

2019 Enterprise Customer Success (CS) Study and Outlook

Fostering an organization-wide
CS mindset

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Introduction

Customer Success is gaining relevance—
and working its way to the boardroom agenda

Increasingly, technology enterprises are setting up and scaling Customer Success (CS) functions to proactively manage customer relationships and customer value. Our new enterprise-scale survey evaluates how companies are benefiting from CS and what key challenges exist in elevating the CS agenda.

The shift to a flexible consumption or everything-as-a-service (XaaS) model is perhaps the most disruptive phenomenon in how technology is purchased and consumed. Gartner estimates that by 2020, all new entrants and 80 percent of historical technology solution providers will offer subscription-based services.¹

Not only has this shift empowered customers with greater flexibility in how (and how much) they consume, and pay for services, it has also enabled them to be nimble in accessing newer and better technology. According to a recent Deloitte study,² business agility is well on its way to surpass operational efficiency as a driver for XaaS adoption. As this demand for agility raises the bar for customer expectations, technology businesses are pivoting from a linear sell-renew approach to a dynamic and continuous customer engagement model to help customers derive more value from using their products or services.

Many companies have established a CS function to focus on developing, growing, and sustaining relationships with customers. CS started as a churn-prevention team for SaaS businesses, and is now a growing discipline within the broader technology industry. As CS evolves, its focus is expanding from customer retention to managing the end-to-end customer journey, from developing better products to driving customer adoption, retention, and growth.

To better understand how enterprises are setting up CS, what they are gaining, and the challenges they face, Deloitte conducted a CS survey in March 2019, surveying close to 50 CS leaders from enterprise-scale businesses³ (see Survey methodology sidebar).

Top findings

CS goes mainstream and is driving tangible value

More and more tech companies are formally embracing CS functions.

- Approximately 70 percent of respondents have had CS teams in operation for more than two years, while 45 percent reported having a CS team that is more than four years old.
- More than half of the respondents gained 10 percent higher up-sell and cross-sell revenue, renewal rates, and annual recurring revenue. Annual recurring revenue was the most positively impacted metric, with nearly a third of respondents seeing a 20 percent or greater uptick.

CS results in happier customers

Respondents have seen noticeable improvements in the level of customer satisfaction and brand advocacy thanks to their CS efforts.

- Half are experiencing a rise in Customer Satisfaction Scores (CSAT) by more than 20 percent.

CS mindset is starting to permeate across the enterprise, but more work must be done to make it an organization-wide philosophy

Among the objectives outlined by CS leaders, reducing churn and retaining customers continues to be the most important, with 35 percent respondents ranking it as the leading objective today, when compared to designing and developing better offerings for customers, which stands at 10 percent. As a result, a majority of the CS team’s time is spent on post-sales activities, with members spending 60 percent of their time ensuring proper customer onboarding, driving higher adoption and up-sell/cross-sell opportunities, and reducing churn. In fact, the survey found that the No. 1 challenge faced by CS leaders today is defining a cross-functional operating model, making it harder to embed the CS philosophy across the enterprise.

Figure 1. CS function led by a C-suite executive



CS is yet to get the required boardroom attention

Most companies understand the need for establishing a dedicated CS function and its potential business value. But very few tech companies have been able to elevate the strategic importance of CS within their organizations.

- Just one-third of respondents said their CS function is led by a C-suite executive (figure 1). A mere 30 percent report that CS is considered a strategic priority by the board of directors (figure 2). Only 26 percent say CS finds a regular mention in official business communications.
- Companies that consider CS as a strategic priority saw higher improvement in metrics, with roughly twice the number of companies reporting a double-digit improvement in renewal rates.

Cloud and subscription-first companies are making CS core to their strategy

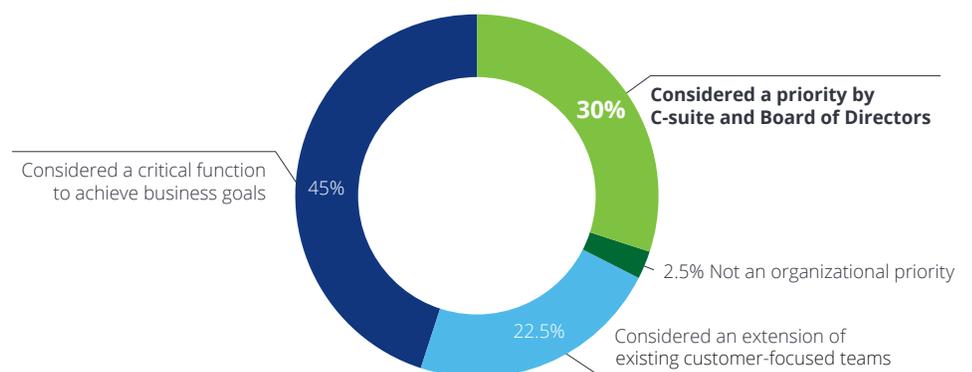
The industry’s transition toward on-demand subscription-based services for technology requires embracing CS principles beyond just establishing a CS team. In fact, 50 percent of born-in-the-cloud (BITC) companies believe CS is a strategic priority, reinforcing the alignment between CS and flexible-consumption models.

Companies that are able to successfully adopt this mindset will likely drive deeper customer relationships and uncover new business opportunities that they otherwise would not.

Gaining C-suite alignment on CS and elevating CS topics to the boardroom can help make this mindset shift a reality—so the entire business machinery works with a unifying vision of driving success for customers, and customer-centric goals are prioritized across the organization. As many CS leaders agree, elevating the unified vision and empowering CS to work seamlessly with cross-functional teams to drive a consistent focus across each phase of the customer journey is key to unlocking the full potential of CS.

Success of tech companies rests on embracing CS principles beyond just having a CS group. Functions across the organization need to adopt the CS mindset.

Figure 2. Priority of CS within organizations



Survey methodology

Deloitte conducted a first-of-its-kind enterprise study and outlook in Q1 2019 to study the current state and future priorities of CS in organizations. Through this, we wanted to identify distinct themes and insights on how far along CS functions have reached in becoming the focal point of driving customer-centricity within their organizations.

We explored a broad range of topics and asked closed-ended survey questions on CS vision and strategy, operating model maturity, funding models, key organizational and customer outcomes achieved to date, and major challenges faced. We surveyed nearly 50 CS leaders in hardware and software technology businesses across a range of delivery models and revenue ranges (figure 3).

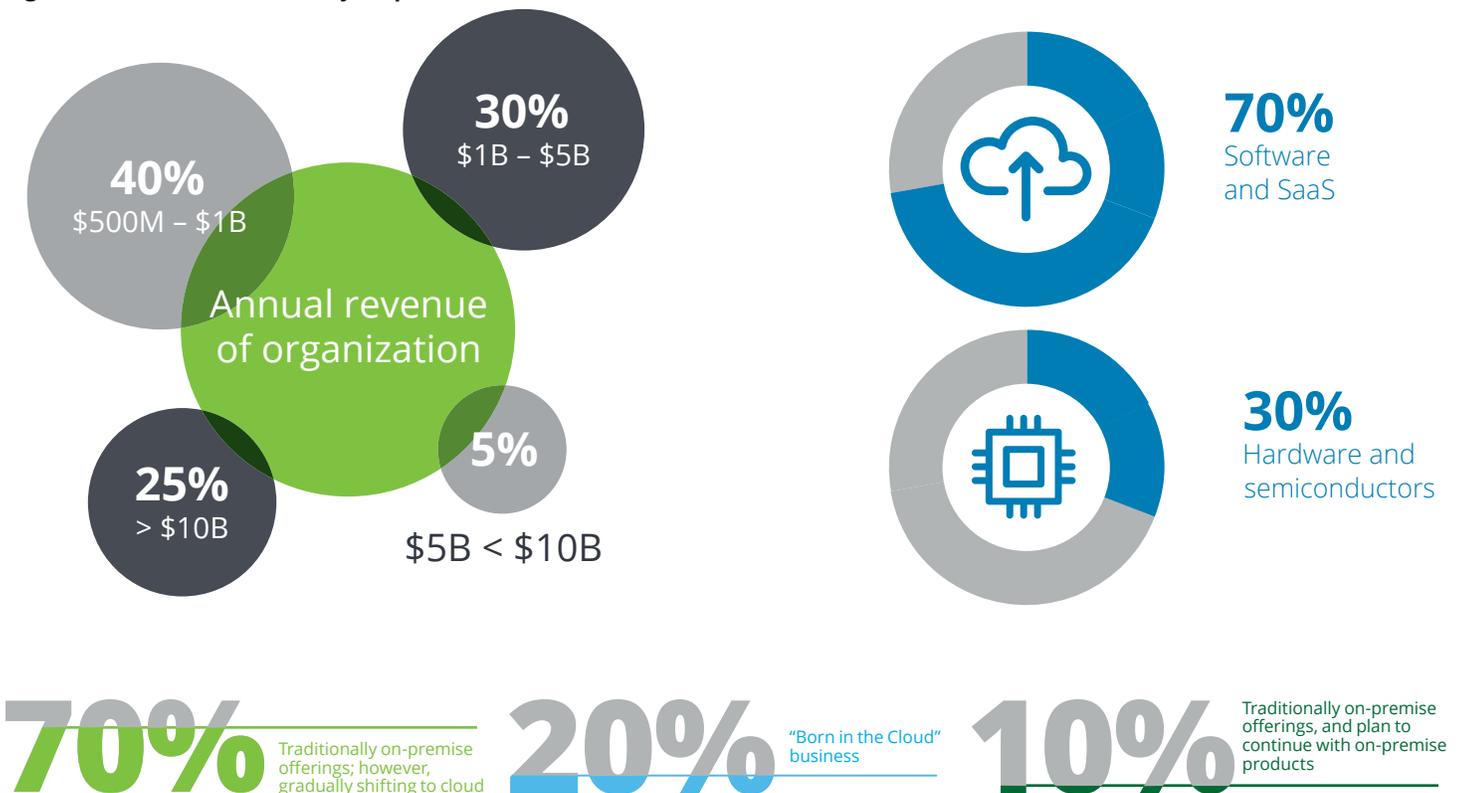
All respondents were director/VP level executives with decision-making authority. Specifically, 7 percent of the respondent pool held the designation of Chief Customer Officer, 50 percent were Vice President or Senior Vice President, and 45 percent were Directors or Senior Directors. While 70 percent of respondents were from CS functions within software or SaaS subsector, the remaining 30 percent were from hardware and semiconductor companies.

All respondents came from enterprise-scale technology businesses with annual revenues greater than \$500M.

Nearly 25 percent of the CS leaders surveyed belonged to businesses with revenues more than \$10B annually.

We maintained a balance across on-premise and cloud-based deployment models to gather perspective from CS leaders at both these categories of businesses. Seventy percent of our respondents belonged to businesses that offered on-premise offerings traditionally but were now gradually shifting their portfolio to offer most of their services through cloud, and 20 percent of our respondents were born-in-the-cloud (BITC) businesses. The remaining 10 percent were traditionally on-premise and have still not shifted their offerings portfolio to become cloud dominated.

Figure 3. Distribution of survey respondents



The importance of elevating CS to the boardroom

Not all technology businesses today think of CS as being more strategic than driving better retention and renewals. We analyzed the survey results across five key characteristics of enterprises where CS is considered a strategic priority and where the C-suite and board of directors regularly

review CS outcomes. There are noticeable differences in the approach taken by these CS-focused organizations that have helped CS leaders to gain visibility and attention from organizations' leaders and scale the CS function. Some of the unique characteristics are summarized to the right:



Indicators	Enterprises where CS is a strategic priority	Enterprises where CS is NOT a strategic priority
 CS mindset applied consistently	<p>83 percent of these CS teams have consistent and well-defined processes to collaborate with critical business teams, such as product development, sales, renewals, support, etc.</p>	<p>Across critical business functions, the percentage of CS teams with consistent collaboration processes does not exceed 70 percent</p>
 Greater CS reach	<p>67 percent of companies provide CS services to greater than 80 percent of their customer base and are able to tie CS services along with more than 80 percent of their offerings portfolio</p>	<p>Only 30 percent of the companies provide greater than 80 percent coverage across their customer base as well as their offerings portfolio</p>
 Self-sustainable funding and monetization models	<p>60 percent of these CS functions report that they have linked funding models to a formalized set of business metrics, such as ARR or annual revenue</p> <p>40 percent of these companies have greater than 5 percent of their organization revenues invested toward CS initiatives</p>	<p>Only 25 percent of these CS functions have well-defined funding models</p> <p>Only 23 percent of these companies invest more than 5 percent of their revenue in CS</p>
 Better technology adoption and talent models	<p>More than 83 percent of these companies have structured and advanced tools for storing, processing, and sharing data</p> <p>58 percent of the companies have a CS team with the right skill sets and do not consider CS talent acquisition as a major challenge</p>	<p>Only 57 percent of these companies have structured and advanced tools</p> <p>Only 42 percent of these companies have a CS team with the right skill sets</p>
 Demonstrable improvement in customer health	<p>75 percent of these CS functions track the rise in renewal rates and have demonstrated a double-digit increase; 67 percent of them have seen a similar rise in the annual recurring revenue</p> <p>42 percent of the companies leverage a composite index comprising a balanced set of metrics across customer usage, experience, product performance, and financial value</p>	<p>Only 43 percent of these companies have seen a double-digit rise in renewal rates and ARR</p> <p>Only 27 percent of these companies use a structured performance measurement index</p>

With these indicators as a base, we analyzed the survey results to derive insight on how far along CS functions have evolved against each of the five areas highlighted above, and where they should go from here. We will delve deeper into each insight in the next section.

Detailed survey insights

Here is a detailed look at five key insights into the state of CS that we observed in our research.

 **1. CS is a developing mindset and needs to be infused across the enterprise**

A CS mindset exists where a constant focus on the customer is maintained throughout all touchpoints and value creation stages. However, survey results indicate that CS functions have been largely focused on working with customers only once a transaction is completed. CS employees spend 60 percent of their time dedicated to ensuring proper customer onboarding, driving higher adoption and up-sell/cross-sell, and reducing churn. Only 40 percent of their time is allocated toward designing better products, delivering more accurate business models, defining success plans, and building package structures that are more closely aligned with customer needs (figure 4).

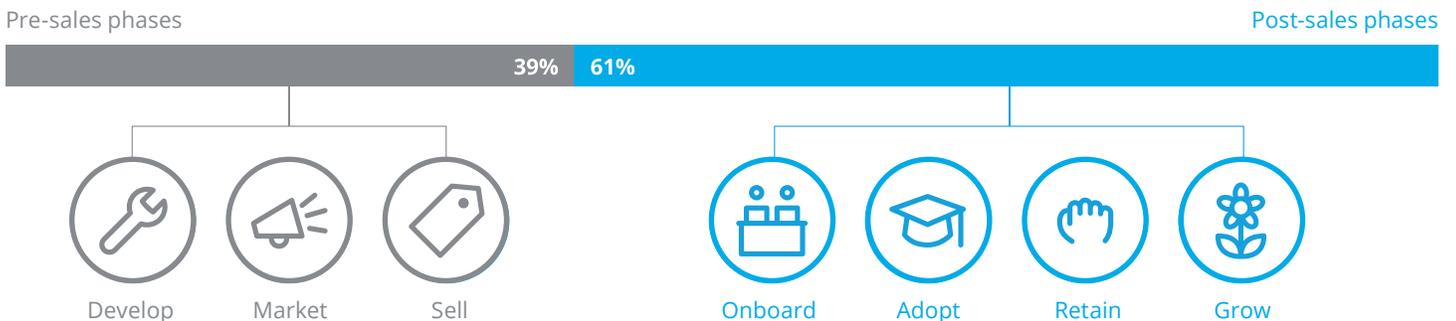
Among the strategic objectives outlined by CS leaders, the narrow goal of reducing churn and retaining customers continues to be given a fairly high level of importance, with 35 percent of respondents ranking it as the leading objective today. The critical goal of designing and developing better offerings for customers is stacked at the bottom, with only 10 percent of respondents ranking it as their most important objective.

CS functions must act as a connecting thread across different stages of the customer journey that binds multiple internal teams together—from product development, sales, and professional services to support and renewals—to ensure that a consistent view of the customer is adopted across the organization with a unified focus to maximize value for customers at every step of their journey. This is enabled by a CS discipline that builds a closed value loop ensuring that customer feedback and insights from post-sales

phases are shared across the organization to build a holistic understanding of the customer’s unique needs, preferences, and pain points.

A key requirement for the CS mindset to permeate throughout the organization and achieve the desired results is the development of robust operating models that enable the CS function to collaborate with critical internal teams. A robust operating model helps orchestrate an environment where existing functions and CS work together and ensure that a consistent focus on the customer is maintained throughout the organization. Our survey results indicate that while businesses have started to define steady CS operating models, they continue to face challenges in gaining cross-functional alignment to encourage a consistent customer-centric view across teams.

Figure 4. How do CS teams spend their time?

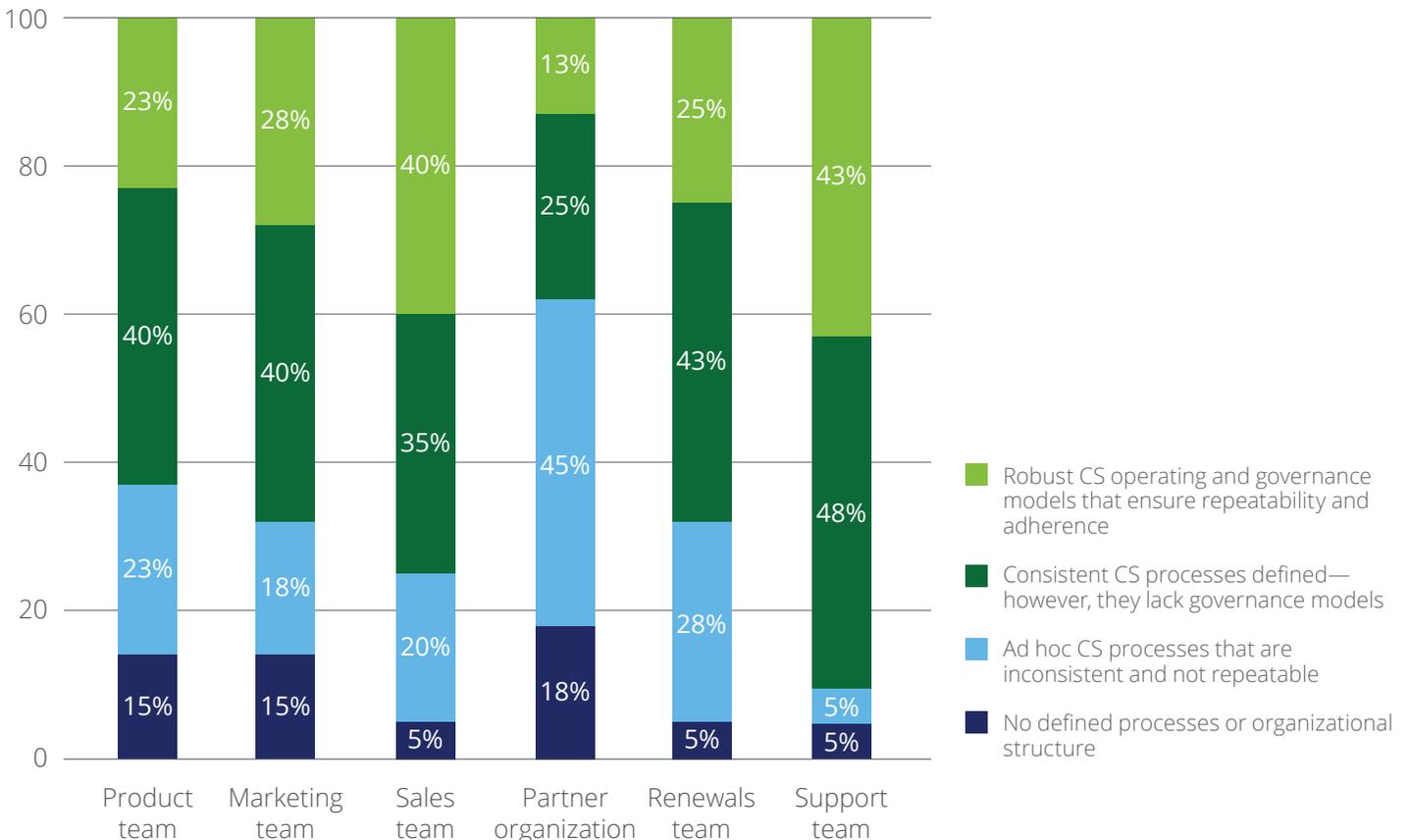


In fact, in the question for ranking the CS challenges that leaders face today, defining the operating model ranks No. 1 based on aggregate scores, and an overwhelming 56 percent of leaders indicated that they plan to invest greater than 5 percent of resources in process structuring and optimization in the next one to three years.

Consistent with our earlier findings on the lack of CS mindset within pre-sales phases, more than one-third of the respondents indicated that no or inconsistently defined operating structures and process models exist today for CS functions to collaborate with the product engineering and marketing

teams. At the same time, more than three-fourths of CS leaders reported that consistent and robust operating and governance models have been defined for CS to integrate with sales and support teams, implying a higher focus on post-sales phases (see figure 5).

Figure 5. How are CS teams collaborating with other functions?



2. CS scale and reach need to be broadened by leveraging channel partners

A key touchstone for CS functions is to expand its coverage to include a broad base of customers and ensure that targeted customer segments receive the appropriate levels of CS services. An analysis of survey responses indicates that only a limited

number of CS functions have been able to cover the full breadth of customer accounts. Just over one-third of the respondents indicated that their coverage has expanded to include 80 percent of the customer accounts, and only 43 percent of respondents indicated that they deliver CS services along with greater than 80 percent of offerings (figures 6 and 7).

Interestingly, even to maintain these levels of customer coverage, customer service managers have been spread thin, with nearly 25 percent of respondents indicating that CSMs within their organization are responsible for more than 10 enterprise customers at a time. It is no surprise that a significant percentage (25 percent) of large-enterprise customers are not provided high-touch services by CS functions.

Figure 6. What percentage of customer accounts are supported by CS?

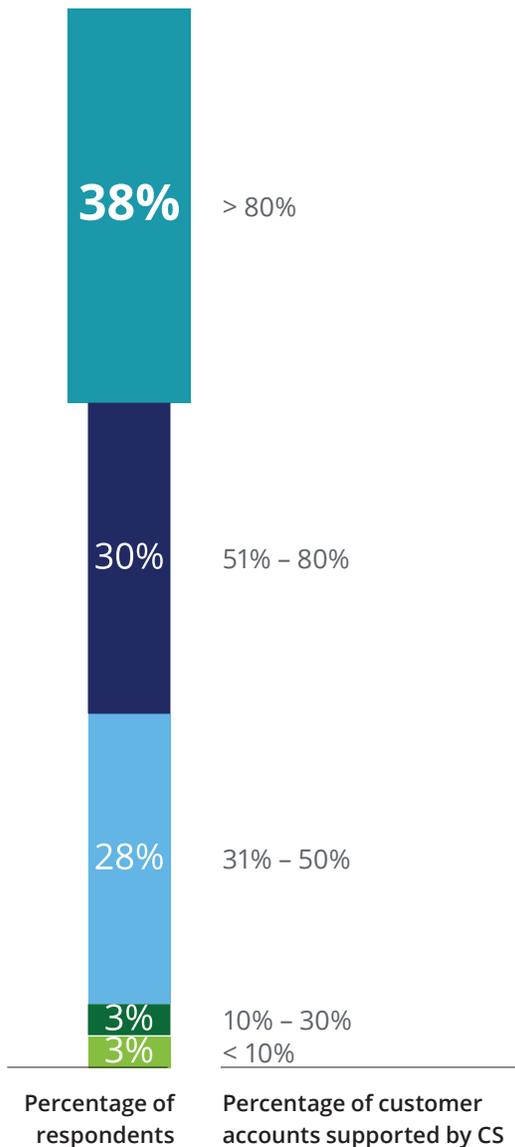
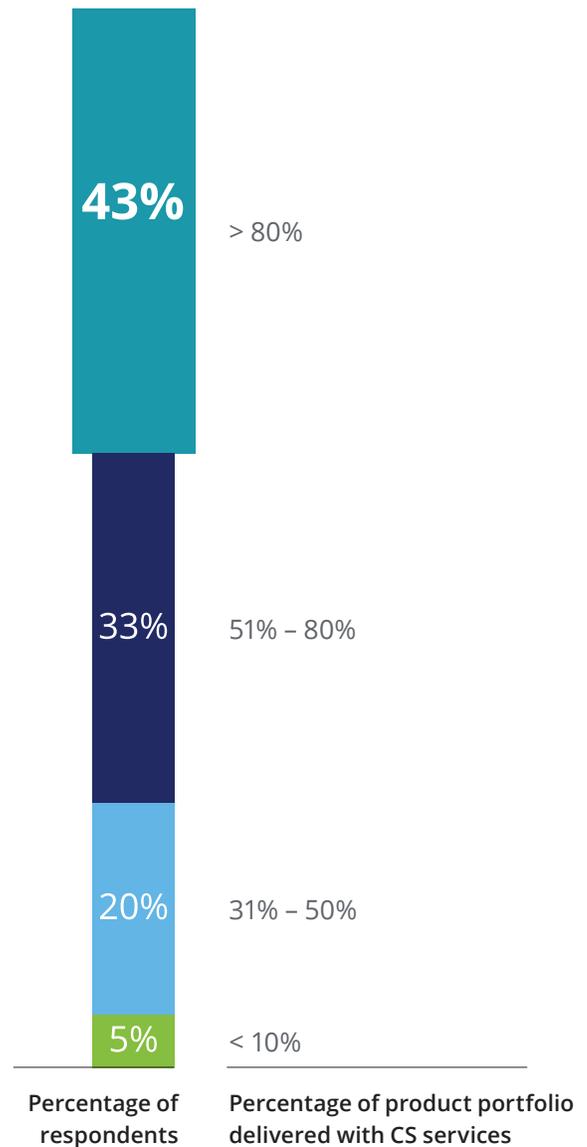


Figure 7. What percentage of the product portfolio is delivered with CS services?



An untapped opportunity to ameliorate this problem is better integration of CS services with channel partners. Indirect channels, in the case of most technology businesses, are responsible for driving 60 to 80 percent of sales. Therefore, there is a need to set up robust operating processes to enable partners to deliver CS services to the customers managed by them. However, most survey respondents indicated a lack of consistent processes for collaboration between channel partners and the CS function. Sixty-three percent of companies indicated that they have no or ad hoc processes to work with partners to ensure they are able to successfully deliver CS services to their customer accounts (figure 8).

Nearly one-fourth of the companies indicated that they have not tied partner incentives to their ability to integrate and deliver CS services, and only in the case of one-third of the respondents has the sharing of client usage data and customer health metrics been assigned to the domain of CS functions (figure 9).

Setting up well-defined processes for CS functions to work with channel partners and formalizing techniques to enable partners through training and collateral will help scale the reach of CS to cover the full breadth of customer base. It will also help ensure that customers across direct and indirect channels receive a consistent experience and business value. However, very few CS leaders consider getting channel partners involved to be a priority today: survey data indicate that despite the low CS coverage and lack of integration between CS and channel partners, only one-third of the respondents have plans to increase investments for partner enablement by more than 10 percent in the next one to three years.

Figure 8. How are CS teams collaborating with channel partners?

- Consistent CS processes defined—however, they lack governance models
- Robust CS operating and governance models that ensure repeatability and adherence
- No defined processes or organizational structure
- Ad hoc CS processes that are inconsistent and not repeatable

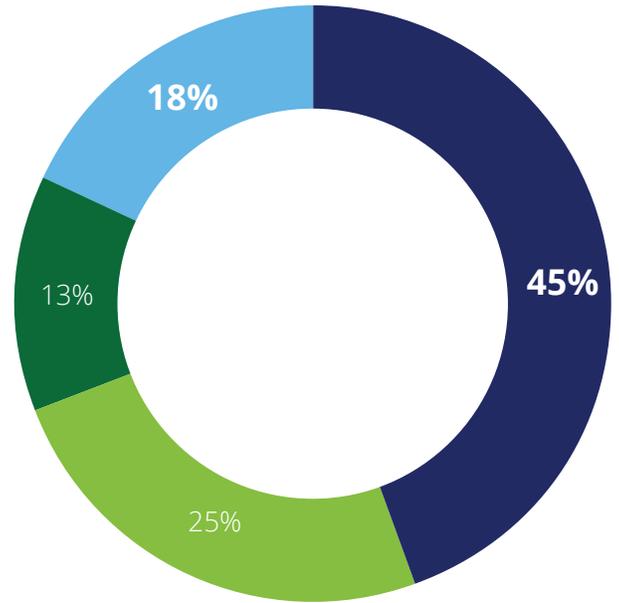
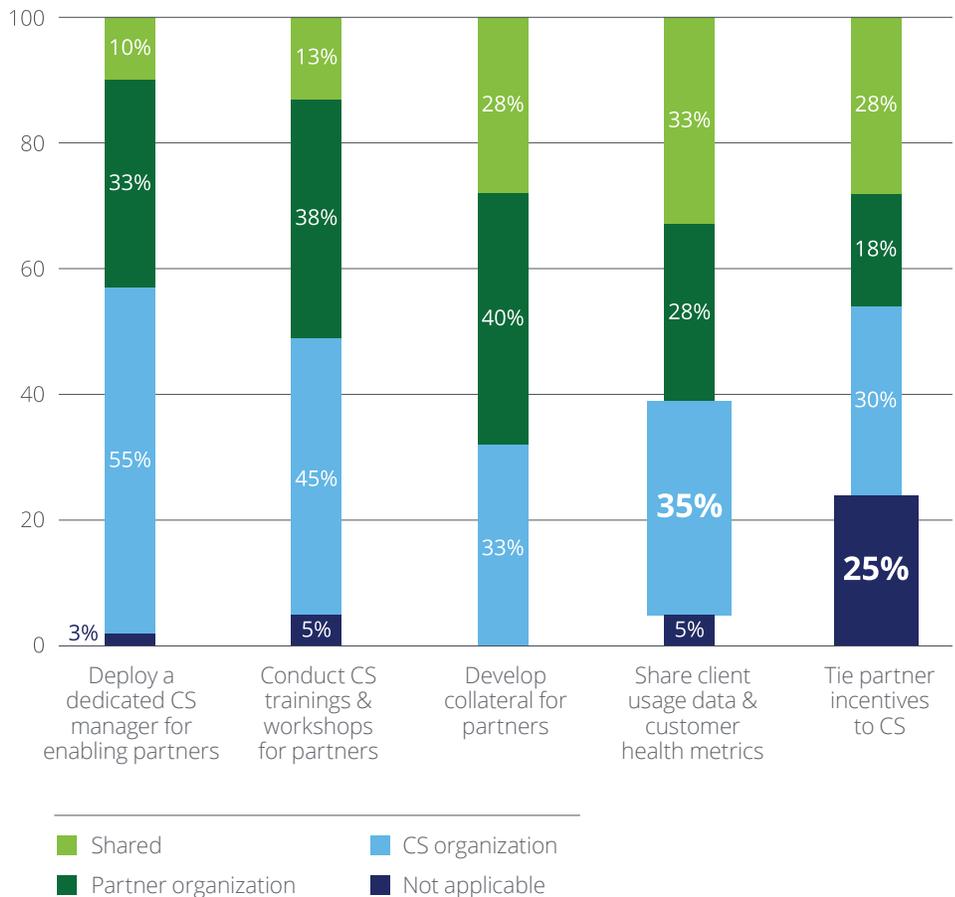


Figure 9. Which business function is responsible for partner-related activities?





3. Sustainable sources of funding need to be defined and formalized

As businesses look to strengthen the CS function, it is imperative that a formalized and well-defined approach is adopted to allocate funding to CS initiatives. By linking CS funding with a predefined set of business metrics, such as annual recurring revenue (ARR) managed by CS or target coverage ratio, CS leaders are able to gain visibility across short-term and long-term time frames and plan a pipeline of future CS initiatives.

Our survey findings indicate that while businesses are starting to allocate a larger share of revenues to fund CS functions, the funding models still need to mature and be formalized to enable self-sustainability. Nearly 50 percent of the CS leaders surveyed report that funding models in their companies are based upon bottom-up estimation methodologies and are not linked to any business metric such as ARR or annual revenues (figure 10). Nearly one-fourth of the companies invest more than 5 percent of their annual revenue in CS initiatives (figure 11). Interestingly, small- to mid-sized businesses apportion a larger share of their revenues toward CS activities, either to match the level of CS services provided by enterprise businesses or to differentiate with unique services and support options.

Figure 10. How is the CS function being funded?

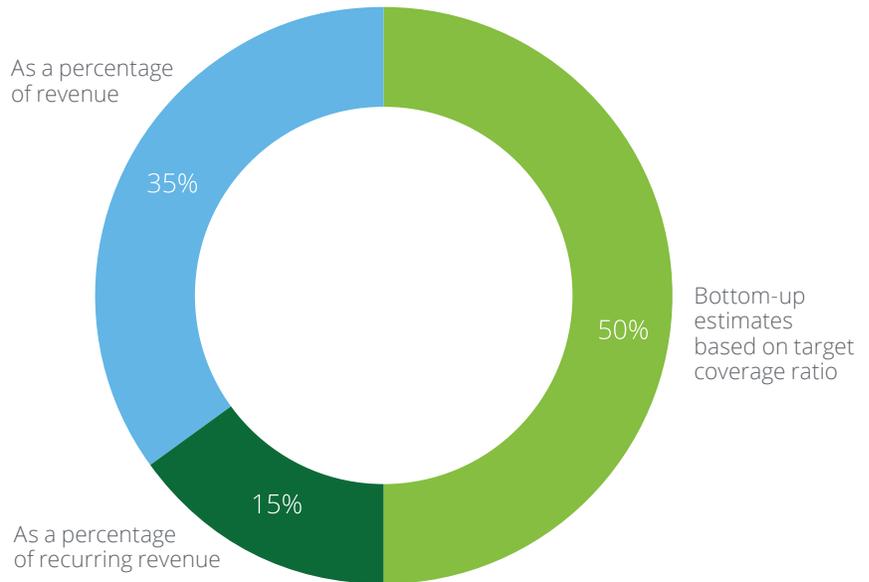
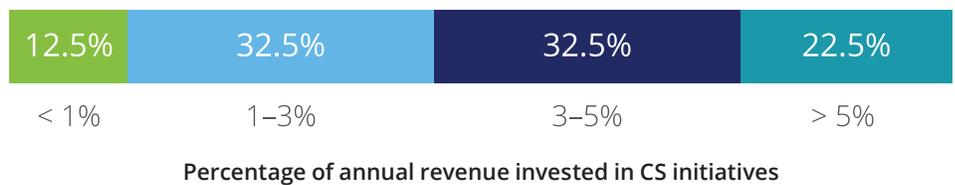


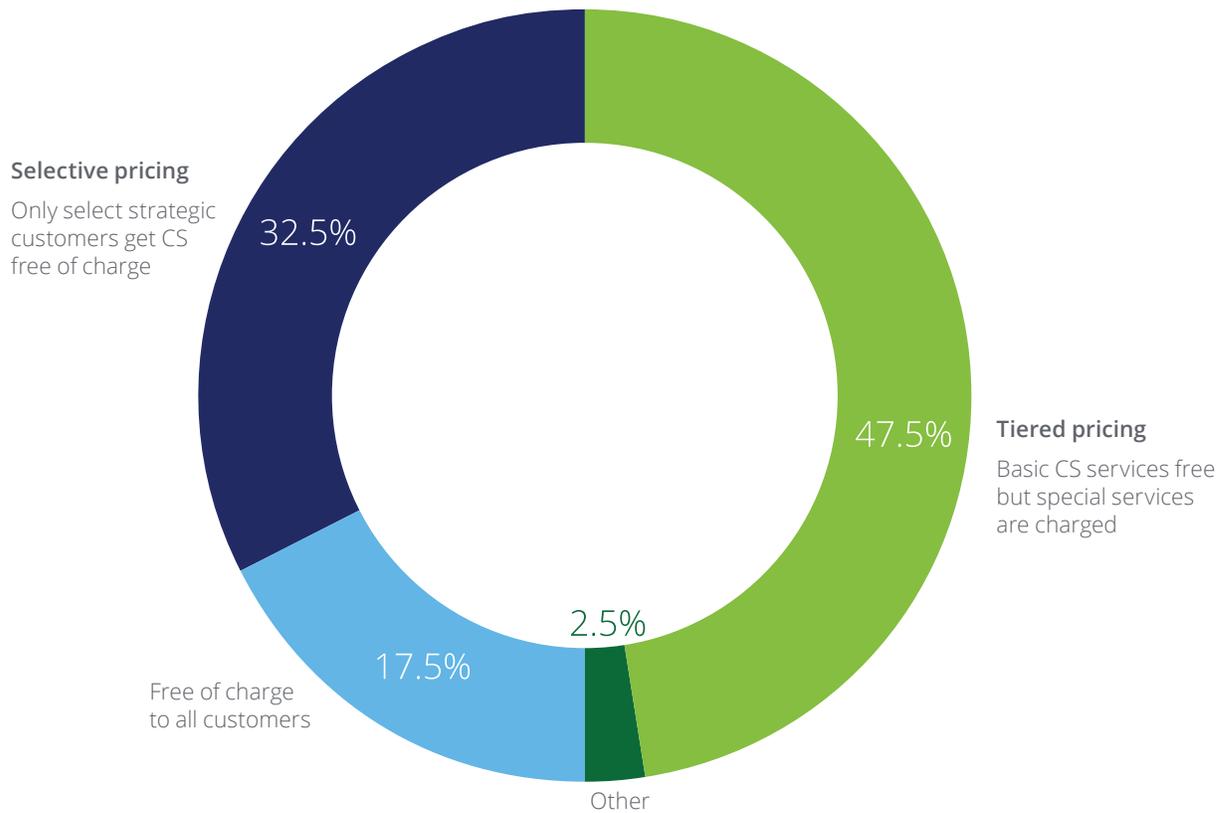
Figure 11. Percentage of respondents by amount of CS investment



A handful of organizations are generating funds for CS initiatives and making the function self-sustainable by monetizing CS services. While monetizing or providing CS services free of charge remains a strategic choice for businesses, it is interesting to note that more than 80 percent of the survey respondents indicated that they have implemented either tiered pricing models (48 percent) where certain basic CS services are delivered for free and premium services are charged to customers, or they have implemented selective monetization models (33 percent) to deliver CS services free to only priority customer groups, and the rest of customers are charged (figure 12). Most CS organizations who want to monetize services report that customers either consider CS services as inessential or expect them to be delivered for free. Nearly one in every five CS leaders indicated that they are not able to monetize CS services, as they find it challenging to quantify the impact value of CS for customers.

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Figure 12. How are CS services being monetized?



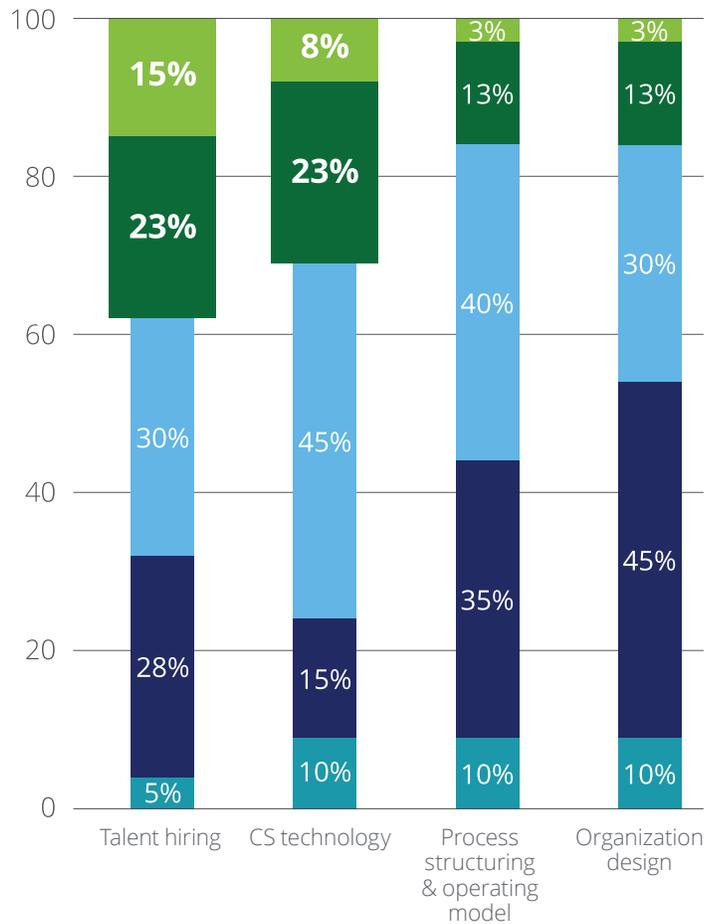
An interesting topic that most CS leaders are still trying to figure out is how should CS costs be accounted for by the business—should it be classified as a cost of goods sold (COGS) or an operating expense (OPEX)? The reason the question gets so nuanced is that the role of a CSM varies across businesses, and they are expected to wear multiple hats. Some of the responsibilities that CSMs bear are typically accounted for as COGS, such as customer training and support, while few responsibilities such as renewals and up-sell/cross-sell are typically accounted as a sales and marketing expense or OPEX. Only 25 percent of the respondents indicated that they categorize CS costs as COGS today, possibly indicating a larger focus by CS functions to drive greater revenue for their organizations, rather than on facilitating better customer outcomes through customer training and support.



4. Technology adoption and talent models need to be improved

To continue accelerating the path of maturing CS capabilities, and to incorporate CS as an organization-wide philosophy, it is important for leaders to prioritize investment decisions that have the greatest impact on customer value. The top two areas where nearly one-third of CS leaders indicated that they plan to increase investment by greater than 10 percent are talent acquisition and technology enablement (figure 13).

Figure 13. What CS capabilities are seeing the greatest increase in investment?



Planned change in investment



However, the survey data also help us triangulate that this trend of growing investments in talent acquisition and technology is in line with on-ground realities, as there remains a significant need to mature capabilities in these specific focus areas. Specifically, nearly 40 percent of companies are not convinced that their CS teams have the required skill sets. Also, recruitment is the top-rated talent-related challenge for CS leaders, with an overwhelming 40 percent of respondents ranking it No. 1.

In the case of technology adoption, nearly one-fourth of CS functions have either not deployed a CS technology platform, or they leverage in-house custom-built systems. At the same time, 35 percent of survey respondents indicated that they lack advanced tools to facilitate sharing CS data with internal teams (figure 14). In terms of customer data that is collected and analyzed, less than 50 percent of CS functions have set up systems to tap into customer demographics or interactional data about the customers they serve (figure 15). A critical requirement to drive successful CS outcomes is to build a data-driven culture that develops a holistic view of the customer. This requires a transformative approach to customer data by rethinking the customer definition, developing a new data architecture, connecting disparate sources of information, creating a data foundation, and maintaining data readiness to enable rapid and accurate generation of insights and sharing across teams.

Figure 14. How mature are the tools and technology platforms supporting CS?

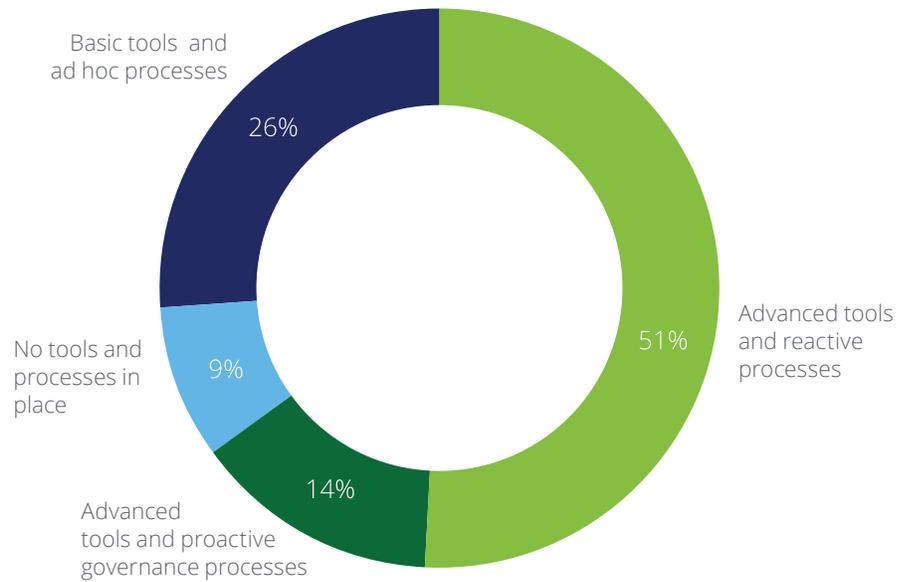
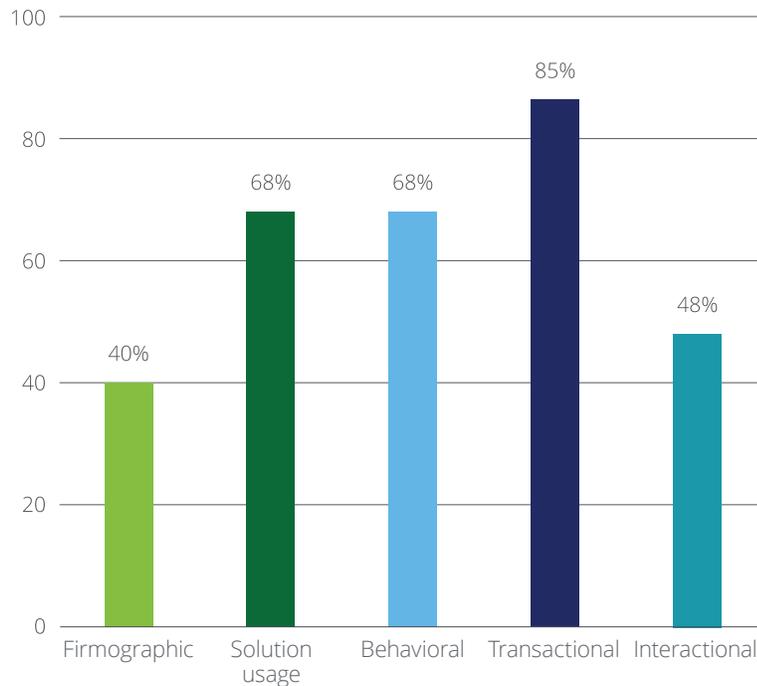


Figure 15. What type of customer information is being collected?



- **Firmographic** - Information around who the customer is, and our relationship with them (e.g., customer size, segment, spend, services bought, purchase frequency, demographics, etc.)
- **Interactional** - Information about all outbound and inbound touchpoints with the customer (e.g., sales reach-outs, QBRs, customer calls, cases and issues, web visits, trainings)

5. Customer health indices need to be perfected

Since CS functions are relatively new within traditional technology organizations, it is logical that the C-suite and boardroom will take notice once they believe their investments in CS have been successful and are reaping results for customers and the business. As a result, it is critical for CS leaders to identify a balanced set of metrics that are tracked and analyzed to communicate the impact of CS and outcomes delivered. Our survey results indicate that the top three metrics tracked by CS organizations are renewal rate, up-sell and cross-sell revenue, and annual recurring revenue (ARR). More than 85 percent of respondents report that they capture these today. Interestingly, these metrics are also where the most significant improvements have been observed year-on-year—more than 20 percent year-on-year improvement has been observed by 31 percent of respondents in ARR, and 21 percent of respondents in the case of up-sell and cross-sell revenues (see figure 16).

Survey results also indicate that a large number (92 percent) of CS functions have started to define composite indices to assess overall customer health. Among the common set of parameters included in the assessment of customer health and tracked regularly at account level are customer engagement and sentiment indicators, such as NPS, CSAT, etc. Product performance indicators such as escalations, down times, and technical issues are also tracked. While nearly three-fourths of the respondents include customer engagement and sentiment indicators in customer health evaluations today, nearly two-thirds of respondents reported leveraging product performance indicators to assess the state of customer health.

Two categories of metrics that are often not tracked at an individual customer account level are usage indicators that are typically captured through telemetry (such as number of logins or feature usage frequency) and financial indicators (such as attach rate, customer lifetime value, etc.). In fact, only 28 percent of respondents indicated that they have customer health indices that combine

metrics across customer engagement, product performance, solution usage, and financial outcomes.

As organizations advance on the journey toward maturing CS capabilities, they will require a robust measurement and diagnostic framework that can help evaluate how well the CS function has performed against two strategic objectives—maximizing customer value and propelling business impact.

Maximizing customer value

- **Business value:** Quantified business outcomes delivered to customers and their ROI from solution purchase
- **Performance value:** Solution effectiveness in terms of utility of features, solution compatibility, and uninterrupted usage without issues, errors, or bugs
- **Experience value:** Overall experience delivered by the solution provider across various touchpoints and interactions

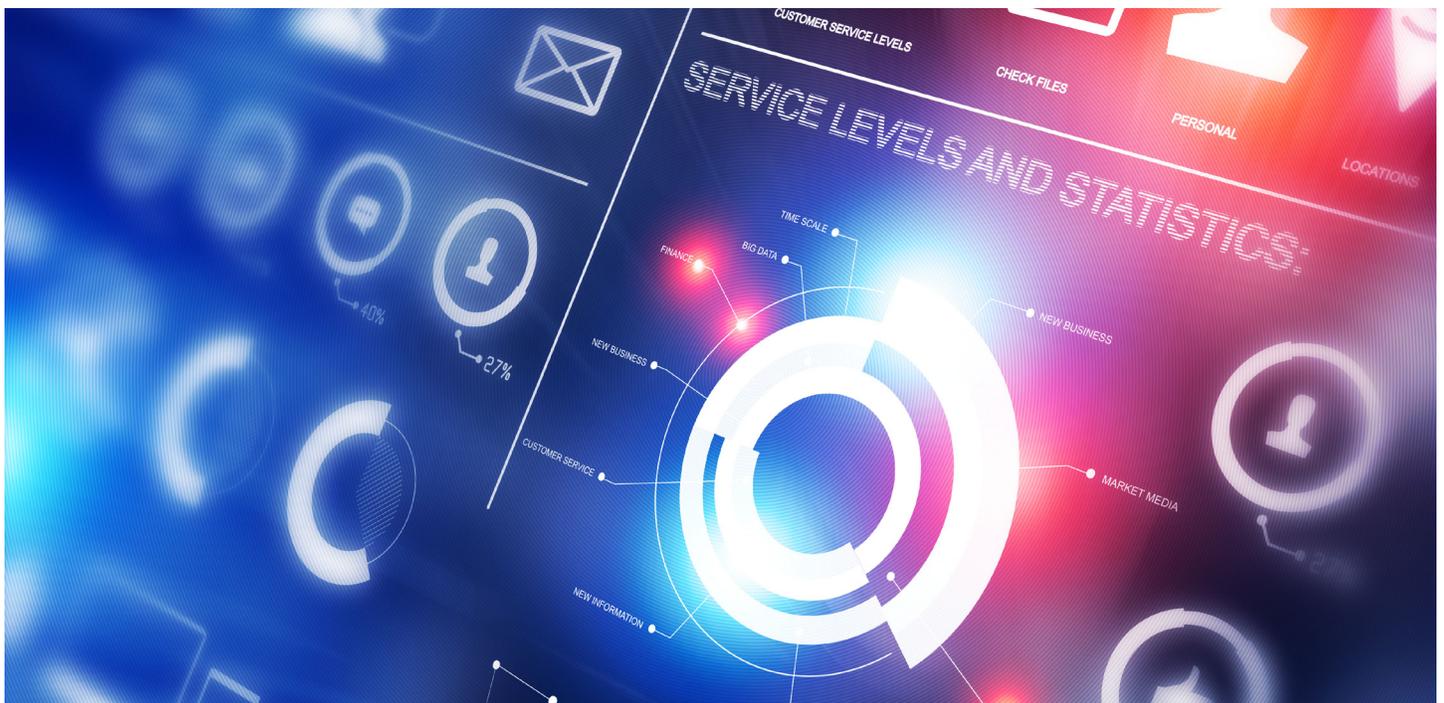
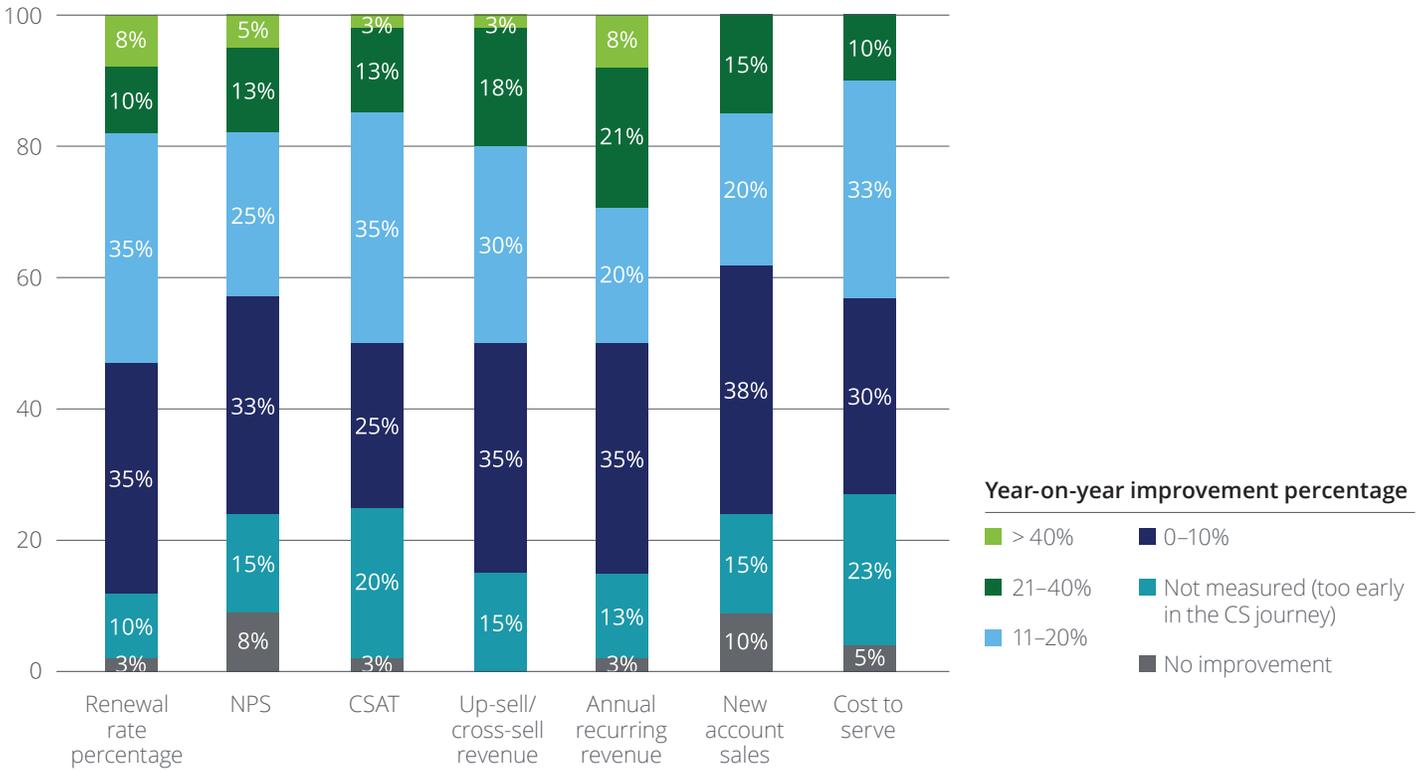


Figure 16. What metrics are CS teams tracking?



Propelling business impact

- **Revenue growth:** Revenue/ARR growth driven by various CS initiatives
- **Lower costs to acquire and serve:** Reduction in costs for customer acquisition, onboarding, and delivering services
- **Scaling market leadership:** Improvement in brand perception and establishing a differentiated market position

This combination of a detailed outside-in and inside-out analysis can form a baseline understanding of how successful customers have been in deriving value from the use of solution offerings while also evaluating the business impact of various CS initiatives for the technology solution provider.

Next steps and the path forward

The next generation of successful technology businesses will be those who are able to incorporate the CS mindset as an organization-wide philosophy and build a relentless focus on maximizing customer value across teams. The responsibility for reaching this objective lies with today's CS leaders as they continue to chart new business paradigms created in the flexible-consumption and subscription-based business world. Ultimately, a new C-suite role for CS needs to emerge in technology businesses and in other sectors where maximizing customer value is essential to survival. The CS function must earn a seat at the CEO's table.

The insights in this report represent a portion of the data captured from the complete primary research survey.

If you are interested in the full survey or would like to discuss how to elevate the customer success function in your organization, please contact the **authors**.

If you'd like to be notified of new research and insights from Deloitte about customer success, please subscribe to our **email list**.

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Endnotes

1. Christy Pettey, "Moving to a software subscription model," Gartner, May 30, 2018, <https://www.gartner.com/smarterwithgartner/moving-to-a-software-subscription-model/>.
2. Gillian Crossan, Susanne Hupfer, Jeff Loucks, and Gopal Srinivasan, *Accelerating agility with XaaS*, Deloitte Center for Technology, Media & Telecommunications, 2018, https://www2.deloitte.com/content/dam/insights/us/articles/4557_accelerating-agility-with-XaaS/DI_accelerating-agility_with-XaaS.pdf.
3. In this study, companies with more than \$500 million in sales are considered to be enterprise-scale businesses.



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