



EXPERT ARTICLE

Customer Centric Business (Plan) Success

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Business Planning

Planning to how to find and service your customers and make money while you do it.

Five Business Plan Key Factors that you need to cover in any business plan. In this paper we look at why these are important from the customer centric view.

1. Goals
2. Product
3. Market
4. People
5. Finance/ Cashflow

Why are these important?

1. Goals.

Start with the end in mind. Unless you know what you are trying to achieve then it is impossible to plan for, difficult to measure and you may never know when you have achieved your original goals. Everything in your business should be then thought about in terms of how it helps you reach your goals.

2. Product

Why will people buy your product?

What will it do for them- what's their benefit?

How do you measure this benefit in terms of value to them?

What portion of that value can you charge as a price?

How does the product differentiate itself from the current products on the market (what is its Unique Selling Point? (USP)).

How do you make your USP sustainable?

3. Market

Who will buy your product?

What is their demographic?

What is their geography?

How will you identify them?

How will you communicate with/target them?

How big is this market?

4. People

An "A" class team with a "B" class product will always succeed over a "B" class team with an "A" class product.

People are your most important asset- what roles do you need to fill to make sure you can fulfil your plans under points 1 to 5?

5. Finance/Cashflow

CFIMITYM (Cash Flow Is More Important Than your Mother)

Business failure is due to lack of money – nothing else.

Cash-flow is driven by Sales- Sales is driven by paying customers. Paying customers are generally satisfied customers, which is driven by product quality and service.

So how do you simplify this to be customer centric in your business planning?

Customer Economics

Customer economics is the practice of looking at a single customer and identifying the value of that customer to your business, how much it is going to cost you to find that customer and how much to service and maintain.

1. Revenue (Life Time Value)

What will your customer spend with you during the life time that customer is associated with your business? Are you likely to get repeat business or maintenance agreements? E.g a new car sale is not the end of a relationship but the beginning, the customer will come back for servicing on a regular basis, a software client may pay maintenance or for updates or support.

2. Cost Of Acquisition

How much will it cost you in terms of market research, marketing and sales effort to identify and target your customer, get them aware of the product and to buy your product? The costs here will be influenced by your proposed sales channel, marketing mix and reputation.

3. Cost of Service

What will it cost you to provide your customer with the product (service and support included) you have sold them and maintain the customer relationship so that they fulfil their intended life time value to your business and are happy with your product. This includes cost of Goods sold, i.e the actual physical cost of any goods and related expenses. Happy customers means more customers. Unhappy customers means pain.

4. Contribution

Revenue less CoA and CoS is equal to the net amount that client is providing you to cover all non sales driven expenses, your overheads, which includes admin, office space, legal accounting, R&D and so on. Once you have the contribution and if you know your overheads then you can easily work out your break-even point and create a customer volume driven business model.

The following example using laser printers demonstrates how this typical loss leader product is used to create a stream of income for the seller by considering the life time value of the client (LTV)

Example

Printer - 3 year life- Revenue- Printer \$200- Ink Cartridges (\$30 per quarter after 1st quarter)

Revenue	Initial purchase		200	
	Recurring (12-1 Q)		330	
	Total LTV		530	
CoA	Marketing	10%	53	
	Retail Outlet	30%	159	
	Sales Management	16%	88	(based on selling 1,500 units per sales agent = Total cost per agent \$132,000 per annum)
	Total CoA		300	
CoS	Cost of Printer		35	(incl. Warehousing, freight etc)
	Cost of Ink Cartridges		8	
	Service Support		15	(based on 5,000 units per service employee at a total cost of \$75,000 pa.)
	Total CoS		58	
Total COS (Cost of Sales)			358	
Gross Contribution			172	

Gross contribution goes to covering your non-direct revenue generating expenses, aka G&A and R&D costs i.e

1. Admin & Accounting
2. Facilities and Utilities (Office Costs)
3. Legal
4. General Management Overheads
5. R&D

Therefore if your market analysis has indicated that you can sell 10,000 units in year one and you estimate that by year 5 you will be selling 100,000 units you build a quick and dirty business model by estimating G&A costs or by taking more time and actually modelling them. Although this model is a quick way to look at the business it enables a fast appraisal of potential business value and profitability going forward based on some assumptions. The quality of the result will be dependent upon the evaluation of the assumptions.

Simple P&L projection for the above printer model

	Yr1	Yr5
Unit Sales	10,000	100,000
Revenue will be	5,300,000	53,000,000
CoA	3,000,000	30,000,000
CoS	580,000	5,800,000
Total COS	3,580,000	35,800,000
Gross Profit/Contribution	1,720,000	17,200,000
G&A (25% initial-decrease to 15%)	1,325,000	7,950,000
R&D (5%)	265,000	2,650,000
Profit (loss)	130,000	6,600,000