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Beyond the Binary

A Guide to Enhancing Your Customer Health Scoring Model

Taking Customer Health Scores Beyond the Binary

How B2B SaaS companies can take their health scoring model to the next level, reducing customer churn and enhancing the customer experience in the process.

Table of Contents

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Introduction

Recently, it's become abundantly clear that paying attention to the quality of the customer experience can be a <u>deciding factor</u> between which companies remain competitive and which companies fail.

To craft a customer journey that benefits all stakeholders, a company needs to gather actionable metrics that allow Customer Success teams to make proactive decisions. A principal tool for accomplishing this task is the customer health score (CHS).

However, all health scores are not created equally and some models fail to collect <u>crucial data</u>. This white paper will help you explore the benefits of enhancing your customer health scores and how to develop a robust CHS model. It will also show you why SaaS companies using a one-size-fits-all health scoring model for their customers should strongly consider adjusting their model to account for factors beyond the binary.

Defining 'Beyond the Binary' in this White Paper

One definition of 'binary' is involving a choice or condition of two alternatives e.g. static-dynamic, on-off, or yes-no. A lot of traditional health scoring models tend to be static and unchanging, regardless of the evolution of a product or customer base. However, in order for health scores to be viable, they should be dynamic and agile.

For the purposes of this white paper, we're using the phrase 'beyond the binary' to call attention to variables that are often overlooked when developing a health scoring model. In turn, encouraging Customer Success teams to take these crucial factors into account in order to paint a more precise picture of their customers' health.

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What are Customer Health Scores, and Why Are They Important?

To put it simply, a Customer Health Score is an index made up of several "vital" key performance indicators (KPIs). It gives you an overall idea of how healthy a customer's relationship is with your product. It will also help your Customer Success team predict future customer behaviors like renewing or canceling subscriptions.

Customer health scores are most often used by Customer Success teams to determine if a customer or account is "healthy" or "at-risk." While many models exist—some with dozens of metrics, some with far less—in order to actually facilitate proactive and reliable health scoring, you need a model where customers are scored uniquely based on contextual factors. More on that later.

Polygon Corp. User Engagement

NPS
Current Value

9.4 +25%

Status

Good
Low
None

Avg Weissman Score
Last 30 days

5.2 +49%

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Collection and analysis of customer data around everything from product usage to NPS to CSM anecdotes, and everything in between, have become a requirement for any company that wants to remain competitive. Analyzing customer data can help SaaS companies formulate strategies that increase net retention, improve customer satisfaction, and minimize customer churn.

Access to actionable data also allows Customer Success teams to proactively engage with customers and formulate solutions to problems before they become disruptive. Equally important, teams can pinpoint which accounts are high-value and worth a greater level of care versus those that drain company resources.

Why Customer Health Scores are Vital for One-to-Many Customer Success

In comparison to other business models, SaaS companies practicing one-to-many Customer Success, especially those with a self-service model, are firmly focused on a scenario where most customers expect to be able to independently use your products and services without assistance from a customer success manager. Since a typical SaaS offering is available for trial or purchase 24/7, you'll need Customer Success automation to function efficiently.

For an automated e-commerce system to provide optimal customer experiences, a SaaS company needs to gather metrics that provide Customer Success teams with macro and micro data about the customer experience.

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Tracking customer health allows you to monitor the customer journey, track customer outcomes, and improve products and services based on actionable data, as needed, with minimal customer interference—throughout the entire customer lifecycle, from trial to renewal.
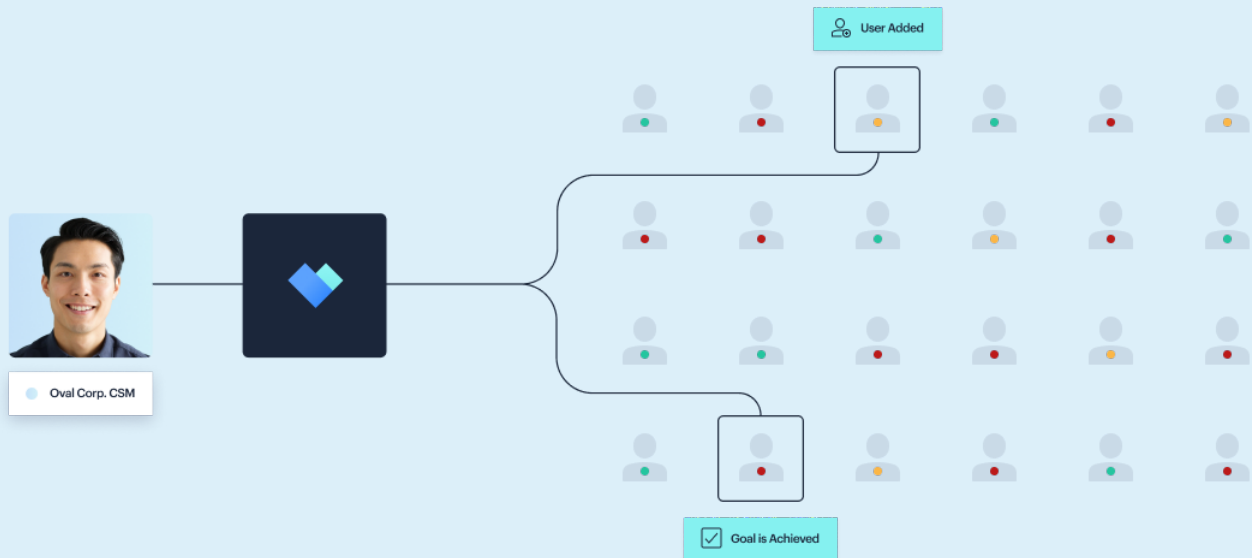
To preserve the minimal interference model, a SaaS company will rely on customer health scores to tell them when or if a customer is in danger of churning or if they need assistance with their journey. With enough data and the right technology in place, a customer success manager can quickly detect problems as well as see what makes customers happy, and expand upon proven customer successes.

Additionally, Customer Success teams can leverage automation to trigger customer communication at precisely the right time, based on predetermined signals, triggered by their in-app behavior. This essentially allows for automated white-glove experiences at scale.

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Unconventional Factors to Consider When Building a Customer Health Score Model

It should come as no surprise that it costs less to sell to existing customers than to acquire new ones. Another important statistic worth noting is 80% of a company's future revenue will come from just <u>20% of existing customers</u>. Keeping this in mind, as part of their larger Customer Success strategy, a SaaS company will want to develop a robust customer health score model that helps them extend customer lifetime value.

In traditional Customer Success, SaaS companies tend to follow a common recipe for constructing customer health scores, focusing on:

- **Frequency:** How much time users spend within a product and how many times they log in.
- **Breadth:** How many users within an account are accessing and interacting with a product.
- **Depth:** How many of the product's key features are being utilized.

However, when developing this high-value business tool, it should be noted that there is a distinct difference between building a "good enough" CHS model and a CHS model that will propel your company into the arena of being a world-class, competitive business. With that, let's dive into some unconventional factors to consider when building a world-class customer health score model.

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Taking Customer Lifecycle Stage into Account

Each customer segment is unique, so why score them all the same way? There are many possible stages that customers pass through during their lifecycle; a basic four-stage model might be the journey from (1) onboarding and set up to (2) adoption to (3) maturity to (4) renewal/expansion. You may even have stages mixed with firmographic cohorts. To most effectively understand the health of your customers throughout their journey, any scores you create should ideally be calculated and weighted distinctly for each stage in your customer lifecycle. Below are some example metrics correlated with a basic four-stage customer lifecycle model.
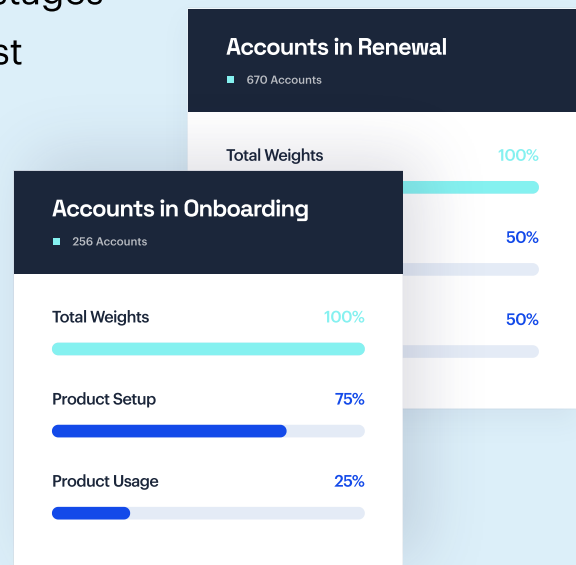
Onboarding: Onboarding health score calculations should be focused less on usage and much more on set up, whether that be accepted invites for seats, specific integrations or feature flags, or setting up of company-specific milestones. Examples of metrics to incorporate into your health score are:

- Net features touched
- Invites sent and invites accepted
- Integrations enabled
- Most recent log in date
- Subjective milestones (onboarding calls completed, meetings, etc)
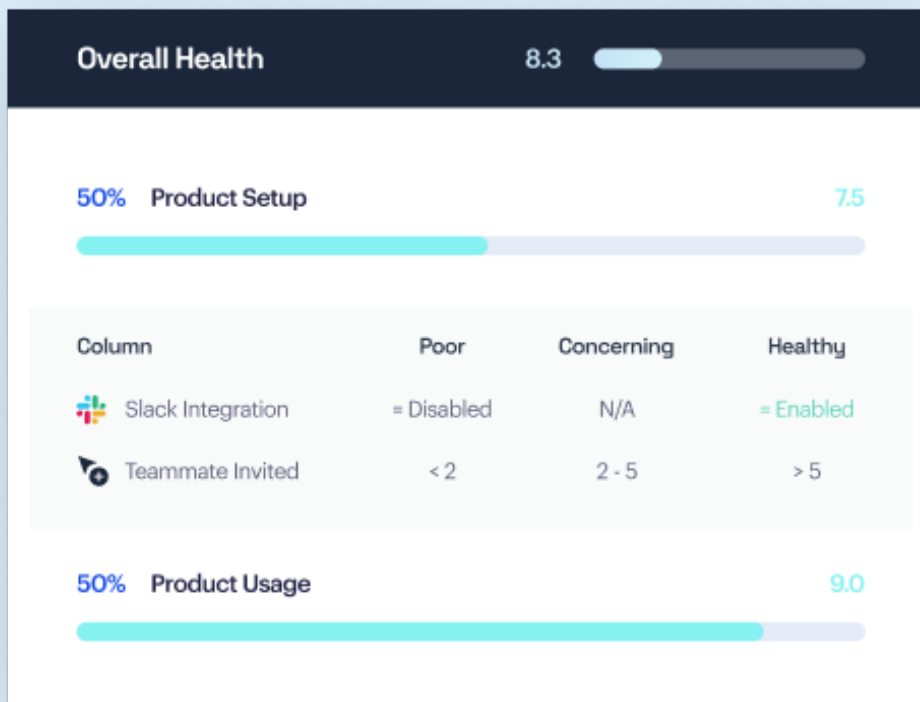
Adoption: Health score calculations during the adoption stage of the customer lifecycle—or the equivalent at your organization—should focus on how frequently and effectively your customers are using your product and the progress of their relationship with their CSM. Examples of metrics you might incorporate into your health score are:

- License utilization (number of active users/total number of licenses)
- Time to first key action
- Depth of adoption
    - Time spent in app
    - User frequency
    - Number of features accessed
- Subjective milestones (QBRs completed, check-ins held, CSM correspondence frequency, etc.)

Maturity: During the maturity stage of the customer lifecycle, you'll most likely be looking at customer engagement, product usage, and user activity. Examples of metrics you might incorporate into your health score are:

- NPS
- Last login
- % of active users
- Number of features being used
- Subjective milestones (Last meeting with CSM, CSM pulse check, etc.)

Renewal/Expansion: A solid renewal or expansion health score should leverage both objective usage data across the account, and some form of subjective criteria relating to sentiments of key stakeholders. Examples of metrics you might incorporate into your health score are:

- Change in active user percentage or key product feature usage over the last quarter
- Percentage of inactive users
- CSM "call"/probability field
- Key stakeholder usage
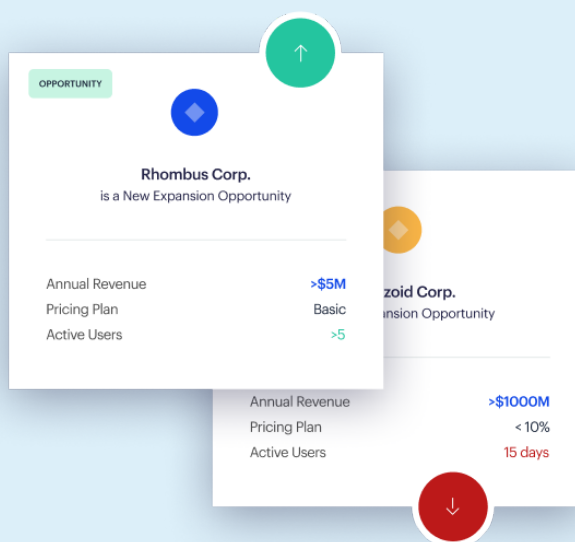- NPS/CSAT/survey data

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Keeping all of this in mind, it's important to remember that your product and your target customers will change as you grow; likewise, so will your understanding of what behaviors best predict churn, renewal, and upsell. The best health scores are reviewed regularly—a good cadence is quarterly for young SaaS companies and at least yearly for more mature businesses.

Considering the Role 'Change' has in your Customer Health Score Model

Regardless of success metric or lifecycle stage, the actual health of your customer lies in the trend, not the current state.

Example: If your team has decided that a customer health score of 7.5 or higher is healthy, and today your customer has a health score of 7.8, that implies that they're healthy, right? Well, if you take a look at last month's numbers, their health score was 8.5. The dip tells another story about the customer's health. There's really no way around this one—you just have to track trends over time.

You can do it with a spreadsheet or an automatic tool, but it's especially helpful if you have it in a setup where you can trigger automatic actions against it. A great driver for upsell or renewal is oftentimes dramatic or rapid increases in usage of features, as opposed to literal usage itself. Customer Success platforms like Vitally can track and incorporate change over time by percentage into health scores, which gives a new level of insight into customer behavior.

OPPORTUNITY

Rhombus Corp.
is a New Expansion Opportunity

Annual Revenue	>$5M
Pricing Plan	Basic
Active Users	>5

...zoid Corp.
...nsion Opportunity

Annual Revenue	>$1000M
Pricing Plan	<10%
Active Users	15 days

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Incorporating Customer-Centered Qualitative Data

As tech-centric businesses, there is a natural tendency for SaaS companies to default to constructing customer health scores primarily or solely from quantitative data, especially in one-to-many Customer Success. Elevating a CHS model from merely being good to great requires taking a cue from one-to-one Customer Success, and tying in qualitative data for a full 360 view of the customer experience. Additionally, these anecdotal insights can be used to help configure best-in-class customer experiences at scale.

Qualitative data is derived from building relationships with customers and gathering direct feedback about their experiences. While statistics, graphs, and pie charts provide a numeric illustration of a customer's engagement with your product and services, only direct engagement can inform you whether this quantitative data matches client-side key performance indicators and desired outcomes—especially those of key stakeholders.

Gathering customer feedback presents an opportunity to deepen the customer relationship; it also allows a company to push customer accountability. For example, if quantitative indicators show a customer fails to utilize a product feature that would solve a particular problem, reaching out to ensure the customer is aware of the feature and perhaps even offering training can help improve the customer's overall health score.

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Direct customer interaction facilitates the gathering of richer data to enhance health scores. It also allows Customer Success managers to proactively get ahead of hidden issues that may contribute to a customer churning, even if quantitative data indicates they should be satisfied.

A SaaS company may initially shy away from incorporating quantitative data into customer health scores because of a perception that it's too complicated or time-consuming to achieve. With the right Customer Success software, automation can enhance qualitative data and ease its collection, tracking, and analysis so that it's a completely fluid process.

Weighting Your Customer Health Score Metrics

Using a weighted average of the metrics in your customer health score will make that score a much better predictor of customer behavior. Why? Because some metrics naturally hold more 'weight' than others e.g. you may find that product usage rate is a far more predictive indicator of customer behavior than NPS.

Example: You notice that 85% of your churned customers had a product usage rate of less than 5. That's a strong correlation. Meanwhile, you've also noted that only 40% of churned customers had a low CSM pulse score—a much weaker correlation. In this case, product usage rate is a better predictor of customer churn.

Note: You should also consider defining different weights for different segments of customers e.g. customer lifecycle stage, ARR tier, etc.

There is No One-Size-Fits All Customer Health Score

Ultimately, the key to creating a genuinely robust CHS model is making sure that health scores are unique to your company and its goals and to each account and customer. Too many companies make the mistake of taking a one-size-fits-all approach to customer health scores. This method will never produce the nuanced, rich data that can help customer success managers reach deeper, actionable insights. Further, it's prone to producing bad data, which can negatively impact company strategies, operations, and customer experiences.

It's also important to remember that your product and your target customers will change as your SaaS company grows and evolves, so will your understanding of which indicators best predict customer churn, customer renewals, and upsells. A truly useful health score remains fluid and extensible, adjusting to provide you the best data as an account or customer travels through their customer journey.

To keep customer health scores viable, the best practice is to adopt an interval at which you regularly review and update them—quarterly for very young SaaS companies and at least yearly for more mature businesses. With this additional investment of time, you'll have developed health scores that are like crystal balls—continually predicting what your customers will do next, so your Customer Success team can take action before it happens.

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An Easier Way to Take Your Customer Health Score Model to the Next Level

Customer health scores can get pretty complicated. But it doesn't have to be that way. After all, your health score won't be helpful if no one understands it.

With Vitally's Customer Success platform, you can automate key factors of your customer health score model like segmentation, change over time, and beyond to give your organization a new level of insight into your book of business.

See Vitally's Health Scoring capabilities in action >

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