

CUSTOMER SUCCESS | Research Publication

The State of Customer Success 2017

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The State of Customer Success: 2017

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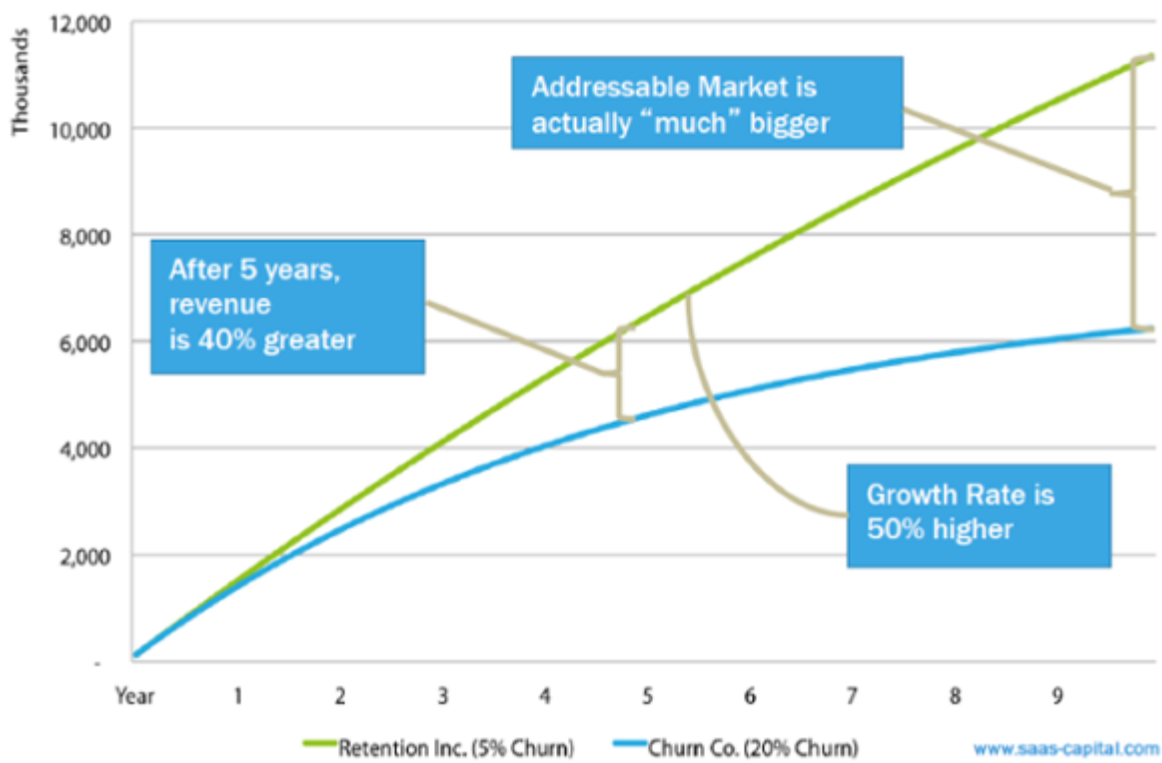
Executive Overview

As the customer success service discipline continues to evolve, two common approaches have emerged as technology companies begin to address these initiatives. The first is aligned to a project-based theme across multiple divisions spanning services, product, sales, marketing, and other corporate functions. The second is a dedicated organization that is focused on the supplier goal of effective technology adoption, which is made up of a collection of customer success managers (CSM).

As we have seen with the undeniable push toward an as-a-service model, technology suppliers have become more focused on the adoption phase of TSIA's LAER model (land, adopt, expand, renew). The LAER model is the perspective of the customer engagement life cycle from the view of the technology supplier. This is where customer success has become such a hot topic, as it is the single organizational capability that is focused on effective technology adoption that leads to increased renewal rates and expansion opportunities. Another way to view this is customer success is focused on churn prevention.

Figure 1, from [Todd Gardner](#) of SaaS Capital, communicates the importance of churn prevention. There are two hypothetical companies being referenced in the figure, Retention Inc. and Churn Co., which have churn rates of 5% and 20%, respectively. That compounding effect on churn represents 40% impact on revenue after five years. Additionally, there is a secondary impact on total addressable market, which impacts future upsell and cross-sell opportunities. A company would have less market opportunity to expand their relationship with the customer.

Figure 1: The Compounding Effect of Churn



Source: SaaS Capital.

Several companies have implemented both the thematic projects and adoption-based organization known as customer success. However, TSIA research continues to see a wide disparity in the initiatives and organization, so we have created a [customer success maturity model](#) to help answer five key questions (Figure 2) as technology companies continue to explore how to best implement their customer success programs.

Figure 2: Answering the Key Questions of Customer Success

What	Customer success is the intersection between the promise of a suppliers' technology and the customers' desired business outcome.
How	Customer success is delivered through time, event, and value-based interactions between the customer, the supplier, and the suppliers' technology.
When	Customer success requires prescriptive customer engagement throughout the life cycle between the supplier and the customer to ensure the promises of the suppliers' technology are realized.
Why	Customer success organizations and/or initiatives are focused on effective technology adoption that leads to increased renewal rates and expansion opportunities.
Who	The people that are executing against all of the above are members of customer success organizations and are commonly referred to as customer success managers (CSMs).

Source: TSIA.

Trends Affecting Customer Success

Convergence is a common theme that has impacted several customer success areas. According to Dictionary.com,¹ the definition of the root word *converge* is: “to tend to meet in a point or line.” Further, a synonym for converge is “come together.” As we think about the key trends impacting customer success, convergence is a theme that we will explore in more depth as it aligns to these three customer success topics:

- Sales costs.
- Service portfolios.
- Service organization structures.

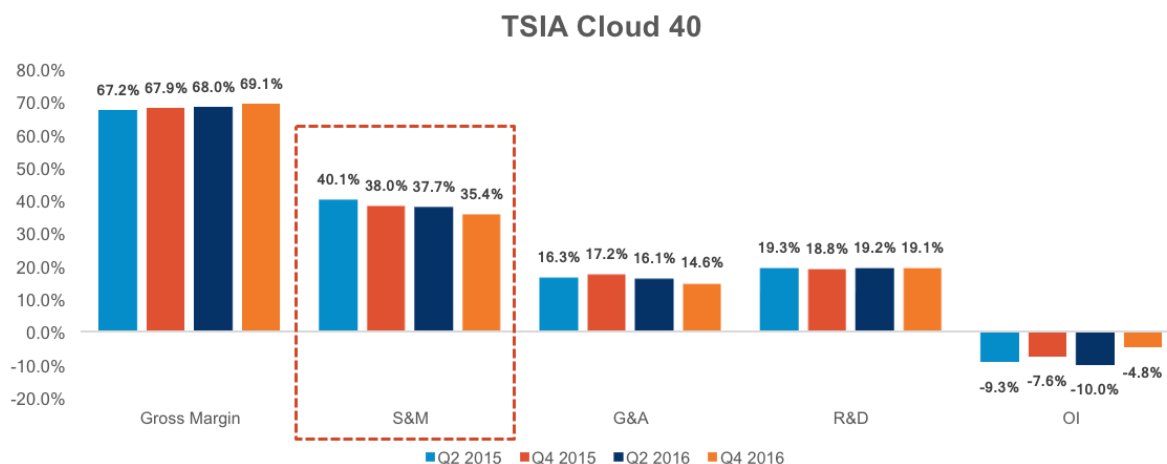
Sales Costs

Since 2008, TSIA has regularly published financial information regarding top technology companies that tracks like a stock market index. We call this the Technology & Services 50 (T&S 50).² TSIA's executive director, Thomas Lah, hosts quarterly webinars to review this information and provide observations on trends. He also hosts a similar webinar for a set of public cloud companies known as the Cloud 40.³ One point he has continued to reiterate is the need for sales and marketing costs to improve if cloud companies want to trend toward GAAP profitability.

As indicated in *Figure 3*, over an 18-month timespan, from Q2 2015 to Q4 2016, we have seen the Cloud 40 make incremental improvement on lowering sales and marketing costs. As a percentage of

revenue, sales and marketing costs went down from 40.1% in Q2 2015 to 35.4% in Q4 2016. However, this is still significantly off the similar metric in the Technology & Services 50, which is steady in the 26% to 27% range. For cloud companies, continuing to lower sales and marketing costs is a critical factor to improving operating income.

Figure 3: TSIA's Cloud 40 Index



Source: Public company information.

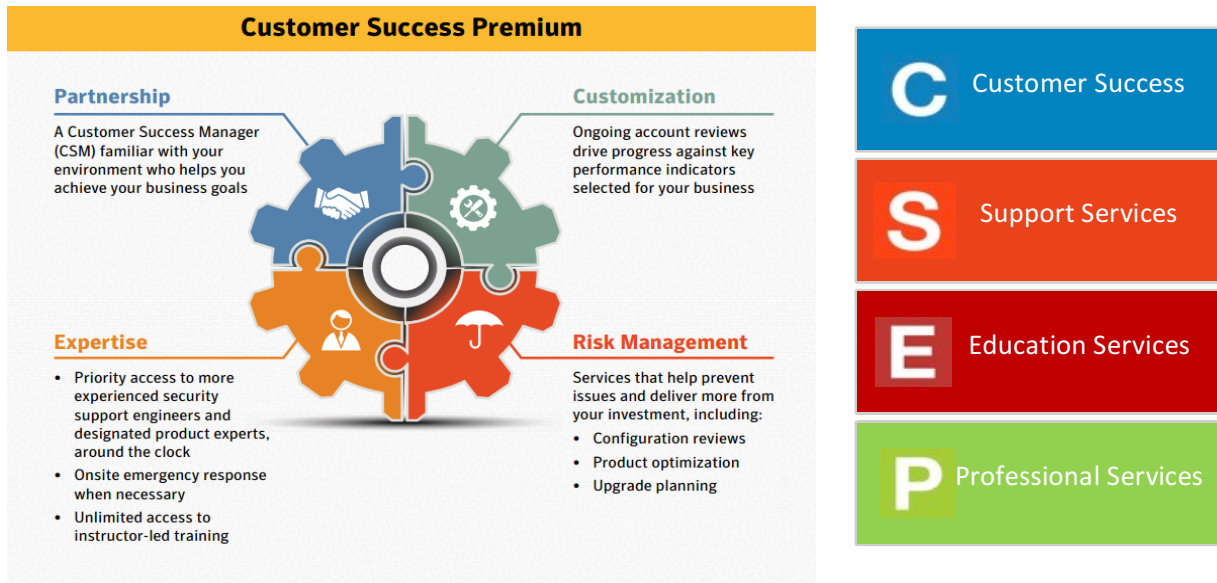
As technology companies continue to evaluate their sales expense line, we expect to see an investment in customer success capability to help lower sales costs. In our 2016 Customer Success Baseline Survey data, technology companies utilized sales representatives to sell their renewal contracts 36% of the time. There may be reasons why companies would want to use a more expensive renewal sales model. Examples include renewal complexity, negotiating a large renewal uplift, and identification of large expansion opportunities.

However, we observe a lack of detailed independent investigation to evaluate the tradeoff of higher sales costs and any resulting supplier outcomes. To that end, TSIA Research evaluated the top-performing customer success organizations in our 2016 Customer Success Baseline Survey. We segmented the top quartile by the highest renewal rates and expansion rates, which are two common customer success supplier outcomes. We found that a common practice of these organizations was to have a CSM or a renewal representative execute the renewal, and not a sales representative. This is counter to some of the common objectives that we hear from companies as to why they don't switch to a more efficient sales model. TSIA recommends a careful evaluation of all sales costs, including customer acquisition costs (CAC), customer retention costs (CRC), which include adoption costs, and customer expansion costs (CEC). TSIA believes that when customer success is done correctly at scale, it will be a distinct services motion and organization funded from sales. This inevitable convergence of services and sales costs will unlock sales cost efficiencies.

Services Portfolios

In the 2016 Customer Success Baseline Survey, we found that 49% of technology companies stated some portion of their customer success portfolio was monetized. We took a deeper dive to understand the makeup of these portfolios. Many of these customer success offerings presented themselves more like a converged services portfolio. *Figure 4* shows a deeper dive into one example from Symantec.⁴

Figure 4: Symantec's Customer Success Premium Offering



Source: Symantec.

There are four individual service lines, along with associated service capabilities, that are needed to make up this broader customer success offering. The first is the adoption-based customer success manager who is aligned to help Symantec's customers solve their business goals. The second is access to senior security support engineers and on-site emergency response, which aligns to a traditional support services function, and in some cases a field services capability. The third is unlimited access to instructor-led training, which falls into the realm of education services. Finally, the fourth service line is professional services, which can execute customization, optimization, configuration, and upgrades. Behind the scenes, there is solid cooperation needed to ensure that the technology supplier can deliver against this converged portfolio. In this example, customer success is acting as both a theme as well as a service line associated capability.

TSIA research evaluated similar models, and this converged service portfolio capability was commonly tied to a customer success theme whether it was sold separately and monetized by the technology supplier, or if it was included as part of the overall technology subscription.

Service Organization Structure

We are beginning to see organizations also align to a new converged services organization structure. One of the observations from the [2015 Services Organizational Structure Survey](#)⁵ concluded that customer success is gaining ground as the term to describe the complete global services organization. A common practice included the following service lines reporting into a global services or customer success executive: customer success, consulting services, technical services, and field services. Additionally, education services and support services would report into customer success more than 40% of the time.

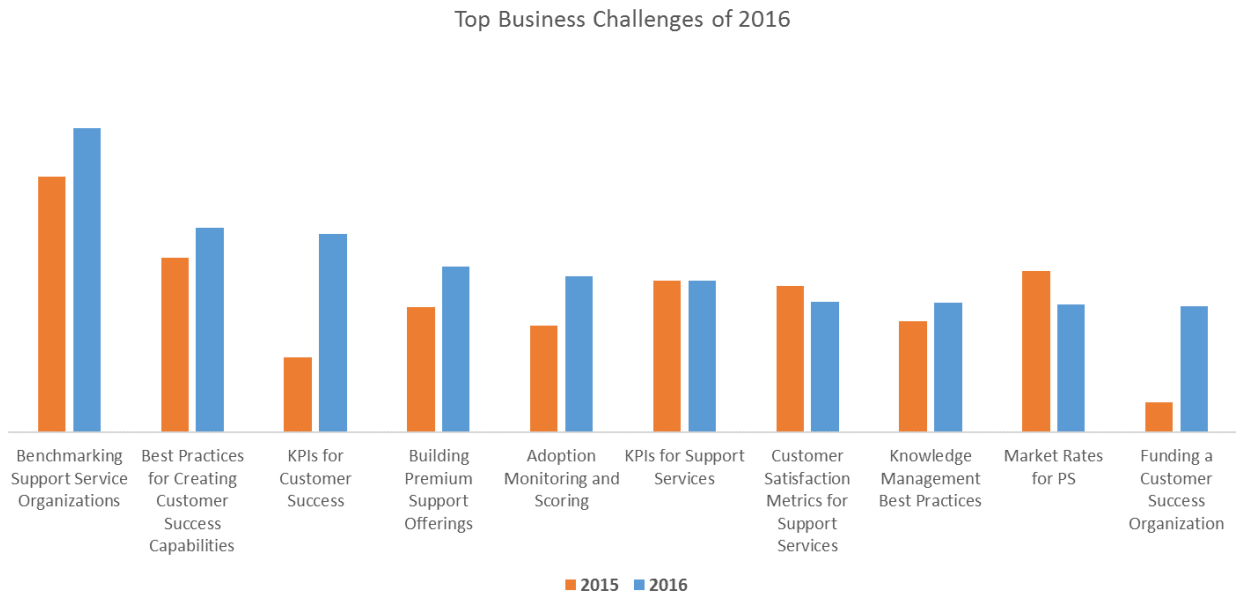
Top Member Inquiries from 2016

TSIA received over 3,000 inquiries from member companies in 2016. This volume of member inquisitiveness provides incredible visibility into the topics that are most critical to technology organizations. TSIA maps every inquiry we receive to a specific organizational business challenge. We also track which business challenges are showing up with the greatest frequency. Customer success is clearly a hot topic within our membership. As indicated by the bolded text below, four of the top 10 initiatives are clearly tied to common customer success challenges. Here are the top ten business challenges, in order, related to TSIA inquiries in 2016:

1. Benchmarking Support Service Organizations
2. **Best Practices for Creating Customer Success Capabilities**
3. **Key Performance Indicators for Customer Success**
4. Building Premium Support Offerings
5. **Adoption Monitoring and Scoring**
6. Key Performance Indicators for Support Services
7. Customer Satisfaction Metrics for Support Services
8. Knowledge Management Best Practices
9. Market Rates for Professional Services
10. **Funding a Customer Success Organization**

Figure 5 shows the top 10 business challenges in 2016. The chart also compares inquiry volume from 2015 to 2016.

Figure 5: Top 10 2016 Service Business Challenges



Lessons Learned

As customer success continues its evolution, there are many lessons learned that can be shared across the industry. Whether you are just starting with your customer success initiatives or are in the middle of building out an organization, there are three common pitfalls we observe that can help us learn from others missteps.

Identify Your Charter

TSIA has seen an evolution over the last several years specific to customer success charters. Just a few short years ago, there were wolves in sheep's clothing. In other words, we observed sales organizations and technical support organizations simply rebranding themselves as customer success, as it was the new shiny toy in the marketplace. The good news is that there is broader recognition that the discipline stands on its own, and while we can expect customer success teams to be born out of one of those two organizations, there must be an identification back to one of the [three charters of customer success](#), adoption, retention, and expansion. Over 90% of respondents in our 2016 customer success baseline survey aligned to not only have one charter, but also a second charter.

The more difficult internal conversation occurs as your customer success organization starts to break glass inside of your company. We have seen this through some of the detailed inquiries that we receive. Here are four questions, from a longer list, that become a by-product of your charter discussion:

- How does the sales' team quota become impacted when CSMs take over certain expansion opportunities?
- Should CSMs execute the renewal?
- Does the customer success team own the voice of the customer feedback programs?
- Should customer success prioritize product enhancements to the product management and engineering teams?

What you will quickly observe is that customer success begins to impact a myriad of product, sales, marketing, and services decisions. Identifying that this new organization has responsibility and accountability, and ensuring that is communicated broadly across the company proactively and in a transparent manner, is the recommended approach.

Build the Business Case for Scale

One of the more interesting research areas with customer success leaders is the discussion on initiatives and organizations that have stalled or have been suspended. One observation is the lack of effectively building the business case for scale. We see many customer success initiatives that start with a pilot either in the form of a small project or team. While a pilot is the correct first step, as you must begin somewhere, inevitably there is an ask to do more, and then a “firefighting” cycle begins. In other words, the CSM presides over a reactive activity set. In the 2016 customer success baseline study, the reactive escalation management remains at the top of the list for CSM activities. As customer success programs stall, leaders tell us that their ratios of accounts balloon over time. The implication is that there was no effective planning in place for a scalable funding model.

To remedy this, we encourage members to play the chess game a few moves ahead. When establishing your pilot, expect it to work. In parallel, building the business case for the customer success team at scale is paramount to long-term success. As indicated in our upcoming research agenda, on page 12 of this paper, TSIA has put forward a two-part series for our membership as they begin to build the business case for scale.

Hire the Right Talent

The role of the customer success manager is considered one of the top jobs in the United States, based on a recent article published on CNNMoney's website.⁶ TSIA believes there is a [trinity of skills](#) needed to be an effective CSM, which include customer service, functional skills, and technical skills. However, many organizations opt to push existing resources into these new CSM roles that may not be an ideal fit. We see customer success teams pull from several different sources, including the post-sales account manager role, their customers, their partners, and many different services roles. Here are the two most common profiles to think about as you begin to source your teams. It is important to align the right talent from the beginning so that you aren't fitting that square peg into a potential round hole.

Technical Support Rep

The technical support representative profile, or even a more skilled technical account manager, is a frequent makeup in the customer success team. Forty percent of customer success organizations that have a primary charter of adoption stated that they have resourced their teams from the pool of their technical support community. There are excellent technical resources on these teams and typically great customer service skills. However, we have seen examples where the technical support personnel are unable to break from their escalation management or reactive roots. As observed in high-touch models, companies will need to move past this reactive state to help deliver against the promise of the customer's business outcome and answer the key questions of customer success. In some cases, we see teams never evolve past Phase 3 in the Customer Success Maturity Model. If entertaining a low-touch CSM model, knowledge management and cost-effective resources inside of technical support organizations may be more of an ideal fit. These teams are used to scaling to a one-to-many model versus a one-to-few model that we see inside of a high-touch CSM function. We will extrapolate further on the impact that customer success will have on the technical support organization in a future research paper.

Professional Services Consultant

Another profile that we see just as frequent to technical support is the professional services consultant. In this case, 41% of customer success organizations that have a primary charter of adoption stated that they have resourced their teams from this group. We have seen success with this profile in high-touch models because of the great functional and industry expertise in this profile, which we would submit is the most complex of the three skill sets mentioned earlier. As stated in the key questions of customer success, it is critical to connect the suppliers' technology to the customer's business outcome, which is very natural to this profile. Further, the allure to getting off the road may also align to a better work-life balance for the employee. However, some other questions need to be answered. Can the consultant move away from the billable utilization model? Can the consultant juggle 10 customers at a time, versus one or two projects? Will this person be OK managing a continuous customer life cycle, versus the finality of the beginning and end of a project?

Technology

Technology is enabling customer success organizations to receive earlier signals about challenges that need to be addressed. This could range from lack of adoption, support escalations, contract renewals, and overall relationship health. In the spirit of effectively scaling your teams, it is critical to automate many of these tasks by building in cross-functional workflows to drive the necessary activities that address those signals early enough in the recurring relationship cycle to ensure a renewal is addressed with the customer. When firms build workflows that leverage data-driven conclusions to automate actions, they begin to see significant productivity and client experience improvements. TSIA research shows that as its members look to optimize their organizations for customer success, they are faced with many similar critical-path decisions—decisions that inevitably surface questions of where functional responsibilities most appropriately fit within their organizations.

In our 2016 Customer Success Baseline Survey, we found that 25% of customer success organizations are using data analytics to predict churn, and only 13% are using data analytics to predict expansion opportunities. Given the ample room for improvement, our advice is to ensure there is investment in telemetry and information to help facilitate adoption monitoring. Clearly, if there is intention to try to create any large-scale customer success program, then additional investment is needed. As outlined in *Figure 6*, TSIA Research has identified 14 separate application categories recommended for highly productive, scalable customer success teams and programs, including core infrastructure technology, productivity tools, and tools to understand and track customer behavior and sentiment. Please review the reports “2017 [Customer Success Technology Stack](#)” and the annual “[Technology Adoption and Spending: Customer Success](#)” for more information.

Figure 6: The Customer Success Technology Stack



Customer Success 2017 Research Calendar

TSIA provides data, frameworks, and advisory services that accelerate the development of organizational capabilities.

Research Studies

Customer Success Benchmark Study. TSIA delivers the most comprehensive benchmark in the industry for customer success organizations. The Customer Success Benchmark Study addresses a broad range of practices, results, and operational metrics in the core areas that enable companies to protect and grow recurring service revenues. Merely conducting an internal evaluation of your company's quarterly trends on metric percentages doesn't tell the whole story.

With TSIA's Customer Success Benchmark Study, we:

- Evaluate your company's performance on critical metrics versus your peer companies.
- Quantify the metric performance and align to peer and industry groups.
- Help you craft strategies and tactics to pursue these revenue growth opportunities.

Customer Success Compensation Study. This is a new study we're very excited about. Because hiring the right employees and keeping them engaged are critical success factors for customer success (CS) organizations, TSIA is launching its first annual Customer Success Compensation Survey. All information will be kept anonymous, and should you choose to participate you will be given access to some valuable compensation data, such as salary practices for base salary, variable bonus, and commission compensation plans. The more participants, the better the insights.

The survey has three main components:

- Salary data at the individual employee level.
- Variable compensation levers at the average position level.
- Compensation practices.

TSIA expects this to be the most comprehensive customer success compensation study in the world, with detailed global salary and variable compensation analysis of the individual and leader role profiles that make up customer success organizations.

Publications and Outcome Chains

Below is a list of research publications and outcome chains planned for 2017:

1. **Customer Success Maturity Model.** TSIA Research puts forward five common questions that we receive as technology companies try to establish customer success and its impact toward both legacy revenue models and new XaaS subscriptions. After answering these key

questions, we communicate the evolution throughout four phases of customer success maturity.

2. **Building the Business Case for Customer Success – Parts 1 and 2.** TSIA published an initial paper titled the “Framework for Funding Customer Success.” After this initial set of guidance on funding a customer success organization, we expand on this topic in a two-part series to provide further insights into framing two key ways of accounting, funding, and scaling customer success organizations. In Part 1 we cover funding customer success out of cost of services. According to our 2016 customer success baseline data, 49% of technology companies are monetizing some element of their customer success offerings. In Part 2, we describe how technology companies scale their customer success teams as part of the technology subscription. In this case, customer success is a services motion funded from sales.
3. **On-Boarding and Adoption Best Practices.** This paper discusses how successful companies understand the criticality of on-boarding and first-time-to-value during their journey with the technology. Companies that deploy a strong and consistent approach to driving adoption can increase the likelihood that their customers will achieve their business goals and will renew and expand their relationship with the technology supplier.
4. **Customer Success Organizational Impact.** This Service Insight describes the impact of customer success on other organizations. We will also provide an analysis of individuals who make up these teams, along with key customer ratios for both number of accounts and ARR coverage models.
5. **Findings from the Study: 2017 Customer Success Compensation.** This publication will be a summary of the findings from the new survey on customer success compensation.
6. **Customer Success for On-Premise Solutions.** This paper describes the unique challenges experienced by customer success organizations charged with servicing customers who have chosen to deploy on-premise technology solutions that may not inherently have telemetry built into the product. It will describe techniques that are used by organizations to overcome those challenges.
7. **Customer Success Outcome Chains.** TSIA is leveraging new software to build “outcome chains.” Each outcome chain is centered on a specific target outcome, such as “Reduce Churn.” For more information, visit: <https://app.outcomechains.com/?ref=tsia.com>.

Specific outcomes chains to be published in 2017 are:

- a. Establish Customer Success
- b. Accelerate Customer Adoption
- c. Improve Customer Experience
- d. Improve Sales Efficiency

Closing

[Maria Martinez](#), president of Global Customer Success and Latin America at Salesforce, provided an update on Salesforce's customer success journey. She explained that even at Salesforce there are only a few thousand of their 150,000 customers receiving a personalized customer success experience. So even a very mature customer success organization like Salesforce is still on their journey to delivering customer success for all. As a discipline, customer success is still in its infancy, but it is maturing quickly. Ensuring that your organization is taking advantage of all the resources available is critical at this moment as you plan your 2017 initiatives.

Endnotes

¹ Dictionary.com <http://www.dictionary.com/browse/converge>.

² For a complete list of companies in the TSIA T&S 50, visit <https://www.tsia.com/s50datawidget.html>.

³ For a complete list of companies in the TSIA Cloud 40, visit: <https://www.tsia.com/c20datawidget.html>.

⁴ symantec.com. <https://www.symantec.com/content/dam/symantec/docs/infographics/customer-success-services-en.pdf>.

⁵ TSIA 2015 Services Organization Structure Study. https://www.tsia.com/documents/TSIA_Member_Survey_Results_2015_Services_Organization_and_Structure.

⁶ CNNMoney "Best Jobs in America 2017." <http://money.cnn.com/pf/best-jobs/>.