

Introducing customer success 2.0: The new growth engine

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Can software vendors and other companies identify more opportunities to grow and deliver value by taking a fresh look at customer success?

In the mid-2000s, software-as-a-service (SaaS) vendors faced a major problem. They had significantly invested in customer acquisition and landed many new accounts, but their products had become increasingly complex and difficult to understand. Many customers became understandably frustrated, resulting in low adoption and usage rates, which eventually led to greater churn. In response, many companies began actively targeting at-risk accounts with “dive and catch” teams designed to increase retention by helping customers derive more value from their products.

Building on these early initiatives, many businesses created formal customer-success functions to take a more proactive approach to churn reduction. These efforts helped transform customer-success into an emerging discipline in the software industry, complete with new tools and methodologies. Companies also created additional roles to support this function, most notably that of customer-success manager (CSM). According to one McKinsey study, the SaaS vendors with top-quartile revenues achieved their strong showing by investing more in customer-success initiatives aimed at churn reduction.

Several recent trends indicate that we’re at the beginning of a new era—call it customer success 2.0—in which many companies are focusing on growth in addition to churn (Exhibit 1). By artfully drawing on a CSM’s intimate customer knowledge, companies can surface opportunities to provide relevant solutions and expand customer value. Companies could win big from this strategy, with McKinsey benchmark data suggesting that

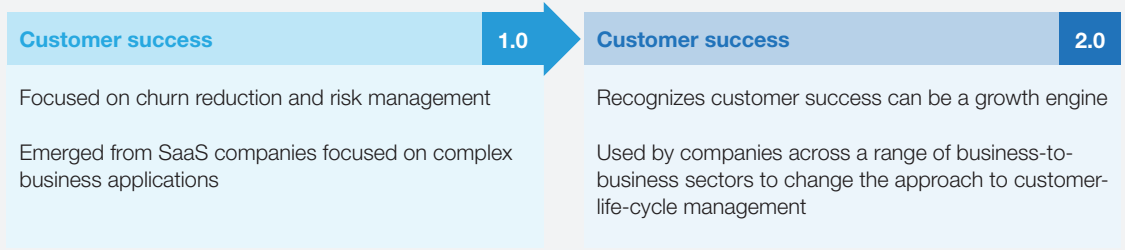
existing customers account for between a third to half of total revenue growth, even at start-ups. Costs for revenue expansion from existing customers are also a fraction of those for acquiring new business.

The era of customer success 2.0 is not confined to SaaS vendors. Many high-tech businesses have already begun placing more emphasis on customer success, since the growth of subscription models has forced them to move from a “land and refresh” mind-set to life-cycle selling.

The transition to customer success 2.0 can be difficult, however. Handled poorly, a company’s new emphasis on growth can undermine a customer’s trust in CSMs and create a sense that they are simply interested in increasing profits. The expansion of customer success beyond SaaS vendors also raises difficult questions about execution and strategy. The customer-success model that works well for some leading SaaS vendors may not produce stellar results for other software companies or for those outside the software industry, where customers have different needs and where the sources of value may vary.

So how should companies proceed with the move to customer success 2.0? We have previously written about the skills essential for customer success, and these still hold true. But it’s also time to reevaluate go-to-market (GTM) strategy, funding models for customer-success services, talent development, and advanced analytics. And perhaps most important, it’s time to embed customer success as a philosophy across the entire organization (Exhibit 2).

Exhibit 1 Customer success is becoming a growth engine that extends beyond software-as-a-service (SaaS) businesses.



A unified go-to-market model

A capable CSM is among a company’s most powerful assets, and many software vendors have long had skilled staff in this role. Deeply engaged with accounts, these individuals combine product knowledge and domain expertise with an intimate understanding of each customer and their objectives. The best CSMs can spot opportunities to solve customer problems that require new solutions or services, and they can also coordinate the right internal resources from sales, services, or product development to address them. For instance, one cloud vendor found that its CSMs provided the most value by helping customers make decisions about the next applications or workloads to deploy to their platforms, so it increased customer success in this area. This growth orientation improved customer outcomes at lower cost while simultaneously increasing the account’s value to the company. Another vendor used CSMs to identify opportunities for providing professional services to help customers optimize their product investments. (Data showed that such services were highly correlated with customer outcomes.)

These efforts improved product performance and customer satisfaction while increasing attach rates for services.

Currently, many organizations fail to obtain full value from their CSMs because they don’t clearly define the role in relation to the broader GTM strategy. To remedy this problem, they should create a charter that creates accountability by describing how customer success will contribute to the growth of the organization and how employees with customer-success responsibilities will work with other functions to deliver both customer value and vendor growth. Without this strategic clarity, customer success often plays second fiddle to other functions. In addition, CSMs that lack clarity about their role might overlook opportunities to expand growth within the customer base or collaborate with sales. In fact, there may be tension between the groups, since sales representatives often claim end-to-end ownership of accounts.

Leading companies will also define a unified GTM model that designates specific responsibilities for

Exhibit 2 Customer success 2.0 includes five elements.



A unified go-to-market strategy

Growth-oriented charter for customer success

Integration of customer success into sales activities, roles, incentives, and organizational approach



A sustainable funding model supported by premium offers

Funding models that reflect intrinsic value of customer-success activities

A spectrum of free and fee-based services



A customer-success talent engine

Clarity on capabilities and intrinsic characteristics of top-performing customer-success managers

A comprehensive learning journey that builds internal capabilities

Career paths that offer growth and advancement



Advanced analytics to predict customer behaviors and target customer segments

Analytics to identify and predict customer risks and opportunities, combined with activities proved to deliver customer success

Change management to promote use of analytical insights in daily work processes



A customer-success philosophy embedded across the organization

Cross-functional, comprehensive approach to delivering optimal customer experience

A customer-focused culture across the organization

marketing, sales, customer success, and services throughout the customer life cycle. They should support this model with organizational structures and operating models that encourage collaboration and clarify accountability. For example, one software vendor decided to have sales, customer success, and services report to the same business-unit leader to increase collaboration among groups. In this model, employees in sales and customer-success roles have shared accountability for both revenue and customer adoption, which

is reinforced by team incentives and operating processes, including those related to account planning. The new model increased the complexity of internal interactions, but the vendor handled this by creating detailed process maps describing how teams should work together to engage customers.

A sustainable funding model supported by premium services

Many vendors have forged ahead with early customer-success efforts and achieved early

positive results. But enterprising customer-success leaders often struggle to articulate that value to CFOs, who are understandably wary of rising costs and expensive GTM models that involve free services. Consequently, companies often underinvest in customer-success activities and have difficulty scaling critical new programs. At the other end of the spectrum, some companies may find that premium customer-success offerings cannibalize the market for their existing services, or that only a few customers are willing to pay more for them. These complications lead companies to grapple with the same question: How should they fund customer-success activities, and where can premium services subsidize their investment?

We have observed that leading companies conduct detailed customer research and quantitative analyses when selecting a funding model. They map out their customers' pain points, prioritize different customer needs (both in size and urgency), and then determine which customer-success activities deliver the strongest returns. The insights from such analyses allow them to develop a full spectrum of offerings, from free to premium, that directly relate to customer success, support, and professional services. Leading companies also test these offers with extensive market research to predict their expected value within a given portfolio. This data-driven approach for designing and pricing new offerings will help vendors maximize customer value across all accounts while optimizing company revenues and building the investment case for customer success—a win-win situation.

One vendor was struggling with problems related to low customer satisfaction and poor attach rates for its service offerings. It was also under pressure to improve operating margins. Recognizing the potential growth opportunities in its largest

accounts, as well as the risks associated with losing their business, the vendor introduced free light-touch customer-success services that addressed several customer pain points. Building on that foundation, it then created premium offers that cleverly combined more intensive customer-success services, product support, and professional services. These offerings significantly improved customer satisfaction and existing product sales while delivering a new revenue stream.

A customer-success talent 'engine'

A talented staff is the backbone of any strong customer-success effort, but software vendors will find stiff competition when looking for skilled employees. Strong customer-success leaders are in short supply, especially with companies across industries ramping up hiring. Complicating the matter, many organizations are unsure what customer-success skills their employees need, since these vary widely by product or market context. To ensure that they hire and retain the right talent, companies must take a more thoughtful approach to talent grounded in a strong understanding of their ideal CSM profile (Exhibit 3).

As a first step, companies should examine their current staff to identify the DNA of top CSMs. This will involve evaluating CSM data, including survey information gathered on their skills and capabilities, and then determining how these are linked to customer-success outcomes, such as adoption, satisfaction, or growth. The correlations that emerge will reveal both the behaviors and intrinsic capabilities of the highest performing CSMs. These insights can then be directly embedded in a company's hiring and talent-attraction processes. Further, clarity on typical attributes can allow companies to use analytics and external networks, such as LinkedIn, to find untapped sources of potential talent.

Exhibit 3 Companies that want to build a world-class customer-success organization must create a talent engine that has four pillars.



Identify

Link customer outcomes to capabilities and intrinsic characteristics of customer-success managers



Attract

Embed data-based view of desired skills into recruitment process

Identify untapped pockets of talent with advanced analytics and external networks



Build

Develop custom learning journeys that build capabilities over time, taking individual starting points into account

Create certification programs that reflect skill levels and create paths to progress



Retain

Create career paths that offer meaningful rewards and progression for mastering skills

Use data to identify and support talent at risk of leaving

The results of talent analyses are often surprising. One common area of debate is the level of technical or domain knowledge required for a successful CSM. One vendor found that industry vertical knowledge and relationship-management skills differentiated top CSMs from the pack, rather than technical knowledge. In another case, however, the vendor’s analysis revealed that its CSMs needed strong technical skills above all. Further research revealed that many of its CSMs fell short in this area, despite their technical backgrounds because they lacked the recent field experience needed to engage deeply with frontline operations teams.

In addition to recruitment, companies can use their talent insights to build the capabilities of their current CSMs. The best companies will deploy “field and forum”-based training programs, where employees alternate between attending classes and applying their learning in the workplace to embed many practical customer-success capabilities.

These programs should involve a personalized learning journey that considers each individual’s baseline capabilities and then builds upon them with formal programs in which people can receive a certificate or other acknowledgement that they have mastered particular skills. Such learning journeys should be linked to the expected career profile and trajectory for CSMs. Many companies will find that such talent-development programs are critical to retaining top performers and offering them continued opportunities for growth.

Advanced analytics and digital tools

Since the early days of customer success, best-in-class teams have applied advanced analytics to their rich stores of data to predict customer behavior. The pace of innovation is quickening, with leading companies deploying increasingly advanced analytical techniques across even richer data. In addition to predicting churn, they use advanced analytics to identify products and

services that might accelerate value capture. Some companies are also using advanced analytics to determine which teams should undertake specific activities at different points along the customer journey. For instance, they may use data-based triggers to determine when to engage with customers by offering helpful services, such as a custom training program or diagnostics.

For many companies progress on analytics has been slow, however. Some software vendors are reluctant to apply advanced analytics to customer success because they fear that it requires a large investment in data and tools. This is especially true for companies that have a history of poorly managing data or that still maintain legacy information systems. Other companies struggle to convert their analytical insights into action, since field CSMs and sales staff may resist using advanced analytics, given mistrust, lack of training, or poorly designed work flows. And some players simply don't know where to begin.

While many of these issues are real, vendors can take pragmatic steps to overcome them. It will help if they focus their initial efforts on a single area, such as reducing churn or increasing up-selling, rather than launching ill-defined and overly broad analytics efforts. Targeted initiatives can show the impact of advanced analytics and serve as stepping stones to more advanced and expansive analytics initiatives. Frequently, companies can begin such initiatives without major upfront investments in tools and data infrastructure.

Companies need to think carefully about the tools, processes, and incentives that they will need in the field to act on their insights, scale customer-success initiatives, and sustain their progress. Many companies have adopted customer-success software tools that give CSMs and sales representatives a comprehensive view of their accounts and directly facilitate the desired work flow. These tools help

ensure that field staff embed advanced analytics in their daily work and increase the likelihood that companies will obtain wide-scale impact from their insights. While seemingly obvious, many companies have also found that change management is critical to reinforce the new ways of working and to build conviction about the value of analytics.

Many leading players have already seen strong results and uncovered unexpected insights as they embarked on analytics programs. For instance, one vendor scanned hundreds of variables using feature-discovery algorithms and found that a single metric, the three-month moving average of customer storage usage, strongly predicted which users would discontinue services within six months. Another vendor mined its customer data using machine-learning techniques to identify subsegments with the highest propensity to make a purchase and created triggers to alert them when customers entered this category. By integrating these insights into its customer-success efforts, the vendor increased customer engagement and ultimately obtained a 5 percent uplift in sales.

Customer success as an embedded philosophy

As software businesses transition to subscription-based models, and as B2B customers increasingly expect consumer-like experiences, players with a customer-focused culture are likely to excel. This knowledge has led many vendors to take a journey-based approach to products and services—one that maps out the desired customer experience and outcomes for the entire life cycle. But many vendors still fail to consider how early decisions about product management, marketing, sales, and services delivery can have lasting implications on the customer experience. To combat this mindset, companies need to take a different view of customer success—one in which it is viewed as a shared philosophy for which every function is responsible (Exhibit 4).

For the new philosophy to take root, companies must undertake several critical tasks:

- creating clear accountability and customer-success metrics for teams at each stage of the journey
- defining the desired customer-success outcomes and showing how they are linked to value
- implementing processes that support cross-functional collaboration and learning, which

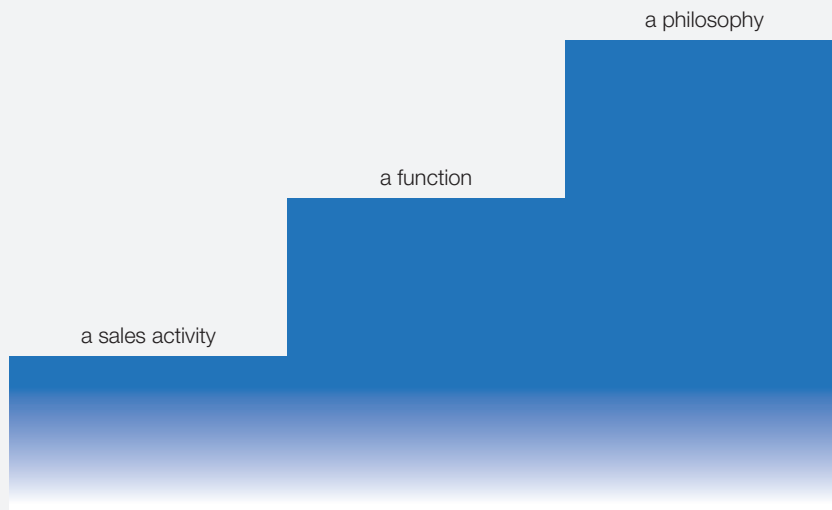
will ensure that insights gathered by customer-success teams are shared with other teams in the organization

- empowering a leader with oversight across the end-to-end customer experience
- ensuring that the company culture and all operations and processes focus on delivering value to customers

By having all functions put the customer first, companies can generate real impact. Software-

Exhibit 4 **Customer success is evolving from a sales activity to a philosophy.**

Customer success as ...



- The bar is rising for the B2B customer experience
- Customer success can be the catalyst that increases the focus on customer experience
- To realize its potential, companies increasingly view customer success as a cross-functional imperative for all functions

industry leaders have already disrupted markets by creating solutions that are simple, easily implemented, and designed with end-user outcomes in mind. Their focus on the product experience is well justified, since our own research has shown that this is one of the top two drivers of customer success. Few companies have yet absorbed this message, however, since we have found that under 10 percent have assigned product managers even partial responsibility for customer success. Although their CSMs can attempt to ameliorate the impact of poorly designed products, subpar sales experiences, or difficulties with deployment, these actions tend to be expensive and have limited impact.



By identifying opportunities to deliver more value to customers, companies derive more value in return. Although it sounds basic, few companies

have mastered this mutually beneficial transaction. But a new approach to customer success—one in which it is viewed as a guiding philosophy—may finally help companies achieve their goals on both counts. The shift will involve a multiyear journey during which software vendors build new capabilities and revise their traditional processes, all with the goal of understanding client needs, identifying products that can help them achieve their goals, and generating more customer value. Clients will return the favor by rewarding companies with greater sales, more referrals, and increased loyalty. And that is the real value of customer success 2.0. ■

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