



THE ENGAGEMENT CHALLENGE

Small businesses love cloud software, but they'd love it a lot more if you made it easier to use.

CHARLES LAUGHLIN

Sr. Analyst, LSA



Commissioned by:



Executive Summary3

Part I: The SMB SaaS Revolution4

 Figure 1: The Steady March of SMB Cloud Adoption4

 Figure 2: SMB SaaS Is Living Up to the Hype.5

 What Benefits Are They Experiencing?6

Part II: The SaaS Engagement Challenge7

 Figure 3: Weak Engagement = High Churn7

 What Does The Industry Think?.8

 Figure 4: It's Not You, It's Me.8

 Figure 5: How Much Time Do You Have?9

Part III: Best Practices for Better Engagement11

 Figure 6: The Engagement Toolbox11

 Acquire The 'Right' Customers12

 Make the Customer Part of Your Product Development Team12

 Proactive and Reactive Feedback.13

 Figure 7: What Moves the Needle on Engagement?.13

 The 30-Second Rule14

Key Takeaways15

Despite tremendous growth in adoption and considerable strides in its capabilities to improve the lives of small business operators, the small business software industry has a serious problem.

Many small businesses owners fail to use the software they buy to its full potential. And, in some cases, they struggle to use it at all. The problem is engagement. If SMBs aren't using the software you build for them, then they will eventually stop using it, cancel their subscription, and move onto a competitor's product. Or perhaps they will go back to the comfort and familiarity of a spiral notebook.

Recent Modern Commerce Monitor™ (MCM) data from the Local Search Association measuring small business tech adoption tells both sides of this story. SMB cloud adoption is at 55% and expected to rise to 75% in the next two years. Businesses are reporting real gains in productivity as a result of using cloud or SaaS software to run their businesses.

At the other end, 62% of small businesses fail to fully utilize software and they point to insufficient initial training and products that are just too complex as key reasons for their failure to fully engage.

This white paper explains the nature of the SMB SaaS engagement challenge and shares best practices for delivering a better customer experience.

We gathered these practices from direct conversations with leaders at companies that are successfully building SaaS for small businesses.

We also conducted an online survey where we asked SMB SaaS professionals to share their views on what the most effective measures to improve engagement are.

Some of the tactics we discuss include:

- Acquiring the right customers, not just any customer, to avoid the misalignment that often leads to churn.
- Integrating customer feedback into the product development and improvement processes.
- Offering better guidance and initial support to ensure engagement early in the process.

This White Paper was commissioned by Mono Solutions.

“62% of small businesses fail to fully utilize software and they point to insufficient initial training and products that are just too complex as key reasons.”

Software, in particular SaaS or cloud-based software, has transformed the day-to-day life of the small business owners using these tools.

On a recent Above the Cloud podcast, Gene Marks, a Forbes columnist on small business technology and a small business owner himself, described the transformation this way:

“Can you imagine running a business back in 1978?” said Marks, when asked if small business SaaS has lived up to its promise. “You can’t even compare what you can do now. And it is all because of technology.”

Marks notes that for every old-line brick and mortar shop that has shut its doors, there are hundreds of micro businesses that have popped up and are being run successfully out of houses and apartments.

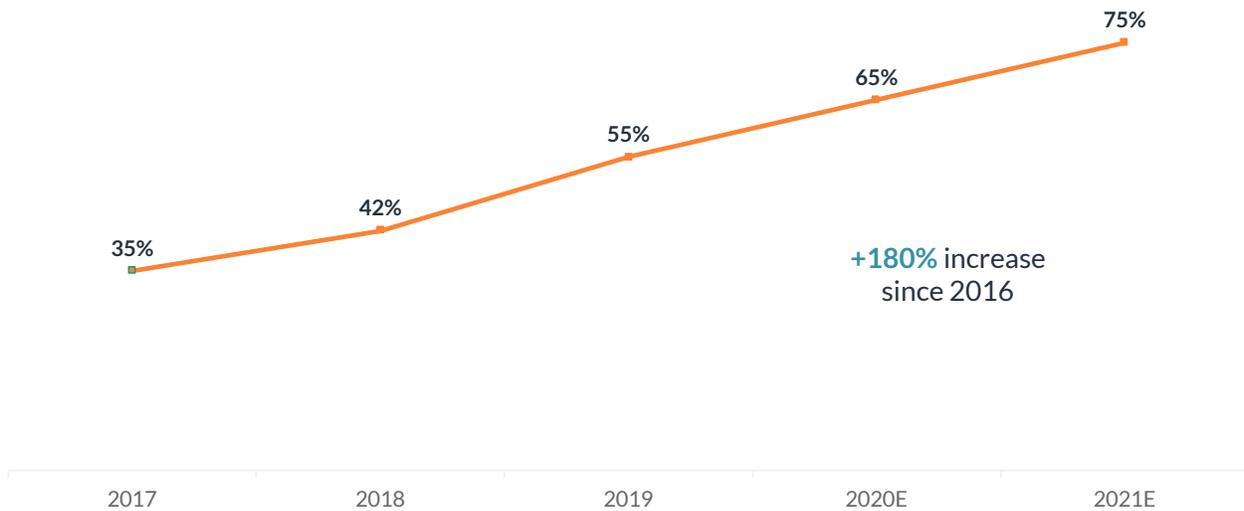
“And that is because of the CRM software, QuickBooks, Shopify and so on. There is no way you can tell me that technology has not been a huge part of this.”

The Local Search Association’s Modern Commerce Monitor™ (previously known as the Tech Adoption Index) has produced four waves of small business survey data since 2017, with the purpose of understanding to what degree small businesses are adopting cloud services and why.

Conversely, the survey also seeks to understand why so many SMBs haven’t yet moved to the cloud.

Figure 1 features Modern Commerce Monitor™ data showing how steep the growth curve has been for SMB cloud adoption. By 2021, we estimate that three-quarters of all small businesses will be using at least one cloud-based tool to run their businesses.

Figure 1: The Steady March of SMB Cloud Adoption



Sources: LSA Modern Commerce Monitor Survey, 2017-2019; 4,029 SMBs; Thrive Analytics, Local Pulse Report™, 2017-2019; 6,685 SMBs.
*Estimates based on SMBs that use cloud-based services at least once a month to support a business function.

Across four waves of data, SMBs have consistently articulated what they want from cloud software. They want tools to help them gain back time wasted on busywork so they can spend more time creating better products, delivering better customer service, making more sales, or even spending more time with friends and family.

In its most recent wave (completed in April 2019), the Modern Commerce Monitor™ for the first time asked, “To what degree have the cloud-based services met your expectations?”

Figure 2 shows that small business software has overwhelmingly performed at least up to expectations across the business functions measured in the survey. In fact, more than half of respondents rated performance as either “better than expected” or “slightly better than expected.”

The data clearly shows small businesses are moving their day-to-day operations to the cloud, and they are happy with the results. Next, we asked for specifics on how they are benefitting from the shift.

Figure 2: SMB SaaS Is Living Up to the Hype



Source: LSA Modern Commerce Monitor™, Wave IV; N= 322 SMBs.

What Benefits Are They Experiencing?

According to the latest Modern Commerce Monitor™ data, 53% of cloud users say they are spending more time with customers as a result of using cloud software. Another 46% say shifting to the cloud has saved their business money.

One cited benefit that really jumps out is the 45% who attribute a rise in customer satisfaction to their use of cloud software. Delivering a quality customer experience is critically important in the current consumer-driven environment, and technology plays a key role.

LSA's recent survey data clearly demonstrates that cloud software for everything from DIY websites, to email marketing, to accounting, to inventory management is making a meaningful difference to small businesses. This certainly helps explain why cloud adoption is growing as fast as it is.

However, there is another, more challenging side to the story. While cloud adoption is growing and producing positive results for small businesses, the SMB SaaS industry grapples with high churn and rising customer acquisition costs. A major culprit is lack of engagement with SaaS products.

Too many SMBs are underutilizing the software, and low or non-usage is a key signal that an account is at risk for churn.

The remainder of this report will document this software engagement problem, explore some possible causes, and share ideas on how to give small businesses a better experience with your software.

“While cloud adoption is growing and producing positive results for small businesses, the SMB SaaS industry grapples with high churn and rising customer acquisition costs. A major culprit is lack of engagement with SaaS products”

As noted in Part I, the most recent wave of Modern Commerce Monitor™ data offers very good news on the adoption of SaaS by SMBs and the positive outcomes software is delivering to small businesses. The data also exposes some cracks in the façade.

For example, 62% of the SMBs in the survey are not using the full capabilities of the small business software that they purchase. When asked why they didn't fully use it, the responses included a variety of reasons.

The biggest single response at 31% was, "We plan to use the features, but we just haven't done it yet."

There are a few ways to interpret this finding. One is that the small businesses just haven't reached the point in their journey where they need the additional features. Other reasons include that the software provider has either not made the case for expanding their use of the product or hasn't made the process simple enough.

Or, perhaps this reflects that for some SaaS products, more service is required to help time-starved small businesses make full use of the software's capabilities. This certainly argues for a do-it-with-me (DIWM) approach, where a customer service rep helps the small business customer learn the software, set it up, and encourages engagement through regular touchpoints.

Another 23% of respondents said, "We need more training on how to use the features." Notably, this figure goes up to 34% among businesses that have employees and 43% among businesses that have older decision-makers.

Younger decisions makers and solo operators express less need for training, which could reflect greater use of or comfort with DIY platforms.

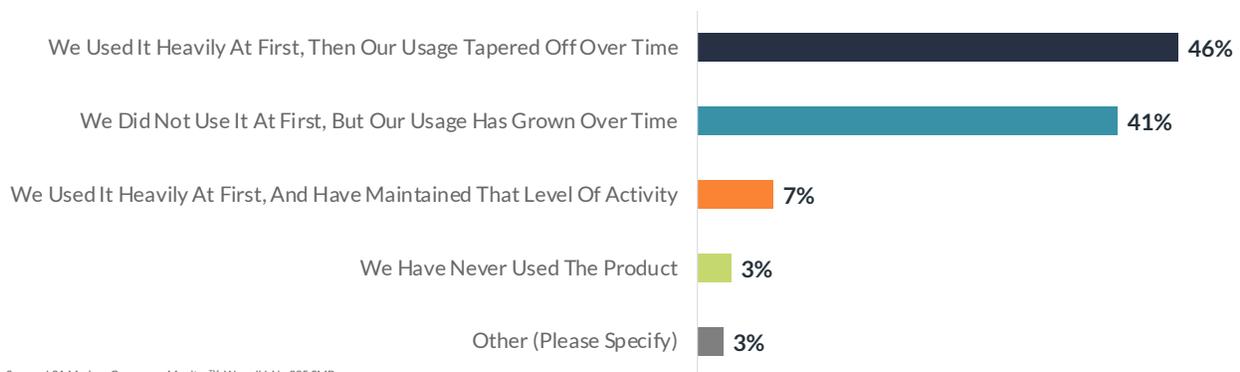
Figure 3 shows that almost half of SMBs say they either had declining usage (46%) or have never used the product (3%), vs. 48% who say they have had steady or increasing engagement with the software.

When asked what would improve their engagement with the software, 76% selected, "A simpler product. Too many features have made it difficult to use."

Other responses that generated a large response included, "A better initial training process" and "Better expectation setting about what the product can and cannot do."

The message is pretty clear that products are often too complex or try to do more than what the small business needs. Onboarding and initial training are just one part of the equation but are not sufficient enough to drive optimal engagement. Many small businesses also feel they were misled about what the software can do.

Figure 3: Weak Engagement = High Churn



What Does The Industry Think?

We've shared the perspectives of small businesses through the Modern Commerce Monitor™ survey data, which shows how SMBs are embracing SaaS. The research also highlights how their engagement with SaaS products is lower than it should be.

SMBs are sending a clear signal that the small business software industry could do a much better job of delivering simplified products, setting clear expectations, and offering better initial training in how to use the software.

We wanted to hear from the other side, the developers of small business software to see how they perceived the engagement challenge.

The LSA and Mono Solutions fielded an online survey and solicited response from leaders of the SMB software community. Results from the sample of nearly 40 responses, including founders and senior leaders at small-business software brands, reflect an informed view of the challenges inherent to the industry.

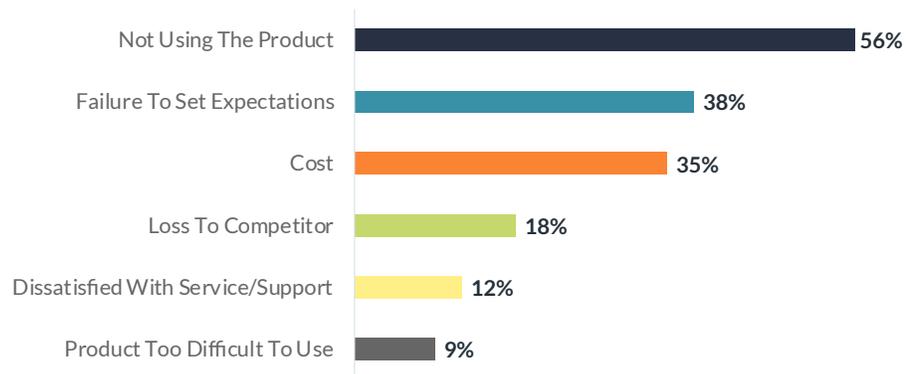
We asked a limited set of questions around the engagement challenge. These included:

- What are the key factors behind your customers' decision to cancel/not renew?
- What have you done to improve SMB engagement with your product?
- Rank these methods for improving engagement based on their effectiveness.
- How long do you believe you have to establish engagement with new customers before they are at risk of churn?

Figure 4 shows how the industry ranks drivers of churn. Clearly, it's the kiss of death if your customer isn't using your software.

Figure 4: It's Not You, It's Me

What are the key factors behind your customers' decision to cancel or not renew?



LSA SMB/SaaS Engagement Survey 2019, n = 36

“Failure to set expectations” also ranked high as a churn driver, as did cost. It is interesting that “Product too difficult to use” ranked as low as it did, given the finding from the Modern Commerce Monitor™ that simplifying software would make a difference in engagement. Perhaps there is some resistance to acknowledging that the product you built could be more user friendly?

The fact is, most of these responses are potentially related. Failure to use software could be a reflection of product complexity, failure to onboard effectively, or a misalignment between what the user thought the software would do and what it actually does.

Mono Solutions Chief Operating Officer, Svenn Andersen, does believe complexity/ease of use is a critical part of the engagement equation. Mono is a white label SaaS-based platform for small business digital marketing and engagement.

“If engagement is high at the beginning and then they quickly drop off, then the software is too complex,” Andersen said.

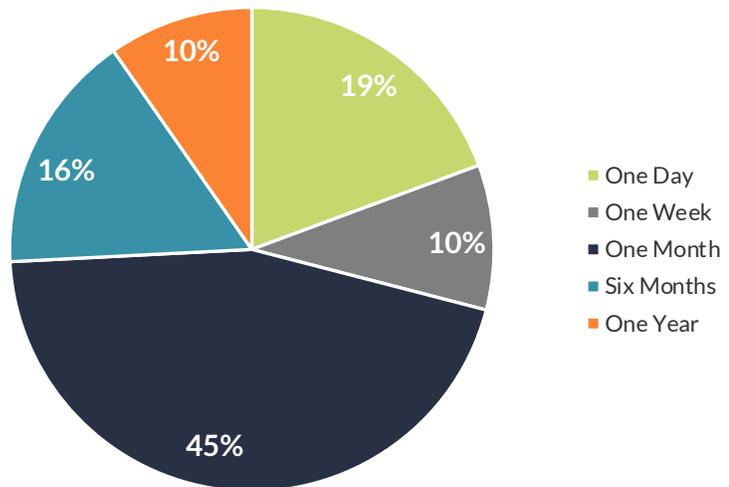
“The interface needs to hit the right balance between doing what it needs without taking too much time or being too complex. And it must live up to expectations.”

The last question on speed of engagement generated some interesting findings. A plurality of 45% believe that engagement needs to be established within a month before churn becomes a risk.

Yet most of the people we’ve had in depth conversations with on this subject believe this engagement cycle is considerably shorter. And rather than a single epiphany, establishing engagement is more often talked about as a series of positive experiences that build habit. However, many we spoke with argue that the first hook needs to be set within the first day of a user’s interaction with the software, or very soon after.

Figure 5: How Much Time Do You Have?

In your experience, how much time does an SMB SaaS provider have to establish customer engagement with its product before churn becomes likely?



LSA SMB/SaaS Engagement Survey 2019, n = 36

ThriveHive's Perry Evans, a veteran of the small business software game, is one who believes engagement is more of a process than a single event, but the process has to begin on the first day. ThriveHive is a SaaS-based guided marketing platform for SMBs.

"Job one for me with a product is if you can't find a path with that user, ideally in the first 24 hours, you have a big drop off," Evans said. "We spend an inordinate amount of time iterating and testing on that first day experience with a customer and a product. That is where the curve changes dramatically on retention."

Mono's Andersen agrees that first impressions matter in driving engagement and retention. He says high purchase intent will drive a user to engage in the purchase and onboarding process, but he cautions, "You need to get to a certain point of satisfaction within the initial session."

Aksh Gupta, CEO and founder of Occasion, a scheduling platform that focuses on experience-based businesses (zip lining, cooking classes, etc.) has a signal that he looks for that tells him whether a customer is going to be an active user on the platform.

"Have they connected their payment gateway within 30 to 40 minutes of creating their Occasion account?" Gupta likens this to whether a Facebook user uploads a profile picture right away. The failure to do so signals low engagement.

Whatever your software's engagement signal is, the longer it takes to appear, the less likely it is that your customer will make your software an integral part of their daily business activity.

"If engagement is high at the beginning and then they quickly drop off, then the software is too complex. The interface needs to hit the right balance between doing what it needs without taking too much time. And it must live up to expectations."

~ Sverre Andersen, COO at Mono Solutions

The industry survey also seeks to understand how companies that build SMB software address the widely acknowledged engagement challenge.

We first asked what measures they have deployed to improve engagement (figure 6), and then we invited them to rate these measures based on effectiveness (figure 7, page 12).

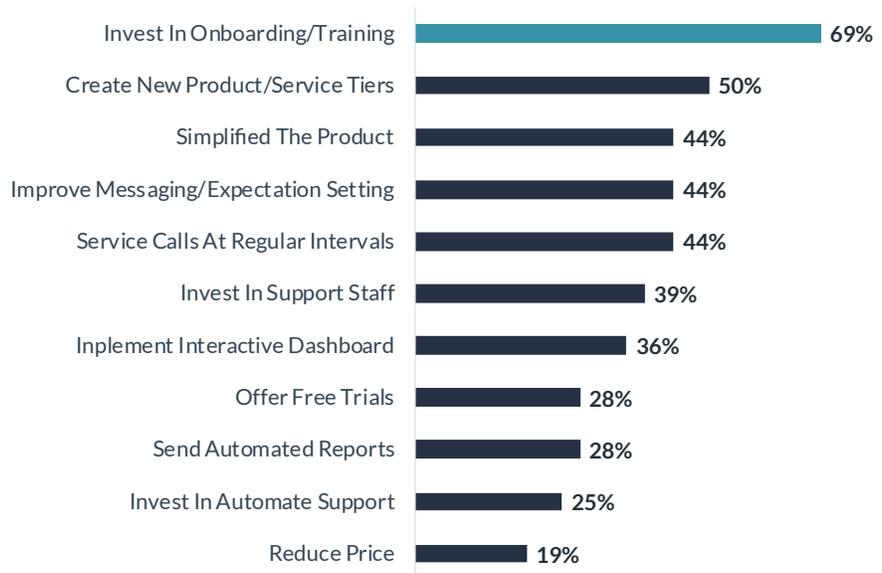
Interestingly, the most highly-rated measures were not necessarily the most widely used, though it's important not to overinterpret this given the differences are fairly modest. For example, improving messaging and expectation setting was rated the most effective measure to improve engagement, yet it was tied for third for most commonly used.

It's also worth noting a disconnect between small businesses focus on improving training and reducing product complexity. These were given somewhat less emphasis by the industry. It is also noteworthy that there is a strong view that price is not a factor in engagement.

We also asked our industry veterans to engage in a deeper conversation about how to improve engagement metrics. The remainder of this paper will focus on sharing ideas on driving engagement at all points of the journey, from customers acquisition through product development, product improvement, service, and support.

Figure 6: The Engagement Toolbox

What measures have you taken to improve SMB engagement/usage of your products



LSA SMB/SaaS Engagement Survey 2019, n = 36

Acquire the 'Right' Customers

ThriveHive's Evans has a very strong point of view on why engagement is so low, and churn is so high at many SMB SaaS companies.

The two biggest culprits are selling the wrong products to the wrong prospects and expecting small businesses to figure out on their own how to use the software they have purchased.

Evans argues that many of the fundamentals of the SaaS business do not apply to the small business market.

"The SaaS industry tends to run away from human service. It is not the 'efficient' model. The small business market is fundamentally different. I would argue that the substantial majority of small businesses stay on the sideline of SaaS adoption because they don't have the time, or the knowledge, or it is just too intimidating."

ThriveHive is fully committed to a product qualified lead (PQL) customer acquisition model, which is an evolution of the freemium model, where users are brought onto the platform with a free product. In ThriveHive's case, the free product is a Google My Business Grader that evaluates a small business's GMB presence and offers suggestions on how to improve it.

Under the PQL model, the prospect is brought into the free product and if their use of the product signals a strong need for the paid version, they are contacted by a sales rep. Evans argues conversion is orders of magnitude higher than other methods like marketing qualified leads (e.g., downloading a white paper) or cold calling.

One assumption underlying the PQL model is that the engagement and retention challenge that so many SMB SaaS businesses face is the result of a misalignment between product and customer.

"The most important thing is to be acquiring more strategically and smartly and making sure you are getting the customers that are a good fit for your product," Evans said. "Connection to the product has a lot to do with good matching between the target and the software use case."

Evans believes offering human service (DIWM) not just in the onboarding process but throughout the customer's use of a product, is essential for getting small businesses to engage with your software and lower the risk of churn.

"When you can offer to start their experience with a guide and a very specific purpose for that guide to onboard you into the product experience, we think there is a 3X multiplier in the addressable market that that model creates," Evans said.

"We are going at it fundamentally differently. The difference between a customer that has been onboarded by a guide, no matter how good your DIY path is, is dramatically different in engagement and retention."

Make the Customer Part of Your Product Development Team

A key issue in the small business SaaS world is the notion of involving the customer's viewpoint in the process of building and evolving software products. However, it stands to reason that users should have input into what a product does, its look, feel and functionality.

However, the fact that so many SMBs report low engagement with the software they use suggests perhaps the feedback loop isn't quite what it should be.

Nonetheless, many companies do involve customers in the product development process. We asked a few to share details on how their customer feedback processes work and to offer examples of how their products are better as a result.

Proactive and Reactive Feedback

Mono’s Svenn Andersen divides customer input into two buckets -- proactive and reactive feedback. Reactive feedback comes from observation of how customers use the software and respond to signals that a certain feature is difficult to use, for example.

Proactive feedback comes from actively reaching out to customers to seek their input in the product development process.

“Proactive feedback involves using customer panels, user tests, A/B tests, all the variants you can imagine minimizing obvious mistakes,” Andersen says.

“We also use data, including measuring NPS, observing social chatter, and monitoring reviews. We use a variety of qualitative and quantitative methods to measure how we are

doing. And it is not just about identifying bugs, but also finding meaningful improvement requests that will make a difference in their product experience.”

Mono’s most recent interface update is an example of how the company has combined both types of feedback to improve its platform.

“We took a year’s worth of feedback across all our 70+ partners around the globe including their direct small business client feedback and combined it with data analysis of platform usage. For example, the number of logins in a period, who was logging in – the SMB or the partner, time spent in platform, time from trial to publish and much more,” Andersen explained.

Figure 7: What Moves the Needle on Engagement?



Not unexpectedly, Mono found the user experiences of a web designer and an SMB were vastly different. What did surprise Mono was how much room there was for further optimization, despite already offering different limitations of the platform based on the type of user.

“Because our platform has always separated design from the rendering layer, we have offered automation in site creation for years. However, what we identified by digging into the data, were several ways we could further automate site creation while still differentiating the experience of a DIFM web designer or DIY user,” added Andersen.

The final step of incorporating more proactive feedback was beta-launching the new interface to select partners. Mono invited fulfillment managers, product managers and senior designers from a select group of their partners to their offices in Copenhagen to participate in a two-day workshop. The workshop facilitated training followed by direct feedback sessions as well as cross-partner knowledge sharing sessions. The output of the workshop provided the final touches for official roll out.

“The results have been dramatic. Our partners have seen fulfillment times decrease as much as 50% in the new interface and now empower their SMB clients to take more control throughout the process making it the ultimate do-it-with-me (DIWM) experience,” Andersen concluded.

“When customers ask for something, it is important to observe how they got to the problem and what they do for the 30 seconds, or three minutes, after they encounter the problem,”

~Aksh Gupta, CEO at Occasion

The 30-Second Rule

Aksh Gupta of Occasion is an adherent of the “30 second rule,” a technique he picked up from a Harvard Business Review article he read several years ago.

The 30-second rule calls for observing the time before and after an incidence of the problem your customers wants you to solve with software. The purpose is to better understand the source of the problem so that the feature you develop fixes the real problem.

“It is not literally 30 seconds, but what the rule involves is, when customers ask for stuff, it is important to observe how they got to the problem and what they do for the 30 seconds, or three minutes, after they encounter the problem,” Gupta explains.

“It gives you a holistic view into observing what is actually happening in the customer’s workflow so that the feature that you bring into the product adds a hundred times more value.”

As an illustration, Gupta cited a franchise customer that recently signed with Occasion. The franchisor was downloading eight different reports from the previous booking platform in order to calculate net royalty payments, which they then uploaded to a Google spreadsheet. After uploading, their accountant would use it to calculate the royalties and set up payments from the franchisees.

“We observed all of this and built a feature to fully automate it,” Gupta said.

Without having the 30-second rule embedded in their development process, Gupta said his team would not have learned enough about the customers challenges to find a solution.



The story of the small business shift to the cloud to run their businesses – from building their online presence, to paying their staff, to collecting money and sourcing supplies – is an ongoing process that will only accelerate.

Despite great progress, small businesses are struggling to fully engage with the SaaS products they have purchased. If the SMB software industry fails to address this engagement challenge, it will threaten to undermine the progress the industry has made.

Key takeaways from this report include:

- Cloud-based software has transformed the day-to-day life of the small business owner.
- SMBs have been pretty consistent in what they want from cloud software. They want tools that will help them gain back time from busywork so they can spend it more productively.
- According to the latest Modern Commerce Monitor™ data, SaaS is delivering on this promise, with 53% of cloud users saying they are spending more time with customers as a result of their use of cloud software. Another 46% say shifting to the cloud has saved their business money, and finally 45% attribute a rise in customer satisfaction to their use of cloud software.
- Software is underutilized and often seen as too complicated. The Modern Commerce Monitor™ found that 62% of the SMBs in the survey are not employing the full capabilities of the small business software that they use.
- Based on a survey of SMB software executives, it's clear the industry recognizes that a lack of engagement is a key churn driver. "Failure to set expectations" also ranked high, as did cost.
- The industry may underestimate how much patience SMBs have with their products. A question on required speed of engagement yielded a plurality of 45% who believe that they have a month to establish product usage before risking churn. Direct interviews suggest the engagement cycle is much shorter.
- The top three most effective measures for improving engagement, according to the industry survey, were "Improve messaging/expectation setting," "Regular service calls," and "Invest in onboarding."
- Perry Evans of ThriveHive believes better alignment between product and prospect, combined with a do-it-with-me (DIWM) service model, is key to higher engagement with small business customers.
- Svenn Andersen of Mono Solutions believes a combination of proactive and reactive customer feedback is integral to the product development process.
- Aksh Gupta of Occasion advocates for the 30-second rule as a key element of the a customer feedback process to ensure a complete understanding of the problems you are trying to address with new software products or features.



www.monosolutions.com

Mono Solutions delivers the ultimate SaaS-based digital marketing platform for small businesses across the digital landscape to drive their business online. As a fully-white label solution, Mono empowers digital service providers with a true do-it-with-me (DIWM) approach to offer digital marketing solutions and deliver real ROI to their SMB clients.



www.thelsa.org

The Local Search Association (LSA) is a not-for-profit association of more than 300 media companies, agencies and technology companies that enable enterprises and small businesses to achieve more within local markets. From Facebook, USA Today and Google to DexYP, Microsoft and Yelp, LSA members represent today's top organizations serving businesses with a local presence. LSA is dedicated to helping its members succeed through data and insights, education, events, consulting and more. For more information and to become a member visit www.thelsa.org.