Software Economics

Customer Relationships
Channel

Describes the types of relationships a company establishes and maintains with each customer segment.
Questions to consider

In essence, about

- Customer Acquisition (get new customers)
- Customer Retention (keep your customers)
- Upselling (grow your customers, sell more)
Paid Media

- Paid Media examples
  - Advertising
  - Trade shows
  - Webinars
  - Emails/direct mail
  - Search Engine Marketing
  - Sponsorships
Earned Media

- **Earned Media examples**
  - Publications in journals
  - Conferences / Speeches (also posted on e.g. Youtube)
  - Blogs, guest-blogging
  - Guerilla Marketing (for the curious, see https://en.wikipedia.org/wiki/Guerrilla_marketing)
    - Events (TransferWise)
    - Viral videos
  - Using social media
What is the relationship / connection between “Customer Segments” and “Paid & Earned Media”?
Get the Customers

- Generating **AWARENESS** that you exist.
- Did they show **INTEREST** by e.g. visit the webpage, checked the price, made a call etc.
- Did the **CONSIDER** the product/service – came to the store, took the car for a ride etc.
- Did they **PURCHASE** the product/service?
Keep the Customers

- Loyalty programs
  - Airlines
  - Credit Card Companies
    - Discounts
    - Travel Insurance
    - Bonus points – gifts

- Newsletters
  - Offers
  - Product updates
  - Events

- Knowing “the Customer”

- What more (your experiences)?
Grow the Customers

- Un-bundling (decompose the product into parts and sell as separate “products”) – MOOCs?
- Up-sell – offering the customer to buy something more expensive – example of buying a computer
- Cross-sell – example of offer discount for other products or selling accessories
- Referrals – “customer sells for you” – Dropbox, Taxify
Have you been exposed to “grow customer” strategies?

A. Never
B. Few times perhaps
C. Quite often
D. YES but I was not aware
Digital Products (web/mobile)


September 16, 2016
Digital Products

- **Acquire**: Get them to my site (webpage/app/cloud app).

- **Activate**: Sign up, register, become a user, pay – to engage and to get the customers to do what I offer (then I can make money).

**BUT AT WHAT COST?**


September 16, 2016
Customer Acquisition Cost (CAC)

CAC = cost of getting an activated/paying customer.

I pay 50 cents per click on Google (as advertisement).

I get 10,000 clicks.

Of these, 5% take the limited free trial and sign up to start use the service.

Of the free trial, 10% continue using my service (they pay).
What is my CAC?

A. 10 €  
B. 50 €  
C. 100 €  
D. 150 €
CAC

10,000 clicks for a cost of 50 cents each = 5,000 €
5% taking the free trial = 500 users
10 % actually paying after free trial = 50 persons
CAC = 5000 € / 50 = 100 €.
Life Time Value (LTV)

Life Time Value = how much will the customer spend on my product/service from the beginning to the end (within a specified time period)?

CAC = Customer Acquisition Cost

LTV > CAC – why and what ratio?
Digital Products

Next-Sell:
- Marketing Email – mix of offers, promotions etc.
- Transactional Email – email you get after you have made a purchase (confirmation, billing info etc.) and/or messages sent to recent buyers (≈10 days after) with offers tailor to them.
AARRR Model developed by Dave McClure
# Web Channels

<table>
<thead>
<tr>
<th>Category</th>
<th>User Status</th>
<th>Conv %</th>
<th>Est. Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>Visit Site [(or landing page, or external widget)]</td>
<td>100%</td>
<td>$0.01</td>
</tr>
<tr>
<td>Acquisition</td>
<td>Doesn’t Abandon [(views 2+ pages, stays 10+ sec, 2+ clicks)]</td>
<td>70%</td>
<td>$0.05</td>
</tr>
<tr>
<td>Activation</td>
<td>Happy 1st Visit [(views X pages, stays Y sec, Z clicks)]</td>
<td>30%</td>
<td>$0.25</td>
</tr>
<tr>
<td>Activation</td>
<td>Email/Blog/RSS/Widget Signup [(anything that could lead to repeat visit)]</td>
<td>5%</td>
<td>$1</td>
</tr>
<tr>
<td>Activation</td>
<td>Acct Signup [(includes profile data)]</td>
<td>2%</td>
<td>$3</td>
</tr>
<tr>
<td>Retention</td>
<td>Email Open / RSS view → Clickthru</td>
<td>3%</td>
<td>$2</td>
</tr>
<tr>
<td>Retention</td>
<td>Repeat Visitor [(3+ visits in first 30 days)]</td>
<td>2%</td>
<td>$5</td>
</tr>
<tr>
<td>Referral</td>
<td>Refer 1+ users who visit site</td>
<td>2%</td>
<td>$3</td>
</tr>
<tr>
<td>Referral</td>
<td>Refer 1+ users who activate</td>
<td>1%</td>
<td>$10</td>
</tr>
<tr>
<td>Revenue</td>
<td>User generates minimum revenue</td>
<td>2%</td>
<td>$5</td>
</tr>
<tr>
<td>Revenue</td>
<td>User generates break-even revenue</td>
<td>1%</td>
<td>$25</td>
</tr>
</tbody>
</table>

AARRR Model developed by Dave McClure
Types of Customer Relationships

- Personal Assistance – based on human interaction (face to face, phone, chat, emails)
- Dedicated Personal Assistance – Dedicated representative to an individual client (banks and high net worth customers, key account managers)
- Self-service – no direct contact but help themselves
- Automated Services – mix of self-service and automated processes (offering books or movies to buy)
- Communities – user community where users help each other and companies understand their customers better.
- Co-Creation – co-create value with customer (amazon reviews, youtube)
Trends …

- Multi-channel (60%)
  - online consulting followed by in-store purchasing
  - price comparing via a smartphone directly in the store

- Not buying just a product but rather comparing experiences

- Power of Video Recordings – increasingly used to communicate (Youtube stars, product placement, sponsoring)

- Customers more busy but also demanding so simplicity become important in buying decisions

Exercise

Reflect on how your selected company manages

- Customer Acquisition (get new customers)
- Customer Retention (keep your customers)
- Upselling (grow your customers, sell more)
- What type of relationship does each of the company’s customer segment expect them to have and maintain?

About 20 min.