

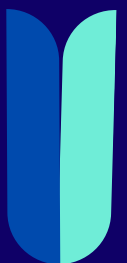
How to retain and expand your customer base



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How to retain and expand customer base



What to expect: SaaS Customer Success

Obtaining clients is one of the most important and difficult aspects of running a company, so it is crucial to retain the clients you have, upsell them and continuously find new ones. Customer success managers and the power of machine learning play important roles in this process.

Every company aims to effectively retain and expand their customer bases. But that, of course, is easier said than done. What are the metrics you need to look at as a customer success professional? Which pitfalls should you avoid? How do you know which customers are at risk of leaving? And if you know that, how do you ensure that you can retain them? And how do you make sure that you can handle this as a large organization? The answers to these questions will be discussed further in this white paper.

In this ever-changing competitive data environment, it's more important than ever to put your customers first.

3. Critical Customer Success Definitions and Metrics

3.1 CSM in the B2B SaaS Industry

More and more companies are shifting the responsibilities of customer care and customer business development from account managers to Customer Success managers. It is impressive that Customer Success has become extremely dominant, considering the fact that the job title “Customer Success manager” did not even exist ten years ago. Now, Customer Success has become a crucial component of most companies and CSM has emerged as an essential focus for businesses that want to achieve sustainable growths.

When Customer Success Management (CSM) is properly implemented in all customer processes and successfully applied, long-term benefits follow. More satisfied customers, a lower churn rate and less turnovers. According to SaaS Capital, companies that have a dedicated Customer Success department are expected to have a 40% increase in revenue and a 50% faster growth. A part of these impressive numbers could be attributed to the outcomes of an effective Customer Success strategy, which are the **increasing number of customers, more optimized Customer Lifetime Value** and **lower customer churn**.



Companies with a dedicated Customer Success strategy are expected to have 40% increase in revenue and 50% faster growth.

So, what is Customer Success?

Customer Success (CS) is a business method that assists customers to reach their goals by using your product or service. The ideal picture is that all stakeholders' interests are optimized.

Why is that? A report from Gartner indicates that the more value you provide for your customers, the faster the growth your company would achieve.

In order to achieve this, the needs of customers should be anticipated, and a partnership that goes beyond the 'standard' customer-supplier relationship should be created.

In short, Customer Success (CS) is a truly customer-centric strategy that is essential for any businesses regardless of the industry. It goes beyond customer experience as it does not only focus on the successes of companies, but also on customers'.

“87% of business executives say that customer experience is their core growth driver.”

**NORTH
HIGHLAND**

3.2 CSM Metrics

Customer Churn Rate

Customer Churn (or customer attrition) is calculated as the ratio of the number of customers lost during a specific period (typically a month or a year) and the number of customers in the beginning.

Customer Churn usually expressed as a percentage:

$$\frac{[(\text{Number of customers in the beginning of a period}) - (\text{Number of customers at the end of that period})]}{[(\text{Number of customers at the end of that given period})]}$$

3.2.1 Revenue Churn Rate

1

Gross Revenue Churn Rate

Gross Revenue churn shows you how much revenue you are losing, regardless of revenue expansion or increasing customers. It measures how much revenue leakage is happening:

$$\frac{[(\text{Downgrade MRR} + \text{Cancellation MRR})]}{(\text{Total MRR at the beginning of the period})} \times 100$$

2

Net Revenue Churn Rate

Net Revenue Churn rate attempts to paint a picture of the reality when considering what's lost (via cancellations or downgrades) and what's gained (via expansion, reactivation, and upgrades).

$$\frac{[(\text{MRR in the beginning of the month} - \text{MRR at the end of the month}) - (\text{Expansions MRR})]}{[(\text{MRR in the beginning of the month})]} \times 100$$

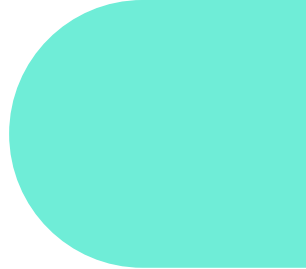
3.2.2 Customer Health Score

A customer health score tells **Customer Success managers** the complete story of customer health. It enables them to assess accounts at risk and determine where and how to deploy resources. There are a number of ways to calculate a customer health score, but generally it is evaluated based on a combination of factors, such as engagements, support tickets, preferred feature, and usage frequencies.

A churn risk rate often only tells the probability of someone's cancellation within certain number of months, whereas a customer health score focuses more on the development of the customer's health.



A health score and a churn risk rate might share similarities, but they are often measured and used differently.



3.2.3 MRR

MRR stands for Monthly Recurring Revenue, widely considered as the holy grail of customer retention. MRR is the income that a business can count on receiving every single month.

For more in-depth insight, MRR can be broken into specific segments such as new business MRR, expansion MRR, and churned MRR.

3.2.4 Customer Lifetime Value

Customer lifetime value (CLV) is a primary metric that predicts the value of the relationship between a business and a customer.

It can also be defined as the monetary value of the relationship between the business and the customer, which is based on the present value of the projected future cash flows from the customer relationship.

When margins and retention rates are constant, the following formula can be used to calculate the lifetime value of a customer relationship:

$$\text{Margin} \times \frac{\text{Retention rate}}{1 + \text{Discount rate} - \text{retention rate}}$$

“

Rather than thinking about how you can acquire a lot of customers and how cheaply you can do so, CLV helps you think about **how to optimize your acquisition spending** for maximum value rather than minimum cost.

Harvard Business Review

”

3.2.5 NPS

Net Promoter Score is a commonly used metric for customer satisfaction. A survey is usually sent to customers asking them to indicate how likely they are to recommend your solution to others. A scale of zero to 10 is used. The NPS can be sent at any time of the customer life cycle. Further, it is often combined with other metrics such as health score to help businesses get a better picture of the customer.

- 1 **Promoters: 9 – 10** (Happy to recommend you as a company)
- 2 **Passives: 7 – 8** (Will not recommend you as a company)
- 3 **Detractors: 0 – 6** (Will speak negatively about the company)
- 4 **NPS = Percentage of Promoters – Percentage of Detractors**

3.2.6 Product Engagement

Product engagement is the measurement of **how users are interacting with your product**. It can be measured by **the frequencies of engagement a customer has with the Customer Success team** across multiple touch points, such as *email, phone, chat, or meetings*.

It is likely that customers will only continue to pay for a product as long as they consider it to be valuable. Once they stop engaging with the product, chances are high that they don't find the product valuable enough.

Simply put, products with high engagement will have high retention rates and those with low engagement will have high churn rates.

- 1 Active users:** Those who perform valuable actions on your platform.
- 2 Stickiness:** The likeliness of a customer "sticking" do your business by making a repurchase.
- 3 Adoption:** The number of users using key features in your product.

3.2.7 Renewal Rate

The renewal rate is an important metric used to predict future growth. Simply put, it measures the percentage of customers who renew their subscriptions at the end of each subscription period.

A high renewal rate is a strong indicator of value, meaning that the team or product is succeeding in driving Customer Success. A low renewal rate is an indicator of a customer's low intention in renewing the company's product or service.

The customer renewal rate is easy to calculate:

$$\frac{\text{Number of extended contracts}}{\text{Total number of renewable contracts}}$$

4. Challenges Faced by Customer Success Managers

Metrics

For a Customer Success manager, it is very important to have the figures and facts straight. Which KPIs and metrics matter for your team and your company can be a demanding question. But even if you have the perfect understandings of the metrics that matter to your business, it can still be challenging to transform the data into actionable insights, which appears to be the case for many Customer Success managers.

Monitoring

Monitoring which customers are at risk or which customers are more reluctant to purchase new products or services can be difficult. One of the reasons is that you might not be able to ask your customers about their usage frequencies regularly and repeatedly.

Segmentation

Segmentation allows Customer Success teams to get a more in-depth understanding of customers' needs. However, depending on the scale of the business, segmentation can be a major operation that requires a large number of resources and work. A successful segmentation enables the Customer Success teams to prioritize their daily effort and resources on tasks that could further boost Customer Lifetime Value and business revenue.

Fire Fighting

A lack of proactive measures will lead to never-ending firefightings from Customer Success managers. Customer Success is about seeking and eliminating the problems **before they appear, even before your customers know that they are about to churn.**

Predicting Customer Churn

As previously mentioned, customer churn rate is perhaps the most important KPI for Customer Success managers. Predicting churn is therefore a crucial challenge for customer retention. By accurately pinpointing and predicting changes in customer health or customer churn, Customer Success managers would be able to take proactive steps to **offer the right product to the right customers at the right time.**

5. Predicting and Preventing Customer Churn

5.1 Predicting Customer Churn

Selling to **existing customers** can flourish your businesses more than searching for and selling to new customers.

Learning what keeps your customers engaged can help you improve your retention strategies and execute more effective customer retention operations.

5.2 Preventing Customer Churn

There is no doubt that it is very valuable to know which customers have low engagements, which customers are likely to churn and what are the main churn motivations.

Based on indicators such as key churn drivers, health scores and customer journey touch points, Customer Success managers would be able to scale and execute personalized engagement strategies.

5.1 Rule-based versus machine learning-based prediction modellings

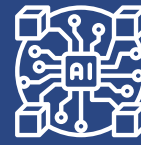
As discussed in the previous chapter, it is difficult for many Customer Success managers to accurately determine churn risks and customer health scores.

Many existing CSM tools promise data-driven churn predictions with full automations. However, what usually happens is that a Customer Success manager must first configure all the key parameters on his/her own before proceeding to the next step. Even if he or she has no idea what those parameters should be.

These 'rule-based' analyses therefore largely depend on manual inputs, which are often driven by gut feelings. Surely, experienced Customer Success managers might make good judgements, but a rule-based predictive model **needs constant human inputs and adjustments** and therefore is **not suitable to deal with large amounts of data or exceptional cases**.



Rule-based



Machine learning

APPROACH

Subjective Gut feelings

Objective historic data with a focus on statistical rules

CAPABILITY

Requires constant human input to adjust and improve

Capable at self-learning and adapts to the ever-changing data environment

COMPLEXITY

Unable to deal with large amount of data especially with exceptional cases

Capable at dealing with vast volumes of data and rare events

In short, think of **YouTube and Netflix auto-suggestions** as the examples of machine learning.

Benefits of a machine learning-based model



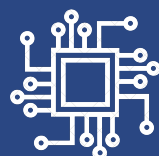
More accurate predictions

Target the your customers in the right way at the right time



Higher capability in large volumes of data

The machine learning based model transforms your data into actionable customer success strategy



Unlimited learning process

The self-learning characteristic enables the model to make highly accurate predictions even in a rapidly changing environment

5.2 Workflow

One of the most common ways to give customers a suitable follow-up is through workflows. A uniform workflow will ensure that the Customer Success team is able to provide repeatable and scalable personalized customer experiences. A workflow is tailored based on different customer scenarios. For instance, the workflow that targets "failed onboarding" is different than that targets "upsell opportunity".

The process of creating and documenting successful workflows is definitely a challenge. For example, how do you know what is the best action to take in a specific situation? However, once the Customer Success managers know which actions are the most effective, he or she would be able to select the right workflow for each specific customer. An advanced and efficient way to determine an optimal workflow is utilizing machine learning, specifically in the form of next best action modelling.

5.2 Next Best Action Modelling

Next best action models are trained machine learning models that are driven-by historical data and A/B tests. These models are capable of recognizing patterns and pinpointing the suitable targeting approach for each customer.

A next best action can be *a call, an email, a product or a service recommendation*. It can even tell you which type of content is the most effective to use (informative versus loyal).

It is obvious that a next best action model can help businesses achieve the best customer success strategies. However, building such model is very complex, costly, error-prone and time-consuming. Considering how difficult it is to perform these computations even when all the necessary data is readily on hand, it is not surprising that not many companies have found the right tool for the next best action modelling.

Clearly, an automated solution that integrates both churn prediction and next best modelling into a single tool is undeniably the most ideal customer success tool.

6. Key Takeaway

Customer Success is an essential part of growth for businesses. Further, the customer retention rate indicates a business's ability to retain and expand its current customer base. Actionable insights transformed from data can enable businesses to uncover possibilities for improvements in their Customer Success strategies. Utilizing a machine learning-based predictive model offers great opportunities in this regard.

Don't forget: customer retention is crucial.





About Churned

Ready to boost your Customer Success strategy?

Take control over your customer base by leveraging the power of AI with our Churned retention management platform.

Most Customer Success and Retention management tools promise data-driven solutions. But in reality there exist a few dominant limitations. In most cases, "data-driven" actually means "rule-based" solutions built by "gut feelings".

Churned gives you the opposite: **A fully data-driven solution without limitations.** The Churned AI Engine transforms your data into actionable retention strategies, CLV drivers, and upsell machines.

Interested in increasing retention, driving customer engagement and optimizing your Customer Success team's effort? Get in touch with the Churned team and [book a demo](#) today.

