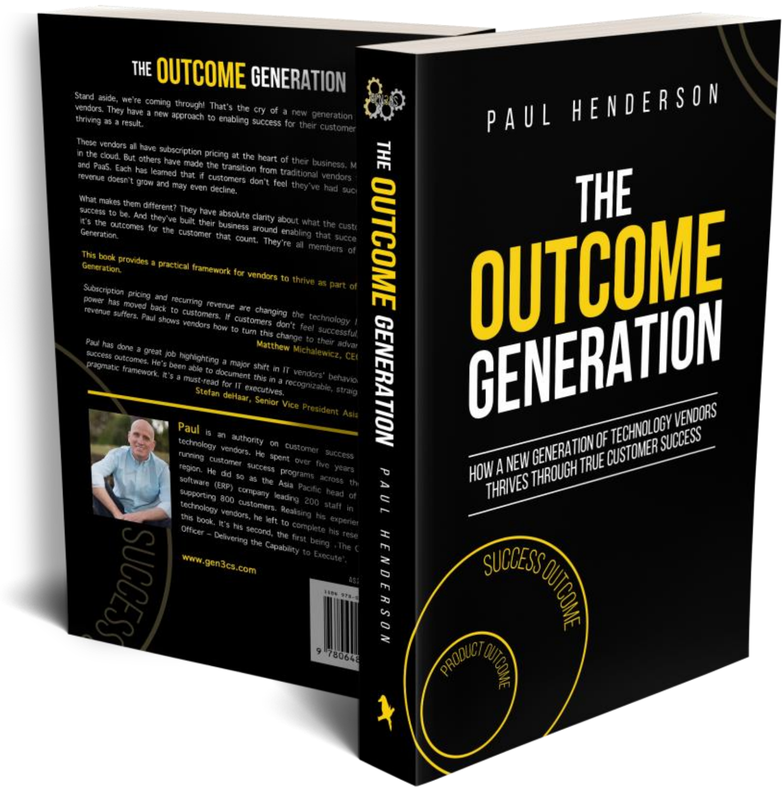
PAUL HENDERSON
THE OUTCOME GENERATION
HOW A NEW GENERATION OF TECHNOLOGY VENDORS THRIVES THROUGH TRUE CUSTOMER SUCCESS
SUCCESS OUTCOME
PRODUCT OUTCOME
THE OUTCOME GENERATION
PAUL HENDERSON
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The Outcome Generation

How a New Generation of Technology Vendors Thrives Through True Customer Success

RED RAVEN BOOKS

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TESTIMONIALS

Generation 3 Customer Success is documented common sense—and it makes sense. It can be implemented simply or can be the foundation to drive a deep customer success culture.
Ronnie Altit, Chief Executive Officer, Insentra Group

Paul has managed to distil much of what we now think we know about customer success and how critical it is to vendor success. This should be required learning for aspiring sales leaders so they can deliver better outcomes.
Mark Pretty, Managing Partner Global Technology, Odgers Berndtson

Subscription pricing and recurring revenue are changing the technology landscape. The power has moved back to customers. If customers don't feel successful, the vendor's revenue suffers. Paul shows vendors how to turn this change to their advantage.
Matthew Michalewicz, CEO, Complexica

Customer success outcomes are proven and easy to implement. We've used the approach (with a different name) for five-plus years, with great financial results (highest services profitability ever) and high customer satisfaction.
Peace Chen, VP Asia Pacific Services, QAD

This is a timely book that illustrates how a customer's success is intrinsic to a vendor's success. Paul unpacks a best-practice framework for achieving benefit in an evolving field.
Daniel Pettman, CIO, BaptistCare

I had the privilege of working with Paul for five years, during which the program outlined in the book was employed. This business-results and outcomes-based customer engagement approach echoes very well with both existing and new customers.
Jay Cao, VP Greater China, QAD

Paul has done a great job highlighting a major shift in IT vendors' behaviour to drive for success outcomes. He's documented this in a recognisable, straight-forward and pragmatic framework. It's a must-read for IT executives.
Stefan de Haar, SVP Asia Pacific, QAD

Customer Success is an emerging concept, but many companies have made the connection it is essential to survive and thrive. This book will help those who want to understand how customer success and customer outcomes work, and people seeking practical guidance on how to implement successfully.
Tanya Graham, CDO, Australian government agency

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INTRODUCTION

The CEO of the marketing-automation vendor called a crisis meeting. Their largest customer had threatened to cancel their contract. The CEO opened the meeting, '*Tell me what's happened.*'

The VP of Services said:

> *Our system is a great fit for their Marketing needs. We've trained their Marketing team well, and they love the system. They're using it perfectly. They've created a stream of new leads which they've passed to Sales. The problem is simple—Sales hasn't closed the leads. And that isn't our problem. We've done our job by helping them create leads.*

The CEO said:

> *And yet they're planning to cancel our contract. And that makes it our problem. Tell me, what was the business case they used when they decided to subscribe to our system? What outcome would we help them achieve?*

The VP of Sales said:

> *They want to increase sales. They want 40% of sales revenue to come from marketing-created leads. And that hasn't happened. Regardless of whose fault it is, top management feel something must change. They're considering an outside lead-generation firm to create their pipeline, so they won't need us. Our problem is Sales feel the leads Marketing passes over*

aren't qualified. So, Sales isn't following them up. Marketing insists they've qualified the leads.

The CEO said:

Sounds like the problem lies in the transition from Marketing to Sales.

We'd better get someone to investigate and find an answer.

The vendor was fortunate. They had a consultant whose background included both sales and marketing. The consultant knew how the end-to-end process should work. The consultant helped the customer put a service level agreement in place between Marketing and Sales. The agreement defined when leads should be passed to Sales, and what would then happen. Technically, this work was outside the vendor's normal scope. But the customer was happy to pay for the consulting. And it worked. Sales started to get leads they knew were ready for their involvement. So, they chased them and closed them.

The vendor had learned a tough lesson. It wasn't enough to focus on the direct benefit of using their system—creating leads. They needed to focus on the outcome the top management of a customer would regard as a success. If they didn't, their revenue would suffer.

They're not the only vendor to learn that lesson. There's a new generation of technology vendors. They've developed absolute clarity about what the top management of their customers consider success to be. And they've built their business around enabling that success. They know the only thing that matters is the outcome the customers achieve. These vendors are all members of the Outcome Generation.

This book provides a pragmatic framework for vendors to join the Outcome Generation. It describes how members of the Outcome Generation work. And it then offers a six-step program for implementing a true customer success program—one that enables an outcome top management of the customers regard as success.

It starts with defining that success—called a success outcome. A success outcome is an ongoing business result that top management of the customer regard as success. And for which the vendor is the primary external provider.

The book then introduces a framework for developing a customer success program unique to the vendor. The DEEP framework describes the four phases of engagement with customers in the Outcome Generation—Develop, Evaluate, Execute and Prosper. Using the four phases, the vendor defines a lifecycle with ideal customers and the deliverables from each lifecycle step.

Next, the vendor analyses their execution capability—their capability to put in place the lifecycle they've decided to pursue.

The execution capability analysis becomes a key input for an implementation plan. And this in turn drives the staged rollout of the customer success program.

Finally, there's growth through new products and services. The lens of the success outcome helps generate innovative growth ideas and drive loyal revenue growth for the vendor.

Paul Henderson learned the lessons that led to this six-step program first-hand. He spent over five years designing and running customer success programs across Asia Pacific. Before dedicating himself to writing this book, Paul ran the Asia Pacific region for an enterprise software company. He led 200 professionals in nine countries supporting 800 enterprise customers.

The business competed with the largest software companies. These competitors had more resources and much greater market recognition. They were also recommended by the large consulting firms (who had implementation teams they wanted to keep busy). Lots of smaller companies also competed in the market, often on price. It was a tough competitive market. But most vendors in the technology space face tough competition.

So, Paul considered how he could develop new growth ideas and differentiate from the competition. He decided to pursue an outcomes-based approach. He and his team focused on delivering real and measurable business outcomes for customers. Not just getting the software live, but real business results.

He also examined the bigger outcome his customers wanted to achieve—the success outcome (although he didn't have that label at the time). He realised customers bought ERP software to achieve effective operations. He realised he could do much more of what the customer needed to achieve effective operations. Which he and his team did.

Paul developed a strong belief that technology vendors should enable outcomes the top management of customers consider to be success. Getting IT systems live was necessary, but not enough. The vendor should understand everything the customer must do to achieve their success outcome. And help with most of it. He also realised that enabling the customer's success outcome helped the vendor thrive—to enjoy loyal revenue growth.

Paul realised his experience could help other organisations. So, he left the software company to research and then write this book. It's based on his experience in leading customer success programs for over five years and on more than a year of research since.

His sincere hope is that it will help other vendors enjoy the benefits of joining the Outcome Generation.

PART 1
THE OUTCOME GENERATION AND CUSTOMER SUCCESS

Technology vendors have always tried to enable customer success. But the definition of customer success has changed.

Traditional vendors have focused on the direct benefits from use of their products or services. But customers buy technology products and services as a means to an end—to achieving a bigger outcome. Vendors need to enable that bigger outcome.

In the past, vendors haven't had a lot of financial incentive to ensure their customers' success. Subscription pricing changes everything. There's now a financial imperative to invest in customer success.

Technology vendors want to grow revenue, differentiate from competition and generate new ideas for growth. Generation 3 Customer Success helps in all three areas.

Customer Success programs can deliver strong financial returns.

There's been an explosion of interest in customer success, and its corollary, delivering business outcomes. Here's what industry leaders say:

> *Nothing is more important to Salesforce than customer success...*
> Marc Benioff, CEO, Salesforce (Evans, 2017)

> *Our sense of purpose lies in our customers' success.*
> Satya Nadella, CEO, Microsoft (Evans, 2017)

> *But what we're going to do is put a little more focus on customer success, so that we're capturing and documenting and codifying the business value that gets created, which helps a CIO or an IT department within their organization demonstrate the value they are driving inside their company and frankly helps us on upsells, on price realization and on landing new accounts.*
> John Donahoe, CEO, ServiceNow (Evans, 2017)

If you stay very focused on customers and customer success, people pay attention to that—and in turn, they also want that same type of success.
Aneel Bhusri, CEO, Workday (Evans, 2017)

Today, when companies are buying a service [context is Software as a Service], they're buying an outcome.
Mark Hurd, CEO, Oracle (Dasteel, 2016)

Every business in the world needs to be thinking about customer success.
Clara Shih, Founder and CEO, Hearsay Social (Evans, 2017)

One of the foundations of our success at Salesforce was customer success.
Jim Steele, President and Chief Customer Officer, InsideSales, former President and Chief Customer Officer, Salesforce (Mehta, 2016)

The ability to succeed in this new economy will depend on how well you sell and deliver measurable business outcomes to your customers.
Jeb Dasteel, SVP and Chief Customer Officer, Oracle, et al (Dasteel, 2016)

…especially in the world of the Cloud, customer success is, it is the do or die.
Steve Lucas, CEO, Marketo (Planhat, 2017)

What is Customer Success?

These industry powerhouses make one thing certain. Customer success is now a central focus for the technology industry. But hasn't this always been the case? Haven't vendors always wanted their customers to be successful? And don't most vendors have customers who will attest to their success?

The answer to each question is 'yes'. Vendors have tried to deliver customer success. But the definition of customer success has evolved. Established, more traditional vendors talk of customers successfully using their products and services. And that makes sense. Customers should get a direct benefit from the products and services they buy. We hear the word ‘value’ a lot.

But there’s an emerging understanding that delivering a direct benefit or value from a product or service isn’t enough. Necessary, yes, but not enough. Customers buy technology products and services to achieve an end outcome. That end outcome isn’t successful use of the product. Successful use of the product is a means to a bigger end outcome.

Success comes for a customer when they achieve that bigger outcome. A customer success program should focus on enabling that bigger outcome. And if the vendor can enable this bigger outcome, customer loyalty and revenue will soar.

As vendors, we want both loyalty and revenue growth. This book provides a path to these results—to loyal revenue growth.

The Old Attitude Towards Customer Success

There’s vested interest for traditional vendors to deliver success for their customers. They want customers to pay maintenance; they hope to sell them more products and services; they need references for future selling. But most vendors just want their customers to have success from their products or services. That feels good.

In the past, the financial incentive to ensure customer success wasn’t great. The bulk of revenue from a customer occurred early in the engagement. The customer bought perpetual licences upfront. And vendors offered discounts for them to buy all the licences they might need for the foreseeable future. The customers bought infrastructure such as servers upfront. The bulk of professional services were for implementation which happened upfront.

By the time the implementation was finished, the vendor had a big percentage of the revenue they would get from the customer over the next five years. Of course, maintenance revenue was important. But if customers continued using the software, they felt obliged to pay maintenance in case something went wrong. So, most customers paid their maintenance every year.

Occasionally, the vendor could sell add-on products and related services. Major upgrades took place from time to time but could often be years away. All in all, after the implementation there wasn’t a lot of revenue on the horizon.

The vendor needed some customers to be successful because they needed references. References provide a powerful tool for the vendor sales team. But vendors didn't need all or even most of their customers to be successful. They needed enough to have references for the next sales deal.

As a result, if a customer wasn't successful, there wasn't a big financial downside for the vendor. Unhappy customers would usually feel their financial commitment was too large to drop the vendor. For most customers, it would be many years before they felt their initial investment was distant enough to throw out a vendor and start again.

The financial risk in a project lay with the customer. Vendors did what they could for customer success, but they weren't driven. It wasn't that they didn't care. It was just hard to find the financial reason for going the extra mile and ensuring the customer achieved the outcomes they wanted. There wasn't enough money in it.

This affected implementation projects. Everyone celebrated success when the software went live. In most cases, the vendor closed the project as soon as possible after go-live. For fixed-price projects, project closure was the final milestone affecting revenue recognition. Getting the project closed at the end of a quarter meant recognising the revenue in that quarter. It mattered. No-one wanted to keep the project open to measure the outcome from the project, particularly as reliable measurement could be three to twelve months into the future.

Everyone, including the customer, considered the project finished on go-live. No-one wanted to measure the results in case they weren't good. The customer's project team was often complicit. They had announced success with the go-live and didn't want measurement of real outcomes to change that perception of success.

Subscription Pricing Changes Everything

Things have changed for technology vendors. Now every vendor has a subscription pricing strategy. And that increases the need for customer success.

The revenue stream from a customer flows differently. When a customer chooses subscription pricing, the licence and infrastructure costs are spread over time. Many vendors are bundling implementation services and spreading that over time as well. The customer invests much less upfront.

After one or two years if things aren't going well, it's more palatable to drop the vendor and start again. Of course, it's disruptive to change vendors. The internal cost of a second implementation remains high and would not be done lightly. But the subscription fees wouldn't change much with the new vendor, so there's not a big direct impact on the P&L from this source.

The power pendulum has swung back in favour of the customer. They don't buy everything upfront. They invest over time. And they no longer bear the bulk of the risk for success. The following chart, reproduced from *Competing for Customers* (Dasteel, 2016), illustrates the change.

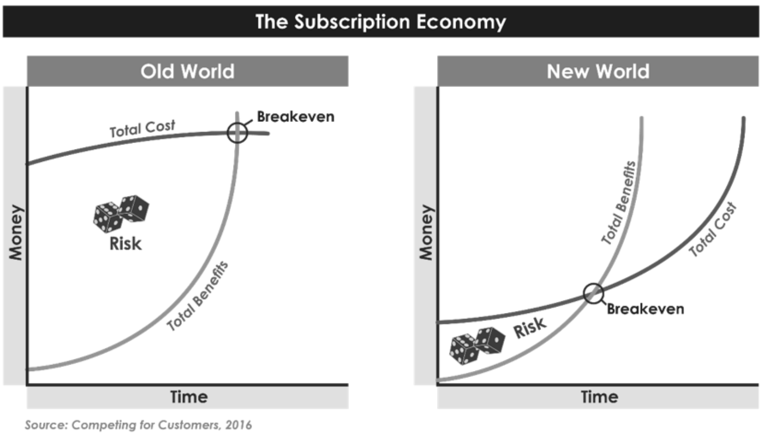

Fig 1: Cost and benefit in the subscription economy

Now the vendors' revenue streams have far more risk. The vendors have a much greater financial incentive to ensure customer success.

And customers are engaging with vendors differently. Paul Keen, CIO of Airtasker (an online marketplace for everyday tasks), said:

> *We try to have Tinder-style dates. If it works, we go ahead. If not, we stop. We may even use it for a period of time and then stop. Older vendors struggle with this concept. Newer vendors all understand this approach. And they work hard to ensure we have success.*

The risk for vendors isn't only about being dropped. In fact, this represents the smaller of the risks from lack of customer success. The larger risk is lack of growth in usage.

To illustrate, let's assume a customer thinks they'll need 100 users, but only need 60 to start with. In the past with perpetual licences, the vendor would offer enough discount for the customer to buy all 100 upfront. With subscription pricing, customers rarely buy all users upfront. They're more likely to contract for 60 upfront and promise to buy more as usage expands. If they aren't successful, the use of the vendor's product won't increase, and the vendor won't sell any more users. Worse still, the customer's usage might decline, and the customer might cancel some of the original 60 users.

If the customers aren't successful, vendors now face the twin problems of increased risk of being dropped and reduced revenue growth. And that's why there's been an explosion of interest in customer success programs.

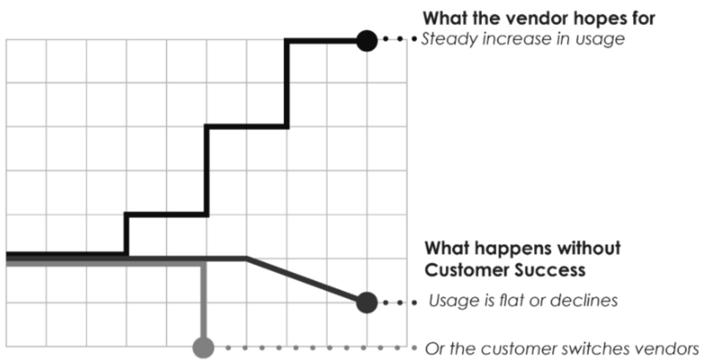

Fig 2: Potential revenue lost if customer doesn't succeed

Other Challenges for Technology Vendors

Growth

Vendors grow through cross-sell and upsell of existing products. They also want to grow from new products and services. The challenge is developing new offerings that will drive greater growth. It's not hard to generate lots of ideas. But how does a vendor generate ideas that will create real growth? What frame of reference can they use? And how do vendors make sensible decisions about which ones to choose?

Differentiation

Most vendors have competitors. Good competitors. The technology space is a tough market. It's difficult for most vendors to offer genuine product differentiation. If they do introduce new features, the competition will catch up fast. And then go past with something new of their own. Feature/function leapfrog is a never-ending game that becomes even tougher as products mature.

For services vendors, the challenge is even harder. They often develop small applications or add-ons to major applications, and that can help them differentiate. But for core services, it's hard for most customers to see much difference between the offering of one services provider and another.

Customer References — Advocates

It's extraordinarily hard to sell products and services without reference accounts. Most vendors have some friendly customers willing to take a reference call or host a reference visit. However, an analysis of the percentage of customers who are true reference accounts can produce a nasty surprise for many vendors.

And how many customers are true advocates? How many would proactively endorse a vendor's products or services? There's a big difference between a passive reference account that will take a call when asked and a proactive advocate spreading positive news.

Another problem has emerged for vendors. It's not difficult for prospects to find a vendor's customers. The prospects don't always ask the vendor for references. They often do their own checking. The vendor loses control of who the prospect talks with.

Is a Customer Success Program Cost-effective?

In the nascent world of customer success programs, vendors have implemented many different models. Some have separate customer success teams. Some of these see customer success and sales as different activities, others see them overlapping. Some customer success teams have responsibility for revenue, others don’t. Other vendors see customer success as pervasive—as affecting every customer-facing department.

Regardless of the model, all share an underlying belief—they’re financially better off having a customer success program. Let’s explore where this financial benefit comes from.

We'll use a hypothetical vendor with:

- $100m of recurring revenue from current contracts and
- $25m of new customer sales each year (to organisations with whom the vendor has no prior relationship)

We’ll consider three potential increases in revenue from a customer success program. And we'll calculate the three year returns as the compounding effect of recurring revenue is substantial.

Reduction in Churn

The first source of revenue is reduction of churn (loss of or reduction in the value of existing contracts). Basic customer success programs achieve churn reduction by monitoring customer usage and taking pro-active action. At the simplest level, they track how many of the licensed users are active. At a more advanced level, they track use of advanced features. This acts as a lead indicator of under-usage by a customer.

Vendors don’t wait for the customer to tell the vendor they’re cancelling—they look for early-warning signals and act immediately. This can have a big effect on discretionary churn. It’s a great first step.

To illustrate the value of reducing churn, let's start with 4% churn and reduce it to 3%.

The Cumulative Cost of Churn **Beginning Value of Contracts - $100m a year**		
At End of Year	Value of these Contracts after 4% Churn	Value of these Contracts after 3% Churn
1	96	97
2	92.2	94.1
3	88.5	91.3
Total	276.7	282.4
Additional Revenue Over Three Years 5.7m		

Fig 3: The cumulative cost of churn

Each 1% of churn costs this vendor $1m in the first year. The compounding effect makes it $5.7m over three years.

Increased Upsell and Cross-sell

The second increase in revenue comes from increasing upsell (more revenue from existing customers on products/services they already use) and cross-sell (additional products and services to existing customers). A customer success program will accelerate acceptance of a vendor's offering. Tracking usage, both active users and key features, helps identify opportunities for both upsell and cross-sell. Operating in the Cloud gives vendors much greater insight into how customers use their products. They use this insight to drive pro-active action to increase upsell and cross-sell revenue.

An increase in upsell and/or cross-sell of 2% on the current recurring revenue of $100m would deliver $2m revenue in year one. The compounding effect makes it $12.1m over three years. This doesn't take account of churn (which would reduce the amount) and of new business sales (which would increase the size of the recurring revenue pool and thus increase upsell and cross-sell opportunities).

Improved New Customer Win Rates

The third revenue increase comes from improved new customer win rates. Our hypothetical vendor has $25m in new customer sales. Let's assume they have a 20% win-rate. They need to compete for $125m of business to win this $25m. If they could improve their win rate from 20% to 22%, they'd add $2.5m per annum or $7.5m over three years.

To summarise the results for our hypothetical vendor. They have $100m of recurring contracts at the start of the analysis. And they sell $25m of new contracts each year. With the small improvements set out above, they'd add the following revenue over three years:

Revenue Improvement	**Amount**
Reduction in churn of 1%	$5.7m
Increased upsell/cross-sell of 2%	$12.1m
Improved new customer win rate	$7.5m
Total	**$25.3m**

Fig 4: Potential additional revenue

In other words, on top of the growth already being achieved by this vendor, customer success would add $25.3m over three years.

Of course, achieving this $25m increase in revenue will incur additional cost. New staff, training, marketing materials and programs, new systems and management time and focus will all be needed. The cost will vary by vendor, and each will have a different hurdle for return on investment.

Simply put, there's substantial revenue available from implementing a customer success program.

Generation 3 Customer Success will eclipse Generation 2 in the same way that Generation 2 eclipsed Generation 1 in the early 1990s.

Organisations go through three logical steps (the logic chain) before they invest in technology. They decide their business results aren't adequate, they identify the problems and finally they identify requirements.

Generation 1 (Features Generation) vendors concentrated on the third step in this logic chain—meeting the customer's requirements.

Generation 2 (Solution Generation) vendors moved one step up the logic chain—solving the customers' problems.

Generation 3 (Outcome Generation) vendors move one step further up the logic chain—enabling future results.

Buying Technology Products and Services – The Logic Chain

Companies go through three logical steps (the logic chain) before they invest in technology. Before these steps begin, an event causes someone in the company to look at results. It may be budgeting, or an external event, or a regulatory change. But management focuses on results.

This leads to the first step in the logic chain. The company decides the results aren't good enough. Revenue may be too low, costs may be too high, the pipeline may be inadequate. They resolve to act.

Second, the company identifies the problems or roadblocks causing the inadequate results.

Finally, they'll come up with ideas for how to fix the problems. These ideas drive their requirements. Then they talk to vendors.

Fig 5: The logic chain

Vendors have always wanted their customers to be successful. The following chapters review the three generations of how vendors tried to make that happen.

Generation 1 – the Features Generation

Generation 1 vendors concentrated on the third step in the logic chain. They showed customers how they could meet the specified requirements.

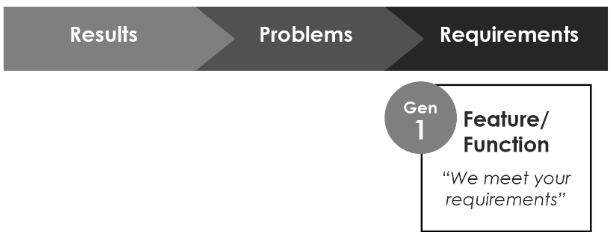

Fig 6: Generation 1

Generation 1 began in the '70s, a little after software packages appeared. Most technology vendors began by developing products or services for individual customers. After doing this with several customers, the vendors realised they couldn't sustain this development approach. They started to add features and functions to sell their offering to a broader market.

They soon realised they couldn't come up with products and services in isolation. The old adage of 'build it and they will come' just didn't work. They needed to understand their market and the specific wants and needs of the customers. So, they went to a great deal of trouble to learn the customers' wants and needs. Listening to the 'voice of the customer' became popular as a driver of marketing behaviour.

Generation 1 vendors then developed features and functions to match the customers' wants and needs. They believed the vendor that best matched the customers' wants and needs would win.

Competing for new business required lengthy demonstrations of features and functions of the software. External consulting organisations became adept at selling independent evaluation methodologies. Customers would engage the consultants to assist in determining which vendor had the closest fit to the requirements. Big spreadsheets with long lists of required features were common, with each vendor scored on each feature.

The term 'column fodder' appeared. Many customers needed to have three or more vendors ranked. Often the customer or the independent external consultant favoured one vendor. The requirements would favour that vendor. The other vendors were only there to provide scores in the other columns—they were the column fodder.

Problems arose on the customer side as well. The customer often included requirements far more advanced than they could use. The problem of internal people or consultants favouring one vendor made objective assessment difficult. As evaluations proceeded, the customers struggled to sort out what was important.

The Generation 1 era also saw a patchy approach to implementations. Vendors did not have robust implementation methodologies. The approach to implementation depended on the skill of the vendor's consultants. Each implementation was different, driven by the consultant's knowledge and biases. Measurement of results proved difficult. This may have led to the culture of declaring victory when the software was live, with no real attempt to measure the returns.

As the technology industry matured, the differences between software packages reduced. It became more and more difficult to differentiate. Customers needed to go into more and more detail to decide between vendors. The external consultants encouraged this drawn-out analysis. The cost for the vendor in running the sales campaign kept increasing, with the result often a lottery.

As the offerings became more similar, the customers had more difficulty remembering the features offered by each vendor. Conversations like the following occurred—'Which vendor had that feature we liked? Was it the one with the good sandwiches for lunch? I can't remember.'

Another problem then emerged—the customer didn't always know best. The customers had a limited view of how problems were solved in other companies. Vendors began to have broader experience and could apply lessons learnt in one customer to other customers.

Not surprisingly, vendors sought a new way to compete.

Generation 2 – The Solution Generation

Generation 2 vendors emerged in the late 1980s. They focused one step back up the logic chain. They no longer focused only on the customer's stated requirements. They worked to understand the customer's problems and then develop a solution. They told customers they needed first-hand knowledge of the problems. They'd then use their experience to come up with better solutions to solve them.

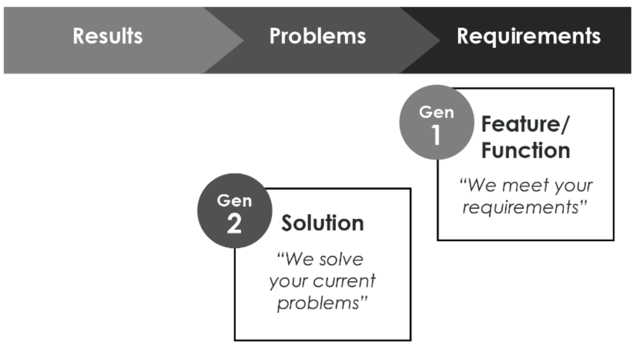

Fig 7: Generation 2

Solution-selling emerged. Lots of variations of solution selling appeared over the years. Each claimed superiority over its predecessors. But they all had one thing in common—they emphasised understanding the customer's problems and then providing a solution to those problems.

Generation 2 vendors did not compete on features and functions alone. They could compete on who could provide the best solution to the customer's problems. This brought into play other factors such as expertise and experience. Consultants in the sales team shifted from being experts in features and functions to experts on how to solve problems.

The solution-selling approach produced great results for vendors. Today, few vendors would choose a Generation 1 approach. The exception is those vendors who sell to government and other regulated bodies which insist on a Generation 1 approach.

Generation 2 also saw the quality of implementation methodologies improve. Each vendor had their own methodology, as did many consulting firms. In theory, every implementation would follow the same process. In practice, that didn't occur. But even a modicum of structured process improved the results.

Why Change from Generation 2?

Generation 2 has served the technology industry well for almost 30 years, with good reason—it worked. But Generation 2 vendors face some challenges.

Pace of Change

The pace of change in business has exploded. Technology has been the major driver of this acceleration. But other innovations such as the share economy and the subscription economy have changed businesses. This increasing pace of change makes it difficult for customers to stay ahead. If the customers and technology vendors focus on solving today's problems, they'll always be in catch-up mode. It takes a long time for customers to diagnose the current problems, agree requirements, choose a vendor and implement a solution. By that time, a whole new set of problems will have emerged. The customers will never get ahead.

The pace of change in business has been the largest factor driving a move from Generation 2. But it's not the only one.

Current-Solution Blindness

Customers suffer from 'current-solution blindness'. They have difficulty seeing solutions to their problems that differ much from the current method. The catch-cry of 'We've always done it that way' is common. As a result, it's difficult for them to come up with creative solutions they can ask their suppliers to meet. And it's difficult for them to see how an innovative offering from a supplier would work, or why they would bother making so much change.

Forbes contributors David Sturt and Todd Nordstrom said (Sturt, 2014):

> *When it comes to creativity and innovation, customers can be woefully inadequate sources for new solutions. Inventors of market-disrupting ideas know that what people think will attract them to a new product or service may often be very different from what actually does.*
>
> *In his book, serial entrepreneur Mark Cuban put it this way: Your customers can tell you the things that are broken and how they want to be made happy. Listen to them. Make them happy. But don't rely on them to create the future road map for your product or service. That's your job.*
>
> *Or, as Steve Jobs famously put it: It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them.*

When the pace of business change was more languid, current-solution blindness wasn't much of a problem. Today, businesses can be disrupted overnight. Business can't afford to be 'stuck in a rut'.

And current-solution blindness can affect vendors as well. When focusing on current problems, there's a tendency to start with the current offering. The easiest thing to do is tweak a current offering to overcome the problems. It's faster and cheaper. The result is small incremental changes over time.

Tweaking current products does two things. First, it tends to make software code complex. The term spaghetti code is often used to describe software that has evolved over time. It's hard to understand and difficult to maintain. Second, current-solution blindness stops vendors applying significant creativity to the customer's problems.

Vendors Only Focusing on Problems Is Like Doctors Only Treating Symptoms

Let's draw an analogy with the medical world, which has come a long way in the past 30 years. One of the developments has been the Patient Outcome Framework.

If a patient is unwell, they will explain their problems to the doctor. The doctor doesn't then prescribe treatment. The doctor uses the information about the patient to develop a diagnosis. They may need to do further tests before they finalise the diagnosis. They then develop a specific outcome to be achieved for that patient.

For example, if the problem is cancer, the outcome will be to kill a particular type of tumour in a specific part of the body. That outcome is part of a bigger outcome of restoring health.

Only after defining a patient outcome does the physician determine the right treatment. In the case of, say, oncology, it might be radiotherapy, chemotherapy, surgery or a combination. In all cases, the doctors have an outcome to achieve for the patient. They then tailor the treatment to achieve the outcome.

This approach in medicine is world-wide. Most developed countries use a Patient Outcome Framework to ensure a focus on patient outcomes.

Customer problems are a lot like symptoms in the medical world. We now realise we must shift the focus from solving problems to delivering a clear business outcome. We can't concentrate on solving problems without being clear about the broader outcome. That's a lot like doctors giving medication to treat symptoms without first having a clear patient outcome to achieve.

We now understand technology vendors that don't focus on business outcomes are like doctors who don't focus on patient outcomes.

Fig 8: Medical professionals focus on patient outcomes

Financial Implications of Failure

For subscription-pricing vendors, Generation 2 engagement does not produce the customer success needed to protect and grow recurring revenue. Generation 2 was adequate when most of the revenue came early in the relationship. With subscription revenue now spread over time and an increased ability for customers to drop vendors, Generation 2 just doesn't cut it.

Generation 3 — The Outcome Generation

Generation 3 vendors move the final step back up the logic chain. They focus on the future results or outcomes the customer wants to achieve. Their offering enables achievement of that future outcome. And the solution of current problems as a by-product.

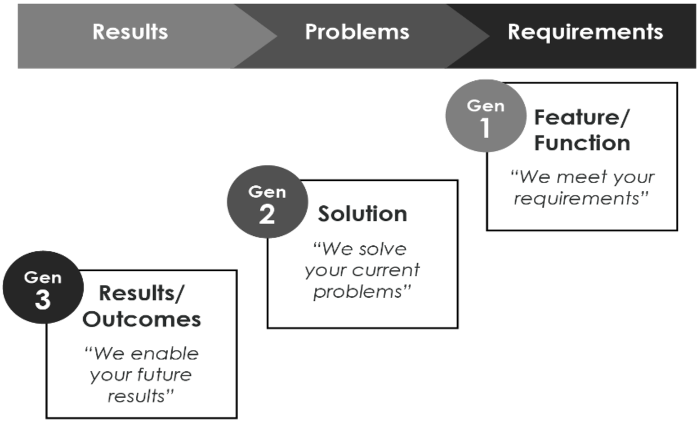

Fig 9: Generation 3

By focusing on future results, customers have a chance to get ahead. Instead of reacting to current business problems, they focus on what's ahead of them. And they want vendors who can help them get there. Perhaps even lead them there.

To be clear, Generation 3 vendors don't ignore the requirements or current problems. The customers want vendors to listen to them. They'll only listen to the vendors once they're sure the vendors have listened to them. But Generation 3 vendors don't build a solution solely to solve current problems. They show the customer a path to the bigger outcome. And a by-product of achieving the bigger outcome is solving the current problems. The focus is on achieving a new to-be state, not solving current problems. But they solve the problems.

Marc Benioff, CEO of Salesforce, has said:

> *You must always be able to predict what's next and then have the flexibility to evolve.*
> (Brainyquotes)

Both customers and vendors benefit from this mantra—from this focus on future outcomes. And both benefit from solving current customer problems as a by-product of enabling that future outcome.

Comparing the 3 Generations — The Story of the Three Entrepreneurs

Three entrepreneurs, each wanting to start a business, met with a hungry man.

‘What do you want?’ the first entrepreneur said.

‘I want a sandwich.’

So, the first entrepreneur opened a sandwich store.

‘What’s your problem?’ the second entrepreneur said.

‘I don’t have any food.’

The second entrepreneur opened a supermarket.

‘What outcome do you want to achieve?’ the third entrepreneur said.

The hungry man, who was overweight, looked puzzled.

‘Do you want to be full and nourished?’ the entrepreneur said.

The man agreed.

The third entrepreneur invented a pill. It contains all the necessary vitamins, minerals and proteins. When eaten, the pill creates foam in the stomach. The foam fools the body into thinking it’s full.

The third entrepreneur just bought a mansion in the Bahamas.

The point of the story is true breakthroughs don’t come from asking the customers what they want or about their current problems. Using these approaches would never have produced the printing press, the steam engine, radio, television, iPhones and iPads or 3D printing.

Outcome-driven thinking offers the best chance to develop unique ideas.