

# Customer Risk

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## What is customer risk?

Customer risk is high when your product is not delivering sufficient value to customers. At the heart of customer risk is *product market fit (PMF)*, and the extent to which a product solves a problem keenly felt by customers. Operationally, customer risk is evident when high proportions of customers churn and when customer acquisition is extremely costly and slow.

In these instances, startups have yet to achieve product market fit, and so find it difficult to attract customers and risk losing those they have acquired as they are not delivering enough value. This can happen for many reasons but typically it boils down to when users' needs and pain points are poorly understood, when the product has hiccups or inconsistencies in user experience, or when there is a gap in clear and consistent communication between the company and its users.

The most straightforward way to establish whether a startup has achieved product market fit and is delivering benefits to users is to ask the users directly (through a frictionless feedback loop and user research), to evaluate user data and determine where there may be drop off points, and to measure benefits to users via established impact methodologies. However, such impact assessments, even those leveraging lean data methods, are rarely (or only infrequently) feasible given the resources required.

As such, startups need more consistent internal methods to evaluate and monitor product market fit and assess if they are delivering value to customers thereby managing customer risk. There are a number of operational habits and methods that can help:

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The first, **user research**, is perhaps the most important tool in beginning the product market fit journey - both to understand whether the product meets a user's needs and validate a company's value proposition as well as to understand where there may be challenges in the user's experience with the product once acquired.

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The second, **data analysis**, entails careful monitoring of acquisition, usage, and retention metrics. These indicators can reveal the extent to which customers value the product and derive benefit from its use.

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Finally, startups need to use the research and data to develop an **engagement strategy** that will enable them to improve communications with users and to maintain open channels for feedback, which can increase retention and customer lifetime value.

## Key factors of customer risk

- Complex or unwieldy UI/UX
- Accessibility of payment methods
- User preferences not understood
- Low trust
- Poor customer support
- Price point outside of users willingness to pay
- Limited access to technology
- Customer connectivity
- Customer-centric product management processes
- Customer feedback process
- Communications challenges

## Mitigation strategies

A number of product management approaches can help startups mitigate customer risks and move towards achieving product market fit, monitoring usage and retention over time.

### Hire a product manager that puts customers at the heart of the product management

The most direct first step is to hire an accomplished product manager who knows your product space and your user base well. A good product manager who knows your market space -- and where the gaps are -- can provide the intuition and expertise that can serve as a foundation for achieving product market fit. If that person also knows your user base -- their access, preferences, and decision-making criteria -- then you have found someone who can effectively guide product development. In many cases, especially for pioneering startups introducing new products among unserved potential users, teams may struggle to find candidates that can both master the product development process and deeply empathize with the problems and realities faced by users. When this happens, startups can ensure their teams adopt customer-centric product management approaches, putting the needs of users first.

### Engage in user research - early and often

User research should form the foundation of the product market fit search, whether you are developing a prototype, rolling out a new product, or refining features for an existing product. User research can take many forms: analyzing existing data to uncover needs and challenges with the current

user experience, administering a quantitative survey to better understand the population you are targeting, or getting into the field to speak directly with or observe users.

User research can make use of prototypes and minimal viable products, or just involve silent observation as a customer uses your product. Our [Product Market Fit toolkit](#) can help you pick which method is right for you at the moment and design your research.

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## Analyze user data, at each step along the customer journey

The second pillar of product market fit is data. Keeping track of users throughout the customer journey -- from awareness to acquisition to usage frequency and even referral -- will allow you see where customers are dropping off and where you should invest additional effort. The [AARRR](#) framework can be a useful approach for tracking the customer journey. Startups should start with an [initial dashboard](#) and then grow their data strategy as features and channels multiply. Data can also amplify user research, helping you to [direct user research efforts towards certain segments](#) or towards certain problems in the journey. For example, data may indicate that users of a certain age or in particular geography activate at lower rates, thereby targeting your attention to specific barriers to use.

The combination of user research and data can help you articulate the outstanding questions and hypotheses about what customers will find compelling and useful. Once you articulate the open questions, controlled [experiments or pilots](#) can be a powerful way to generate answers and evidence. Making such experiments a part of your business' culture and DNA can ensure that your team continuously improves and grows your product offering.

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## Develop a robust and consistent communications + engagement strategy

Together, the user research and data should inform a communications and engagement strategy that keeps the startup in touch with users, and motivates users to continue engage with the product and with the startup. The strategy should focus on identified touchpoints, set goals for each, and test methodologies for improving engagement and retention along the funnel.

The engagement strategy should also include clear and easy mechanisms to communicate with customers along the user journey (from acquisition to retention to revenue), [with messaging that makes sense to the customer base](#). These should include opportunities for customer feedback and reprisal, which can also provide content for progressing towards product market fit. Customer support mechanisms like helplines and call centers can help you track where customers are hitting barriers or need assistance. Similarly, asking customers for feedback at regular intervals or after certain actions can also be a valuable source of intelligence. There are established industry tools for collecting this feedback such as Net Promoter Scores, KISSmetrics, and Flurry.

## Additional resources

- [CGAP Customer Centricity Guide](#)
  - [Product testing toolkit](#)
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## User Research

- [UserTesting](#)
  - [Validately](#)
  - [Ask Your Target Market](#)
  - [Qualaroo](#)
  - [SurveyMonkey, Google Forms, Type Forms](#)
  - [Join.me](#)
  - [Screenleap](#)
  - [Customer research surveys](#)
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## Data Analysis

- [Seven steps of data analysis. A walk-through of how to approach data analysis.](#)
  - [Top Ten Tips for completing data analysis. A collection of tips and tricks for completing data analysis.](#)
  - [Data Management Toolkit](#)
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## Customer Segmentation

- [CGAP Customer Segmentation Toolkit and Workbook](#)
- [Averages Lie: Using Smart Segmentation to Find Growth – McKinsey.](#)
- [Cluster Analysis and Segmentation – INSEAD Business School.](#)
- [The Many Faces of the Poor: Mass Market Segmentation - CGAP](#)
- [Mystery Shopping Infographic - CGAP](#)
- [Power of Micro-segmentation - CGAP](#)
- [Willingness to pay](#)