Mo Money Mo Problems
Determining the Business Case, Valuation Impact and Appropriate Investment Level for Customer Success

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ROI of Customer Success

PETER WEED  
McKinsey

TAWHEED KADER  
Toutapp

DAVE KELLOGG  
Host Analytics

JOE PAYNE  
Code42
SaaS companies $10-200MM ARR: higher growth is consistently correlated to more investment in customer success, sales FTEs

An investment in customer success drives growth...

<table>
<thead>
<tr>
<th>ACV range</th>
<th>Sales FTEs per $1M ARR (FTEs/$1M)</th>
<th>Success FTEs per $1M ARR (FTEs/$1M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$15K</td>
<td>3.38</td>
<td>0.53</td>
</tr>
<tr>
<td></td>
<td>2.68</td>
<td>0.51</td>
</tr>
<tr>
<td>$15K-$75K</td>
<td>2.99</td>
<td>1.63</td>
</tr>
<tr>
<td></td>
<td>2.71</td>
<td>1.23</td>
</tr>
<tr>
<td>&gt;75K</td>
<td>2.23</td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>1.39</td>
<td>0.50</td>
</tr>
</tbody>
</table>

...through lower churn and greater expansion

<table>
<thead>
<tr>
<th>ACV range</th>
<th>Quarterly gross revenue churn (%)</th>
<th>Quarterly net revenue churn (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$15K</td>
<td>5.6</td>
<td>-6.9</td>
</tr>
<tr>
<td></td>
<td>7.8</td>
<td>-1.3</td>
</tr>
<tr>
<td>$15K-$75K</td>
<td>3.3</td>
<td>-6.2</td>
</tr>
<tr>
<td></td>
<td>5.6</td>
<td>-1.5</td>
</tr>
<tr>
<td>&gt;75K</td>
<td>2.0</td>
<td>-2.0</td>
</tr>
<tr>
<td></td>
<td>3.1</td>
<td>-1.5</td>
</tr>
</tbody>
</table>

1 Top quartile performers are in the top 25% of their ACV range in terms of quarterly revenue growth

SOURCE: McKinsey SaaS Radar
Impact and Value of Customer Success in Early Days at toutapp

• 9th Employee Hired at $1m ARR was VP of Customer Success

• Before we had salespeople, we had “Happiness Officers”

• Segmentation was embraced across the business to focus on key business drivers (including Churn + Expansion)

• Focusing on Customer Success discipline was a no brainer to the board; andd served as a competitive advantage to our customers
Thinking About the ROI of Customer Success at Host Analytics

• The standard view
  • Usage/adoption: beware 100% until they day they turn you off
  • Happiness: NPS, a brutal signal-amplifier metric
  • Renewals rates: beware loose correlation of happiness
  • Upsell rates: incidental vs. material upsell

• “Save ARR”
  • Baseball analogy
  • Renewed ARR from escalated-accounts-list customers

• Light from a distant star
  • In a multi-year world, churn can be a reflection of distant practices
  • Compare 3-year cohort to the 1-year cohort
The Triangle of Customer Satisfaction

Voting with their Mouths
Net Promoter Score

Voting with their Feet
Renewal Rate

Voting with their Wallet
Upsell
(new business from existing customers)
Investment Level for Customer Success

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Code42
‘Land and expand’ drives GTM efficiency, but there is an optimal staffing level

Greater expansion leads to GTM efficiency

<table>
<thead>
<tr>
<th>Magic number (sales efficiency)</th>
<th>&lt;10%</th>
<th>10-25%</th>
<th>&gt;25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of customers w/ACV expansion per quarter</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10-25% of sales team farming is sweet spot

<table>
<thead>
<tr>
<th>Magic number (sales efficiency)</th>
<th>&lt;10%</th>
<th>10-25%</th>
<th>25-50%</th>
<th>&gt;50%</th>
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</thead>
<tbody>
<tr>
<td>% of sales force focused on existing customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>

SOURCE: McKinsey SaaS Radar
## The Economics Behind Customer Success at **toutapp**

<table>
<thead>
<tr>
<th>Up to $5m ARR</th>
<th>Post $5m ARR</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Over-invested in Customer Success to learn, build the discipline and use as advantage</td>
<td>• Became a huge cost center and we knew we had to change things drastically</td>
</tr>
<tr>
<td>• Utilized Customer Success to educate customers and the early category we were creating around Sales Success</td>
<td>• Had to automate lower end of the market through programs, self-training, videos, etc</td>
</tr>
<tr>
<td>• Serviced every segment with as much personalized touch</td>
<td>• Had to move to $1M+ of ARR / CSM</td>
</tr>
<tr>
<td>• $500k of ARR / CSM</td>
<td>• Become all about optimizations, systems, processes at scale</td>
</tr>
</tbody>
</table>
Thinking about Customer Success Investment at

- **Estaff-level VP is a must**
  - Separation of “leaky bucket” roles
  - Chops behind the prospective customer success review (PCSR)

- **High degree of self-sufficiency is a must**
  - Need both CSMs and heavy-weight TAMs/CSAs (“tough love”)

- **ARR-driven investment ratios**
  - ARR/CSM: $6.0M, ARR/(CSM+TAM) $4.0M

- **ATR investment ratios roughly half**
Hunters and Farmers
Hunters in the...
Discussion at Tables (2:15 - 2:30)
Group Readout (2:30 - 2:40)
Thank You!

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