Your Customers' Success is the Growth Engine of Your SaaS Business

NOTION

Your customers' success is the growth engine of your business.

We often talk about the importance of customer success in SaaS. Right from the start, ensuring customers see the value of your product is of fundamental importance. As Jason Lemkin put it: "Customer Success should be one of your single digit hires." But too often we talk of Customer Success as a function not a strategy.

I have been privileged to work with Dan Steinman for many years and even more so over the last 12 months since he joined Notion Capital as our Resident Customer Success Expert. His impact on me, Notion Capital and our portfolio has been profound. In this report Dan explores the new dimensions of SaaS - from subscription to transactional to consumption - together with leaders from across our portfolio. His conclusion, whether in a product-led or enterprise sales business, is that your customer's success is as important as ever.

In the subscription economy there's no such thing as post-sale, success is predicated on a number of key principles:

01. **Efficiently acquiring high margin recurring revenue customers;**

02. **Ensuring that revenue does actually recur; and**

03. **Growing those existing revenues even further (while acquiring more high margin customers.**

Stephen Millard

Stephen Millard,
Operating Partner, Notion Capital

The technology business has always been dynamic. That might not even be the right word, because change is not just expected in this world, it's necessary. And I don't mean just product innovation. Even the business models change frequently, especially in software. In the past 20 years, we've lived through at least three different business models, with more coming.

When Marc Benioff and friends started Salesforce, software was sold as a one-time transaction. Then Salesforce introduced the subscription model in conjunction with web browser delivery (SaaS) which changed the world in a myriad of ways including creating the necessity for Customer Success; and recently there's been a clear move towards the consumption model. Business model changes are fundamental changes. It's like changing the engine on your car as opposed to changing the oil. Big stuff happens and it affects every other part of the business. This paper, brought to you by Notion Capital, explores some of these far-reaching impacts.

About the authors

Dan Steinman is the lead author on this paper; he is the Customer Success Expert in Residence (EIR) for Notion Capital in London.

Other contributors include Richard Counsell, CEO at Stable, Pat Phelan, CCO at GoCardless, Blynn Buckley, CCO at Mews, and Ian Beth, VP of Customer Success at Currencycloud; all of whom have been, or are currently part of the Notion portfolio of companies.

The Subcription Economy

We could have seen this coming. We really could have. Not because we're so great at seeing the future of technology (anybody else still waiting for those flying cars?). Not because it was a logical shift in our businesses. And certainly not because our past pointed it out.

No, the reason we could have seen this coming is because it's just Math (Maths for those of you in Europe). From the moment Marc Benioff first uttered the word "subscription" back in 1999, this day could have been predicted. Actually, it could have been calculated.

I suppose we should start by defining the "this" about which we speak. Simply put, "this" refers to the seismic shift in our businesses from the days when virtually all of our revenue was driven by sales to new customers, to our world today where most of our revenue is being driven by sales to (renewals and upsells) existing customers. If that's not true for you today, it will be soon enough; so now is the time to start living it.

Actually, subscriptions were not a new idea in 1999. Far from it. Every family in the modern world had enjoyed subscriptions of some kind for many years. Newspapers, magazines, the phone company, record-of-the-month, etc. But it was new to the technology world - specifically software. And because software is most definitely eating the world (thank you Marc Andreessen, 2011), this change is permeating our everyday experiences from Netflix to AAA (roadside assistance) to Bacon of the Month Club (look it up).

Let's return from that brief history lesson to our original premise - "We could have seen this coming". The reason that statement is true is the reason the Subscription Economy is upon us and is so loved by private investors and Wall Street alike. Predictability. Subscriptions make our revenue predictable unlike ever before.

The model is quite simple actually:

01. Get new customers
02. Keep those customers
03. Grow those customers
04. Add more new customers

Wow! How hard can that be? Well, it sounds simple but it's pretty darn hard.

Just for fun, let's take a really basic example to see how the Math(s) works.

- Sales finds 1000 new customers the first year
- Sales grows new customers by 40% per year
- Each customer pays us $10/month
- All customers are on a 12-month contract
- 90% of those customers stay with us year after year
- On average, customers increase their contracts by 20% each year

What's more interesting, and which finally gets to the point of this paper, is where that revenue each year is coming from. Take a look:

Notice what happened in Year 2. The lines cross. Not only do they cross, but they rapidly diverge; never to come back together again if our company stays healthy.

The fact that those lines cross is the reason for the title of this paper. You see, Sales will likely keep doing their job - finding new customers for the business - year after year. That's both awesome and necessary to be a healthy company. But, over time, the bulk of our revenue is not driven by sales to new customers. It's driven by the loyalty of existing customers. And, in the technology world, that loyalty is the direct result of what we call Customer Success.

Fig.01 Our revenue line will look like this over 6 years:

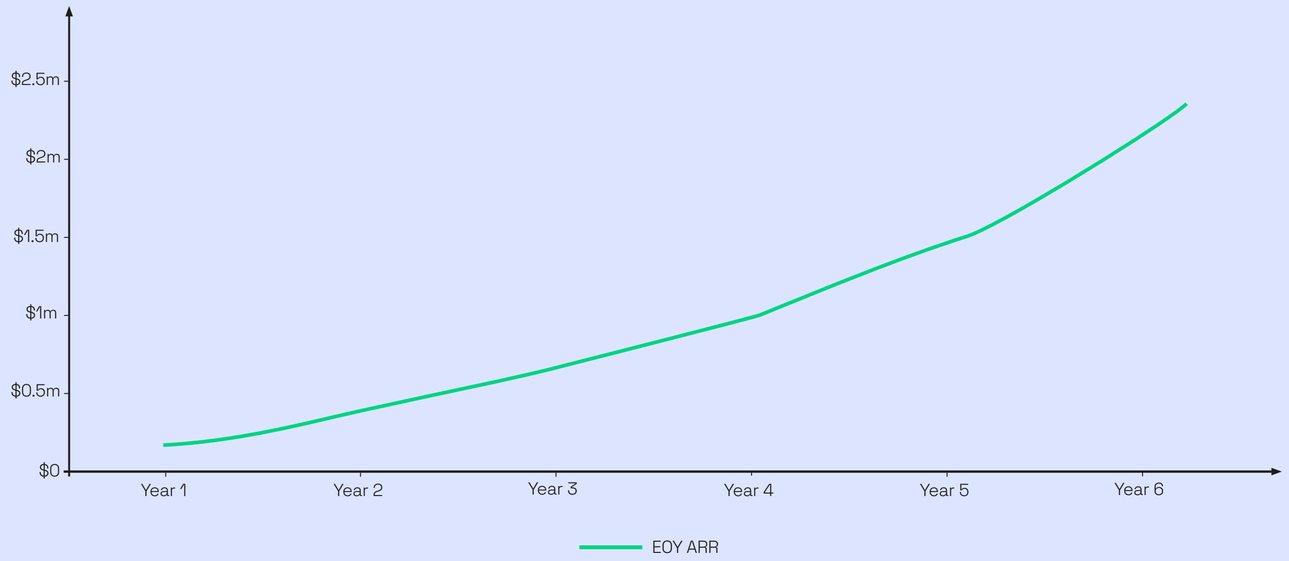
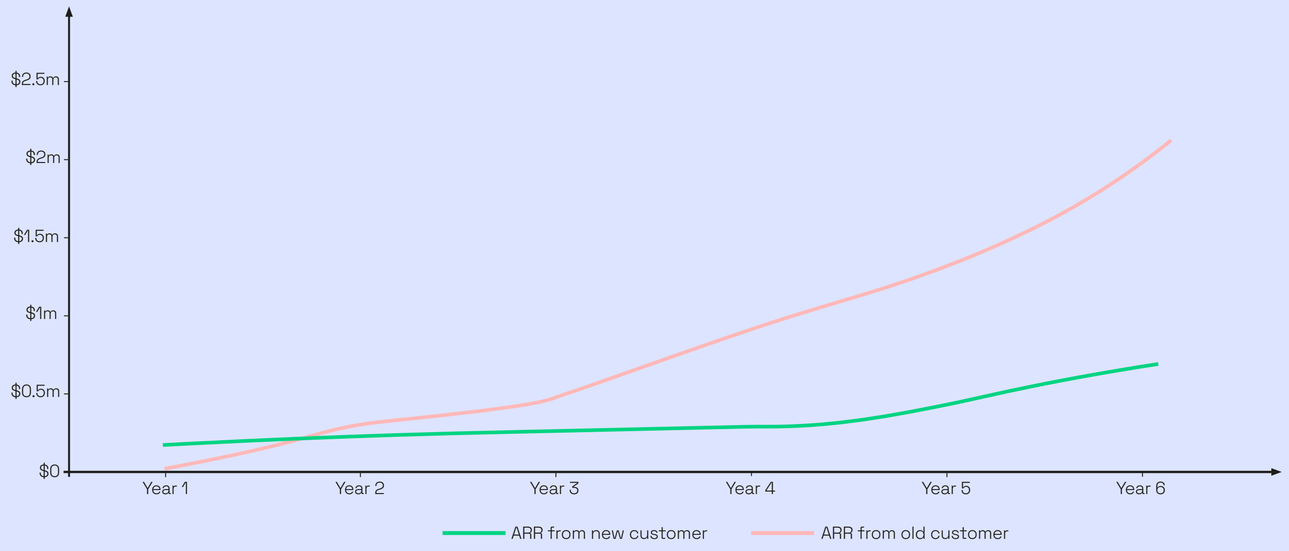


Fig.02 Revenue from new customers vs existing customers



Now, let's take this discussion from the theoretical to something more realistic.

Let's consider a large public company today which was one of the first SaaS companies in the world. That history means we would have some idea of their year-over-year revenue and ARR. If we apply some reasonable, and conservative, assumptions about net retention rates, we can see the point we were made above as it played out in near-real life. Here's what that chart looks like.

Please note that, in order to be able to see how, in the early days, new-customer-driven ARR is greater than ARR from the existing customer base, we have had to put this chart on a log scale. You can see that the crossover occurred in Year 5. After 20 years, the gap between these numbers is enormous. You would see a chart similar to this for any of the early subscription companies who are now successful and public; from Workday to SuccessFactors to Salesforce to Marketo. The power of the subscription model, if you can achieve a world-class net retention rate (120%+), creates a company whose primary value is not derived from new customer growth (although that's wonderful). Neither is most of the value of the company tied to their Sales and Marketing engine with regard to new customers. Instead, value is built on the Customer Success team, enabling and delivering high renewal rates and significant upsell opportunities. Companies like this, believe it or not, would thrive and grow and increase in value, even if they never signed another new customer. That's the power of the subscription model plus world-class Customer Success.

Ian Beth is VP, Customer Success at Currencycloud. Currencycloud offers cross-border payments and FX functionality to clients globally. They were an early-stage Notion investment and were recently acquired for over $1B by Visa. Ian emphasises the importance of Customer Success at Currencycloud; this is typically true of every subscription company.

"At Currencycloud, Customer Success came into being for a very simple reason - it was necessary to achieve our desired growth rates. It's not hard to understand that, when most of your revenue is being derived from your existing customer base, product adoption, as driven by Customer Success, is an absolute necessity. For that reason, every person in Customer Success at Currencycloud is incentivized on revenue and Customer Success is accepted across the entire company as a must-have."

Ian Beth,
VP Customer Success, Currencycloud

> "But when a large majority of revenue is based on existing customer loyalty, the people responsible for that loyalty will have a very loud voice in establishing the product's ongoing direction."

Dan Steinman,
Customer Success Expert, Notion

It's impossible to overstate how seismic this change has been. Think about the power shift inside a typical company from 20 years ago when 80% of their annual revenue came from acquiring new customers; to today when the script is flipped 180 degrees and 80% of their business is coming from existing customers. One example of this shift is to think about how the products that are sold by a company are shaped. If 80% of the revenue comes from selling to brand new customers, who has the most say in product direction? Clearly, it's the Sales organization. But if 80% of the revenue comes from existing customers, who now has the most influence on the product? Probably the Chief Customer Officer, who owns the net retention number. I use the word "probably" intentionally, because Sales will always have lots of influence, and rightly so.

And the influence won't stop at Product. Think about the identification and targeting of prospects. If you have over 100,000 customers, as Salesforce does, there's an awful lot of intelligence available about what kind of company, industry or use case makes for the best customers.

And, by "best customers", we mean those most likely to renew their contracts long term and buy more from us. Plus, in addition to the purely financial assessment of what makes a great customer, there's also a ton of intangible value that they bring, including testimonials, referrals, case studies, etc. Nothing sells like successful customers. Ultimately, for all the reasons we just listed, customer loyalty (success) drives the business.

All of this simply serves to emphasize the importance of Customer Success. So before we go any further, let's just be really clear about what we mean by "Customer Success", because the term can mean different things to different people. When I use that term in this paper, I'm referring to all of the organizations that are involved with customers after a sales deal is completed. Or, what we used to call "post-Sales". I'm not a fan of the term "post-Sales", because it hearkens back to a time when the Sales process ended when the original deal was signed with a new customer. In a subscription world, that initial sale is only the first of many we expect to win from a customer. Every renewal and every expansion (upsell or cross-sell) is also a sales deal.

If we put our customers on a one-year subscription and the initial sales deal is the only one we achieve with them, then we have failed miserably. In fact, we have almost certainly not even recovered the cost of acquiring that customer and we've figuratively flushed all of the resources that went into onboarding and working with that customer to make them successful.

All of this adds weight to our current reality, which requires us to ensure that customers are deriving value from our product(s) and, therefore, renewing their contracts and buying more from us. That effort is what I refer to as Customer Success; and it includes all the groups that together deliver the customer journey - Onboarding, Customer Support, Customer Success (the department), Training, Professional Services, and maybe even Account Management. All of those organizations, working together on behalf of the customer, are what leads to high net retention rates and thriving companies.

Mews is a property management solution designed specifically for the hotel industry; managing the business from bookings to check-out and everything in between. Notion Capital is an early-stage investor in the business. Blynn Buckley, Mews' Chief Customer Officer, cut her teeth in the subscription world at Nextel, one of the first cellular telephone companies, a subscription model we're all familiar with. She realized early in her Customer Success journey that:

"Most B2B software requires subject matter expertise and guidance (i.e. Customer Success) in order for customers to achieve their intended outcomes. One of the resulting value propositions is in driving the customer's combined adoption of software, support and professional services in order to achieve those outcomes. Over the past ten years, from Nextel to Cloudera to Mews, I've watched Customer Success move from nice-to-have to must-have, because of its part in moving the revenue needle through existing customers."

Blynn Buckley,
Chief Customer Officer, Mews

The Consumption Economy

So far, we've described the business model transition, led by technology companies, from the old Transaction Economy (customers pay for products up-front) to the Subscription Economy (customers pay over time), and why that movement required a new philosophy and organization called Customer Success.

But there's another movement under way that may be even more impactful; namely the evolution from Subscription to Consumption.

Before we dig in, we better define what we mean when we say "Consumption" or "the Consumption Economy". Simply put, it's a business model whereby the customer pays for using your product, not just for having access to it. It's also sometimes referred to as "pay-as-you-go". Currencycloud, mentioned previously, is a great example of a company with a consumption-based pricing model. They make a large part of their revenue by taking a small slice of all the FX transactions that are put through their platform. That's not a subscription - it's pay-as-you-go or Consumption.

To clarify, let's contrast Subscription and Consumption.

- In a Subscription model, you (the customer) pay me (the vendor) an agreed amount every month or year.
- In a pure Consumption model, there is no periodic payment at all (there are also hybrid models which blend the two). The customer pays the vendor only when they use the product.

Of course the key to this agreement will be defining what it means to "use the product". It could mean just logging in but, most likely it will be tied to something the vendor believes has real value. To a customer, logging in does not have much, if any, value. But running reports might. Or managing customers might. Or transferring files might; and so on. In this model, it's incumbent on the vendor to define usage clearly and to ensure that the measure of usage is something that is actually valuable to the customer. If not, the customer is unlikely to be willing to pay for it.

Let's use an example that almost everyone can relate to: cloud storage. Almost every company with more than two employees has a cloud storage solution for all employees to use. When you buy a cloud storage solution, you are buying software that allows you to manage and store files and data in the cloud, so that they can be accessed from anywhere by everyone who needs them and to minimize the storage requirements on each employee's computer.

Let's say we are running a company with 50 employees and we buy a cloud storage solution on a one-year contract for $24,000. So, for $2,000/month, every employee can store all their business files and data in the cloud and easily share and access them from anywhere. Even if no employee uses that capability in a given month, we have still paid $2,000 for that month. That's the subscription model. Customer Success is critical to ensuring that, when our one-year contract expires, we have derived enough value from the product that we will renew for another year or more.

What might the cloud storage world look like on a Consumption model? Well, here's one possibility. Instead of a monthly cost of $2,000, the vendor agrees with the customer to simply charge one penny for every file that is uploaded, another penny for every file that is downloaded, and another penny for every file that is shared. In this model, the customer pays the vendor only when value is derived from their product. This is great for the customer because, if the product delivers value, they are happy to use it and pay for it but, if it doesn't deliver value, the customer can simply stop using it and it will cost them nothing.

However, this obviously shifts a lot of pressure onto the vendor to work more closely with the customer to ensure that value is being derived so that the vendor gets paid. This is the final shift of revenue and responsibility to Customer Success. In a pure Consumption model, it's quite possible that no money changes hands when a sales deal is closed, and that every penny of revenue comes from the vendor's ability to drive product usage. In other words, all revenue is driven by what happens post-Sales (Customer Success).

Many of these questions are similar to the ones that were asked when we started moving from Transaction to Subscription. In theory, it's much easier to sell a one-year subscription to a customer for $100,000 than to collect $3M from the customer up-front for lifetime use of a product. And, given that the job might be easier, many companies wondered whether they should pay differently for it? And so on. Everything had to change; from how Marketing operates to who does renewals. As we move into the Consumption Economy, we can be sure that similar changes will be required and a new set of questions will need to be answered.

Let's look in a little more detail at what it means to operate on a pure consumption model and some of the new challenges that the business will have to tackle:

01. **Fully digitise the sales funnel**
It is now practical to move to a 100% digital process when selling, even with major enterprise clients. Benjamin Guenther, CEO of Alasco, says "We can now sell to big companies online which was not possible before. So in terms of sales we have a way higher efficiency, velocity and product audience that we can target."

02. **How do we pay Sales?**
It seems like the job is much easier and far less necessary. Should Sales people continue to make the "big bucks" in this situation? Would CFOs even agree to a commission payment if the vendor ?

03. **What is Customer Success?**
It used to be, in most companies, a non-commercial organization developing trusted advisor relationships with their customers but never asking them for money. However, in this model, every single dollar the vendor earns is driven by whatever happens after the deal closes - profitability is driven entirely by Customer Success.

That then leads to a couple of obvious questions:

04. **Do we even need Sales people?**

05. **And should we start treating Customer Success people like we have historically treated Sales people?**

GoCardless is a Notion-backed company delivering a global account-to-account payment platform to over 75k customers worldwide. This simplifies financial transactions and can significantly reduce the costs. GoCardless Chief Customer Officer, Pat Phelan, is an experienced Customer Success professional and says Customer Success is crucial to demonstrating value fast in a consumption-based company:

> “ Whilst time to first value is key in both subscription and consumption models, in a consumption-based model its importance is multiplied because the window to prove value and impact is significantly narrower due to the customer’s reduced financial commitment.
>
> In addition, the consumption-based model is very different, given that traditionally the termination periods tend to be a lot shorter - 30 days in some cases - which means even the highest volume customers can’t be guaranteed to be retained if better options come along. In other words, from onboarding to adoption, urgency is greatly increased in the Consumption Economy.”
>
> Pat Phelan,
> Chief Customer Officer

Pat also adds an exclamation point to Ian Beth’s comment above, noting that in a consumption-based business, “the correlation between increased adoption and increased revenue is almost direct. The more volume your customers put through your platform, the more revenue you drive comparable to a subscription model where a customer can overperform on forecasts but maintain the same ACV.”

> "The vendor's revenue will rapidly increase, not because they have raised their prices or vastly improved their product, but because their high-growth client has twice as many people using it. When vendors and customers are truly aligned in their goals, amazing things can happen."

Dan Steinman,
Customer Success Expert, Notion

The good news, for those of us not yet immersed in consumption thinking, is that there are several large companies blazing the trail for us in addition to those like Currencycloud and GoCardless. In particular, one of the largest industries in the world today is cloud infrastructure - businesses like Amazon Web Services (AWS), Microsoft Azure, and Google Cloud. These businesses sell data centers and everything they might contain to companies who do not wish to build and maintain their own data centers. And these businesses operate on a consumption-based model. If I'm a customer of AWS, for example, I will have contracted with them for a certain amount of compute power, storage, networking capability, and associated tools. One of the values I get from them is their flexibility if I need more (or less). If my business grows and I need to add 20% capacity to my AWS stack, guess what happens to my next invoice? Yep - it goes up by 20%. That's pay-as-you-go, or consumption.

Most technology companies are using these kinds of services already, so there's some conditioning of the market already happening that will make life easier for you as you inevitably move in this direction.

Many companies don't jump directly from Subscription to Consumption but initially offer some kind of hybrid model. This might take the form of a combination pricing model, consisting of a subscription fee as the baseline and then additional charges which might be levied based on consumption.

Regardless of how it is being done, it's definitely happening and, as is often the case, investors are pushing this new model because they believe it will be better for them. If we go back to our cloud storage model, think of the benefits to the vendor if they deliver a great product to growing companies. The vendor's revenue will rapidly increase, not because they have raised their prices or vastly improved their product, but because their high-growth client has twice as many people using it. When vendors and customers are truly aligned in their goals, amazing things can happen.

Some types of business lend themselves naturally to the consumption model. Financial Technology (FinTech) is one such industry (see the comments above from Currencycloud and GoCardless). Many of the technology solutions embedded into the financial part of any business, operate on a consumption model by charging a small percentage of every transaction. For example, consider an eCommerce solution that enables companies to sell products over the internet on their platform. The logical business model for the vendor is simply to take a small slice of every transaction that happens on their platform.

Some companies take this even further. Stable is a Notion-backed company which offers risk protection (hedging) for untradable agricultural commodities. Their expertise and deep analytics allows them to guarantee commodity prices to their customers in a very volatile market. Their margins are directly commensurate with their expertise - it's what I would call 'Consumption Plus'. Richard Counsell is Stable's CEO and sees Customer Success in a unique way:

"We organize our post-Sales teams into pods. At the heart of each pod are Customer Success Managers, who bring a wealth of domain expertise and credibility to our customers. Their consultative approach starts moving the flywheel in a land-and-expand approach with each customer. Once the flywheel starts moving, Customer Success can feed Sales with referenceable users and quantifiable success stories, which results in a wickedly fast flywheel. This virtuous loop, led by Customer Success, is the revenue-driver of our business."

Richard Counsell,
CEO, Stable

The Growth Engine

The bottom line to this story is obvious – Customer Success is crucially important today - and only getting more important with every passing day.

Per the Salesforce example we looked at, even in the subscription model, most of a company's business will come from existing customers over time, which puts the majority of the responsibility for driving revenue into the hands of the Customer Success teams. And as we move into the consumption world, that shift becomes complete in that all of a company's revenue will be driven by the organizations under the Customer Success umbrella.

The trend is very clear. Not only does it have a heritage stretching back to the transactional days, but we can also see clear gradations within each of the evolving business models, showing a consistent and increasing importance for Customer Success.

It's very clear that we're moving towards a consumption-based business model, as we've already discussed. Some types of business will be better suited for that model than others, but a general movement in that direction is well under way.

Over time, the trend looks something like this:

Business model	Value of Customer Success
Transaction	Does not really exist
Subscription Novice	A necessary evil to reduce churn
Subscription Intermediate	Positive influence on revenue
Subscription Advanced	Primary revenue driver
Consumption	Only revenue driver
Beyond Consumption	Owns revenue

What's next?

What comes after that is anyone's guess, but one logical hypothesis (assuming I'm a logical person) is a model that adds to the consumption business with a subscription fee on the Customer Success component of the business. In other words, customers might actually pay a monthly or annual fee to have Customer Success teams ensure the delivery of value for their product; which results not only in increased revenue from usage of the product(s) but also creates a new recurring revenue channel in the delivery of Customer Success services.

That's far different than simply charging for Customer Success. Many companies have tried that, some successfully. But it has really amounted to nothing more than Professional Services in most cases. What I'm describing here is a realization by customers, as a result of value being delivered, that their path to greater success is using the expertise available to them (Customer Success Managers) to the fullest extent. At its extreme, this would mean a customer paying for a dedicated CSM to greatly accelerate their business and differentiate them from the competition. In other words, it becomes a pull from the customer, not a push to the customer. Speed is essential in today's business climate; the smartest customers know this and are willing to pay for it.

Nick Mehta is CEO at Gainsight, the leading Customer Success technology platform. Byron Deeter serves as Partner at Bessemer Venture Partners, the world's premier SaaS investor. Both agree that, in a world where Customer Success is the growth driver for businesses, "Customer Success leaders (Chief Customer Officers) will become revenue owners, not just revenue drivers."

In other words, many CCOs of the future will carry a revenue quota and manage Sales teams tasked with renewals and upsells, alongside their other departments - Customer Support, Customer Success, Professional Services, OnBoarding, Training, etc. When that transition is complete, the balance of power will truly have shifted from Sales to Customer Success.

Predicting the future is a dangerous business and often nothing more than a guess, but we can be sure that Customer Success will continue to grow in worth to the point where it's not just valuable, but invaluable. No company will be able to survive, let alone thrive, without it; and the circle of adoption will extend from technology companies where it's already a given, to most B2B companies across the world.

Elements of it will also appear and mature in B2C businesses, where the volume of customers will dramatically change the way it will be delivered. But there is an argument that the low-end of some B2B companies (what we often call the long tail), has the same need for Customer Success with the same delivery challenges as B2C. That's a whole 'nother paper and discussion, so we'll leave it there for now and wrap this up by simply restating our thesis: Customer Success is rapidly becoming the growth engine of your business - and its necessity is only accelerating. What that means to you is clear – adapt or die. There's a growing level of expertise in the market and tons of resources available to help you on your journey, so there are no excuses. It's on you to find them, apply them, and turn Customer Success into the differentiator it needs to be for the long-term growth of your business.

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