ORIGINS OF CUSTOMER SUCCESS

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Executive Summary

In today’s subscription-based economy, a low barrier to entry also means a low barrier to exit. Gone are the days of significant capital investment on systems, services and resources. Having a customer success team isn’t just a norm or a competitive differentiator. Customer Success has become a critical success factor. This whitepaper provides a brief overview of the technological and business reasons that drove the evolution of the post-sales client services organization into customer success, which many leading SaaS companies have come to depend on in order to improve customer satisfaction and increase customer lifetime value. The document delves into the underlying economic impact of customer success and the big, bad “C” word of customer success, the bane of the customer success leadership existence, also known as Churn. The impact of customer success is also discussed along with how customer success can be viewed as a philosophy, a discipline and an organization.
Introduction

In this whitepaper, we're going to provide you with a brief explanation of how customer success came about, what it is, and how Customer Success can be a philosophy, a discipline, and an organization.

Enterprise Software and the Shift to SaaS

We're going to fast forward here and assume the reader understands the origins of modern computing that led to the advent of enterprise software. If you are unfamiliar with the history I would strongly recommend you read this rather concise four-part series exploring the history of enterprise software and the evolution of computing technologies.

One of the key changes that has occurred over the last decade, and the one we're going to focus on throughout this whitepaper, is the shift from the on-premises software model to a new reality of how business is conducted in a subscription-based world. The shift to a software subscription model has fundamentally altered the way companies are interacting with their customers, bringing a renewed focus to the customer end-user. Much of this shift had to do with costs associated with the implementation and upkeep of enterprise software systems that cloud based multi-tenant based computing was able to have a significant impact alleviating.

Today, everything from socks to software is available as a service. Many companies are changing their business model to get in on the subscription bandwagon. It’s no longer the Age
of the Customer. We have entered the next wave, the Age of the Subscriber and the defining theme of the new age is the renewal.

Smart companies are moving away from considering their customers as merely consumers. Instead, successful companies know that they should think of their customers as subscribers. If a customer is not engaged and successful, getting value from a subscription, they will not continue to be customer for long. Service and satisfaction are just as important as features and cost when it comes to driving renewals and increasing retention. Welcome to the Success Economy.

Where Did Customer Success Come From?

Early-stage SaaS companies quickly realized that the typical approach to working with the customer was not working. The SaaS model made it far too easy for a dissatisfied customer to switch systems if they stumbled during deployment or critical adoption phases. The barriers to exit used to be virtually non-existent, but now companies need to work with the customer to consistently deliver value and results. There was recognition that the subscription model had a problem. Subscriptions end. Growth does not just come through acquisition; rather, you have to keep your existing customers and enable them to grow if you are going to make it in the new Subscription reality.

The Economics of Customer Success

Customer Success has often been called an innovation of necessity. Why? It's simple economics. During the on-premises days, customers would pay companies for their software and the related implementation and on-boarding services up front. 80%-90% of the budget allocated for a software initiative would be spent before an application was broadly launched to their user community. All that money was already in the bank account of the vendor. The majority of the risk sat on the shoulders of the customer and specifically, those people internally who were responsible for making the software selection and managing the vendor implementation.

In this new subscription economy, everything has changed. The risk and burden of success has shifted to the vendor.
Only 5% - 30% of the customer investment comes up front. Software vendors are essentially "floating" the expense to acquire the customer with no guarantee of payback from their initial investment:

If you spend $10 to acquire a customer (your Cost to Acquire or CAC) but do not recoup that cost until they have been a customer for at least 10 months (assuming you earn $1 in revenue per month in our simple example). Then you make $0 profit until you enter your 11th month. If this model customer leaves at 6 months, you have actually incurred a loss, you've failed to recoup 40% of your cost to acquire them and have not netted any profits.

As you can see from this simple example, the only way you can deliver sustainable growth is to acquire and keep the customer for an extended period of time. So, while the subscription model was brilliant from an acquisition standpoint, it necessitated an additional element in order to truly be successful. Subscription businesses needed to find a way to drive loyalty and renewals in order to retain their hard-won customers. The path forward required a fundamental change to how recurring revenue businesses interacted with their customers. Otherwise, they risked driving their business into a customer acquisition fuelled death spiral.
Customer Success Is the Solution

Clever companies rapidly realized that in order to retain their customers, they had to engage with them at a greater level. They needed to make sure that the service purchased and delivered met (or exceeded) the customer’s expectations. By doing this, the companies were able to guide the customers towards an optimal solution, deliver measurable value, and achieve high levels of retention. Problem solved. Customer Success as a concept was born.
Who Created Customer Success?

In the spring of 2005, Marc Benioff, CEO of Salesforce, was on top of the world. Salesforce was on a roll. After a whirlwind, five-year run up to a successful IPO the future looked bright. Salesforce had nearly 20,000 customers. The recent numbers showed an 88% increase in bookings. They were on a trajectory for hyper growth. Things were good. Until David Dempsey delivered his now infamous shot across the bow that earned him the nickname Doctor Doom. David Dempsey (aka Doctor Doom) was responsible for renewals at Salesforce and the message that he shared was not good news. The bottom line was that, despite all of the glowing results and positive signs of massive growth, Salesforce was headed into a concerning direction.

During a company offsite, Dempsey announced that there was a fundamental flaw in their business and that continuing forward as they were would result in disaster. Dempsey summed up the flaw that would stymie any SaaS-based company’s growth in one word: CHURN. Customers were leaving and they needed to find a way of stopping the leaky bucket or risk having the business fail.

CHURN, The Cancer for a SaaS Business

The SaaS model is well loved for the ease with which a customer can choose your offering and a low barrier to entry. But that ease is a doubled-edged sword. It can cut both ways. After all, it's just as easy to leave - easy come, easy go.

In Salesforce's case, they had a great product. The problem was that it was relatively expensive and still viewed as a nice-to-have. What Dempsey shared was that Salesforce was losing their customers at a rate of 8%. Now 8% doesn't sound so bad. But then he dropped the bombshell. They were leaving at a rate of 8% per month. When you do the math, that adds up to 96% churn per year. Ouch!

What Salesforce realized is that at that rate, they could never acquire enough customers at the top of the funnel to replace the ones leaving. Glowing growth rates are fantastic, but if you're not retaining your existing base, your business will collapse under the cost to acquire new customers. The economics just don't work. Dempsey's presentation was like a bucket of cold water. It awakened Benioff and set the wheels in motion on a company-wide initiative
to focus on, measure, and reduce churn. One simple, fact-based presentation delivered over 10 years ago birthed what is now known as Customer Success. Doctor Doom, with that one presentation, had effectively given birth to the business imperative, discipline, and philosophy that we all now know and love.

Salesforce and Customer Success

After Dempsey's presentation, Salesforce implemented many of the things that we consider to be the hallmarks of Customer Success.

- They created a set of core principles and roles that were focused on improving customer engagement
- They changed their organizational model to better align with delivering on the customer's desired outcome.
- They built a common language around the definitions of what churn, attrition, and adoption were.
- They delved deeply into analysing churn to find the root cause
- They created an Early Warning System (EWS) that was able to accurately predict churn in the upcoming 12 months based on their deep understanding of what made customers successful

Thanks to Doctor Doom and necessity, Customer Success was born and is now a vibrant industry and career for many.
The Impact of Customer Success

“90% of your revenue will come from Customer Success.”

- Jason Lemkin, Founder of SaaStr

Customers are no longer buying a product, they're buying a result. The shift towards everything as a service (XaaS) has become the ultimate game changer, and Success is not just a goal, but a critical factor in achieving the overarching goals of your organization as a whole. Customer Success is the glue that binds the product to the expected result. The Customer Success team and process are designed to ensure that the customer's desires and expectations are captured as requirements. The mission of the Customer Success team is to ensure that the customer achieves their goals and recognizes value from their investment.

Along the way, a lot of things happen. The Customer Success team, and the CSM, are there to ensure that the expected result is delivered regardless of the challenges that occur. Like the leader of an expedition, it is their job to provide the support, guidance and assistance necessary to reach the goal – delivering the customer's desired result.

More Than Just an Organization

Customer Success can be defined as three distinct but related concepts:

1. Customer Success as a philosophy
2. Customer Success as a discipline
3. Customer Success as an organization
Customer Success Defined: Funny Name, Serious Business

“Success is never owned, it is rented, and the rent is due every day.”
- Rory Vaden, Author of New York Times Best Seller, Take the Stairs

One of the most critical steps in delivering Customer Success is to understand what it means. At its core, the concept of Customer Success is a simple one. However, even simple things can often be misunderstood. In a subscription based business, you never stop working to win your customers. Success is something that each and every customer deserves and expects. This requires that you deliver a great customer experience and an unwavering commitment to making them successful. Simply put:

Customer Success is helping your customers to achieve their definition of success through the use of your product or service.

But, who decides what success is and when it's achieved? The answer is simple, the customer. But wait, if the customer decides what success looks like, where does that leave the company? We need to be successful as well. Companies must recognize that customer success goes beyond buying and implementing their product or service. Companies should and will continually make investments in technology to provide the solutions that customers need. But they also have to understand that putting customers at the center of all of their efforts is the key to achieving mutual success.

Customer Success Is a Team Effort

The Customer Success team partners with customers, investing time and expertise to empower them and enable them to realize the full value of a solution. The critical mind-shift companies need to make is this: Success is achieved by making customers successful according to their definition of success. Not a company’s definition of success. They shouldn’t
be all that wildly different. The key to success is to align the definitions so that you create a win-win situation.

If a company creates a great product, properly identifies who the right customers are, sells to them and they get value (i.e the product delivers on its promise) then the company will be successful through its customers success. It’s the ultimate customer-centric approach to business and the only sustainable way forward in the Subscription Economy.

Customer Success as a Philosophy

“There is only one boss. The customer. And he can fire everybody in the company from the Chairman on down, simply by spending his money somewhere else.”

- Sam Walton, Founder of Walmart

In order to ultimately be successful in delivering true Customer Success, the company must have Customer Success as a core piece of a larger organizational mission. Success is all about enabling the delivery team, and the company as a whole, to be more effective in their customer-facing roles. Success is built by valuing the customer. A balanced approach to Customer Success focuses on enabling the customer to realize their goals, while also achieving the outcomes that the company desires and requires. To be effective in delivering Customer Success, the company needs to start at the most fundamental level. Customer Success needs to be woven into the fabric and culture. It must be an organizational ethos and a priority, regardless of approach or organization.

Success Must Be Part of Your Organizational DNA

Most companies intuitively know that pleasing their customer is good for business. Businesses that sell to consumers have known this for a long time, as it is the only way to generate repeat sales. By contrast, business that sell to other business have been slower to grasp this fundamental concept, even though those same consumers work in these businesses. Adopting a customer-first approach ultimately means listening to your customers
and operating in ways that help you better understand them. This change means that there is no more closing the deal and moving onto the next opportunity. The drive-by sales approach isn’t viable in a subscription business model.

Instead, companies need to operate as an active partner in their customer’s success. Focusing efforts on making sure that the customer is actually using what they bought, that it meets their expectations, and delivers on expectations set during the sales cycle. Being truly customer-centric, and a partner in success, means having a deep understanding of customers’ unmet needs, and addressing them. It requires companies to pay close attention to the keys to success: customer experience, engagement, adoption, and the level of satisfaction with their offering.

Everything about how companies sell and service customers is changing. Everything about how to keep customers must be rethought. And all of that has to be wrapped into the thinking, culture and corporate mission. Step one is to start with a solid foundational belief that the only way a company will thrive is through delivering success for its customers. At its core, the organization has to be focused on building products and services that help their customers achieve their desired outcomes, but that’s not enough.

Ongoing Customer Success efforts have to be centered on the singular purpose of enabling customers to achieve success and that they are receiving the value that they expect. Philosophically companies need to understand that you never stop working on delivering success. The job is never complete as you must continue to ensure that the customer is achieving their ever-evolving definition of success.

Put bluntly, in the subscription-based world, you’re only as good as the worst experience your customer has had with you. These days, the barrier to exit amounts to nothing more than a speed bump. Customer Success is the new mantra for business, but to really deliver it, you must have a success focused philosophy woven into the very fabric of your company. You must embrace Customer Success at your core. It’s the way forward and the path to success. Customer Success pays the bills. Forget that at your peril.

Customer Success as a Discipline

Customers want more than the service a company provides, they want their experience as well. They expect the company, a professed expert in the functional domain they seek to
provide their customer base for a fee, to be able to also provide guidance and advice. Customers expect their “partners” to seek out and understand how they intend to use a product, the expected outcome, and that they will be guided along a path that leads to them realizing these expectations. In short, they expect their vendors to be as invested in their success as they are.

Customer Success is all about understanding and delivering on expectations. If a solution can’t help them to achieve the outcome that they expected, then they are onto the next option, another solution, that WILL meet their needs. Customer Success has been delivered in various forms and under many names for hundreds of years by the enterprising individuals and companies that understood one simple truth:

\[ \text{Happy customers = Return customers.} \]

What has changed in recent years is that Customer Success has gone through its equivalent of the Industrial Revolution. Converting from something only delivered by ‘artisans’ to something that is delivered to the masses at a reasonable cost. This has taken the form of creating a disciplined process for marketing, selling, deploying and servicing customers across their entire lifecycle.

**Customer Success as an Organization**

There are many dimensions to Customer Success. One of the most changeable aspects is the structure of the organization itself. The Customer Success team structure and organization is only the same in a general sense across industries and products. There are many different reasons why this organizational structure might vary. The most common relate to the maturity of a company, the product’s ease of deployment (and number of players in the delivery cycle), the structure of contracts and renewal cycles, the origins of the Customer Success function within a company, and/or the level of service that a product and customers require to achieve and sustain value. While this is far from complete list, generally speaking one (or several) of these factors will be at the core of the rationale behind an organization’s structure. Net-net, a Customer Success team can be structured in many ways and will constantly evolve as the company grows and the product or service offered develops.
Maturity and The Organizational Structure

Before we look at the various models for a Customer Success organization, let's discuss one of the key triggers that drives a lot of the change to any Customer Success organization. Maturity. An organization's maturity is most likely the #1 reason for its current and past organizational structure.

As an example of this, let's look at the Customer Success organizational structures that you can expect to see at early stage companies. Early stage companies, or start-ups, typically are at the beginning of their Customer Success journey. During this stage of their lifecycle, the organization structure will not be heavily segmented or specialized. The Customer Success team is typically composed of 1-4 generalists.

This small group is typically responsible for all aspects of the Customer Success process. This generalist based approach gives way to a more specialized structure as the company's sales outpace the ability of the Customer Success team to handle the volume of customer interaction required.

In some cases, there may not even be a dedicated Customer Success team during the early stages of a company's journey. Instead, they may be servicing customers through a purely support-based strategy and leveraging the Sales team to handle any renewal activities. Conversely, in the case of mature companies, you may see extreme specialization. During this stage of a company's evolution, you will typically see Customer Success as an umbrella organization with distinct functional areas such as Onboarding, Professional Services, Support and Account Management.
As you can see, the maturity level can produce profound changes in both the structure of the organization and the roles that members of the Success team play.

Common Organizational Models

As mentioned earlier, Customer Success teams can take many forms. There is no true one-size-fits-all model. While each situation and company is unique, there are some common models that transcend the differences of company and product. Let's explore the various common, workable models for a Customer Success organization. We will discuss the merits and downsides of each approach and talk about when this model is typically seen in a company's journey towards delivering Customer Success.

Sales-based

Company Stage: Early stage, low maturity level. Typically found in companies with a competitive sales and renewals focus. In this model, Customer Success is typically delivered by the Sales team which is aligned to revenue and is responsible for identifying upsell.

Product Complexity: Low

Merits and Downsides: The challenge with a sales-based Customer Success organization is that the focus is less on the customer and more on the sale. The interactions are heavily weighted towards revenue, and can carry a negative "sales-y" perception amongst the customers.

Band of CS Hero's (aka Firefighter)

Company Stage: Early stage, low maturity level. Typically found in early-stage companies where Customer Success is operating in an "ironman" mode and are responsible for support, renewals and all other post-sales activities.

Product Complexity: Varied

Merits and Downsides: The good news here is that the CSM is the hero that swoops in and can ensure a great client experience because they do it all. The bad news is that this model
is hard to scale and places more pressure on the team to find the right candidate for the role (i.e. building a staff of unicorns).

Support-based

Company Stage: Early to mid-growth stage, medium level of maturity. Typically found in companies that are working to deploy a Customer Success focused strategy but are approaching it from the Support end of the spectrum.

Product Complexity: Low to medium

Merits and Downsides: The pros of this type of structure are that the team is focused on fixing the customer's issues and are looking to improve the customer experience. The cons are that the experience is typically transactional and reactionary. The level of proactivity is typically lower than necessary and it may seem that there is no way to influence the early stages of the customer lifecycle.

Services-based

Company Stage: Mid-stage, medium to fully mature. Typically found in companies that are focused on delivering a set of customer requirements and expected outcomes.

Product Complexity: Medium to high

Merits and Downsides: The primary benefit of this type of organization is that Customer Success is aligned to understanding customer needs with the rest of the Services organization. The downsides are less revenue alignment and an increase in touchpoints with the client.

Partnership-based

Company Stage: Mid to late stage, mature organizations

Product Complexity: Medium to extremely high

Merits and Downsides: The positive side of this model is that Customer Success can be very customer-focused while maintaining alignment with renewals sales. The danger is that some levels of effort will be duplicated across various post-sales functions.
Like any other department, Customer Success will shift strategies as your business needs change and your product offering becomes more complex.

It Takes a Village

Customer Success is a cross functional role, not a solo endeavour. While Customer Success is the internal champion for the customer across the organization, delivering true success requires that the entire company rally around making customers successful. Customer Success should be a separate organization that works across the company, partnering closely with not only Sales, Support and Marketing, but also Product and any other critical functions that are involved in the delivery of the overall customer experience. The key thing that must be understood is that Customer Success is delivered by the whole company, not just by the Customer Success team on their own.

Partnering for Customer Success

Given the focus on renewals in subscription businesses, most people associate the Customer Success role primarily with managing churn and renewals. Don’t fall into this trap. Churn and renewals are only part of the story. The Customer Success role should not be solely focused on managing churn or renewals. Rather, its focus must be on managing the ongoing customer journey and making sure the customer is getting value; that their expectations are being met and that they are getting the business results they expected to achieve across the entire lifecycle.

The Customer Success team should be helping the customer with best practices and sharing better ways to use the product, identifying red flags when a customer stalls, and making sure the customer is utilizing what they have bought so that the renewal process goes smoothly. If you are too focused on convincing a customer to renew, you have done something wrong upstream.

To effectively help customers navigate their journey, Customer Success must also partner with other teams that are involved in the service delivery. For example, consider Marketing's role in the delivery of Success. Ideally, Marketing should communicate to customers in a contextual, relevant, and personalized way. In order to accomplish this, it only makes sense
that Marketing be closely partnered with Customer Success. Who else would be better positioned to act as the voice of the customer?

The same holds true when it comes to Product. Customer Success possess a unique vantage point when it comes to understanding customer requirements and use cases. They work directly with the customer to define and deliver their needs. This access enables Customer Success to be the best internal champion for the customer. Product should partner with the Customer Success team to ensure that the product is delivering on the promise that was sold. Additionally, Product should leverage the deep relationships that Customer Success builds in order to refine their development efforts.

Overall, the Customer Success organization must work cross functionally. They are the glue that binds a customer-centric company together.

Who owns Customer Success?

Some companies start by attempting to share the responsibility across multiple departments, but ultimately discover that accountability, one of the core principles of customer success, is very difficult to drive under this type of approach. After all, who is held responsible when things go wrong? Imagine if everyone at your company owned sales, but no one was held responsible for it. Would you be closing deals? Perhaps. But when you are not able to hit the established targets that the business needs to survive, who would be responsible? Customer Success, like Sales, requires a single owner, whose sole focus is on the customers -- a team that ensures your customers are getting real value from your products and services. This team needs to be responsible for influencing other departments to assist as required, but they are ultimately responsible for ensuring that the customers are happy, engaged, and adopting.
Summary

In order for customer success practitioners to be effective in their roles, it’s important to understand why the roles exist in the first place. The subscription economy has changed the game. No longer are the days where customers are required to sink significant amounts of time and money into infrastructure and resources in order to deploy a solution to support their needs. No longer must they transfer 75%-80% of their budget to a software vendor with the “hope” that a solution will meet their definition of success. The barriers to entry are low...and so are the barriers to exit. The risk has shifted from the customer to the vendor. Increasing customer satisfaction and driving a long-term relationship...no, partnership with your customers is no longer a nice-to-have. It’s a must have. Customer Success has become a necessity. It’s no longer a competitive differentiator. It’s become a critical factor in the success (or failure) of your business.
Appendix A: Resources

The journey towards delivering Customer Success is often complex, uncertain and individual. Yet some things are universal: You want to do right by your customers, you know that you have to make them successful because it is the only way you'll succeed. Feeling confident in your ability to deliver Customer Success does not come easy, especially at the start. When the path forward is unclear, and you want to be able to refer to what others have done to see what works and what doesn't. You need a set of trusted resources.

To get you started, we suggest that you refer to these great resources for expert advice, guidance, or ideas:

- OUTCOMES: The Customer Success Community
- The Gainsight Blog
- The Totango Blog
- SuccessSTORIES: The SuccessHACKER Blog
- David Skok’s *For Entrepreneurs* Blog
- Tomasz Tunguz, Redpoint VC Blog on SaaS
- Jason Lemkin’s SaaStr
- The Top 100 Influencers in Customer Success
- Successfully Live
- The Amity Blog
Learn More

For the latest information about our Customer Success and our services, please see the following resources:

- SuccessHACKER
- OUTCOMES: The Customer Success Community
- SuccessSTORIES: The SuccessHACKER Blog

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