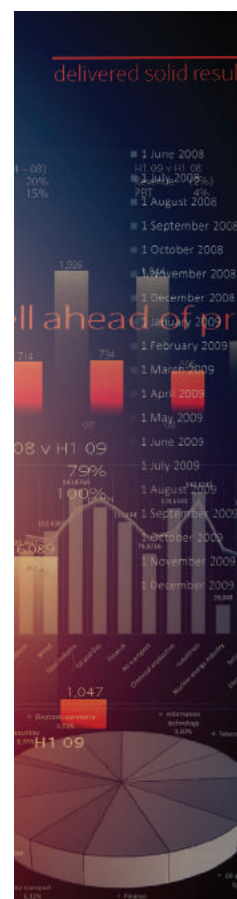# Measuring the ROI of Customer Success Management Solutions

MAINSTAY

Investments in Customer Success Management (CSM) have been accelerating as business leaders recognize that ensuring customer success may be the single most important driver of business performance. In this study, we break down the value proposition of CSM and quantify the revenue improvements and cost savings reported by companies that have adopted Gainsight's CSM solution.

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Executive Summary

A new paradigm known as Customer Success Management (CSM) is exploding in popularity among business-to-business (B2B) enterprises, and especially among Software-as-a-Service (SaaS) companies that depend on recurring subscription revenue to sustain business growth. It's not uncommon for these companies to get a majority of their revenue from existing clients (renewal and up-sell), which means that customers who churn after an initial contract purchase can have a huge impact on a company's long-term financial prospects.

Consequently, more B2B enterprises are focusing on maintaining high customer retention levels and reducing the churn in their customer base. But boosting retention requires comprehensively managing the satisfaction and success of customers, keeping all health metrics up to date, and moving proactively when warning signs appear in any given account. This can be a complex assignment, and even more so for SaaS companies that are growing rapidly and onboarding scores of new customers in the cloud on a daily basis.
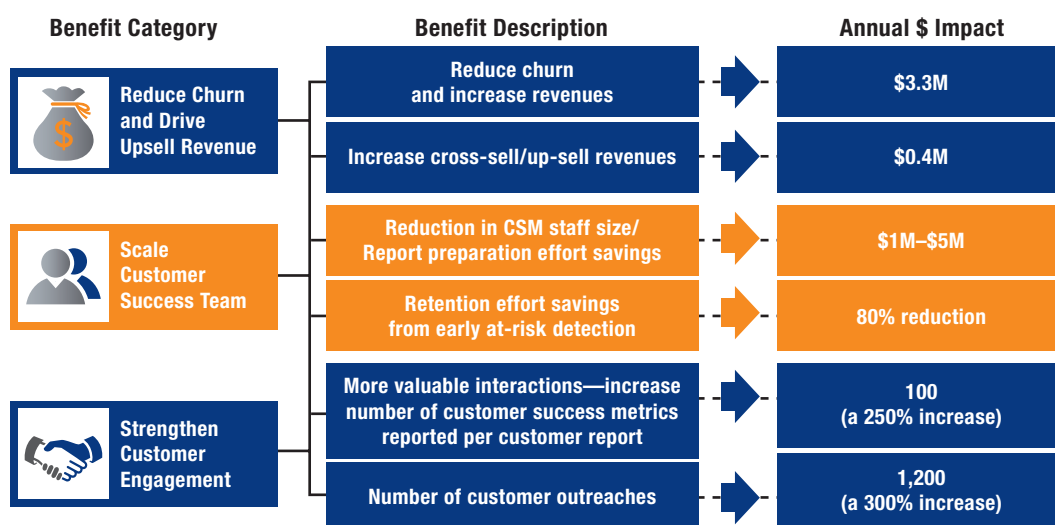
Dozens of metrics come into play when managing customer success — everything from product usage to net promoter scores (NPS) to contract and billing data — and companies need access to this intelligence early to know when an account could be in trouble. Typically when a customer is unhappy or simply not using the product, companies find out late in the game, when customers have already decided to end the relationship.

It remains true that the cost of retaining an existing customer is always lower than finding a new one; and once lost, a customer's lifetime revenue stream is usually gone forever. It is not surprising therefore that more companies have launched CSM initiatives, and why a growing number are adopting automated CSM technology, best practices, and data science from providers like Gainsight.

Key Findings

In this study, we interviewed a number of fast-growing companies that invested in Customer Success Management to improve customer retention, uncover selling opportunities, and boost the lifetime value of their customer base. Many of these companies started with "manual" CSM programs — that is, by simply hiring people tasked with paying attention to customer success. However, the manual approach ran into bottlenecks, causing companies to turn to solutions like Gainsight that provides automated tracking, reporting, and alert systems that significantly extend the reach and effectiveness of their CSM programs. Figure 1 summarizes the findings of the study, which documented a range of benefits from investing in automated CSM solutions.

Figure 1. Gainsight drives $16 million in bottom line impact over three years per customer

Benefit Category	Benefit Description	Annual $ Impact
Reduce Churn and Drive Upsell Revenue	Reduce churn and increase revenues	$3.3M
	Increase cross-sell/up-sell revenues	$0.4M
Scale Customer Success Team	Reduction in CSM staff size/ Report preparation effort savings	$1M–$5M
	Retention effort savings from early at-risk detection	80% reduction
Strengthen Customer Engagement	More valuable interactions—increase number of customer success metrics reported per customer report	100 (a 250% increase)
	Number of customer outreaches	1,200 (a 300% increase)

"Customer revenue saved using Gainsight has valuable ROI. Between the just-in-time identification of at-risk customers in order to intervene and improved staff efficiency using the technology, we've paid for the Gainsight solution several times over so far."

– Chris Cabrera, CEO at Xactly

REVENUE LIFT

In our study, every company that adopted Customer Success Management programs reported a significant boost in sales revenue as it retained more customers and sold more products and services to existing customers. Revenue was on track to increase by more than $11M over a three-year period.

Companies noted that revenue lift was clearly the most compelling reason for adopting CSM programs, whether manual or automated. However, companies said they saw significantly greater lift with CSM automation tools like Gainsight. Both approaches—manual and automated CSM solutions (Gainsight)—are evaluated below, drawing on interviews with more than a half dozen companies that adopted CSM programs and solutions. Many of these companies started with manual CSM initiatives and later augmented the programs with automated solutions such as Gainsight.

Healthcare company saves $1.8M annually with Gainsight

This fast-growing SaaS company serves the healthcare industry with an innovative staff-scheduling solution. Its 1,000-strong customer base includes households, small businesses and large enterprises, but many are new to technology solutions, so onboarding and retention can be a challenge. The founders realized that without adopting Customer Success Management, customer churn could hit double-digits. The company chose Gainsight for its superior analytics and insight and immediately integrated the solution into its cloud-based scheduling platform.

Positive results followed: the company cut customer churn rates by 50% and generated 10% more cross-sell leads, half of which were converted to additional revenue. It also used the solution to cut operating overhead. Instead of needing a team of 30 customer success personnel, the company fields a lean team of seven managers, saving $1.8M per year. Intelligence from Gainsight is also helping the company find more effective ways of segmenting and targeting its customer base to boost sales.

Manual CSM Programs

Many of the companies interviewed started on the path of Customer Success Management by hiring people specifically tasked with reaching out to customers, gauging satisfaction levels, and generally trying to avert defections through early intervention. By "manual" we mean that these efforts involved significant amounts of legwork, manual data collection, and hand-built tracking tools such as spreadsheets.

Manual CSM initiatives are difficult to scale because they lack the automation needed to easily collect a range number of customer success metrics across the entire customer base and monitor them continuously. On average, companies using manual methods covered about a quarter of the customer base; collected less than 30 measures of customer success, and reached out to a relatively modest number of customers in total.

Nevertheless, these labor-intensive CSM efforts generated measurable value, the study showed, delivering a revenue uptick by helping companies avert defections among a portion of the customer base. However, manual CSM programs were also shown to have a number of limitations. In particular, companies were found to miss signs of dissatisfaction—such as product non-usage—in the early days of the customer lifecycle. This is because new customers are easily overlooked by account managers who prefer to focus on bigger customers that have been around awhile. Yet these new accounts are precisely the customers that hold the most potential for future sales.

Automated CSM Boosts Retention and Revenue

Each customer we studied adopted Gainsight's Customer Success Management solution, in many cases to build upon early non-automated CSM efforts. All of the companies in the study reported a significant revenue lift after moving to Gainsight, with executives attributing the gain to reducing customer churn. On average companies in the study reduced churn to about 2–3%, a 5–10 times reduction from before Gainsight.

Automated CSM solutions reduced churn and improved retention for a number of reasons, companies reported:

- **Timely alerts.** The automated CSM solution (Gainsight) automatically issues alerts when customers show signs of dissatisfaction, especially during the critical first 90 days. The alerts helped companies act quickly and more effectively to stem defections—and required only one-fifth the effort compared to manual efforts.

- **More performance metrics.** Companies using Gainsight's CSM automation solution had access to more than three times the number of metrics (from 30 to 100 metrics per report), providing a more holistic view of customer satisfaction and retention, and allowed for more targeted communications.

Cloud-based demand-gen company enhances retention, set to realize $10M in revenue enhancement

Marketing and demand generation is the focus of this SaaS company, which was recently acquired by a global technology powerhouse. In the past, the company pieced together customer success reports within its Salesforce.com CRM platform—but there were limitations, including excessive spending on CS-related staffing.

A move to Gainsight propelled the company to better performance, helping drive a five percentage point improvement in retention rates, which should boost revenue by $10M over three years. The company also gained control over its operating expenses, leveraging the automated CSM solution to cut $3M in CSM-related costs. Today the company can not only generate twice the number of customer success reports but also more relevant metrics, and is leveraging more insights to target early-cycle customers who are most likely to drop out.
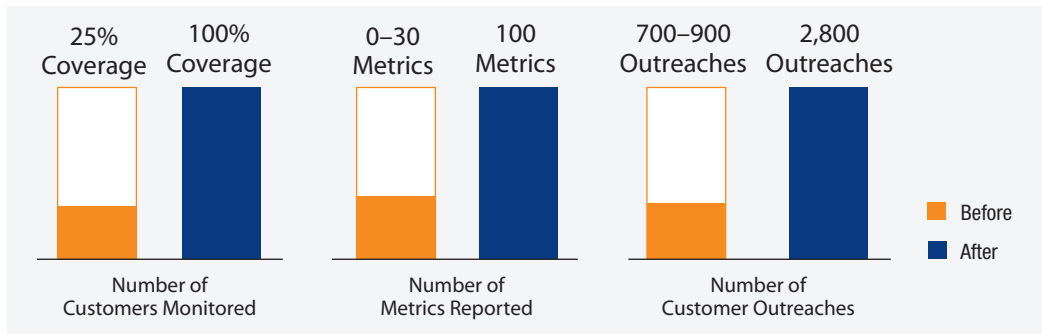
PROFILE OF COMPANIES STUDIED

- **Average customer base:** between 1,400 and 4,500 customers
- **Average revenue per customer before CSM:** $4K per month

"Before Gainsight, customer retention was a reactive activity, with 'management by expiry date.' There were simply too many surprises."

– Performance management company

- **Higher levels of engagement.** CSM automation enabled companies to touch more customers with commu-nications, visits, and pro-active interventions. On average, companies said they significantly boosted engagements with customers, reaching 250% more customers with some form of outreach activity — from 900 to 2,800 outreaches per week on average.
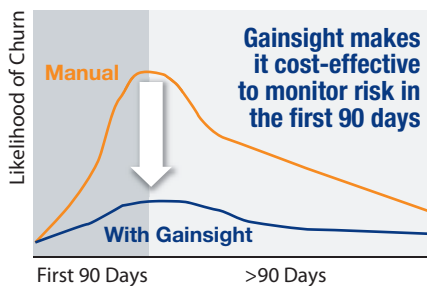
Figure 2. Gainsight delivers wider coverage of the customer base, provides more metrics for better retention efforts, and enables more customer interactions/outreaches

25% Coverage	100% Coverage	0–30 Metrics	100 Metrics	700–900 Outreaches	2,800 Outreaches

Number of Customers Monitored

Number of Metrics Reported

Number of Customer Outreaches

- Before
- After

Figure 3. Gainsight reduces risk of churn with proactive intervention in the first 90 days

Likelihood of Churn

Manual

Gainsight makes it cost-effective to monitor risk in the first 90 days

With Gainsight

First 90 Days   >90 Days

SaaS-based marketing automation company drives cross-sell revenue, cuts operating expenses by $5M per year

This SaaS-based marketing automation company helps improve customer engagement. In the past it used a number of manual tools to track customer success. The company believes it needs about 100 metrics to get a full picture of customer health, and this can get very expensive to calculate manually.

Choosing Gainsight to automate Customer Success Management, the company cut overhead by reducing CS report preparation time from hours to minutes, saving as much as $5M annually. The company has tripled its customer outreaches, from 400 to 1200 per week, and is leveraging Gainsight to get early insights into customer health. Especially valuable: the solution helped track and renew out-of-compliance customers, which has resulted in a six-figure revenue addition each quarter.

"The general assumption is that large customers need attention. However, in our case there are a huge number of new customers that are still adopting the product and therefore are at high risk for churn. It is expensive to service these customers and this is where Gainsight automation helps."

– Staffing automation company

"If issues are detected early, it takes only one-fifth to one-fourth the effort to retain a customer, all other things being the same."

– SaaS-based marketing automation company

Up-sell and Cross-sell Impact

While greater customer retention rates drove revenue gains, companies also reported improvement in selling more products and services to existing customers. Up-selling and cross-selling opportunities surged due to the wealth of customer data provided by the CSM solution, which gave marketing and sales teams insights into what else customers might be interested in. Simply communicating and interacting more with customers also generated more leads and contributed to additional sales.

Gainsight's usage-monitoring capability gave companies another avenue to sales: they could easily spot customers who were continuing to use the product beyond the trial period or past the contract renewal date, triggering a sales opportunity. The automated CSM solution also alerted companies when customers fell behind in doing required software upgrades necessary to qualify for support and customer service — again triggering a sales opening. One cloud-based marketing automation company told us that by helping track these out-of-compliance customers, Gainsight has generated hundreds of thousands of dollars of revenue per quarter.

Estimated $11 Million Revenue Impact Over Three Years

WWhat is the total revenue lift that a company might expect from using an automated, cloud-based CSM solution? The dollar value will depend on factors like company size, customer base size, and business model characteristics. However, based on our interviews, we made a rough estimate by looking at an average SaaS company with 1,400 customers. Assuming that the Gainsight solution reduces churn by 5%, the company would retain 70 more customers on an annual basis. Assuming annual revenues per customer of around $47,000, these additional customers would contribute an extra $3.3M per year — or $10M over three years, according to our conservative estimate based on interviews with Gainsight customers.

In addition to retention-driven revenue benefits, Gainsight provided insights and alerts that-enabled up-selling and cross-selling (including compliance-related sales). One of the customers interviewed, a typical SaaS company, added approximately $100,000 per quarter, or $1.2M over 3 years.
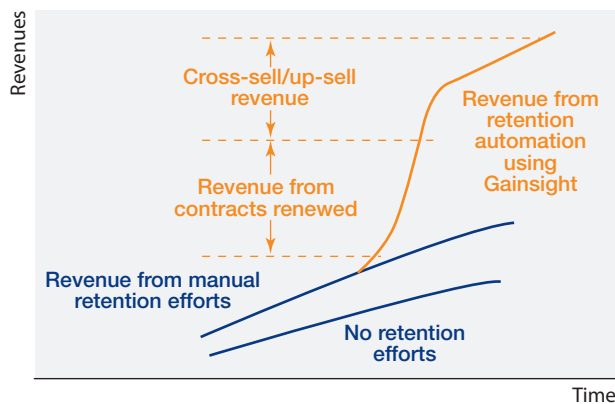
> "How much of the benefits can be attributed to Gainsight? We would attribute a third to Salesforce.com, a third to organizational and process changes, and at least a third to Gainsight."
>
> – Performance management company

Performance management leader expects a 5% churn reduction and 10% up-sell lift with Gainsight

This company's cloud-based software helps businesses discover sales opportunities, increase visibility, and drive revenue growth. Not long ago, high customer churn was a big issue at the company, due largely to the lack of visibility into critical account relationships. Customer retention was a reactive activity that mainly involved "management by expiry date" — or simply waiting for the contract renewal date to approach before starting your retention activities. To turn things around, the company launched a new Customer Success Management initiative that is now integrating Gainsight's CSM automation capabilities with the company's Salesforce.com CRM platform.

Executives say the Gainsight initiative is on track to deliver nearly a dozen more measures of customer success, including product adoption and usage, and provide greater visibility into relationship touch points. The company expects Gainsight's alerts and insights to improve cross-selling and up-selling by making opportunities visible 60 days sooner. Assuming a 5% churn reduction and 10% upsell revenue lift, the company expects its $50M customer base to grow to more than $140M in five years.

Adding together these enhancements, we estimate that the Gainsight solution could generate an additional $11M in revenue over a three-year period for an average SaaS company. Figure 4 illustrates how Gainsight generates greater retention and cross-selling revenue over time compared to companies with manual CSM programs—and even more so when compared to companies with no retention efforts. Companies consistently cited the ability to drive greater "customer lifetime value" as the principal reason for adopting automated CSM solutions.

Figure 4. Gainsight-driven revenue lift comes from two critical improvements: Less customer churn and more cross- and up-selling

Revenues

Cross-sell/up-sell revenue

Revenue from retention automation using Gainsight

Revenue from contracts renewed

Revenue from manual retention efforts

No retention efforts

Time

"Gainsight saves us 3,000 hours every month in data preparation for customer retention meetings. That's about $1M per year in cost avoidance."

– Staffing automation company

OPERATING SAVINGS

Beyond revenue enhancement, companies reported significant cost-cutting benefits from adopting automated CSM solutions, averaging between $1M and $5M per year in operational savings when compared to manual CSM programs. For example, companies that adopted Gainsight, which comes with an automated reporting engine, found that managers spent about 95% less time preparing reports, or nearly two hours per report, on average. For a company that prepares about two reports per customer, twice a month, for 1,400 customers, the labor required is substantial; for the study, we estimated this workload would require the equivalent of about 17–20 customer success program resources, costing about $1M per year. For companies with more customers and more extensive outreach efforts, we estimate that automated solutions would generate savings of as much as $5M per year.

Sales incentive management SaaS company improves revenue potential by over $4M by reducing customer churn

This global sales-incentive management company has been experiencing a growth spurt and early on embraced the philosophy of Customer Success Management. It learned that retention rates were only part of the picture, and soon it developed a richer and more detailed set of CSM metrics, including dollars lost to discounts, product usage levels, support ticket activity, licensing, cross-selling, training, and more.

Gainsight easily supported all of these measures, helping the company cut churn by 2-5%, translating into a $1.35M revenue increment per year. Gainsight-led CSM efforts have also generated additional sales from 20% of existing customers, driving about $900K annually in extra revenue. Meanwhile, streamlined CSM report preparation helped the company save about $200K per year in operational overhead.

Figure 5. Customer Success Report Preparation Effort

2 hours

95% reduction

$1M annual savings

5 minutes

Manual CSM   Gainsight-led CSM
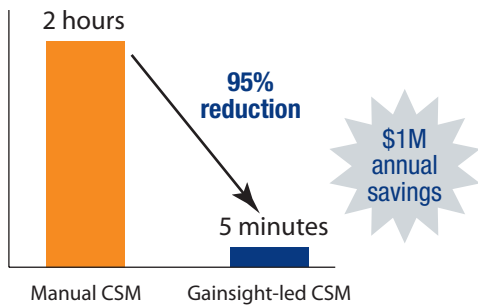
Companies said that automated CSM solutions excelled at monitoring recently on-boarded customers, whose revenues are typically lower than established customers and therefore more expensive to monitor (per dollar of revenue). By adding automation software, companies found it cost-effective to focus on this critical buying phase, when loyalty is most at risk. Overall, companies said that the expense of monitoring and retaining at-risk customers tended to be about 75% to 80% less using automated CSM software solutions, mainly because managers could detect dissatisfaction earlier and draw on better intelligence to design more effective communications.

One Gainsight customer, a typical SaaS company, said that with manual CSM efforts, retaining of at-risk customers requires more effort and costs (such as discounts, free extensions or giveaways). Gainsight's early insights and alerts should help the company reduce these efforts and control costs involved in retaining at-risk customers by up to 75%.

PRODUCTIVITY BOOST

Because of automation features built into Gainsight, customer success managers immediately become more productive, with companies saying they could touch three times more customers; for the average company this meant reaching out to 2,800 customers per month versus 900 before. Moreover, companies took advantage of the richer set of customer success metrics available in the Gainsight solution, which offers more than 100 measures of customer success versus 30 metrics that are tracked in the typical non-automated CSM program.
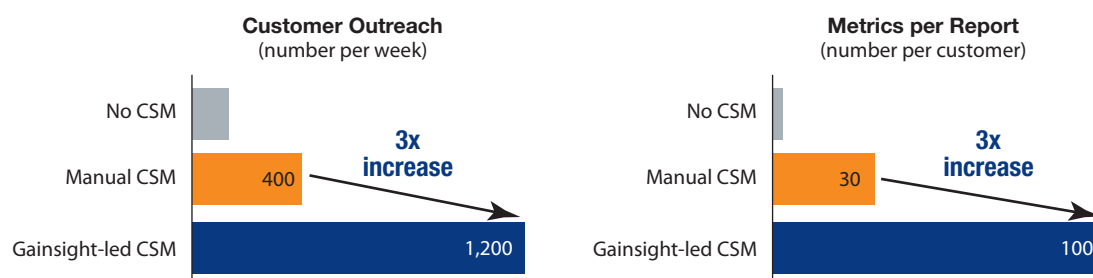
LMS SaaS provider forecasts 50% reduction in churn

This SaaS provider of productivity-enhancement software had long embraced the concept of Customer Success Management, but confined it to a sub-function of the account management role. But as customer churn increased in the face of sharp business growth, the company took a more proactive approach to customer success, seeking to cut churn rates from a recent high of 20%. Step one was creating a customer experience group equipped with a playbook of best practices and Gainsight's automated CSM tools.

The CSM program is now enabling the company to create a single "customer adoption score" that combined several indicators such as customer adoption, usage, and call center activity, and participation in Webinars and surveys. All of this helped determine the customer's renewal potential. Gainsight proved to be the best tool for integrating data from multiple sources, including Salesforce.com, and for automating reports. Executives now expect to cut churn by half and improve the quality and frequency of customer outreach activities.
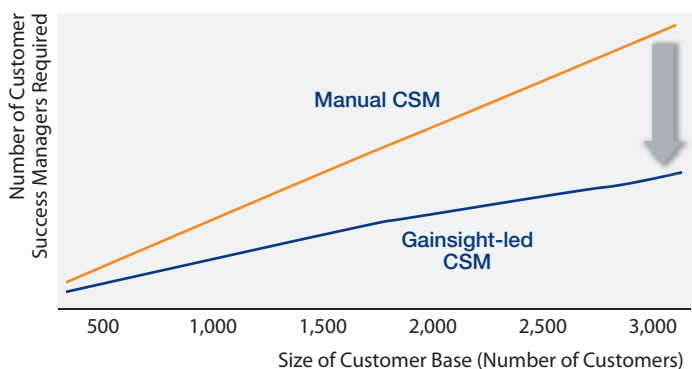
"We've more than tripled our outreach to customers as a result of adopting the Gainsight solution."

– SaaS-based marketing automation company

Figure 6. More Outreach, Richer Reports

Customer Outreach
(number per week)

No CSM	
Manual CSM	400
Gainsight-led CSM	1,200

3x increase

Metrics per Report
(number per customer)

No CSM	
Manual CSM	30
Gainsight-led CSM	100

3x increase

What this productivity enables for companies is significantly better scalability as they expand their customer base over time. This is a critical capability for SaaS or cloud-services companies, many of whom are experiencing growth spurts. According to our research, automated solutions such as Gainsight will allow these companies to handle growth with a leaner staff than companies that forego automation, as shown in Figure 7. For every 1,000 customers added, SaaS companies interviewed would have needed 30 more customer success managers without Gainsight to provide the same level of monitoring.

Figure 7. Lower staff overhead with automated CSM, providing scalability to handle customer base growth. For every 1,000 customers added, Gainsight clients will need 15–20 fewer CSMs, or $1M less annually.

Number of Customer Success Managers Required

Manual CSM

Gainsight-led CSM

| 500 | 1,000 | 1,500 | 2,000 | 2,500 | 3,000 |

Size of Customer Base (Number of Customers)

"Out of 1,400 total customers, the 1,000 smaller and recently on-boarded customers are most at churn-risk. It is expensive to monitor this segment and Gainsight helps us do this at a fraction of the cost."

– Marketing automation company

CONCLUSION

Figure 8 summarizes three approaches to managing customer success available to companies competing in the SaaS marketplace. Companies can choose not to fund any Customer Success Management programs; they can decide to dedicate resources to Customer Success Management, but do so in a highly labor-intensive way (customer success managers lack access to an automated platform); or companies can adopt CSM automation solutions such as Gainsight. As our study showed, automated CSM solutions offer huge potential for reducing churn and driving sales revenue, containing CSM overhead costs, and building a scalable infrastructure for maintaining customer success levels to match continuing business growth.

Figure 8. Comparing Three Approaches to Customer Success Management

			No CSM	"Manual" CSM	Gainsight-led CSM
Reduce Churn and Drive Up-sell Revenue	Customer Churn		Consistently high	Reduced in the short-term but continues to be high as customer base grows	Reduced and controlled in a sustainable, cost-effective manner
	CSM-led Cross-sell/ Up-sell		Data and insights unavailable to support sales to existing customers	Data or insights are too time-consuming and expensive to gather for this	Cross-sell/up-sell revenues driven by Gainsight reports
	Newly Acquired Customers At Risk (<90 days)		Unstructured efforts generally miss this critical customer segment	Prohibitively expensive to service these customers	Cost-effective monitoring of this high-risk segment
Scale Customer Success Team	Automatic Alerts		Non-existent	Rarely available	Widely used, help early detection of at-risk customers
	Customer Success Report Preparation Effort		Generally not undertaken	Very high; 3,000–10,000 person hours per month	Automated reporting reduces effort by 90%
Strengthen Customer Engagement	Number of Metrics Reported		Not reported or fewer than 10	0–30 metrics, constrained by time and resources	More than 100 metrics
	Number of Customer Outreaches		Low amount, does not target customers strategically	700–900 outreaches per month for a customer base of 1,400	2,800 outreaches per month for a customer base of 1,400
	Customer Success Insights		Not reported or fewer than 10	Contrained by ability to capture data present in multiple sources	Gainsight provides one source and instant delivery of reports and insights

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