

The Case for Customer Retention Technology



There is a dark and growing shadow in the Cloud, and an ever-growing number of SaaS senior management and investor teams are increasingly becoming aware of it. It is no longer enough just to build a ‘killer app’ and to energetically acquire a base of customers to use it. The subscription sales cycle has no end-point. To be sustainably profitable, and to reach the maximum growth rate and company valuation as a SaaS company over the long term, you must keep those customer relationships going for as long as possible – and to extend them all to their optimum level. With the inherently fast pace of the technology industry, customer retention has always been a substantial challenge for vendors even in the best of circumstances. What makes it even more difficult in today’s market is that competition from other SaaS firms is accelerating quickly and the barriers to churn are falling fast. The traditional market strategies and approaches to acquiring and keeping customers are no longer viable. The threat of losing accounts and their income streams has become a core issue.

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The most common initial reaction across the SaaS/Cloud sector is to respond to the challenge piecemeal by throwing bodies at it. The inherent problem with this approach is that it is not scalable. In order to truly deal with the increasing threat of churn, SaaS senior management teams will need to fully understand the source of the problem, develop appropriate strategies and tactics to address it and to properly design, deploy and equip their organizations for effective action.

The key factor of success in this endeavor will be the acquisition and use of technologies specifically designed and built for the needs of customer retention and revenue expansion.

The Sources of Churn

While there is no reliable hard data on churn *levels* in the SaaS sector, the reality of increasing levels of churn is shown in the sharp rise of conversation across the industry on what needs to be done, and in the skyrocketing numbers of new churn-related teams and positions over the past few years. Identifying the *sources* of churn, however, is more achievable. Research done by *The Customer Success Association* consistently indicates that the largest ‘churn generators’ for SaaS B2B companies are: **Disvaluation**, the lack of perceived value being gained from the vendor’s application; **Disconnection**, the loss of the connection between the customer and the vendor; **Disengagement**, the failure by the customer to fully adopt the application; and **Downturn** or decline (or acquisition) of the customer’s business or company.

Disvaluation in the software sector is a common experience to all of us at some point, especially with our smartphones. We buy an application, thinking it will suit our needs, and then discover that using or learning it takes more time that we had estimated. In the traditional market, applications that are purchased and then either not used at all or used only for a short time before being abandoned are called “shelfware.” In the SaaS/Cloud era of business software, the customer simply stops paying for the subscription. In disvaluation scenarios, the customer’s perception is the governing factor. The customer may actually be getting enhanced profitability from their use of the application, but if their decision-maker is not aware of it, they may act accordingly.

The primary causes of *disconnection* are turnover in the customer’s senior management team. Management mobility has exploded in the LinkedIn era. Executives at all levels are now perpetually ‘recruitable,’ and the loss of the vendor/product’s internal champion in a customer’s organization can instantly put an account into an at-risk status. The first notification of the change in the customer’s personnel or perception for the vendor can be the cancellation of the account.

Disengagement, The failure to fully adopt or engage with the features and functions of the vendor’s application is a recipe for an untimely end to the contract. The best way to start to address customer retention is to make sure that the customer is being increasingly successful in achieving the return on their investment – and the most vital aspect of that strategic goal is to



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recognize when the customer is *not* being successful. If the customer’s senior management team discovers first that their employees are not really using an application, the best that the vendor can hope for is that the number of licenses will be reduced. In the worst case, the contract will be canceled in its entirety as a cost-cutting measure. Again, such a cancellation is likely to come without warning if the vendor is not monitoring actual usage of the app and its feature set.

Downturn, or the *decline (or acquisition)* of a customer’s business may affect a SaaS vendor’s software subscription contract on either of two levels. The customer may reduce the number of “seats” or individual licenses as they lay off staff members, or they may simply cancel the contract entirely as an unsupportable expense. If the customer is acquired by another company, the new owner may have their own ideas about what software is appropriate or necessary. Here, too, the first indication of the changed circumstances can be the abrupt cancellation notification.

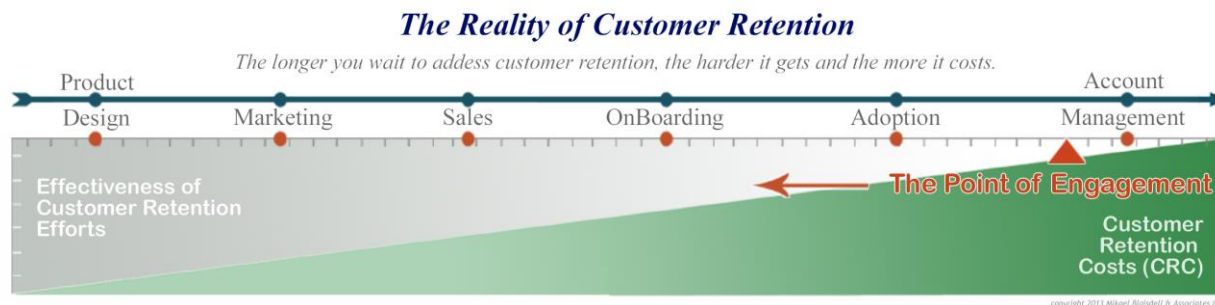
The Strategic Step

Vulnerability to churn starts when a customer first becomes aware of a company and begins to form expectations about its products and the company itself. If/when those expectations are not met, the customer is motivated to look elsewhere. The risk of losing customers and revenue streams is vastly increased in most SaaS vendor firms due to a strategic gap at the heart of their organizations, the lack of an explicitly designated, authentically accountable and effectively equipped owner of the ongoing customer relationship.

The growing awareness of the increased rate of churn and its costs has prompted the rapid proliferation of **Customer Success Management** groups all across the SaaS B2B sector and beyond. While the names given to the new teams vary widely, there is one point of clear consistency: all are described as essentially being about reducing churn. While the burgeoning new profession of CSM is definitely a step in the right direction, simply adding a new organizational box and staffing it up is not in itself going to be a sustainable response over the long term. The lack of an appropriate strategy and the necessary technology to execute on it will inevitably lock the group into a reactive mode. Such a stance is not only very expensive but also tends to be inherently much less effective at retaining relationships due to the late point of engagement.

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The path to effectively address the threat of churn begins with a strategic decision by the senior management team to recognize the new imperative for customer retention and to designate a bona fide owner of the ongoing customer relationship, one that is authentically incented and measured in terms of revenue retention and optimization. Management also needs to determine the initial point of engagement for that new owner, for the longer you wait to address customer retention, the harder it gets and the more it costs. As the following graphic illustrates, moving the point of engagement ever earlier as the retention team develops will have significant economic benefits.



With that necessary strategic foundation in hand, the next step is to build, and most importantly, to properly equip a team that can carry out the mission with the tools for the role. While some of the existing technologies used by software firms can be adapted for use by the retention group, there are two critical gaps in the existing suite of tools. The first is a *data gap*, resulting from the lack of applications and functions specifically designed and built to collect and present the data required for customer revenue retention. The second is an *automation gap*, the need for applications that can reach out on their own to encourage customers to increase their engagement with the company’s products.

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There is no shortage of well-designed and built options when it comes to tools to help a company generate leads and track them through to closure and completion. Marketing has campaign management tools that turn emails, website visits, encounters at trade shows and a host of other interaction points into usable leads. Sales then works to transform those leads into signed customers. Implementation brings customers to go-live, getting them up and running according to the design specifications in the contract. In the process, that team tracks changes and schedules, etc. The Training team usually keeps records of the course content delivered to the customer’s personnel, sometimes with evaluations of the students’ progress in learning the application. Throughout the process from unknown to lead to prospect to customer, the technology is there to monitor the progress and record the accomplishments.

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However, once the contract terms have been met and the customer has signed off on the result, what then? The sales system can be set to alert the team when the term of the subscription contract is nearing its end. If the customer should initiate a problem report, Support has its case management system to track the incident from open to resolution. Given the strategically significant costs of

providing direct human support, most vendors have made serious efforts to provide various forms of “self-support” via the company website so that they can avoid those more expensive interactions wherever possible. While all of these after-sale needs are well covered by technologies developed over the years in the traditional market, and they are still needed today in the SaaS era, they are no longer enough. **The traditional technological suite does not address the root causes of churn in the on-demand world.** The specific data indicators of an impending churn scenario are not collected, and there is no automation specifically designed to use that data.

While some of the information pertinent to the largest churn factors could be developed manually by staff members, such an approach is neither effective nor scalable, nor is the data thus developed likely to be put to effective use. The same is true of “homebrew” technologies. While some may think that all of the necessary information is already available in their database, the following section on the role of technology in the development of an effective CSM team will quickly show that this assumption is seriously flawed. What is needed is something new, a comprehensive system that assembles all appropriate and relevant relationship and product usage data so that it is readily accessible by the team assigned to customer relationship retention and optimization.

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There are several companies that currently offer products that address the needs of customer retention / Customer Success Management teams and more are preparing to enter that market. There are two main purposes for these tools. The first design intent is to equip the individual customer success managers with data and capabilities to enable them to effectively serve their accounts and to fulfill their roles. The second is to assist Senior Management teams to recognize and achieve their strategic profitability goals.

Technology and the Development of a Customer Retention Group

Virtually all Customer Success Management / Retention teams begin as *churnfighters*, attempting to reverse the downward course of an at-risk account, and often as a frantic last-ditch effort. Each new day begins with the attempt to respond to “code red” flare-ups and to allocate scarce resources from moment to moment. Which customer must be called now? By whom? Will it be necessary to go on-site? Which other departments of the vendor company should be pulled in and to what degree? The basic stance is entirely reactive, and therefore the chances for success are low. At this stage of the team’s development, availability and usage of technology is generally non-existent. Tracking what was done and assessing how well it did or did not work in a given rescue scenario, if done at all, is at the level of the individual, and it may take many cycles before possible procedures and policies can even begin to be identified by the team. Operating costs are high, and the total return in the form of saved income streams tends to be unsatisfactory.

As churnfighter groups and their managements learn about triage, and to define specific responses to the different types and levels of risk scenarios, they also begin to develop awareness of the earliest indicators that can lead to such states and to consider what might be done about them.

Typically, the first churn generator that many teams choose to confront is *Disengagement* - the failure to fully adopt the application. But in order to apply what they've learned about disengagement, and to move beyond reactive fire-fighting, the group must deploy a basic set of monitoring tools as the essential first requirement for enabling more pro-active and effective activities.

Moving Beyond Churn Fighting

Because a SaaS application resides on the vendor's servers, the capability exists to monitor such critical data points as *which* licenses are in use, and *what* is being done with them in terms of specific application feature usage. Unfortunately, few companies architected their systems to take advantage of the monitoring capabilities inherent in the SaaS model. To close that gap, however, several vendors are offering technologies that can quickly be brought into play to track logins and specific application feature usage, and to open the door to many more valuable capabilities. One of the first powerful benefits from deploying such tools is that the point of engagement for the retention team can be moved into the On-Boarding phase of the customer relationship.

Knowing which of your customer's employees are logging into the application and what features they are using can lead to the development of very detailed maps of ideal (and not so!) customer progressions. By comparing these patterns with the behavior data of current users at various stages, the success team can determine where to intervene and the appropriate methods to be used. The intervention interactions will probably be human-to-human in the beginning, and therefore more expensive, but as the team continues to develop, many of these early activities will become automated.

The same technology that enables churn prevention efforts can also be used to spot opportunities for upselling and cross-selling. For example, one savvy company tracks the number of 'power-users' at each customer site. If this number drops, the vendor quickly contacts the customer with an offer of training and consulting services to develop new power users.

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The next major source of churn to be addressed by the developing retention team is typically *Disconnection*, where the human relationships with key decision-makers, influencers and power-users becomes frayed or lost. The earlier the team learns of the departure or transfer of significant members of your customers' organizations or of dissatisfaction with your application or other services, the greater the chances for repairing the problem. The challenge, however, is to acquire actionable information in time and to get it to those who understand its importance and can make effective use of it.

There is a wealth of data about your customers' stances and perceptions being generated every day. Twitter feeds, blog posts, comments in open forums, survey responses, press releases of new hires and/or company acquisitions, new business announcements, customer support cases, requests for literature on your company website – the sources are many and varied. While it is technically possible to track these sources manually, the amount of time it would take a human or even a team of humans to do it for even a small number of persons of interest makes such a collection methodology immediately impractical. The second aspect, the distribution of the knowledge to the appropriate members of the retention team, is even more impossible as a manual operation.

Here, too, some vendors have begun to offer automated tracking applications that can quickly scan the whole range of sources and zero in on data involving persons and/or companies of interest, and direct the information to the appropriate staff members for evaluation and action.

The capability of knowing what your customers are doing with the feature set of your application, and or about other important actions or perceptions they may take or have can have a dramatic impact on reducing the threat and cost of churn. There is another area, however, that has even greater long-term effects on vendor profitability.

The Question of Value

As the “Mission Statement” for customer success emphasizes, just being successful with your application may not be enough to ensure that the customer renews the subscription. They need to know how that success translates to clear financial benefits for their companies. *Disvaluation*, where the customer doesn't see enough value coming from the subscription (whether the perception is accurate or not), is often quoted as a reason for not continuing the relationship with the vendor.

Many CSM teams have adopted a policy of holding quarterly reviews with significant customers wherein they discuss goals and progress. Here is another point where application usage data can be of critical importance by establishing a clear foundation for the discussion. Profiling and mapping data is also vital in such reviews, for it enables the retention/CSM team to show the customer how they compare to what other companies are accomplishing.

Getting the customer's CFO involved in these review discussions is an excellent practice. Too often, the only time that ROI – Return on Investment – for a software purchase is discussed is during the initial sales campaign.

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The Mission of Customer Success

We build more value faster for the customer's company and our own — and we can prove it.

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By openly discussing the customer's financial goals for their software investment and the progress being made towards them, a partnership is formed and developed. The closer communication can also provide clues as to the overall health of the customer's business, possibly giving early warning of downturn scenarios that could lead to reductions in seat licenses, etc. for the vendor.

The need for clarity in financial outcomes, however, is not limited to the customer end – the vendor needs to also be very conscious of the meaning of revenue sources and profitability.

Follow the Money

One of the most important data points for a customer success manager to have is where customers are in regards to renewal. The members of the retention team, however, aren't the only ones in the vendor organization who need access to pertinent financial data concerning subscription renewal rates and up/cross sell opportunity scenarios.

A persistent concern among executives leading customer retention/success teams across the industry is having accurate data to enable them to manage the team's effectiveness on a P&L basis. How much do specific activities, like preparing for and conducting quarterly business reviews with customers, or researching customer usage patterns, etc. cost the vendor? What financial impact do these efforts have on the company's profitability? These concerns will only increase as companies are compelled by the danger of churn to scale up their CSM teams and programs.

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Closing the Automation Gap

Acquiring data pertinent to customer retention and expansion is the vital first step towards increased viability and profitability. The next step is to make cost-effective use of that data. Because of the requirement for extensive domain expertise, customer success professionals generally command higher salaries. Maximum utilization of those expensive resources is therefore a growing concern. If a non-critical response to an aspect of churn can be automated, it makes sense to do so rather than assigning an individual to do the task.

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What is needed is the customer success equivalent of marketing automation so that content can be distributed to customers when appropriate and needed. For example, once a customer has begun to use a critical application feature, the timing is frequently right to send encouragement to proceed to trying the next feature. Conversely, if a customer began to use a critical feature and then stopped, a timely e-mail or other hint might be enough to get them re-engaged and properly proceeding up the value curve again.

No company can afford the customer success staffing level that would be required to do all of the retention tasks by humans. If the job of keeping customers is to be done properly, appropriate automation for the task is not optional – it's a must-have.

The Foundation for Success

Competition for SaaS/Cloud companies is steadily climbing as new technology firms come on line every year. At the same time, barriers to churn are falling, giving customers access to both a wider range of options and increasingly smooth pathways to those choices. The traditional technologies and organizational approaches to customer acquisition, developed for a less-mobile era, are no longer appropriate or sufficient to cope with the challenges of the new business model.

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The technology vendors that will prosper in this new market are those who recognize that the threat of churn is present at all stages of the customer lifecycle, that no sale in the SaaS sector is ever final, and take appropriate and consistent action to retain and expand their customer relationships. The foundation for success in this endeavor will be the acquisition and use of technologies specifically designed and built for the needs of customer retention and revenue expansion.

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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. Executive Director of *The Customer Success Association*, and Publisher of *Customer Success Magazine*, Mikael's vision and commentary about how companies can optimize customer relationships is read in over 140 countries around the world.



The *Customer Success Association* is a membership organization serving the emerging profession of Customer Success Management. Among the online resources it offers to the worldwide Customer Success Community are *Customer Success Magazine*, a Calendar of events, the *Customer Success Forum* on LinkedIn with more than 6,000 participants, the *Customer Success Library* and support for local networking groups internationally. The Association presents the *Customer SuccessCon East / West / Europe* events every year and also publishes the Customer Success Community Map, a quick online directory of companies and principal information sources about the profession.

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Gainsight, Inc.

Gainsight, the first and only complete Customer Success solution, helps businesses reduce churn, increase up-sell and drive Customer Success. The company's SaaS suite integrates with Salesforce and uses Big Data analytics to evaluate sales data, usage logs, support tickets, surveys and other sources of customer intelligence. In this way, Gainsight provides a 360° view of customers and drives retention across Customer Success, sales, marketing, executive and product management. Learn how leading companies like Angie's List, Castlight Health, Marketo and Informatica are using Gainsight to help their customers succeed at www.gainsight.com.



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InsideView provides CRM Intelligence™ to drive marketing, sales and account management results. We help you find better leads, win more deals and maintain and grow customers. InsideView



provides the data, insights, and connections that make every prospect and customer conversation more relevant, valuable and productive. InsideView® is used by more than 350,000 sales and marketing professionals, and in over 19,000 market-leading companies including Adobe, Marketo, Hub International, Franklin Covey, Rosetta Stone, and SuccessFactors. InsideView is headquartered in San Francisco, California.

Scout by ServiceSource

<http://scoutanalytics.com>

Scout® is a customer lifecycle management solution designed to maximize customer value and accelerate sustainable growth in revenue and profits. Scout is the first solution that transforms your silos of customer data and usage data into predictive analytics and automations that personalize your customer interactions at scale. By providing ongoing insight into customer usage, Scout helps companies grow retention rate



through customer success, maximize customer lifetime value through add-on and upgrade sales, optimize rate plans, and increase trial conversions.

Scout is a product division of ServiceSource International, Inc. ServiceSource International, Inc. is the global leader in cloud-based recurring revenue management. With more than a decade of experience focused exclusively on

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Totango Inc.

Totango is the leading platform for customer success management for cloud businesses. The company helps SaaS companies take a data-driven approach to reducing churn and driving customer success, onboarding, renewals, and upsells.



Totango monitors customer behavior and usage in applications, along with data from CRM, billing and other enterprise systems, to generate an engagement score and predictive health rating for every customer. The platform combines big data analytics with powerful segmentation and predictive tools to guide vendors in taking the right actions with each customer and create an active, engaged user base.

Totango is used by some of the fastest-growing SaaS companies including public companies like Zendesk and Autodesk; mid-stage companies like Optimizely, BigCommerce, and SendGrid; and innovative startups like Unbounce, OpenDNS, and Crittercism.