



PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Unlocking Customer Success Through Strategic Segmentation

At its most basic, customer success (CS) is the enabling of desired outcomes for customers using a product or service. It's about anticipating customers' questions, difficulties and challenges by providing solutions in real time. While its function in the organization has been evolving for over two decades, the ability to effectively scale and deliver a consistent and cohesive user experience across the entire customer base eludes many subscription-based enterprises.

Businesses that can effectively deploy CS capabilities can unlock significant benefits to both topline revenue and cost. Companies with dedicated CS teams boast an average customer retention rate of 90 percent, compared to just 64 percent for those without such a function, highlighting the tangible impact of effective CS.¹

Similarly, drawing from A&M's expertise, clients who enhance their CS segmentation and operations typically achieve cost reductions ranging from 15 percent to 20 percent compared to standard benchmarks. This efficiency not only drives EBITDA directly, but also frees up capital that can be strategically reinvested into other areas of the business.

Often, companies fall short of doing the necessary work to build out the operational and structural elements required to act on their intended segmentation strategy. This applies across a range of software and technology sectors. While companies often do a satisfactory job of developing and delivering a clear journey for their most strategic, high-tier customers, they struggle to achieve clarity and efficiency as they scale to customers in lower tiers.

Many companies, and consultants, fall into the trap of defining generic segmentation criteria and prioritizing scalable tools like CS platforms. This approach overlooks the critical foundation of robust, actionable customer segmentation. Stopping short of a fully deployed segmentation schema can undermine an essential value of segmentation: separating groups of customers so that they can be treated differently.

An actionable segmentation framework typically includes:

- Clear definition of each customer tier;
- Detailed criteria for how a customer is assigned to a tier, which will also define guidelines for moving customers between segments; and
- Examples of customers who are in each tier, with key use cases called out and typical personas identified and characterized.

Additionally, segmentation frameworks should contain qualitative criteria that give insight into likely customer needs. These may include the duration a customer has been using your application, the frequency with which they are logging in, their maturity in using these capabilities and the perceived criticality of the application to a company's core businesses. Insights from this detailed segmentation allows organizations to develop and maintain patterns for CS resources that inform the creation of playbooks and success plans.

1. <https://www.salesforce.com/resources/research-reports/state-of-the-connected-customer>

To roll out an effective CS program, organizations must define customer journeys for each segment, provide well-thought-out sub-segmentation based on the company's product portfolio and ensure the optimal levels and types of staffing and training are in place. This strategic approach allows them to make better decisions and retain or engage customers proactively.

Define the CS Journey and Paths

Well-defined journeys and adoption paths can be tailored for certain cohorts or personas within segments to further align client business outcomes with product portfolios, and there are many ways CS segmentation frameworks can be thought out and designed.

For example, the provider of an enterprise software offering for workforce management (WFM), where the primary function centers on timekeeping and scheduling, might adopt a traditional segmentation schema that tiers customers based on annual recurring revenue (ARR) or number of users. In such a case, customers with many users — subscriptions — or who have an ARR over a significant threshold are “strategic” while customers with smaller ARR are classified as “essential.”

Once segmented, a common approach to treating strategic customers is to provide high-touch CS services, which is justified given the large ARR. However, within the strategic customer base, there are likely sub-sets of customers who have vastly different expectations for their relationship with their Customer Success Manager (CSM) based on how important they view WFM as a function. In certain instances, some customers, while viewed as strategic by the provider, may not view WFM services as a strategic function for their business, but rather as a commodity that is required. For these customers, an in-person quarterly business review (QBR) may seem burdensome, so sharing business reviews as self-serve reports or changing their frequency to bi-annually could be appropriate.

Alternatively, other strategic customers might consider the timekeeping and scheduling functions as an essential element to their business function. For example, a hospital that relies on the provider to schedule all doctors, nurses and key staff may want to consider an in-person QBR and previews of upcoming product features as essential to their business and a pre-requisite from their WFM vendor. Understanding customers' expectations for engagement, tailored to how they view their provider, should inform how CSM services are scaled within each cohort.

Establish Sub-Segments Based on the Product

Sub-segmentation centered on the product portfolio has other considerations dependent on industry and service. In one instance, a company in the cybersecurity space was struggling to systematically expand its share of wallet — the amount of business a company receives from certain customers — within its core customer base. Regardless of customer size and ARR, the company observed that up-sell success was not correlated to the criteria it was collecting for each of its customer segments.

A series of customer interviews and analyses revealed that a customers' willingness to acquire — and effectively use — a certain set of tools was dependent on the customer being advanced in their capabilities. Because of the advanced nature of these tools, users would be required to have a deeper understanding of the cybersecurity domain and a knowledge of how to properly apply the tools. Though the provider had done a satisfactory job of identifying the market need and educating customers about what the product was capable of, it had fallen short of understanding the intricacies around the buying decision and subsequent usage model. By refining its segmentation to include an indicator for this user type, the company was more effective in its sales and marketing motions for cross selling this product.

Achieve Better Decision Making with Optimal Staffing

Actionable segmentation also informs staffing and roles for CS teams. Developing clarity on the specific jobs to be done and the expected outcomes allows employees to make better decisions on how to prioritize their work. It also provides guidance on the types of skills that are most important so that the best resources can be put in place. Consider the cybersecurity example above. Segmenting customers based on their expertise allows a provider to assign CSMs with matching skillsets. Clients requiring deep technical knowledge receive CSMs well-versed in industry tools while clients that already have this knowledge need more hands-off CSMs. This targeted approach ensures clients receive the support they need, fostering trust and potentially increasing wallet share.



Similarly, in the first WFM example, a provider will likely require CSMs for large strategic customers with different skillsets than CSMs for essential lower ARR customers. A CSM covering strategic customers will support significantly more accounts than a CSM covering essential accounts. Additionally, while essential CSMs may not have in-depth knowledge of every account detail because of their increased account coverage, leveraging churn and upsell propensity models can help them prioritize accounts for proactive outreach. This data-driven approach helps mitigate customer churn and unlock revenue growth opportunities.

Customized Segmentation Provides Customer with the Support They Need

A clear customer segmentation model allows sales and support teams to tailor their approaches, enabling the CS function to deliver a tailored approach that directly addresses each customer's needs. By doing so, CSMs can continue to proactively provide customers with the tools and support they need to maximize product usage and value, which will ultimately drive retention and cross-sell opportunities.

How Can A&M Help?

The Alvarez & Marsal team has extensive experience creating sustainable and scalable customer success frameworks for customers across technology industries, as well as others. By partnering with A&M, you can expect a comprehensive and customized approach to customer success that drives retention, reduces costs and ultimately enhances the overall customer experience. Contact us today to learn more about how we can help your business achieve its customer success goals.

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