The Full Guide to Customer Success KPIs in 2022

Modern Customer Success Metrics:
Definitions, Examples, and Best Practices

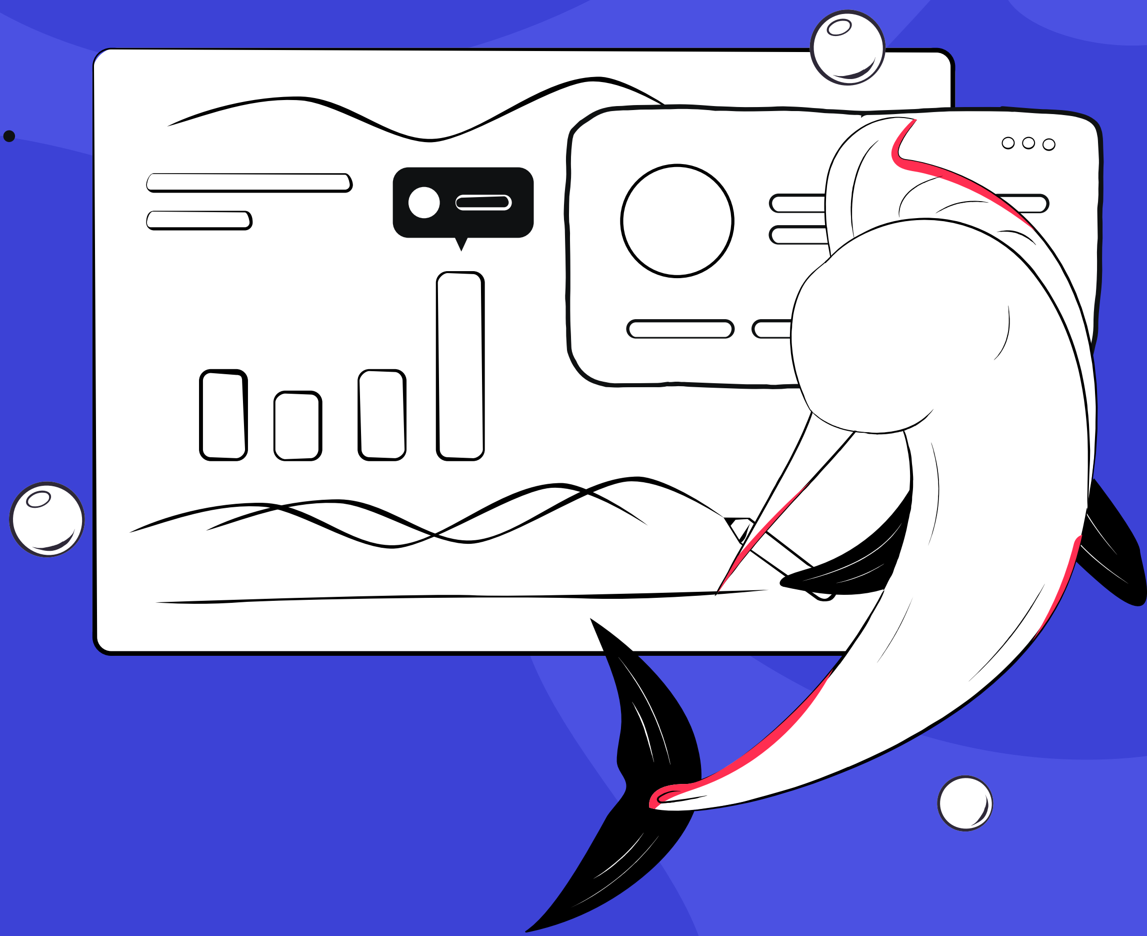


Table of content

Introduction

With online businesses shifting towards the SaaS model and online services becoming increasingly customer-centric, customer success managers and teams can no longer settle for a reactive and passive approach. Even a well-planned playbook isn't enough without gaining insights into customer sentiment, product usage patterns, and stakeholder relationship data in key accounts.

Traditional Customer Success KPIs like Net Promoter Score (NPS) still serve a purpose, but paint an incomplete picture when it comes to understanding more complex topics like customer behavior patterns and sentiment levels. Surveys simply can't help optimize your product. They have clear limitations on when it comes to understanding what your entire customer base is experiencing.

This guide will help you understand why modern Customer Success metrics are becoming increasingly important in creating sustainable growth, reducing churn, and encouraging better cross-department collaboration (especially with Product teams) for sustainable business growth. We'll also share some best practices to help you implement and analyze these metrics in the best way possible.

Let's dive into it!

Net Revenue Rate (NRR)

Also known as Net Dollar Retention (NDR) in some scenarios, Net Retention Rate (NRR) has become the new benchmark metric for Customer Success today. What is it all about, how is it calculated, and why is it so important to keep track of it to achieve sustainable business growth? Let's take a closer look at things.

What is Net Revenue Rate?

Net Revenue Rate (NRR) is essentially a metric that helps Customer Success Managers get a bird-eye view of positive and negative revenue changes in a pre-defined time period. This is achieved by calculating the total percentage of recurring revenue from current customers, including factors like upsells, downgrades, and the thing SaaS businesses dread the most – churn.

The following scenarios can impact your NRR:

- Customers leaving you entirely
- Customers upgrading or downgrading their subscriptions (tiers)
- Customers stopping the use of a few of your features
- Customers buying additional features or services
- Customer removing or adding active users (with relevant pricing models)

Companies aspiring to enter hyper-growth or looking to extend the window need to calculate, track, and monitor their Net Revenue Rate very closely. Just a 20% NRR difference between two companies can mean that the higher scoring one will be in a totally different place in a couple of years when it comes to exponential growth, putting less stress on Sales teams, and staying ahead of the competition.

How to Calculate NRR?

Before getting started with your Net Revenue Rate calculation, you need to calculate a few KPIs. These are some traditional metrics that will eventually blend together to give you your current monthly or annual NRR.

- Monthly Revenue Rate (MRR) – Multiply the number of your monthly subscribers by the Average Revenue per User (ARPU). The Monthly Revenue Rate is also a good metric to track in a vacuum.
- Expansion Revenue (ER) – ER is the next ingredient to go into the Net Revenue Rate formula. This is basically the total sum of all revenue received from upsells and cross-sells, both key growth channels today.
- Contraction Revenue (CR) – As the name suggests, you will also need to know how much your existing accounts have shrunk. Shrinkage examples include downgrades, reduced active users, and lower feature usage.
- Lost Revenue via Churn – Losing customers and closed accounts are the worst thing that can happen to CSMs and SaaS companies in general. You'll need to know how much revenue has been lost to calculate your NRR.

You can now start your NRR calculation as per the formula shown below:

$$\text{NRR} = \frac{\text{\$ Value of MMr + of ER} - \text{\$Value of CR + \$ Value of Churned Accounts}}{\text{Value of MRR}}$$

Looking to calculate your annual Net Retention Rate? The formula stays the same. Just replace the MRR with your Annual Revenue Rate, also known as ARR. Also, make sure you are excluding all new deals from your calculations.

NRR Example and Industry Benchmarks

Let's start things off with an example. Assuming your business started March 2022 with a Monthly Revenue Rate of 27,000 USD and ended it with a MRR of 35,000 USD following some successful upselling, but you also had 5,000 USD in revenue churn. Your NRR will be 111%.

So what NRR should you be aiming for?

The answer can vary based on your specific industry, the company size, and what audience you are targeting. For example, enterprise-level SaaS companies should definitely be looking at three-digit figures of 130% and above. Things change when we look at businesses that are targeting SMBs and startups, where even a Net Revenue Rate of 90% can be seen as encouraging and positive.

Just for reference, SnowFlake had a Net Retention Rate of 158% in 2021. Twilio wasn't far behind with a NRR of 155% and Elastic put up a handsome 142%.

Net Revenue Rate FAQ

Your NRR is above 100%? What does it mean?
Your upselling and cross-selling revenue is higher than your churn revenue loss.

What else can I do about churn?
Churn surveys are a great way to understand why you are losing business.

Net Revenue Rate Best Practices

Here are some proven and tested ways to boost your NRR:

Boost Customer Confidence with Relentless Support
Your customers may need your help while onboarding and also before upgrading, but are you there

for them at these crucial junctions? Your chatbot implementation should be spot on and so should your ticket handling. Everything should be smooth with zero hiccups to create trust and empower your users. Not doing so can damage your brand credibility and stop customers from upgrading.

Collaborate with the Marketing Team: Educate your Customers
Visibility and brand awareness play a big part in your customers' decision making. Make sure your marketing team is educating existing customers by sending them content assets via email, setting up webinars, and exposing them to new features with video demos on social media. Once your clients understand your value proposition, your upselling probability will grow.

Create an Ideal Customer Profile (ICP): Focus on the Right Audience
The SaaS space is becoming increasingly dynamic, with a plethora of use cases and requirements. You may be onboarding healthy amounts of customers, but that doesn't always mean that they'll stick. Low NRRs can be a good reason to realign with the Sales and Marketing managers. Create accurate ICPs and make your customer success efforts are invested in them.

"Use FOMO tactics to trigger upselling and expansion, both primary NRR drivers today. You need your Freemium and low-tier customers to be more invested in your ecosystem. Show them visuals and videos of what benefits they can enjoy. Your user journey should be optimized to trigger FOMO."

Kate Neal, Director of Customer Success, Staircase

Customer Churn Rate

Customer Churn Rate (Churn Rate), albeit a basic metric, helps customer success managers track the number of clients and users that have stopped using the product or service. In this post, we'll touch upon the reasons that cause customer churn, how to calculate the churn rate, and what can be done about it.

Customer Churn Rate is not to be confused with Customer Revenue Churn. The latter monitors the amount of revenue made in a specific period, while the former measures the percentage of customers that are not using your service anymore.

What is the Customer Churn Rate?

Customer Churn Rate is an important metric that measures the rate of how many people have canceled their subscriptions or downgraded within a predefined time frame. This performance indicator can help SaaS-based businesses that work with subscriptions. If customers opt out before compensating the costs of acquisition, you should probably rethink your strategy and revisit your playbook.

With ongoing Churn rate monitoring, businesses can:

Invest in recurring subscriptions, not customer acquisition
Acquiring new customers is every company's holy grail, but retaining existing users doesn't just lead to renewals, but also to upsells and cross-sells.

Determine your market position
You can assess your market position by calculating your Churn Rate and comparing it to your competition. Learning where you rank can help you create a better customer success strategy.

Get valuable insights with no effort
The Customer Churn Rate formula is pretty straightforward and easy to apply to any business model. The calculation does not take too much brain power, yet delivers helpful inputs.

Like with any customer success metric, multiple factors can affect your Customer Churn Rate. Here are some commonly-found factors customer success managers need to look out for when things start going south:

Something about your product or company has changed
It could entail different factors like the addition of new features, redesign projects, changes in company values, or sudden pricing structures revisions.

There are better alternatives in the market
The most common reason for users leaving the product is the discovery of a better, cheaper, or faster alternative. CSMs need to constantly keep an eye on the competition.

Poor user experience
Sometimes users sign up for a new product and then abandon it because of its cumbersome onboarding and poor navigation. A bad Churn Rate is often because of unexpected friction at key touchpoints.

How to Calculate Your Customer Churn Rate?

There is no universal formula to calculate your Churn Rate. Let's take a closer look at four different ways to calculate Customer Churn Rate today. You can either use multiple methods or simply pick the one that matches your use case the most.

1. The simple method
Formula: `Churn/Customers`

Divide the number of churned users by the number of users you had on the first day of the set period. The best quality of this formula is its simplicity. On the other hand, small companies and startups might benefit more from more complex calculations. The simple formula does not account for significant growth which results in an inaccurate representation of the churn rate.

2. The adjusted method
Formula: `Churn/Midpoint of the customer amount`

Add the number of customers on the first day and on the last day and divide by two to receive the midpoint value. This method normalizes the growth changes which makes the results more accurate than the aforementioned simple method. The downside of this formula is its inconsistency, meaning that each time frame like a week, month or quarter will deliver different results.

3. The predictive method
Formula: `nΣi=1 (inactive)/nΣi=1 (customers)`

This calculation predicts the possible Customer Churn Rate on any given day of the set period. The sum of inactive customers determines how many users are active on `day i` and will be inactive on the `day i+n`, for example, in one month. Add the number of inactive customers on the `day i` (1 May) to the number of users lost on the `day i+30` (1 June) and divide by the total number of customers in May.

The main issue with this method is having to wait till the next month to calculate the rate for the current month, which goes against the predictive purpose of the formula.

4. The up-to-date method
Formula: `churn/nΣi=1 (customers/n)`

Take the customer average of every day to generate a more precise Churn Rate formula. Divide the number of churned users by the number of customers on any particular day from `i` to `n`. This approach is preferred by many customer success managers since it resolves the issue of rapid growth (scaling up) as well as provides up-to-date insights into the Customer Churn Rate trends.

Churn Rate Example and Industry Benchmarks

Let's look at a SaaS company with 400 customers at the start of April 2022. By the end of month it loses 40 of them. So how can we determine the CRR of this business with the simple and basic formula? Let's take a closer look.

- `Customer Churn Rate  = (Churn ÷ Total Customers) x 100`
- `Customer Churn Rate = (40 ÷ 400) x 100`
- `Customer Churn Rate = (0.10) x 100`
- `Customer Churn Rate = 10%`

The aforementioned business has a Customer Churn Rate of 10%.

What about current industry benchmarks?

In the SaaS world, a good annual churn rate is 4.79% and lower. Netflix had a Customer Churn Rate of around 2.5% in 2021, while direct competitor Hulu was hovering around the 5% mark. Popular networking platform Zoom reported a Churn rate of 2.1% last year. Make sure to differentiate between monthly and annual Churn rate, since the annual rate will always be higher than your monthly rate.

Customer Churn Rate FAQs

Why is Customer Churn Rate important?
Monitoring the churn rate can help you assess the costs of customer acquisition (CAC) and ensure the company is not spending more on CAC than is feasible.

Does customer churn rate help with customer segmentation?
Unfortunately, your Customer Churn Rate cannot shed any light on the age of churned clients (new vs old), making it challenging to get actionable insights.

Is Customer Churn Rate good as a stand-alone metric?
As evident in this article, all Churn Rate calculations are good indicators, but have inherited shortcomings that need to be taken into consideration.

Customer Churn Rate Best Practices

Create customer journey milestones to setect at-risk users
Analyze the complexity of your onboarding process. Cumbersome and confusing onboarding can repel customers and discourage them from engaging with your product. Track user engagement by creating user journey milestones and understand the churn risks in each of them. Once this planning is complete, make sure all customers are reaching these milestones. If not, act accordingly.

Post mortem: learn about the churn triggers
There are many reasons that can lead to users downgrading or abandoning products altogether. Start off with exit surveys. Also try to catch churned customers via email and ask them to provide feedback regarding their experience. This can give you valuable insights into your customer journey and its shortcomings. Needless to say, share all relevant findings with the Product team.

Feel the pulse: stay engaged with customers
Your customers may need your help while onboarding and also before upgrading, but are you there for them at these crucial junctions? Stay in the loop by understanding what open items customers are suffering from, what kinds of unresolved tickets are piling up, and also what feature requests are worth pushing ahead to the product and engineering teams. Track these issues constantly.

Customer Relationship Score

The Customer Relationship Score, a relatively new concept now being adopted by mature CS teams, is helping businesses understand the strength of their relationships with their customers. An accurate Relationship Score can help recognize sudden sentiment drops, detect engagement level issues, and identify new relationship opportunities to promote account stickiness.

What is a Customer Relationship Score?

The Customer Relationship Score is a measure of the strength of a relationship between two organizations or between two individuals in these organizations. Measuring relationships might sound difficult since people have subjective views about their relationships and different considerations when assessing relationship strength. With the right framework and definitions, the relationship score is a practical and valuable tool in assessing customer health and driving business goals

We can't ignore the fact that relationships play a significant role in today's Customer Success space. Organizations invest heavily in developing and maintaining their customer relationships. While it's relatively easy to measure business value through revenue or product usage, it's difficult to measure the impact of relationships. How customers feel (i.e. Customer Sentiment) is an important blindspot that a Relationship Score is able to uncover.

Why do companies need to define, calculate, and track Relationships on an ongoing basis? Don't we have enough KPIs?

Here are a few benefits of healthy and strong relationships in the business world:

- Promoting a spirit of partnership vs a cold client-vendor exchange of goods/services.
- Transparency and openness to work through problems and challenges that would otherwise result in customer churn and brand damage.
- Proactive customers who act as brand ambassadors promoting your brand by recommending it to colleagues, friends, and family.
- Early warning of potential risks such as org changes and competition, as well as opportunities such as expansion into new parts of the company.
- There is more and more data demonstrating a deep correlation between strong customer relationships and higher NRR. (Watch this webinar).

Now that we have established the importance of relationships, the natural question is how does an organization operate to create, nurture and manage their relationships? The answer is to collect, measure, and monitor relationship data. The Relationship Score defines what data is required and helps align the organization to focus on the same key aspects of relationships in a uniform and comparable way.

How to Calculate Customer Relationship Score?

As the name suggests, the Relationship Score is an attempt to give the strength of a relationship between two individuals or two organizations a numerical value. This is commonly done by using a rather basic 1-5 scale.

A common representation of the numerical values are:

- 1-2 – No relationship (or just getting introduced).
- 3- Professional, responsive but lacking a deeper connection.
- 4-5 – Strong professional and personal relationship, quick communication dynamics, responsive and on private channels (Whatsapp, text communications), both sides are friendly and see demonstrated value.

While a scale of 1-5 is a nice and easy concept for people to work with, relationships are complex. Let's take a closer look at the components of the Relationship Score:

Customer Sentiment

Human emotions are often hard to read clearly. Subtly written, spoken or visual expressions can be interpreted differently by different observers making customer sentiment a challenging KPI. But one thing is clear: when it comes to extreme emotions most people are able to identify positive sentiment from negative (i.e. someone is happy or sad/upset).

Organizations should invest in accurately measuring customer sentiment through a variety of means from surveys to artificial intelligence. Missed early signs of frustration (shorter responses, "cold tone", repeated requests, slow to respond) can escalate quickly into negative outcomes and customer churn.

Communication Channels

Today, people use a variety of communication channels from simple texts, emails, to slack channels and video calls. There are cultural and geographical considerations as well (popular forms of communication in the US are less popular in Europe for example whatsapp vs iMessage). Relationship strength can often correlate to the type of channel two people are using.

For example, after a first business meeting, people will exchange emails but as time goes by they may also include personal phone calls and text messages. Therefore the type of channel as well as the content (how verbose the interaction) are important in assessing relationship strength.

Customer Engagement / Responsiveness

Engagement levels can vary – some are always on their emails, others take a few days to reply. That's why engagement KPIs need to be enforced and tracked on an ongoing basis to identify sudden increases or drops in engagement that could reflect on the relationship. For example, a sudden and unexplained drop in engagement from a customer who is usually engaged is a possible early warning signal that something in the relationship is not going well.

Response Times can also be factored into the Customer Engagement calculations since they show how locked in users really are. Once again, this should be used with a pinch of caution. For example, people can take vacations, time off or move on from their current position.

Open Items

Customers can communicate in different channels. These days this is required to provide customers with a superior service experience. However, from a CS perspective that could mean a lot of scattered clues and cues that a Customer Success manager has to follow. Open items could be unanswered emails, tickets, or messages that can contribute to negative sentiment. You can also have open feature requests that are causing frustration, even if the ongoing communication is pleasant and friendly.

Key Stakeholder Relationships

Today's usage patterns are getting extremely complex. You can have multiple stakeholders in the same company who are using the same product – some champions, others not. You need to track three things on an ongoing basis:

- The status of the stakeholders you are in touch with.
- Are your connections the right people to be connected with?
- Are you taking the required actions to nurture these relationships?
- How long have you been in a relationship with this stakeholder?

The existence and health of Key relationships are important in order to assess the relationship between two companies. For example a customer with multiple strong relationships (decision makers, executives etc) has a stronger overall relationship than a customer with only one relationship. Relationships between companies can exist over many years and outlast individual relationships.

Customer Relationship Score FAQs

What's the benefit of using AI to track Relationship Score?
Some of the Relationship Score ingredients are impossible to track with the naked human eye or traditional manual procedures.

Do I need AI-generated insights for my Relationship Score?
Yes. The number of variables is constantly growing and you simply can't do everything manually anymore, especially when your company is scaling up fast.

What other customer success metrics can I use with Relationship Scores?
Net Revenue Rate (NRR) and North Star Metric go well with Relationship Scores.

Customer Relationship Score Best Practices

CRM tools are good, but you need a dedicated CS solution
Customer Success is the backbone of the customer journey. Unfortunately, CRM functionality from the customer success angle is limited since these tools have been designed primarily to orchestrate and manage sales funnels. Adopt a dedicated analytical and automation CS solution to connect the dots and create actionable insights from the abundance of indicators, including your CRM data.

Match customer sentiment with the product use cases
While communication sentiment is a good indicator in the grand scheme of things, customer success executives should drill down further. This helps understand if there are features or processes that are creating friction and damaging relationships. Furthermore, set stakeholder goals for every account to track changes and get an accurate picture of the current relationship status with them.

Adopt an "inside-out" approach
Many companies get caught up analyzing account relationships as a whole, without focusing on stakeholders and personas that are not champions. More often than not, this can turn out to be a huge strategic mistake. While measuring relationships at the macro (company) is definitely important, you must not neglect micro (individual stakeholder) level relationships. Score them as well for best results.

Tracking customer account relationship scores should put you in a good place today, but also doing the 1:1 thing will help you create separation and take your growth and expansion to the next level. This essentially means that you can transform stakeholders with 1-3 scores into trusted advisors and brand advocates.

Kate Neal, Director of Customer Success, Staircase

North Star Metric

The North Star Metric is an important reference pointer that's predictive of a company's long-term success. It pushes all departments towards a common business objective to help achieve sustainable growth. Once the company's leadership establishes this pointer-metric correctly, teams and stakeholders can work together with added purpose to achieve sustainable growth.

What is North Star Metric?

North Star Metric is a strategic cross-department metric that helps SaaS businesses establish a clear direction for long-term growth. Once the company's core value proposition is established, all departments can work together in sync.

A well-established North Star helps on multiple fronts:

Product-Focus
At the team level, there are multiple tasks and deadlines, but everyone's locked in and moving towards the same product goals.

Clarity
Product, sales, and marketing teams often find customer success KPIs hard to decipher. The North Star Metric is clear and easy to understand.

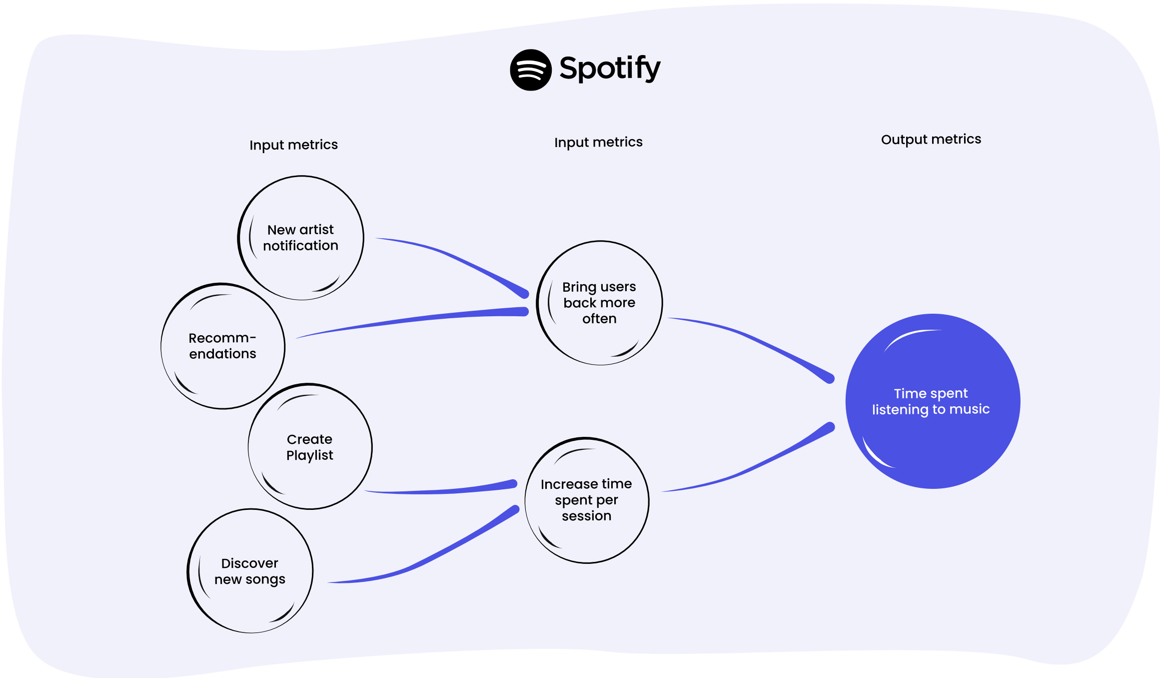
Customer-Focus
The company becomes more dedicated to adding value to the offering. Everything starts revolving around retention and upselling.

How to Calculate Your North Star?

Your North Star Metric should not be based on revenue. It should be determined by asking key questions related to your value proposition and your customers' biggest success moment. Needless to say, these moments need to be measurable.

Let's take a look at how Spotify calculated its North Star.

First, the company looked into what value customers get from the platform. Then it looked into Pirate Metrics that could impact the NSM. Pirate Metrics are also known as AAARRR (Awareness, Acquisition, Activation, Retention, Revenue, Referral). There were also a wide range of input metrics that had to be considered at the time. But "Time Spent Listening to Music" was eventually chosen as the North Star Metric.



Source: Reforge

If external factors are constantly impacting your North Star Metric, you need to get back to the drawing board. For example, you can't have 5-star ratings as your North Star Metric if you are a tourism service provider. This is because the ratings can be affected by bad weather, flight delays, hotel issues, and other third-party variables. The North Star Metric should encapsulate the core functionality of your business.

NSM Example and Industry Benchmarks

LinkedIn is a great example of a leading company that had to experiment a bit before finding the sweet spot with its North Star Metric. The whole case study has also been made public and is a great way to understand how the process works.

LinkedIn's initial NSM was the "Number of Endorsements Given" by members. Since this is a professional network powered by professionals and recruiters, this idea made sense in 2012 when this newly-introduced feature was gaining traction fast in correlation with the usage rates. Secondary engagement metrics were also defined at that time – unique recommendation recipients and endorsers.

Unfortunately, the number of falsified endorsements spiked as the platform started scaling up, eventually making this North Star Metric irrelevant. Following the big Microsoft takeover, LinkedIn went with "Monthly Active Users" as its new North Star Metric, just like Facebook had done earlier. The platform had simply become too versatile, diversified, and feature-rich to focus on a specific user-action or activity.

Here are some industry benchmarks.

Medium	Total reading time users spend in week/month
airbnb	Number of nights booked
facebook	Monthly Active Users (MAU)
slack	Number of messages sent/ Daily Active Users (DAU)
Spotify	Time spent listening to music
HubSpot	Number of weekly active teams
gojek	Number of completed orders
Walmart	Order count per session
Dropbox	Weekly # of trial accounts with 3+ active users
	Hourly Active Users
NETFLIX	Time spent by subscribers streaming content
LinkedIn	Monthly Active Users (MAU)

Your North Star should define your customers' ultimate "aha" moment and should be directly linked with business growth. Once you have nailed it, you should be able to make good progress. More and more SaaS companies are also supplementing their North Star Metric with a comprehensive Objective and Key Result (OKR) framework, which helps orchestrate cross-department operations.

North Star Metric FAQs

Can the North Star Metric and One Metric That Matters be used together?
Yes. It's a potent combo that can help startups and SMBs avoid tunnel vision.

Are North Star Metrics supposed to change with time?
No, not unless you are massively revamping your product and its features.

Should North Star Metrics be measurable?
Yes, you should be able to measure and set a target level for your North Star Metric.

Can North Star be a full-fledged strategy today?
Technically, yes. But it's too basic/simple to help CSMs as a stand-alone tactic.

North Star Metric Best Practices

It's OK to have departmental North Star Metrics
Companies like Netflix and Hulu can have one North Star Metric because their primary business goal

is extremely clear - having more paying customers. But many SaaS companies have diversified core offerings and multiple use cases, things that one simplified North Star often can't address. Teams and departments can have their own specific North Stars besides the primary one in such cases.

Don't confuse North Star Metric with One Metric That Matters (OMTM)
One Metric That Matters is quite similar to the North Star Metric, but the two are two different things. The former applies when specific teams in the company want to focus on one feature or goal for a predefined time frame, usually a few months. North Star Metric is more of a long term guide that applies to all departments. The North Star Metric should ideally reflect your customers' "aha" moments.

Your North Star Metric should not be impacted by external factors
If external factors are constantly impacting your North Star Metric, you need to get back to the drawing board. For example, you can't have 5-star ratings as your North Star if you are a tourism service provider. This is because the ratings can be affected by bad weather, flight delays, hotel issues, and other third-party variables. The North Star Metric should encapsulate the core functionality of your business.

> *"The CSM should share customer feedback to further promote collaboration in areas that impact customer experience and customer success with Support/IT, Sales, Marketing, Product, and Finance departments. Customers are drawn to companies that demonstrate customer-centricity in their initiatives."*
>
> **Irit Eizips,** Chief Customer Officer & CEO, CSM Practice

Customer Health Score (CHS)

The Health Score is an index that helps Customer Success Managers understand the relationship customers have with their SaaS products or online services. How does one calculate it and what's this metric all about? Let's explore the ins and outs, touch on some examples, and understand its limitations as a stand alone-metric.

What is Customer Health Score?

Customer Health Score is a Customer Success metric that helps detect product engagement fluctuations and highlight customers at risk with the help of traditional and basic product usage KPIs. Think of these calculations as periodic medical checkups. The only difference is that you, as a Customer Success leader, are the doctor that's looking to "diagnose and treat" at-risk accounts.

You need to consider the following factors while calculating your health score:

Company size
Healthy customer behavior can be different for startups, SMBs, and large enterprise-level companies.

Industry
Companies from different industries use various indicators and take into account market trends, global developments, and more.

Product
The type and size of the product will also affect the calculation and the outcome of the health score formula.

Business model
Your business model can shift the focus of the calculation. For example, it can move from churn rate to customer upselling index.

How to Calculate Your Health Score?

Interestingly, there is no universal method to determine your Customer Health Score. You'll need to understand your use case/s and decide on the key indicators before getting started with your health score calculation.

Here are some key customer success metrics that are commonly used while calculating health scores in SaaS setups today:

Product Setup Rate
This KPI measures product adoption and tracks the level of customer engagement. It helps you understand if the users have reached your pre-determined "aha moments" and what features are being used (or ignored) by them. This plays a part in optimizing the user journey because you can then know more about the true value your app is creating.

Product Usage Rate
You need to know more about engagement rates with modern SaaS users because patterns are always fluctuating. Product usage rates help do just that. Usage is not just opening or logging into apps, but actually engaging with features and performing actions. You will also want to normalize your calculations by tracking averages per customer.

Net Promoter Score (NPS)
This benchmark tracks user satisfaction and their likelihood of recommending your product to others. Ask your customers to grade your service on a scale of 1-10. "1-6" are "detractors" and "9-10" are your "promoters", while the rest are "passives". Subtract your detractor percentage from the promoter one to determine your NPS.

Customer Success Manager Pulse
The SaaS space is dynamic and can have multiple use cases. Companies are also constantly revising their business models and success metrics. Think number of service tickets, chatbot activation

frequency, and similar actions. However, this metric is highly subjective and tends to become more and more inaccurate with time.

You can (and should) use a weighted health score, which refers to a calculation that includes priorities and takes KPIs that are more integral to your health score into account. The indicators that you choose should be based on your industry, current trends, business goals, and business strategies. In the next part, we'll calculate some health scores based on a concrete example.

Customer Health Score Example and Industry Benchmarks

For our example, let's stay with the four aforementioned metrics to calculate the Customer Health Score. These metrics are considered to be SaaS essentials today and are being used by more and more customer success managers.

First, let's establish the health points for each metric:

Now, let's fit your customer's metrics into this formula. Let's assume:

- `Product Setup Rate – 80% – Translated to 10 points`
- `Product Usage Rate – 6 – Translated to 5 points`
- `NPS – 32 – Translates to 5 points`
- `CSM Pulse – 9 – Translates to 5 points`

Your raw Customer Health Score in this case is 10+5+5+10/4 = 7.5

As mentioned earlier, Weighted Health Score can help you gain a more detailed picture of what's going on since the raw calculation is not always accurate. For example, if your product usage rate is more connected to churn (with CSM pulse not really showing any strong connection), you can make the former a "heavier component" in your customer health score formula.

Assign the weights based on your specific use case:

- `Product Setup Rate – 20%`
- `Product Usage Rate – 40%`
- `NPS – 20%`
- `CSM Pulse – 20%`

While the raw score is a good way to get started, the weighted metric shows you a more balanced and precise number that can help improve the indicators that are vital to your business growth. The success is in the details.

What about industry benchmarks?

Unfortunately, while SaaS companies with efficient customer success teams score 31% higher on average, the inherited inaccuracy of this metric makes it difficult to set an industry benchmark. For example, the NPS is not a trustworthy metric because only 20% of users actually take CS surveys. What you get is a limited and outdated metric that's only good as a complimentary measure.

Customer Health Score FAQs

Can I have multiple Customer Health Scores in my CS playbook?
Yes, you should ideally be segmenting your accounts or personas and applying differently weighted Customer Health Scores calculations to them.

Is the Customer Health Score the gold standard of CS metrics?
No. It's usually used to highlight significant changes or at-risk accounts and best when used in tandem with NRR, North Star, and relationship metrics.

Does color coding work well with Customer Health Score?
While color coding (green, yellow, red) customer health is good for promoting cross-department collaboration and transparency, it often over-simplifies things.

How often should I calculate the Customer Health Score?
It should be calculated on a monthly basis and more often for key accounts.

Customer Health Score Best Practices

Be more hands on: predictive signals may vary
Lack of product usage or narrow product usage are commonly used predictive signals today. But do they tell the whole story? What if your churned customers were also heavy users? You need to make sure you are on top of things and connecting the dots properly. Challenge your assumptions by visualizing health scores and recalculating them as frequently as possible.

Use weighted scores for important accounts
Your customers' health scores won't be accurate if you treat signals of different importance as equal ones, especially when it comes to strategically important accounts. Interact regularly with your customers, conduct in-app surveys, and get a sense of what features they really care for. Be proactive in your relationships and use these actionable insights to fine-tune your calculations.

Benchmark customers against your signals
With more and more customer segments being added to the mix, the modern CSM can get overwhelmed by individually calculating health scores for dozens (if not hundreds) of them. This issue can be minimized by establishing benchmarks based on industry sectors, company sizes, and personas. Just make sure that you are constantly updating and revising these benchmarks.

Modern Metrics, Sentiment Analysis, and Relationship Intelligence: The Future of Customer Success

Harvesting product data and cross-channel communication information is challenging enough. But analyzing, benchmarking, and converting them into actionable insights is becoming even more complex for CS leaders today.

Interestingly, most organizations still rely on manual human processes that are often based on gut feelings and are not unbiased. The modern metrics mentioned in this guide are helping CS leaders to move on from the traditional KPIs and create a data-driven approach to understand customer preferences, tendencies, and sentiment. AI-driven insights are the future of customer success in SaaS.

It is imperative that your entire organization knows and understands your customer - their business, their goals, and what problems keep them up at night. Simply put, customer success translates to success for your whole business. Go proactive now!

Harvest the Power of AI to Reveal Your Customers' Sentiment and Relationship Scores

Book a demo

staircase.ai