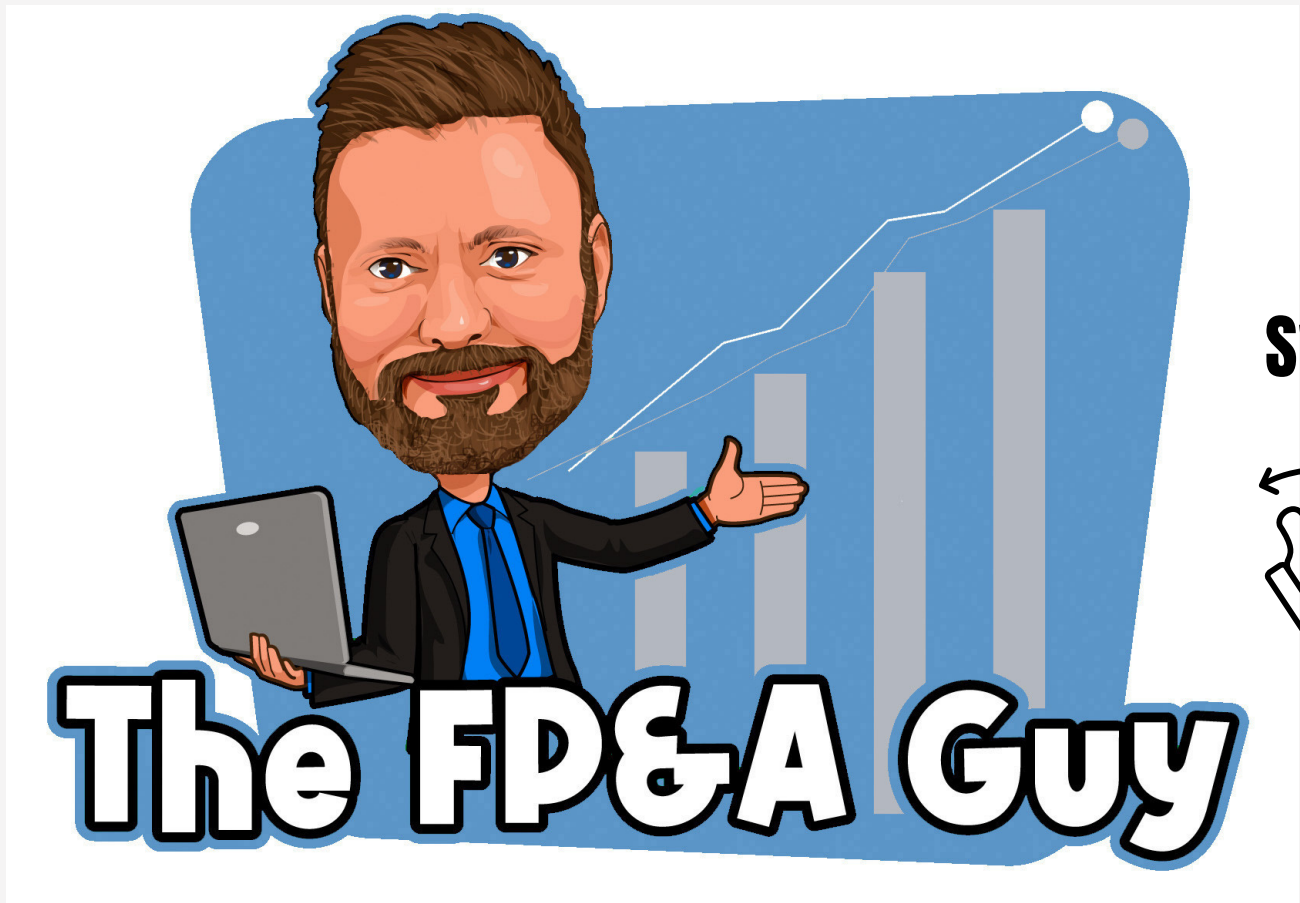


Subscription Revenue & SaaS Metrics



Swipe



Subscription Businesses Revenue

Subscription Businesses (SaaS) - Revenue in a subscription business is recurring and operates like an "Annuity" and so understanding and valuing a subscription is business. A few key factors play a significant role in this kind of business:

- Cost to acquire the customer or "Annuity"
- What does each customer pay
- How long does a customer stay



ARR vs. CARR

ARR - Annual Recurring Revenue is typically calculated as money earned over the next year from live contracts. ARR excludes revenue that is committed but has not started booking.

CARR - Includes revenue that has gone live and revenue that is booked and committed to go live and become recurring revenue. This allows companies to more accurately reflect all revenue, both committed and already recurring.

Use **CARR** when:

- Growing rapidly 100% plus YOY
- When you have a timing delay between booking and go live



Common SAAS Metrics

Common SaaS Metrics



- **Annual Recurring Revenue (ARR)** - ARR is the value of the recurring subscription revenue over the next twelve months.
- **Average Revenue Per Account (ARPA)** - ARPA is all revenue (subscription, transactional, implementation) divided by total accounts for a given period.



- **Billings** - Billings shows the amount billed to the customer over a certain period and will differ from bookings.
- **Bookings** - Bookings are a metric that tells the value of signed contracts with customers for a given period.



- **Burn Multiple** - The burn multiple measures efficiency and tracks how much revenue is generated for each dollar spent.



Common SaaS Metrics

RETENTION



- **CAC Payback** - CAC payback is the time it takes to pay back the cost of acquiring a customer and is usually calculated in months.
- **Churn Rate** - The churn rate is the percentage rate of lost subscribers over a given period.



- **Customer Lifetime Value (CLV)** - Customer lifetime value is the customer's worth over the relationship's lifetime.
- **Customer Retention Rate (CRR)**- CRR measures how many customers a company retains over a certain period.
- **Conversion Rate** - Conversion rate measures the number of conversions a company receives from a set of leads.



Common SaaS Metrics



- **Gross Margin** - Gross margin is the revenue received minus the Cost of Goods Sold (COGS) related to the item.
- **MRR (Monthly Recurring Revenue)** - MRR shows the monthly recurring revenue expected from all customers.



- **Net Promoter Score (NPS)** - NPS is used to understand customers' loyalty to a business's products and firm.
- **Net Retention Rate (NRR)** - NRR is the percentage of revenue retained from existing customers over a period of time.



- **Qualified Marketing Traffic** - traffic that comes to the website that is not currently a customer but could become a customer in the future.



Common SaaS Metrics



- **Rule of 40** - The rule of 40 is that a SaaS company's sum of growth and profit margin should exceed 40%.
- **SaaS Magic Number** - The SaaS magic number asks how many dollars of revenue we create for every dollar spent on acquiring a new customer.



- **SaaS Quick Ratio** - The SaaS quick ratio measures the ability to grow recurring revenue despite customer churn.
- **Sales Rep Ramp** - Sales rep ramp is the time it takes your sales rep to ramp up and become fully productive at selling.

40

- **Return on SaaS Employees (ROSE)** - Rose Measures recurring revenue dollars earned for every dollar of employee expense.



**TIPS for
Aligning
SAAS
Metrics**

Tips for Aligning & Standardizing SaaS Metrics



- **Align** upon **company-wide SaaS metrics** to track and report.
- **Limit** Key SaaS metrics to no more than ten.
- **Standardize calculation method** for SaaS metrics company-wide.



- **Involve key stakeholders** in the alignment process.
- Agree on **source data** for calculating SaaS metrics.
- **Automate** tracking and reporting of SaaS metrics.



- **Conduct periodic reviews** on key SaaS metrics.



Common SaaS Metrics that are calculated multiple ways

- **Customer Acquisition Cost (CAC) Payback** - Several methods exist for calculating CAC. Requires aligning on Sales and Marketing Costs to include in the numerator and what MRR and margin in the denominator.
- **Churn Rate** - Churn can be calculated based on total revenue, total customers, and both net and gross churn. Many different methods exist for determining churn.
- **Conversion Rate** - How you calculate your conversion rate will vary depending on how you define a conversion and what you consider a lead. Is the rate only for qualified leads or all leads, etc.?
- **Average Revenue Per Account** - Requires alignment on what revenue to include and how to calculate # of accounts during the period.
- **Rule of 40** - Uses growth rate + profitability margin. The growth rate is typically based on GAAP accounting, but several options exist for what profit margin to use.

