

1

Customer Success: What It Is and Why It Affects Everything

When you are finished changing, you are finished.

—Benjamin Franklin

What really matters in business? Every day we receive hundreds of emails, calls, and meeting invitations; knowing what's important can be a challenge. And every 24 hours, the world around us changes in infinite ways. Dissecting the most important trends can be hard. If you're like us, picking out the signal from the noise is a huge chunk of the job of leading a business. And it can be overwhelming.

That quest for what matters most in business brought both of us to the field of Customer Success, from different starting points. We'll each tell the story of how a discovery of Customer Success pushed our own thinking on what mattered in business. And we think these stories will resonate with you. Let's start with Nick.

Making and Selling Aren't the Only Things That Matter Anymore, Dad

When I was 8 years old, I vividly remember a “take your child to work day” with my entrepreneur dad. The thing I recall best from that event is him saying, “Nick, there are just two jobs that matter in business: the jobs of the people who make the stuff you sell and the jobs of the people who sell the stuff you make; everything else is overhead.”

As oversimplified as that may sound, my dad was accurately describing the business model of pretty much every major corporation from 1900 to 2000. Making stuff and selling stuff drove the global economy. The sale was a one-time activity, and anything “post-sale” was a cost to the company (customer service centers, repair people dealing with broken machines, fleets of company vehicles, etc.). My dad’s advice fared well for me in my early career as a leader in enterprise software.

Then in 2008, during the depth of the financial crisis, I was hired to run a company where we sold our software “as a service” (SaaS). I was finally in the cloud! I remember my first day meeting the employees and recalling my dad’s advice. I wanted to immediately talk to the leaders of Sales and Engineering, the people who “sold stuff” and “made stuff.”

I also met Steve, the person responsible for making sure our existing customers were successful. I thought to myself at the time, “Great. Steve’s got that covered so I don’t have to worry about it.”

But what I learned over the four years of running that company was that the SaaS business model had fundamentally shifted power to our customers. They weren’t “buying” stuff anymore, they were renting it. This changed the way I needed to operate as a CEO. Making and selling still mattered a lot. But our customers now had the “power of the purse.” If they weren’t satisfied, they could leave us at any time. As the CEO of this customer-powered company, I ended up spending way more time with Steve than I did with his counterparts in Sales and Engineering.

And that shift that I observed toward customer-centricity is why I was excited to join Gainsight and help launch the company in 2013, with our mission being to enable businesses to embrace Customer Success as the leading strategic differentiator of the next phase of the economy. And if you follow me online, you know I am fired up about the Customer Success movement!

But, that's not just my story and my irrational enthusiasm. That's an industry story—actually, that's the entire economy's story. Up until now, the history of business can be condensed down to two phases: the making stuff phase (starting with the industrial revolution), followed by the selling stuff phase (the Internet has pushed this last phase by making it possible to market your stuff globally, instantly, constantly). Now we've moved into a third phase. We still need to make and sell, but that's not enough. Our customers in the modern economy are looking for success—for their goals to be achieved—not just for “stuff” to be purchased.

And if you're reading this, it's probably your story, too. You may be dealing with “vendors” that don't seem to have a clue about what you really want. You might be running a sales organization and realizing that the end-of-quarter heroics can't go on much longer. You may be in the Customer Success profession and trying to get your company to wake up to the movement.

But no matter who you are, you probably cringe at the tools and systems you use at work, only to hop into an Uber or Lyft and be magically whisked wherever you want once you step outside of the office.

In short, we all know the story needs to change.

The Business of Business Is Helping People

Here's how Allison found herself at the dawn of the Customer Success movement, which fundamentally changed her outlook on business.

When I was in college, I spent much of my day poring over ancient philosophical texts, searching for the secrets of “the good life” and for the pillars of a healthy society. Like my peers, I hoped to do good in the world in some way. When an internship on Capitol Hill proved to be more about mailing form responses to constituents—leveraging a mechanical contraption to replicate my Senator's signature—than creating innovation, I realized that my eagerness to build things that helped people might be better suited at that point for the private sector.

Two subsequent jobs in management consulting and private equity investing offered an incredible bootcamp in business knowledge and membership in a community of talented, inspiring people. But something nagged at me. How could I translate the skills I was learning into the positive societal impact that motivated me at my core? In an attempt to get

back to my roots of trying to “do good,” I recruited a friend to help build a tech product with the aspiration of helping industrial workers—often underdogs in our economy—showcase their skills to get jobs more easily. But the market wasn’t ripe. I was back to the drawing board and told myself I was too naive to think that business could be anything but that—business.

Soon after, I met Nick after my old investment firm led an early funding round, when Gainsight had about 30 customers in a new market called Customer Success. As I learned about the industry, I soon realized that this was a new group of underdogs. Here was a fledgling community of people—many of them women—who knew they had greater value than their companies and investors recognized. Tectonic shifts in the market were in their favor. They just needed some support.

I soon joined their ranks as I took on the Customer Success team at Gainsight. We incubated ideas for how to make our own customers successful and shared the results of our experiments—the good and the bad—with the CS community in hundreds of blog posts and podcasts. (In one experiment, we accidentally sent a “welcome email” to all of our clients, even the tenured ones. Whoops.) We also learned a great deal from our clients and other friends in the field, who conducted their own experiments and gave feedback on our ideas as well.

The biggest learning—to my happy surprise—was that doing good didn’t have to be at odds with building a great business. In fact, it could be a differentiator. Genuinely helping your clients propels stronger revenue growth, market leadership, profitability, consistency, employee retention, and valuation multiples—as we witnessed across the Customer Success community. Now the underdogs (CS professionals) were helping other historical underdogs (clients) and generating incredible business results.

So back to the question: What really matters in business? Doing good for the human beings who are your clients.

That might sound soft. But actually, it’s the hard reality of business today. This book is about how to compete and win in an ever-more-challenging business environment. Notably, it’s not about “making your clients happy.” It’s about making them successful so that you can succeed. Let’s discuss what we mean by that.

Why Customer Success Is About More Than Happy Customers

Not surprisingly, the Internet is the reason for the change in the relationship between customers and businesses. Everyone knows the basics: whether we are at home as “consumers” or at work as “businesspeople,” we demand a great customer experience. This concept is so commonly said that it’s now trite.

But in some ways, talk of customer experience or “making customers happy” is missing the core point. The power of the Internet didn’t just empower customers to be “satisfied.” Customers in the modern world demand that their goals are achieved. The fancy management consulting term for this is *desired outcomes*.

What do we mean by outcomes? Well, whenever anyone, a consumer or a businessperson, looks at doing business with another company, they have a goal in mind. Maybe they are on a trip and trying to get from one part of a city to another. Maybe they are hoping to get in better shape. Or perhaps they are an executive looking to drive more engagement from their teammates.

Whether you consider B2C (business-to-consumer) or B2B (business-to-business), the trend toward outcomes is unstoppable. If you are on a trip in New York, Uber and Lyft turn a product (car) into an outcome (getting you from point A to point B). If you are on a health kick, Peloton turns a physical device (bike) into a subscription service (spinning training—with great music!). If you are the executive at work, Workday turns a category of “Human Resources Software” into an SaaS solution.

In all these cases, customers are no longer stuck with the vendors they bought (sorry, Dad!) because technology has transformed the category for customers. They have choice. They have mobility. They are now at the core of the business model. Just as Copernicus showed us that the Earth isn’t the center of the universe, vendors are now realizing that clients are at the center of theirs. Figures 1.1 and 1.2 illustrate this change.

Customer expectations are higher, customer power is greater, and holding onto customers is harder because they have so much choice. That

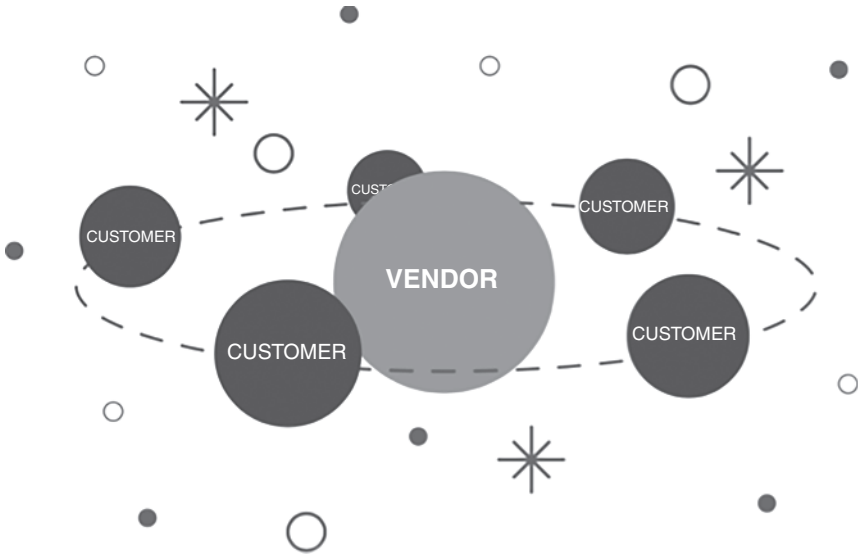


Figure 1.1

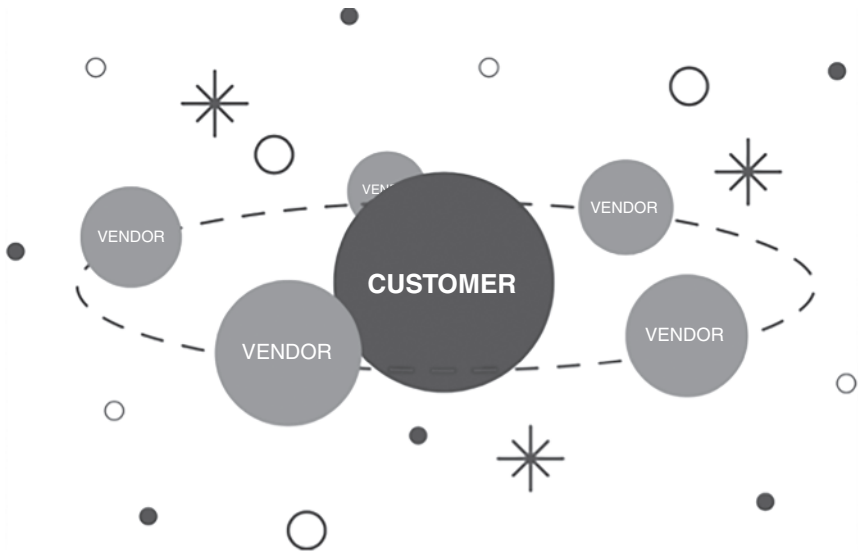


Figure 1.2

availability of options has changed the way customers think about vendors, and it has upended the way you have to act if you want to retain your customers. If you're not operating from a customer-centric playbook, you will lose. Your strategy should help you make sure your customers are actually using what they bought from you, that you are giving them the sort of customer service they demand, that you are expanding the relationship, and in the course of all of this, making your customers your advocates.

Do all this and you'll join the companies that are growing most rapidly through Customer Success. Shrug it off and we can guarantee you the market will pass you by.

So Why Do You Need This Book?

Our first book, *Customer Success: How Innovative Companies Are Reducing Churn and Growing Recurring Revenue*, laid out the basics of the Customer Success approach to business. If you read our first book, you're probably wondering why—or even if—you need another book on the same subject.

New fields change a lot. Remember how we thought about the Internet in 1999 versus now? Besides cat pictures, pretty much everything else is different.

In the same vein, Customer Success is evolving rapidly. Think of our first book, *Customer Success*, as the foundation of Customer Success practices. But what has fundamentally shifted is Customer Success has gone from a job function to a company-wide movement. We predicted this in the first book, and in this edition we'll share many examples of the idea becoming reality. And in this book we are going to argue that that movement is changing the nature of our economy overall.

Customer Success and the Economy

That's a pretty bold claim, we admit. But what's happening in this third wave of the economy is that the power is fundamentally shifting to customers. If you think about it, power is all about who has the upper hand. In the first phase of the economy ("making stuff"), products were novel. Think about Henry Ford coming to your town and driving by everyone else on horses and buggies. The product itself was novel.

But consider products today. If you want to buy marketing software for your office, you have thousands of solutions to choose from. Looking for meal delivery? Choose from Grubhub, Doordash, UberEats—the list goes on. Trying out a new subscription clothing service? Google the concept and find hundreds of alternatives. Want an intelligent speaker? Choose from Google, Amazon, Sonos, and many more. Remember when Fitbit was really novel? Now tracking is built into everything.

Then the economy shifted to “selling.” With lots of choices, the challenge was finding what you wanted. One big innovation in this front was retail. Walmart made it so you could get the products you wanted in your neighborhood. Telesales allowed you to buy from a catalog through the magic of your phone (think about how dated that sounds now). Shipping companies like UPS and FedEx let you get packages to your door. And Amazon, of course, took all this to the next level.

But think again about the choices you have in how to buy. The number of options is almost intimidating. Amazon Prime Same Day? Instacart? Walmart delivery service? Maybe 3D print the object in your home? Do you want to buy via mobile or web, or maybe through your smart speaker? Selling stuff is no longer differentiated.

With infinite choice in products and infinite ways to buy, the scarce commodity is now the customer. So making sure the customer is successful isn't just a job or a strategy—it's truly the economy.

In this first chapter we'll take a quick look at Customer Success just to establish the basics.

A Little History Lesson: Customer Success vs. Customer Service vs. Account Management

Here's where the shift from old business thinking to current-day practices really comes into focus.

Customer Service has always been and continues to be an important part of business. When a customer needs assistance, how can you help them quickly, effectively, and empathetically? Similarly, Account Management in some businesses is required to help customers find more ways to do business with the vendor (“sell more stuff”).

But Customer Service and Account Management aren't sufficient. The missing link in the new economy is that the customer makes their

decisions about whether to stay with the vendor or spend more based on whether their outcome was achieved. So you need to get them to that outcome. However, in many companies, Customer Service is there to react to client needs, and Account Management is ready to sell, but no one is *proactively* getting the client to value. (You will hear the word “proactive” a great deal in Customer Success circles.) After the client has purchased and before they are ready to buy more, who is making sure the customer keeps moving forward? Customer Service is ready to pick up the phone when it rings, but who is taking the initiative to call the customer to help them achieve more? You might think that Account Management is the “outbound team,” but their focus is different. Kevin Meeks, Vice President, Global CSM and Renewals, at publicly traded data software company Splunk, phrased the difference succinctly. “When I think of account management, I think of commercial selling. When I think of success management, I’m thinking about advocacy and things we’re doing to make the customer successful, without a focus on short-term sales.” Customer Success is the missing link that helps your clients achieve their desired outcomes.

A true, company-wide focus on Customer Success ensures that *your customers reach their goals through using your product while having a great experience*. In order for that to happen, you need three things: (1) an *organization* waking up every day and thinking about driving more value for customers, (2) a set of company-wide *programs* to help address issues across the company that impede Customer Success, and (3) a *culture* that reinforces that the customer is at the center of the company.

Why Customer Success Isn’t Optional

Customer Success is a natural outcome of massive changes in the economy, including but not limited to the following facts:

- Globalization and technology have dropped the barrier to entry for businesses.
- Lowered barriers to entry allow new entrants to disrupt almost every established category.
- New entrants have created lower-friction business models, which makes it easier for customers to try and buy—especially with shorter-term pricing, granular consumption, and easier deployment.

- This lower friction makes it easier for try-and-buy customers to say “Bye!” and leave—which means customers have more power and choice than ever before. And they choose to stay with vendors who deliver the outcomes and success they want.

The only real question you have to address regarding implementing Customer Success-focused practices, then, is whether your business will react quickly enough to survive.

And if you're not motivated yet, let us try the carrot and the stick, because both apply in Customer Success.

On the positive side, Customer Success creates a big opportunity for businesses in four dimensions:

1. **Opportunity for Predictability:** Traditional “one-time sale” business models were great in one respect in that you got the client's money upfront. But on the other hand, you always had to find another client to win. The recurring nature of the Customer Success model means more stability in your business long-term. Because of that, shareholders love subscription and cloud financials and value them at higher levels than their comparable peers.
2. **Opportunity for Growth:** Companies today have more levers to pull for sales than prospecting cold leads. They can grow by actually delivering on the vision they pitched in the sales cycle, which allows them to expand their existing client relationships and attract new buyers through warm referrals from happy clients.
3. **Opportunity for Innovation:** Customer Success and the data you get from a deep client relationship allows you to grow your business like never before. Perhaps you offer software for small business management, and you then realize that your clients also have a challenge accepting payments. With the intimacy of the Customer Success model, you are able to more rapidly launch new offerings for your clients.
4. **Opportunity of Balance:** Finally, we'll argue throughout the book that companies that adopt the Customer Success model are just better. They balance the needs of all of their stakeholders—customers, teammates, community, shareholders—in a way that works for everyone.

But if you're not motivated by that, let's look at the other side of the coin—the four risks of not investing in Customer Success:

1. **Churn Risk:** Leaders of modern businesses are realizing their clients' fundamental expectations are changing. No longer do customers want a "product" or "service"—they want their problem to be solved. So your job has changed as a company. Moreover, in new business models like SaaS and cloud, customers have all the power. If they aren't achieving value or "success," they will move on.
2. **Capital Risk:** Investors expect you to invest in your clients, because they know that drives returns. Whether you're planning to raise money, go public, or run a successful board meeting, Customer Success becomes a corporate imperative.
3. **Competition Risk:** Whether you adopt the Customer Success model or not, your competition will. And that differentiation will start showing in terms of the leaders and laggards in categories.
4. **Employee Risk:** Employees increasingly want to join companies that truly deliver on a premise of bettering others' lives. The rise of purpose-driven organizations means that if you don't truly help your clients, your employees will go elsewhere.

What You Can Expect from This Book

The nature of the economy has changed drastically since Nick was a little kid proudly grasping a tiny, toy-filled briefcase with his dad, and even since Allison left the private equity world about a decade ago. Customers have more power than ever before. With the advent of cloud-based technologies, most customers can—and will—change vendors whenever they want. This is becoming as true in the B2B arena as it is in the B2C arena. Where does that leave you? You now have a clear mandate to make sure your customers succeed with your product or service. This new world compels you to put Customer Success at the top of your priority list.

Most of us over the course of our working lives have had a moment or two when we wondered why we're working so hard. We've certainly had plenty of those moments when crammed into an airplane seat, flying off for yet another round of meetings. We knew that work was about something more than making money, but we were told not to talk about those things.

Well, the business world is catching up. We're realizing that we can win in business while being "human-first." Customer Success is simply realizing that your company is made up of humans, and your customers are humans, and you're all just trying to win together.

This book will help you figure out how to win, together with your clients. Part I focuses on the evolution of the Customer Success economy: What does it look like now and how did it get to where it is today? Part II explores the kind of company that this CS economy requires: What is required from every function? And Part III discusses implementation: What steps should you take to roll out CS at your company?

You won't just hear our point of view. You'll hear from dozens of CEOs, investors, chief customer officers, and other thought leaders on these topics—hailing from the diverse worlds of the Fortune 500, private equity, venture capital, and Silicon Valley—who offered to be interviewed so that we could share their perspectives directly with you.

We hope that by the end we will have planted a few seeds and also offered you some fertilizer to help those seeds grow. In other words, perhaps while reading this book, you'll reframe your view of business, even a little bit, and be on your way toward implementing Customer Success at your company.

If you haven't read our first book (or want a refresher), take a look at the recap below of the Ten Laws of Customer Success, a primer for what CS is all about. Otherwise, we'll see you in Chapter 2, where we'll look at how the Customer Success mindset is showing up in all sorts of areas outside Silicon Valley.

The Ten Laws of Customer Success

Here's a brief overview of the Ten Laws of Customer Success. For the full explanation and practical examples, head over to our website at gainsight.com/resource/the-10-laws-of-customer-success and download the booklet.

Law #1: Customer Success Is a Top-Down, Company-Wide Commitment

We introduced this concept in 2016, and we believe it even more strongly today. Customer Success is a true business revolution, and it's here to stay. Done well, it drives real value to your business's bottom line. If you're not on board yet, you will be soon. The demands of today's customers and changes

to the economy mean that your company literally cannot survive long-term without making a solid commitment to Customer Success. Getting started is fairly easy as long as you keep in mind that Customer Success starts at the top. For it to work, it must be a company-wide commitment. The days of CEOs being able to say that customers are their top priority and then acting in exactly the opposite manner are over. By the way, this first law is the inspiration for us writing this book.

Law #2: Sell to the Right Customer

As a growth company, your entire organization must focus on selling to the right customer and being completely aligned with your product market fit (PMF). If your customer isn't the right customer, the impact on your organization can be disastrous. The wrong customers can inhibit your organization and take you away from efforts that drive success, efficiency, and scale. (On the other hand, occasionally a wrong customer can become a critical design partner to help you extend your use case and PMF—but only if you have honest dialogue with them and act on the feedback they give you.)

Law #3: The Natural Tendency for Customers Is Toward Churn

Customers and vendors start off their relationship like two boats side by side in the middle of a lake. If both boats are unoccupied, they will begin to drift apart. Eventually, it's highly likely that the two boats will end up far apart, perhaps even bumping into opposite shores.

How could you change that natural tendency? Simple: Put a person in one of the boats and give them a pair of oars. Better yet, put people with oars into each boat. Change is the constant. People change in vendor and customer companies: Business models change. Products change. Leadership and direction change. And on it goes. Only well-designed, proactive interaction on the part of one or both companies will overcome the natural drift caused by constant change.

When your company makes a meaningful commitment to Customer Success, you also commit to counteracting that natural drift.

Law #4: Your Customers Expect You to Make Them Wildly Successful

Customers don't buy your solution just for its features and functions. They buy your offering (and buy into the relationship with you) because they want to achieve a business objective. They are assuming you will drive their success. And, by the time the sales cycle is complete, their expectations are *really* high. Don't waste time complaining about the fairness of this attitude; just acknowledge and work with it.

Delivering wild success requires you to ask three fundamental questions:

1. How does your customer measure success?
2. Is the customer achieving that value (or are they at least on a realistic path to achieving it)?
3. What's the customer's experience with you along the way?

Law #5: Relentlessly Monitor and Manage Customer Health

Customer Health is at the heart of Customer Success. It not only *informs* your actions, it actually *drives* appropriate action when used properly. Customer Health is to Customer Success what the sales pipeline is to a sales VP's planning info—the predictor of future customer behavior. So just as sales VPs manage through their pipeline, Customer Success teams must manage through customer health. Monitoring and managing customer health is a core activity for Customer Success teams. It must be done and done well—even relentlessly.

Law #6: You Can No Longer Build Loyalty through Personal Relationships

One of the values of modern technology is that it makes our products much easier to buy for our customers. This almost always leads to a “long tail” of lower-value customers who, in most companies, end up being ignored. The best companies will figure out how to effectively and efficiently manage this large base of customers.

Software-as-a-service vendors realize that they need to systematically create programs that allow for interaction between them and their customers. Most SaaS companies need to address how to service the largest portion of their customer base in a technically friendly way while at the same time reducing the need for labor-intensive ways of building relationships.

Depending on your product and service, you will decide how to create a customer experience that develops a connection with your company. Once outlined, that customer experience needs to be captured, driven, and continually refined by your Customer Success team. Keep in mind that customer experience must be a top company priority; it can't be delivered by individual relationships with your customers or even by a single department.

This reads like common business practice, yet most organizations do not have a cohesive plan (key word being *cohesive*) to deliver the optimal customer experience.

Law #7: Product Must Be Priority Number One

The key to customer retention, client satisfaction, and scaling the support and service organizations is a well-designed product that's combined with a best-in-class customer experience. Consumer technology has changed the way we work, as well as our customers' expectations. To ensure you have created a product that meets the needs and expectations of your customers, create a client experience team that focuses on building out programs in a client engagement framework—one that drives community among clients, encourages engagement at all levels and roles of the customer base, and provides clear feedback loops that inform product improvements. The data about product usage and adoption should be available to everyone—from the Product team to Marketing to Customer Success. In addition, increasingly Customer Success teams are using in-application messages and guidance in the product to scale their Customer Success operations.

It's also important to note that, in the new customer economy, we need to think very differently about how we build products. Gone are the days of big, monolithic applications. Today's world demands building blocks that enable the land-and-expand model. This is the only way to take advantage of the major investment we are all making in Customer Success.

Law #8: Obsessively Improve Time to Value

Why do people or companies buy? They think they'll get value from their purchase. If you're a consumer, this might mean spending a lot at a fine restaurant because you hope to get an outstanding meal. In that scenario, you find out pretty much right away if the expenditure was worth it: The food is either delicious or not. Based on that, you can decide whether you'll return.

But when you're selling business products and services, it's often tough to show value so close to the expenditure. Buyers know that, but they still expect to see value in a reasonable time frame. For SaaS vendors, that time frame is the length of the subscription: If the customer hasn't seen real value by the time renewal discussions begin, they're far less likely to renew. Working against the vendor is how long it might take to get the customer up and running with the solution. Obsessively improving time to value is the way to address this challenge.

And the time-to-value point is important throughout the customer lifecycle, not just in the initial onboarding phase. Every time a new release happens, for example, the process starts again in helping the customer derive value from the new features as quickly as possible. Obsessing over time-to-value needs to become a constant mindset for successful companies.

Law #9: Deeply Understand the Details of Churn and Retention

Successful subscription-based companies must understand the details of churn and retention in order to maintain and accelerate their revenue growth. Nothing slows your company's growth rate faster than having revenue from your installed base evaporate. As your installed base revenues grow, even a 1% increase in churn can make a huge difference in your company's velocity.

To sustain a subscription-based company for the long term, your company must grasp the concept of churn from the standpoint of understanding why and how often customers leave, and the concept of retention from the standpoint of why and how often customers stay. The earlier in your company's lifecycle churn and retention are addressed, the easier the problem is to solve.

Great companies will truly understand why customers churn (“It’s just not working for us” or “We can’t afford it” are not real reasons). They will also learn why customers churn individual products, which causes downsell (dollar churn).

Law #10: Customer Success Teams Must Become Metrics-Driven

As with any new business endeavor, maturity is required to ensure long-term viability. Well, that time has come for Customer Success, which is still relatively new as a formal organization within most enterprises. Repeatability, process definition, measurement, and optimization are the hallmarks of maturation. We see glimpses of these at more mature recurring revenue businesses, but there’s still a long way to go for most.

Ultimately, the purpose of Customer Success, like any other part of a thriving company, is to achieve real business outcomes. Defining what success means both for you and for your customers, and then establishing clear metrics that will deliver that success, is a necessary part of accelerating the maturation process.

Remember: You can’t improve what you don’t measure. So establish your metrics, start measuring and responding to those measurements, and watch your Customer Success program deliver ever-increasing positive results.

