

How to define your

• CUSTOMER HEALTH SCORE



A close-up photograph of a black stethoscope resting on a black computer keyboard. The stethoscope's chest piece is positioned over the 'Enter' key, and its tubing loops across the top left of the keyboard.

Contents

1	What Is Customer Health Score?	Page 1
2	Industry Standard & Parameters	Page 3
3	Why is it important to measure Customer Health Score?	Page 4
4	Customer Health Score: Finding a common ground	Page 5
5	Relationship Health: What role do relationships play?	Page 6
6	Value vs. Vanity: The SmartKarrot approach	Page 7
7	The Secret Sauce: 6 Parameters	Page 8
8	The Road Ahead: How to measure effectiveness?	Page 11
9	Conclusion	Page 12

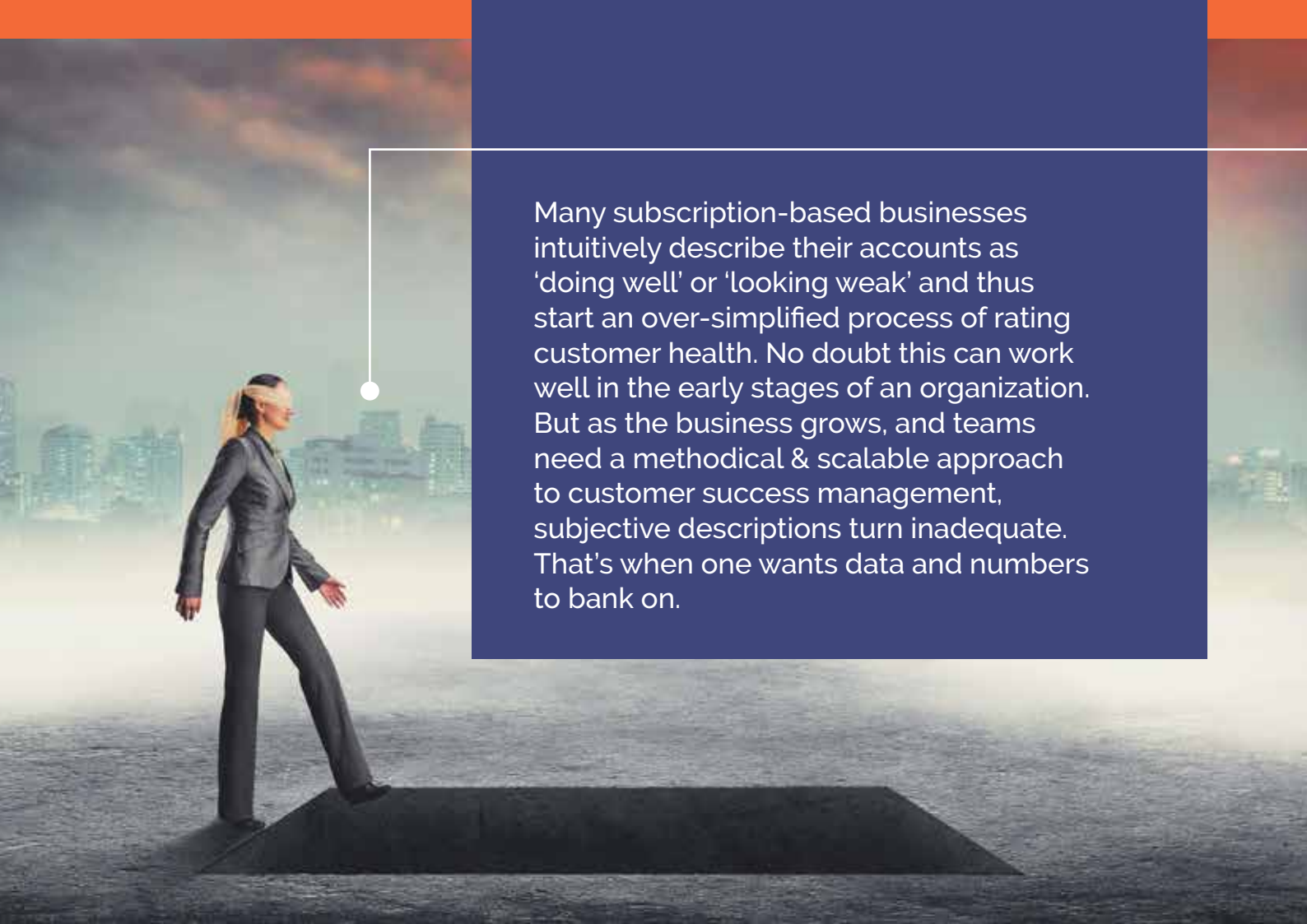
What is Customer Health Score?

Customer Health Score is an important metric for all businesses, one that is meant to predict a customer's likelihood to churn or continue to stay on and grow. This should be designed to provide insight into what is happening in your customer accounts early enough, hence becoming a golden **Leading Metric** for managing churn, one that provides an early warning (if measured & tracked well). A Customer Health Score should indicate the well-being of an account, ideally quantitatively, and offer a metric to gauge account health.

It might be useful to point out, early on, that several terms are used in the market to describe the same metric. Some organizations continue to use Account Management/ Client Services for the Customer Success function and have accordingly named the metric Account Health Score.

Few others are even beginning to call it Customer Success Score, however, we believe that it could be confusing, and sometimes, downright misleading. For the remainder of this document, we will continue referring to the metric as Customer Health Score .





Many subscription-based businesses intuitively describe their accounts as 'doing well' or 'looking weak' and thus start an over-simplified process of rating customer health. No doubt this can work well in the early stages of an organization. But as the business grows, and teams need a methodical & scalable approach to customer success management, subjective descriptions turn inadequate. That's when one wants data and numbers to bank on.

- To the Customer Success Managers (CSMs), the Customer Health Score should help get a pulse of their accounts rather than be defined solely by their gut/instinct. It should point them to which account is potentially at risk and which one is on its way to steady loyalty – and help them plan and prioritize actions accordingly.
- To the CSM leadership, it should also help reflect the performance of CSMs. Who has the most thriving accounts, what are they doing to get things right, and who needs to change course to help clients find value from the product.

With such knowledge, the organization can forecast renewals, spot opportunities for upsell, know which customers will advocate their product, and build a brand known for customer success management.

For a thriving Customer Success function/ department/ team, a lot is riding on this assessment and its calculation merits some serious thought and effort. In fact, without it, your CSMs might as well be walking blindly into pitfalls all the time.

Industry Standard & Parameters



“

Not everything that counts
can be counted; and not
everything that can
be counted, counts.

- Albert Einstein

”

There isn't an industry standard for Customer Health Score (yet) and that can make things a little confusing, and sometimes overwhelming for customer success teams. While working on defining this score, it's good to isolate 4-7 indicators for calculating the score and avoid making it too complex, at least in the beginning.

SaaS businesses use a range of factors, from product usage to strength of relationship with key customer stakeholders, to configure their account health score. The CSM's evaluation of the account is also used as a marker. Though subjective, it can be a valuable input. CSMs who are hands-on with accounts often pick up signals that data might suggest much later.

Product adoption indicated by log-in rates sounds like a good parameter to most, but the number of unresolved tickets has a mixed response from CSMs about being an appropriate metric.

Often, customers disengaged with a product/ service ignore an NPS survey. If one doesn't care about a product, would they put in the effort to appropriately rate it? Many CSMs are beginning to suggest that the score then isn't a realistic reflection of customer sentiment, but the jury is out on this one.

Then there are the lagging indicators available like overdue invoices and reluctance to renew. Parameters like these don't help much in preventing the slide though; useful only in a post-mortem on discovering what went wrong.

Finally, some industry insiders believe that the more the number of touchpoints between a CSM and an account, the better the account health. But merely tracking the number of touchpoints cannot reflect on the health of the account. This number could be high for an account in fading health, or the spike could be because new product features were launched. Hence this parameter could probably add value as an addendum, might not offer much by itself.

Why is it important to measure Customer Health Score?



We are not competitor obsessed. We are customer obsessed.
– Jeff Bezos

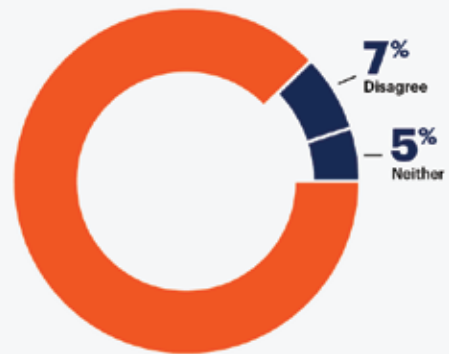


The industry, consulting firms & market leaders are all trying to measure the link between Customer Health, Customer Experience and the eventual loyalty of customers, leading to higher LTV (Life-Time Value) and hence ROI.

According to a [study by Gartner](#), 88% of Account Managers (CSMs) think they can grow through great service (above and beyond customer expectations).

88%

of account managers agree that servicing accounts above and beyond customer expectations is the surest way to grow.



n=670
Source: Gartner
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Gartner.

- Forrester's [Customer Experience Index](#) measures the growth connecting quality and loyalty measures to specific revenue drivers, giving you unprecedented ability to guide investments that produce the greatest revenue return.
- [McKinsey's research](#) shows that brands that elevate the customer journey increase revenues by as much as 10-15%, while simultaneously lowering the costs up to 20%.
- According to this [report by PWC](#), 90% of CEOs believe that Customers have the biggest impact on Company Strategies.

One of the most widely accepted definitions of Customer Success:

"A proactive, holistic, and organization-level approach that leverages technology and real-enough-time visibility into customer health (not just usage data, but any contextual inputs) to ensure your customers - including those who directly use (users, administrators, etc.) and those who benefit from the use of your product - continually and increasingly receive value from your product throughout their lifetime as a customer." - [Lincoln Murphy, Sixteen Ventures](#).

It becomes pretty obvious that having a clear visibility into Customer Health is at the core of being great at Customer Success.

Customer Health Score: Finding a common ground

#Need 1:

Need to measure Engagement. Businesses realize they need to measure & track the level of engagement their products enjoy with their customers and end-users. This is a complex ask, needing detailed product analytics – usage data, heat map analysis, cohort analysis, and Sankey flow diagrams (to name a few).

#Need 2:

Need to capture accurate & real-time information, without data overwhelm. Products need to be designed and architected to capture events as they occur and manage them with high-efficiency technology and tools to avoid adding performance lags and/or security issues, to be able to give teams access to data for analytics later.

#Need 3:

Convert to meaningful insights. No amount of data or analytics adds any value unless converted to meaningful business insights. This needs process experience and design thinking, and many teams spend time sitting on useful data but useless dashboards that refuse to offer any intelligence.

#Need 4:

Need for internal agreement on the definition & process for a Customer Health Score. The value of a Customer Health Score is only as good as the definition of the score. Which parameters add up to the final score? What weightage is assigned to each? How frequently are the scores and trends measured? How often is regression done to refine the parameters? Finally, what should one agree upon internally as the definition, based on the context of the organization?

Throughout 2019 we spoke to digital-era businesses, SaaS companies, and large scale enterprises, about their views on Customer Health Score, and we noticed some common patterns emerge

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Your most unhappy customers are your greatest source of learning.

- Bill Gates

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While customers seemed to agree to these needs, they also agreed that there were challenges in trying to build out this metric for themselves. First, each product team admitted that it was finding it tough to prioritize building this dashboard on the backlog against competing for market-facing features and enhancements. They were also not sure about which parameters made sense for their business. And they were also concerned they might be building out a standalone metric, which in isolation (no comparative data) might not offer useful insights.

Relationship Health:

What role do relationships play?

“

People will forget what you said. They will forget what you did. But they will never forget how you made them feel.

- Maya Angelou

”

Some Customer Success leaders insist that it is important for CS leaders to keep an eye on the relationship with the customer account, which would only be possible through regular touchpoints and interactions. Overall, the CS team should focus on:

1. **Customer Interactions:** Keep track of the visits to the customer, Quarterly Business Review meetings (QBRs), GotoMeeting/ Zoom/ Webex/ meetings, telephone calls or conferences, etc. These data points will help you determine how often a customer is willing to talk to you (or meet you) and determine if they are getting value out of those conversations.
2. **Touchpoint Frequency:** Do you have touchpoints with the customer every week, fortnight or month as per the pre-decided frequency? How often do these get cancelled by the customer?
3. **Rapport: How good is your CSM's rapport with the different personas:** Decision maker, product champion, business users, economic buyers? How good is their overall relationship with the other departments and executives?

Any Customer Health Score should be comprised of metrics that are important to your customers, product and company. However, any metric should try to include an aspect of the qualitative relationship with the customer, at the executive level, with key stakeholders and overall across the customer's organization. Since it can be tough to quantify this, some organizations are willing to enter a score of their current relationship strength as gauged by the Customer Success leader, as one parameter in the overall Customer Health Score.

Value vs. Vanity: The SmartKarrot approach

Vanity metrics are things you can measure that don't matter. They're easily changed or manipulated, and they don't bear a direct correlation with numbers that speak to business success. While building SmartKarrot, we wanted to create a Customer Health Score that overcame these limitations and tried to meet the 4 needs above, as articulated by digital-era businesses, SaaS companies and large scale enterprises (via interviews).

We have designed our Customer Health Score as an aggregate of six parameters, built on sound automation and analytics to reflect the health of accounts with very small delays. With our design, the CSMs can choose which parameters they want, add custom parameters of their own, assign weightages as they deem fit, and then monitor the changes in the health score, trace it to the relevant parameters, and take prompt action.

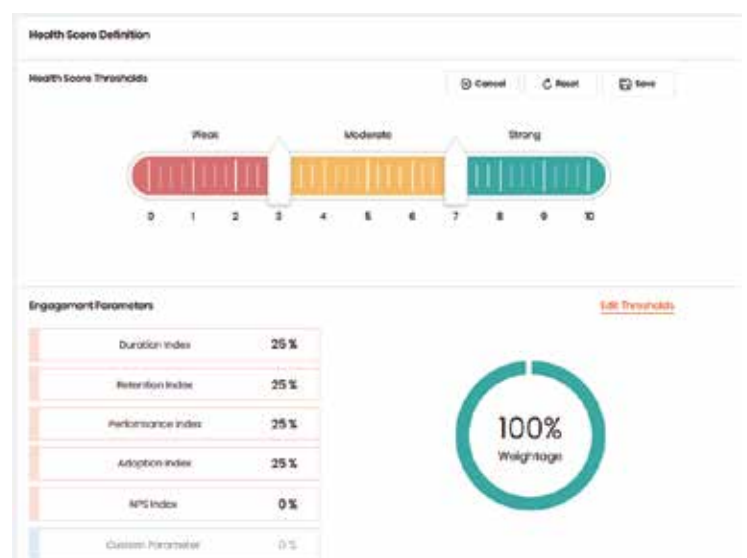
Each parameter tracks a key dimension of account health – such as product adoption, performance, or customer satisfaction – and guides customer success management.

“

Vanity Metrics: Good for feeling awesome, bad for action.

- Tim Ferris

”



The Secret Sauce: 6 Parameters

“

We aim to answer our customers' questions before they can even think to ask them.

- Kettlebell Kings

”

1. Duration Index

Tracks app usage. It shows the median time (in hours) spent by a user on the platform per day, and also the usage trend, by comparing the length of sessions or time spent, every 15 days. As a product company, one needs to carefully watch app usage and trends, and this index lets one do exactly that.

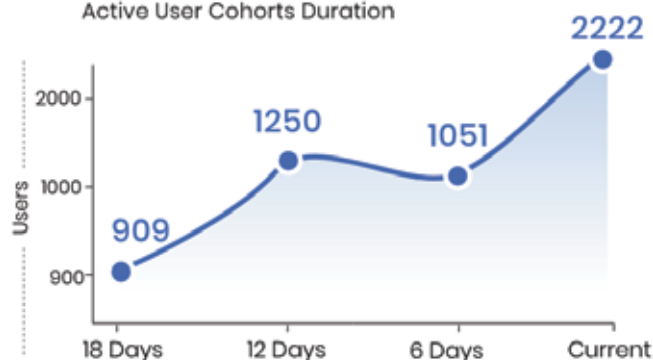
2. Retention Index

Measures regularly active users through cohort analysis. It measures the percentage of users who continue to revisit the app and use the platform over time. Each of these pre-defined intervals gets a weighted score, which is then used to calculate the composite score for retention. Calculations at shorter intervals than a week would lead to skewed scores, our index calculation accounts for data available longer than a week.

Duration Index
Session Length & Frequency



Retention Index
Active User Cohorts Duration



3. Performance Index

A composite of two key sub-parameters – the average time for a page to load, and the percentage of successful items loading for that page. Both affect user retention in today's digital economy thriving on accessibility and immediacy. The latter is particularly relevant for pages that see high request volumes, giving the business a clearer view of how different pages/ sections of their app perform. Performance Index is replaced by Rating Index for mobile apps, where we pick up ratings from the Mobile App Store (if it is available in the public domain).

4. Loyalty Index

Measures the overall continuity of usage of the platform's features. It is calculated based on the number of users who are dropping out (churn), measured by lack of logins for longer than a month. The index also accounts for type of app (Mobile or Web) to create an appropriate benchmark.

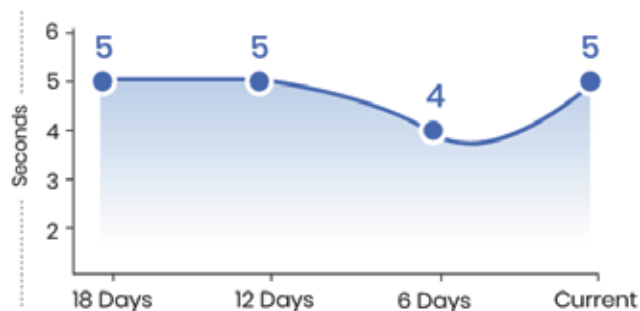
5. NPS Index

Tracks the change in customer satisfaction levels over the defined reporting period. SmartKarrot's built-in survey tool can be used to send NPS surveys, and the results accessed by customer/ customer account, to monitor the change in sentiment.

6. Custom Index

The SmartKarrot CS platform allows you to add parameters that they think are important and need to be added towards the Health Score calculation. As an example, the CSM team might want to track the touchpoints executed by a CSM for each account. The SmartKarrot platform also allows customers to add their custom parameters and assign a higher weight-age to these, should they want to (up to 100%).

Performance Index
Load Time & Page Request Success



Loyalty Index
Churn & Trends

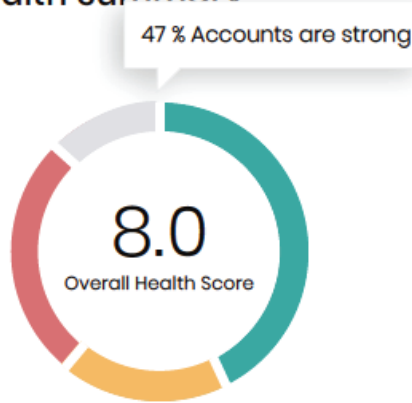


SmartKarrot also allows you to configure scores into categories for easier recall and system-based alerts to be triggered based on changes: Strong, Moderate and Weak. Needless to say, the ranges for these categories, as well as the labels themselves are configurable. Finally, the account health score is compiled for each account based on these parameters, and CSMs can see their accounts pie-charted by Health Score on their CSM dashboard.

Customer Health Summary

[View all](#)

- Strong
- Moderate
- Weak
- Undefined



108 Customer Accounts
+2 New Customers in 1 month

- 45 Customers (\$7M ARR)
- 26 Customers (\$10M ARR)
- 34 Customers (\$6M ARR)
- 3 Customers (\$3M ARR)

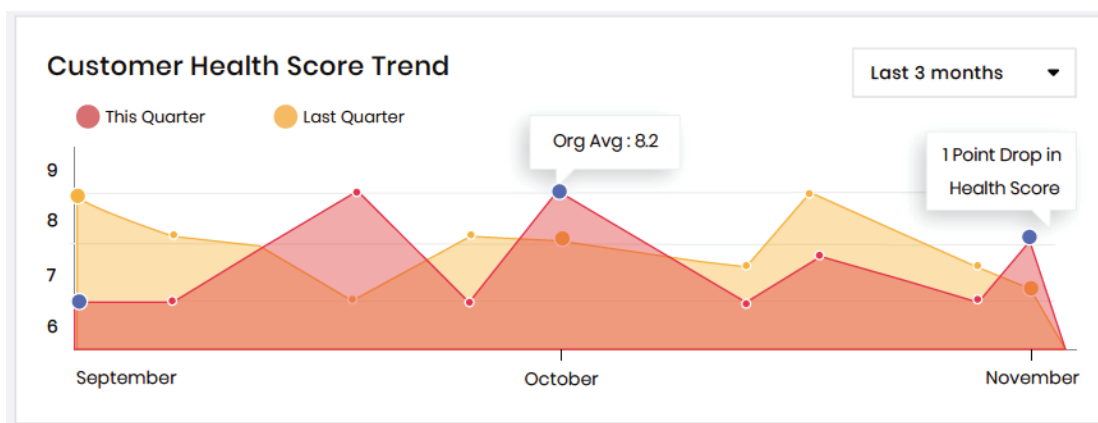
Your overall Health Score is strong at the moment

[View Phase - wise](#)

CSMs also get a quick view on the highest and lowest-ranked accounts, by Customer Health Score, and can trigger a bunch of actions based on this easy Stack Rank view.

High Health Score			Low Health Score		
	Assist	9.5 / 10 \$12M ARR 3890 Users		PetMeds	4.5 / 10 \$467K ARR 580 Users
	Initech	9.2 / 10 \$7M ARR 2256 Users		RedCore	4.8 / 10 \$528K ARR 634 Users
	Globex	9.0 / 10 \$3M ARR 1207 Users		Healthier	4.9 / 10 \$985K ARR 976 Users

Finally, what good is a metric without an appropriate trend graph, to show every CSM how their accounts are doing month on month, by Customer Health Score.



The Road Ahead

How to measure effectiveness?



A good indicator that your formula is working is to check positive and negative accounts and be sure the metric matches what is happening with the client. For instance, if a customer hasn't taken the training, submits multiple support tickets, and hasn't been successful with your product it probably indicates that their Customer Health Score would be in poor standing.

At the heart of our Customer Health Score is the foundation that all indices need to be measured comparatively and not in absolute. Hence, we have built percentile-based scoring into our indices, so that your app performance, duration, loyalty, etc. are all compared run time with a huge collection of data from other apps, and gives you a great idea of where you stand against apps of similar industry and size.

SmartKarrot's Customer Health Score has evolved over a period, guided by industry veterans, customer feedback and good old statistical regression. Our data scientists have tested this over hundreds of apps in the last 2 years, and the score has evolved as we have watched it closely and tried to calibrate with reality. During the process, we realized the futility of looking for a single source of truth for customer health and learned to lean on a multi-dimensional view, which could explain why an account was in good or poor health.

“

Find everything that is wrong and fix it. Constantly seek negative feedback.

- Elon Musk

”

Conclusion



We adopted an iterative approach to developing the Customer Health Score; this version of our Customer Health Score is easy to understand and use. The scoring process is automated, so CSMs and customer success leaders can focus on helping customers derive value from their product, and not worry about gathering data or be submerged in complex calculations.

After setting up your Customer Health Score formula, it's important to give it a few weeks without changes, or it might be tough to track how well it is doing. There is nothing like frequent changes to mess up a sensitive metric like this one. Of course, do remember to make sure your CSMs are bought into the score or they won't consider it as a useful data point to act on.

Finally, our Customer Health Score can help create a stack-rank of the CSMs on your team and allow for some healthy gamified competition, as showcased by this screenshot.

If we set up the customer health parameters wisely, the Customer Health Score will help us not only predict churn but also act as a leading indicator of the overall health of the customers and your entire portfolio. Sometimes Customer Health Scores can change direction very quickly. We need to continue monitoring them on an ongoing basis to maintain an up-to-date look at all active accounts and create a better understanding of the team's performance.



SmartKarrot is a comprehensive and customizable Customer and Product Success platform. The platform offers 360 customer actionable-insights leveraging major industry integrations suitable for clients' needs. Robust features and customizable workflows allows organizations to increase adoption, personalize engagement, arrest churn and drive life-time value!

