

# The **DEAR** Framework for Customer Health Scoring to Grow and Forecast NRR

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# Introduction

The economic outlook for businesses, especially in the tech and SaaS sectors is far from rosy. All the indicators point to a slowdown if not a possible recession.

As a result, the priorities that customer success teams live and breathe every day are now the top CEO and investor priorities. In a world of stagnant or declining sales, the work of Post-Sales and Customer Success teams has never been more important.

As new sales slow and companies shift focus to customer retention and expansion, the install base will need—and demand—more help than ever. We saw this at the beginning of the pandemic, and we're seeing it again. Your customers will be taking a hard look at which SaaS providers deliver their desired outcomes, and which ones don't. Companies and customers are looking to cut non-beneficial spending. So, nothing is more important to businesses than outcomes and proving value.

There is also the stress of reformed attention on company profitability, a type of self-correction for the “growth at all costs” approach of the previous few years. Investors are seeking **durable business models** that **promote retention**, steady growth, and profitability with long-term values and results.

At Gainsight, we think this moment offers us all an opportunity to change our course of action for the better, improve best practices, and still prepare for any situation that may appear on the horizon. Companies can proactively commit to durable business efforts to survive and thrive during economic conditions.

This ebook provides a simple yet effective framework for rationalizing the best approach to measuring and understanding your customers and their behaviors enough to identify risk signals. Before we dive deep into the DEAR framework, let's look at the common pain points that often lead to the erosion of your customer base.



# Pain Points That Need to Be Solved

Having worked with hundreds of companies, we've compiled a list of the most common retention-related challenges even mature organizations face, especially in tough economic times. Said simply, it's about effectively measuring your customer's health and proactively intervening at the right times.

If any of these following pain points resonate with you as a true point in your CS machine, you have a **retention risk** that needs immediate attention.



**1. No way to accurately measure customer health.** The challenge to measuring customer health is establishing a steady, cross-functional method to identify and visualize [data-driven](#) measures of your customer's health. Some companies oversimplify their customer health with one metric. Others go extreme with too many metrics. In the end, if you're not measuring the right signals or not often enough, your health score will lack the necessary confidence needed to identify potential customer churn proactively. For example, according to the [2022 Customer Success Index](#), 20% of companies don't measure sentiment, while only 19% measure once a year. Ignorance is NOT bliss.

**2. No visibility into leading signals of risk.** Lack of visibility into customer data is one of the core business challenges to all businesses. Utilizing a purpose-built Customer Relationship Management (CRM) or Customer Success Platform (CSP) is key. However, with all the accumulated data, there may be confusion about how to surface proper insights to the right stakeholders while delivering an exceptional [customer experience](#). It also contributes to wasted efforts being expended on reactive activities that don't address the root problems or interventions that are too late to prevent churn.



**3. No systematic renewal and forecasting process.** To forecast renewals accurately, you need an up-to-date view of your business from an executive level and a detailed picture of individual renewals. Without a centralized renewal system, teams will waste time generating reports or chasing down individuals. You also won't have an immediate view of where a renewal stands, what stage it's in, if it's at risk, and who owns the next steps.

**4. Surprised and blindsided by churn.** When companies lack visibility to accurate customer health, they will be highly susceptible to churns that catch them off guard. All current health indicators may show a customer is in good health. In reality, they were at high risk and likely were for a while. That usually means that you're measuring the wrong health attributes or extending too much importance to the wrong health indicators.

**5. Unable to proactively identify and mitigate churn risks.** If you don't have high confidence that your current health measures accurately portray reality, you will be unable to identify risk as it happens. More concerning, you won't know when to intervene or what specific customer risk must be mitigated.

**6. Missed forecast.** Without a way to correctly measure customer health, there is little chance you'll be able to accurately predict customer renewability or expandability. This will ultimately lead to missed revenue forecasts, which is critical in difficult economic times.

**7. Product roadmap not aligned to mitigate churn.** If you don't know what's causing churn, you can't possibly align your product roadmap and development resources correctly. Often, the right feature enhancement and product improvement can profoundly improve customer retention, which is essential in a down market. Without proper tools or compelling data, you may struggle convincing product teams to consider churn as critical to their charter.

**By establishing a framework that addresses the above-mentioned pain points, you will have a good chance at improving Gross Retention Revenue (GRR) and NRR even against economic headwinds. So, let's discuss our prescribed approach to accurately measuring the most vital aspects of customer health—the DEAR Framework.**



# What Is DEAR?

Most organizations struggle with creating **Health Scores**. An effective strategy depends significantly on your technology, such as a **Customer Success Platform**. Just as important is how you rationalize health score data. That is why we constructed the DEAR Framework to help companies focus on the most critical signals attributed to customer-attained value and outcomes.



The goal of the DEAR Framework is to maximize retention by having the right indicators in place so that you can intervene proactively. Leveraging DEAR effectively helps drive existing customers to achieve their desired outcomes. With that in mind, the framework provides more certainty that Customer Success teams deliver exceptional results at scale and attain their targeted retention goals (GRR and NRR) more readily. The key differentiator from other frameworks is that DEAR provides an objective indicator of customer value and Return on Investment (ROI) via a customer outcome score.

Even better, the DEAR Framework, accompanied by the proper technology, provides advanced telemetry that can highlight the activities your team should be most focussed on and significantly impact customer engagement. It also provides a way to firmly connect workflows to outcomes, allowing CS leaders to measure each activity their team performs by associating a leading indicator with the action. Once you tie every team motion to one or more leading indicators, you can clearly articulate its influence on lagging outcomes such as GRR and NRR.

# Let's break down each of the facets of the DEAR Framework:



## Deployment

Is the customer activated? Are they set up to effectively use what they bought? Poor deployment is often a strong indicator of the risk of partial churn or downsell.

Deployment in SaaS business is measured by many things. The most common is the number of assigned licenses activated. When measured against the number of licenses the customer purchased or is entitled to use, this quantity gives insight. If there's a notable gap between them, it indicates the potential risk of churn, partial churn, or downsell.

Other factors to examine are the number of features enabled and users that completed the requisite training. Suppose the amount of licenses activated, features enabled, and training completed is high when measured to the amount purchased. In that case, your customer has a higher probability of getting value from your solution. In other words, poor deployment is often a strong indicator of churn risk.

To make this actionable, you'll want to feed this data into a **"deployment"** health score as part of the customer outcomes health score built into customer management software. This allows your teams to receive alerts or take action if deployment isn't reaching the desired threshold. It's the first warning sign of turning your product into potential shelfware.

## Engagement

It's critical to determine if the customer is engaged. You should identify if you are talking to all the right people at the right cadence—the people with influence over the outcomes of the partnership. Other examples of engagement are event attendance, the number of training sessions completed, and website visits. These all serve as valuable proxies for human interaction, which can all be tracked digitally.

To do this, you'll need to tag/identify the key people at your customer and establish SLAs for engagement. By leveraging a CSP, you can create logic based on the activities that are happening to feed the engagement health score. In turn, this will signal how strong engagement is at that customer (i.e., are we engaging with the key people in the desired timeframe?) and trigger alerts/playbooks when things go off track.



## Adoption

The term adoption in tech denotes “[product adoption](#).” The continuous use or adoption of the product is your goal. Fortunately, adoption analytics can illuminate if your customers are using your product as desired and leveraging all the high-value parts of your product.

Think of this measure in two ways. The first classification is called the depth of adoption. This measurement answers, “Are users logging in an ‘active’ way?” The most common approach is to measure Daily Active Users, Weekly Active Users, or Monthly Active Users. Depending on the solution, you should expect your customers to at least use your product in a measured frequency of logins. In some cases, the volume of activity, transactions, or hours logged in the system is a better measure of the depth of adoption.

The second classification is **breadth of adoption**. This analysis shows if the full extent of the solution is used healthily. You will see if the right features are actively leveraged by [breaking down the usage](#). If your company’s product has certain features that are especially “sticky,” you want to ensure that as many customers as possible are taking advantage of that functionality.

Product usage and telemetry data are becoming more critical to aid understanding of how customers use products and where you can improve to drive better outcomes. Using a [product adoption tool](#) to glean this data, you can feed your adoption health scores with associated playbooks based on the signals.

## Return On Investment (ROI)

An **ROI measure** tracks whether customers achieve the business outcomes they expect from your product or service. Ultimately, you need to determine and track if the customer is achieving genuine value based on the outcomes you've identified and your work. If your product can report how your customers get value from your offering, set this score directly based on that data. If not, create a mutual success plan with your customer to identify their desired business outcomes and the key initiatives you will work on to achieve the agreed-on success criteria.



Value realization is a common way to frame ROI based on your customers' desired business outcomes. The "success plan," often thought of as a "value plan," automatically drives an ROI health measure based on the completion of the "verified outcome."

It is important to note that DEAR primarily focuses on measuring and driving customer outcomes, which is why it is so effective as a framework for driving NRR. However, you must also incorporate elements of experience health. They include common Voice of the Customer measures like NPS scores, support ticket volumes, experience surveys (e.g., onboarding, product), customer sentiment, and business health of the customer.







# Why Use DEAR?

## From Workflows to Leading Indicators to Lagging Outcomes

Essentially, the DEAR customer outcomes score enables you to connect workflows to leading indicators and lagging outcomes. It lets you measure every activity your team is performing in terms of how it's impacting your business today and how it's likely to impact your business tomorrow.

I firmly believe that DEAR should be the north star of every customer success organization. With this framework, you can connect, with a high degree of statistical certainty, the lagging outcomes of retention and net retention back to the high-value activities that your team is performing (or not performing).

Here at Gainsight, DEAR allows me to identify the leading indicators tied to our CSM organization's score workflows. For example, to drive engagement with various stakeholders, we conduct regular stakeholder alignment calls and executive business reviews. To facilitate adoption, our CSMs follow different playbooks and strategies. To boost ROI, we collaborate with our customers to create mutual success plans oriented around the outcomes they wish to achieve. Leveraging our outcomes framework, we then track when those outcomes have been achieved.

## Help CSMs Understand What to Prioritize

DEAR helps CSMs understand which activities to prioritize and lets the company accurately gauge the impact of each activity on retention and expansion.

For example, at regular intervals, you might conduct a regression analysis on the individual components of your DEAR framework—product adoption scores to customers who have renewed in the past 12 months.

What you'll likely see is that when CSMs are doing XYZ activities, they generate more “green” adoption scores, which correlate with higher renewal and expansion rates. By contrast, when CSMs are doing ABC activities, they generate more “red” adoption scores, which correlate with lower renewal and expansion rates.

Armed with this information, you can now say with a high degree of confidence that XYZ activities are generating XX% more green scores, which translates into a XX% higher renewal/expansion rate, which translates into an XX% increase in NRR. No more guesswork and no more assumptions. The DEAR data directly connects outcomes to your strategies and activities.

You might then decide to conduct a “red adoption campaign.” You might say, “Okay, we’ve identified the customers with red adoption scores. Let’s run an XYZ campaign to see if we can move some of them into the green before renewal. If we can turn X number of red customers green, DEAR indicates that their odds of renewal will increase by XX%, which, in turn, will increase our overall net retention by XX%.”

This type of conversation really excites and empowers your executives and CS teams. They now understand how leading-indicator-driven activities connect to lagging outcomes for both customers and your company. The metrics-driven DEAR framework will also help your executives and your board view your team through a strategic lens, winning you more credit for your good work and justifying the resources you need to continue doing that work



## An Uncanny Forecasting Tool

One approach to pooled CSM is the center of excellence, or subject matter expert, model. This is where pools of CSMs are divided by categories like customer segment, product line, or geography / timezone, and each pool becomes an expert in their category. The pooled CSM teams can then create a virtuous circle of digital CS resources to help each other and your customers via digitally assisted, one-to-many channels.

Often, each group of customers has similar goals, challenges, and resources. So your subject matter experts for that pool can create strategies and playbooks that are prescriptive and repeatable to drive customer engagement and outcomes for each segment. For example, the pooled CSMs can create templated emails, FAQs, or best practice documents that pertain to their segment or area of expertise. The broader CS team can leverage these resources to navigate common customer questions or engagements. Pooled CSMs can also host weekly Office Hours to address customer queries through an efficient, one-to-many channel.

**Want to learn more? Check out *Limiting Surprises With Gainsight Health Scores*.**

