimes these differences can be relatively simple to deal with. That will generally be the case if there are no conflicts between the different outcomes required by each stakeholder, in which case all stakeholder's desired outcomes can be added to the list, and the only difficulty may be in prioritization of the items on the list. A harder problem to solve may occur however if one or more outcome requirements from stakeholder actually do conflict with one or more outcome requirements from another stakeholder, ie when it is possible to do A or B but not do both since doing A prevents B and vice versa. In this situation the CSM as a neutral third party must do what they can to resolve the conflict using principled negotiation and conflict resolution techniques as previously touched upon in Module 7 Video One in the section entitled *Managing People*. As a final point, do bear in mind that not all stakeholders necessarily carry the same level of seniority or importance to the initiative, and so it may not always be the case that each stakeholder's opinions should be given equal weighting. The CSM should ensure that they know who the senior budget holders and decision makers are, and make it their priority to ensure that these stakeholders' requirements are met.

Hopefully after some debate and negotiation, you will end up with a list of outcome requirements. At this stage you may encounter the third issue on our list, that being that they know what they want from the initiative, but they struggle to define it in any meaningful way. By meaningful here ideally we mean "financial". The reason we want all outcome requirements to be expressed in financial terms is very straightforward, it's because all of the *expenditures to obtain the outcomes* will be expressed in financial terms, and so therefore what we ideally want is a simple equation where both expenditures and incomes are expressed as financial amounts, and therefore where it becomes easy to show how much financial value is being created (or rather "will be created" since of course we are doing this in the early, pre-value realization stages) over and above the cost associated with the work involved to do so.

To put it bluntly, if you are a salesperson and you want the customer to proceed with the sale then you need the amount of money that the proposed initiative will generate for your customer to be greater than the amount that you will be charging the customer, because otherwise the customer will be destroying value rather than creating it. Similarly if you are a customer success manager and you want the customer to continue funding the initiative on into the future, then you also need the amount of money that the proposed initiative is now showing it can generate for your customer to be greater than the amount that the customer knows it will need to keep paying, because again otherwise the customer will be destroying value rather than creating it. It has been my experience that customers are not overly excited about funding initiatives that destroy value rather than creating it, so my advice is to try to avoid this situation wherever possible. How can this be done? One of the best ways – in fact the only way I know about – is by ensuring that all possible value returned by the initiative has been thought of, documented and quantified in terms of its financial impact, all of which of course needs to come from (or at least be agreed by) the customer's stakeholders.

Going through the process of turning indirect value of into direct (or financial) value is not necessarily required in the initiative's early stages for the purposes of tracking progress and understanding whether milestones are being achieved or not and therefore whether changes to the initiative need to be made. However from a senior manager's perspective, seeing the value being returned in financial terms can be very helpful to justify further spending later down the line (for example to sign off for further phases of the project).

If the outcomes that the customer lists as requirements for the initiative are all outcomes that generate direct value (ie value that is already in the form of financial gains or savings) then your job is now done and you have your list of value. On the other hand if all or at least some (as is often the case) of the outcomes that the customer lists as requirements for the initiative are outcomes that generate indirect value (ie value that is not in the form of financial gains or savings, but instead is in some other, non-financial form) then you still have some work to do.

The fact is that for very many initiatives, the greatest benefits that the initiative will bring will come from indirect benefits. These come in all sorts of forms of course, and will vary considerably from initiative to initiative. Examples might be things like “increased customer engagement”, “greater understanding of customers’ needs”, enhanced employee working conditions”, or “increased collaboration between departments”. The problem of course stems from the difficulty the customer’s stakeholders have in putting a financial value on any of these. Let’s say that the customer has told you that the initiative will “enable greater levels of innovation across the company”. That’s great! Everyone can agree that generally speaking increased innovation is a good thing. But what does that mean in financial terms? What we need to know is this – what difference will this increase in innovation make to either revenue growth, profitability increases, or reductions in risk? (Remember that these were our three key business motivations that we discussed at the beginning of this video).

When faced with this situation, the CSM will need to (metaphorically speaking) put on their business consultancy hat and start to ask good quality consultative questions to begin to explore the outcome in order to understand how it might feed through to the bottom line of financial value. Naturally the starting point will generally be to ask the stakeholders themselves – after all, it’s *their* business, so in theory if anyone is going to know then it should be them. Sometimes they do, and a whole lot of strenuous mental effort and time wasted can be avoided by simply asking them this question straight out and then documenting their answer. Sometimes however they don't know, or sometimes even if they do know, they don't *know* they know and so you have to tease it out of them bit by bit. This of course is where the CSM's consultative questioning skills come to the fore.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