

## The Customer is King in a World of Converging Services: TSIA Spring 2017 Conference Recap

An Overview by  
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Waterstone participated in TSIA's Technology Services World spring conference in San Diego last week, where approximately 1,200 technology leaders gathered to present and share their perspectives on the key developments in the Services sector. The convergence of Services in a tech world that is increasingly focused on recurring revenue was the theme of the conference, and this shift has had a profound impact on the way that Services organizations are operating. Below are five key takeaways from the conference that Services organizations should be aware of.

### 1. Services Are Converging, Not Only Within Services Organizations but Also with the Sales Function

The focus on recurring revenue and the importance of the customer experience in the tech sector have pushed Services into the spotlight for investors and executives alike. While the various components of Services organizations have traditionally operated in silos, the move to selling an all-inclusive business outcome rather than just a product and/or service has created a convergence within these organizations. To deliver the very best customer experience, the lines that once shaped Services organizations are being blurred. For example:

- Support teams' non-billable resources are delivering more billable work.
- Professional Services (PS) is increasingly sold through a subscription model, acting more and more as a Managed Service.
- Customer Success acts cross-functionally across the entire Services organization.
- Services leaders want tools and systems to sit atop the entire Services organization, giving visibility across functions.
- Operations resources and analytics are being shared across the group.

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***Forget the traditional organization – break the silos to bring the absolute best to the customer.***

**SVP of Customer Success,  
Enterprise Software Provider**

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This convergence is not limited to within Services, but also has reshaped the longstanding relationship between Services and Sales as the two increasingly overlap. Nowhere is this more evident than with renewals, where many companies today wrestle with whether this action should be owned by Sales, Services, or the back office. According to J.B. Wood, CEO of TSIA, "Customer Success is the one thing that throws a stick of dynamite between the Sales and Services silos." Customer Success, which Mr. Wood described as "a Services motion with a Sales result," blurs the line so much between the two that TSIA

predicts that debates over where Customer Success expenses should sit on the income statement will be a hot topic in tech accounting in the coming years. Product and Services sales teams that once operated autonomously now pitch an overall solution to business problems. It is clear that traditional norms within the Services organizational structure and overall strategy have shifted in the name of delivering a great experience to the customer.

## 2. The Customer Is King, and Customer Success Is More Important Than Ever

In a world where tech companies are increasingly delivering corporate strategies centered around the needs of the customer, there is no hotter topic than Customer Success. Customer Success is not a simple extension of Support, but rather is a strategic advisory voice trusted by customers that helps them plan for and achieve success in the future.

The industry understands that investment in Customer Success can directly increase annual recurring revenue (ARR), and the question is not why to form a Customer Success function, but how. And in companies where Customer Success is a paid offer, the function can not only cover its own cost but can also drive incremental revenue. While there is still some debate over whether to monetize Customer Success, the general opinion around the conference was that companies should monetize it.

Launching a proper Customer Success function is not easy, and there are three essential requirements that must be met when doing so:

1. Investment must be allocated to setting up and running a Customer Success function. The ROI of the business case can be very compelling, especially with the benefits of ARR modeled several years out, but there must be executive buy-in to ensure sufficient investment is made.
2. The team must be staffed with high-caliber Customer Success managers (CSMs). CSMs must be adept at delivering exceptional customer outcomes while also having expertise in the company's offerings.
3. Analytics and automation must be used to enable scale—this is critical to the model. Leveraging outcome-based KPIs, ideally from the product, allows CSMs to have value-added engagement with their clients. When equipped with this data, both from their named accounts and from across the entire customer base, CSMs have unique insight into their customers' performance versus benchmarks, allowing them to craft tailored success plans. Tools to measure customer health and drive internal workflows and customer engagement are critical to success. Ultimately, an enterprise B2B software company needs to find ways to engage in a scalable way with their end users.

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***We believe that you can monetize Customer Success, and that you should.***

**VP of Strategy & Business  
Development, Enterprise  
Software Provider**

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### 3. Innovative Services Offers Are Being Developed with New Monetization Strategies

Services revenue has traditionally played second fiddle to software revenue given Wall Street's valuation preference for the latter; however, there has been renewed focus on generating Services revenue through premium offers since customers that are willing to pay for these services are often happier, stickier, and more likely to increase product adoption. But in order for vendors to convince customers to pay for these services, they must truly demonstrate that the offers create incremental value. Due to pricing pressure and increased competition, vendors must either constantly innovate and demonstrate new value creation, or decrease price while also risking losing business to more innovative service providers. Vendors are crafting new offers based on the voice of the customer, leveraging feedback from Sales and Support, user groups, customer surveys, and industry analysts to figure out which Services elements customers would be willing to pay a premium for.

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***Every dollar of Services sales is an opportunity to drive adoption, while it used to be thought of as just another dollar of revenue.***

**Director of Support, Application  
Software Provider**

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Determining which aspects of Services should be monetized is still more of an art than a science as vendors look to increase revenue while also being careful to not deter customers from utilizing key services that will help them succeed because of price restrictions. Vendors are beginning to create new revenue streams by offering premium tiers of Support, while continuing to provide the basic necessities at no extra charge. For Customer Success specifically, more and more portfolio elements are being monetized. One TSIA representative likened Customer Success monetization to a gym membership: a membership will get you access to the equipment, but to truly maximize your results and use the equipment effectively, you need to invest in a personal trainer. The dynamics around determining which services to monetize will likely be a balancing act and ultimately determined through trial and error.

As Services organizations converge and vendors refine their focus around the holistic needs of the customer, it becomes more practical to have a single Services Portfolio Management team; this reduces overlap and thus limits internal competition. However, this does not mean that offers themselves should converge into a single "one size fits all" model, which is a great source of missed revenue in the market today. Too often organizations create a single premium offer tailored to their largest customers that is not practical down market; smaller customers frequently have needs for premium services but lack the resources to pay for the same offer developed for larger accounts. A comprehensive portfolio of scalable premium Services offers should be developed that addresses a variety of market segments, taking into account factors including size, growth, maturity, and purchase history. Astute companies that put this strategy into practice are leveraging more dynamic pricing alternatives to the traditional one-time fee, including subscription, pre-paid credits, and even outcome-based pricing.

#### 4. Services Organizations Are Using Technology in New Ways to Empower Their Team While Also Providing Value to Their Customers

There has been significant improvement in the quality of technology solutions available to Services organizations. Just a few years ago, it was sufficient to have a single CRM sitting atop the entire Services organization, and often the Sales organization as well. However, significant innovation by vendors of point solutions such as PSAs, ticketing systems, and Customer Success platforms have prompted organizations to invest in best-of-breed solutions for their various teams to ensure they are best equipped to deliver success.

Companies are also leveraging technology to provide incremental value to Services customers. Artificial intelligence (AI), bots, and other digital transformation elements are no longer nice-to-haves, but are now key differentiators for Services offers, particularly for Support. Many companies are now using big data analytics to generate reports and benchmarks and provide this information back to customers. Some companies are making an extra effort by presenting the data in visually appealing ways that go far beyond a typical spreadsheet or dashboard. Empowering customers with full data transparency is a mutually beneficial strategy that can ultimately increase stickiness and adoption. In order to provide these types of solutions, a strong partnership must be developed between the Services organization and IT. Despite the significant amount of capital required to invest in these tools and develop these offers, they will likely become industry requirements in the not too distant future.

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***Connecting data across the end-to-end customer lifecycle can make sure that what you are providing a customer is what they are really asking for.***

**Chief Services Architect,  
Infrastructure and Technology  
Provider**

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#### 5. Traditional Support Is Still Crucial Despite the Tremendous Focus on Customer Success and New Monetized Services Offers

The hot topics in the Services sector over the past several years have been Customer Success and exciting new monetized offers, and this trend has many people wondering if traditional Support has lost its way in this constantly evolving landscape. The answer at the conference was a resounding no. In fact, in today's world where information travels faster than ever and social media trends can move a company's stock price, Support is crucial given its position as a critical brand ambassador.

Perhaps the biggest trend in Support that people sitting outside of a Services organization may be unaware of is its push to solve problems before they happen at all. Support is best leveraged as a resource for customers with the most difficult problems, rather than for problems that could be eliminated through product enhancements. Leading Support organizations are collaborating with Product Development to identify innovation opportunities that have a positive ROI strictly through decreasing case volume. In fact, some companies have R&D budgets dedicated solely to Support innovation.

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***What we do, whether or not the customer pays for it, is absolutely critical to the business.***

**Vice President of Support,  
Software and Device Provider**

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Eliminating mass case volume through product innovation as well as the development of self-service tools fundamentally changes the composition and mandate of the Support organization. The cases that remain are fewer but also more difficult to resolve; this necessitates a reengineering of KPIs, as metrics such as average handle time will naturally rise. As such, the resources employed within Support must become more sophisticated product experts capable of resolving complex questions. Innovative technology solutions such as chat, AI, and bots are also helping Support organizations reshape their operations, and in many cases appeal to the growing share of millennials in the workforce that prefer to not speak to an agent over the phone.

Companies are also looking to take advantage of the direct touchpoint that Support has with a customer. The Support team's unique view into the customer's situation allows it to provide tailored recommendations that can increase CSAT and adoption. Support is also uniquely capable of identifying high-potential upsell opportunities and passing them to Sales. Some companies are even experimenting with ways for Support resources to make sales themselves. Support organizations that are empowered with input into the product, the right tools, and an appropriate skill set are well positioned to make more of an impact than ever.

Waterstone continues to see all five of these themes play out in the market. Technology companies' adaptation to each of these trends becomes more critical as the industry's shift to cloud and subscription-based models continues. If you have questions on these themes or would like to discuss any other trends that you are seeing in tech Services, please feel free to reach out to me at [jkirwan@waterstonegroup.com](mailto:jkirwan@waterstonegroup.com).