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Module One:
Customer Success Fundamentals
Workbook One

Hello and welcome to Module One of the PracticalCSM.com Certified Customer Success Management Professional training course. My name is Rick Adams and I am the senior consultant here at Practicalcsm.com and I am also your instructor for this course.

Before watching the Module One videos, please make sure you have read Chapter One: An Overview of the Customer Success Manager's Role from the Book *Practical Customer Success Management*.

Welcome to Module One, Video One. Module One is all about understanding Customer Success Fundamentals and in this first video we will be answering the following questions:

- What is Customer Success and why is it important?
- Who is Customer Success important to?
- What is Customer Success Management?
- What types of sales situations does Customer Success Management apply to?

and…

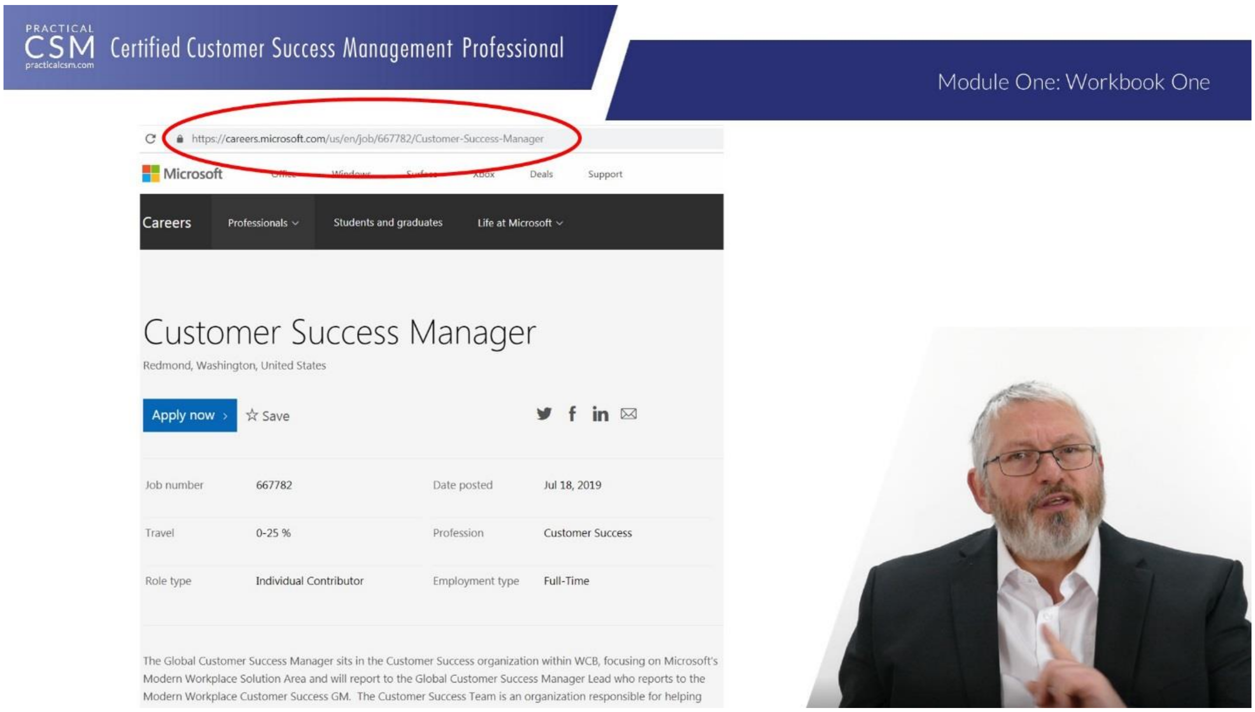
- How can Customer Success Management help to increase a company's sales revenues?

The concept of customer success is very simple and straightforward. The idea is this: customers purchase our company's products and/or services for a reason. It's not an arbitrary decision, it's a deliberate act on their part, with a specific intention behind it. Or to put it another way, customers purchase products and services in order to use those products and services to attain one or more specific outcomes.

The reason why customer success is important to the company that is doing the selling is that customers that can see they are getting lots of value from the products and services they purchase are much more likely to continue purchasing more of those products and services. Since of course companies want to maximize the total amount of products and services they sell to each of their customers, customer success is important to those companies.

In particular, customer success is especially important to companies that sell renewable services on a monthly or annual service contract. In this situation, rather than buying a product outright, the customer purchases access to it for the period of the contract. An example of this would be Microsoft Office. Until fairly recently, Microsoft sold its “Microsoft Office” suite of productivity software tools as a product with a one-off purchase price. Once you’d purchased the product it was yours for life – or at least for as long as you wanted it. However, Microsoft no longer sells Office as a product, instead it only sells it as a service, where you pay an annual, renewable service fee for continued access to their software.

This makes it essential for companies like Microsoft to make sure that their customers are getting real value out of their service, since of course customers who are *not* seeing the value from a service are very likely to cancel their subscription to that service when the contract comes up for renewal. To make matters worse for these companies, since the annual or monthly contract fee is of course going to be considerably less than the amount they would have sold it for as an outright purchase, it may take perhaps five years or so of contract renewals to gain the same level of revenues from the as-a-service customer as would previously have been attained from selling the product outright. Again taking Microsoft as an example, perhaps the Microsoft Office suite would have sold for around $500 as a one-off purchase, but perhaps now it is sold as a service for around $100 per annum. So if that was the case, Microsoft’s customers must purchase and then renew their Office 365 licence for five years before Microsoft gains the same amount of revenue from those customers in this new, as-a-service model as they had previously achieved when they were selling Office as a single outright purchase.



So you might be wondering “does Microsoft employ customer success managers?” and the answer of course is “yes they certainly do”. In fact Microsoft employs one of the largest teams of customer success managers in the world. Why? Because Microsoft realizes that to remain profitable it <u>must</u> ensure that its customers continue to attain real value from using Microsoft’s software so that those customers continue to renew their service contracts.

In a nutshell then, customer success occurs when customers get the results they desired from using the products or services they purchase. Increased customer success is good news for the companies that sell those products and services, since increased customer success is likely to lead to increased revenues, regardless of whether the products and services are sold via monthly or annual contracts or in some other way.

Now let's turn our attention to customer success management. Customer success management is the deliberate process of helping customers to attain the maximum possible value from the products and services they have purchased. The concept of customer success management arose from the software-as-a-service industry where as we have seen with our example of Microsoft, the need to ensure customers are successful in their use of the service is especially critical. However, the concept of proactively helping customers to be successful by attaining their desired outcomes from using a company's products and services is one which has spread out from the software-as-a-service industry into the mainstream, and it continues to grow rapidly.

Anything at all that is sold via a monthly or annually renewable contract is an obvious target for customer success management. The same logic that applies to Microsoft with its Office 365 service applies equally for example to accountancy firms or law firms who offer their services on an annual or monthly service fee basis, or to buildings management contractors, or vehicle maintenance contractors, or outsourced HR providers, and so on. Indeed any company at all that offers its services on a monthly or annual basis will almost certainly gain significant value from customer success management.

Customer Success applies whenever you want to sell more products and services to the same customer, since customers who realized value from their purchase of Product A are more likely both to buy more of Product A and also to consider buying products B, C and D. But it doesn’t stop there. It also applies whenever you want Customer 1 to act as your advocate and tell Customers 2, 3 and 4 about the great value they have attained from purchasing Product A so that you stand a better chance of selling Product A to these customers as well.

Why would a company spend time and energy and money on activities that help their customers become more successful through using the products and/or services that they have purchased from them? There is only one reason, and that reason is *revenues*. Customer success management requires investment in terms of the salaries of the customer success managers themselves and of their managers, and in terms of the resources they require such as software, office space, training, and so on. In addition, it takes the senior management team’s time and energy to determine a success management strategy and to set up and run the CS organization. As with anything a business does, there must be a return on all this investment, and the return needs to be a good one – better than if the resources were diverted into being used some other way.

In simple terms, it makes good business sense to operate a customer success organization if measurements show that it returns a significant increase of revenues coming in to the business compared to the costs associated with running that customer success organization.

The revenue increases can come from a variety of directions, and the exact ways and proportions between these directions will vary from company to company. However, the most common ways in which customer success management increases revenues are:

- Increased retention rates (or reduced churn)
- Increased renewal size (or revenue levels)
- Increased land and expand opportunities
- Increased customer lifetime value (CLV)
- Increased advocacy opportunities

and

- Increased understanding of customers' needs

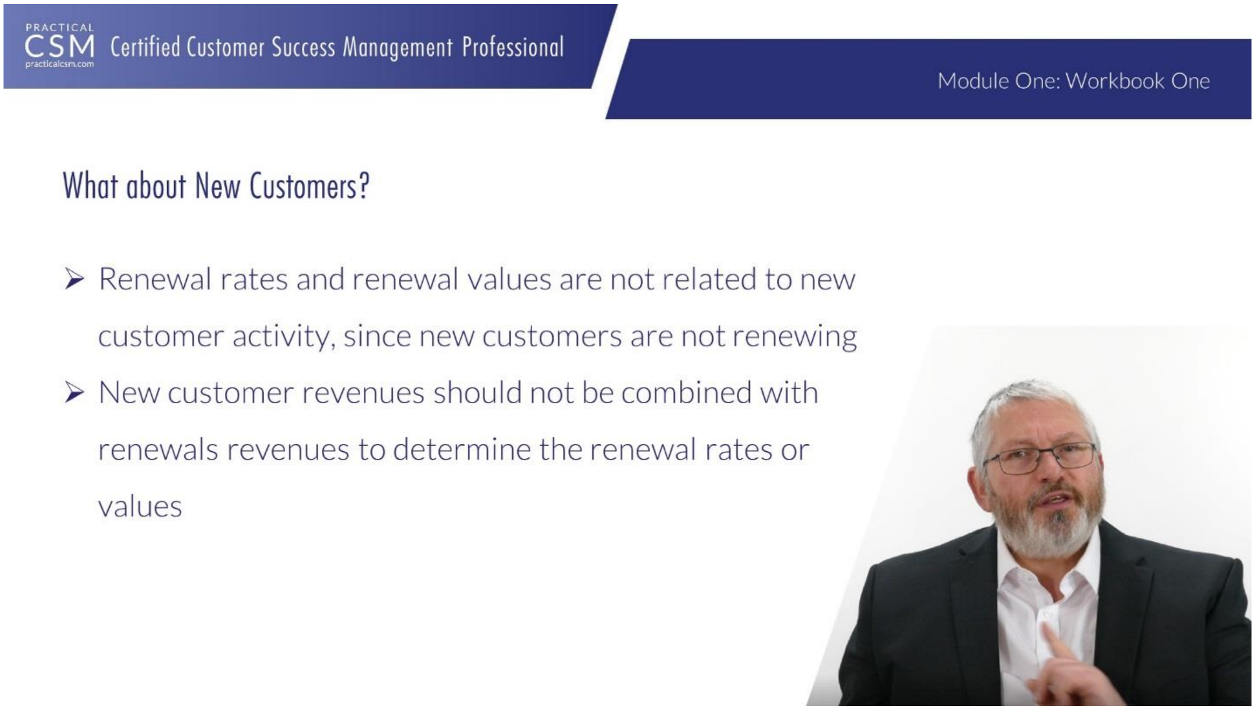
Retaining means “keeping” and for companies that sell their services using monthly or annual renewable contracts, the retention rate simply refers to the percentage of customers that renew their contract at the end of the existing contract term.

So for example if you have 100 customers on a service contract and 80 of them renew that contract at the end and 20 do not renew, then the retention rate was 80%. You can also express it negatively by referencing the percentage of customers who *do not* renew and this is referred to as the churn rate or just simply *churn*. So if you have 80% retention then you also have 20% churn, since all customers either did or did not renew and therefore retention and churn must add up to 100%.

Now let’s look at the renewal value, in other words the renewal revenue levels. Another consideration relating to as-a-service contracts is the value of the contract when it is renewed.

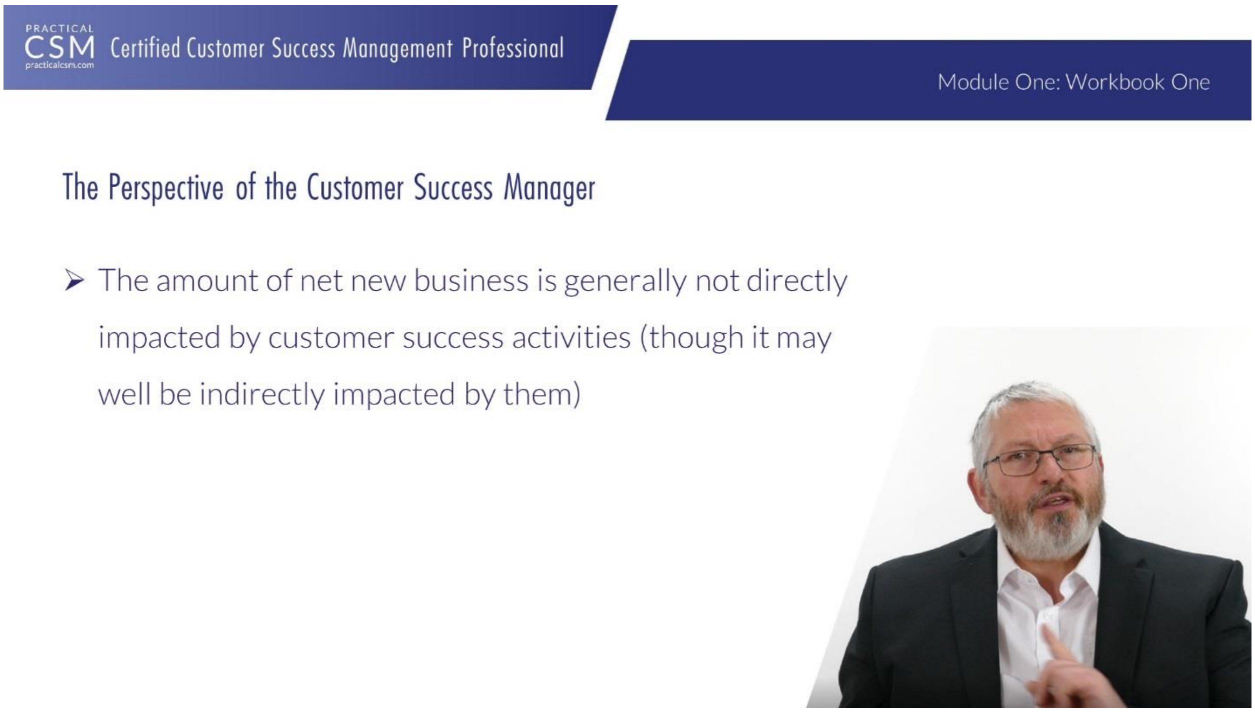
For example, maybe a customer currently has purchased a twelve month contract for a 2,000 user licence for a software application. When they renew their contract, if instead of renewing for 2,000 licenses they renew for 2,500 licences then the renewal level has increased. This will not affect the company's renewal rate since this refers purely to whether or not the customer renews, not to any increase or decrease in revenues that may come from the renewal, but obviously it is still an important metric, since if all customers that renew their contracts do so at say only half their previous contract's revenue value then total revenues will likely be significantly reduced regardless of the renewal rate. On the other hand, if all customers that renew their contracts do so at say double their previous contract's revenue value then total revenues will likely be significantly increased compared to previously.

So in summary, for contract renewals it is a combination of increases and/or decreases in both the renewal <u>rate</u> (ie the percentage of existing customers who renew their contracts) and the renewal <u>value</u> (ie the amount of revenue that contracts are renewed for) that will determine the overall growth in revenues from renewals of as-a-service contracts.



Of course this does not take into account new customers coming on board, since new customers are not renewing. Revenues from new customers need to be treated separately because if these revenues are lumped in with renewals revenues then they can easily hide churn.

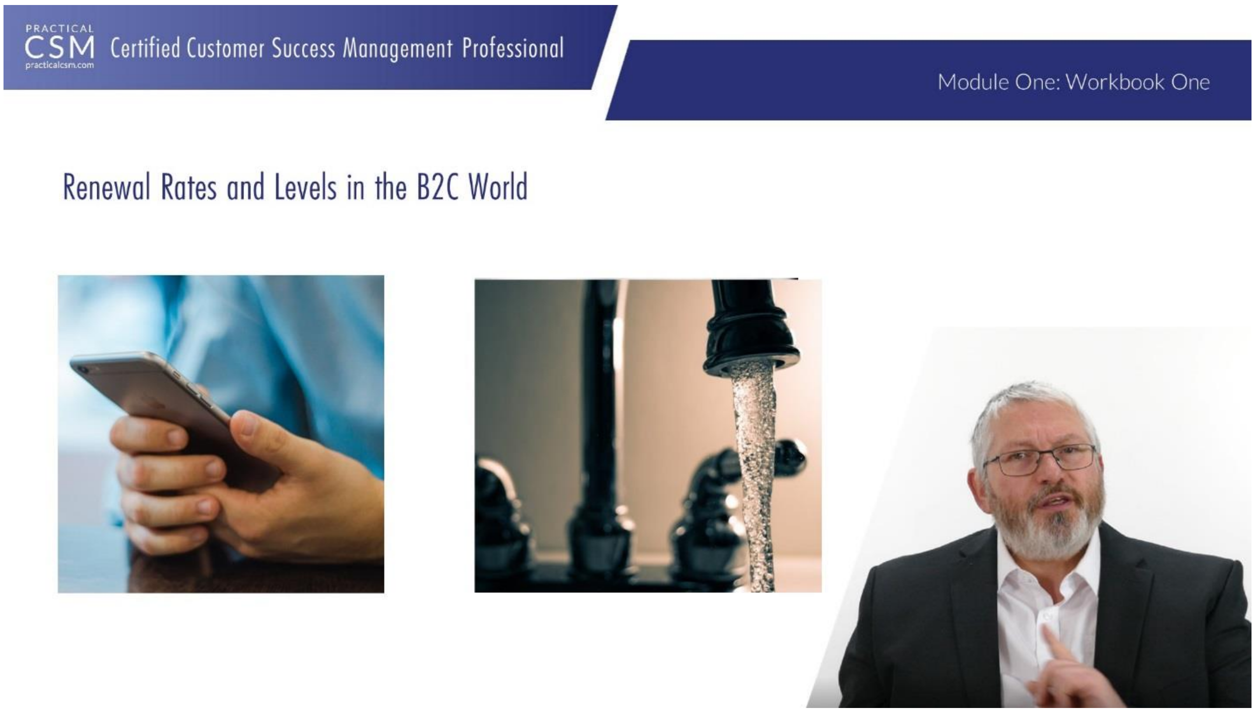
For example maybe as we said earlier we have 100 existing customers and 80 decide to renew their contracts, giving us an 80% renewal rate and 20% churn. Perhaps in the same period we also sell this service to a further 30 new customers. So if we lump in the 30 new contracts with the 80 renewed contracts we end up with 110 customers compared to last year's 100 customers, which of course would give us a retention of 110% and a churn of -10% which of course is a nonsense in itself, but more importantly if you looked at the combined totals for both new and renewed contracts it would be easy to miss the essential information that 20% of existing customers churned (or did not renew). This of course is lost revenue opportunity and incidentally very important lost revenue opportunity since studies show that it costs somewhere around 7 to 9 times as much to gain a new customer as it does to retain an existing one. So those 30 new customers were a lot more expensive to go out and win than the cost of retaining the same number of existing customers would have been, and therefore the profits from their revenues are considerably less.



Looked at purely from the perspective of the customer success manager, new contracts from new customers (often referred to as "net new business" or even just "net new") is not directly relevant to them since it is not directly impacted by their customer success activities. Note however that I have deliberately said "not <u>directly</u> impacted" since there may be one or two ways in which customer success activities *do* impact this net new business, and we will look at that in a moment.

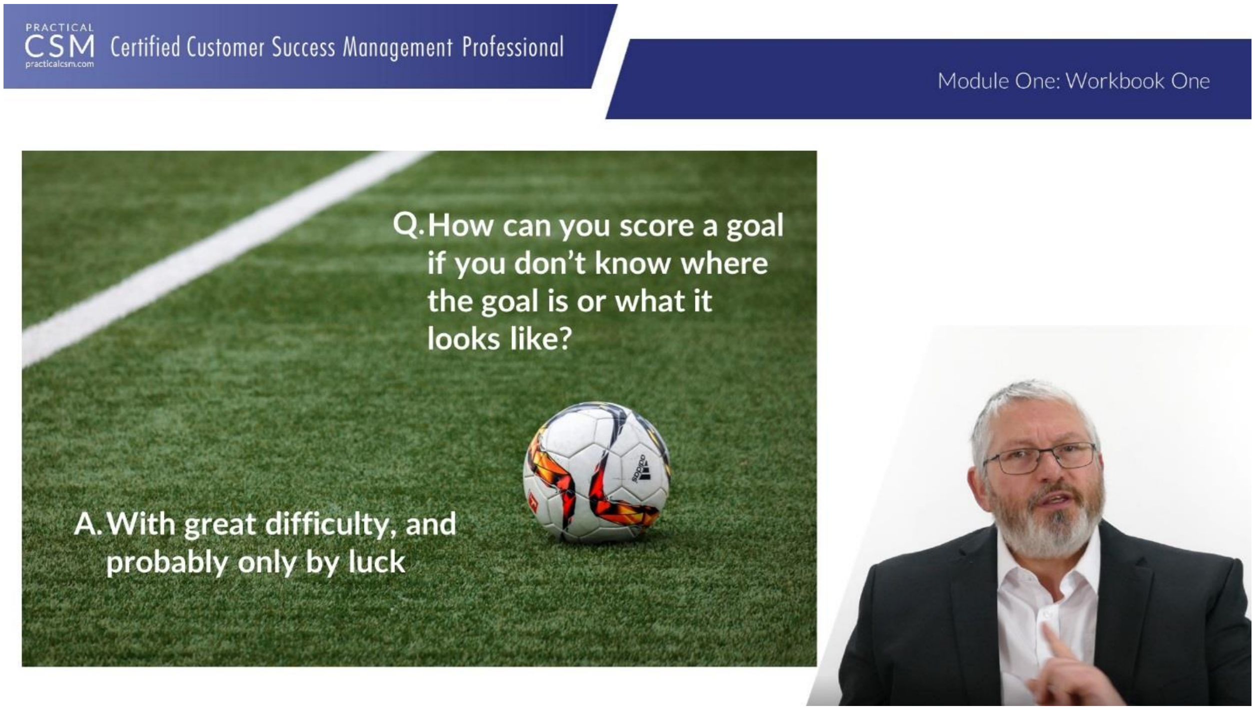
I want us to turn our attention back to the non-as-a-service discussion we had earlier. Remember that even if products and services are not being sold on a renewable contract basis, customer success management is still potentially relevant, especially where the company desires to sell the same or similar products to an existing customer multiple times. For example this might include consumable products such as office equipment, janitorial supplies, uniforms, or even something like energy (which may be supplied as-a-service on a contract or may be provided on a pay-as-you-use basis). It might also include raw materials and pre-manufactured parts used in manufacturing or assembly processes. In all of these cases it is likely that the supplying company will be keen to *continue* supplying their products and services and are anticipating that customers will continue to make regular purchases, even though there is no contract in place.

The concept of renewal and churn rates and renewal levels even works for larger, capital expenditure type items, for example heavy machinery used in manufacturing processes, or industrial plant used for air conditioning factories and offices. Again, companies that sell this equipment will aspire not just to sell their products once to each customer, but to sell the same product many times to each customer over the entire lifetime of the relationship with that customer. This could be simply to replace worn out or antiquated equipment with newer, more efficient or more highly specified models, or it could be due to the customers' growth in business that causes a demand for additional products, for example where a customer expands their business and opens up a new production line in their manufacturing facility.



Finally, it also applies to the B2C or business-to-consumer world. Aside from the obvious examples of renewable contracts such as those for insurances of all kinds and for energy, water, home and mobile phones and internet connectivity, many other businesses want us as individual consumers to repeat our purchases by coming back to them rather than going to a competitor. Think for example about how supermarkets might reward returning customers through loyalty cards (the outcome for customers being reduced costs for their food), or might try to add further value by providing additional information such as recipes for cooking healthy and attractive meals alongside supplying all the ingredients in a handy way, all on the same shelf for example (the outcome for customers being their ability to prepare and enjoy a wider variety of healthy and enjoyable meals).

A friend of mine's wife owns and runs a successful dentistry in her local town. When she purchased the business it was not doing very well financially, even though it offered a perfectly adequate service. It was one of several dentistry establishments in the area and it did not offer anything unique or different that would particularly attract customers back to use that particular dentist over any other dentist. By conducting research into what customers *really* want as an outcome from their visits to the dentist, and by making subtle but important changes to help customers attain these outcomes, my friend's wife transformed the company from barely surviving into becoming a thriving and profitable business that was growing at such a pace that she needed to take on further premises and further staff to fulfil her customers' needs. The difference was simple; customers always came back to use her services again because they got the outcomes they needed. But before she could transform her business, she had to understand what her customers' outcome requirements are from visiting their dentist.



The secret here is to know what outcomes your customer requires from your products and/or services. Only when you fully understand what your customers' true objectives are, will you be best positioned to help them attain those objectives. This is the same concept as in a game of soccer – or indeed any other type of game for that matter. You can only score a goal in a game of soccer if you first of all know where the goal is and what it looks like. Understanding where your customers' goals lie and what they look like is therefore a key aspect of customer success management.

There is a concept in sales called "sales motions". A sales motion could be likened to a sales strategy, and two common such motions (or strategies) are *Land* and *Expand*. The *Land* sales motion refers to the strategy of winning a new customer, or even if it is an existing customer of winning *new business* from that customer, ie selling something to the customer for the first time – something that they have never purchased before. So the expression "land" is referencing the concept of fishing, where the angler catches and "lands" a fish. It's a brand new fish which can now join the others that the angler has caught which are safely in the angler's net.

The *Expand* sales motion refers to the strategy of enlarging revenues by selling more of the same thing to an existing customer. So again going back to our software-as-a-service example from earlier, we might "land" a customer with a 2,000 user software licence in the first year and then when the contract comes up for renewal at the end of the year perhaps we can expand that to a 2,500 user licence.

Similarly in the non-as-a-service world, maybe our customer is a relatively new and growing light industrial manufacturer and we sell them a mini-lathe for them to use in their metal fabrication processes. Perhaps in six months' time after they have used it to good effect with their customers and in doing so increased the demand for their products and services they come back to us to buy a *second* mini-lathe from us in order to expand their operations.

This concept of *land* and *expand* can be very powerful for a couple of reasons. Firstly, from our customers' perspective purchasing something new, something that they have not used before and that is therefore not tried and tested carries substantially more risk than *repurchasing* something that they have previously purchased and that they therefore already know works well and fulfils their specific needs. Customers therefore may sometimes be cautious when making a brand new purchase and purchase less of a product or service than the amount which they could optimally use. This gives them the opportunity to try out the product or service at a reduced risk. Then if the product or service does indeed turn out to be as useful as they hoped, they can purchase more of it at a later date. From the seller's perspective the initial purchase is the *land* sales motion that gives the customer an opportunity to try out the product or service without incurring so much risk, and the repurchase at a higher level would be the *expand* sales motion that enables the customer to purchase their ideal quantity now that they have tried out the product or service and found that it does do what they hoped it would do for them.

Secondly, customers' businesses grow and change over time, and their needs grow and change over time. Therefore as the customer grows and changes, so may their need for additional amounts of a product or service that they previously only needed at a lesser quantity, so again there are *expand* opportunities for the selling company to take advantage of.

Thirdly, once the customer has purchased a product or service and used it for a while they naturally become more familiar with it. As their familiarity with a product or service grows, they may learn new ways in which they could make use of this product or service that they had not previously realized. Again this can lead to increased *expand* sales opportunities for the seller.

In all these *expand* situations, customer success management can be a very important – indeed critical – component of winning the additional business. The reason for this is simple. Just as customers are less likely to renew or repurchase if they are not seeing the value from a product or service, customers are very unlikely to purchase a greater quantity of a product or service unless they can see the value they are getting from their *current* quantity of the product or service. In other words, if a company wishes to gain additional revenues from existing customers through *expand* opportunities then they need to make sure that they make those customers as successful as possible at the *land* stage. This of course is precisely what customer success managers are charged with doing.

Customers come and go. Some customers might make just one, one-off purchase and never come back again. For example you may never go back to a restaurant you dined at when you were holidaying in Barcelona, not because it wasn't a lovely dining experience but simply because you might never visit Barcelona again. Other customers might be quite literally customers for life. Perhaps a local in Barcelona was first taken to that same restaurant by their parents as a child, and perhaps they are now in the seventies and *still* go there on a regular basis, having introduced first their own children and then their grandchildren to it in turn. The same rules apply in the business-to-business world. Some customers come and go, others stick around and become repeat customers. A company can use its sales data from all customers to calculate how long on average customers remain as customers.

This is important to know, since of course it's only customers who make purchases, so losing customers earlier means losing revenues whereas keeping customers for longer generates additional revenues. Each business will have its own pattern for how long that average customer lifetime is, which in turn will likely follow a similar pattern to that of their industry as a whole, though of course it may also be possible that particular product or service lines may have their own pattern, and/or particular customer segments (ie types of customers that the business might sell to) may *also* have their own patterns. However, without getting too bogged down in the weeds, the important thing for us to note is that an average lifetime for customers is something that most if not all companies should be able to calculate, one way or another.

Companies should also be able to review their sales data to calculate how much on average customers purchase either in total or indeed of a specific product or service per annum. Multiplying the average purchases per annum by the average lifetime of a customer gives the company an average *customer lifetime value* or CLV for their customers. This is an example of a very simple CLV calculation, and arguably in fact does not really show *value* so much as it shows *revenues*, since of course it does not take into account any costs associated with either winning the customer initially or of providing the product or service thereafter. Some companies use more complex modelling to account for these. Other companies use a completely different approach based upon things like purchase frequency rates and/or percentage chances of repeat business occurring. In a sense it doesn't matter how CLV is calculated, what does matter of course is that whoever uses the CLV figure understands it and knows how it was calculated.

Whatever way a company decides to calculate their customers’ average lifetime value, the point of course is that it is a very useful statistic to know, and an essential figure to increase if the business wants to grow. The customer success manager has an important role to play in the ambition to increase the Company’s CLV. By working with customers to increase the level of success that customers attain from using the products and services that customers have purchased, CSMs not only increase renewal rates and levels but also increase the likelihood of customers remaining as a customer for longer, and therefore the CLV will increase.

An advocate is a person (or business) who speaks up on behalf of another person (or business). Customer advocacy therefore refers to when customers speak up on behalf of the company that they have purchased products and/or services from in a way the helps that company to attain further sales from *other* prospective customers. This may mean by providing referrals, or by agreeing for their company to be used as a marketing case study, or for example by speaking about their positive experiences at a trade conference or similar event. It may also be as simple as proactively “spreading the word” on social media or in the real world. In whatever forms it takes, increased advocacy is likely to lead to increased sales, since prospective customers will likely react positively to recommendations made by neutral third parties such as previous customers who can tell them about how the company’s products and services have helped them to solve problems or exploit opportunities that are similar to the problems and opportunities that they themselves face.

Once again, customer success managers have an important role to play in increasing customer advocacy and therefore in helping to grow the company’s revenues. This is because customers whose outcomes are fully attained are far more likely to advocate on behalf of a supplier and recommend their products and services than customers whose outcomes are *not* fully attained. The CSM of course is responsible for helping customers to attain their outcomes, and therefore in so doing they are increasing the amount of customer advocacy, which in turn is helping to grow company revenues.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