Measuring Customer Health To Drive The Right Conversations

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Monitoring Your Customer's Health Score For Customer Satisfaction And Loyalty

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, delivering evergreen value, 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, the responsibilities of this group, and the way that customer health is measured and tracked. In conducting in-depth interviews with customer success professionals in the B2B SaaS software space, Forrester found that companies with successful customer success management programs used a set of measures, the most important one being product utilization to monitor health.

> **"Our customer success management organization enables our customers to be successful and drive revenue retention and renewals."**
> — *VP worldwide client services, from a SaaS social commerce company*

KEY FINDINGS

Forrester's study yielded three key findings:

› **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.

› **Customer success management has quantifiable economic benefits.** Actively managing customers reduces churn, increases revenue, and influences new sales.

› **There is no magic number to measure a customer's health.** A health score is compiled from financial, CRM, support and product usage data, and augmented with direct customer feedback. A good health score is an indication of customer satisfaction and loyalty. Yet, customer success managers must rely on more than a raw health score to grow their install base.

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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. 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 to fundamentally reshape 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.[1]

The rise of the subscription economy has heralded in the "age of the customer," where customers increasingly control the relationship that they have with companies with whom they do business.[2] Customers have become more demanding, staying loyal to brands only when they deliver ROI.

In the B2B SaaS world, this value correlates to quantifiable business results. What this means is that for companies which provide products and services via subscription, actively managing customer relationships to ensure they are getting value and keep renewing becomes a critical step in preserving their revenue stream. These relationships minimize customer churn and grow account value. And, as companies grow, revenue from existing customers (recurring revenue) becomes a larger part of a company's balance sheet.

In addition to helping companies preserve revenue, the customer success management function allows companies to have information-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. Moreover, the customer success management (CSM) organization, by managing customer relationships, ensures not only account growth, but positive client referrals and advocacy. Indirectly, CSM organizations can help increase new business bookings.

FIGURE 1
Many B2B Software Categories Have Adopted A SaaS Delivery Model
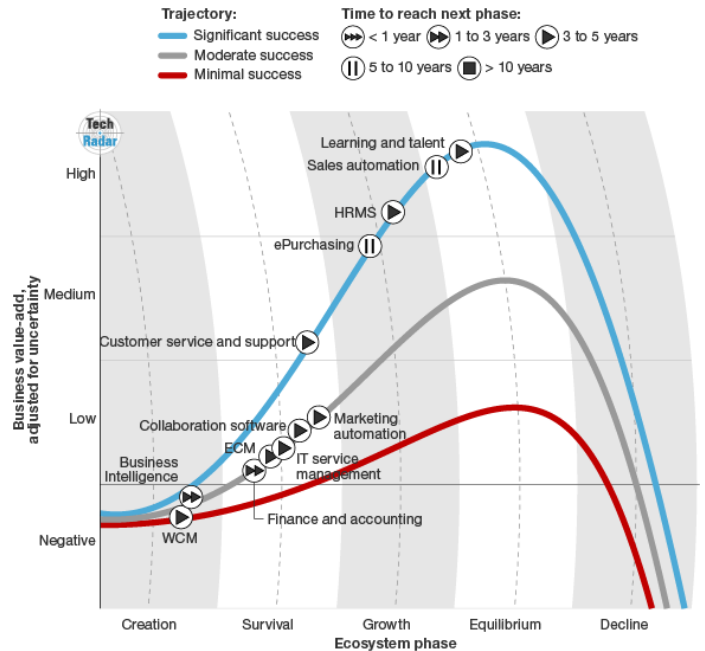
Base: 1,972 information workers in the US

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

Getting Started With Customer Success Management

Customer success management (CSM) is an emerging role in SaaS software companies, and especially in B2B SaaS software companies. It is a senior role, whose function is to become the "trusted advisor" to the company, to make its customers successful with the products they have purchased, ensuring that they are realizing economic value from their investments in order to preserve and grow their recurring revenue stream.

Customer success managers tend to have a broad set of account management responsibilities, and work proactively with customers to ensure their ongoing success. Successful CSM takes a coordinated effort across four dimensions — strategy, process, data, and people management — to do this right. See the "Getting Started With CSM" report for additional detail on each area.

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› **Start by articulating your customer engagement strategy.** Your customer engagement strategy identifies the customer value segments, the roles that your CSM organization intends to serve, and articulates the frequency and type of engagements and business outcomes that you want to achieve.

› **Focus on the right processes for customer engagement.** Processes in your CSM organization 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. They should also be right-sized to your customer value segments, with more frequent and personalized interactions for strategic accounts.

› **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 based on retention or growth — 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 emerge.

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 both product and domain expertise to their job.

› **Access the right data to drive the right conversations.** Customer success management is dependent on data, which needs to be tracked, gathered, and turned into actionable information. This data is typically synthesized into a health score that, at a high level, is an indication of the propensity for a customer to churn or buy more.

Calculate A Health Score From A Broad Number Of Data Points

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.

The health score of a customer comprises data from various sources, which typically include:

› **Financial data.** This data includes information about the products purchased, number of seats purchased, contract length, overall sale price, discount levels, invoices, and payments. This information helps the customer success manager understand the breadth and depth of a customer's deployment as well as contract terms.

› **CRM data.** This data includes information about the buyer of the product, the organization which purchased the product, and the length and complexity of the sales cycle, including all outbound marketing activities associated with a customer. It also includes a record of all customer interactions after onboarding. This information helps the customer success manager understand the organizational relationships within a company to better engage with stakeholders, as well as the history and results of customer interactions.

› **Product usage data.** This data includes information about the number of users provisioned, the number of active users, and the features and functions being used. Product usage should be monitored at the user and aggregate level, and used to quantify the product's stickiness and value to an organization based on the depth and breadth of usage.

› **Support tickets.** Customer success managers must understand the volume of support tickets, severity, and time to resolution in order to ensure that there are no critical barriers, or poor customer experiences, preventing their customers from achieving value from their purchase.

› **Direct customer feedback.** Direct feedback, like NPS survey responses, is a clear indicator of the health of an account and, in conjunction with other data, should be used to actively monitor a customer's health.

Use A Health Score For Actionable, Data-Driven Conversations

A customer's health score allows customer success managers to have information-driven conversations with their customers, which deliver immediate value and surface actionable next steps. Typical insights that can be gathered are:

› **Purchased users exceed provisioned users; or provisioned users exceed active users.** These situations indicate that products are not being used to capacity within an organization, which could indicate that customers are not realizing the full economic value of their investments and an increased likelihood of downsell

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(a reduction in contract value). These data points can be used to proactively engage the customer to drive better product penetration with targeted onboarding activities.

› **Active users exceed purchased users.** This condition is indicative of a customer who is utilizing their purchased products beyond the negotiated terms of their contract. Customer success managers can use this data in customer conversations to showcase the value of their purchase, as well as drive upsells and upgrades.

› **Limited feature use.** This condition is indicative of a customer who is not utilizing the product to its full potential. The customer success manager should engage customers in product coaching and training. More importantly, this situation can be used to engage in best practice discussions with the customer to reinforce how full utilization of the product can support their business goals.

› **Use of the "right" features.** It's important to understand whether your customers are using your most valuable or differentiated ("sticky") product features. If they are not, they may not be realizing the full potential of your product.

› **Changes in customer feedback.** It's important to track each customer's feedback over time, and understand whether feedback is trending positive or negative, and whether the customer is referenceable. Any changes to upward trends should be an early warning indicator.

> "It's critical to understand how the product is used, and how it equates to the customer's business goal."
> — *VP customer success and renewals for a SaaS marketing automation company*

Customer Health — It's Not A Magic Number

> "Assessing health is very hard. There is no magic metric."
> — *VP global excellence from a SaaS contract management company*

Assessing a customer's health score is a difficult proposition due to the volume of data this must be collected, synthesized, and trended. Customer health correlates to the propensity for churn or growth. A good health score is an indication of customer satisfaction; a poor health score is an early warning signal for churn.

Yet, this correlation is not always watertight. For example, even if a product is being well utilized, a customer may churn. This may be traced to the loss of your executive sponsor, a change in strategic company direction, or the product being sunsetted while alternatives were being implemented.

So what are the main measures within a customer health score which correlate most closely to churn? This is not a simple question to answer, but all companies that we interviewed said that having a deep understanding of what customers are doing with your product is a critical measure in assessing their health as a starting point.

> "We have lots of measures, but these don't necessarily always equate to value. What matters is the correlation between usage indicators and value indicators."
> — *VP customer success and renewals for a SaaS marketing automation company*

The proper weighting of your customers' health score will be highly dependent on experience and industry best practice. One way to start thinking about this is where the most value is realized in your product. For example, if your product is a collaboration tool that helps employees be more productive, usage data like files shared, downloaded, and uploaded may play a big part in assessing health. However, in many cases, usage data is not available or not the whole story in which case other information like invoice history, support history, survey scores, etc., may be extremely important.

Customer Success Management Goes Beyond A Health Metric

Being successful in a subscription economy increasingly requires that companies actively manage their customers during their engagement relationship instead of just being focused on making the technology sale. They must actively monitor their customer's health, including product usage, and use these insights to have the right conversations with their customers.

Yet, just monitoring a customer's health based on a set of indicators is not always enough. Customer success managers must actively engage with their customers at all levels of an organization — from the executive level down to the product users — to understand the company's business goals, and ensure that their purchases are being optimally used to support and advance these goals.

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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.

› **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. This data is synthesized into a health score.

› **Use data to help your customers realize the value of their investments.** All data that comprises a health score should be analyzed to ensure that your customers are using their investments optimally. Results of the analysis can be used to help customers get more value from their product, or help drive the right conversations at renewal time.

› **Trend your health score.** Changes in a health score are early indications of changes in an account, and could signal the likelihood to churn. Make sure that alerts are set up to notify CSMs of changes in health scores so that mitigation actions can happen early.

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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 D: Endnotes

[1] Source: "TechRadar™: Software-As-A-Service, Q1 2014," Forrester Research, Inc., January 7, 2014.

[2] Source: "Technology Management In The Age Of The Customer," Forrester Research, Inc., October 10, 2013.

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