OPENVIEW

BENCHMARKS FOR CUSTOMER SUCCESS

2016 Expansion Report

Many software companies have already realized the vast benefits a customer success function can bring to their organizations. That said, with the all-important role that customer success plays comes the need to audit the market and reevaluate goals consistently. CS professionals should use industry benchmarks to ensure they are contributing to their companies' bottom-line and long-term success.

In this report, we present customer success benchmarks so you can track your progress against your peers. We also provide core recommendations around how to grow and structure your team, set and track goals and compensate team members to ensure incentives align with said goals.

Throughout our analysis, we uncovered an underlying trend that underscores our core recommendations. Companies need to invest in customer success early on in their lifecycles to build momentum and accelerate growth so they can capitalize on this early investment in their later stages. Companies that fail to build out a CS function early on will find it hard to grow through expansion—upsell and / or cross-sell—opportunities. Organizations that set shorter-term goals around customer retention and product adoption will forfeit the benefits investment in CS provides. This conclusion is supported by the following key takeaways:

Investment in Customer Success Adjusts as Organizations Scale

Organizations are not scaling customer success teams in a manner linear to overall company growth. However, this does not represent a failure to invest in CS after the $50M annual recurring revenue (ARR) mark. It does however point to a redistribution of resources when companies get to this later stage. It is our belief that these later-stage organizations are investing in customer success through means other than expanding headcount. These activities actually support the CSMs they've already hired. So, while total spend on "customer success" is probably still increasing, it is spread through other resources (onboarding specialists, customer success operations, customer analysts, tools and technology and so forth). Despite this continued investment, data throughout this report points to a failure by these later-stage companies to fully leverage expansion opportunities through upsell and / or cross-sell.

Ability to Increase Revenue by Relying on Expansion

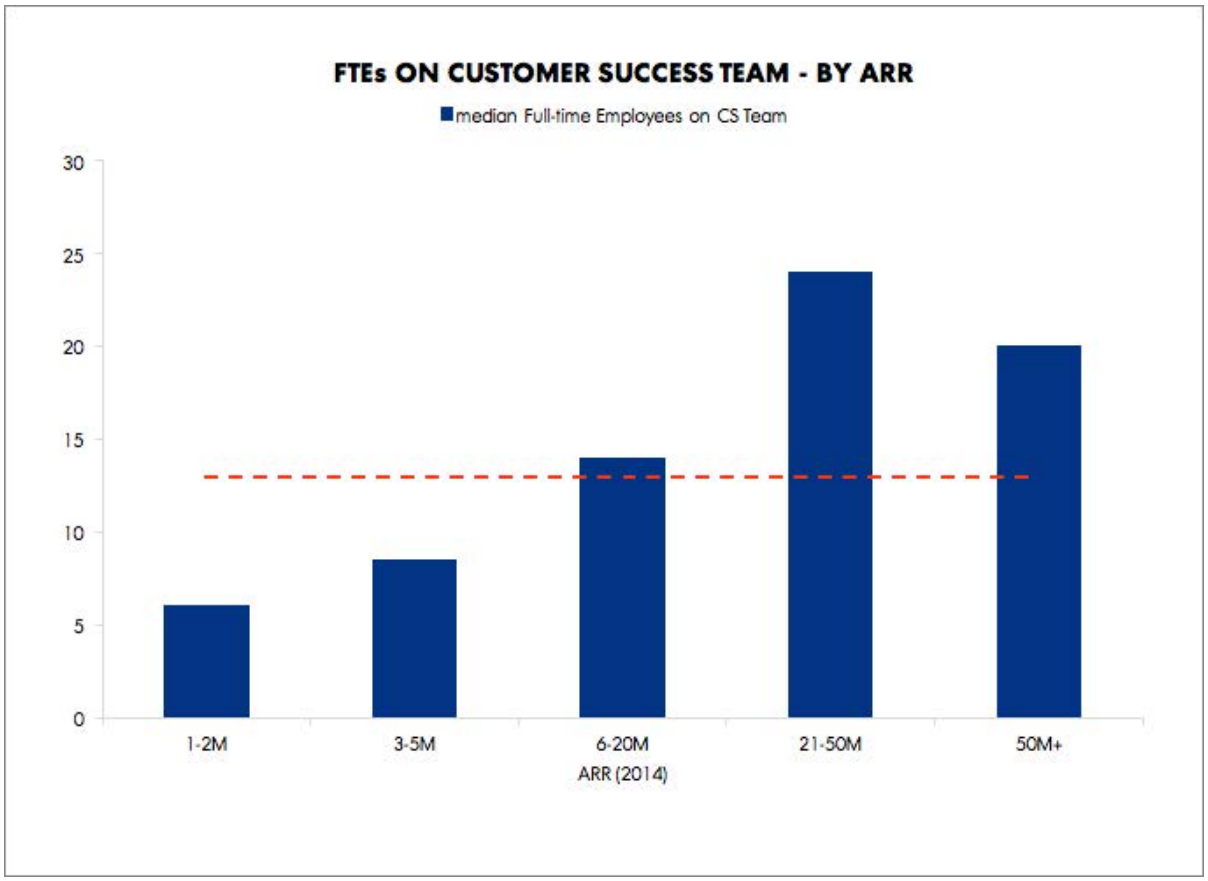
Expansion as a percent of revenue tops out at a median of 21% for even the largest companies surveyed. Companies can increase the efficiency of their revenue generation engine by relying more heavily on expansion. New customer dollars are far more expensive to obtain than expansion dollars through upsell and / or cross-sell opportunities. Many Customer Success organizations don't maximize the potential for driving expansion across their customer base either because they are afraid of losing their "trusted advisor" status or because they are completely absorbed by other activities within their account (ie. lengthy onboarding, pure retention activities, etc.). This is not only a huge missed opportunity, but also obstructs the path to a sustainable Customer Success organization.

Many venture-backed companies are justifiably infatuated with top line growth, but fail to consider associated longer-term costs. Wise management teams quickly recognize the accelerating impact of focusing on customer retention and growth. Looking to your current customer base for additional revenue can be a key lever to growing an efficient revenue generation model, oversetting burn and working towards profitability.

FULL-TIME CUSTOMER SUCCESS EMPLOYEES BY ARR

Before we dig into customer success metrics, it's useful to see how your organization compares to those like it in terms of full-time customer success staff.

The chart below shows that early stage startups are investing in customer success sooner in their life cycles. This can be attributed to the fact that startups today are well-educated on the value of customer success. These organizations know that an early focus on customer growth and retention (rather than just acquisition) can pay excellent short and long-term dividends.

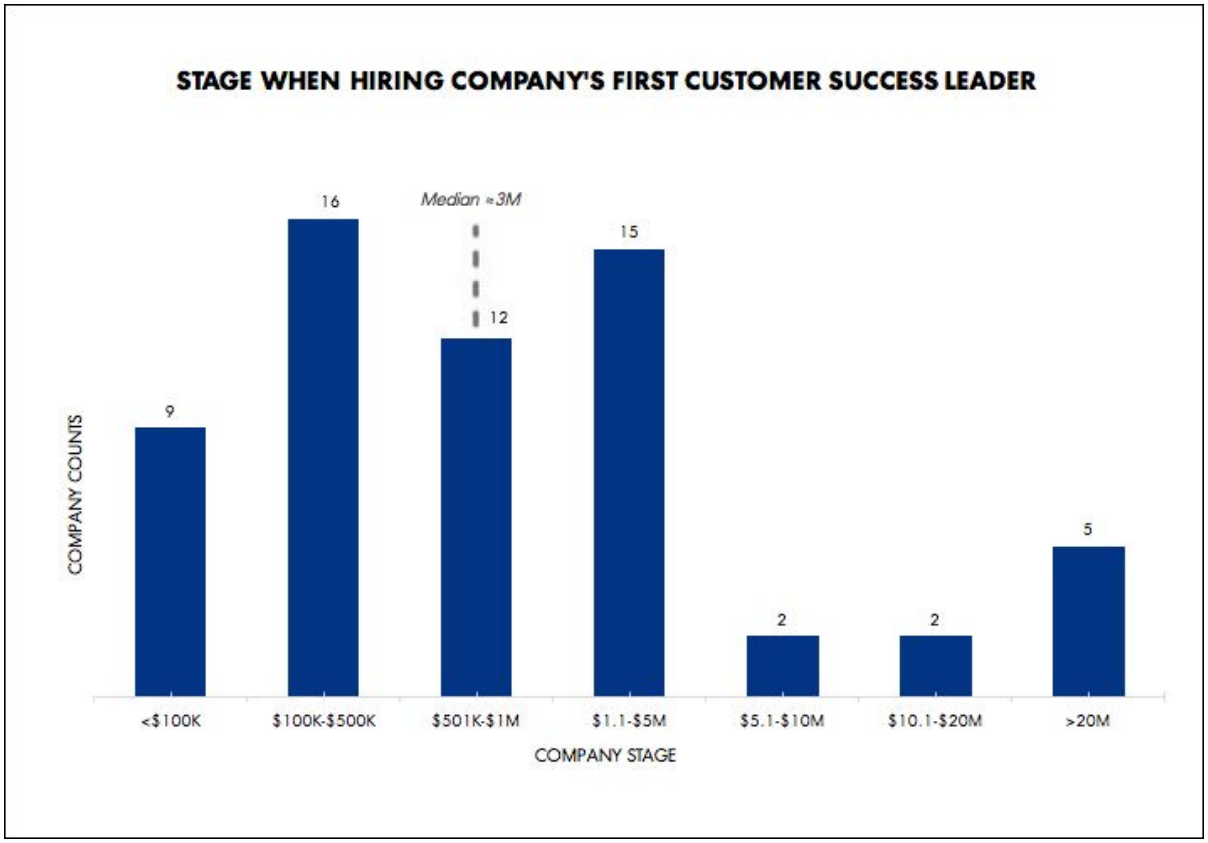


Another factor to consider is that venture capital firms, which invest in these early stage software companies, are strong proponents of customer success and expect their portfolio companies to report on retention and expansion metrics early in their life cycles.

These "emerging" teams are investing in CS ahead of the standard rule of thumb of $2M annual recurring revenue (ARR) per customer success manager (CSM) most likely because they've realized the critical need to have customer wins, find product-market fit and gain customer momentum as they build their business. Moreover, these younger companies have yet to develop repeatable practices and may be staffing heavily to compensate.

The drop at the $50M+ mark is most likely due to the fact that these larger (most likely enterprise) organizations are much more efficient at customer success since they've had time to develop processes and repeatable methodologies, and have vast resources at their disposal. They also tend to have more experienced CSMs who can handle a larger book of business. Another key factor is that enterprise companies at this stage have started to build supporting teams around the CSM that offsets the responsibilities of the CSM and delivers specialized offerings to customer success managers and / or the customer. Examples include customer success operations teams, onboarding teams, customer analytics teams, implementation teams, consulting teams, customer experience teams and so forth. The result is that the number of CSMs is optimized, but the total number of resources engaged for the customer actually stays the same or increases.

COMPANY STAGE WHEN FIRST CS LEADER IS HIRED



Data in this chart shows the wisdom of startups that hire CS leaders earlier in their life cycles in order to build a strong foundation for customer success. The percent of companies that waited until they had $10M ARR to hire their first CS leader is, as expected, small.

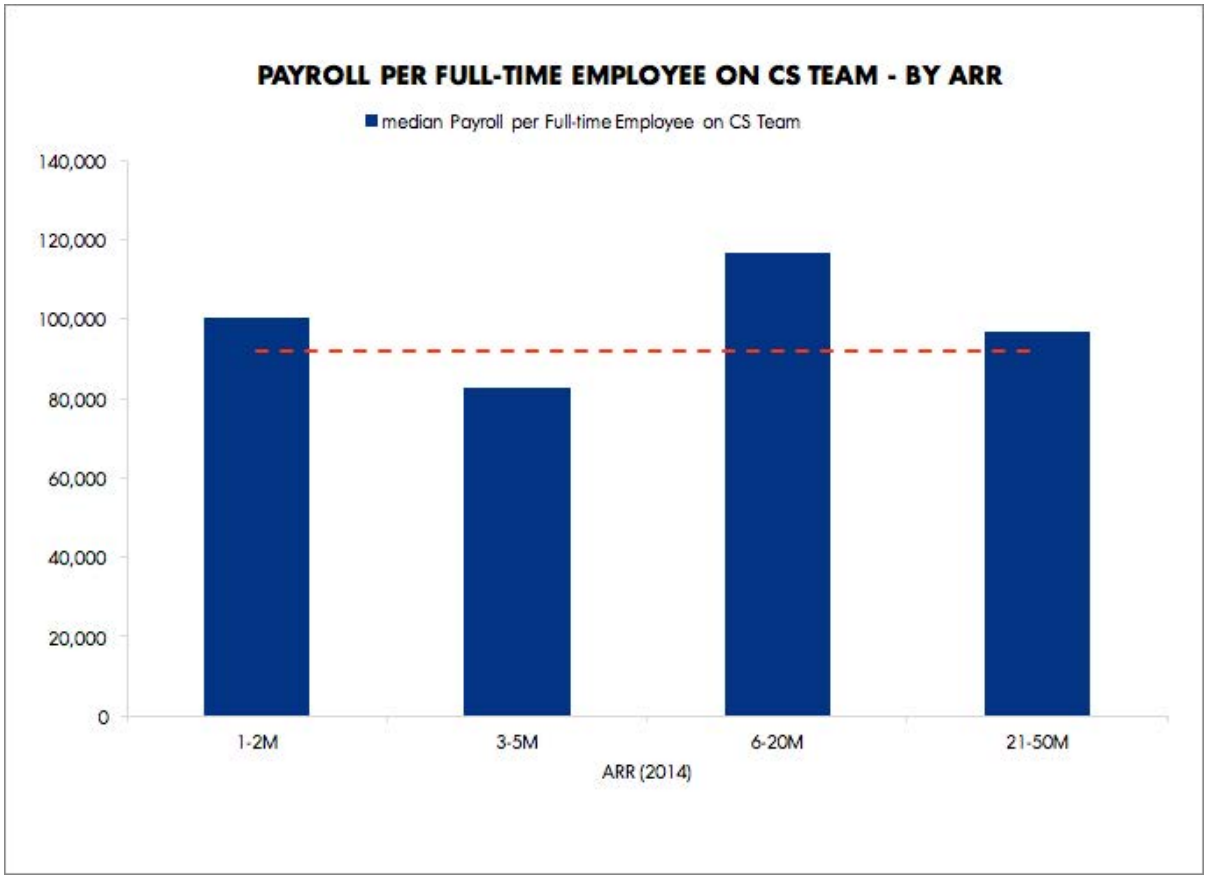
COMPENSATION FOR FULL-TIME CUSTOMER SUCCESS EMPLOYEES

While CS team size grows steadily until a company reaches the $50M+ ARR point, compensation for full-time CS employees holds fairly steady as ARR grows. We found that the median compensation for a full-time customer success employee was $90,000. While salaries range based on location and seniority, this $90,000 median salary is not wholly unexpected. As new companies take shape, they may be hiring for more experience initially, which affords a higher compensation. Hiring for experience also allows these younger organizations to overcompensate while they build out a management structure and process.

As companies grow, their CS team takes shape and they bring on more junior employees at lower compensation points. At the $3–5M ARR range, seedlings of the team have started to form and companies bring on more junior members in order to scale.

Between $6 and 20M ARR, companies start hiring management layers and more experienced CSMs again as they start to stratify their accounts. Here you'll see the introduction of strategic CSMs.

At the $21–50M ARR level, companies are usually optimizing resources and bringing on more junior employees to scale the CS function.

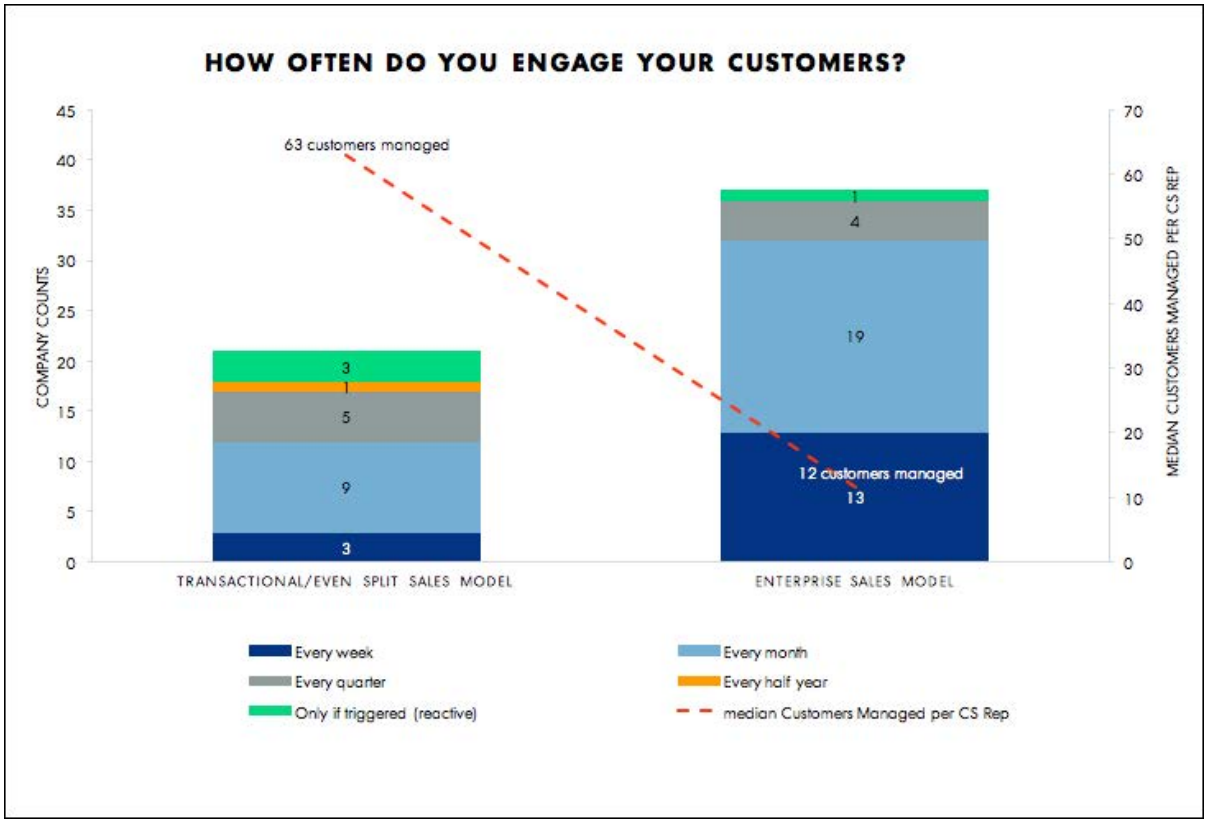


CUSTOMER ENGAGEMENT FREQUENCY BY SALES MODEL

Regardless of sales model, it's clear that engagement is extremely important. But, as one would expect, engagement frequency is hard to maintain, particularly as the ratio of customers to CSMs increases.

It's not surprising to see that companies with enterprise oriented sales models interact with their customers more frequently and that individual CSMs manage far fewer customers. These companies typically engage customers every week or month. With the higher sales price and product complexity that are common with enterprise deals comes the need for more intimate customer interaction.

Transactional companies, as expected, manage many more customers and engage less frequently while others are simply reactive, only engaging with customers when triggered.



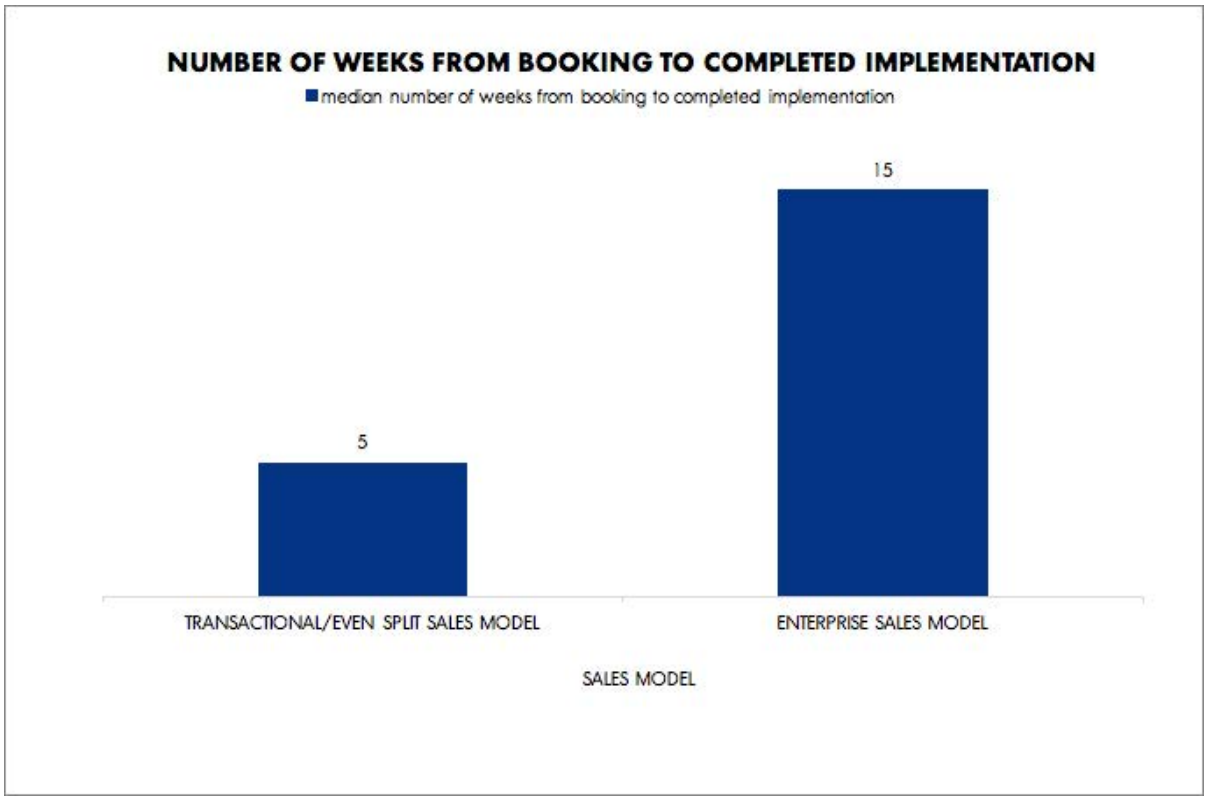
For these transactional companies with higher ratios, the trick is to define a strategy that sufficiently nurtures the customer relationship in other ways beyond the CSM interaction (since CSMs are only able to engage once per month to once per quarter). Here organizations should look to invest in "Success Marketing" to nurture through content (tips and tricks, webinars, etc.), community involvement and so forth.

For with higher touch (low ratio) model, the key is consistency and engaging with the right contacts in the customer's organization. Here, you need to be strategic in your engagement and go "high and wide" to develop relationships rather than only engaging at the user and manager level.

Some companies have teams that span both engagement models (SMB > MM > ENT > Strategic Accounts) and it's very important to have separate and clear strategies across the spectrum for each client segment.

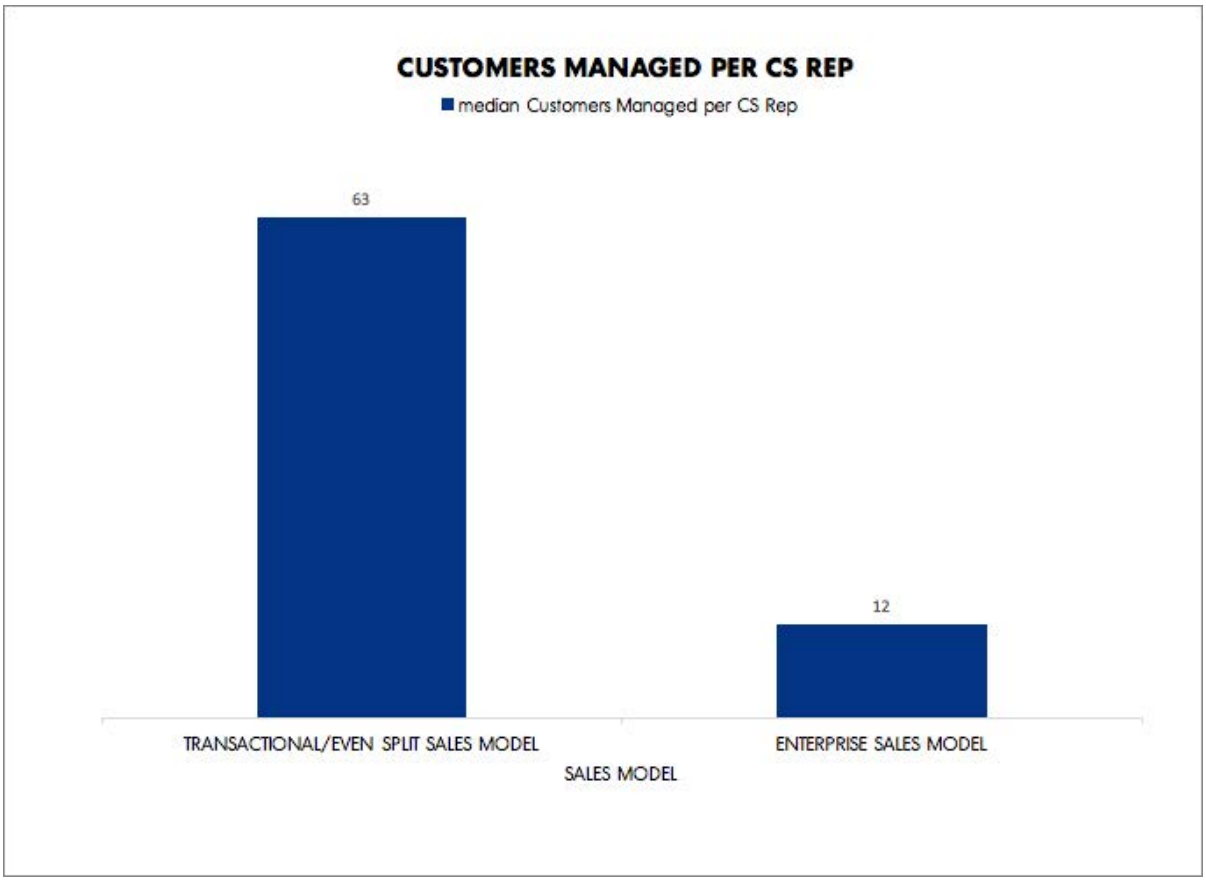
WEEKS FROM BOOKING TO COMPLETED IMPLEMENTATION

Enterprise focused businesses have a longer implementation periods, likely because they have larger deal size overall. This is not surprising. However, it is surprising to see that implementation timeframe for enterprise organizations is only triple that of its transactional counterparts.



While it makes sense that transactional sales models correlate to products that have more transactional implementations (simple product equals simple sale) and enterprise products have more complicated and therefore longer implementation times, we believe that the future of software will challenge this traditional model. We expect to see true innovators building enterprise software that is much easier to implement and far less complex, while still providing enterprise value.

CUSTOMERS MANAGED PER CUSTOMER SUCCESS REP



As we saw above, transactional and enterprise sales models each take different approaches to how they deploy customer success resources. Organizations selling enterprise products usually spend more time engaging with their customers and have a lower ratio of customers to CS employee.

While it makes sense that each CS rep in a transactional sales models has many more customers than her enterprise counterpart, knowing when to scale your CS team regardless of sales model is less intuitive.

We are regularly asked how and when to scale a CS team. To answer this question, you need to examine three important factors.

- Annual Contract Value (ACV) Target Per CSM
- Product Complexity (Simple to Complex)
- Volume of Customers Per CSM

Annual Contract Value (ACV) Target Per CSM

As a general industry rule of thumb, each CSM should be able to manage about $2 million in annual contract value (ACV). This can also be based off of annual recurring revenue (ARR). For some enterprise-level CSMs, that range may be greater as they manage a fewer number of accounts that carry a bigger strategic dollar amount. Managing these enterprise and strategic accounts requires significantly more time investment into relationship building, product training, value realization, goal alignment and achievement, travel, onsite visits and ensuring that each CSM goes high and wide with key contacts in the organization.

On the other side of the spectrum, CSMs managing smaller revenue targets can usually handle more customers. In many cases, when you look at the books of business of mid-market CSMs managing 40 customers versus strategic CSMs managing 10 customers, their overall ACV managed aligns remarkably well in the $2M ACV range.

Product Complexity

Product complexity is another factor to consider when scaling your customer success team. As a rule of thumb, the more complex the product, the lower volume of accounts per CSM. Complexity of your product will mean each CSM spends more effort ensuring the product is deployed, configured, and adopted across the the customer's organization. On the other hand, if the product is simple and intuitive to implement and use, then a CSM can handle a larger number of customers.

Volume of Customers Per CSM

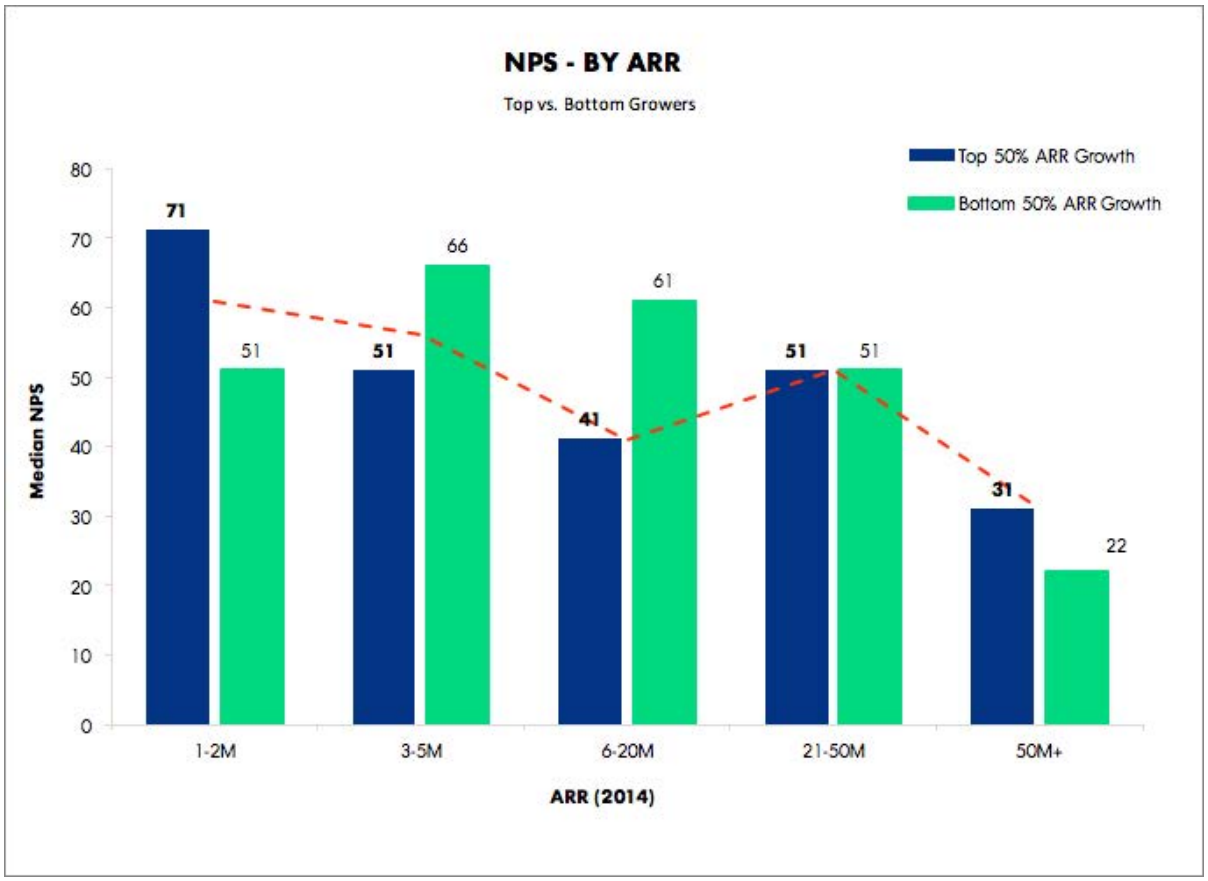
Lastly, when scaling your team, think about the volume of customers each CSM can manage in a proactive way. This number may vary depending on the stage of your business and the experience of each particularly CSM, but I believe that severe degradation in proactive customer success starts around 50 accounts. Ideally, each CSM should only be dealing with between 25 and 35 accounts. However, many CSMs can manage up to 50 accounts and still build meaningful relationships.

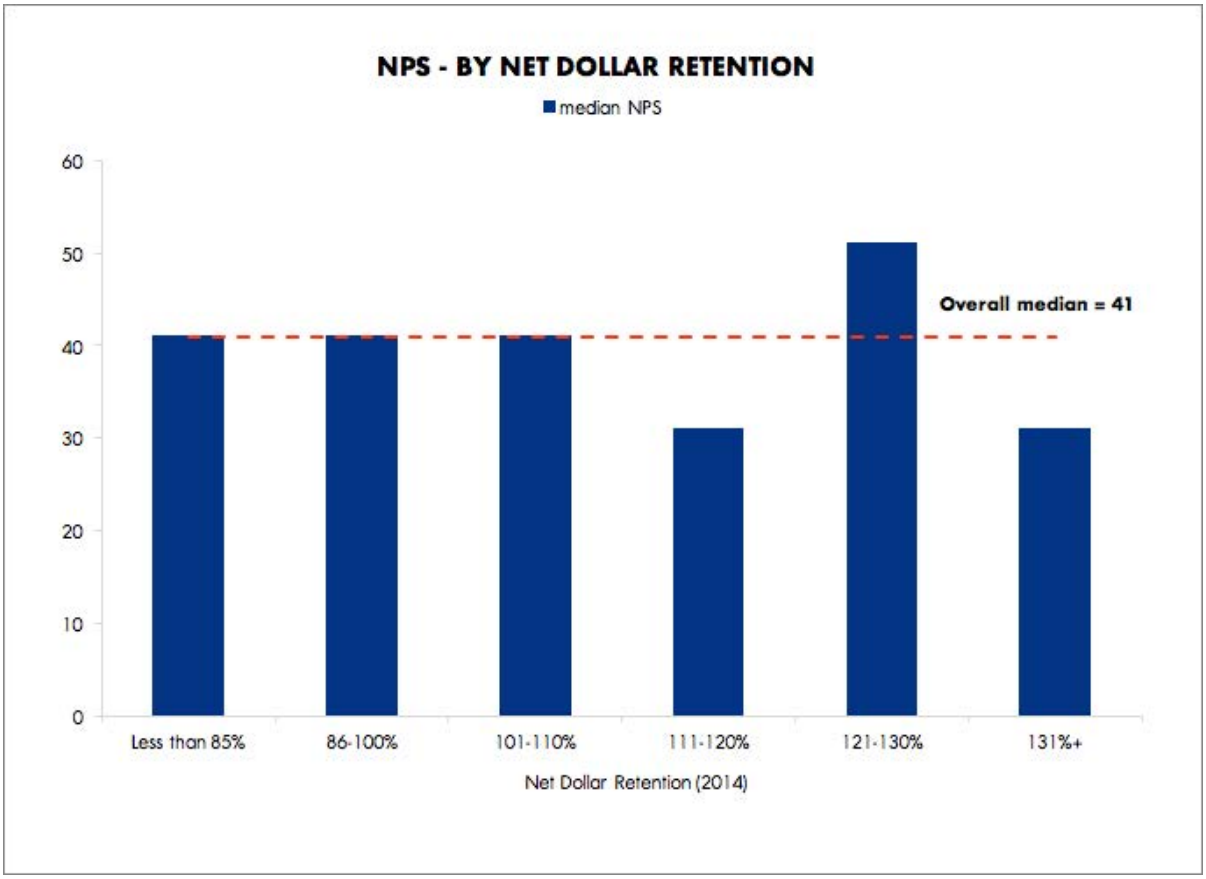
Bringing ARR, complexity and volume together will help you identify triggers to hire more CSMs. A best practice is to have each of the three factors defined clearly in your organization. While most companies may fit squarely into the factors above, others do not so you may need to refine your model based on the unique factors in your business.

Natural signs that your model needs refinement include shallow customer relationships, overworked CSMs, lack of insights, failure to understand the true pulse of your customer base and, of course, increased customer churn.

NET PROMOTER SCORE DOES NOT CORRELATE WITH ARR GROWTH OR RETENTION RATES

Many Customer Success teams live and die by their NPS scores, but findings show that NPS does not actually correlate with ARR growth or retention rates. While it's not advisable to stop tracking NPS outright, you should not rely solely on NPS to drive important business decisions.



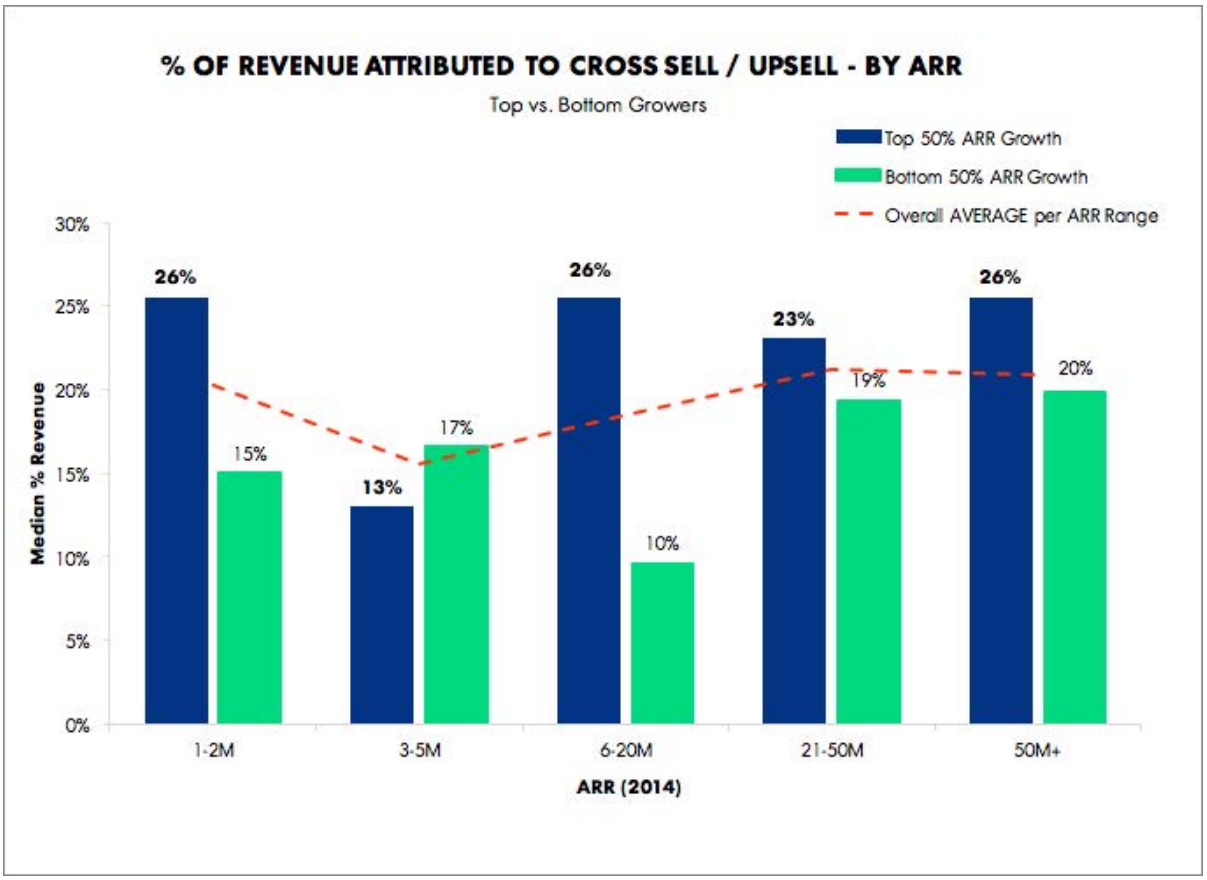


It's important to remember that NPS is only one indicator of customer health and happiness. While NPS can give good insights into customer satisfaction, it should be put in the context of several other indicators such as product usage, engagement, relationships and value realization. NPS is also only a view for one point of time and a customer relationship is constantly in flux for better or worse.

NPS is a valuable indicator, but leveraging it in isolation or weighing it too heavily will result in false-positive or false-negative indicators. Use NPS with other key metrics and insights to assess the true health and happiness of a customer.

REVENUE ATTRIBUTED TO CROSS & UPSELL OPPORTUNITIES

Faster growing companies tend to earn more revenue from upsell opportunities. These companies have figured out how to extract more value from their customers even at an early stage in their organization's lifecycle. This factor becomes particularly important as a company grows and needs to scale back customer acquisition costs (CAC). This points to the importance of customer expansion for companies hoping to grow quickly without high burn (ideally every organization).

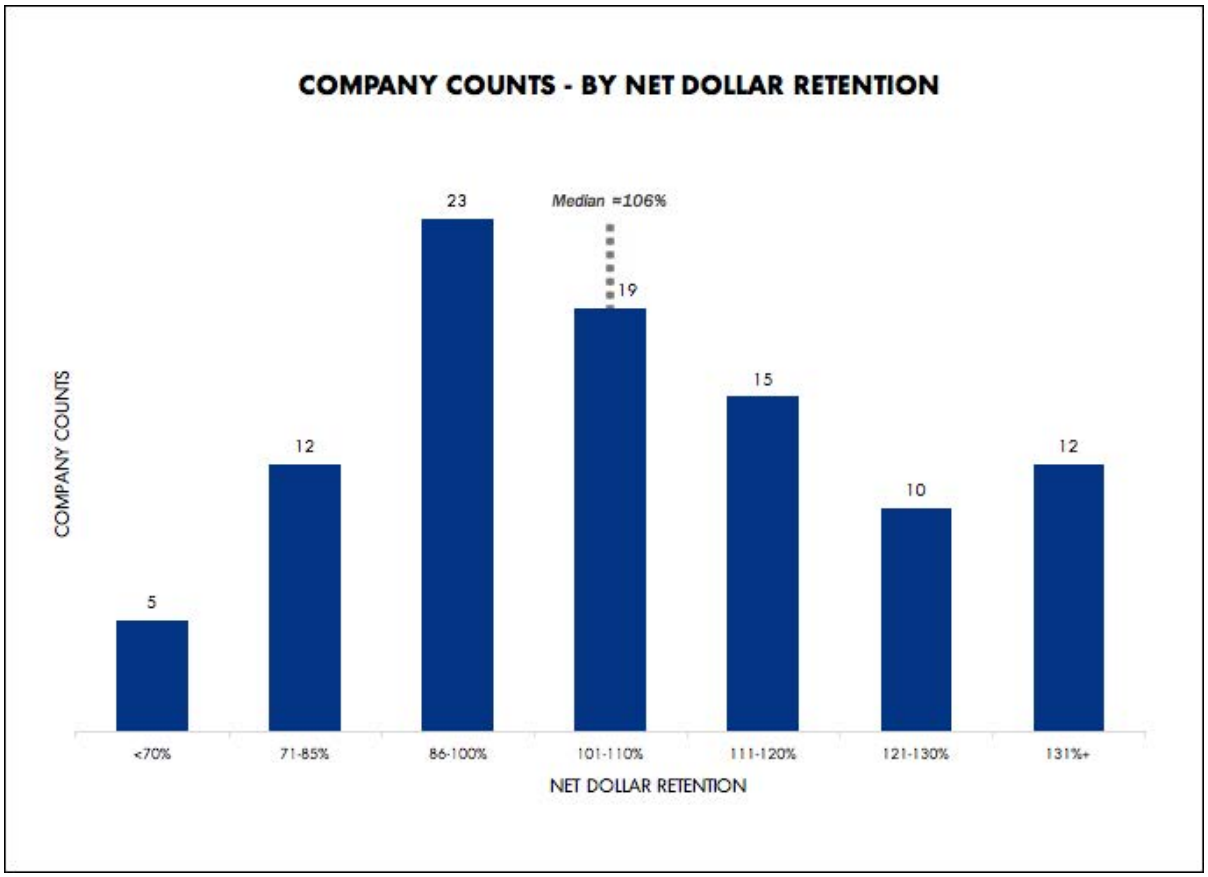


The fact that fast growing organizations grow new logos from within their current customer base through expansion is validation for investing heavily in customer success. If you want to grow your business faster, focus on creating happy customers and growing business from those existing accounts.

Higher dollar retention leads to higher growth. And, for the most part, churn isn't a massive problem for these businesses with median churn hovering around 10%.

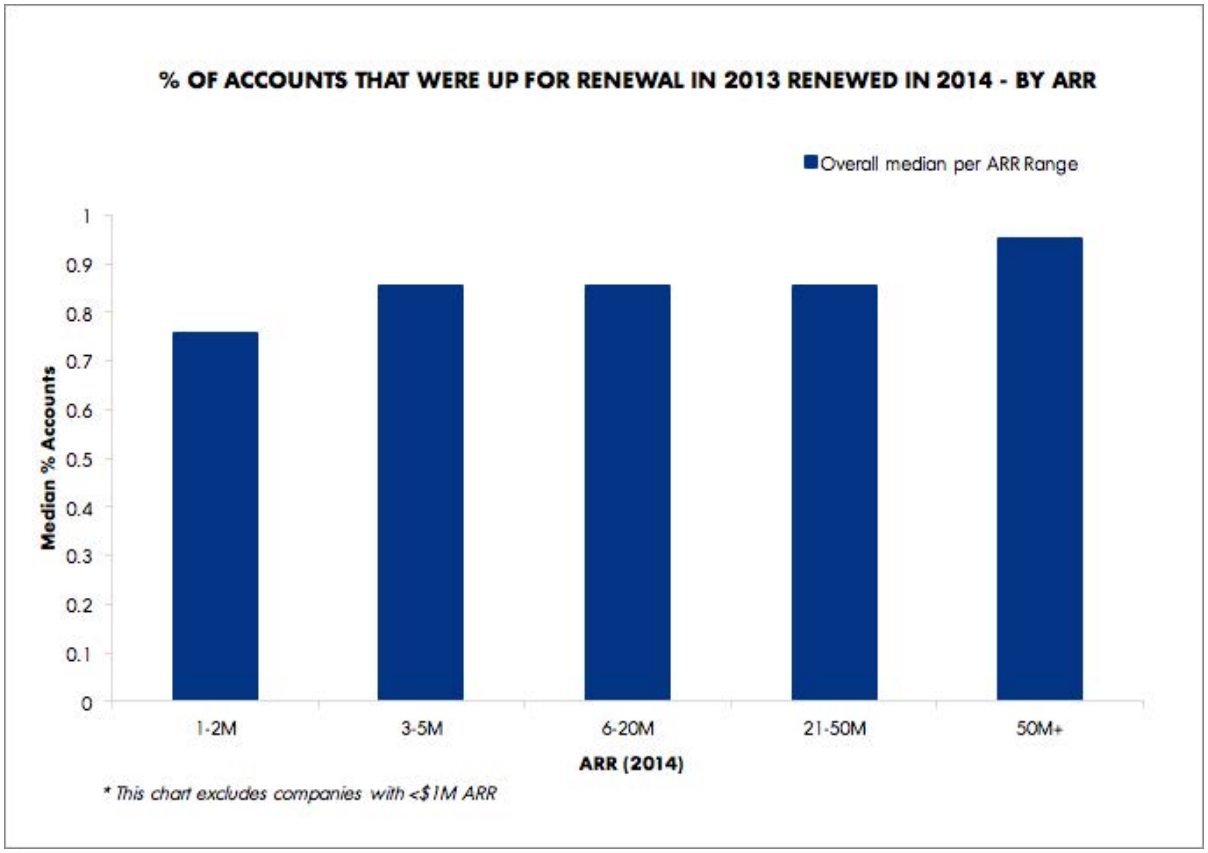
Given how cheap it is to renew customers ($0.13 per $1), CS orgs should focus on creating more value—and driving expansion—instead of simply retaining dollars. That's how you make CS a profit center.

NET DOLLAR RETENTION



Impressively, the majority of companies surveyed experience net negative churn in their businesses. Net negative churn, especially when realized faster with each new customer, is a key indicator that you've achieved product-market fit. Companies that are below 85% net renewal rate are likely struggling to grow their business at a thriving rate or are growing inefficiently.

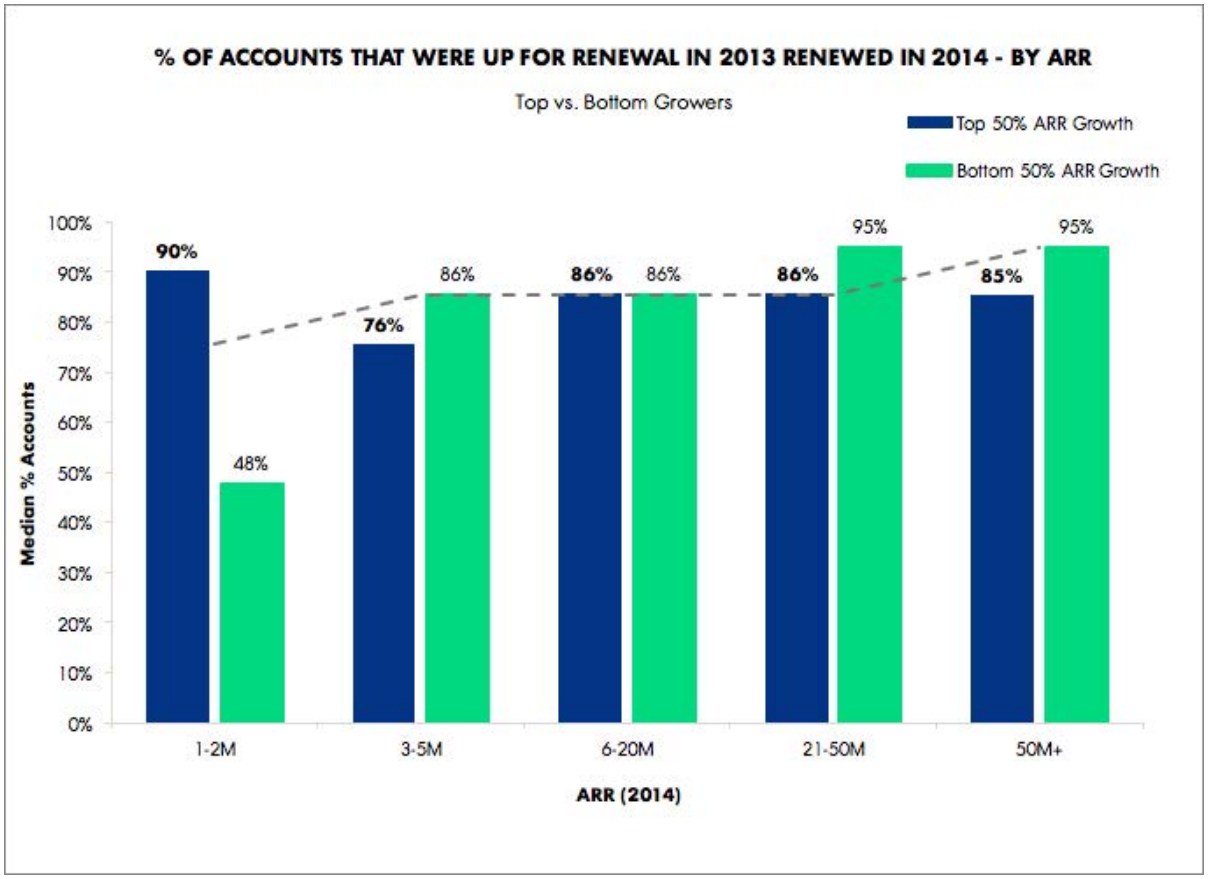
ACCOUNT RETENTION



Account retention is important to track separate from in-account growth, otherwise you may overlook performance issues that are hidden or glossed over by offsetting expansion revenue. CS teams should focus on protecting the core as well as driving expansion.

LOGO RETENTION VS. DOLLAR RETENTION

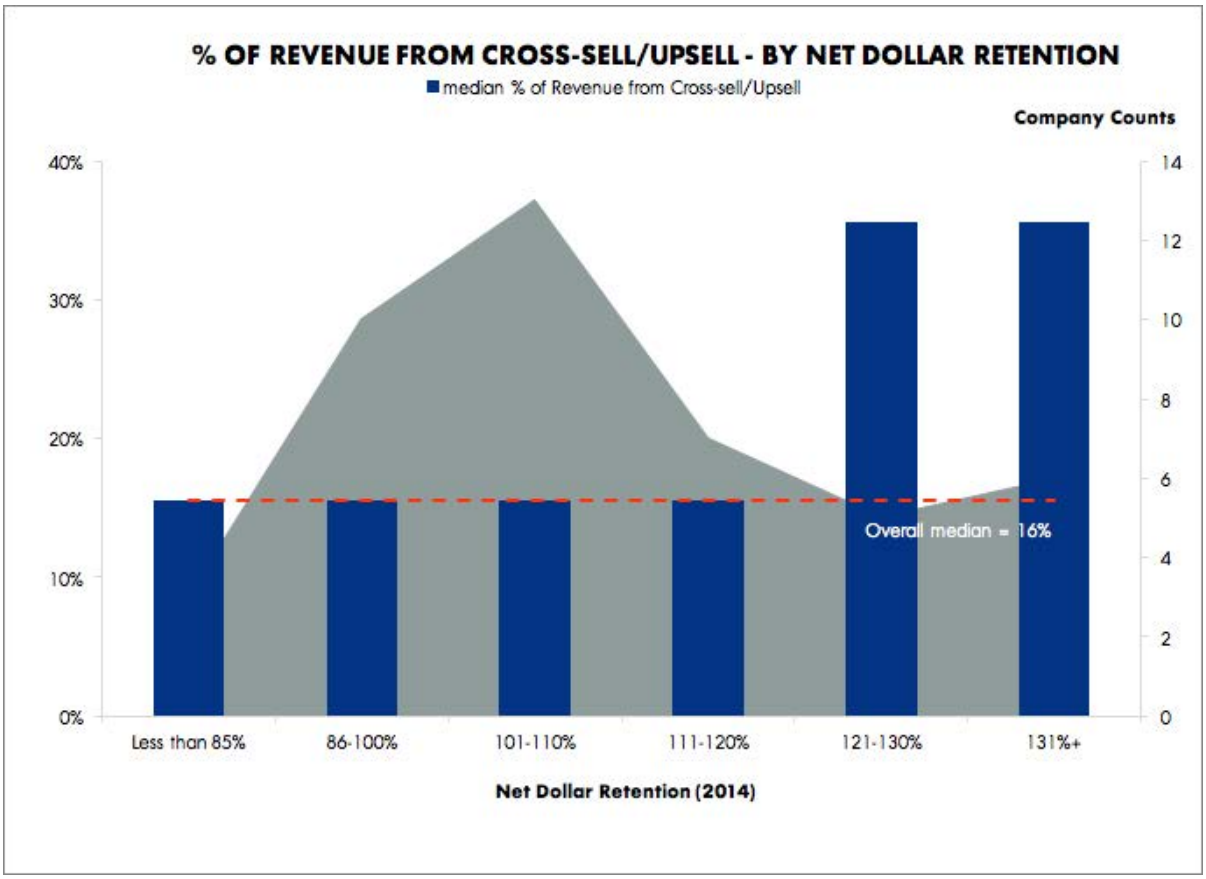
This chart shows that higher revenue retention does not necessarily result in higher account retention and vice versa. The delta between bottom and top growers indicates that real gains are made when more value is extracted from existing customers.



It also appears that the fastest growing companies are able to grow their customer bases through new logos and expand at a rate that allows them to lose or even "shed" some customers.

As we saw with **Revenue Attributed to Cross and Upsell Opportunities**, you'll notice a dip at the $3–5M ARR range. This is likely due to the growing pains companies face at this point in their lifecycles. New investment here may also push companies into hyper-growth, which likely puts more attention on customer acquisition as scaling the entire company takes center stage. This may result in reducing time spent on current customers and retention.

REVENUE FROM CROSS-SELL & UPSELL OPPORTUNITIES



As you'd expect, companies with high "Net Retention" or "Net Growth" have the ability to drive high upsell and cross-sell. While this seems obvious, It is interesting to see that top tier dollar retention companies are able to extract so much value from their existing customer bases. These companies should serve as the example to which all others strive.

Moreover, a company's ability to drive to a "Net Retention" number above 100% relies entirely on their ability to drive expansion revenue across their customer base. Those with only one product have to drive significant upsell of that single product, but a company with multiple products can also gain additional expansion from the broader product offerings (multiple products). I would assume that respondents represented by the highest two tiers of Net Dollar Retention attainment probably had either a very viral single product (for instance, Slack) or have multiple products that they are able to cross-sell into their customer base in a land-and-expand fashion.

FINAL THOUGHTS

At the end of the day, investing in customer success is paramount to the success of any software company. Our data clearly shows that it is a key driver of revenue and a function that cannot and should not be overlooked. As markets continue to tighten and companies look to cut burn and work towards achieving profitability, it is our belief that customer success will continue to serve as a core tenet of the success of software companies both today and long into the future.

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About OpenView

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