



Three Steps to Improved SaaS Account Growth

Originally published in Sandhill.com by Paul Ressler, Principal

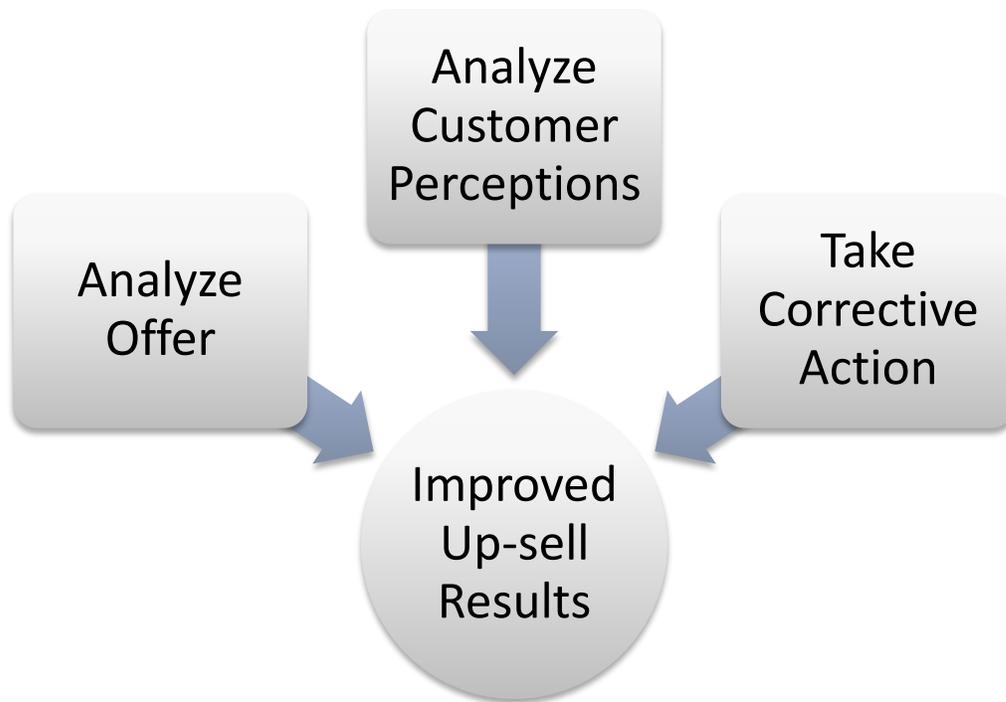
One of the results from the recent Cirrostratus Group survey on the Software as a Service (SaaS) Customer Experience was that 78 percent of providers are happy with their customer retention percentage. However, only 36 percent of respondents were happy with the growth of each account. The good news is that this presents an opportunity for improvement and there are things that can be done to improve account growth results.

Of course, one of the best ways to increase growth is to up-sell services to that account. By up-selling, I mean selling the customer services that are of increased value to the seller. These services are instead of, or in addition to, the original sale. Of course, for the customer to buy these additional or replacement services they must provide increased value to the customer. Up-selling may be to add features, additional users, increased usage, or it may be an increased level of service. These are all good ways of increasing account value in the SaaS business.

Small and medium business (SMB) SaaS offers for email, surveys, websites, blogs, etc. are generally very good at providing these types of services to their customers. They often have additional charges for more storage, larger customer lists, and additional services. For a Freemium SMB offer, the only way to make money is to successfully up-sell a percentage of customers.

Often the reaction to less-than-desirable account growth and poor up-sell results is to assume the problem is with account management. This often results in an increased investment in this area or results in process or personnel changes. This may or may not help you improve your results since the problem may be with the offer itself, marketing problems, or service delivery problems, not just directly with account management.

If you go through a three-step methodical approach of analyzing your offer, analyzing customer perceptions and making changes, you should be able to diagnose what is happening and why you aren't getting better results.



Step 1: Analyzing your offer

To diagnose the problem, the first question is whether your offer is designed for up-selling. Take a good look at the structure and pricing of your offer. Is there at least one path for a customer to get added value once they have started using the offer? Ideally there are a couple paths. Some combination of additional features, additional users, increased usage or increased service level should be available.

Make sure that you don't confuse options that a new customer has to choose from with up-sell options. For example, if your offer is structured such that one configuration choice is more expensive than another and the customer has to choose one at the beginning, that is not a feature designed for up-selling.

To continue the example, many SaaS offers are structured as some variation on the basic, corporate and enterprise editions and are sold on a per-user basis at a different price point for each version. If the basic version is structured as what is needed for a small business and it is sold to a small business, then the chances of that customer upgrading to the more expensive corporate or enterprise edition is minimal. So with only these options, this structure has a limited option for up-selling to most customers since the chances of really changing the size of the company and therefore switching offers is small. The only opportunity for up-selling in this case is additional users.

Contrast that structure with the structure of basic, advanced and premium users. In this case, there is the opportunity for every user to migrate from a basic user to a premium user as additional features are needed and the user becomes more sophisticated in their use of the

service. This along with the option of additional users provides a stronger model for successful up-selling since there are two up-sell paths. Ideally, your SaaS offer should provide up-sell opportunities along at least two different pricing vectors.

An offer structure that relies on a customer structure that is unlikely to change does not provide many up-sell opportunities. Company size and number of users can be a very limiting offer structure if you are providing an offer to a market that has limited growth of both of these. Human Resources (HR) offers that are only used by HR professionals are an example of this. No one particular company is likely to grow so much that the increased features for company size and the number of HR representatives will provide much account growth. This is, of course, why HR SaaS offers usually have a feature that can be used by every employee. This allows growth as the number of employees grows, along with the opportunity to increase value by selling additional features.

Up-sell opportunities that do not require a lot of effort to sell work best. Examples of this include naturally increasing number of users, additional resources needed such as storage space and additional transactions. If your offer naturally fits with one of these models, it is a great way to go.

Step 2: Analyzing your customers' perceptions

Once you have examined the structure of the offer and its ability to provide up-sell opportunities, the next step is to understand the customer perception of the value-added opportunities you provide. This relies on getting customer input about the offer; this can be done through customer surveys or customer interviews. The important thing is to make sure that this survey or interview information covers all your customer segments since it is very likely that the perception of your potential up-sell offers will vary by segment. This is a great time to review your customer segmentation and, although it doesn't have to be complex, looking at your current customer base segments and understanding which ones are taking advantage of up sell opportunities, and which aren't, is important.

Once you have the answers to basic questions for each customer segment, you can answer the following types of questions:

- Is the customer aware of the additional offers?
- If they are aware of them, why aren't they taking advantage of them?
- How does the perceived value of the additional offers compare with the price?
- Do they need the feature?
- Will they need the feature in the future?
- Are they unhappy with current offer based on functionality or service delivery?

From this analysis you will come out with one of the following results from one or all of your customer segments:

- The customer will likely need the feature in the future and perceives that there is good value at the current price of the up-sell feature. There is no need to change anything right now, but make a point to follow up in the future to confirm that an upgrade occurs.
- The customer is happy with the current offer, feels it's a good value, but has no need for the up-sell feature. If most or all segments feel this way, then the offer likely is not the right offer and should be changed. If only one or two segments have this view, then those segments are ones that should not be focused on for future sales or the offer needs to be changed to provide up-sell features of interest specifically for those segments. This may also signal a pricing problem with the up-sell feature. The customer may want the additional option but feel that the value is not sufficient to purchase.
- The customer is unhappy with the current offer features and/or service delivery. In this case you must fix the issues with the current offer before you can work on up-selling. Fortunately, this problem was found before you experienced customer churn. This should be dealt with the same way that you would deal with customer churn by understanding the root cause of the unhappiness and resolving the problem with the functionality or service delivery.
- The customer had not heard about the additional value-added service. This is a signal to review account management and marketing efforts on up-sell features. In some cases such as usage, the up-sell may happen automatically; but in other cases the need for the feature may be much more subtle and the challenge is to provide the marketing support at the right time.

Once you have gone through this analysis, the root cause of the up-sell problems can be attributed to one or more of the following root causes:

- Problems with the offer – pricing, features
- Some customers who will never upgrade – the “wrong” customers
- Account management improvements are needed
- Nothing wrong; just be patient

Step 3: Take corrective action and monitor results

Pricing or feature problems with the offer are really standard kinds of product management issues to resolve and are typically addressed by substantially changing the offer or removing certain features. Pricing analysis and changes can also be used to address the problem of a lack of perceived value.

Although it is counterintuitive to think about having the “wrong” customers, having customers that are not in a position to take advantage of any up-sell opportunities you can readily incorporate into your offer impacts the profitability of the business. The lifetime value of these customers is lower and therefore the amortization time of the original selling cost takes longer. If you have too many customers like this, you will have profitability challenges.

It is not usually the right thing to actually figure out how to get rid of these customers, but understanding who they are and what customer segment they are in makes sense so that you don't waste account management attention on them. The most important thing is to fix this issue going forward if offer changes aren't appropriate.

A variety of things could be going on within the lead-generation or sales process so that you end up with the "wrong" customers. It could be marketing to the wrong segment, marketing to an audience that is too broad, inappropriate lead qualification, etc. A good analysis of the product marketing and sales processes should find the area that needs to be changed.

Overall account management changes may be appropriate to address deficiencies in communicating with the customer. The changes needed may be in the marketing message or communication of that message either in the original customer communications or as new features come out. It could also be in the day-to-day communication with customers and the inability to capitalize on opportunities that come up. This could be caused by poor internal communications between customer support and account management, inappropriate account management compensation plans, or other problems with the account management process.

Finally, there may not be anything wrong that you need to change and monitoring the situation is the right thing. In this case, it is important to modify the business assumptions to reflect a delayed timeframe on lifetime customer value to appropriately understand profitability.

Clearly the challenge with up-sell results is not simply an "account management" problem, and just investing in account management resources or firing account managers will not necessarily improve the situation. It's important to analyze the offer and analyze your customer's perceptions to understand the root cause of poor up-sell results. Once the root cause is well understood, the appropriate action in the right areas can be implemented and monitored. Understanding the up-sell process and having one that is effective and adds value to the customer and adds value to you as a provider is very important to having a more profitable SaaS business model.

Paul Ressler is a consultant specializing in service delivery for SaaS, Cloud Computing, and Managed Services. As the principal of The Cirrostratus Group, Paul helps his clients improve customer satisfaction, raise service margins, introduce profitable new services, and transition to the SaaS business model. Contact Paul at 978.254.7450, pressler@cirrostratusgroup.com, or visit <http://www.cirrostratusgroup.com>.