The SaaS Customer Lifecycle: Seven Pitfalls

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Software vendors transitioning from a license software model to a Software as a Service (SaaS) model have the opportunity for a more sustainable and predictable business model but face the potential for significant customer lifecycle missteps in the transition.

Current SaaS providers know that improvements in the customer lifecycle can have a substantial impact on their profitability. Selling to the right people and nurturing long-term relationships with these decision makers is a continuing challenge and is one of the keys to success. Ongoing efforts to achieve this in an effective, repeatable, and efficient manner will result in happy customers and a more profitable SaaS business.

Whether you are a current SaaS provider or are just converting here are some pitfalls in the customer lifecycle:

1. Successfully Selling to the Wrong People

A key attribute of a successful SaaS offering is how easy it is to sell and the resulting low customer acquisition costs. This is often done using self-directed online free trials and demonstrations.

The trial-and-demo approach, while easy and cost-effective, can lead to acquiring customers who aren't really interested in the full value of your service. These types of customers will provide fewer up-selling and cross-selling opportunities, resulting in lower adoption rates of the full capabilities of your service, a much higher potential for unhappy customers and higher customer churn rates.

Limited involvement of your sales people with the customer during the trial-and-demo process may result in the real business needs never being uncovered. Consequently, the customer is left on his or her own to discover how your service addresses their needs. In this case you may very well have the right customer, but your sales people will be unable to capitalize on the future opportunities without the knowledge of the customers true needs.

Although an easy-to-setup up demo and trial environment is a good thing, avoid the trap of skipping the key conversations about the potential customer's business objectives and needs before starting a demo or trial.

2. Finding the Right Buyer

With a high number of people using your free trials, it may lead to a false hope of

high conversion rates. Just because someone participated in a free trial doesn't mean they have buying power or understands how to relate their strategic business initiatives with the value of your service. Your sales people still need to make sure they are dealing with the right business decision makers who are actually able to buy your service and appreciate its strategic value.

One way to negotiate access to the right people is to use a trial as proof of the basic capabilities that a lower-level buyer expressed they need. You can then use this fact to gain access to the real decision makers.

Remember, even though the trial is free to your potential customer, it is not free for your company so use demos and trials wisely as tools, but not a means to the end.

3. There is Always a Buying Process

Even though the SaaS model comes with a perceived reduced cost of ownership and implementation risk, sales people still must understand the buying process. Buyers always evaluate a solution based on their needs with either a defined or implied buying process. Without knowledge of this process, your sales people will not be able to effectively introduce capabilities the buyer might not be aware of, position key differentiators, or uncover what the key go/no-go steps are that can increase the probability of a win.

In addition, without knowledge of the buying process, it is difficult or impossible to qualify opportunities making the forecasting process more difficult. Once a buyer has shared their buying process and has committed resources to evaluating your

service, then a trial, for example, just becomes a step in the process of buying.

It's easy to just let the potential customer go through their evaluation and buying process but don't fall into that trap. With a SaaS service just like any enterprise sale there is a lot to learn about a customer's buying process which can help you more successfully show the value of your service resulting in better forecasting and a higher, more predictable close rate.

4. The Hard Implementation Tasks Still Exist

An easy and straightforward implementation process is a big plus in bringing value to the customer quickly and is important to the SaaS business model. An easy implementation does not mean, however, that a customer can overlook the time it takes to make the necessary underlying business process changes that are typical in most system implementation projects.

For example, the implementation of a SaaS based sales compensation system is pretty straightforward and easy to implement. However, there still is a need for consolidating different sales compensation plans and reviewing the total overall structure of the compensation system. If these expectations were not set up initially and the proper time planned for these steps, there is a good chance that the system implementation may be viewed a failure through no fault of the service provider.

This risk is nothing new. Implementation risks have always been very dependent on the ability of an organization to make changes and improve their processes as

part of a system implementation. Adequate effort, timeframes, and correct implementation expectations need to be planned into your overall implementation methodology and in the final proposals and pricing. Failure to do this can result in higher customer churn since the value of the service is never fully realized.

5. Don't Let Out of Sight be Out of Mind

With a SaaS service you have an opportunity to delight yours customers every day, but the question is whether you take maximum advantage of these opportunities. The sales and account management team play an important leadership role in this but almost everyone in the company is involved one way or another.

A plan for regular conversations with the customer at multiple levels is critically important. These should be in depth and focus on understanding whether the customer has achieved their original business goals and to explore any new goals and business changes the customer envisions. Your account management team will be able to take any necessary corrective actions and will likely unearth opportunities for up-selling and cross-selling now or in the future.

These conversations should continue over a long period of time so it is important that you have a way to have continuity in the conversations even though a salesperson, account manager, or customer support person may have moved on to other responsibilities. Likewise it's important that all touch points within the organization have full knowledge of what conversations occur and their results.

A good combination of account management processes, automation, listening skills, and internal communication can provide the structure for a strong customer relationship. Don't fall into the trap of thinking that "no news is good news" or concentrating all your resources on acquiring new customers, you have to invest substantial time in the ongoing relationship to maximize the mutual value.

6. Make Sure Up Selling and Cross Selling is Easy

A successful SaaS business model has a strong strategy for up selling and cross selling the SaaS service over the customer lifecycle. This may be additional use of existing functionality, using extended functionality or additional users.

Some SaaS solutions have integrated subscription management within the application, with automated connections to the billing and payment system, and automated provisioning of upgrades. When this is the case, the administrative effort is minimal. In other cases the administrative, provisioning, and billing/payment effort is not automated and it may take a substantial effort on the part of your sales people to add or upgrade a user, or implement other value-added services.

It makes sense to take a look at exactly how your account management time is being spent and looking for opportunities to simplify, streamline, and automate the process. Remember that all of these costs are ongoing and are a potential hindrance to customer satisfaction. Account management resources should focus on identifying and nurturing opportunities not performing administrative tasks.

7. Keep Your Customer Engaged with New Features

The functionality of a SaaS offering is typically upgraded two to four times a year and these features are added both to attract new customers and retain existing customers. Existing customers need to become aware of new features and their potential value.

Because of the frequency of SaaS upgrades, it's important to have a clear process and responsibility for communicating about new features and capitalizing on any up-sell opportunities. Marketing departments typically communicate new features to the customer via email campaigns, newsletters, or through a communication within the application itself. This will let your customers know that the product is continually being improved and that the value of the service is continually increasing as well.

The account manager who calls a customer and says that they know that a certain type of situation always creates difficulty and proposes a newly available inexpensive upgrade to solve the problem is viewed as a problem solver and partner with the customer, exactly what you want them to be. To be positioned for this, the salesperson or account manager must have listened to the customer and understood their concerns.

Without this proactive activity around new features, valuable opportunities to strengthen the customer relationship and increase the value of the account will be wasted.

Conclusion

Avoiding these seven pitfalls will decrease your new customer acquisition cost, reduce customer churn, increase account value, and result in a more sustainable and profitable business model. Don't let the implied simplicity of the SaaS offering keep you from having clearly defined sales, implementation, and support responsibilities and processes. You'll need them more than ever.

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