

# An Executive Primer To Customer Success Management

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## We Live In A Subscription Economy — Learn To Manage Your Customers

We live in a subscription economy, where the economic value of a customer is realized over time, instead of upfront at the initial sale. This means that the duration of the customer relationship has a greater economic impact on the company's financial health. Being successful in this new economy increasingly requires that companies actively manage their customers during their engagement relationship, instead of just focusing on making the technology sale.

In February 2014, Gainsight commissioned Forrester Consulting to evaluate the emerging role of customer success management, and the responsibilities of this group. In conducting in-depth interviews with customer success professionals in the B2B SaaS software space, Forrester found that this is an emerging, yet critical role which yields quantifiable business results.

**Our customer success management organization enable our customers to be successful and drive revenue retention and renewals — Bazaarvoice**

professionals with the right data, customer engagement processes, and employee productivity solutions to actively manage their customers remains a challenge for many organizations.

### KEY FINDINGS

Forrester's study yielded three key findings:

- › **We live in a subscription economy.** Cloud technologies have allowed companies to offer their products as services, instead of physical objects, moving the economy away from one of capital expenditures to a "subscription" model. This is most notable in the B2B SaaS software space.
- › **Customer success management is an emerging, but critical role in a company's success.** In a subscription economy, the economic value of a customer is realized over time, instead of upfront. Customer success management organizations are emerging to actively manage customer relationships to ensure their success. The organizational alignment and activities of these groups are still evolving.
- › **Customer success management has quantifiable economic benefits.** Actively managing customers reduces churn, increases revenue, and influences new sales. But, empowering customer success management

## The Subscription Economy Is Here To Stay

Today, the Internet allows companies to offer their products as services, instead of physical objects, moving the economy away from one of capital expenditures, to a “subscription” model with monthly operational costs that are typically easier to rationalize. Industries like media, entertainment, and telecommunications have fully embraced this model, while other industries such as publishing, computer storage, and healthcare services are moving in this direction. This shift in spending habits, in which goods are repackaged as services, has the potential of fundamentally reshaping our economy.

This shift is most notable in B2B software, where a large number of software categories have already made the shift to a subscription business model. Learning and talent management, sales force automation, human resource management, and ePurchasing software are primarily offered as software-as-a-service (SaaS) solutions. Other software categories such as customer service, marketing automation, collaboration, and enterprise content management are in the process of making this shift.<sup>1</sup>

Forrester data backs up these statements. Twelve months ago, on average 2.4 SaaS applications were used in European companies, and 2.5 SaaS applications were used in US companies. Two years from now, this number is projected to increase fourfold. In addition, 13% of companies surveyed are looking to implement SaaS in the next 12 months and 21% are planning to expand their current implementation.<sup>2</sup> Why? Because SaaS provides companies with greater business agility, allowing them to offer innovation more quickly, and quickly react to changing business demands.

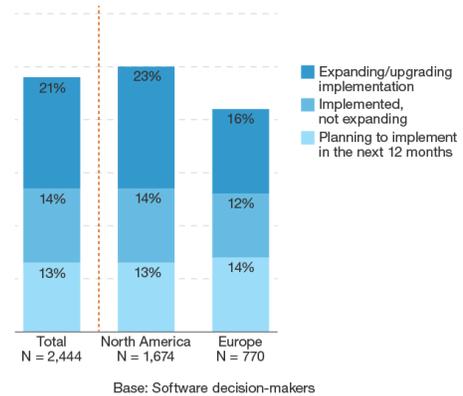
The rise of the subscription economy has heralded the “age of the customer,” where customers increasingly control the relationship that they have with companies that they do business with.<sup>3</sup> Customers have become more demanding, staying loyal to brands only when they deliver value.

In the B2B SaaS world, this value correlates to quantifiable business results. And, if customers are not realizing economic value from their purchases, they will churn. And, as companies grow, revenue from existing customers becomes a larger part of a company’s total economic value.

### FIGURE 1 Cloud Technologies Penetrate The Enterprise

1-1 Saturation among adopters continues to increase

“What are your firm’s plans to adopt the following as-a-service technologies?”



Base: 1,972 information workers in the US

Source: Forrsights Workforce Employee Survey, Q2 2012, Forrester Research, Inc.

“Let’s consider the example of two SaaS companies, each adding customers at the steady rate of 10 per month, with each of their customers paying \$1K per month. The customer acquisition cost (CAC) is assumed to be \$12K each, or the cost of 12 months’ subscription. One company takes churn very seriously from the beginning, and maintains a 95% retention rate. The other company only manages an 80% retention rate. Five years later, the 95% company has acquired 600 customers and only lost 30. Their run rate is \$6.3 million, and the estimated valuation of the business is \$28.7 million. Things do not look so good for the 80% company. They acquired the same number of customers, but lost 120. Their run rate is \$4.5 million, and the estimated value of their company is only \$13.7 million — a difference of about \$15 million in valuation plus the difference in revenues over those five years.”

— *A Board Member’s Guide to Churn from Gainsight*

What this means is that for companies which provide products and services via subscription, and especially for B2B SaaS software companies, actively managing customer relationships to ensure their satisfaction and

ongoing patronage becomes a critical step in preserving their revenue stream.

SaaS companies have at hand a wealth of data — such as financial data about the customers contracts, and invoices, product usage data, customer interaction data including support tickets — which they can leverage to measure and monitor whether their end users are using their products, and how these products are being used. As one company put it: “We know what our customers have purchased and what they are using. We know their goals, and can quickly tell if they are getting value out of their purchases.”

## What Is Customer Success Management?

In the B2B SaaS industry, companies have been hiring senior-level people dedicated to the active management of their customer base. Their titles vary — some are called “account managers,” or “customer experience managers,” or “advocacy coaches” — yet “customer success manager” is the most common term for this role. Irrespective of the title, the goal of this function is to become the “trusted advisor” to the company, to make their customers successful with the products they have purchased, and ensure that they are realizing economic value from their investments in order to preserve their revenue.

Customer success managers have a broad set of account management responsibilities and work proactively with customers to ensure their ongoing success. Customer success leaders that Forrester interviewed said, “We understand the business goals of our customers” and “We manage the customer’s life cycle right from the point that they purchase a product from us.”

Customer success managers work at all levels within a company. They are equally comfortable interacting with C-level executives to help illustrate how their solutions support the company’s business goals in quarterly business reviews, as well as with the users of their solutions, coaching with domain expertise and helping implement best practices. They typically do not have sales targets, and they are not responsible for actively onboarding the customer, tactically training the customer, or providing customer support.

## Business Benefit Of Customer Success Management

The business benefit of managing customer relationships becomes even more important as a company moves out of a high-growth mode, where customer retention becomes a significant metric for financial success. The business benefit of a customer success organization is fairly easily quantified, by baselining operations prior to and after having a dedicated team with a specific mission to manage customer relationships. These benefits are:

- › **Preserving revenue.** The CSM helps manage customer churn by ensuring optimal product usage. In fact, organizations have been reporting significantly decreasing churn rates by addressing customer issues as they arise. CSMs help ensure that customers are onboarded, trained using the product, and achieving the business results that were articulated during the sales cycle. As one organization put it: “We make sure that our accounts are referenceable.”
- › **Expanding revenue.** The CSM role allows companies to have data-driven conversations with their customers, which can lead to increased product penetration within an organization based on usage data, as well as presenting appropriate cross-sells and upsells to the customer which are aligned with their business goals. Data shows that upsells increase by 10% of existing revenue by quantifying the value that purchased solutions yield.<sup>4</sup> As one CSM manager said, “We understand our customers’ goals and we know how they are using our products. It makes the right conversations easy to have at renewal time.”
- › **New bookings.** The CSM organization, by effectively managing customer relationships, helps to ensure client referrals and advocacy. Brand advocates serve as a powerful virtual sales force for a company, helping bring new customers to the company. Their spend on the company’s product and services is typically twice that of a non-advocate. In addition, brand advocates bring economic value to the company by increasing new business bookings, which can exceed three times their average lifetime value.<sup>5</sup>

“If we have good relationships with our customers, they would spread the word and increase sales.”

— Director of customer operations, at a SaaS marketing company

## Four Steps To Customer Success Management

It's evident that customer success management is a necessary function for subscription-based companies, and especially important for B2B SaaS companies. Yet, many companies face challenges in adopting a customer success management program. This takes a coordinated effort across four dimensions — strategy, process, and data and people management to do this right.

› **Start by articulating your customer engagement strategy.** Your customer engagement strategy starts with the categorization of your customers into tiers based on their value and strategic importance to your company. It then highlights the roles that your CSM organization intends to serve, and articulates the frequency and type of engagements based on customer tier, and business outcome that you want to achieve.

› **Focus on the right processes for customer engagement.** Processes that your CSM organization has need to be consistent, effective in meeting customer requirements, and agile enough so they can be changed to support your customers as they grow and evolve.

› **Access the right data to drive the right conversations.** Financial, product usage and support data, supplemented by targeted customer feedback, are at the heart of understanding and managing your customer's health and propensity to churn. Operational data must be pulled from various sources within the organizations and synthesized in a way that insights can be easily presented to customer-facing personnel, which include the CSM organization. Ideally, alerts should be able to be set so that CSMs are able to proactively engage with customers prior to a drop in health scores.

*“We have three metrics that we track: churn, renewal rates, and utilization which give us an idea of which accounts to prioritize. We also track, on the side, the impact of CSMs on upsell as something to look back on.”*

*— Head of customer success from a business-focused social network*

› **Organize your people and hire for success.** In order to be successful, CSM organizations must be supported at the executive level and have a clear measure — typically a retention measure — to which they are goaled. CSM organizations typically reside in three company

organizations: sales, operations, or services. In all cases, CSMs work hand in hand with sales, for renewals and new revenue opportunities. As this role matures, we expect to see a standard organization reporting hierarchy emerges.

It's also important to hire the right profile: CSMs must be passionate about serving their customers, able to work across a large swath of the organization, and bring domain expertise to their job.

**TABLE 1**  
**Biggest Challenges Faced In A CSM Organization**

Challenge	Rating
Organizational structure governance	Green
Finding the right skill sets	Yellow
Accessing the right data	Red
Operationally managing the CSM organization	Green
Measuring the effectiveness of the team	Yellow

Base: 13 executives responsible for customer success management functions

Source: Forrester Research, Inc.

*“Business users are going to ask how to apply software within their business. If you don't understand the context of what they do on a day-to-day basis, you will not have credibility.”*

*— Chief customer officer from a SaaS software requirements definition and management company*

Customer success management technology improves and standardizes customer success management processes. It helps identify the right customer segments; synthesizes customer, product, and financial data in actionable views;

standardizes customer engagement processes; and visualizes the results of customer-facing actions to help manage teams.

*“We have 30,000 customers so it’s hard to call all of them and figure out why they are churning.”*

*— Senior VP of sales from an SMB email marketing and sales solution*

## Challenges Of Adopting A Customer Success Management Program

Once organizations decide to support the CSM function, the challenges they face in making this function successful are varied. They include:

- › **Finding the right umbrella organization for the CSM function.** The CSM function is a new role within a company, with a broad set of responsibilities which center on client retention, but can include revenue-generation activities. The companies Forrester interviewed found that deciding on the scope of responsibilities of the group, as well as relationships with support and sales, was a first necessary step in deciding where this function existed in a greater organization.
- › **Finding the right skill sets.** The CSM role is a senior role, and one that has broad responsibilities. The ideal profile is an individual who is people-centric, passionate about serving customers, and brings best practice and domain knowledge to the table. This is a profile that interviewed organizations found reasonably hard to find.
- › **Accessing the right data.** CSMs rely on accurate and up-to-date financial, CRM, and usage data to monitor and measure the health of their customers. This data typically resides in disparate systems and is not always easy to access. In addition, identifying the correlation between specific data sets and a customer’s propensity to churn is a data science project that few companies have the know-how and resources to do.
- › **Operationally managing the CSM organization.** Once the CSM organization identifies the right set of metrics to measure a customer’s health, is able to access these metrics in real time, and understands the historical trend of these metrics, operationally managing the CSM organization is straightforward. Surveyed organizations had standardized processes to manage customer touches, and managers had the tools to operationally manage their organization.

- › **Measuring the effectiveness of the team.** As one interviewee said, “If systems and processes are set up, this is easy.” However, the overarching success of the CSM team is dependent on baselining operations prior to implementing the CSM role, and measuring the achieved value of the CSM team using financial measures of revenue retention and expansion to quantify the effectiveness of the team.

## Customer Success Management Is Good For Business

In a subscription economy, the economic value of a customer is realized over time, instead of upfront at the initial sale. This means that the duration of the customer relationship has a greater economic impact on the company’s financial health. Being successful in this new economy increasingly requires that companies actively manage their customers during their engagement relationship instead of just being focused on making the technology sale. This means that they have to involve themselves with the success of their customers.

This shift of focus requires a customer success organization whose mission is to proactively engage with their customers and help them realize the business value from their applications. Successful operations correlate to increased retention increased revenue and increased advocacy, which can positively impact new sales.

## Key Recommendations

Customer success management is an emerging, yet important role that drives quantifiable returns: actively managing customers reduces churn, increases revenue, and influences new sales.

- › **Organizational alignment of the CSM group is still in flux.** Some CSM organizations are aligned with a sales organization. Others are part of an operations or customer service organization. However, in each case, all CSM organizations have the same high-level goal: managing their customers' success in order to preserve revenue. In all cases, ensure that the CSMs' roles and responsibilities and measures of success are clearly defined.
- › **Find the right profile for a CSM.** A CSM is not a salesperson, nor a support person. CSMs are not account managers responsible for maximizing revenue from an account. They are trusted advisors with deep domain and best practice expertise who can work consultatively with their customers to ensure success.
- › **Arm your CSMs with the right data.** CSMs rely on accurate and up-to-date financial, CRM, and usage data to monitor and measure the health of their customers. Make sure that CSMs, as well as all customer-facing personnel, are able to easily get to the data that they need in order to have the right conversations with their customers.

## Appendix A: Methodology

In this study, Forrester interviewed 13 SaaS companies in the United States to evaluate the business impact of customer success management. Survey participants included senior customer success management decision-makers. Topics explored included the definition of customer success management, the business benefit of customer success management, operational responsibilities of customer success management, how customer health scores were measured, and challenges and risks faced in setting up these organizations. Respondents were offered a copy of this report as a thank-you for time spent on the survey. The study began in February 2014 and was completed in April 2014.

## Appendix B: Endnotes

<sup>1</sup> Source: "TechRadar™, Software-As-A-Service, Q1 2014," Forrester Research, Inc., January 7, 2014.

<sup>2</sup> Source: "TechRadar™, Software-As-A Service, Q1 2014," Forrester Research, Inc., January 7, 2014.

<sup>3</sup> Source: "Technology Management In The Age Of The Customer," Forrester Research, Inc., October 10, 2013.

<sup>4</sup> Source: "Measuring the ROI of Customer Success Management Solutions," Gainsight (<http://www.gainsight.com/sites/default/files/Mainstay-ROI-CSM-WP.pdf>).

<sup>5</sup> Brand advocates can be worth at least 5x more than average customers. This is because they spend more and their recommendations drive sales. Source: "What's a Brand Advocate Worth?" Propagation Planning, July 2010 (<http://griffinfarley.typepad.com/files/servlet.pdf>).