TekStack

GETTING **to Scale**

BUILDING YOUR **B2B SAAS BUSINESS** to become a board-ready, investor-ready supercharged growth machine.

Introduction

CONGRATULATIONS!

Your SaaS business has achieved product market fit. **YOU ARE IN-FLIGHT AND GROWING.**

How do you track your progress? Lucky for you there are a number of well published benchmarks for SaaS companies. These metrics are important indicators for your team and investors.

If used correctly, these metrics do more than satisfy quarterly board reporting. In combination with playbooks they should drive prescribed motion in the company.

However, it is very possible that your company can spend more time collecting the information than actioning the information. **We want to change that**. In this document we'll discuss the metrics that mean most to your SaaS business, how to capture the information, and how to take action based on what the information is telling you.

Growth Metrics

GROWTH METRICS THAT MATTER

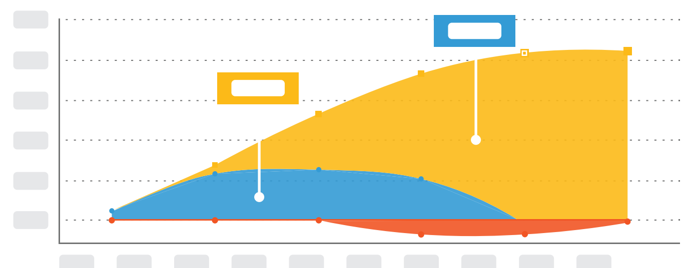
There are no shortage of articles, blog posts, or tweetstorms that identify the business metrics that should be front and center for SaaS companies. All of the metrics are critical gauges to the health of your business. They should be monitored frequently, tied to company objectives, shared regularly, and used to drive compensation models for team members that can favorably impact them. Lets focus on the following categories:

Recurring Revenue

RECURRING REVENUE

If there is one metric that occupies the minds of SaaS CEOs more than any other, it's ARR, or Annual Recurring Revenue. One venture firm in particular, a16z, looks at ARR three ways:

Contracted ARR. Every recurring revenue dollar rolled up. New Logo, Add-on Deals, Price increases net of downsells and attrition.



Live ARR. The amount of ARR tied to customers that are live and using your product.

Net New ARR. The amount of ARR that is driven from New Logo deals and expansion.

There are a few tricks to really understanding how and why your recurring revenue is growing or contracting. When analyzing ARR its important to separate the revenue categories: Net New, Renewal, Back to Base Sales, Contracted Price Increases, Downsell, and full-blown Attrition. If your company has multiple product lines its also important to tie the ARR to products or product family; and analyze ARR by sales region, customer, and customer segment. In addition, it can be useful to analyze ARR by the year the customer was onboarded.

CHURN & RETENTION

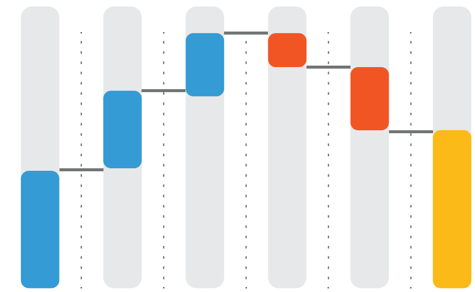
Churn & Retention metrics are designed to identify the health of the existing customer base. Churn and Retention can be looked at a number of ways, here are three:

Retention. Reflected as a percentage of customer count, or customer revenue that is retained from one year to the next.

Gross Churn. Reflected in terms of revenue, this is the amount of lost revenue (either attrition or downsell) over the recurring revenue that you started with in the period.

Net Churn. Same as Gross Churn except that it includes any expansion revenue that offsets the lost revenue.

$$Net\ Churn\ Rate = \left[\frac{(\$\ \text{Churn} - \$\ \text{Expanded})}{\$\ \text{at Start of Period}}\right] \text{x } 100\%$$



Churn is a SaaS metric that can be left open to interpretation. Because it is communicated in relative terms, the scale of its impact, is hard to see over time.

One of the ways that Churn is interpreted is by collecting the new logo ARR into the churn calculation. This can mask the impact that existing customers have on the business.

If you really want to see the impact that your existing customer ARR has on your business, be brave and omit the new logo ARR from the equation.

Sales Performance

SALES PERFORMANCE

There are no shortage of sales performance metrics. We will identify six that will provide visibility into the sales performance of the business.

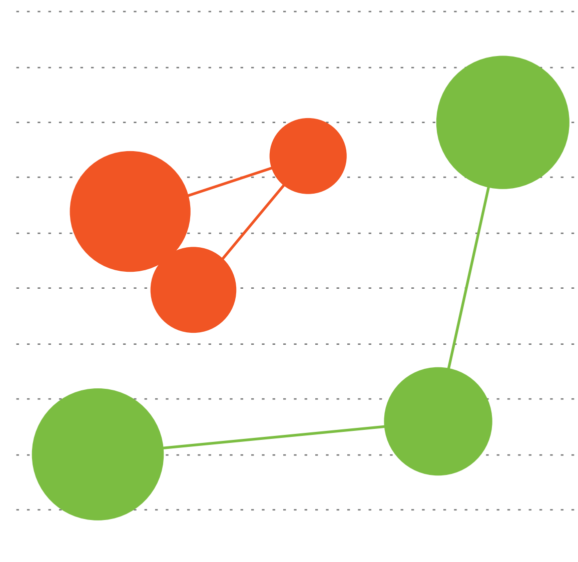
New Customers. The number of 'new logos' that have signed on within a given period. From this, you'll also want to measure average deal size as expressed as ARR.

Net New ARR. What was the ARR booked against new customer transactions. Don't forget to separate booked sales and recognized revenue in a given period.

Sales Efficiency. Sometimes expressed as Customer Acquisition Cost, or as the number of months it takes to pay back the cost of acquiring a customer; we like to express sales efficiency as the number of sales and marketing dollars it takes to add a dollar in ARR. If looking at this number over a time horizon that is longer than your average sales cycle, the information can help in making sales and marketing strategy. Especially when you can analyze the information by product, channel, region, and lead source. This metric lets you know when the fly-wheel effect is kicking in.

Funnel Growth. A key metric, identifying how quickly your funnel is growing, period over period. This can be expressed as the opportunity value being created, but equally informative is the count of new opportunities being created trending over time.

Conversion Metrics. How many Qualified Leads are converting to opportunities? How long does it take to convert a lead to an opportunity? What are the opportunity stage durations? At what stage are opportunities lost? How many opportunities does it take to win a deal? What is the cost of a new opportunity? These conversion metrics are used to accurately forecast funnel growth over a long term horizon. They are especially useful when analyzed by product or product family, region, and sales rep.

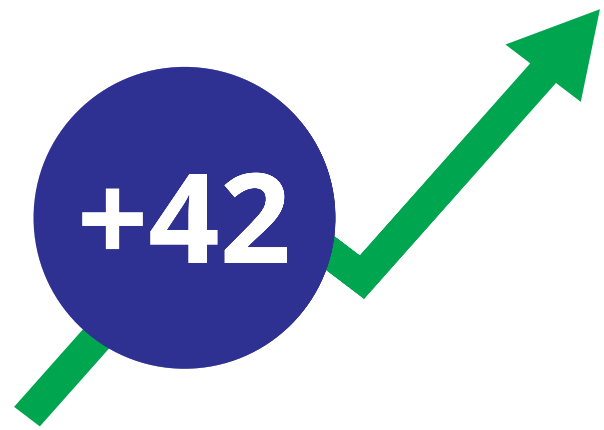


Win Rate. Win Rates are simply the number of Closed Won Opportunities over All Closed Opportunities (Won and Lost) expressed as a percentage. Its key to look at these metrics by sales rep, deal size, region, and opportunity type. Win Rate can be best visualized as a heat map.

CUSTOMER EXPERIENCE

The experience your customers have with your company serves as a barometer for churn and retention. There are a number of metrics that can be looked at:

Net Promotor Score. Over the last 10 years, NPS has become a standard for benchmarking customer health. Using a 10 point scale, Its calculated as the percentage of detractors from percentage of promotors.



CSAT. Using a similar scale, Customer Satisfaction surveys convey sentiment and are best applied as a gauge to recent experiences. When calculated on whole, they are usually expressed as a mean or median result.

Telemetry and Usage Stats. Gauging usage data is key. Metrics like average daily usage, or last usage data can provide an indication as to how frequently customers are using your offering. A drop off of usage can provide an early indicator of fire.

TIPS WHEN USING NET PROMOTER SCORE (NPS)

• Remember, NPS is not a percentage, its a score. The NPS range is -100 to +100, not 0 to 100.

• Be careful in tying NPS to compensation. You'll end up gaming the results.

• Benchmark against your own results, don't worry about other companies. How other companies score can range widely.

• Tie NPS to the stage your customer is at on their journey with you. Take scores at key points so you can see where there may lie opportunities to improve your customer's experience.

• Use NPS surveys in your renewal playbooks. A detractor score can be used to drive an at-risk playbook in time to save the renewal.

• Categorize NPS results by your contact's role. See how user scores are different than scores given by execs or project team members.

• Don't just communicate scores from the last survey wave. Take a longer time horizon to prevent widely varying scores.

• Roll up NPS at a customer level, not just at your company's aggregate.

• NPS is most elegant when left alone as one single question. Don't be tempted to tie other survey questions to NPS. Simplicity is key. The only companion it needs is a one narrative question to capture comments.

Capturing Data

HOW TO CAPTURE IMPORTANT DATA

Try to limit the number of systems used to capture customer data

Inevitably, your company will have key metrics coming from multiple systems, but having multiple data 'masters' inevitably leads to information being massaged, or combined into offline systems like spreadsheets. Doing so limits the timeliness of information and opens the possibility for manipulation or error.

Automate as much as possible

Not only will it save time and reduce error, automating transactions like order processing and invoicing is the best way to ensure data integrity and timeliness of information. It also allows systems to kick off workflows for when exceptions such as price discounting, or attrition occur.

Create consistency in your approach

By templating key business processes, your team will on-board faster, and your customers will benefit. A consistent approach is the key to scaling your business. This is true across a number of departments including sales, delivery, customer success, and help desk.

What's next?

GREAT!

You've established the SaaS metrics you need to scale the business and crush your goals.
Now what should you do?

Establish Objectives

There are a number of different planning frameworks that tie metrics and objectives together. One common framework is OKRs. Establish a small number of organizational **objectives** that cut across the company. These should be related to sales growth, customers, product, employees and financial health. For each objective, tie **key results** to the objective so that it can be quantified.

Share Share Share

Make data part of your company's culture. Creating transparency empowers everyone in the company and ensures that employees understand why certain business decisions are made.

Be Action Oriented

When a you miss a result, find out why. Drive to the root cause of the metric. Maybe the target was never correct to begin with, or maybe something you tried to implement isn't working. Don't be afraid to tinker, but the key is to be responsive.

What's next?

Create Playbooks

Playbooks are a great way to template the response to common issues. A drop in customer NPS may be the result of a recent business decision or product change. If you miss a result, implement a playbook and ensure the plays are being followed. Playbooks are the best way to help coach your team, and create consistent experiences, especially in growing environments.

Tie to Compensation

How do you make sure the organization is tied to the overall success of the company? Tie the exec team compensation to Corporate OKRs, and tie employee bonuses to departmental OKRs. Your team will hold you to account.

No games

Its easy to do, but don't game your metrics. We don't mean gamifying, you should do that. We mean, don't favorably interpret your results for the context you are using them. There are many ways to game your results to make it appear as though the company is doing better than it is. You aren't doing your business any favors by doing so. Make sure the metric's are applied consistently each period.

About TekStack

ABOUT TEKSTACK

TekStack will supercharge your growth. We are a CRM system on steroids, built to support every customer facing role in your business. From sales & marketing, subscriptions and billing, managing renewals, customer on-boarding, customer success, and help desk. Everything your B2B SaaS business needs to scale. In addition to providing prescribed business processes right out of the box, we also provide all the reporting you need, pre-built. Be board-ready everyday. Blow away investors at your next due dilligence. Instead of spending time trying to collect information, action the information to improve the results of your business.

Contact us, lets talk about how we can help you crush your goals.
www.tekstack.com/saasmetrics