

A SaaS primer for software engineers

Andrea Cremese (SDE - Smartsheet)

andreacremese.com

@andreacremese






Warning

This session does NOT contain coding.

(I know - bummer)

We will be talking about everything else that it is AROUND the product AND the infrastructure.

Research has shown repeatedly that “if you build it they will come” is not a business model that investors resonate with.



By the end of this presentation
you will be able to:

Give some reasons why “if you build it they will come” is not a business model.

Explain land and expand.

Explain ARR and Churn, and why they are important for SaaS.

... yes, you will be tested on it! =)



Why is this important?

“Balanced teams with one technical founder and one business founder raise 30% more money, have 2.9x more user growth and are 19% less likely to scale prematurely than technical[-heavy] or business-heavy founding teams”.

(from the “**startup genome project, A new framework for understanding why startups succeed**” - pg 5 -2012)

Even if you don't have a business partner OR if you “just” work at a SaaS, understanding the business aspect will make you more valuable.



● AGENDA

○ **(very) Brief intro to SaaS**

○ **Some key concepts**

○ **Some key metrics**



SOME BUSINESS MODELS

SaaS

AWS, Salesforce, Smartsheet


Marketplace

Amazon, Kayak, Google (e.g. ads)

Social Media

FB, LinkedIn, Twitter

Often, at scale, companies mix elements of the two. E.g. FB is a social network BUT has elements of a marketplace (advertisement sale / instant articles). E.g. (2) Amazon is introducing an element of social media for youtube influencers.

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Other examples of SaaS businesses?

(say, 2 examples)

[anything] as a service



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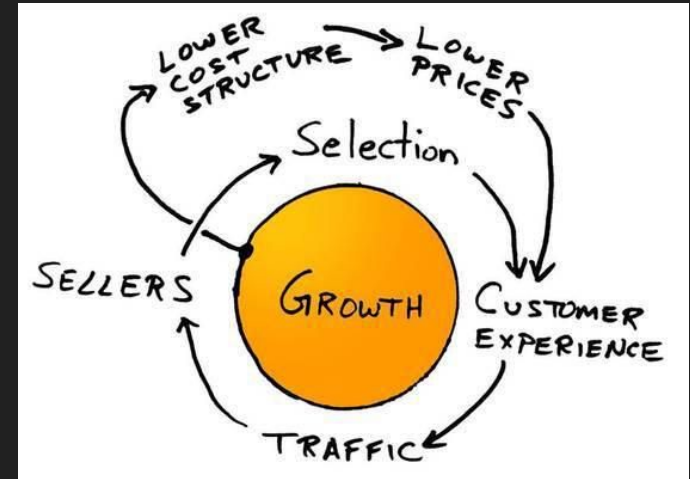
Profitability

They are profitable in different ways - therefore they have different priorities.

Profitability

Marketplace

With a marketplace you need to attract your customer back after the transaction is completed. The flywheel is based on keep getting customers back.



● Profitability

Social Media

○ They derive their value from the interconnection among users, no single player utility.

The profitability path is usually through advertisement.

The flywheel is usually to provide tweaks to the relationships among users to keep them engage (e.g. the wall, different reactions to posts).



Brief history of SAAS

SOFTWARE DELIVERY

MODEL - some 15 y ago!

- Big upfront waterfall implementation.
- 20 % charge for maintenance.
- Long lead time.
- Deployed on premises.
- Whether someone uses it or not.



SaaS





SaaS

Software distribution model where:

- Centrally held code.
- Sell licenses (seats).

This causes:

- Change of revenue model.
- Change of relationship with customers.
- Less complexity (those who build it, run it).

e.g. Siebel VS Salesforce



Some interesting SAAS concept

SALE FUNNEL

Sales / marketing activities are tightly related to the funnel.





INBOUND / OUTBOUND MARKETING

Outbound - is the practice sending “messages” to your (potential) customers. E.g. advertisement.

Inbound - letting the customer find you, e.g. at Smartsheet we provide you with free Excel templates. Or SEO.

The idea is to feed the top of the funnel, to then let the expand phase.



LAND AND EXPAND

Get a foothold with the customer (land) by taking him/her through the funnel. Then grow the “customer” (expand). This is one of the FlyWheels for a SaaS company.

Why is customer
success particularly
important for SaaS?



CUSTOMER SUCCESS

The goal of this team is the first to prevent customers leaving AND secondly to generate Expansion Revenue.

Vital for SAAS, it may take many forms:

- consulting
- training
- support



ECOSYSTEM

Allow other services to be build on top of the environment / platform.

This keeps customers close + augment the network effect or the expand movement.

E.g. Android / iPhone. Azure.

Example less success, iPad.



NETWORK EFFECTS

AKA - demand side economy of scale. Many definitions, but the key concept is

The addition of an extra user makes the product more useful and valuable for many other users.

Examples: telephone, MS office, Craigslist, Paypal.
Vital for Social Media, see Metcalfe's law.



NETWORK EFFECTS - 2

It matters because it creates OR tips the market, especially in tech where markets are winner-takes-most (or all - Barabasi-Albert model).

It may also create the barrier to entry for incumbents.

NETWORK EFFECTS are VITAL for social networks.

NOT VIRALITY (that is for fidget spinners, and it is good to get leads into the **sales funnel**).



Some Metrics

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ON METRICS

Some are generic for startups, some are SaaS specific.

Metrics are extreme summary, and they **MUST** be contextualized.



METRICS- Generic

Run Rate

Pro rata the income of a single period (say, a quarter) to a year.

Burn Rate

How much is spent per month above the revenue (pro rata).

Runway

This is the amount of time a company can remain going assuming the current burn rate / run rate is constant.

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METRICS - SaaS

Customer Acquisition Cost (CAC)

Cost to acquire one extra customer.

Life Time Value (LTV)

Life time value (how much we can expect to gain from an extra customer). This is always tricky, as it presumes assumptions on the retention time line and the growth in account.

What happens to a startup where CAC is $>$ LTV?

- METRICS SaaS

$LTV > CAC$

- Otherwise, we don't have a viable business.

The payback time is also a metric to care about.

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METRICS SaaS

CUSTOMER RETENTION COSTS

Keep in consideration as well the effect of customer retention costs (CRC) as they pertain to Expansion.

● METRICS SaaS

Annual Recurring Revenue (ARR)

● Total of subscription contracts that have been closed and dividing that for the length of said contracts.

This is a measure of the projected top line from signed contracts.

A contract that can be cancelled monthly does not contribute towards this (MRR).

- METRICS SaaS

Users vs customers

- In SAAS a single customer may buy multiple licenses.

User -> network effect.

Customers -> financials.

● METRICS SaaS

CHURN

○ Probably one of the most important metrics for SAAS.

How many customers leave in a certain time period.

Not all churns are made equal (above a certain limit for example), so there is not a range that is standard.

- METRICS SaaS

CHURN - 2

- Churn may be number of users OR amount of \$ revenue, and depending on the Expansion Revenue these numbers may diverge.

Meaning, you may have “negative churn” (on \$ basis) but positive churn in user basis.

● METRICS SaaS

CHURN - 3

○ Users churn may not a bad thing all together, as not everyone is your ideal customer.

You can't be all things for all people - so having users churn is not bad per se

BUT having negative net churn is important - when a business is at scale (e.g. Box when pivoting to enterprise).



Conclusion



RunTime check

```
DateTime start = TimeNow - 1h;
```









```
if (business_savvy(TimeNow) < business_savvy(start) )  
{  
    throw Exception ("fail");  
}
```

SMARTSHEET

...SAAS company

We are **HIRING !**

(surprise)

1		DocuSign ↑ +1 Software - B2B
2		Avalara ↑ +1 Enterprise Software - B2B
3		Blue Origin ↑ +1 Aerospace - B2B
4		Puppet ↑ +1 Cloud Computing Enterprise Software - B2B
5		Smartsheet ↑ +1 SAAS - B2B
6		PayScale ↑ +1 SAAS - B2B B2C
7		Vacasa ↑ +1 Marketplace - B2C
8		Avvo ↑ +1 Consumer Internet - B2C

★ We're Hiring

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Questions?



Thank you!