



## Four Keys to Success as a Cloud Services Provider

### Dyn Case Study

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*Dyn, a Manchester, N.H.-based provider of Domain Name System (DNS) and email services for SMB and enterprise customers, has a customer-retention rate of ninety-five percent and an upsell rate of 24%, enviable numbers when the average industry retention rate including upsell is more like 85–90 percent. Here's how they achieved a high level of customer satisfaction leading to this growth.*

Dyn was incorporated in 2001 and for the first few years of their existence were content to provide a high-quality service that is key to making the Internet work, and live with modest growth due to the bootstrapped nature of the company. A couple of years ago the Dyn team decided that they were missing business opportunities and that they could grow the company significantly in a way that was consistent with their culture of providing high-quality, high-value services to their customers.

They made substantial changes to their offers including no longer offering a freemium service and began offering services to enterprise customers. They also started on a journey of understanding how, when and why their prospects and customers buy and renew their services. They were so successful that they recently attracted \$38 million in growth equity money from Northbridge Venture Partners, their first outside funding investment.

Dyn's revenue is currently growing at a rate of over 70 percent per year and they are currently at a revenue level of around \$30M/year. Forty-four percent of their revenue comes from eCommerce customers and 56 percent comes from the enterprise market, and the enterprise segment is their faster-growing segment. Their new revenue comes from a combination of sources, but an impressive 49 percent comes from upselling their products to existing customers. Seventeen percent comes from customers who currently outsource their DNS to a Dyn competitor and 34 percent comes from customers outsourcing their DNS for the first time.

Dyn provides outsourced DNS services to many Internet-dependent enterprise customers including Twitter, Zappos, Etsy, Box, Netflix, Tumblr, CNBC and Carbonite.

## **Why DNS Services Are Important To Enterprise Customers**

DNS is the service which everyone uses to translate a name on the Internet such as www.Twitter.com to a physical IP address such as 199.59.148.10. Some organizations provide this service themselves; but many outsource it to a company like Dyn because of performance, availability, redundancy and security needs. Slow DNS service can slow down almost every Internet transaction; so any company that relies on the Internet for providing key services should have excellent performing DNS.

In addition to the above there are many kinds of Internet traffic management and redundancy needs that large enterprises have, which make it attractive to outsource this service. What seems like a simple address translation is actually a highly complex, real-time service. Without DNS the Internet would not work.

## **Offer Structure**

Dyn has two enterprise offers: DynECT Managed DNS Lite™ and DynECT Managed DNS™. DynECT Managed DNS Lite™ has three variations: DynECT10™, DynECT25™ and DynECT50™. The differentiation between these offers is the volume of zones, records and queries and they are fixed price at \$30, \$60 and \$95/month respectively. DynECT Managed DNS™ takes over beyond a certain number of zones, records and queries and starts at \$200/month. There are volume pricing levels within the DynECT™ product as customers require and use more transactions. This offer structure provides the pricing stability of monthly costs, which customers often want, but also provides a clear growth path for using the product and a way for Dyn to upsell their subscriptions.

As in most volume-based pricing models, if a customer goes over the allowed volume there are overage charges. These types of overage charges can be a source of conflict and resentment with customers; however Dyn has turned these charges into an opportunity to talk with their customers and help them decide if this is a one-time anomaly or whether this is a trend. If it is a trend in their business, then Dyn waives the overage charge for that time period if the customer signs up for a higher volume level product. This develops a level of trust with the customer since Dyn is helping the customer make the best decision for the level of product they need and not trying to take advantage of overage charges.

In addition to the volume growth a DynECT Managed DNS™ customer has options for add-on services. The first add on service is DynECT Traffic Management™. This service provides a DNS-based global load-balancing service that manages traffic between data centers, cloud service providers or content delivery services based on the traffic level and how busy the resources are. Currently 35 percent of Dyn's customers use DynECT Traffic Management™. As demonstrated by the numbers, one can see that this value-added service has been very successful.

The DynECT Traffic Management™ service was developed as a result of packaging previously separate Dyn services. They use customer usage data among other criteria to decide when and how to approach a customer about adding this service.

Due to the success of the DynECT Traffic Management™ service, another value-added service was developed as an upgrade called Advanced Traffic Management™. This service provides the same capability as the DynECT Traffic Management™ service but adds the additional capability of Geo Traffic Management™, which provides customizable geographic-based rules for managing traffic. Once again this provides two levels of services for the general category of traffic management.

Approximately four percent of their customers currently use this service. This has also been a very successful service especially when you take into account that it tends to be a service that is used by the largest customers. Dyn uses their technical understanding of a customer's global environment and their traffic patterns to figure out when to recommend an upgrade to this service. Since the recommendation is based on a technical understanding and actual data, this furthers the level of trust with their customers.

Another category of value-added service is Active Failover™. This service provides the capability to automatically detect the failure of a data center or server and automatically switch primary data centers or servers. This offer can be used in conjunction with either level of traffic management services.

There is also an option for premium support and enhanced security that is available to customers.

In addition to value-added services, Dyn also offers a second product: DynECT Email Delivery. Dyn's email delivery and email reporting are a great cross-sell opportunity for sales people and a popular service for fast-growth clients.

Dyn has done an excellent job of providing an offer with multiple axes for upselling: (1) usage volume, (2) performance, (3) availability and (4) support levels. All of the value-added axes provide significant value as demonstrated by customers' willingness to pay for them. As I outlined in a prior SandHill.com article, "[Three Steps to Improved SaaS Account Growth](#)," a multiple-axes offer and providing multiple paths for growth are key to successful account growth and upselling. Dyn is an excellent example of this.



Churn is a critical metric for SaaS businesses like Dyn. Many companies combine churn, the loss of customer annual contract value, with upsell/account growth. When the two metrics are combined, this can obscure important information. Dyn measures churn separately from upsell.

Dyn's annual churn rate is five percent or, stated another way, their customer retention rate is ninety-five percent, an enviable number when the average industry retention rate including upsell is more like 85–90 percent. Dyn attributes this result to a solid performing product and an excellent customer relationship based on facts and trust. The active management of usage overages described above is a great example of this.

On a percentage basis the annual upsell revenue is 24 percent of annual contract value. If this is added to the customer retention rate (119 percent), this percentage puts Dyn into what is often called negative churn and, based on industry numbers, Dyn is doing an outstanding job with both retention and upsell.

### **Data Focus**

To provide the information to make successful decisions as outlined above, Dyn has a clear focus on collecting and analyzing data. They use a variety of tools to do this.

The type of services that Dyn provides inherently provides a lot of data about Internet traffic, performance, routing, etc. Dyn uses a variety of home-grown tools to collect this data.

Dyn was an early adopter of [Apptegic](#)'s Customer Engagement Analytics service. Dyn has used this with their SMB offering and with understanding the prospect trial process for DynECT Lite™. In another of my SandHill.com articles, "[Customer Engagement Analytics — 5 Steps to Success](#)," I outlined how to select, implement, and use this type of tool. A case study in the recently published "[SaaS Entrepreneur: The Definitive Guide to Succeeding in Your Cloud Application Business](#)," by Rick Chapman, describes in some detail how Dyn used Apptegic for their SMB offers.

Dyn also uses the information from their billing system, Zuora, to provide data about renewals, renewal timing, payment methods, etc. for both their SMB and enterprise offers.

In some cases they also use general BI tools to provide analysis capability and visualization for data that has been collected particularly from their homegrown systems. They also use mobile-based software from [Trendslide](#) to keep the team informed about current trending information.

Dyn's view on analytic tools is to buy them when there is something appropriate, no need to reinvent the wheel; but also they are not hesitant to collect the data themselves when nothing commercial is available.

DynECT Managed DNS™ has free trials available. Previously, many of Dyn's new customers came from companies that outsourced their DNS to Dyn competitors, but now an increasing percentage of

prospects have not outsourced DNS and are more interested in trials. Therefore, Dyn has found that improving trial conversion is an increasingly important area of focus.

### Why Is Dyn So Successful?

Dyn has an excellent business as demonstrated by their revenue growth, and it is clear that their revenue growth is driven not only by having a large addressable market but also by focus and execution with their offer structure, account growth and customer retention. I believe that there are some key underlying things about Dyn's culture and values that have helped them be successful in execution.

- **Commitment to a quality product.** Particularly with the kind of services that Dyn offers, which are at the core of other companies delivering their services, they must have excellent performing services with high availability and the appropriate level of security. At the core, Dyn's engineering-oriented culture has made excellent quality services table stakes for any service offerings.
- **Trust-based customer relationships.** Dyn demonstrates through their interactions and data-based decisions that they deserve their customers' trust.
- **Data focus.** Dyn has a culture of collecting, analyzing and making decisions based on data. The diversity of tools, willingness to develop tools that aren't available elsewhere, and constant monitoring of trends are all examples of this focus. However, they have not fallen into the trap that many companies do of requiring lots of data prior to making a decision. They make educated guesses about what may be going on and then find a way to collect the data to support or disprove their hypothesis.
- **Learning culture.** Dyn has many of the characteristics of a culture where learning is valued and is important. They are willing to learn from others, they are very open about sharing information about what has and hasn't been successful and they have incorporate A/B testing into their ongoing approach to new services and changes.

Successful business execution is always required to run a successful business, and I believe that there are several lessons that can be learned from Dyn. They are a great example of how to use data and structure successful offers for the enterprise environment.

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