Why "Land and Expand" sounds great – but fails so often

Why doesn't our strategy of "Land and Expand" deliver the expected results?

One of the most common go-to-market strategies for B2B technology companies is to "Land and Expand" (L&E). It's become even more prominent and critical because of the unique characteristics of XaaS companies where the entire business model is predicated on the rapid success of L&E.

Everyone understands that the "easiest" place to sell additional products and services is to existing customers. L&E has three vectors of expansion that are pursued: the "Three U's" – New Use cases, New Users and increased Usage levels (3U).

The average SaaS company gets 16% of new Annual Contract Value (ACV) sales from up-sells and expansions (Viva Chan of *Digital Media Stream* – July 2018 from *forEntreprenuers)*. This is backed up by *RJMetrics,* which found an average of 16% with numbers up to 28% for large companies and down to 11% for small companies.

Based on my experiences with many SaaS companies, they often plan for and expect results that are greater than 16%. That becomes critical when you consider that a typical "churn" level (losing customers) is 10%, which means they'll net only a 6% improvement from the existing customer base. That is an optimistic picture as *a forEntreprenuers* 2017 survey of more than 200 SaaS companies showed the median net dollar gain (expansions minus churn) was only 1%. That spells disaster for most SaaS businesses and underscores that driving improvement in expansion rates is mission critical.

WHY EXPANSION RESULTS UNDERWHELM SO OFTEN

Business plans tend to be aggressive on expansion related revenue forecasts and then often fall short. While many companies then focus on pricing optimization strategies, I would suggest that re-thinking the approach to L&E is of greater strategic value. From my experiences, there are 4 major reasons that L&E results fall short of expectations.

1. <u>You failed to earn it:</u> The first major requirement that sellers fail to realize is that the right to expand must be earned. Buyers are generally conservative (especially with technology) and they will not promote anything to their peers until an initiative is fully executed and successful with great results. The objective is to earn an enthusiastic advocate. This takes time – and that's where most companies fail. They don't have the patience and don't make the investment to keep close to customers for 1-3 years in order to truly understand and document impact and results.

2. <u>Lack of ownership</u>: L&E is often criticized rightly as a business strategy that is treated as a sales tactic. Ownership often lies with sales – particularly inside sales – but only from a

Figure 1 – Changing Ownership
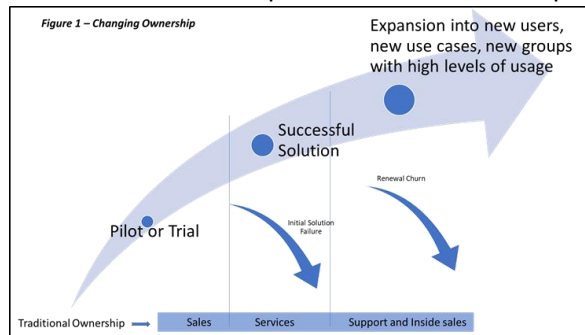
revenue perspective, not from a process perspective. Additionally, the ownership often changes during the customer's experience (see figure 1). Someone must have the role of working with the customer to gather success proof points and to identify and execute expansion.

3. <u>Lack of Goals</u>: There are no clear, established goals with the customer beyond the initial deployment. You should jointly develop goals with the customer around expansion. These can be goals over the next 2-3 years and will necessarily include introductions to new people in the organization.

4. <u>Communication</u>: This is communication *within* the customer account. The solution's success needs to have visibility and sharing of success within the customer organization. There are almost always internal meetings, newsletters, internal awards, best practice or Kaizen forums where the solution and its impact can be shared. But how often do people work with their customer to identify those opportunities and make them happen? Capitalizing on these makes your customer a hero and sets the stage for successful expansion.

THE MOST COMMON "FIX" IS FLAWED

The emerging "patch" to address the challenge of improving L&E has been the advent of Customer Success Managers (CSMs). After missing their L&E revenue targets repeatedly, companies have moved to add the CSM role in their organizations. This can and should work. A specific person focused on the success of the customer solves one of the major impediments to L&E and that person is in a unique position to drive the 3U s of expansion.

However, many companies fail with this approach. They put CSM people in Support or Professional Services and they essentially become an additional layer of support, ending up in a purely reactive and escalation handling mode ….. never really getting to L&E. There is often a lack of role clarity and a lack of specific performance measurements.

Using the CSM approach really needs to be organized differently to be successful. The CSM should be a separate function reporting to the CRO. CSM should be staffed with the best and brightest people with strong consultative selling skills and be experts on the solution. They should be accountable for L&E metrics and results and be empowered to draw on other teams in the company.

WHEN DOES L&E EXCEL?

Excelling at L&E results typically means having all these elements in place:

- Clear ownership of L&E staffed with the right talent with clear and measured outcomes. This can be a small group of CSMs reporting to the CRO.
- Successful implementations that result in the customer becoming an enthusiastic advocate.
- Establishing centralized contracts with your customer that makes it easy for them to expand with other divisions, geographies or functions – being an approved corporate-level vendor.
- Regular customer/user meetings with a customer advisory board.
- A playbook on the ways and means the customer can share and communicate success within their organization; promote success with passion.
- Having specific expansion plans jointly developed with the customer and translated into goals across the 3U's.

CONCLUSION

For SaaS companies, a deep and well-structured plan is necessary to generate sustained L&E success. This is a plan that must have a horizon of 2-3 years and be resourced with the right talent. The potential benefits are enormous. Companies that have implemented the approach of CSMs should critically examine how those resources are focused and measured.

ABOUT
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