

# How Cloud Has Changed the Game for Customer Success

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Digital transformation has become an interesting side effect of COVID-19. As businesses scrambled last March and April to find ways to keep employees effective in work-from-home and other COVID-caused circumstances—and stay ahead of the competition—we have undergone several years' worth of this digital transformation in just one year's time (and counting). For organizations that were still holding out ahead of the pandemic on migrating to the cloud, for example, COVID-19 has forced the hands of many. Why? Setting aside any remaining vestiges of hesitation, these organizations are opting to protect their ability to function properly. This includes the flexibility of cloud deployments, which feature significant advantages over on-premises implementations.

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The cloud, however, is not without its pitfalls. Simply put, the cloud just isn't as sticky as an on-premises implementation. Namely, it creates a flight risk for vendors doing all they can to retain customers. This innate quality of the cloud has had a profound impact on the practice of customer success.

## How Cloud and On-Premises Solutions Differ

In the subscription billing process for software-as-a-service (SaaS) are several challenges that can cause vendors in the cloud to lose money. These affect both the solution provider and the end-user, but in different ways, and it is incumbent mainly on the solution provider to bridge the impasse. As business software installations go, on-premises ones are as close as you'll ever get to 100 percent permanent, whereas cloud deployments are temporary.

## On-Premises

One of the key differences of on-premises over cloud is the price tag. Depending on the software, an on-premises implementation could cost in the high six- to low seven-figures. In many cases, this is a minimum of four times the start-up cost for a cloud deployment. Beyond the initial software and development cost, there is the dedication of real-estate and utilities for hosting the platform on location and cost of employees to run and maintain it, along with other configuration cost. Decisions and implementations won't happen overnight, either. Decision-making can take more than a year to run its course, and several years of configuration and deployment follow to get the solution operational.

Those are sunk costs few organizations can flout. With several hundred thousand dollars (in many cases, easily more than a million), plus years of time invested, an on-premises solution is not something any organization is apt to want (or be able) to rip out and replace. This largely explains why we still have major institutions running software that is older than the person that administers them on a daily basis.

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## Cloud

The cloud is essentially everything on-premises is not. Up-front licensing of a cloud implementation comes with a price tag that is, typically, three to four times less than that of an on-premises solution. As an added benefit, there are no bulky servers to house, power, cool, and administer—also a big savings. And integration within most cloud-based technologies has become extremely straightforward, lowering the overall cost of implementation.

We've seen some great solutions that can be stood up, integrated, and running within days. Even the typical span of several months that it takes to implement and deploy a cloud solution contrasts starkly with the years it often requires to get an on-premises solution up and running.

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### **Cloud Creates a Flight Risk and Profound Challenges for Customer Success**

Herein lies the problem with cloud-based platforms. With such a relatively lower barrier to entry, it is a significantly faster sale. But all the advantages that make it so (e.g., cost, ease of implementation, etc.) also make it easy for users to do away with their cloud implementations on a whim—something they cannot really do with an on-premises deployment. The cloud supports a significantly higher-velocity sales process plagued by hungry sales reps looking to hit a sales number. The end result is customers that get exactly what they request and the best intentions to utilize their newly purchased system for just that reason, but at a fraction of the system's full capabilities.

3Sixty Insights recently ran into this with an HR director describing his use of a solution as "having a Cadillac, but using it like a skateboard" ([3Sixty Insights BWSCS20121 – Case Study: Isolved Partners with a Nonprofit Client to Deepen and Broaden HCM System Utilization, December 2020](#)). Specifically, he was referring to a payroll solution within the organization. Before he joined, the organization was sold on (and implemented) exactly what the HR team thought it wanted. In this example, the vendor did a good job of recognizing the situation and, with a consultative and partnering approach, helped the customer get the most it could out of the system. In this way, the vendor atoned for missteps that, apparently, occurred during what was, likely, a high-velocity sales process. It is hardly uncommon.

Remember: Unlike an on-premises implementation, a cloud deployment is easily replaceable. Come subscription renewal time, there is a far greater chance that a vendor with a competitive solution at a lower price point will poach the business. Especially when someone from financial oversight reviews expenses, the redeeming qualities of the already deployed solution may play little role in the decision. These internal stakeholders may have little or no understanding of the platform or technology; they just want to get the most for their dollar, as they understand this to be. A CFO or someone else in a related role may see the scenario, in fact, no differently than changing a cell phone or cable provider. Vendors bereft of an intelligent, consultative approach to customer success leave themselves and their clients unnecessarily susceptible to potentially disastrous results—a lost customer, and a floundering user.

**A CFO may see switching cloud vendors no differently than changing a cell phone or cable provider. Bereft of an intelligent, consultative approach to customer success, vendors in the cloud leave themselves and their clients unnecessarily susceptible to potentially disastrous results—a lost client and floundering user.**

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## **Playing Good Defense in the Cloud**

Obviously, vendors and customers alike would prefer to avoid these undesirable potentialities. On each side of the scrimmage line, fortunately, vendors and customers that understand the game have tactics in their arsenals to defend their cloud deployments.

### **Defending Cloud Deployments: Customers**

For customers, there is a reality: To the CFO, switching from one cloud to another may look like a one-to-one relationship on the general ledger. But it isn't. The cloud is, yes, a far lighter lift than any on-premises solution to implement, deploy and manage. Even so, cloud-based deployments still bring not-insignificant costs in all these areas, plus the hidden cost in the loss of system knowledge. Though most cloud instances can be implemented in a relatively short period of time, it can take months to get a system fully integrated and dialed in for the organization. Weeks and months of training and onboarding for users tend to follow, and there is often the additional labor expenditure of employing a dedicated person to manage the deployment day-to-day. The net is a savings compared to on-premises installations, but the cost is nonetheless there.

Line-of-business leaders who clearly articulate these aspects of cloud-related costs to their organization's financial decision-makers stand a far better chance of keeping the cloud deployments they want. These leaders spare their organizations the disruptions of continually switching cloud providers—e.g., teams that spend a majority of their time supporting migrations and never enough time on learning how to utilize the system to its greatest extent or on doing anything else truly important to organizational success.

### **Defending Cloud Deployments: Vendors**

We all know that on-premises in the short term is the bread winner. The financials support this. On each sale, an organization covers all costs associated with the software development, cost of sale, and other expenses along with a profit margin great for bookings and revenue numbers.

With the cloud, on the other hand, the financials are significantly different. On average, vendors in the cloud need 18 months post-customer deployment in order to recoup initial expenses and even begin to make a profit. Short term, the cloud is horrible for the cloud vendor's books and revenue numbers. This drives the sales velocity mentioned earlier. To show potentially healthy long-term revenue growth, vendors in the cloud must show the market healthy sales of net-new subscriptions.

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**High customer attrition is the silent killer of cloud solution providers. Vendors that help existing clients get the most out of the system can, when it matters most, show value far more readily.**

And yet, despite this laser focus on selling net-new subscribers, vendors also face major implications when subscribers constantly churn. High customer attrition is the silent killer of cloud solution providers. Vendors in the cloud, therefore, have a stake in persuading those same customer-side financial decision-makers in a similar way. The vendor that can help its existing client base get the most out of the system can, when it matters most, show the value of the system far more readily. Customers that experience this have a greater chance of convincing their financial decision-makers that the hidden costs of switching just aren't worth it.

### **Customer Success in the Cloud: Expanded and Reimagined**

The domain of customer success in the age of the cloud spans not only the footprint of traditional customer success, but also sales. In the cloud, customer success begins before the close, no longer the endpoint of the sale; in the cloud, in fact, the sale never ends. And it's a consultative sale, so this isn't about irritating existing customers with a barrage of unending salesy communication. It is incumbent upon cloud vendors to ensure an accurate alignment between these two activities. Only then can they hope to bend the curve of customer attrition.

This means imparting a customer success mindset within the sales organization. It means fostering a culture that at once pursues and thinks beyond net-new customer acquisition. Sales needs to be reorganized and incentivized to bring on the right customers, for the right reasons. This could mean compensation claw-backs for customer churn, along with a longer-term measurement of churn directly affecting salespeople's ability to receive bonuses, their commission levels, and their promotions. What gets measured, gets done. Properly aligning sales to bring in the right customer is the "first way to start." And the sales team must be educated on the "why" of this fundamental change.

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### **Case in Point: HubSpot**

Among vendors in the cloud to recognize this conundrum and develop an effective response and pivot is HubSpot, the pioneer in software for lead nurturing and inbound marketing. Needing the aforementioned average of 18 months with a net-new customer to achieve payback on its product, HubSpot quickly concluded that it didn't matter how many customers bought the solution if a large percentage was leaving shortly after purchasing. So, the vendor made it an overarching goal not just to

bring on the right customers, but also to do everything humanly possible to help ensure these customers' success. Rightly, HubSpot understood that a focus on customer success would lead to the vendor's success and formulated a process and workflow, described in the following sections, that has been effective in achieving these goals:

### **Aligning Sales and Customer Success**

**Among vendors in the cloud to develop an effective response and pivot to the dilemma of stemming customer churn is HubSpot.**

Through an alignment between sales and customer success, the latter at HubSpot commences the moment a new customer is won. As each new customer is signed, sales relays the details to the success team with regards to the who, what, when, and how of the purchase. HubSpot understands the value of this information, for a smoother transition, and doesn't just throw the ball over to the success team.

### **Required Onboarding and Training**

Put another way, this is required consulting for every net-new customer. It lasts eight weeks, during which time HubSpot consultants work to ensure that the customer's cloud instance is properly operating and that all users have a working knowledge of how to use the platform and receive an education in the additional value found in it.

Early on in its journey, given the attrition in actual use of the platform by customers post-sale, the vendor realized something: Inbound marketing wasn't easy for the uninitiated, and if potential customers are unwilling to learn, they probably aren't going to put in the effort to be successful. Forced one-on-one training with HubSpot staff extremely well-versed in the platform is essential to net-new customers' success. Prospects that don't want this consulting are disallowed from purchasing the platform—a barrier to entry that has helped the vendor greatly in vetting for only best-fit customers.

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### **Unearthing Holistic Value**

Early on, HubSpot learned that if it didn't provide more value to customers, they'd flee to lower-cost competitors. Specifically, many net-new clients had narrow, very specific purposes they'd identified for their use of HubSpot. Typically, these were the capabilities found in one or two tools within the platform—tools offered by such competitors at a much lower cost. To short-circuit this dynamic,

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HubSpot uses the required training to make the holistic, suite-wide value of the platform clear and tempting. Customer retention has improved.

### **Positioning for Customer Success Forever**

Whether for net-new or returning clients, customer success doesn't end with the consulting team's eight-week-long full-court press. Following this intense period, HubSpot introduces new customers to an account manager, their go-to resource for day-to-day needs.

Unlike that of the typical account manager, pay for this role at HubSpot has nothing to do with new sales. An account manager at HubSpot has the primary goal of keeping customers happy—by not only maintaining frequent contact with clients, but also monitoring their use of the platform. HubSpot has figured out that customers are more apt to stay for the long term if their use of the product is above a certain threshold. The account management team monitors a dashboard to gauge all this and uses the intel as a guide to help their assigned clients become more successful in the platform (by deepening customers' use of the tools available in it).

Finally, Marketing plays a key role in customer success. HubSpot sees marketing not just as a place to shape branding and generate leads, but as a domain that plays a critical role in clients' success. Teams within marketing have the sole goal of educating HubSpot's clients about the latest regarding the platform and its capabilities. This is a multifaceted effort spanning written content, web-based events, user groups, and HubSpot's popular and well-attended Inbound Marketing annual customer event.

### **Real-World Examples**

The lifeblood of 3Sixty Insights' research is interviews with leaders across the lines of business. In conducting these, 3Sixty Insights has learned of varied examples illustrating how vendors in the cloud do a good, poor, or middling job in carrying out customer success. If your organization has a story to share, positive or negative, 3Sixty Insights wants to hear it.