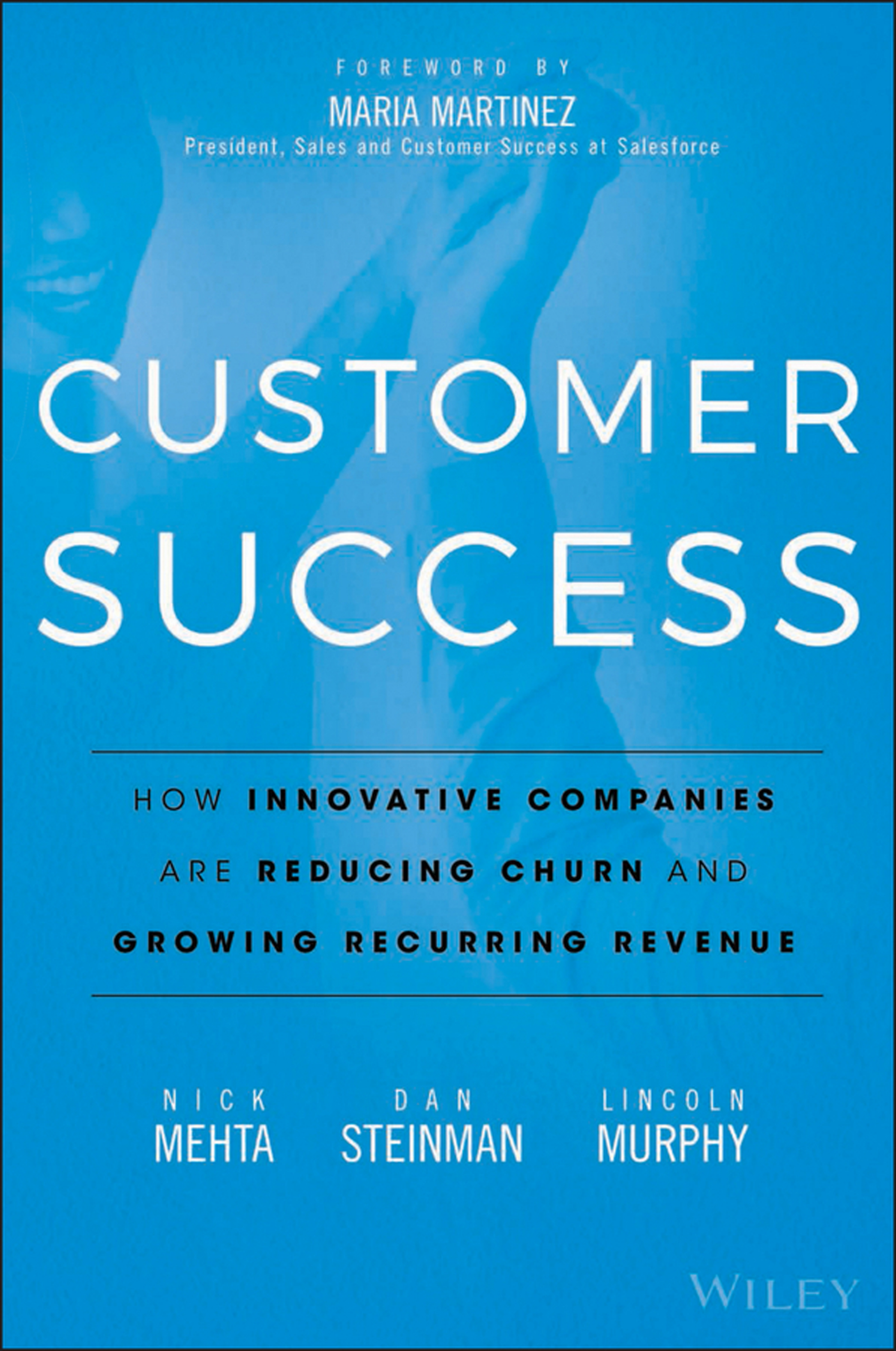

FOREWORD BY

MARIA MARTINEZ

President, Sales and Customer Success at Salesforce

CUSTOMER SUCCESS

HOW **INNOVATIVE COMPANIES** ARE **REDUCING CHURN** AND **GROWING RECURRING REVENUE**

NICK
MEHTA

DAN
STEINMAN

LINCOLN
MURPHY

WILEY

Endorsements

Jim Steele

Having been at Salesforce to witness the birth of Customer Success, I'm excited to see a book focused on this subject around which I have so much personal passion. One of the foundations of our success at Salesforce was Customer Success so it's particularly great to see the history of the discipline, along with a glimpse at the future, documented in this book. I recommend it to every CEO or leader out there who is truly seeking to build a customer success-centric company.

—Jim Steele, President & Chief Customer Officer, Insidesales and former President & Chief Customer Officer, Salesforce (12 1/2 years)

Roger Lee

As one of the early investors in the technology of Customer Success, I'm particularly pleased to see the rapidly accelerating growth of the entire industry. The "subscription tsunami" as outlined in the book has profoundly disrupted the software world, and forced a focus on customers that did not exist previously. This book will help those who need to understand how this brave new world works, and also people looking for some practical guidance on how to execute successfully in the subscription economy. The team at Gainsight helped pioneer the Customer Success movement and definitely has the chops put together this hitchhiker's guide for those traveling the same road.

—Roger Lee, General Partner, Battery Ventures

Tien Tzuo (CEO, Zuora)

The world is moving to a Subscription Economy, and this book directly addresses that shift. Smart companies aren't trying to pitch products to strangers anymore. They're figuring out how to grow, monetize and build an ongoing, mutually beneficial relationship with a dedicated base of subscribers. Customer Success is fundamental to this process, and this book documents three core aspects—philosophy, discipline, and organization—in a sharp, practical way.

—Tien Tzuo, CEO and Founder, Zuora

Byron Deeter

At Bessemer Venture Partners, we've invested in over 100 cloud companies and have been fortunate to work with industry leaders including LinkedIn, Twilio, Pinterest, Yelp, Shopify, and Box. One recurring theme for every successful subscription-based company I've seen is a relentless focus on Customer Success. Not lip service, but true focus and passion. That's one reason I'm thrilled to finally see a book on the subject which explains not only why this is important but includes practical guidance on how to do it. I'm also really excited that it goes beyond the cloud to explore why Customer Success is critical to traditional companies and B2C companies, too. The folks at Gainsight really nailed it, and I strongly recommend this book for any executive running a high-performance organization. Understanding Customer Success leads to company success.

—Byron Deeter, Partner, Bessemer Venture Partners

Mary Trick

At Infor, the majority of our business is enterprise software so I was particularly pleased to find that this book does not align Customer Success only with cloud companies or only with edge applications, but explains why it's so critical to all software businesses. The customer economy that we're living in demands a new focus on customers no matter what kind of business you are in, and the team at Gainsight understands this well. Dan's book pulls together significant insights that will benefit all of us.

—Mary Trick, Chief Customer Officer, Infor

Mary Poppen

Customer Success is now a common business term, but this wasn't so just a few years ago. The evolution has been dramatic over the past 10 years. I've experienced this exciting evolution firsthand from what was initially a smaller SaaS company (SuccessFactors) to what it has grown to become within a large, enterprise software company (SAP). Customer Success grows in importance every day as companies recognize that the foundation of continued success and growth is built upon a satisfied and renewing customer base. While the evolution continues, the core themes that make it important have remained the same and Dan, Nick, and Lincoln captured those elements perfectly in this book. I was especially pleased to see that it went beyond a philosophical conversation about Customer Success to delve into the nitty-gritty of the practical, day-to-day driving principles every CEO and leader needs to understand.

Those of us driving the importance and evolution of Customer Success will benefit personally if all of our executives and board members understand and support it, too.

—Mary Poppen, Chief Customer Officer, SAP SuccessFactors

Clara Shih

Every business in the world needs to be thinking about Customer Success. No surprise it has help set companies like Salesforce apart, as I saw it play out firsthand. At Hearsay, our first hire was in Customer Success. It is the investment that keeps on giving. Congratulations to Nick and team for putting their stamp on the industry and creating this extremely valuable guide that will transform your organization.

—Clara Shih, Founder and CEO, Hearsay Social

CUSTOMER
SUCCESS

CUSTOMER SUCCESS

How Innovative Companies Are Reducing Churn and Growing Recurring Revenue

Nick Mehta, Dan Steinman,
and Lincoln Murphy

WILEY

This book is printed on acid-free paper. ♾

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Contents

Gainsight Book Foreword *xi*

PART I **Customer Success: The History, Organization, and Imperative** **1**

Chapter 1 The Recurring Revenue Tsunami: Why Customer Success Is Suddenly Crucial 3

Chapter 2 The Customer Success Strategy: The New Organization versus the Traditional Business Model 25

Chapter 3 Customer Success for Traditional Nonrecurring Revenue Businesses 45

PART II **The Ten Laws of Customer Success** **63**

Chapter 4 The Practice of Customer Success 65

Chapter 5 Law 1: Sell to the Right Customer 69

Chapter 6 Law 2: The Natural Tendency for Customers and Vendors Is to Drift Apart 79

Chapter 7 Law 3: Customers Expect You to Make Them Wildly Successful 91

Chapter 8 Law 4: Relentlessly Monitor and Manage Customer Health 103

Chapter 9 Law 5: You Can No Longer Build Loyalty through Personal Relationships 113

Chapter 10 Law 6: Product Is Your Only Scalable Differentiator 125

Chapter 11 Law 7: Obsessively Improve Time-to-Value 137

Chapter 12 Law 8: Deeply Understand Your Customer Metrics 147

Chapter 13 Law 9: Drive Customer Success through Hard Metrics 159

Chapter 14 Law 10: It's a Top-Down, Company-Wide Commitment 171

PART III **Chief Customer Officer, Technology, and Future** **181**

Chapter 15 The Rise of the Chief Customer Officer 183

Chapter 16 Customer Success Technology 199

Chapter 17 Where Do We Go from Here? 215

Index *229*

Gainsight Book Foreword

The term Customer Success has become a buzzword in today's business world. Customers all expect it, and vendors all aim to deliver it. But who decides when it's been achieved? If you are truly a customer-centric company, the answer to that—and all other questions—should come easily: The customer ultimately decides.

As this book illustrates, the cloud era has necessitated a shift to a true customer-first model, and it has also proven that customer satisfaction and customer success are not always synonymous. In a subscription model, you never stop working to win your customers. When done well, every single day is spent with a relentless focus on *their* success, not yours. Each and every customer deserves an amazing experience and an unwavering commitment to success from their vendors. But success cannot be standardized, and the companies who understand this are the ones poised to reap the greatest rewards.

Adopting a customer-first philosophy ultimately means listening to your customers and operating in ways that help them get closer to *their* customers—particularly through the embrace of cloud, mobile, social, and analytics technologies. And, of course, being truly customer-centric means having a deep understanding of your customers' unmet needs. Once you know this, you will have a great foundation on which to build the strategy, team, and mechanics that drive Customer Success in your organization.

In my role as the president of Sales and Customer Success at Salesforce, I have a unique vantage point to watch the Customer Success movement unfold. Sixteen years ago, Salesforce pioneered the concept of Customer Success. It was at the very heart of Marc Benioff's vision and, all these years and customers later, we are as committed to it as when we had just a few customers. This commitment stems from the fact that Customer Success drives everything we do. It's not just an idea or a department; it's a core value, and it's everyone's job.

In the six years since I have been at Salesforce, we have brought even more rigor to Customer Success by transforming the organization into a proactive, data-driven group that drives customer utilization, adoption, and success. My team of nearly 4,000 experts is dedicated to the mission of helping our customers get full value from our products—and ultimately transform their businesses. In my time here, I have seen firsthand the transformative power of a customer-centric culture. I have witnessed our customers soar to incredible heights by using our platform to connect with their customers in innovative ways, and I've seen our own success follow suit.

In my 30 years in technology, I have never seen the kind of mutual loyalty that exists between vendor and customer, as it does with Salesforce. I truly believe that it is because we are willing to invest in Customer Success, and customers are willing to invest in ours. That's "attitudinal loyalty," to steal a phrase from the book

Customer Success is not a one-size-fits-all proposition and it is evolving at the same accelerated pace as the technology that underpins it. Delivering success requires constantly checking in with customers and adapting products and services based on their needs. At Salesforce, we are continually reimagining our success offerings by adding expertise, innovation, and intelligence that make our customers' unique visions come to life. In fact, today we use data science technologies—including big-data analysis and sophisticated business intelligence—to accelerate time-to-value and, ultimately, success.

Like every other organization, Customer Success has to also adapt to the changing business landscape. In our case, CRM has evolved over the years from simple sales force automation into something more akin to a customer platform, covering sales, service, marketing, analytics, apps, and IoT (internet of things). As the definition and scope of CRM have grown, Salesforce has evolved from being deployed in just one instance to running a customer's entire enterprise. This has required a change in strategy for our Customer Success team as well—from a group focused primarily on the success of individual deployments to an organization with a seat at the boardroom table, assisting with business transformation.

I'm often asked how to justify the financial investment one must make in Customer Success. It is my belief that, when done right, Customer Success needs little justification at all. It preserves the company's book of business, opens up doors for additional opportunities, and creates lifelong advocates in our customers. When optimized, Customer Success is the best sales and marketing engine possible. As described in the following pages, Customer Success is more than just the right thing to do; it is a business imperative. For this reason, my team is held accountable for customer usage, adoption, and ultimately revenue. Our success is directly tied to that of our customers.

I am extremely happy to see our partners at Gainsight documenting the history of Customer Success in this book and sharing their insights into this growing discipline. This book is a wonderful guide to help companies embark on—and thrive in—their application of Customer Success to their day-to-day businesses. This is an incredible time to be a customer-centric company, and the opportunity is limitless for those who can look into the future through the lens of the customer. The future, in fact, is already here.

In Success,
Maria Martinez
President, Sales and Customer Success, Salesforce

CUSTOMER
SUCCESS

PART I

Customer Success: The History, Organization, and Imperative

1

The Recurring Revenue Tsunami: Why Customer Success Is Suddenly Crucial

In the Beginning

In the spring of 2005, Marc Benioff gathered his lieutenants together for an offsite in the sleepy seaside town of Half Moon Bay, California. San Francisco–based Salesforce.com was on a roll, the likes of which has been seldom seen, even in the technology world. After a swift five-year run to a successful initial public offering (IPO) in June, the remainder of 2004 brought more good news in the form of 88 percent bookings growth. Nearly 20,000 customers had purchased the company's customer relationship management (CRM) solution, up from less than 6,000 two years prior. The year 2004 concluded with Salesforce sporting a market cap of $500 million, and that number would quadruple by the end of 2005. All charts were pointing up and to the right, just the way you'd want them if you were an employee or an investor.

The offsite was pretty typical, celebrating the success of the company, planning for continued hypergrowth as the market continued to expand, and generally mapping out a glorious future. And then David Dempsey stepped to the podium to deliver the presentation that would earn him the nickname Dr. Doom.

By 2005, the Irish-born Dempsey was already five years into his Salesforce career. He had spent 11 years at Oracle before moving on, just as the dotcom bubble burst. Unfazed, he and two other ex-Oracle executives approached Benioff in early 2000 with a proposal to bring Salesforce.com to the European market. After several months of negotiations, the deal was struck. Today, Dempsey is a senior vice president and the global head of renewals, which, as is the goal of all recurring revenue businesses, carries 70 to 80 percent of Salesforce's annual bookings responsibility. In 2015, that renewal number is approaching $5 billion.

When you have that kind of responsibility, you quickly begin to understand the levers of the business and what it takes to be successful. Great sales leaders and CEOs have made their careers by understanding what's happening in the market and in their businesses and by taking the necessary steps, within their control, to keep their business growing. That might require major product changes, breaking into new markets, or any number of other strategies. The same general blueprint has been followed for years. But for Dempsey, there was something distinctly different about this challenge. No one had ever done what he was trying to do. No other subscription-based business-to-business (B2B) company had ever reached the size and growth rate of Salesforce, which also meant that, before him, no one had really needed to understand the reality and nuance of subscription software renewals the way he had to.

Renewing software subscriptions is not like renewing maintenance contracts in which the hardware or software is already paid for, installed in the data center, and running critical parts of the business. And, by the way, leaving the customer a prisoner to the vendor in many ways. One of the imprisoning factors is the cost of hardware maintenance. If the hardware is critical to the company's infrastructure, then you are basically required to pay for insurance in the case of failures. Paying for maintenance is that insurance. To make things worse, the hardware vendor typically has a stranglehold on the maintenance market because they are often upgrading and replacing proprietary hardware components. Sure, over time, a few third-party options have sprung up, but vendors always keep at least 90 percent of the business, so the competition is token at best. The software maintenance business is an even better business for vendors because no one else can provide software upgrades and bug fixes for their proprietary software. So, the renewal of a maintenance contract—hardware or software—is mostly a formality, with a tiny bit of negotiation involved. Unfortunately, the assumptions about maintenance renewals carried over to the SaaS (Software as a Service) world that Dempsey and Salesforce lived in. Those assumptions were misleading at best.

The renewals Dempsey was responsible for were often battles, not givens. For most SaaS products, customers have choices. Even with 20,000 customers, Salesforce was still often as much nice-to-have as it was must-have, which is always the case in a new market, as CRM was at the time. The bottom line on SaaS renewals is that customers can, and do, choose to not renew their contracts at a much higher rate than for maintenance products. That's because they usually have choices. Other vendors in the same market offer easy conversions to their product and lower prices. Customers are not captive like they are to maintenance contracts. That's just one of many ways that the recurring revenue business model has shifted power from the vendor to the customer, and Salesforce in 2005 was no exception. Customers had choices—competitors, the option to build their own solution, or just to do without CRM altogether—and they exercised that choice. Boy, did they ever.

Into the middle of that reality strode Dempsey, understanding it in a way that no one else did because he was the man responsible for renewing Salesforce customers' contracts. The message he shared with the rest of the Salesforce executive team was not good news. The bottom line was simple and direct: despite what it looked like from the outside, Salesforce as a business was in a death spiral. Underneath the glowing results and amazing growth rates, there was a fundamental flaw in the business, and continuing on the current path would bring disaster. The culprit was summed up in one simple word—*churn*. Customers who decided they no longer wanted to be customers. Churn. A luxury afforded to customers in a recurring revenue business. Churn. A simple concept, totally part of our thinking today, but one that, in 2005, no other subscription-based B2B company had dealt with at this magnitude. Churn.

The churn rate at Salesforce was 8 percent. That doesn't sound so bad until you add these two words—*per month*! Do the math if you wish, but it will come out like this: almost every customer was exiting the business every year. Salesforce was starting to learn what every other subscription company has learned since (thank you, Salesforce). You can't pour enough business into the top of the funnel to sustain real growth if customers are leaking out the bottom at a high rate. Yes, you can show glowing growth rates for new customer acquisition, and that's a very good thing. But the allure and value of a recurring revenue business such as Salesforce is in *growing the overall value of the installed base*. That takes new customer acquisition plus high retention rates plus positive upsell results (selling more to existing customers). Only when all three of those gears are working do you have the healthy business engine that investors will reward.

Dempsey's presentation awakened Benioff and set the wheels in motion around a company-wide initiative to focus on, measure, and reduce churn. One simple, fact-based presentation delivered to the right audience at the right time started something that is only now, 10 years later, gaining full traction as a discipline and a business imperative for all recurring revenue businesses. Dr. Doom had effectively given birth to the customer success movement.

Attitudinal versus Behavioral Loyalty

Customer success is ultimately about loyalty. Every company wants loyal customers. Recurring revenue businesses, such as Salesforce, *need* loyal customers. Acquiring customers is expensive. Really expensive. That makes keeping them a necessity, no matter how big your market might be. It's simply a losing battle to try to out-acquire a high churn rate. So, if a business depends on loyalty, it's critical to understand what that word means.

Much has been written about different kinds of loyalty. The general consensus is that there are two kinds of loyalty—attitudinal loyalty and behavioral loyalty. These are sometimes referred to as emotional loyalty and intellectual loyalty. The premise is simple although the social science may be quite complex. The premise is that there are customers who are loyal because they have to be (behavioral/intellectual), and then there are customers who are loyal because they love a particular brand or product (attitudinal/emotional). As a vendor or brand, the latter is highly preferable for a variety of reasons: willingness to pay a higher price, less vulnerable to competition, more likely to advocate for "their" brand, and so forth. The housewife who shops at Hank's Grocery because it's the only place within 30 miles that sells bread and milk is behaviorally loyal. It's possible she's also attitudinally loyal (Hank could be her husband), too, but her basic loyalty is because she does not have options. That's the extreme example, but we're probably all behaviorally loyal to a variety of products. I get gas at the same place 90 percent of the time because it's convenient and, based on very little research, a good price. The fact that they shut down their credit card machines for 10 minutes at 7:00 every morning is annoying because that's exactly when I'm on my way to work. They don't know it, except for the cashier I expressed my frustration to one day, but this creates the opposite of attitudinal loyalty for me. Fortunately for them, the convenience continues to win the day for now. But they are vulnerable to another station popping up nearby, priced similarly, and with credit card shutdowns at 3 A.M. instead of 7 A.M. or, better yet, who has figured out that it's important not to shut down the credit card machines at all.

Attitudinal loyalty is much harder to create and sustain because it's expensive. It's expensive to build products that customers love instead of products that they simply own. It's expensive to create an experience that delights instead of one that just tries to not annoy. When my daughter was graduating from high school, she needed a laptop computer. What was it that caused her to stomp her foot and insist on a Mac when the Dell options were functionally comparable and much less expensive? The logical conversation I attempted with her did not move her an inch. Despite the fact that she couldn't cite a single speed, function, or quality argument for the Mac, her heart was set and her mind made up. I still don't know why (but she did get her Mac). Maybe it was because the cool kids all had one. Maybe it was because she loved her iPod. Maybe it was because she just liked jeans and black turtlenecks. I honestly don't know. But now I know what to call it—attitudinal loyalty or, in her case, more appropriately, emotional loyalty (because the discussion did include tears). And that's the kind of loyalty we all long for in our customers.

Apple has been chronicled in so many ways—papers, books, movies—that I will do it no justice here in comparison. It did something with regard to loyalty that looks and feels like magic but clearly isn't. There's just a certain quality to Apple's product, packaging, advertising, and presentation, and it creates not only a purchase but also an experience that somehow touches an emotional chord. Steve Jobs figured out how to create attitudinal loyalty perhaps better than anyone, before or since. And it's literally priceless. The fanaticism of Apple's loyal customers carried it through a very dark time when products weren't very good and its business teetered on the edge.

Apple came out on the other side with virtually all of its loyal fans (some weren't even customers) intact, and, then, when it started to make products that partially justified that fanaticism, the ride to the top (most valuable company in history) was full-speed ahead.

So, what's the point, and how does it relate to customer success? Customer Success is designed to create attitudinal loyalty. Marc Benioff and Salesforce figured it out and, over the past 10 years, have invested massive amounts of time and money into customer success. Behavioral loyalty wasn't really an option in the early years because Salesforce was never going to be the only game in town, and customers weren't sticky because they hadn't invested emotionally or financially into the integrations and processes that make switching really expensive. One could argue that lots of Salesforce customers today are behaviorally loyal because the product has become central to the way they do business and too difficult to swap out. But many of those customers are also attitudinally loyal—check out Dreamforce (their annual conference) sometime if you don't believe it—and that's the best of both worlds.

Steve Jobs also knew that attitudinal loyalty was critical, and, in addition to creating it with elegant and beautiful products, he also invested in customer success. But, being the marketing guru that he was, he came up with a different name for it—Genius Bar. When Apple decided to create retail stores, the naysayers were loud and numerous. Hadn't history proved that retail stores for computers didn't work (RIP Gateway)? What Jobs banked on correctly was that retail stores for a consumer technology brand, at least one with a core fanatical following, could work. And, of course, it did. One could argue that the publicity derived from the long lines outside Apple stores three days before the release of the new iPhone was worth the investment in all the stores combined. But Jobs took it one step further. He didn't settle for having stores only showing off and selling his products, no matter how many helpful salespeople there were in every store. He also created a place in the back of the store staffed with customer success managers. We'll explore in detail what we mean by *customer success manager* later in this book, but the simple role definition is this: individuals that help customers get the most value out of your products. That's clearly what Apple Store geniuses are intended to do. It wasn't cheap for Apple to decide to have 10 or 20 geniuses on the payroll at every single store. As we said, attitudinal loyalty is not cheap. But