Why Customer Network is the next big thing that every startup needs to master — Startup Hacks by Alex Iskold

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7-9 minutes

2019 was the year when VCs and startup founders soured on paid acquisition.Contrary to what most thought a few years back, CAC (cost of acquiring a customer) didn't go down as many D2C startups scaled. The costs instead went up.The explosion of D2C brands and mega rounds of funding led to massive amounts of capital deployed into advertising. All this cash flooded Facebook, Instagram and other social channels, and bid up the costs Google ads.

We've heard that these channels have become saturated, and that the companies are seeing diminishing returns on spending additional advertising dollars.We also heard that consumer's attention has become fragmented and that, combined with increasing competition for eyeballs from the brands and saturation of the channels, has led to increases in CAC.While all of this is absolutely true, this is only 1/2 of the story.

Why startups struggle to scale

The reality is that unless you have a strong word of mouth, you are forced to spend money to grow your customer base. And that relationship between the spend and the growth is linear.The more you spend on marketing and advertising the more customers you get. On the surface it sounds great, but if and when you dial down your spent - your growth stops.This is not a great business. From my point of view, there is no product market fit.

> You, at best, have linear growth as you spend money, but your business is not attractive because it has no economies of scale in terms of acquiring customers.

And this can be true not only for D2C startups, this same problem exists in B2B, although it manifests a bit differently.

> In B2B world, the lack of word mouth manifests itself in a struggle to scale your sales and sales team.

As you grow, you keep adding more sales people to get more revenue. On the surface, this is what everyone does. Yes, but here is the problem - at scale, this becomes the race against entropy - managing ever growing and complex sales organization against ever growing and more aggressive revenue targets.

Your Customers as a Network

So what is missing here and what is the solution to both D2C and B2B scaling problem ?I've been thinking about this problem through 2019 and I believe that the answer is to re-think your approach to customers.

> Instead of thinking of customers as a set of rows in your CRM, we should think of them as a Network.

Why would you think of customers as a network instead of a list ? Because networks have super powers when it comes to word of mouth, network effects and stickiness. Because networks outlast and overrun lists.To put it simply - unless you patiently and deliberately nurture and scale your customer network you will forever be stuck in a linear growth, and have to fight entropy in a form of churn and competition.

3 key ingredients of your Customer Network

Let's start with the businesses that are natural networks, for example, Twitter or Facebook. These business organically benefit from the network effects, because they depend on building the network to begin with. As I post a tweet, you read it, and then I read your tweets, and at scale one big sticky network emerges.

What about D2C businesses, where they don't have a natural network ?

There are 3 things that need to be in place:

1. Truly exceptional product, which is so great it leads to a word of mouth

2. Strong focus on early adopters and fans

3. Ongoing and deliberate nurturing of community of customers to create a network

Build an Exceptional product

To begin with, if you don't have an amazing product, nothing else will matter.As Andy Rachleff pointed out in his recent podcast with Mike Maples Jr. unless customers scream when you take away your product, you do not have a product market fit.

> If you don't have a truly great product, you will always be stuck buying customers. You will not be able to get a word of mouth. Your CAC will never go down. The main way that great products reduce CAC is through a word of mouth.

Focus on early adopters

Provided that you have a great product, you need to focus from day one on building a strong core of early adopters.It is not enough to just sell the product. You need to make sure that you have early adopters who love it so much they become advocates.

> These early adopters have to talk about your product at parties and on social media. They have to be obsessed with it. You should be able to see and measure this obsession. This obsession should be obvious.

Grow and nurture your Customer Network

And finally, beyond the early adopters, you need to deliberately nurture and grow the community of your customers.Union Square Ventures - perhaps the best firm (along side with Benchmark) known for its focus on businesses with network effects. Part of USV's new thinking, as partner Rebecca Kaden wrote here, is that a community is as a defensive mesh that a company can create to ensure customer stickiness, and word of mouth.

Realize that this dynamic is much different from Twitter and Facebook situation. There are no natural need for connection, instead, the community is deliberately nurtured and grown by the company. A community, or a network, is an overlay on top of the existing customer base.

> Your customer success team should not just focus on an individual customer, it should focus on building a community - a network around your product.

The need for a new kind of CRM

This new way of thinking - your Customers as a Network, requires a fundamental shift in how CRMs and Customer Success are done today.In that new CRM customers won't just be organized into rows, they will be connected into groups, and networks. Much like Twitter and Facebook analyze the strength and dynamics of these connections, so will these new D2C brands.These CRMs will have network-centric thinking built into your customer management:

- Don't have a connected network ? Your business won't scale.

- See a bunch of customers that aren't part of your community ? They might be at a higher risk of churn.

- See a growing vocal group of dissatisfied customers ? You may need to address the feature they dislike quickly.

  The Network-based approach to your Customer Success will become critical to success of your business

Customer Network for your B2B business

And what about B2B businesses ?In a way, it is even more natural for B2B companies to think about their customers as a Network.

The customers of your B2B business already likely known each other. They go to the same industry events, follow each other on Twitter, and likely even had a few beers together.

In a way, it maybe even more natural to create and to leverage the network of your customers if you are running a b2b company.

So this is the takeaway - networks become critical in customer success and in scaling of your business.

The next generation of D2C brands and B2B companies will need to satisfy all 3 criteria above - great product, strong early focus on early adopters and smart weaving of community around their product and brand. They will need to both - build an exceptional; product and to nurture defensive network around it.

Leave comments and let us know what you are doing to nurture your Customer Network.