fincome

The Customer Success Management (CSM) Cheat Sheet

Summary

Customer Success Management (CSM) is essential for retaining customers, driving account expansion through upselling and cross-selling, and ensuring renewals in SaaS businesses. CSMs focus on protecting and maximizing existing revenue streams while maintaining a balance between retention efforts and proactive expansion strategies. This cheat sheet highlights key metrics that help CSMs monitor customer engagement, identify churn risks, and uncover growth opportunities. By continuously addressing customer needs and driving product improvements, CSMs play a pivotal role in optimizing customer experiences and ensuring long-term business sustainability.

Key metrics

1. MRR (Monthly Recurring Revenue)

$$\textbf{MRR} = \text{Number of active subscriptions} \times \text{Average subscription amount (monthly)}$$

Represents the predictable revenue from active subscriptions each month.

2. Churn rate

$$\textbf{Revenue churn rate} = \frac{\text{MRR lost}}{\text{MRR at start of period}}$$

Measures the percentage of revenue or customers lost during a period.

3. NRR (Net Revenue Retention)

$$\textbf{NRR} = \frac{\text{MRR at start} - \text{Downsell} - \text{Churn} + \text{Upsell}}{\text{MRR at start}}$$

Indicates revenue growth or contraction from existing customers, accounting for churn and upsells.

4. GRR (Gross Revenue Retention)

$$\textbf{GRR} = \frac{\text{MRR at start} - \text{Downsell} - \text{Churn}}{\text{MRR at start}}$$

Similar to NRR but excludes upsells, showing pure retention performance.

5. LTV (Customer Lifetime Value)

$$\textbf{LTV} = \frac{\text{ARPA}}{\text{Average churn over the last 6 months}}$$

Estimates the total revenue a customer will generate over their relationship with the company.

Customer success performance

1. Customer success magic number

$$\textbf{CSMN} = \frac{\text{MRR of customers renewed in period} + \text{MRR of upsells in period}}{\text{Total cost of Customer Success team} + \text{Customer Support team}}$$

Measures how efficiently Customer Success drives revenue retention and upsells, similar to the SaaS Sales Magic Number. A value above 5.0 indicates strong ROI from Customer Success efforts.

2. Customer success headwind

$$\textbf{CSH} = \frac{\text{MRR of churned customers and MRR decreases}}{\text{MRR at start}}$$

Indicates revenue lost from churn and downgrades. If CSH exceeds 20-30% per year, it signals a significant challenge to growth.

3. Customer success tailwind

$$\textbf{CST} = \frac{\text{MRR of upsells and price increases}}{\text{MRR at start}}$$

Measures revenue growth from upsells and price increases. Top companies aim for 10%+ upsell annually to fuel revenue acceleration.

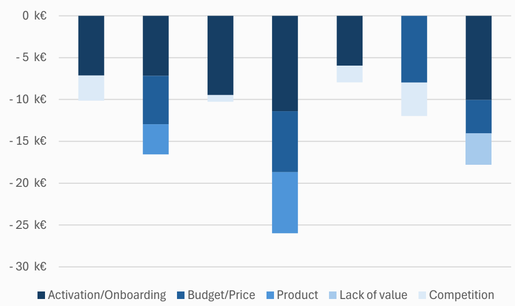
How to understand my churn?

Understanding churn goes beyond tracking lost customers, it's about identifying where and why revenue is being lost. By analyzing MRR movements, you can break down churn into actionable insights, helping you implement more effective retention strategies.

To gain deeper insights, segment your customer base based on key factors such as:

- **Vertical:** B2B, B2C, non-profit, public sector
- **Industry:** Specific industries where your customers operate (e.g., healthcare, education)
- **Acquisition channel:** How customers were acquired (e.g., inbound, paid ads, referrals)
- **Business size:** SMB, SME, Large enterprise
- **Geographic area:** Regional performance and localized customer behavior
- **Customer lifecycle stage:** From onboarding to renewal, understanding where customers are in their journey helps tailor retention efforts

By segmenting customers and tracking MRR changes over time, you'll be able to sharpen your Ideal Customer Profile (ICP) and improve your onboarding processes. This ensures you focus efforts where they will have the greatest impact, reducing churn and increasing long-term customer satisfaction.

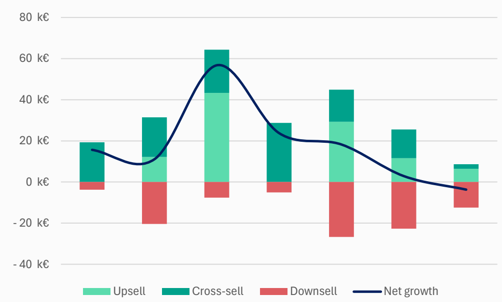


Upsell, downsell and cross-sell strategies

Maximizing revenue from existing customers is key to sustainable growth, and these strategies play a pivotal role:

- **Upsell:** Encourage customers to upgrade to higher-tier plans by highlighting added value, advanced features, or increased capacity that aligns with their growing needs. Effective upselling not only boosts MRR but also deepens customer commitment by ensuring they get more value from the product
- **Downsell:** Offer customers a lower-cost alternative when they show signs of dissatisfaction or potential churn. Downsells can preserve the relationship, reduce churn rates, and maintain some level of recurring revenue instead of losing the customer entirely
- **Cross-sell:** Introduce complementary products or services that enhance the main offering, such as add-ons, additional modules, or partner integrations. This not only increases overall customer value but also creates a more integrated experience, making the customer more reliant on your ecosystem

These strategies, when executed thoughtfully, can significantly improve revenue retention, customer satisfaction, and lifetime value while reducing the risk of churn.



Cohort analysis

Cohort analysis groups customers based on their start period and tracks their behavior over time. This approach allows you to see how churn, retention, ARPA and # of customers evolve across the lifecycle of each cohort, providing a more nuanced view than aggregate metrics.

Key benefits of cohort analysis:

- **Identify high-churn periods:** Understand when churn peaks, often in the early months of a subscription, allowing targeted interventions
- **Assess stabilization:** Determine if churn rates stabilize over time, indicating improved customer retention efforts
- **Measure impact of changes:** Track how strategic adjustments, like improved onboarding, affect churn and retention in subsequent cohorts
- **Evaluate acquisition impact:** Analyze how different acquisition efforts attract varying customer types and behaviors, helping refine and optimize your ICP

	Month 0	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Dec-23	100%	100%	104%	98%	100%	102%	95%
Jan-24	100%	99%	102%	107%	115%	121%	
Feb-24	100%	105%	100%	100%	92%		
Mar-24	100%	103%	104%	113%			
Apr-24	100%	97%	92%				
May-24	100%	92%					
Jun-24	100%						

Want to know more about SaaS KPIs? Have a look at fincome.co/blog