Watch out for blind Spots in your SaaS renewal strategy

By Peter O'Neill, Research Director Research In Action.

This new decade will see a dramatic increase in the deployment of Customer Success programs. Success not Service - meaning businesses being proactive about their customers' projects, as opposed to being merely reactive to customers with problems, submitting support tickets, sending emails, or complaining on social media. When assessing a software vendor, I always ask about the investment in Customer Success departments and investigate the seniority of those staff – are they juniors inside sales trying to sell renewals on a routine basis or are they experienced business-oriented consultants ensuring that their clients are deriving full value from the solution.

Software-as-a-Service (SaaS) providers, especially, know that profitable growth depends greatly on the fullest possible adoption of their solutions in each customer project. While great customer service might mean that they earn a 100% renewal-rate across the customer base in one year, most SaaS executives know that this is not enough. Nor is it realistic because there is always some churn from external factors such as M&A, economic downturns, or staff changes. They need to earn more each year from existing customers: To cover the churn, finance R&D, and to pay the cost-of-sales of winning new customers in a very competitive environment. The current status in the SaaS industry is that "net retention is a critical figure: if you're at ~106% you're in line with the average, if you're below 100% do a little work to figure out what's happening, and if you're ~120%+, you're in great company." (see https://about.crunchbase.com/blog/net-dollar-retention).

So, they are all investing heavily in customer success programs (in the form of onboarding and implementation services) and there is a focus on new executive-KPIs like Customer Lifetime Value or specifically Net Dollar Retention Rate. Of course, they cannot apply the same resources to all customers. Most use tiered structures that balance people resources and technology. Many have three tiers of programs: the lowest level is mostly automated (e.g. online self-service) while the highest level involves more consultative outreach from customer success managers. And even sales success metrics are moving away from just pure selling – many sales executives are now being measured on reduced churn rates i.e. customer retention and expansion. Again, renewal at 100% of existing run rate is not viewed as a win; to exponentially improve profits, 120% renewal-rate now the new bar.

But the buyers are now also beginning to realize the importance of those renewal meetings. Often, a SaaS subscription was signed up by an empowered individual-contributor out of their expense budget and IT or procurement is only involved when the

renewal phase is reached, and their considerations are usually different than the original buyer (support, integration with other systems, security. These negotiators also have their own agenda such as a strategic sourcing strategy which may not include the SaaS provider in question.

Renewal negotiation has moved from a “shall we continue the project” discussion to an almost full-blown re-evaluation of the initial investment decision. Compliance guidance, or just good procurement management practice, is pushing buyers to evaluate a new shortlist in the renewal phase and each additional user group or functionality is treated as a brand-new project.

Chief Financial Officers are increasingly turning their attention to SaaS expenditures and ask questions about Return On Investment (ROI), business outcomes, and revenue contribution. Most importantly, they are asking the SaaS user and their provider to demonstrate that the solution delivers quantifiable value to their company.

Financial justification tools have been promoted for decades by technology vendors/providers to accelerate their own sales process and help document a need to invest. The tool was typically only used for the business case appendix and it was hardly ever validated post-sale. Also, an ROI calculation is a one-off forecast consolidating capital investment, perhaps running expenses and increased revenues and/or decreased costs.

One consequence of an “as-a-service” investment is that the value must be monitored continually because usage and deployment of the service will fluctuate over time. So ROI is no longer a one-off forecast based upon estimates and assumptions, it must be modelled and set up in a system which is able to collect actual data and provide ongoing reporting.

With on-premise software, it has always been difficult to track the ongoing expenses, revenues and costs. SaaS is, by design, more easily measured and monitored than on-premise software, including value-relevant data about usage and relevant business outcomes. Setting up a value management collection and reporting system is therefore realistic in most cases without custom programming and extensive investments and it can be offered by small and large vendors, and be deployed for customers of all sizes.

In a recent survey I worked on for a client, I found that only a quarter (24%) of vendors provide a value analysis during the renewal process and another 11% of companies provide a value analysis, but only for customers that are at-risk.

Closer attention from finance departments, plus the advent of SaaS, is now generating a clear preference for applying full value management principles throughout the project lifecycle. On the vendor-side, value management will become important in departments such as Customer Success to audit and prove the business benefits and document project effectiveness.

In addition, it is highly probable that, on the user-side, financial and procurement professionals will also be leveraging a value management solution to support a company's decision-making process for multiple projects as a standard operating practice.

Always keeping you informed!

Peter O'Neill