Whitepaper

CUSTOMER INTELLIGENCE: THE KEY TO KEEPING SAAS/CLOUD CUSTOMERS

The HotLine Magazine

gainsight

There is good news and bad news for software companies in the shift to the software subscription model of the Cloud. The good news is that revenues have become much more predictable and stable. The bad news is that you have to keep reselling the sale in order to retain those customer income streams over time. The good news is that there is more available data than ever before about your customers. The bad news is that the data is scattered all over the company and is therefore not easily accessible.

The good news is that adding and supporting application features and functionality is easier to do in the Cloud. The bad news is that your competitors will soon be adding those same features to their applications too. The meaning is clear. In the SaaS/Cloud business model, what is really being sold is a relationship rather than technological features & functions, and keeping that relationship profitably going for as long as possible is the core issue for long-term success as SaaS company.

THE HUGE COST OF CHURN

Why should a SaaS company, especially if they think that they're in their "land-grab" phase and therefore don't have time or resources to worry about churn at this point, invest time and money now in building dedicated customer retention resources?

SaaS-Capital, a provider of debt-based growth capital for SaaS companies, answers the question. Churn is a cumulative beast. The income that you lost last quarter continues to be lost next year and the year after. Consider their model of two SaaS companies. Both sell only software subscriptions; no other income conduit is included. Both sign 10 new customers per month @ $1,000.00 each. Both spend $120K per month on sales & marketing to acquire those relationships (CAC). The only difference between them is that one has a customer retention rate of 95%; the other's only 80%. At the end of 5 years, the difference in bottom-line company valuation between the two was $15 million dollars. Along the way, the company with the 95% retention rate also had increased revenues to work with, up to $24K per month. That's a lot of money – your money – both now and later.

THE NEED TO KNOW

To make the initial sale, you needed to know quite a bit about your prospective customer. What were their business needs and requirements? Who were the decision makers and influencers? What were the timetable and the budget factors? All of that knowledge and more made the signature on the first contract possible. To get the renewal signatures, however, you'll have to keep that data up to date and to add to it. Customer Intelligence is a process that can't have an end. It's what you don't know about your customer relationships that can cause you to lose them.

If the key to keeping SaaS customers is to know everything necessary about them and appropriately applying that knowledge, that function is too important to be left unmanaged. Does your company have a Customer Intelligence team? For collecting, updating and analyzing all relevant data about your customers as individuals, value tiers and as a base? If you haven't formally chartered an individual or a team to be responsible for customer intelligence, it's time to put that initiative before the senior management team for active consideration.

In this white paper, I'll present a high-level view of the customer intelligence role, looking at the strategy, the process of gathering, evaluating and disseminating data, the people who are involved in that effort, and the technology that will be needed.

THE STRATEGY OF CUSTOMER INTELLIGENCE

The first step in developing a Strategy for your company's customer intelligence program is to define the term and thereby set a foundation for everything else to follow. Customer Intelligence is the Collection, Analysis and Use of information for the purpose of increasing customer retention and optimizing per-customer profitability levels. In other words, it's what you need to know about preventing churn and improving the profitability of your customer portfolio.

The scope of the information to be collected, analyzed and used includes general information about the company's customer base and specific information about individual companies, their people and their usage of your application. The gathering of general information about a company's customer base begins with identifying and defining value tiers, the various portfolios or groupings of that base, and determining the profitability of each tier. According to the Wharton School of Business, this knowledge is fundamental to putting the company on an authentic customer-centric footing.

There are a couple of immediate uses for the general customer portfolio data. It enables prioritization of assignments of customer-facing resources for maximum cost-effectiveness.

THE DEFINITION OF CUSTOMER CENTRICITY

The Wharton School of Business' definition of Customer Centricity" offers a very specific foundation for establishing and managing a Customer Intelligence function.

Customer Centricity, according to Wharton, requires that a company conceive of and manage themselves "not as a group of products, services, territories or functions, but as a portfolio of customers." The program teaches that companies who are customer centric "know how much money they make or lose with each of their customers or customer segments, and they understand why." Perhaps most importantly, "they understand in precise analytic terms exactly how their different customer relationships contribute to, or subtract from, the total value of the firm. Because they manage their customer portfolio on this basis, they know what to manage and where to invest in order to create sustainable profitable growth…"

Next, we can use that information to figure out ways to encourage lower-value customers to move into the higher-value groups. The data and insight should also be given to Sales so that they can better focus their prospecting activities. Detailed analysis of departed customers is a crucial part of the general customer base knowledge set. What caused the defection? What did the customer actually give as the reason for not renewing the subscription? Could there have been other factors involved? What was their level of engagement during the period leading up to the exit?

You should also establish a baseline for the characteristics of average customers, and another for the ideal progression up the adoption and received value curve. Moving beyond the general customer base data to the individual customer level, the basic data set begins with the identification of the decision makers and influencers in every one of the customer companies. Where appropriate, the various strong promoters and detractors of your company and its products should also be identified, and what's often called the "power users" as well – the people who are really skilled in using your application to the fullest. The health of all of these connections needs to be monitored, and this will require the development of appropriate metrics for use in reporting status changes. What behaviors might indicate the development of an At-Risk scenario? What common signs are present in your most loyal customer relationships?

The research questions for individual members of customer organizations also includes such issues as identifying their goals and objectives, their decision-making styles, and their awareness of the ROI for the investment their company has made in your products.

One of the most vital areas of customer data is their engagement with the application in terms of licenses/logons and percentage of actual usage of the applications key features and functions. The core of your health indicators for the status of relationships with people has to be sourced in these usage data. Customers may, and often do, say that they are completely satisfied with the product and that they are willing to recommend you to others – but if they are not actually using your application, those claims will present a very false picture.

The Strategy discussion is the foundation for your customer intelligence program development efforts in the other areas, and can serve as a check on the decision-making process throughout the initiative. If you can't make a clean connection back to your strategic base for a given decision, you'll probably find that either you left something out of your strategy, or what you are thinking of doing may not be appropriate.

THE PROCESS OF CUSTOMER INTELLIGENCE

The Process of Customer Intelligence is about the Sources of the data, the Validation of that data, and the Dissemination of the data. In other words, where does the information come from, how reliable and useful is it, and how is it to be put into the hands of the people who will make active use of it?

DATA SOURCES

You already have a lot of the raw sources and data in place. The CRM system that Sales used during the prospecting and acquisition phase should have a substantial amount of data about each customer company and the individuals in it.

When Implementation / Professional Services did their work, they kept records of initial specifications the way and who requested and approved them, etc. If those records aren't immediately available to you, go ask for them. If a 3rd party did the project, see what they are willing to share with you. The same thing is true of the Training team. What did they learn? With which contacts did they interact? Which were the "good" projects and what made them so? What did the "tough" gigs have in common? If you already have a Customer Success team, talk to them about what they are hearing in their interactions with key individuals.

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Down in the Customer Support Center of your operation, there is a wealth of very valuable information about your customers. It's in two forms: the records of the support case management system, and in the heads of the support reps. To begin the process of understanding the support center's knowledge resources, sit down and listen in on some of the conversations between the reps and the customers as a regular activity. You'll be surprised at how much you can learn here about what's really going on out there in your company's customerium. Talking with the reps can also provide insights as to what may be learned from the records in the case management system. For the future, consider: if you could assign just two questions per week for the support team to ask of all of their contacts, what would you ask and what would it be worth to get those answers?

The various forms of social media are another prime resource. While not everybody amongst the 160-odd million members of LinkedIn keeps their profiles up to date, many do – and the information there can be extensive. Facebook and Twitter are also important vantage points for keeping track of key individuals. If you have key individuals at customer sites on your watch list, LinkedIn can often provide you with the first indication that they have moved to a new company. You can then pass that information back to Sales for them to evaluate a possible new prospect, and you can start figuring out who took their former position.

VALIDATION

Completeness, Accuracy and Usefulness are the key aspects of the validation process. Consider the CRM system and its data. Did the Sales team enter in everything that they came to know about the prospect? Don't bet on it. Go interview them and look for missing pieces. If the sales rep for that account has left your company, see if you can track them down and interview them. The same is true of the other sources and data repositories.

Accuracy takes work. Keep asking questions and comparing notes. I learned over the course of many years in doing operational assessments of support centers to never assume any answer was accurate until I'd cross-checked it against what I found out elsewhere. For example, in nearly every project, the VP and Director level would tell me that certain things were never done in their group – and the line reps would often tell me that those very things were an everyday part of the job they did.

If you get answers that do not fit or make sense; either logically or because there is a contradiction, you then know something is wrong or broken, or that the wrong question has been asked. The art and science of asking effective questions is going to be a key skill of Customer Intelligence people.

Veteran systems design & implementation professionals have a standard question that they continually put to their clients during the process of system design and configuration. How will you use this data? Indiscriminate collection of data for the sake of col-lecting data will result in an unusable deluge.

For the past decade, an increasing amount of attention has been paid to the issue of knowledge management, especially in the context of Customer Support. There are a variety of knowledge management practices and technologies that are directly applicable to the validation of customer intelligence data.

DISSEMINATION

Who gets what information? How should it be delivered? What actions should follow?

"In dealing with the dissemination of information, there are a couple of very common errors. The first is to assume that if anyone wants to know something, they'll ask for it. The problem with such an assumption is that people often simply don't know what is available. Even if they do have an idea of what could be available, they may not venture to ask for it. This is especially true of customer support data in virtually every software company in the industry."

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A second common error is to assume that people read standard reports.

Early in my career, I was asked to assist an MIS team with a review of the reports being produced by the company's mainframe. We began by asking key people in the various departments about the reports that they relied upon for the decisions that they made. A list was assembled of all of the "must have" reports, and of the decisions that depended upon having those reports. Another list was assembled of the names of reports that were never mentioned. Then we started to print, but not deliver, the reports that were not mentioned – and listened for complaints. If none were received, the reports were no longer printed for a time, and then no longer processed at all. At the end of that phase of the project, we had cut our list of reports down from nearly 100 to less than 10.

Dissemination should not be a passive activity. If information is not being used, it's important to find the reason for the lack. Is it that the decision makers don't know about or understand the value of the information? Do they disagree with it? Are they basing their decisions on something else?

THE PEOPLE OF CUSTOMER INTELLIGENCE

Who will be responsible for doing the research and the maintenance of the data concerning the companies and individuals of interest? Who does the analysis of the gathered information and assessing the effectiveness of its dissemination? How large should the team be, and where should it be located in the overall organizational chart? Where will you find suitable people, and how will your company maintain and increase their skills? While SaaS/Cloud companies often have to run "lean and mean" organizations, especially in their early years, it's unfortunately true that assuming everyone will be responsible for all aspects of the work is a recipe for failure.

Where everyone is responsible but no one is accountable, the results are minimal. Customer intelligence is too important to be left to chance; it needs a dedicated and accountable executive owner and a team of professionals.

My recommendation is that the CI team should report to the CCO or whoever is the authentic owner of the ongoing customer relationships. Marketing may cast covetous eyes on the CI team, and there should be a lot of interaction with both Marketing and Sales – but keep in mind that the ultimate purpose of CI is retention, not acquisition.

CI SKILLS AND EXPERTISE

The essence of customer intelligence is having the right data, in usable form, asking the right questions and understanding the meaning of the answers. The skills set of the team, therefore, needs to include expertise in research, number crunching, analysis and especially domain knowledge. You probably won't find all of those skills in the same person, but they need to be well-represented in the team as a whole.

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The core of the team will need to be employees, but you should also periodically bring in outside experts of various kinds to look at your data and to suggest both new questions and possible meanings. Have a chat with the faculty of your nearby colleges and universities to see who they may have on staff or perhaps even as grad student interns. One possible approach to both staffing and training is to "borrow" people from other departments of the company for limited durations.

Many years ago, the VP of Customer Support for a large software company made a surprising new hire – a recent doctoral graduate in Anthropology. Noting the concerns of the new employee about their lack of any experience in the software field, the VP told him that the reason that he was being hired was that he had expertise in analyzing communities and in asking good questions. According to the VP, the new hire more than paid for entire cost of his first year's salary within a few weeks on the job by uncovering some trends that no one else had noticed.

THE TECHNOLOGY OF CUSTOMER INTELLIGENCE

What applications or tools do you use to gather information? Do they share a common database or are they otherwise linked so that information is available across the organization?

Most software companies who have moved beyond the initial startup phase and have released products will already have some sort of CRM/SFA (Sales Force Automation) system in place. They may also have added some marketing tools to track the effectiveness of their email and other marketing efforts.

Shortly after sales have been made to customers, there will be Support – and some type of case management system. In this day of easily available Cloud-based tools, it's hard to imagine a support team that would either attempt to do without a case/ticket management system or to write their own – but the records of whatever system they may have may not be linked with the overall corporate CRM system.

There may be a Project Management system that is used by Implementation/ProServe and/or Training. Here, too, it's very common for that system to not be able to share its data with the core CRM system.

Who reads the emails you send out to your customer base? If your emailing system is doing its job, it should be able to answer that question, at least for your prime persons of interest, and that information should be shared with the CRM system as well. Who attends webinars that your Customer Success team does to encourage individuals and companies to get even more value from your technology? Who doesn't attend?

More and more software firms are publishing content relevant to their vertical markets and of interest to customers and prospects alike. There is a definite need for technologies to provide insight on your website visitors' motivations and decisions?

From the company's perspective, the key questions are:

- What brought the visitor to the site? Was it from a Search engine referral, linkage from another site, or by direct access? If by search engine, what was the phrasing of the query and what results were offered? If a link from another site was involved, which one? If the visitor arrived by direct access, where/how did they get the URL? Did they pick up the link in an email?
- What did they read? What was the first article or page accessed, and were there any others that were also read? If there were others, how did they find them? Internal search? If so, again, what was the phrasing of the query and what results were offered? Links within the articles?
- What did the visitor do next? In a Support setting, for example, if they asked a question, read an article or two, and then asked another question in the same area, that would indicate that the first answer(s) didn't work. It also tells us more about how the visitor thinks about the problem they are researching.

> "To succeed in the Cloud, a company must consider the entire scope of its customerium, the community of its customers, influencers, fans, affiliates, mavens, promoters, detractors, ambivalents — and understand how each sector affects and impacts the profitability of the corporation.
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Once you've got the data from the various tools and systems, the next step is analysis. You'll need business analytics technologies capable of accessing data in different formats and repositories.

How will you deliver the processed and validated data to those who will use it as the basis for action? I think that this will turn out to be a combination of push and pull access channels – and controlling that access, managing the security of your knowledge resources is going to require more technology.

THE CASE FOR CUSTOMER INTELLIGENCE

From the beginning of the SaaS/Cloud tsunami, industry observers noted that the new subscription business model rather than the traditional purchasing of perpetual licenses meant that customers would be less committed to vendors. While many early SaaS vendors attempted to assure loyalty by holding customer data hostage, this strategy proved unsustainable. Not only did increasing customization functionality ultimately also enable data migration, it was not long before data synchronization firms entered the market to make exits and migration much less troublesome. The handwriting was on the wall – there is no real competitive advantage in software features & functionality. Today's breakthrough will be tomorrow's commodity. An industry that has long known how to sell technological bells & whistles, leaving the customer with the burden of getting measurable value from the product, must now learn how to sell real value in the form of enduring relationships.

A significant indication of the awareness by SaaS vendors of the new market realities was the creation and rapid proliferation of Customer Success Management roles. Company after company has fielded CSM teams and programs to help customers achieve success with their software subscription investments in the hopes of keeping those income streams going. The byproduct of those CSM efforts has been increased knowledge about customers and their needs, and expertise in capitalizing on them. Now it's time to take the next step to formalize the gathering, analysis and use of data about customers to increase retention and profitability.

The first step is to assess the currently available resources. What data do you have, and how is it being used? What is your actual customer retention picture, and what does it reveal about your company's profitability prospects? The answers to the latter two questions should be used as the beginning of a budgetary process to identify how much of an investment properly needs to be made to increase retention and the expected return. With that information in hand, it's time to design a customer intelligence program and team.

For more information about the emerging customer intelligence role, you're welcome to join in the discussions of The HotLine Magazine and its associated LinkedIn resource, The Customer Success Management Forum.

ABOUT MB & A, INC

Mikael Blaisdell is the leading voice in the SaaS/Cloud sector on the strategy, process, people and technology of customer retention and increased per-customer profitability. Drawing upon the experience of more than 30 years in the support/service field, he provides a range of consulting services for SaaS/Cloud firms of all types and sizes, especially in the area of the emerging profession and practice of Customer Success Management. Publisher of The HotLine Magazine, Mikael's vision and commentary about how companies can optimize customer relationships is read in over 135 countries around the world.

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