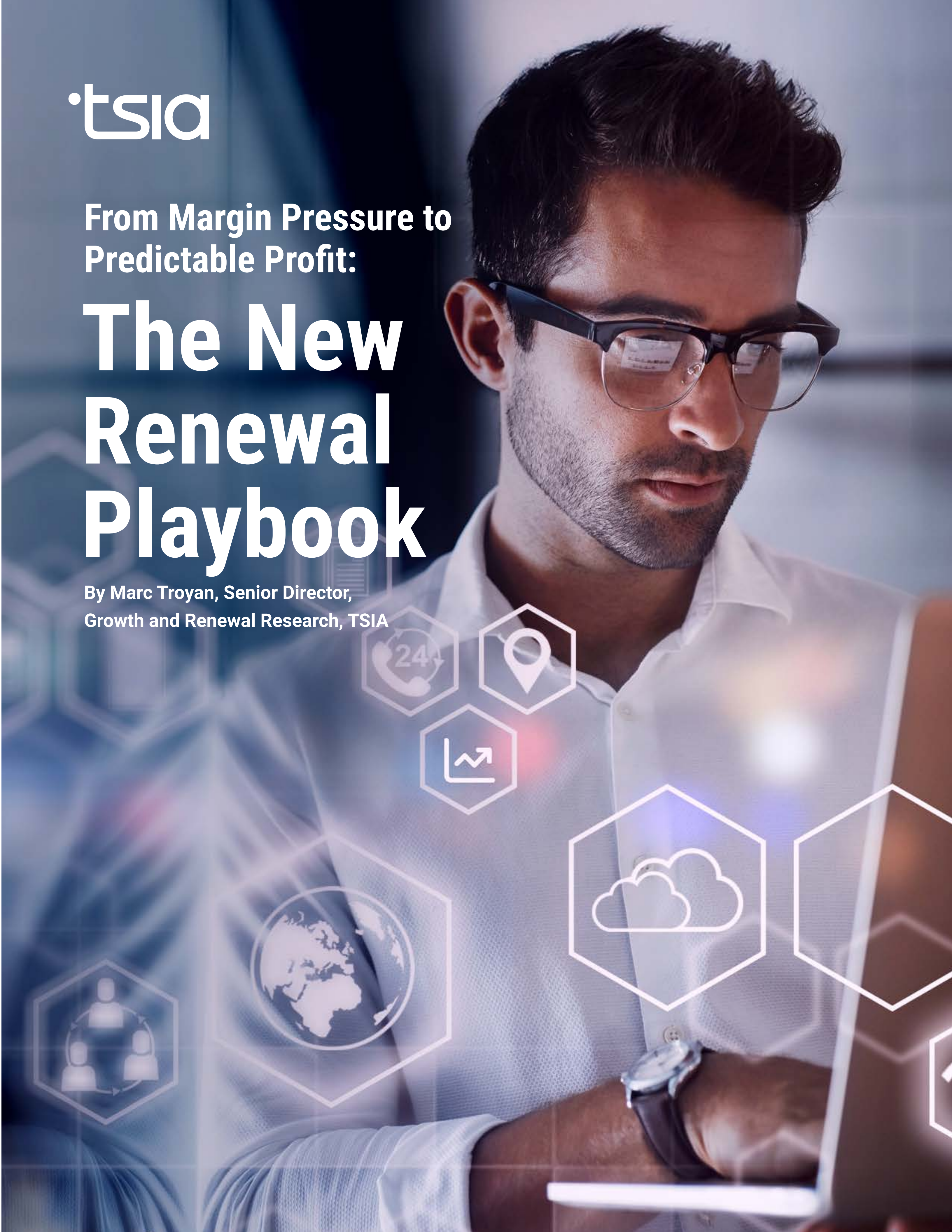
From Margin Pressure to Predictable Profit:

# The New Renewal Playbook

By Marc Troyan, Senior Director,
Growth and Renewal Research, TSIA



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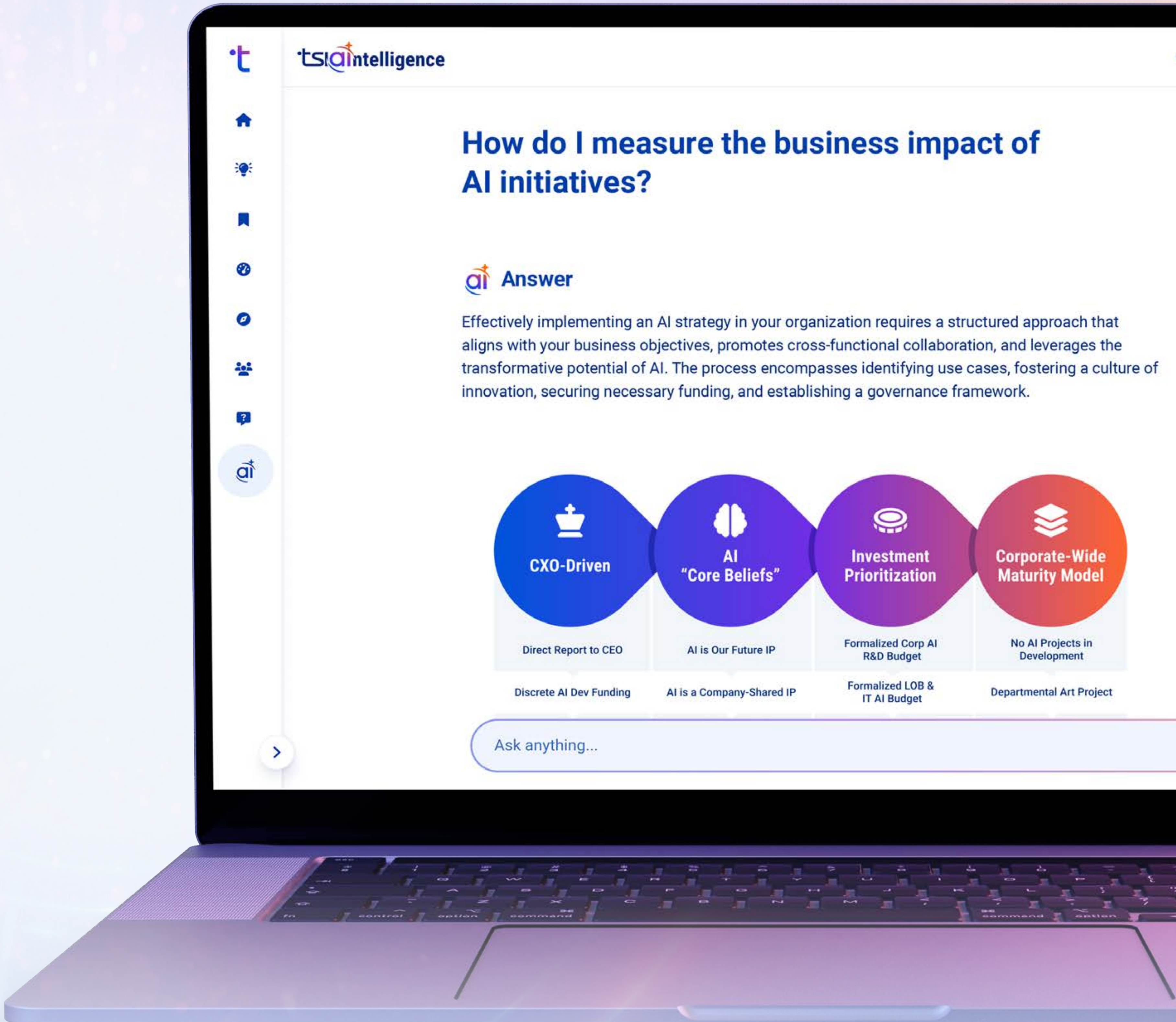

# Overview

The technology and services industry is undergoing a significant transformation, with a heightened emphasis on profitability. The days of "grow at all costs" are long gone. This shift has reinvigorated a dual imperative for businesses: **reducing operational costs while simultaneously pursuing revenue growth through strategic expansion and customer renewals.** This ebook delves into the multifaceted dynamics shaping this evolving landscape, focusing on three pivotal trends:

1. **The pursuit of profitability drives the restructuring of renewal work.**
2. **The maturing of AI capabilities for revenue operations.**
3. **The challenges of measuring customer retention in hybrid business models.**

The ebook aims to provide insights into strategies for navigating this evolving landscape and achieving sustained growth and profitability.



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# Customer Growth and Renewal: 2024 Year in Review

The technology and services industry will undergo a significant transformation following 2024. A relentless focus on profitability drives this transformation, as do the implications of AI for revenue operations, and the deteriorating ability to rely solely on top-line gross and net renewal rates in the presence of hybrid business models that dominate the market. These challenges have created a complex and rapidly changing landscape for businesses in this industry, necessitating urgent adaptation.

We will explore the strategies and approaches companies can adopt to navigate this environment successfully, ensuring sustained growth and profitability in the years ahead. These strategies have the potential to benefit our industry significantly.

- **Continued focus on profitability:**
  The industry is experiencing a heightened emphasis on profitability, creating a more disciplined approach to financial management and scrutiny of costs. This shift is not merely a short-term strategy, but a fundamental change in the industry's mindset.
- **Maturing implications of AI on revenue operations:**
  The rapid advancement of AI has ushered in a new era of revenue operations. AI-powered tools and technologies enable businesses to automate routine tasks, gain deeper insights into customer behavior, and deliver hyper-personalized experiences. This has profound implications for sales, marketing, and customer success teams, empowering them to drive revenue growth more effectively.
- **Deteriorating ability to rely on top-line gross and net renewal rates:**
  The rise of non-specific hybrid business models challenges traditional approaches to measuring customer retention. Metrics such as gross and net renewal rates, which have long been relied upon to assess business health, are becoming less reliable in this new paradigm. This necessitates rethinking how businesses evaluate their performance and make strategic decisions.



# Preparing Customer Growth and Renewal for 2025: Top 3 Trends

## 1.
## Cost Reduction and Revenue Growth: Workforce and Cost Optimization

In the current economic climate, organizations face immense pressure to reduce costs and simultaneously grow revenue. The pandemic shock to the financial system in 2020 and 2021, followed by the corresponding rise in the price of money in 2022 and 2023, effectively halted the business strategy that rewarded growth at all costs.

The ensuing focus on rebalancing business profitability has taken hold in today's business environment. This challenge is especially pronounced in subscription-based businesses, where companies must deliver continuous value to justify recurring payments. The focus on efficiency has led many companies to streamline operations, often resulting in workforce reductions or restructuring.

As companies recalibrate their cost structures, they evaluate the cost-benefit of go-to-market strategies, remapping low-complexity renewal and expansion work from expensive sales team resources to customer success and renewal specialists. They are also doubling effort and spending on formal expansion programs to optimize lower-cost revenue growth avenues and re-building channel programs for the XaaS economy.

Companies are navigating difficult conversations concerning compensation, work allocation, skills development, organizational design approaches, and metrics to achieve this shift. Moving low-complexity renewals from sales executives to centralized customer success (CS) functions is a significant shift and requires a holistic, multi-functional strategic plan (Figure 1). The dominant business challenge for 2023 was "*Who should own renewals*?" followed by "*How do I build better cross-functional coordination?*"



## Revenue Contribution

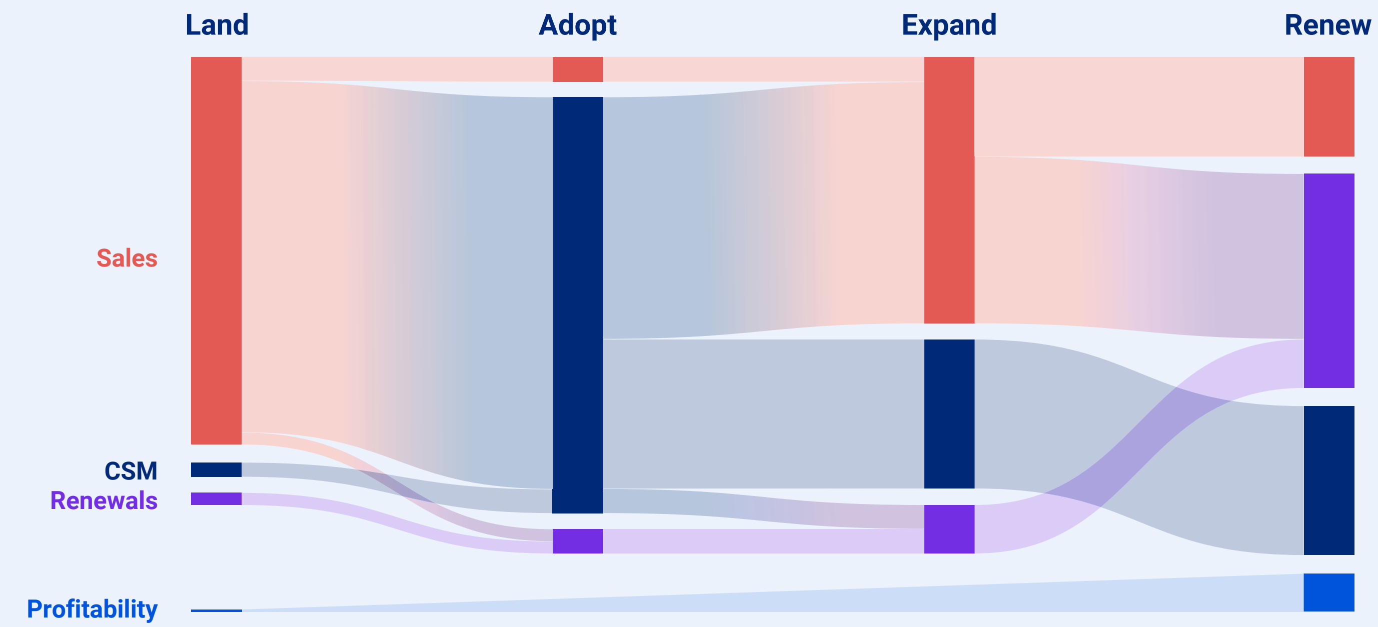


**Figure 1.** Shifting renewal and low-complexity upsells to customer success managers (CSMs) and renewal specialists to change the profitability profile.

Research from the 2023 Renewal Optimization survey indicates companies that rely on the sales account executive to conduct medium-complexity renewals, rather than renewal specialists, experience more than double the cost to renew while underachieving the net renewal rate by 10%. Furthermore, the percentage of renewals, including expansions, lag renewal specialist performance by 9.9%.

## Product Account Executive versus CSM and Renewal Specialsist

| >3x | -10% | -9.9% |
|---|---|---|
| Cost to Renew | Net Renewal Rate | Attached Upsells |

When companies build robust, mature renewal capabilities within organizations like customer success, they can achieve higher growth at a lower cost for renewals and upsells. This approach is typically more effective than relying on product sales executives to manage medium-or low-complexity renewals and upsells.

Reducing costs without compromising service quality is a delicate balance. Subscription models offer steady revenue streams but require significant investment in customer success and renewal functions to maintain high renewal rates and leverage upsells. The implications for the workforce include shifts toward more specialized roles focused on customer retention and upsell opportunities, and an increasing reliance on automation to manage routine tasks.



## 2.
# The Role of AI: Efficiency and Workforce Transformation

AI is reshaping the technology services industry by enabling companies to operate more efficiently and gain deeper insights into customer behavior. From predictive analytics in customer support to automated contract renewals, AI has introduced new capabilities that can drive operational efficiency and customer satisfaction.

Recent studies indicate that while still a minority practice (less than 25%), a majority of companies, greater than 75%, are exploring options for using AI in their revenue operations and expect to bring such capabilities online during 2025.

A closer look indicates a multi-pronged approach to evaluating generative AI capabilities to improve operational efficiencies, help employees do more with less effort, and improve customer communication (Figure 2).

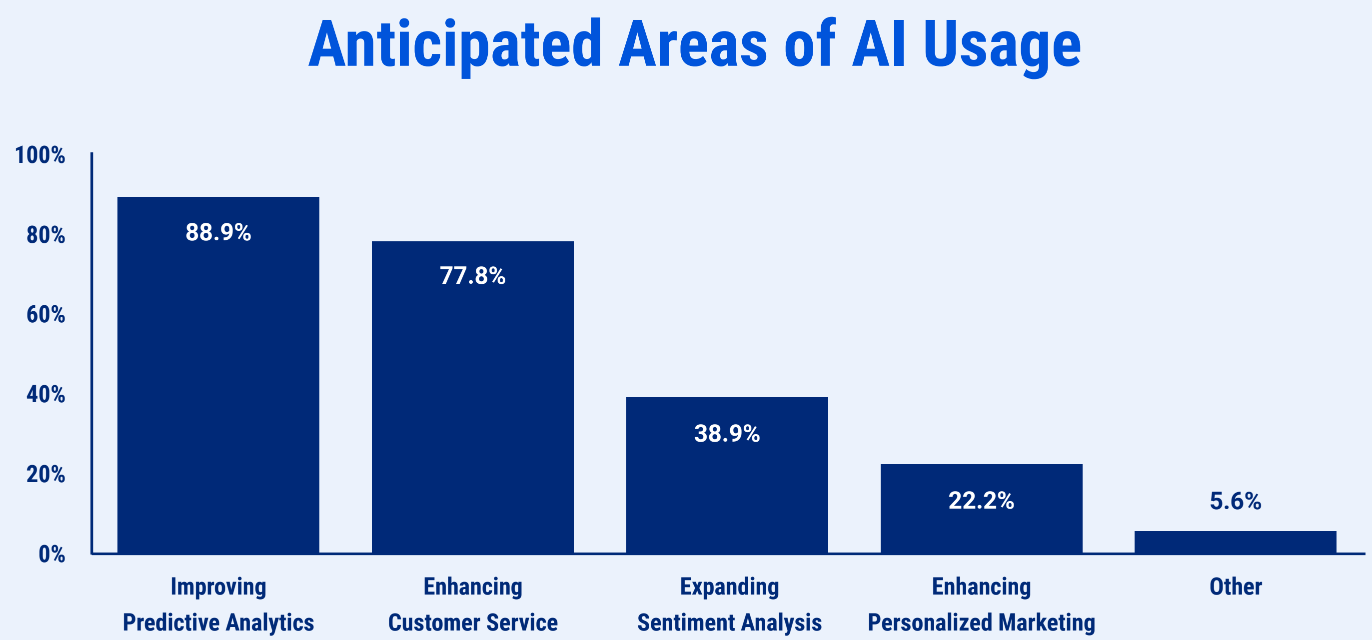


**Figure 2. Anticipated Areas of AI Usage**
Source: 2024 AI in Revenue Growth Poll

It is common today to see renewal specialists or customer success managers (CSMs) utilize generative AI to summarize conversations, prioritize actions, and assist in writing customer communications. Machine learning is deployed to improve business predictability with enhanced forecasting, targeted selling efforts, and improved decision-making through machine learning models that evaluate structured data.

Deploying customer scorecards enabled through AI input is on the rise. These dashboards selectively direct agents to attend to hot spots of risk or opportunity, reducing time wasted on unnecessary pursuits.

While AI enhances productivity, it also raises concerns about job displacement. Integrating AI into routine tasks can reduce the workforce in customer success or data analysis areas. However, it also creates opportunities for employees to focus on higher-value tasks, such as strategic planning, customer relationship management, and innovation. **Therefore, companies must invest in reskilling and upskilling their workforce to adapt to these changes.**

For renewal businesses, AI enables more accurate forecasting of renewal probabilities, proactive contract management, and the automation of low-touch customer interactions. This contributes to higher renewal rates and more efficient management of large customer bases. Companies that effectively leverage AI can improve their operational agility and better align their offerings with customer needs.

# 3.
# Evolving Metrics for Renewal Businesses: Top-Line Renewal Rates Are Not Good Enough

Traditionally, businesses have used top-line gross renewal rates (GRR) and net retention rates (NRR) to assess their performance relative to defending and growing customer base revenue. However, this single metric no longer provides a comprehensive view of a company's health in today's complex business environment. With diverse product portfolios and varying customer segments, a more refined approach is emerging to accurately evaluate true renewal success, if not at the corporate level, at the business, product, or customer segment level.

With the maturity of the XaaS business strategies, companies increasingly rely on diversified product lines and services to grow revenue. Companies may have hardware products with attached maintenance, perpetual software products with attached maintenance, software products sold on-premise under a subscription model, or access to software sold as a cloud service. They increasingly bundle the customer success or support baseline offers in the technology subscription while monetizing the premium offers, shifting conventional standards and gaining a benchmarked view of renewal rate performance, which is more challenging.

As such, top-line renewal rates, which aggregate performance across all customers and products, obscure underlying issues or potential opportunities. Instead, companies must add more granular metrics such as product-specific renewal rates, business unit performance, or customer segment analysis. These metrics provide more precise insights into where the business is thriving and where corrective actions are needed.

For example, it is becoming prevalent to see wide variations in gross renewal rates depending on the opportunity size, or whether the renewal subject is a maintenance contract or a technology subscription.

In the long tail, high-touch and high-dollar complex renewals in strategic accounts will perform much better than low-dollar and low-touch renewals. Technology subscriptions will perform better than attached hardware maintenance. **The difference can be 30% or more**, yet most companies routinely report a top-line performance number aggregating all segments into one result. Customer growth and renewal (CGR) benchmark results from H2 2024 show a median performance gap of 7.6 basis points between hardware and software companies (Figure 3).



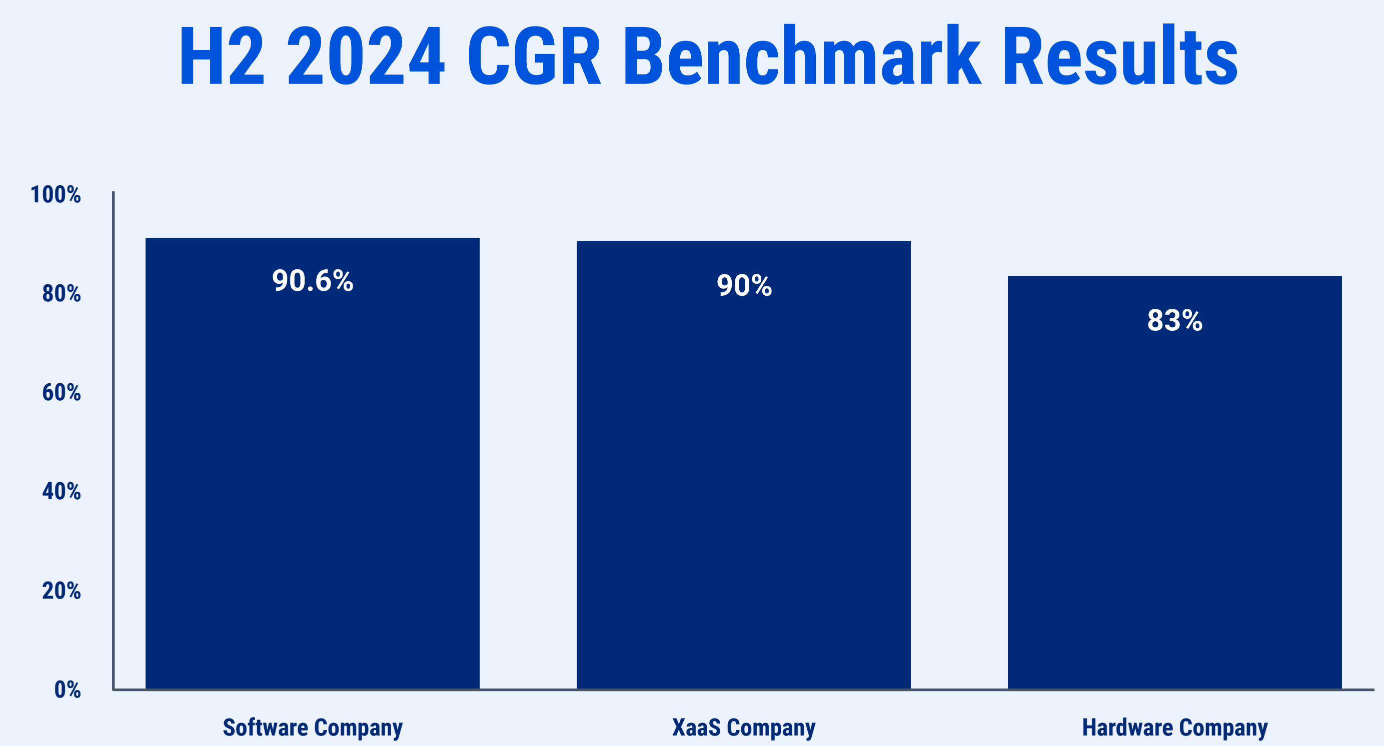


**Figure 3. H2 2024 CGR Benchmark Results**
Source: H2 2024 Customer Growth and Renewal Benchmark

This shift toward refined renewal metrics will require businesses to enhance their data collection and analysis capabilities. By segmenting renewal performance data, companies can tailor their renewal strategies to address the unique needs of different customer groups, improving retention and upsell opportunities. Rather than relying solely on generalized comparisons with potential competitors in the market, build the ability to conduct trend analysis within your own business and benchmark against yourself.

Through predictive insights, companies will use segmented renewal data within these segments to predict future renewal behavior, which helps in the proactive management of customer relationships and renewal strategies. Successful implementation, however, requires collaboration across various departments, including the sales, marketing, customer success, and finance teams. Each department influences renewal rates and can provide valuable insights. Aligning each function toward the common goal unifies overall performance.

Clicking down on the bundling dynamic reveals an additional concern beyond renewal or retention rates; it raises concerns for long-term profitability, which is the focus for many of these companies today.

## Bundling customer success or support functions will make it easier to sell the product component of the total offer but creates two common issues in our member's businesses:

1. **Margin compression:**
   The value of the subscription allocated to the customer success and support functions is calculated on a cost rather than a profit basis, which reduces the ability to achieve profits.

2. **Expansion headwinds:**
   Many companies suggest they need help with low-complexity upsells. These upsells are consistently attributed to service add-ons and must be noticed in the gaps between the sales and customer success functions.



# Looking Ahead: Customer Growth and Renewal in 2025

Companies adapt to new market dynamics as the technology and services industry evolves. The dual focus on reducing costs while growing revenue has far-reaching implications for workforce management and subscription demand. Meanwhile, artificial intelligence presents new opportunities for efficiency and innovation, although it necessitates thoughtful workforce transitions.

Lastly, the traditional top-line renewal rate is losing its relevance as a measure of business health, and companies must adopt more nuanced metrics to gain accurate insights into their performance. By addressing these challenges head-on, businesses can position themselves for long-term success in 2025 and beyond.

TSIA's Customer Growth and Renewal research area will continue to explore AI's use in the expansion motion. We will also focus on our bi-annual utilization and compensation survey and explore consumption model dynamics. For up-to-date information and announcements, subscribe to Customer Growth and Renewal on the TSIA Portal.



# Ideas for Action

Do these challenges resonate with you? If you're a tech services professional uncertain about the changes your organization needs to make—or concerned about how your role may be affected—TSIA can help.

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