

Key SaaS Metrics

That Drive Your Business



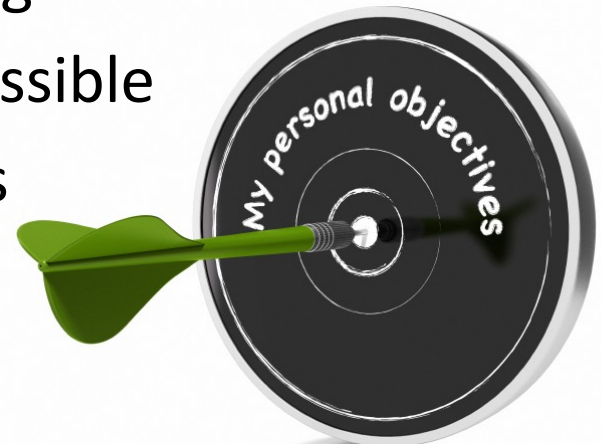
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Arbor Dakota

What is our mission today?

- Understand critical metrics
- **Better prepare you** for the reality of managing your business
- Help increase your chances of funding
- Provide practical examples where possible
- Provide guidelines for setting metrics
- Be thought provoking
- Not frighten or discourage you



Thoughts About the Course

- Is every metric we cover going to apply equally to you?
 - B2B
 - D2C (direct sales versus advertising)
 - Games
- Will we cover every single possible SaaS metric?





What do I do?

Arbor Dakota offers training and consulting services specifically designed to help early stage technology companies grow their great ideas into great companies.

We focus on sales, marketing programs (tactical and strategic), strategy development, fundraising, financial modeling and other areas that will help companies attract investors, employees and customers.

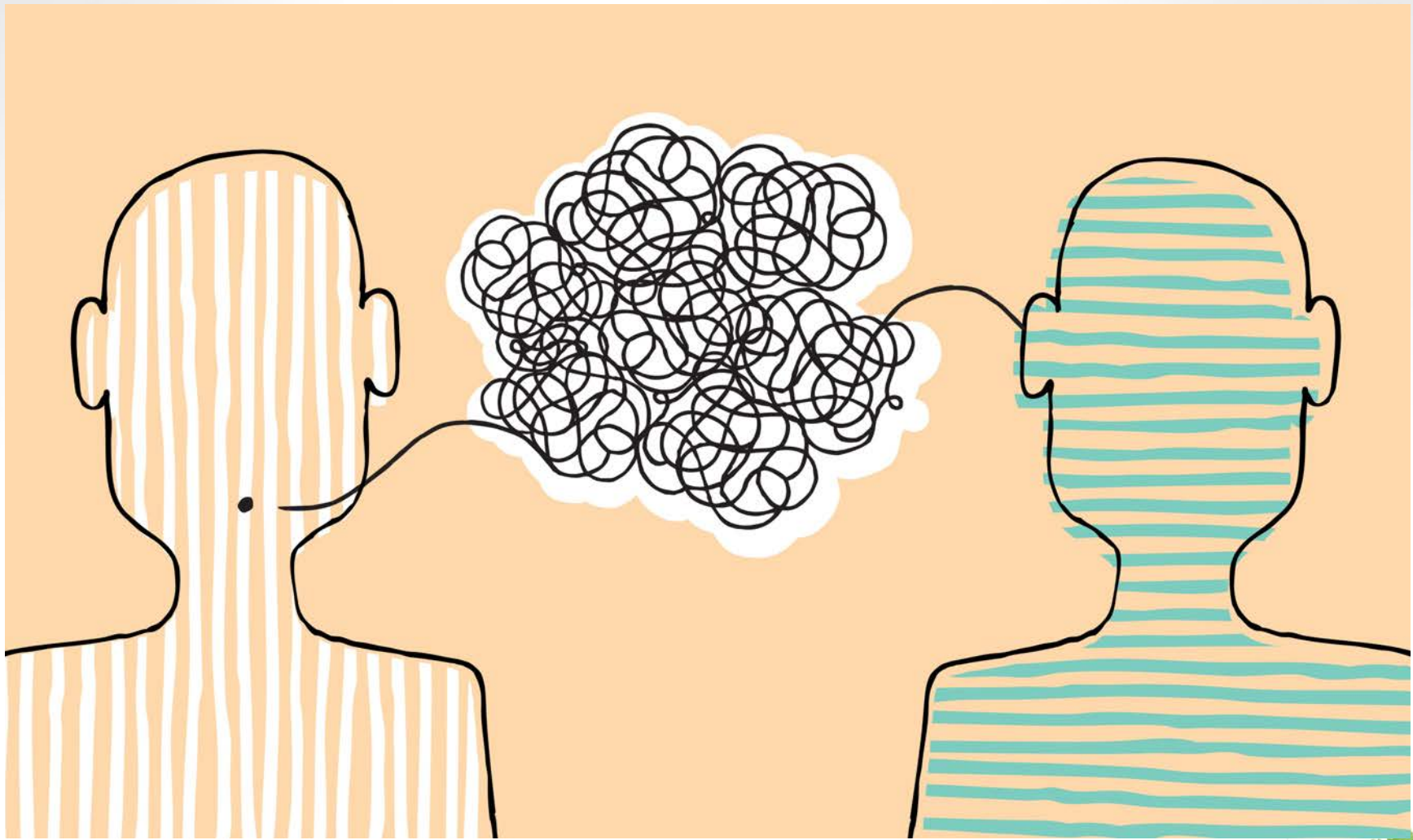


Three sources for this material

1. My personal experience (44 years in technology)
2. Over 3,000 blog posts captured
3. Chrysalis Ventures EIR
4. Been CEO 7 different times
5. Interviews with
 - VC' s
 - Angels
 - Economic Development Professionals
 - Lawyers
 - Mentors

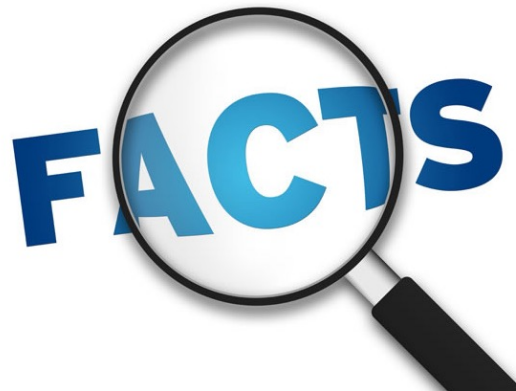


I am hoping for interaction and discussion



Some Basics Facts

- Running a business requires understanding of, setting and managing to numbers
- Knowing and setting important metrics a key responsibility of the CEO
- Investors make financial, metrics-based decisions
- You will be evaluated based on your ability to understand and perform to key metrics
- Revenue and cash are the key metrics, not “followers”
- This is a dense topic which can't be adequately covered in one hour



Appropriate Metaphor



Five Priorities of All B2B Companies

1. Increase # of leads (SQL)
2. Increase win rate
3. Shorten the sales process
4. Increase the contract value
5. Lower the attrition rate



Some Key Metrics

1. New Contract Bookings per Period
2. Cash (Revenue and Cash Balance)
3. GAAP Revenue
4. Monthly Recurring Revenue (MRR)
5. Annual Recurring Revenue (ARR)
6. Growth
7. Sales per rep ratio
8. Sales per distribution partner ratio
9. Average contract value (subscription and services but separately)
10. Customers per support rep
11. Revenue per employee ratio
12. Customer attrition
13. Contract Bookings per Sales rep per period (normally annual)
14. Monthly Average Users (MAU)
15. Customer Acquisition Costs (CAC)
16. Customer satisfaction
17. Lifetime Value (of customer) LTV and the ratio of LTV to CAC
18. Sales Cycle Time (in days)
19. Win rate percentage by stage of sales cycle
20. Sales Forecast and Total Pipeline strength (Monthly)
21. Lead Count (Monthly)
22. Lead source (where do the leads come from?)
23. Market Opportunity or Total Addressable Market (TAM)
24. Cash Flow Status and Cash Flow Positive Date
25. Profitability Status and Profitability Date (GAAP)
26. Minimally Viable Product (MVP) development time and cost
27. Average duration of initial contract (years)
28. Lead conversion rate
29. Win rate versus individual competitors
30. No decision rate
31. Number of Months of Cash On Hand

Different Metrics

- Leading Metrics – Leads, Sales Forecast
- Lagging Metrics – Attrition, Sales, Customer Satisfaction
- Use Metrics – MAU, DAU
- Ratios – LTV/CAC, Revenue/Employee, percent of sales people achieving quota

Where do we begin?



Balance Sheet/Cash Flow

- Cash
 - Number of months of cash on-hand
 - Receivables Days Outstanding
-
- Things you can do about cash
 - Sell more
 - Collect more quickly
 - Cut expenses
 - Pay invoices slower
 - Raise money



Revenue

- Contract Sales – The value of the initial contract and how that translates to cash (Direct and Indirect)
- GAAP Revenue – How revenue must be recognized under Generally Accepted Accounting Principles
- Monthly Recurring Revenue – The monthly amount of total GAAP revenue you have
- Annual Recurring Revenue – Current month GAAP multiplied by 12 (annualized)
- Average Initial Contract Value – Average value of contracts (all current year Contract sales/number of contracts)
- Deferred Revenue – The amount of the subscription or contract that has not yet been recognized
- Growth Rate – $(\text{Current year revenue} - \text{prior year revenue}) / \text{prior year revenue}$



Contract Sales

New Contract Bookings

$$\begin{array}{l} \text{New (Annual) Contracts} \\ \times \text{ Total \$ Value Per Contract} \\ \hline = \text{ New Contract Bookings (\$\$)} \end{array}$$

Direct New Contract Bookings per Rep

$$\begin{array}{l} \text{Total New Contract Bookings} \\ \div \text{ Number of Direct Sales Reps} \\ \hline = \text{ Direct New Contract Bookings per Rep} \end{array}$$

Assumptions

- We will start with a \$200,000 cash balance (perhaps a loan or investment)
- Cash is collected 30 days past the contract date
- The subscription begins one month after contract is signed
- Renewal is one year after contract signing
- All customers in this example renew
- Cash expense and GAAP expenses are the same.
- For purposes of simplicity, we will keep expenses constant at \$25,000 per month

EXAMPLE

Year 1

	Begin Bal	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total
New Contract Bookings		12,000	24,000	12,000	36,000	0	12,000	12,000	24,000	0	36,000	12,000	24,000	204,000
Cash Revenue	200,000	12,000	12,000	24,000	12,000	36,000	0	12,000	12,000	24,000	0	36,000	12,000	180,000
GAAP Revenue (MRR)			1,000	3,000	4,000	7,000	7,000	8,000	9,000	11,000	11,000	14,000	15,000	90,000
			YTD sold and collected/12											
Run Rate (ARR)			12,000	36,000	48,000	84,000	84,000	96,000	108,000	132,000	132,000	168,000	180,000	
			GAAP Annualized											

Year 2

New Contract Bookings		0	12,000	12,000	24,000	36,000	12,000	0	12,000	24,000	24,000	12,000	12,000	180,000
Renewals		12,000	24,000	12,000	36,000	0	12,000	12,000	24,000	0	36,000	12,000	24,000	204,000
Cash Revenue		24,000	12,000	36,000	24,000	60,000	36,000	24,000	12,000	36,000	24,000	60,000	24,000	372,000
GAAP Revenue (MRR)		17,000	17,000	18,000	19,000	21,000	24,000	25,000	25,000	26,000	28,000	30,000	31,000	281,000
			Renewal collected											
Run Rate (ARR)		204,000	204,000	216,000	228,000	252,000	288,000	300,000	300,000	312,000	336,000	360,000	372,000	
Growth Rate													107%	

Year 1

Expenses		25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
Cash Generated		-25,000	-13,000	-1,000	-13,000	11,000	-25,000	-13,000	-13,000	-1,000	-25,000	11,000	-13,000	
Cash Balance		175,000	162,000	161,000	148,000	159,000	134,000	121,000	108,000	107,000	82,000	93,000	80,000	
Monthly GAAP Profit		-25,000	-24,000	-22,000	-21,000	-18,000	-18,000	-17,000	-16,000	-14,000	-14,000	-11,000	-10,000	-210,000

Year 2

Expenses		25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
Cash Generated		-1,000	-13,000	11,000	-1,000	35,000	11,000	-1,000	-13,000	11,000	-1,000	35,000	-1,000	
Cash Balance		79,000	66,000	77,000	76,000	111,000	122,000	121,000	108,000	119,000	118,000	153,000	152,000	
Monthly GAAP Profit		-8,000	-8,000	-7,000	-6,000	-4,000	-1,000	0	0	1,000	3,000	5,000	6,000	-19,000

Cash Balance = Last Month Cash + Cash Revenue - Expenses

Assumed Goal Is IPO or Sale



Valuation

Valuation

Current MRR
Times 12
Times Multiple

Multiple

Growth Rate
Size
Profitable
Cash Flow Status
Opportunity
Strategic Value
Attrition
CAC
LTV

Valuation

- Profitability and profitability date – Sales - expenses and the date when you turn profitable **for good**
- Cash flow status and cash flow positive date – Are you burning cash are generating cash and the date when you begin to generate cash **for good**
- Customer Acquisition Costs – All costs associated with acquiring a customer (sales, marketing, administrative)
- Average Length of Customer Relationship– Number of years of customer life
- Lifetime Value – The total revenue value of a customer. This is average subscription/attrition
- Total Addressable Market – Your total (realistic) market opportunity
- Monthly Average Users (by customer) – Number of users each month by customer
- Attrition Rate – Percentage of customers (or revenue) that cancels each year



Key Ratios

- LTV/CAC – This ratio needs to be over 3 (1.5-3 is acceptable)
- Number of sales/sales rep per period – Average number of sales each rep is making each time period
- Average deals per reseller per period – Average number of deals each reseller is selling each period
- Number of customers/customer support rep - obvious
- Average revenue per employee
- Number of months of cash on-hand
- Total expenses per employee
- Total expenses per customer



Marketing Metrics

- Lead count per period – How many new qualified new sales opportunities are generated each month
- Lead source – Which lead source is generating qualified leads (SEO, webinars, paid search, direct email, conferences, referrals)
- Lead conversion rate – What percentage of the above opportunities convert to sales pipeline opportunities?



More Sales Metrics

- Sales process conversion rate per stage – What percentage of opportunities in any given stage advance to the next stage?
- Average number of days to close by step – Average time an opportunity in a given stage of the sales cycle takes to close
- Win rate by stage – What percentage of opportunities in any given stage of the sales process actually close?
- Total pipeline strength (in total and probability adjusted) – Total \$\$\$ in the sales forecast for that period
- No decision rate – Percentage of sales opportunities that never buy anything
- Win rate versus key competitors - Obvious
- Contract bookings by rep – Shows which rep is closing the most business



Development and Operations Metrics

- Time and cost of product development process – How much time does it take to put out a product or a release and keep all the original functionality
- Customer satisfaction – Are the customers satisfied and what is the trend?
- Customer attrition – see above
- Did not implement rate – What percentage of new customers actually never implement your product



Fallacy of Metrics

- Total Contract Bookings
 - Pipeline
 - Win rate
 - Average contract price
- Average bookings per rep
 - One or two reps dominate
- MRR
 - New sales
 - Customer churn
 - Revenue retention rate



7 Essential Metrics for SaaS

1. ARR

- **Example 1:** Customer A has a subscription for \$14 a month on a one-year contract. Their ARR value is \$168 per year.
- **Example 2:** Customer B has a subscription for \$12 a month on a two-year contract. Their ARR value is \$288 per contract, or \$144 per year.

2. MRR

3. Churn Rate or Attrition Rate – Customers, revenue, contracts, subscribers or users

4. LTV or CLV – The expected lifetime revenue value of a customer

5. Customer Acquisition Cost

6. Revenue Retention

7. MRR Growth Rate



Tools

- Financial Model – Monthly financial statement by month going out at least 3 years to show revenue sources, expenses by category, revenue growth, profitability, cash flow status and cash needs
- Waterfall table – Table to keep key metrics updated and show where variances are occurring
- Lead generation and conversion chart – Shows where leads are coming from
- Sales forecast – Monthly forecast for the next 3-6 months showing sales opportunities, current stage and probability of close. This should tie directly to the monthly financial model
- Sales process movement report – Shows deal flow from stage to stage and where sales opportunities might be dying in the sales process



Setting Metrics

- Be aggressive but not wildly optimistic
- Widely communicate the metrics
- Use various time horizons (monthly, quarterly, annual, 18 month and 5 year)
- Don't let your people tell you that they are not responsible for any given metric
- Set compensation plans based on critical metrics
- Have a plan to achieve the metrics

A goal without a plan
is just a wish!



Setting Metrics 2

- Don't run out of cash
- Revenue growth should never be under 50% and 100% for early stage companies
- Increase your win rate before you scale
- You will be cash flow positive before you are profitable
- LTV/CAC ratio should be over 3
- Remember that sales people need ramp up time
- Set sales quotas reasonably for number of transactions per year (or month) and \$\$\$ per year (or month)



Mistakes

- Not paying attention to GAAP and Cash
- Confusing contract bookings, cash collected and GAAP revenue recognition
- Not understanding how valuations are set on MRR/ARR
- Having an immature financial model
- Not fully understanding Customer Acquisition Costs
- Underestimating customer attrition (and its damage)
- Not understanding where sales opportunities are lost in the sales process
- Not understanding the costs associated with high growth projections
- Not measuring where the high quality leads are coming from
- Scaling too fast
- Spending too much too early
- Not understanding how many resources are required to achieve sales
- Over-forecasting sales volume and sales price and underestimating time to sales close
- Focusing on product rather than sales and marketing metrics
- Focusing on fund raising over sales and marketing success



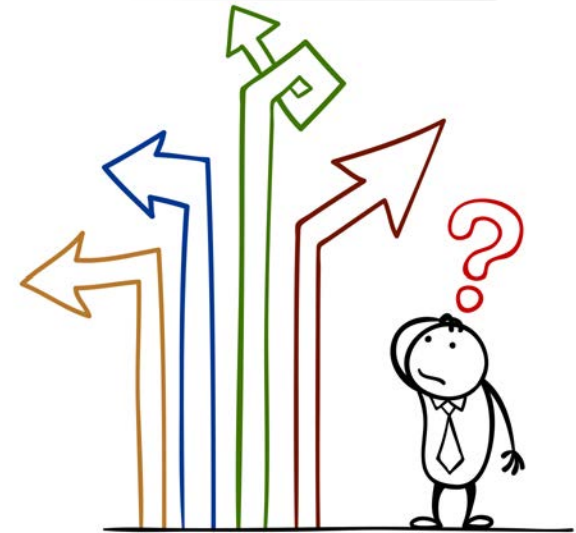
Benefits of Managing Metrics

- Improved company performance
- Gets everyone on the same page
- Know where you are heading
- Better chance of funding
- Better pre-money valuation
- Better prepared to defend valuation
- Attract more and higher caliber investors
- Higher probability of success of your company



Question To Ask Yourself

- Do I fully understand the metrics that will drive my company's value?
- Have I set realistic but stretch targets for each of these metrics?
- Do we have concrete plans for how we will achieve these targets for each metric? (hope is not a strategy)
- Do my employees know what these metrics and targets are and why they are important?
- Do I have employee and board buy-in to the targets?



Summary

- Know your metrics
- Set targets for your metrics
- Hold people accountable for metrics
- Be the CEO
- Learn where metrics might be failing and develop a plan to correct these areas



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That Drive Your Business



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