

WHAT SAAS METRICS TO MEASURE:

*How to Make Meaningful
Business Improvements*

The Cirrostratus Group
Paul Ressler, Principal



**SaaS University Returns to
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Agenda



Key SaaS Business Drivers

- ◆ Recurring Revenue
- ◆ Cost to produce Recurring Revenue
- ◆ Churn
- ◆ Cost for additional Recurring Revenue
- ◆ Cash Flow

Recurring Margin

Annual
Recurring
Revenue

Minus Churn

Plus Upsell

Minus Cost of
Recurring Revenue

Gross Margin

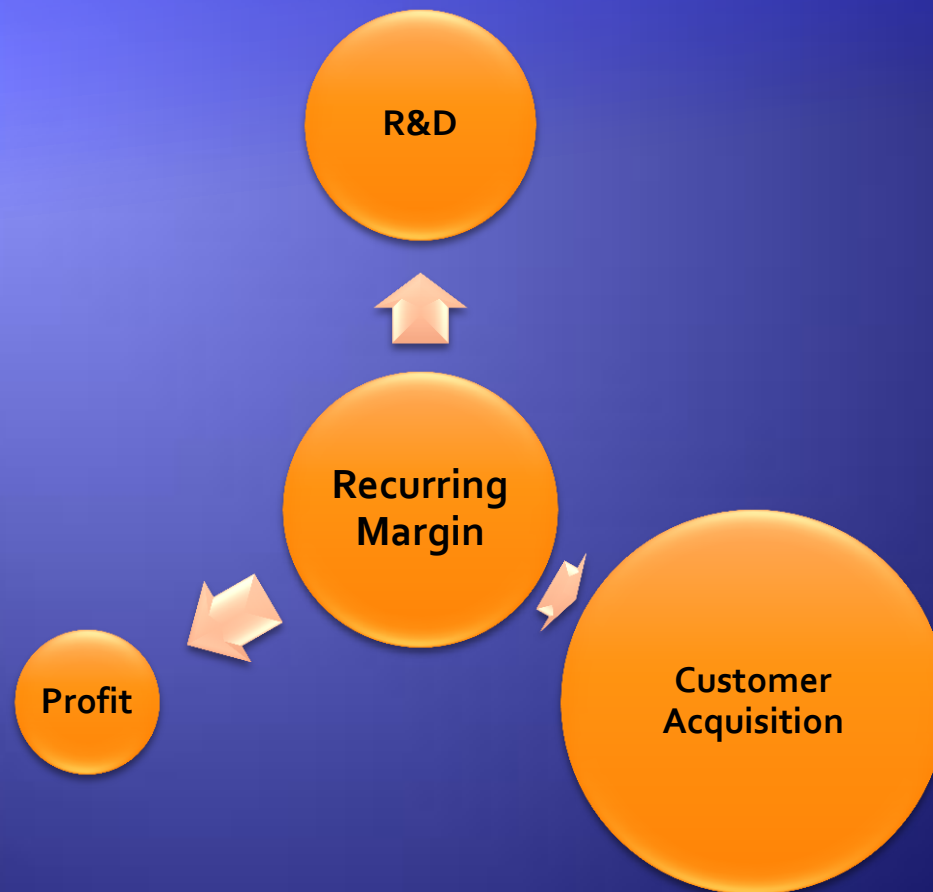
Minus G&A

Recurring Margin

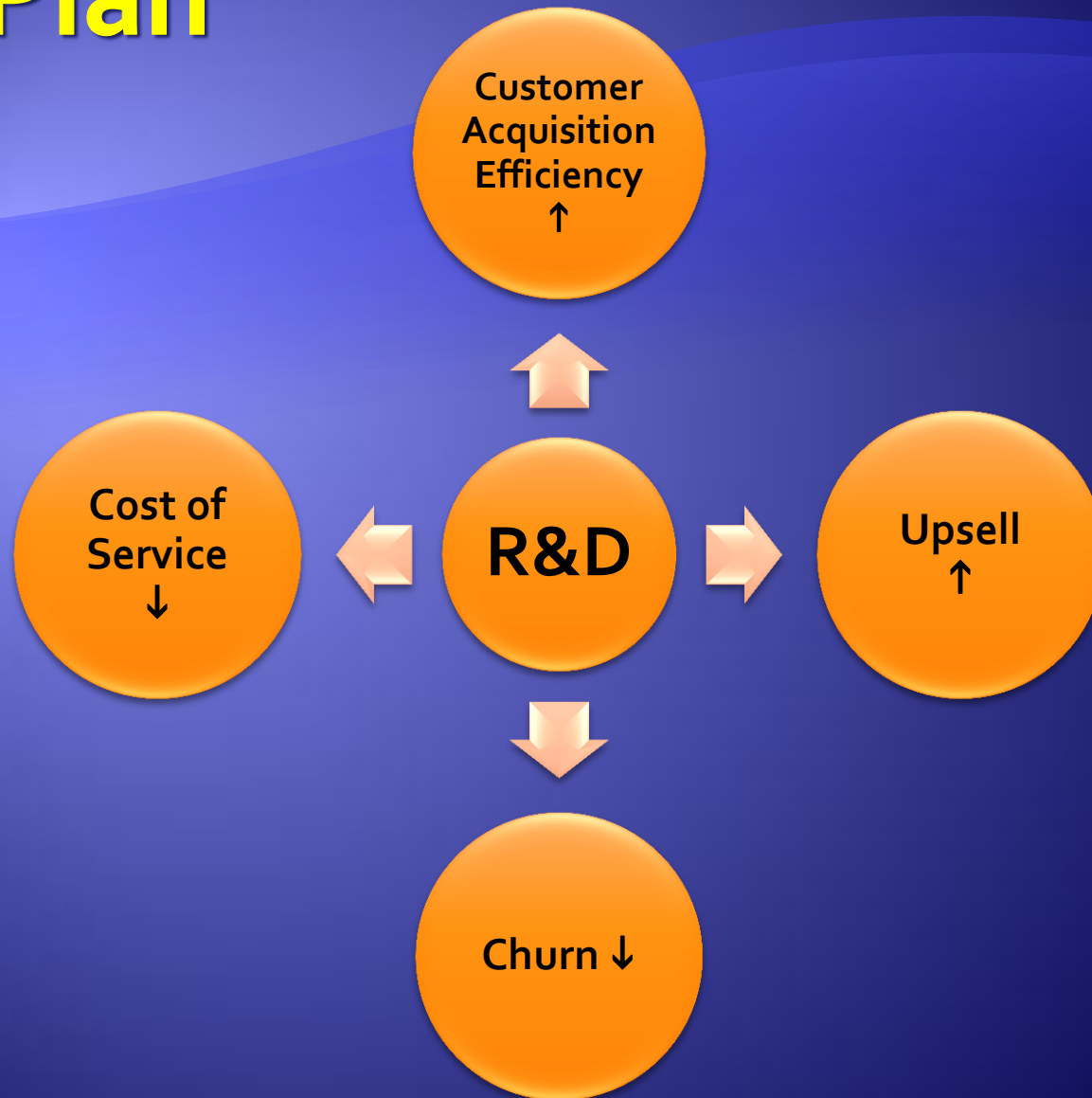
Investment Choices for Recurring Margin



Rapid Growth Model



R&D Plan



Metrics & Measurements

Minimize
Cost to
Deliver
Service

Minimize
Churn

Maximize
Upsell

Efficient
Customer
Acquisition

Measure
R&D
Against
Plan

Metric to Minimize Cost to Deliver Service

Gross Margin - %

Infrastructure Cost/\$ of Revenue

Customer
Support Cost/\$
of Revenue

Customer
Onboarding –
Time to Value

Equipment, licenses,
telecommunications
services – Cost/\$
revenue

Infrastructure Support
Costs – Cost/\$
revenue

Metric to Minimize Churn

Churn %

Non – renewing Customer %

Reduced
usage %

Reduced
of users
%

Downgraded
Features %

Out of Business
%

Not satisfied
with
service/support
%

Not satisfied
with value %

Metric to Maximize Upsell

Upsell %

Increased # of users %

Increased usage %

Increased Features %

Metric for Efficient Customer Acquisition

Cost to Acquire additional Annual Contract Value - Ratio

Funnel Conversion Rate -
%

Cost per Lead

Visitors to
Trials - %

Trial
Conversion -
%

Freemium
Conversion -
%

Marketing
Program A –
Cost per Lead

Marketing
Program B –
Cost per Lead


Measuring R&D

SaaS R&D Measurements

R&D Performance Against Plan

R&D Efficiency

Public SaaS Company Metrics



Gross Margin

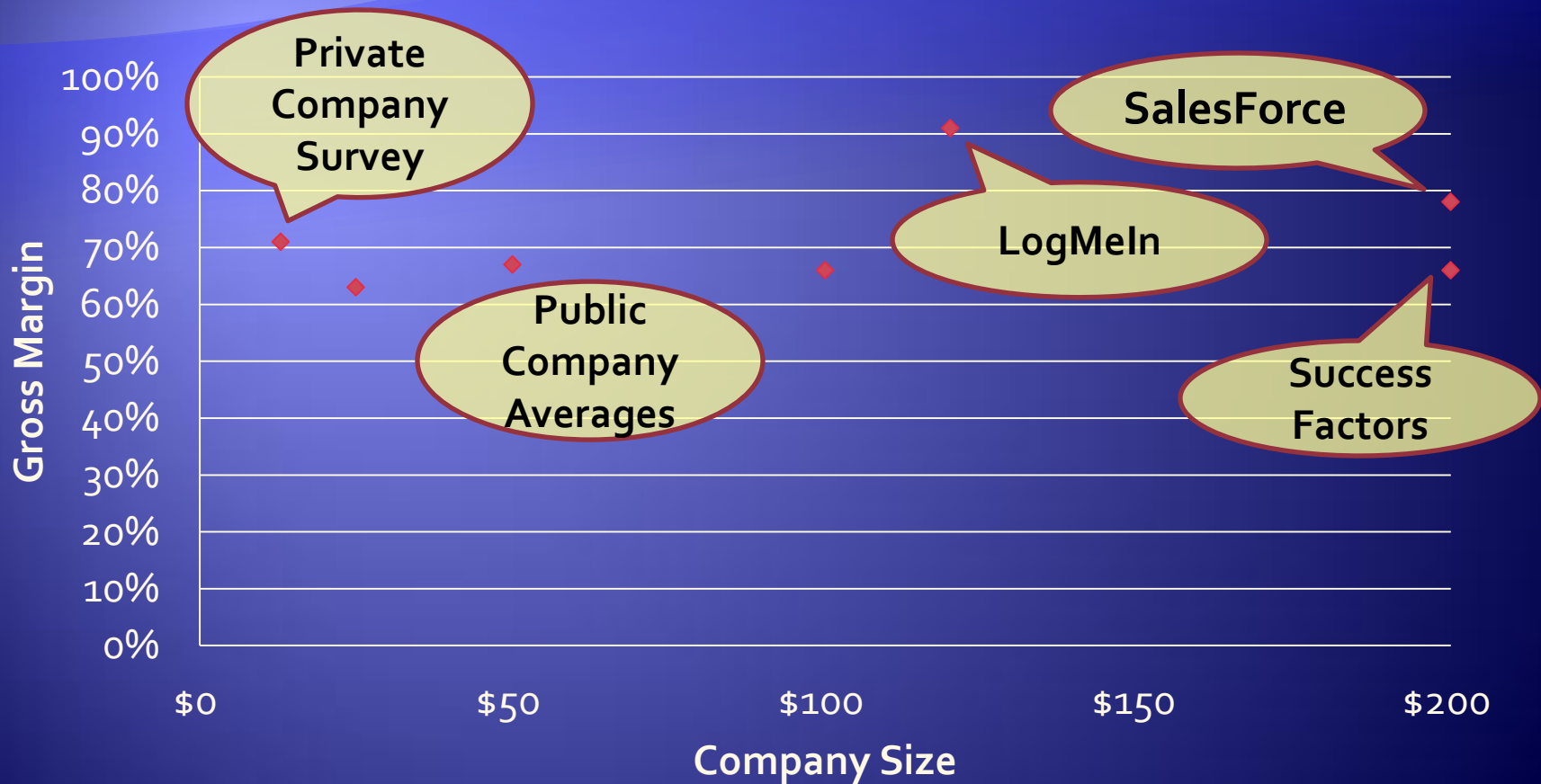


Retention



Customer
Acquisition
Cost

SaaS Company Metrics – Gross Margin



SaaS Company Metrics – Churn/Upsell %

- ◆ Survey of Private Companies – 94% Retention
- ◆ Public companies generally are above 85%
- ◆ Public company range 80% - 120%
- ◆ Best Practice – 95%

SaaS Company Metrics – Customer Acquisition

- ◆ Private Company Survey - \$.93/\$1 of new Annual Contract Value
- ◆ Payback of Customer Acquisition Cost within 1-2 years

What do Investors Look For?

- ◆ Do you measure the business?
- ◆ Retention above 90%
- ◆ Gross margin above 70 - 80%
- ◆ Payback of Customer Acquisition Costs within 12 – 24 months
- ◆ Improvement plans to improve, especially customer acquisition costs
- ◆ Underlying measurement infrastructure

Improving Gross Margins

- ◆ Less costly Infrastructure
 - ◆ Reduce cost per unit - \$/unit
 - ◆ Increase efficiency - %
- ◆ Reduce Infrastructure Support Costs
 - ◆ Devops & Automation
- ◆ Use most cost effective customer support channels
- ◆ Reduce need for customer support - # of transactions/customer
- ◆ Reduce elapsed time to onboard a customer – time to value
- ◆ Maximize Price/Value

Reducing Churn

- ◆ Understand the type of churn you have and the root causes
- ◆ Use all available data
 - ◆ application usage, support ticket systems, surveys, conversations
- ◆ Use leading indicators, don't wait until churn happens
 - ◆ Customers stop using the application
- ◆ Switching costs
- ◆ The seeds for some types of churn are planted when the sales process begins
 - ◆ Be sure to focus on the right customers
 - ◆ Is the value there?

Increasing Upsell

- ◆ Understand the customer and your offers
- ◆ Three step process to diagnose product upsell challenges
 - ◆ Analyze your offer
 - ◆ Analyze your customer's perceptions
 - ◆ Take action and monitor
- ◆ Typical Diagnose results
 - ◆ Problems with the offer – pricing, feature
 - ◆ Some customers who will never upgrade – the “wrong” customers
 - ◆ Account management improvements are needed
 - ◆ Nothing wrong; just be patient

Improving Customer Acquisition Cost

- ◆ Funnel Conversion Percentage
 - ◆ Monitor trials to improve trial conversion rates
- ◆ Minimize personnel costs in selling process
 - ◆ Tools, Commissions, Travel
- ◆ Cost per Lead
 - ◆ Regularly review cost per lead/program
 - ◆ Review by customer segment



Thank You !

Contact:

pressler@cirrostratusgroup.com

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@PaulRessler

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