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Managing Your Second Funnel:

Tiering and Segmenting Your Account Base

The onset of recurring revenue models have necessitated a change in approach toward servicing customers. Customers have never been less loyal than they are today. It has never been easier for clients to research competitive technologies and/or services and quickly select a new vendor. The foot race to reach time to value has never been faster. The competition has never been stiffer. To win in today's cloud economy, vendors are required to secure a solid relationship with their entire customer base that drives adoption, retention, and advocacy.

Efforts to meet the needs of these demands have resulted in the emergence of Customer Success and a shift in focus to the client relationship. Interestingly, the entrance of Customer Success effectively transforms the vendor's business in many ways, one of which is the arrival of a second customer funnel.

The first funnel is the traditional sales and marketing funnel. The sales and marketing funnel has been wonderfully mastered. Sales funnels are generally predictable in nature, where there is a natural investment in systems, people, and process. The outcome of the investment is top-line revenue. Sales and marketing funnel management has matured to support and track each phase of the funnel.

The second funnel is the Customer Success Funnel. Given the nascent nature of Customer Success in the subscription economy, this second funnel remains immature. The outcome of this funnel is designed to produce client adoption, retention and advocacy. Unlike the first funnel, the Customer Success Funnel lacks adequate funding, process, people, and tooling which results in an inability to track and control each phase of the funnel.

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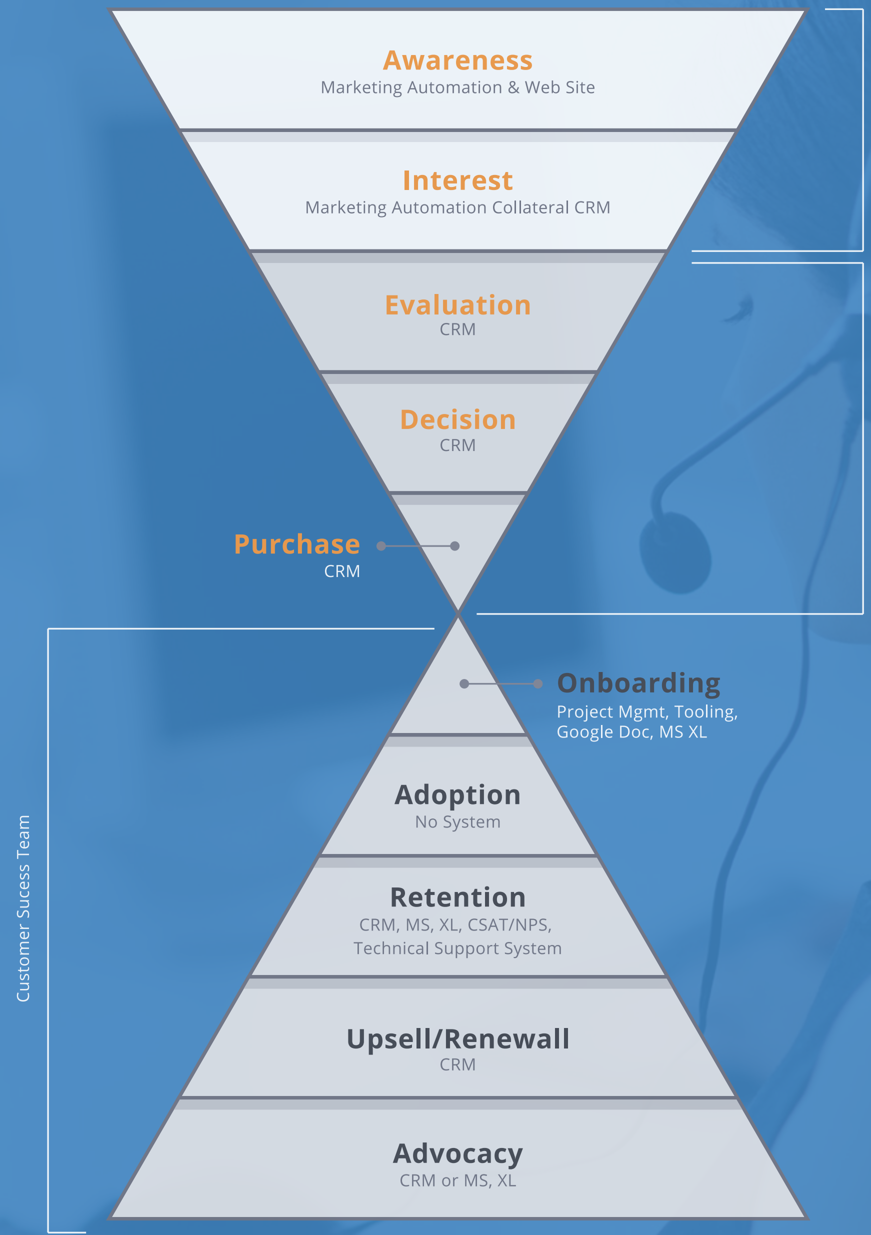
A comparison of the two funnels and their associated systems might look like:



The Customer Success Funnel continues to be immature because Customer Success teams face a lack of unified data. They are left piecing critical client information together to tell accurate stories about their clients' health. Additionally, success teams are consistently needing to perform heroic acts to save client accounts. Many times acts of heroism are representative of the absence of formal processes and defined services to be provided to each customer. A Customer Success Manager risks engaging with the wrong clients at the wrong levels leading to many other issues for the company. These issues and others result in an unpredictable Customer Success Funnel.

Customer Success leadership faces many challenges without the same level of resources as their Sales and Marketing counterparts. Employing customer segmentation and clearly defining the services of a Customer Success team is a means of protecting client revenue in the second funnel. Coupling client segmentation with the 11 Pillars of Customer Success serves as the best possible preemptive measure for churn and revenue protection at scale that there is.

Here's why:

- Most SaaS companies cannot afford to provide the same level of service to each and every customer in the same way
  - Attempting to do so will cause implications around scalability, costs and resource constraints
- Providing the same level of services to an account with a lower ARR as an account with a premium level ARR does not produce the same level of satisfaction/retention/evangelical results
- Planning out the level of investment for every customer will support ROI targets on your service delivery
- Assessing cost and a marketable value for the services that you will provide can generate additional revenue

- Properly identifying services to be provided by tier will produce scalability for the team
  - Scaling the team also reduces costs
- Servicing the right accounts at the right time will promote adoption and retention
- Defining service strategy to lower tiered accounts will aid to produce a path to turn lower tiered accounts into higher tiered accounts (up-sell)

Segmentation (aka "tiering") of a customer base involves classifying each account into a tier to aid in the definition of the services that will be provided to each tier. Performing the tiering process will enable you to define the level of investment per client segment and scale your team with out spending precious capital in overhead.

Before getting started with service definitions and the act of tiering, determine the number of segments (or tiers) that are needed for your company. Consider the landscape of the entire customer base and define the number of tiers that is appropriate for your company. When determining the appropriate number of tiers for your company, give consideration to the following:

Who are your most successful customers?

- Can you duplicate that success, easily?

Who are your least successful customers?

- What makes them unsuccessful?
- Can you make necessary changes as to not replicate?

What makes each of your customers alike?

- How can you get each of them to success?

Who are your most difficult customers

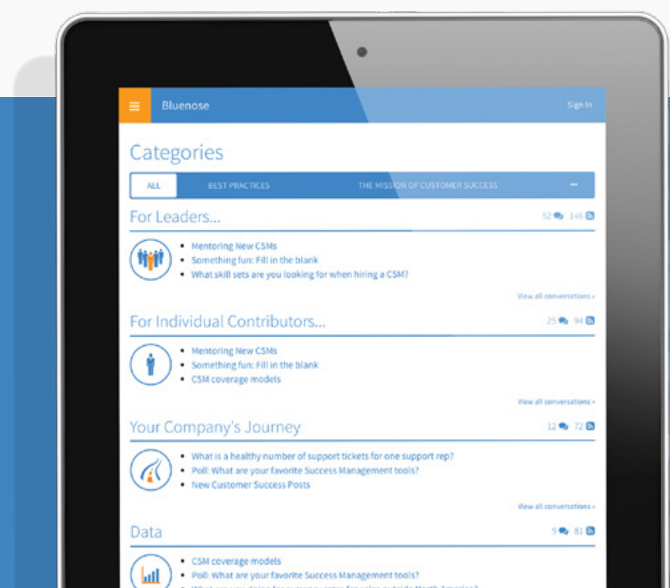
- What makes them difficult?
- How do their needs vary from your moderate customers?
- Do they adopt differently than other customers (if yes, how?)?

Who are your easiest customers to support?

- What makes them easy?
- How do their needs vary from your moderate customers?
- What makes the low barrier to entry for adoption?

After reviewing this information, give one final bit of consideration to how these accounts were sold. Do you find that your answers vary based upon channel, industry, revenue band, geographic location, or product/service entitlements?

You may find that your company will only need two tiers, or you may find that your company might need as many as 5 tiers. The answers to these questions may also start to frame the basis by which you tier your customers. (see Step 0).



Servicing Tier 1 & 2 Accounts

Providing the right definitions around what services are to be provided to each tier, and then asking your company and customers to operate within the confines of your service ability takes discipline and proper preparation. The services that any Customer Success team offers have real business value; defining the service offering for every customer tier will help identify the time and effort required internally, along with any other resource requirements.

Likewise, it affords the critical opportunity to highlight the value you are offering to your customers. The value provided to clients supports the assumption that they would (or should) pay a premium for your services and technology.

When creating a service strategy give consideration to the following:

How do you know that you're providing the right level of service to the right Tier?

- Are NPS/CSAT rates different per tier?
- Are service requests more frequent per tier?
- Review any metrics around your Customer Success program, are they different per tier?
- How do your adoption (or penetration rates) vary per tier?

What is your investment of services per customer?

- Are you getting ROI? Or are you losing money due to over-servicing?

What are both your customer and you getting out of your efforts?

- Is your customer going live quickly?
- Is your customer renewing on time?
- Does your CSM team consistently have to follow up?
- Is your customer purchasing additional services (where applicable)?

upon the complexity of the technology; the more complicated the product the more services required to make the customer successful. Optimizing your efforts for the best possible experience can include the following services per Tier. When looking at the top two Tiers of the customer-base, we see a few different service types.

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Below you will see examples of services typically provided for Tier 1 and Tier 2 customers for later stage companies with more complex technologies:

Services Provided	Tier 1	Tier 2	Definition of Services
Executive Sponsorship	x		Executive persona is the acting CSM for the Client and will perform proactive communications and strategy sessions
Quarterly Business Review	x		Review of Client's KPIs and SaaS vendor's performance to meeting them. Analyze & review Client's ROI of the SaaS vendor's product. Review of any open issues and go forward planning for issue resolution (as applicable). Review of new feature/functions (as applicable). Review of any other project work that might be underway
Proactive Communications	x	x	Communications to Client for any reason involving account health, usage, billing, Q&A, support, etc.
Assigned CSM	x	x	Client has direct access to dedicated CSM
Assigned Technical Resource	x		Client has direct access to dedicated support personnel (this is usually a Customer Success Engineer or a Technical Success Manager)
Adoption Monitoring	x	x	CSM will monitor usage and track trends to ensure proper product adoption and determine opportunities of upsell, training needs, use case expansion
NPS/CSAT Survey Monitoring	x	x	Monitoring and tracking NPS / CSAT survey responses. This service includes following up on surveys where appropriate
Best Practice Advice	x		CSM will proactively provide best practice advice for product usage optimization
Training	x	x	CSM will engage with Client to provide training. Typically this type of training is not associated with paid services
Health Check	x		CSM will perform a detailed review of Client's use case and instance to validate best practices are being adopted and all technical detail is correct for optimal use of the product (technical detail could include settings, implementation, reporting, product performance, etc.)
Renew Renewal	x	x	CSM will engage with the Client to ensure that their contract is up to date
Escalations Management	x	x	CSM will be the first point of contact for any escalation needs and ongoing communications. CSM will also track and manage remediation plan back to the Client
Support Case Monitoring	x		CSM will monitor number of open/unresolved cases and become involved when Client reaches <n> threshold
Upsell	x	x	CSM will monitor Client for opportunity for upsell and either close the upsell deal or hand off a lead to the appropriate party to close the upsell
Program Management	x		CSM will manage any programs with the account (onboarding, product rebuild, professional services, etc.). Typically these are not paid services

An example of Tier 1 and Tier 2 services for early stage or less complex technologies

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Servicing the Long Tail

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Traditionally, tier 3 is the Long Tail of the customer base. Most companies will take a low touch or a no-touch approach for this customer segment as they are usually spending less in ARR than accounts in higher tiers. Long Tail customers can come into existence for a number of reasons:

- They represent early-adopters of your technology/services
- Your product pricing model has evolved over time
- They predominantly use your entry level offering

Given that the account is contributing a low ARR, it most likely will not be appropriate for a SaaS company to fully service accounts falling into this category. This results in this tier being largely self-serve, depending solely on the Technical Support team, or Customer Success Teams with a high account to Customer Success manager ratio (in some cases 1,000:1).

Long Tail customers should not be dismissed as not possessing value; however. It is absolutely worth the cost and the effort to set up a service delivery method for this customer tier.

When analyzing the numbers around churn, logo churn happens more frequently with lower Tier accounts than Tier 1. Three or four Tier 3 accounts churning can represent the same ARR as a Tier 1 account. Tier 3 accounts add up and can be equally as strategic as one Tier 1 account.

Additionally, Tier 3 accounts can make up the bulk of the "Land & Expand" strategy that the sales team may be nurturing to grow the customer-base. Instituting a solid methodology to service and support clients in this segment will aid in future up-sell events.

Tier 3 requires robust online resources to service themselves. An example of service deliver might involve:

Tier 3
Self-Service Support Via Community
FAQ
Knowledge Base
Self-guided Training Modules
Video Tutorials
In-product Tool Tips
Automated End User engagement
Automated Best Practice Advice

The Process of Segmentation

Before beginning the process of segmenting your account-base, you'll want to gain the involvement of your CFO, CRO/VP of Sales, and CMO/VP of Marketing. Assessing cost of service and assessed service value will be a crucial piece of this process.

Step 0

Before getting started with the actual segmentation process, define the segmentation criteria. Generally speaking, most SaaS companies will Tier their accounts in the following manner:

Tier	ARR	Definition
Tier 1	Large Enterprise 10-20% ARR	Strategic accounts that are high-touch accounts
Tier 2	Mid-market 30-50% ARR spread	Receive partial services and reactionary support
Tier 3	SMB balance of ARR spread	Low/No Touch Accounts (un-serviced)

While the above is a common way to perform Tiering, segmentation can also be performed by other criteria:

- Industry
- Company size (in employee headcount or annual revenue)
- Geo-location
- Product/Service type

Step 1

Define all of the services the Customer Success team will be proving to each of your customers (regardless of size, vertical, ARR, etc.). Remember to be complete with the service definition. Include automated services as well as services to be performed by leadership personas.

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Step 2

Define the time interval in which each service will be provided (monthly, quarterly, etc.). Insert the number of times the service will occur in this field. This will be a multiplier of service costs and service value later in the exercise.

Step 3

With the assistance of your company's CFO, assess a total cost to provide each service. This cost will help you validate the appropriate service level for each client tier as well as define the frequency at which each service can be provided.

During this portion of the exercise, expect to negotiate on time intervals and level of effort per service to ensure that your costs do not exceed your allotted budget (where applicable). The cost of the services should be multiplied by the time interval to provide an annual cost of service.

Step 4

Now that the costs of services have been defined, you will need to partner with your CRO, CMO and/or CFO to determine the appropriate margin. Use their standard profit margin formula to increase the costs you outlined in Step 3 to define the Assessed Service Value for each of the services to be provided. The formula should look like:

(Cost of Service * Time Interval)* Profit Margin

Understanding the assessed value of the services the Customer Success team provides will help to:

- Assess which customer tier qualifies for each service
- Promotes up-sells/larger deal sizes with customers that want higher levels of services
- Ensures profit growth for the Customer Success Team
- Establishes true value of the Customer Success team internally and externally
- Establishes Customer Success as a profit generating team

Step 5

Now that you have executive alignment for defining your tier and service delivery, it's time to insert your customer tier information into your CRM system. You'll want to solicit the assistance of your CRM Administrator for this part:

1. Extract a complete list of accounts from your CRM system into a flat file
   - Remember to include attributes such as industry, ARR, entitlements, geographic location, and any other attributes that you used to define your tiers
2. Sort the account list by the pre-defined segmentation value(s) and group accounts that fit into each segment/tier
3. Insert a column named "Tier" into your flat file for example, your headers might appear like (your exact headers will vary):

Account Name	ARR	Industry	City	State	Renewal Date	Entitlements	Tier
Customer A	$50,000	Retail	New York	NY	1/1/2017	SaaS Product	Tier 1

4. Assign a Tier to each account in the newly created column
5. Create a custom field in your CRM system called "Tier"
6. Upload your newly curated flat file into the CRM system
7. Create a rules based formula in your CRM system to automate future Tier assignment
8. Celebrate!

A few words of caution, however:

- Don't cut corners – perform the analysis and segmentation completely
  - Short cuts will result in gaps in segments and/or incorrect tiering
- Insist on a rules-based tiering process that uses your previously defined classifications
  - Not doing so will result in stale data and incorrect service delivery to some accounts
- Getting Tiers and rules-based processes into your CRM system will vary based upon the CRM system in use
- The data in your CRM system may show gaps
  - This is normal, solicit the assistance of an operations analyst, CRM admin, or other ops role to assist you in curating any missing data that you may identify through this process (remember: garbage in / garbage out)

Now that you have performed each of the steps discussed above, you can easily declare victory for officially tiering your entire customer base. Your company is now set up to manage and maintain a well-defined service delivery that will result in client adoption, retention, and advocacy as well as internal team and process scalability.

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Conclusion

If you're a Mel Brooks fan you know, "It's good to be the king" and that is just what our customers are: Kings. The world that we live in puts the SaaS provider in a position to consistently be thinking of ways to service their customer-base in a way that produces stellar results for their customers.

As your Customer Success model evolves, expands, and even becomes more sophisticated, the services that you offer today will solidify relations with your customers tomorrow. The future growth of your company will come to rely on your successful customers to evangelize and advocate for your products and services.

Creating customer advocacy starts with your service offerings. Segmenting and tiering your customer base and defining the level of investment that you will provide to each of your customers will serve as a critical road map to producing long-lasting, fruitful relationships with your clients while preserving the sanity of your Customer Success team.

Bluenose is a Customer Success platform that empowers SaaS businesses to pro-actively manage customers through complete visibility, a robust early warning system, and built-in play-books.

For more information, **visit www.bluenose.com**.

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