# Continuous Value Management Reporting Will Ensure Customer Retention Success

## *The As-a-Service Business Model Increases Value Management Importance*

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## An As-a-Service Business Model is all about Customer Retention

More and more businesses across a variety of industries are transforming and leveraging their data and digitization efforts to develop new and highly accretive business models, and with that delivering flexible subscription-based offers to these new services and solutions. On the demand side, clients enjoy an "as-a-service" consumption model, with generally lower entry points, continual support in some cases, and a less capex-intensive approach overall. The trend began in the software industry, with an overriding preference towards software-as-a-service (SaaS), and it's been gaining much traction in "product" oriented companies as well. Companies that are looking to transform from a "product" orientation to a "solution" orientation by packaging up their "piece of hardware" and wrapping services, maintenance and support, upgrades, financing, monitoring, replenishment and other value-add services to an otherwise commoditized piece of hardware. For example, original equipment manufacturers (OEMs) that produce tractors, airplane engines and printers, are all delivering full solutions "as-a-service". This enables businesses create differentiation, increase margins, improve customer experiences, and created long term stickiness — if customer value is realized. It's a win/win.

The software/SaaS industry quickly learned that their business success and true profitable growth depends as much on the full adoption of their solutions and renewals across their customer base as it does, winning net new customer. In the days of selling products, companies cared if you were successful, but once a product was purchased, companies shifted focusing on the next new customer in the pipeline. Every quarter, sales would re-set to zero and there was a new quota number to achieve. In this evolution of selling SaaS and the establishment of Annual Recurring Revenue models, suddenly, business models began to depend heavily on if customers renewed or not, based on the value they see from their technology purchases.

Today's subscription models are much better for customers and creates more healthy providers, so long as vendors are focused on customer success and delivering customer value. Most SaaS businesses invest heavily in Customer Success (in the form of onboarding and implementation services) and Customer Support resources to ensure customer satisfaction and a strong renewal rate.

As a result, the focus on new executive KPIs like Customer Lifetime Value or specifically Net Dollar Retention Rate have become paramount. A 100% renewal-rate across the customer base in one year would imply that all your customers decide to renew their service at the appropriate milestone at the same dollar amount as the prior year. However, many companies strive to expand and grow their business from their customer base, as the age-old adage that growing the current customer business is more profitable than acquiring new logos still prevails.

That said, having a 100% net dollar retention rate indicates that your customers are staying, but not spending any additional money with you. The current status in the SaaS industry is that "net retention is a critical figure: if you're at ~106% you're in line with the average, if you're below 100% do a little work to figure out what's happening, and if you're ~120%+, you're in great company." [1]

[1] https://about.crunchbase.com/blog/net-dollar-retention/

## Introducing Value Management

The buyers also have their financial metrics. Most business purchase decisions are supported by some sort of financial analysis and forecast, but that is mostly focused on the initial investment approval process as a one-off report, using financial instruments such as: Return-on-Investment (ROI); Total Cost of Ownership (TCO); Internal Rate of Return (IRR); Payback Period; and Net Present Value (NPV). As businesses become more accustomed to the as-a-service model, it is highly likely that some will expect this analysis to become an ongoing, continuous assessment of financial returns. That concept called Value Management is defined as:

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**Value Management**

**The practice of systematically capturing, analyzing, measuring and communicating the economic value achieved to confirm the expected and actual business contributions of a relationship.**

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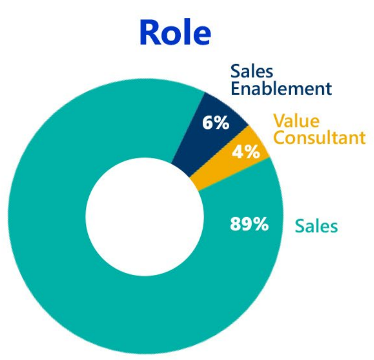
## We Surveyed 203 B2B SaaS Sales Managers and Executives to Find Out More

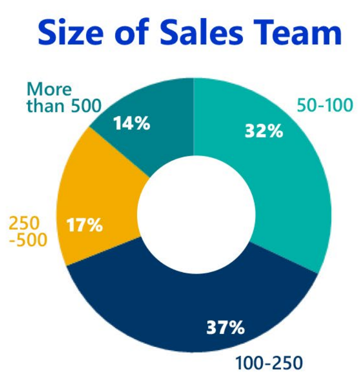
This report examines the importance of value management in the SaaS selling motion and can provide guidance for businesses on both sides of the B2B buying process. We surveyed 203 sales managers and executives responsible for SaaS sales teams to provide a snapshot of the current deployment of the value management concept and tools in that industry. Over the past decade, the software industry has completed a fundamental transformation to SaaS. It has moved from a product business model, where initial license fees are paid upfront and depreciated accordingly as a capital investment, to an almost exclusive service-based model, where consumers subscribe to a software for fixed time periods and often account for the project as an operating expense.

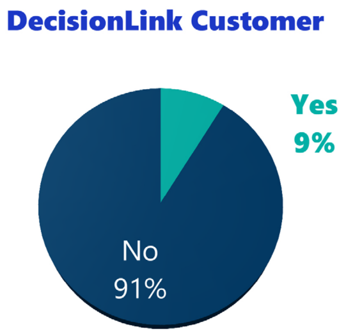
As mentioned above, this migration is likely to be replicated in many other industries due to digital disruption and transformation, so the lessons learned by SaaS sales executives should provide useful to their peers in other sectors.

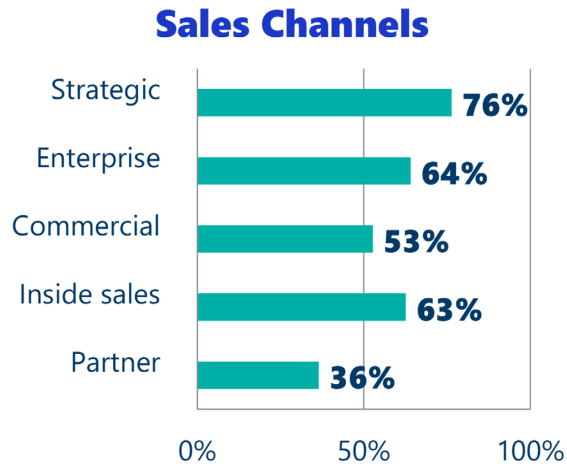
The sales managers and executives we surveyed were responsible for sales teams of varying sizes and active in all go-to-market motions (direct selling, inside sales, partner selling).










The survey was performed by Dimensional Research. We then asked industry analyst, Peter O'Neill, to review and analyze the data and write a report based on his insights.

*Peter is an IT industry veteran with more than 39 years of experience in advising vendor and end-user clients and performing research-based consulting, combining strong research capabilities with comparative vendor assessments and actionable advice. He is most known for his 12 years of service at Forrester Research as industry analyst and research director. Most recently Peter managed Forrester's research on B2B Marketing organization, process and automation topics, a worldwide team of 11 experienced analysts. Prior to his time at Forrester, Peter had worked for 20 years at Hewlett-Packard in Germany and the USA and then joined META Group (2001 – 2005) where he led the company's Vendor Consulting Group across EMEA.*

## Compelling Value Management is a Challenge

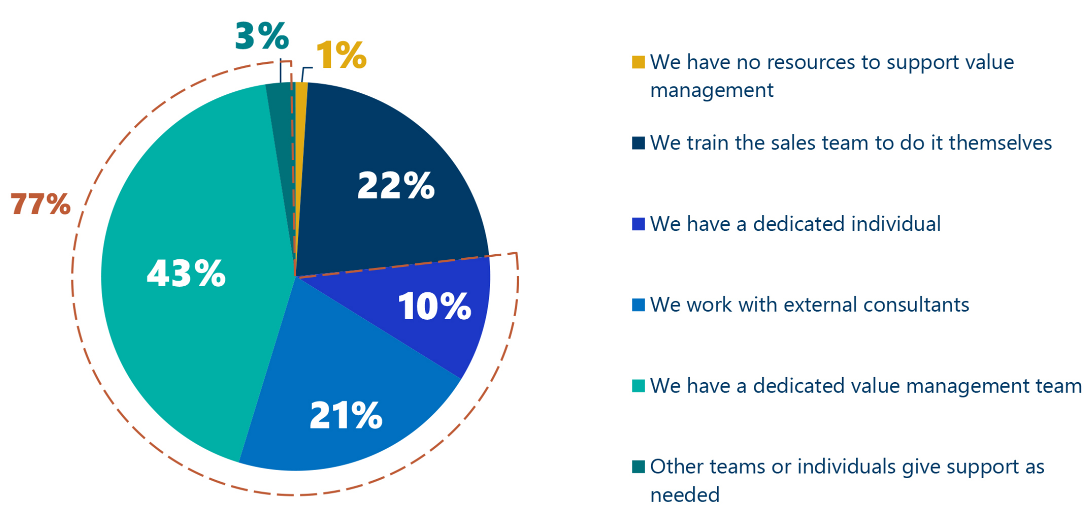
### There are many different approaches to value management

Most companies require every investment proposal to include a forecast based upon one or more financial-return calculation of ROI or TCO in order to evaluate investments and compare them side by side, on the merits of overall returns for every dollar invested. But measuring and reporting the value of a business investment is challenging and complicated, not the least because different stakeholders in a business have different views and priorities. Some projects may have goals around increased revenue and profit, other projects seek to optimize processes to save operating cost. Collecting accurate data can be difficult and so most of the ROI/TCO/IRR/NPV forecasts are therefore estimates and usually include many assumptions. Often, the document is completed on a pro-forma basis and not validated; and it is hardly ever audited at a later date on the actual outcomes of the project.

In response to this need, almost all of the sales managers and executives we surveyed report that they leverage some kind of tool to establish value during a sales process (one of the 203 could not). They offer tools such as an online ROI calculator (72%) or other spreadsheet templates (64%). Or they can help buyers to develop their own business case, sometimes by providing data collected from their existing client base (66%).

A staggering 77% of the sales organizations even have a supplemental consulting resource to collect data and advise on the topic. The larger companies tend to have greater resources, teams instead of a specialist, because they are dealing with enterprise buying teams more often.

**What type of value management resources support your sales organization?**
Choose the one answer that most closely applies.



However, even though there are so many resources available, the respondents report that these offerings are not deployed very often – just one third of the sales managers claim that their value analysis tools are deployed in more than half of their sales cycles, leaving a large percentage of active deals without any form of value analysis or business justification.

## Value management deployment has many challenges and meets some suspicion

Sellers have moderate confidence in their ability to use the value tools that they have (85% say they are "somewhat confident – we do as good a job as possible in a hard task") but the prospects they talk to are somewhat skeptical of the results they are presented with (84% are seen as "somewhat confident – they question some assumptions but overall accepting"). This confidence increases according to the size of the vendor company: companies with teams of 50-100 sellers return 8% of managers being "very confident", while those with teams of over 250 sellers reach a "very confident" score of 18%, probably due to their more expansive resources.

But an overwhelming 92% of the sales leaders also cite a multitude of challenges in the deployment of value management with the most important issue being the common sales conversation focus on the price of a product or subscription instead of the value. This is a historical selling challenge across many industries, due to tendencies on both sides of the purchase decision:

- A business culture of sales quotas and discount models instead of a customer-first, value-based selling approach
- A focus from buyers on the cost budget they must invest instead of the value they are creating

## Vendors struggle to meet customer expectations on value management

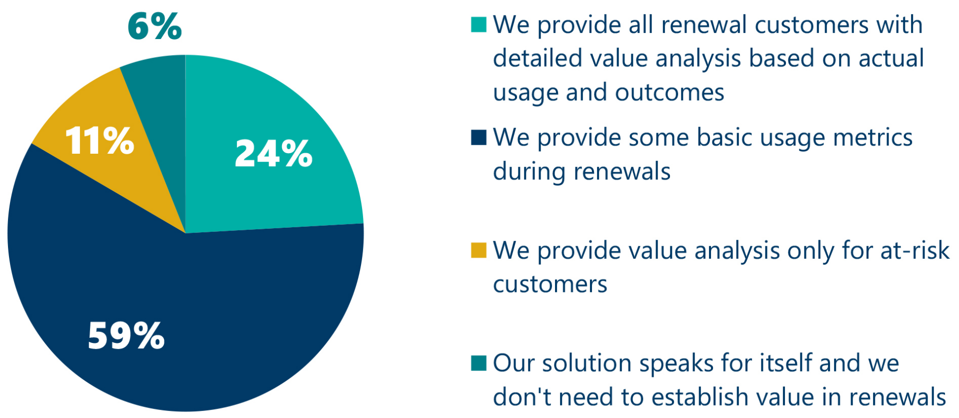
So, sales teams have some financial return tools at their disposal and most have access to additional consulting resources on the topic. However, when they are being asked to deploy these tools, they are struggling to satisfy customer demand appropriately. In fact, 82% of them report that they are being asked for value management analysis that is beyond what they can deliver, 36% of respondents report this happening on a frequent basis.


Clearly, the level of analysis and sophistication of the vendors' ROI or Payback Period calculators leaves something to be desired. Buyers are sometimes suspicious of a sales-driven financial model that is designed to promote, is perceived as lacking objectivity, and probably does not cover business risk assessment adequately, especially if the prospect feels the analysis was done in a vacuum, without visibility into how the calculations were achieved.

The topic of better value management has therefore acquired a sense of urgency with sales leaders and the vast majority of them recognize that their organization's focus on value management has changed in the past five years: 60% said this is "much more" important and another selected "slightly more" important. This recognition varies significantly by size of organization: those with small sales teams were at 58% answering "much more important" while those with the largest teams were at 65%.

Increasingly, many of these requests came from buyers in the renewal phase, as anecdotal evidence shows that some buyers are beginning to expect value management to be an ongoing, continuous assessment of financial returns. But most sellers are accustomed to talking ROI only during the initial point of sale. When we asked sellers, we found that only 24%use a value analysis of any type of all during renewal negotiations. Surprisingly, 11% only provide value analysis to at-risk customers and 59% only provide basic usage metrics to their customers prior to renewal conversations.

**How would you characterize the analysis of use and value that your company provides to existing customers before renewals?**



## Economic Value Will Become a Standard SaaS Decision Criterion

### Increased financial attention

Many investments in software technology, particularly in the Marketing department, the department most accustomed to spending externally on agency services and technology, have not necessarily been subject to the same financial disciplines that other departments face when submitting other appropriation requests. Recently, SaaS has democratized software buying and many SaaS subscriptions are now signed up by individual contributors out of their expense budget – curiously, in these cases, IT or procurement then gets involved when the renewal phase is reached. But the spending honeymoon is likely ending. Chief Financial Officers are now turning their attention to these software expenditures and expect answers – answers in their taxonomy of return on investment, business outcomes, and revenue contribution.

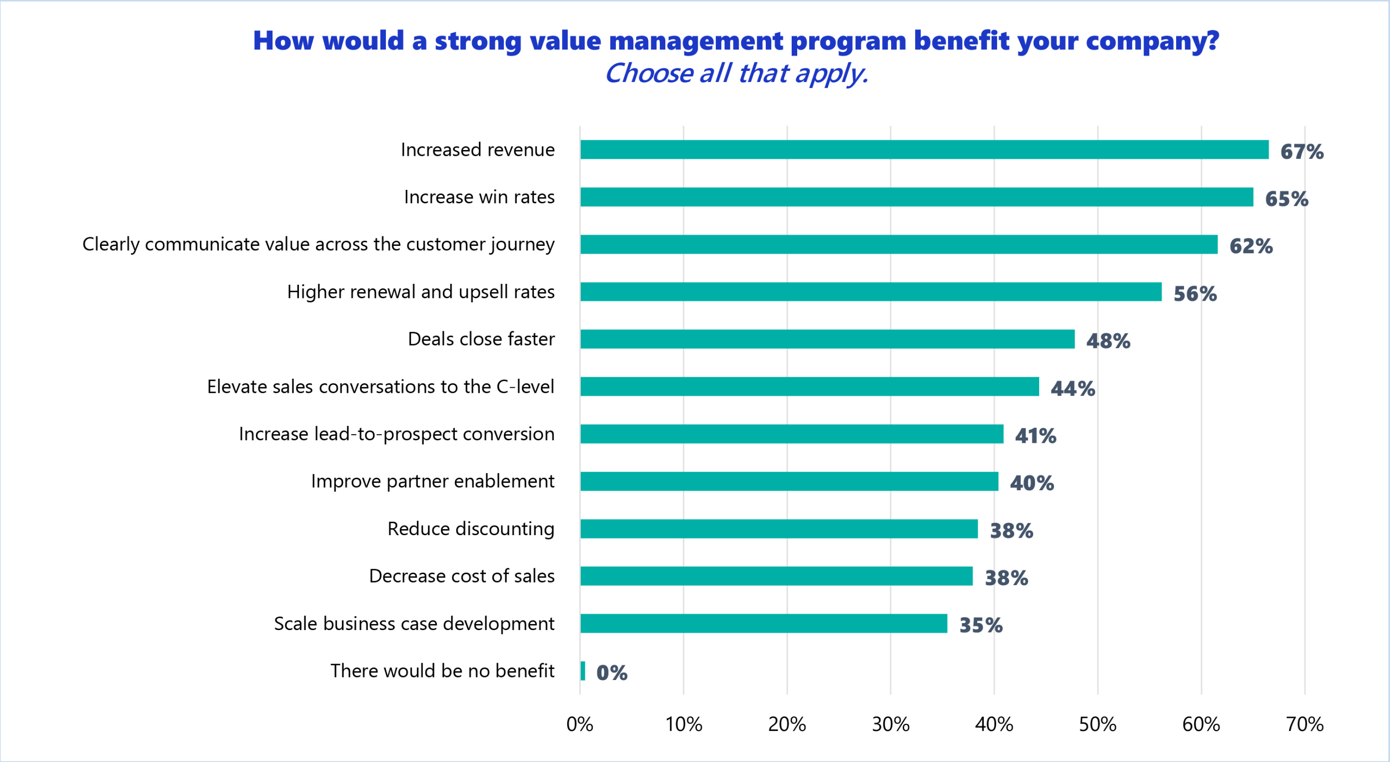
Many SaaS sellers are also discovering that the renewal negotiation has moved from a "shall we continue the project" discussion to an almost full-blown re-evaluation of the investment. Compliance guidance, or just good procurement management practice, is pushing buyers to evaluate a new shortlist in the renewal phase and each additional user group or functionality is treated as a brand-new project.

The one potential advantage for the current supplier over other providers is that they have, hopefully, provided a strong customer alignment and experience and that has been documented. The other is that the supplier is able to prove that their service has provided value to the organization:

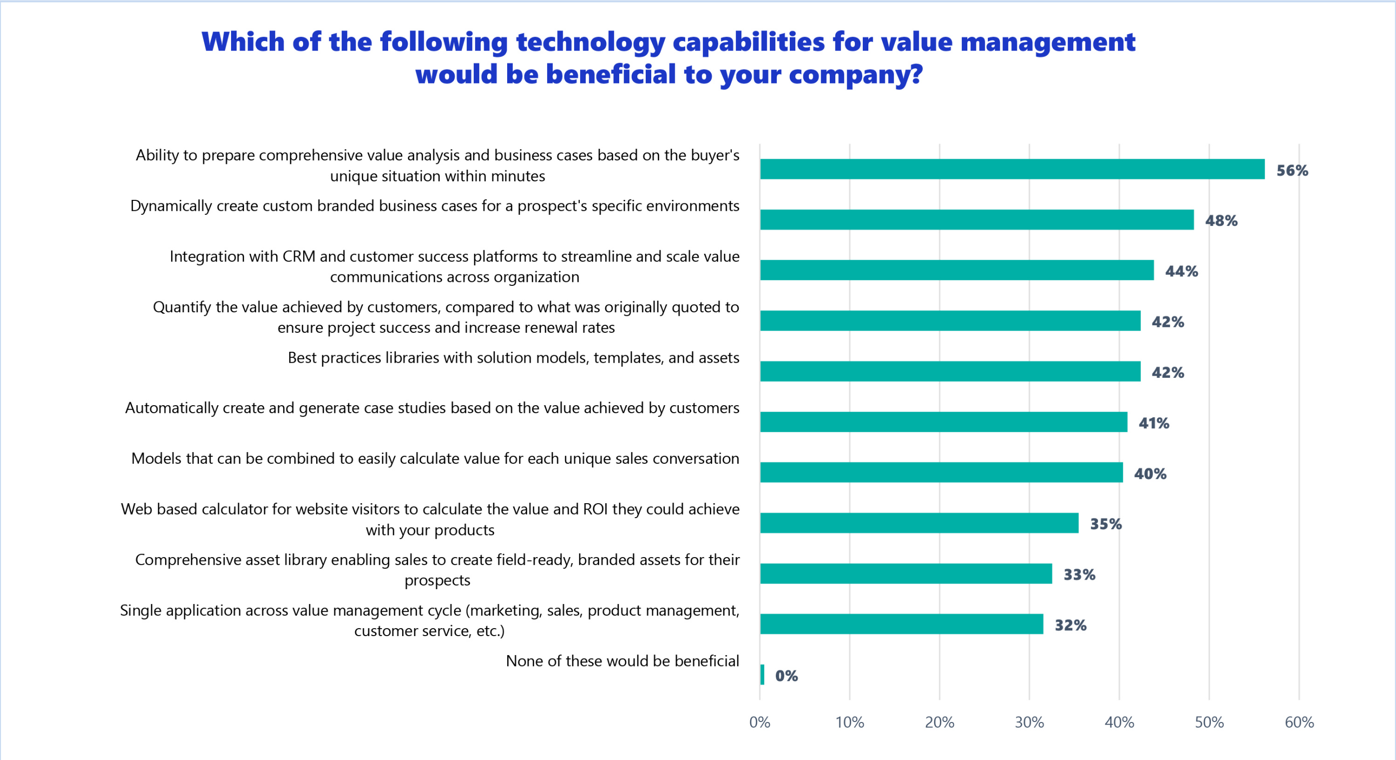
- At the minimum, as measured against the forecasted benefits from the start of the project
- Ideally, based upon a continuous value management process.

### Sales leaders want better self-service value management tools

The sales leaders we surveyed see the benefits of being able to apply a comprehensive approach to value management, and they see that not only in their functional measures of revenue and win-rates. In reply to our question, they also rated highly such strategic benefits as "Clearly communicate value across the customer journey" and "Elevate conversations to the C-Level".



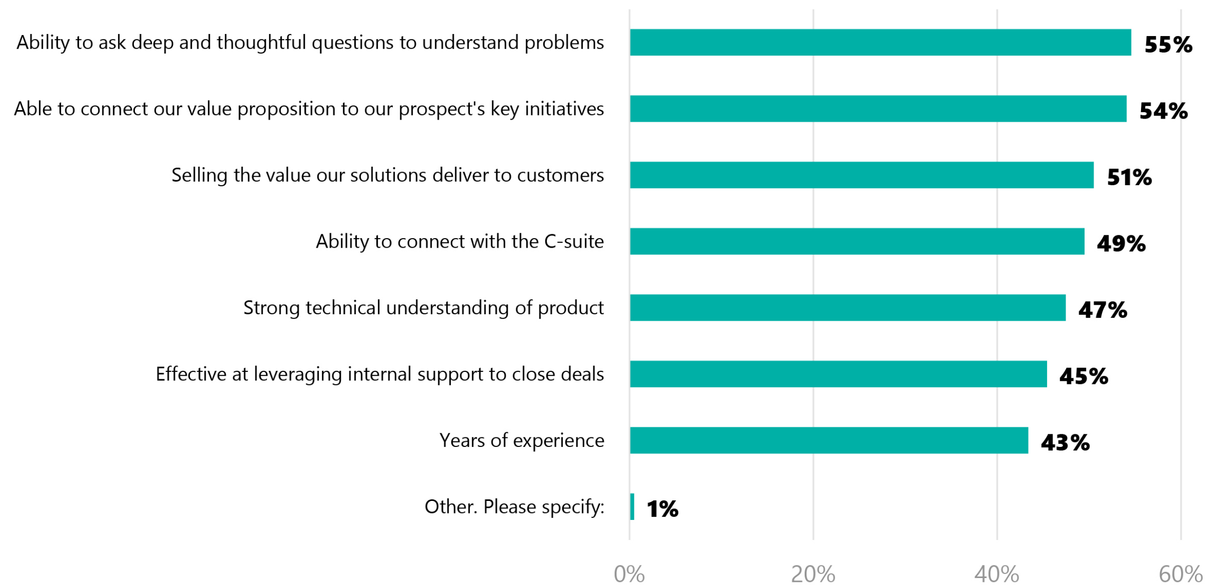

Many of the sales leaders also have clear opinions about how value management solutions should help them to achieve those benefits, their focus being time-to-market and integration with other sales enablement functions.



An overwhelming 64% of the survey respondents cited value management as at least a Top 3 priority for their sales organization while another 24% placed it in the Top 5. They also recognize that their most successful sellers in their teams are those who can use value management concepts well. Just over half, 51%, of them admit that only a quarter or less of their sellers excel at value management. But 79% of them recognize that these sellers account for over half of their revenues.

Being sales leaders, they have observed and noted the skills and techniques used by these value management experts, so they also recognize which skills need to be improved in their teams, and these revolve around sellers being able to be empathise with the buyers and their business issues.

**What are the key skills that your top sales performers have that are lacking in the reps who are struggling?** *Choose all that apply.*




**Other** Personality and ability to connect with clients; Charm and EQ

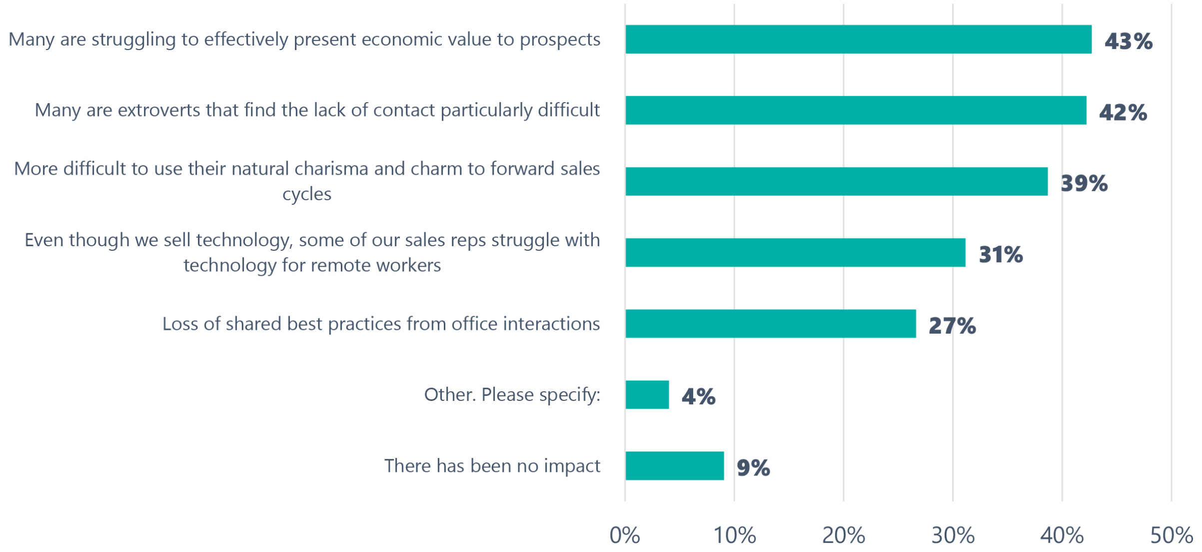
## COVID-19 Raises The Sense of Urgency

The COVID-19 crisis has had a dramatic effect on the overall B2B sales process. Some industries are essentially closed and are not able to spend any money, while others are facing uncertain markets and are hesitant to invest as they had planned at the start of the year. Those industries and companies that are benefiting from increased interest in their products and services due to the crisis have become hotbeds of competition from every possible supplier.

More importantly, the role and routine functions of a seller have been transformed. Many B2B buyers have now discovered that working from home is beneficial and may even become routine in the future. Team meetings are now virtual and may stay so as well. This has ramifications on the social aspects of selling: attending and presenting at meetings; extending invitations and socializing; organizing knowledge transfer; right down to valuable personal account manager skills such as working a complete buying center of multiple people during one customer visit by "walking the corridors". The buyers are also discovering the benefits of eCommerce and digital research.

The impacts of COVID-19 are significant; of the 203 companies we surveyed, only 9% of the sales teams we surveyed said that there had been no impact on their work due to the pandemic. A majority of companies, 89%, indicated it is more difficult to discuss value or to work without maintaining their usual style of relationships.

**How have recent quarantine and shelter-in-place mandates impacted your sales team?**
*Choose all that apply.*

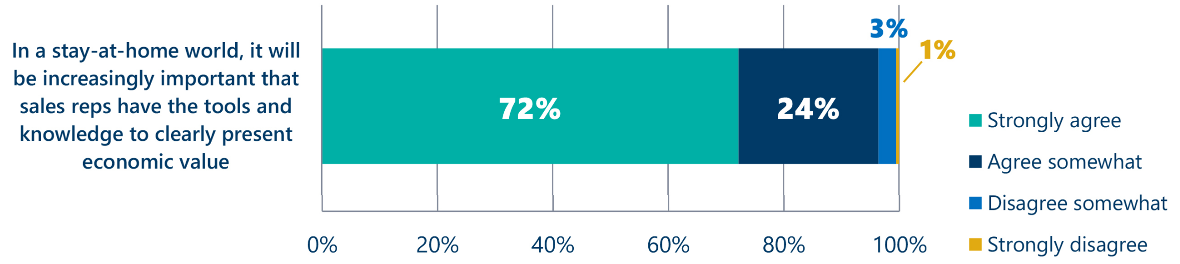



**Other** More issues with exec access and general progression of deals due to uncertainty and direct economic impact; Pipeline development has become very difficult; feeling like Ambulance chasing; pipeline low and deals pushing

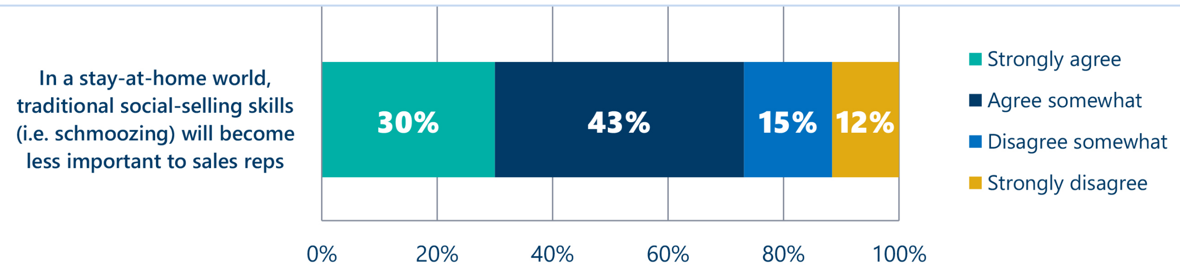
The need for self-service value management tools for sales teams becomes critical in today's stay-at-home world. A large majority, 96% of respondents believe that it will be increasingly important that sales team members have the tools and knowledge to clearly articulate and present economic value.

**96% AGREE THAT VALUE MANAGEMENT IS EVEN MORE IMPORTANT FOR SELLING IN A A STAY-AT-HOME WORLD**

*Please indicate your agreement with the following statements.*




The response to a question about the social aspects was more mixed, but 73% of respondents agreed that traditional social-selling skills that salespeople possess will become less important.



## Recommendations Section – Call to Action Summary

**Traditionally, tools for financial justification calculations were mostly promoted by technology vendors and providers to accelerate their own sales process and help potential customers to document the need to invest. In this context, the tool was leveraged only during the sales process to justify the business case and support the initial buying team and the value hypotheses were never validated after the sale.**

These homegrown tools required extensive investment and manual effort and were generally only deployed by large vendors and enterprise buyers, both of whom could afford the investment and where the project budgets justified the deployment (to both buyer and vendor).

Closer attention from finance departments, plus the advent of SaaS, is now generating a clear preference for applying full value management principles throughout the project lifecycle. On the vendor-side, value management will also become important in other departments such as Customer Success, to audit the business benefits and ensure project effectiveness.

In addition, it is highly probable that, on the buyer-side, financial and procurement professionals will be leveraging a value management solution to support a company's decision-making process for multiple projects as a standard operating practice.

SaaS is, by design, easily measured and monitored and can therefore also provide important data about usage and other important business outcomes. Setting up a value management collection and reporting system is now possible in most cases without custom programming and extensive investments. This means that value analysis can be offered by small and large vendors and be deployed to customers of all sizes. Additionally, the ability for sales teams to generate value analysis in a self-service format is critical to ensure that value is communicated in every sales cycle.

Vendors seeking a placement on the strategic supplier list at their most important clients can now even take advantage of modern value management software offerings, including the provision as a cloud service, and make their value data more transparent to all parties.

## We would recommend the following:

**Expect value management to be a continuous process.** The concept of a capital investment amortizing over a payback period is becoming obsolete. One consequence of an “as-a-service” investment is that the value must be monitored continually because usage and deployment of the service will fluctuate over time. ROI is no longer a one-off forecast based upon estimates and assumptions, it must be modeled and set up in a system that is able to collect actual data and provide ongoing reporting.

**Consider value management as a customer service.** Vendors’ ROI tools proffered from a salesperson’s briefcase, like a discount, is no longer winning business. Buyers are looking for business partners and successful SaaS providers are offering a value management process as an accompanying service. Both parties can profit from the data collected.

**Remember, buyers are always competing internally for budgets.** The true competitor for any technology investment is not another vendor, it is “do nothing”. If the reasons to invest are not compelling enough, usually this means financially compelling, the responsible business executive will decide to invest the budget in another project with a higher perception of value.