Essential
startup metrics

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About this guide

In this guide, you'll learn about the 15 most important metrics that VCs & investors use to analyze startups, and how to calculate them.

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TAM
Total addressable market

TAM is a way to quantify the market size/opportunity for a product or a service.

Servicable Obtainable Market (SOM)

What % of SAM can be captured

Servicable Addressable Market (SAM)

What % of TAM is being served

Total Addressable Market (TAM)

The sector's entire revenue opportunity

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ARR
Annual Recurring Revenue

ARR is the measure of recurring revenue on an annual basis. It should exclude one-time fees, professional service fees, and any variable usage fees.

	ARR Growth
Average	60%
Top Quartile	80%+
Middle 50%	35-80%
Bottom Quartile	<35%

Source: Bessermer Venture Partners

GMV
Gross Merchandise Value

GMV is the total sales dollar volume of merchandise transacting through the marketplace in a specific period.

Revenue is the portion of GMV that the marketplace "takes" in various fees.

Although these are frequently used interchangeably, **GMV does not equal revenue**.

ARPU
Average Revenue Per User

ARPU is the total revenue divided by the number of users for a specific time period (month/quarter/year). It demonstrates the value of users on your platform.

	ARPU
Amazon (all)	$752
Apple (all)	$194
Google (global)	$137
Spotify	$64

Source: Company reports

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Gross Profit

Gross profit is equal to total revenue minus the cost of goods sold.

COMPANIES RANKED BY EARNINGS

Company	Earnings (2022)
Saudi Aramco	$303 billion
Apple	$116 billion
Microsoft	$82.5 billion
Exxon Mobil	$77.5 billion
Equinor	$77.2 billion

Source: Company reports

Churn

There's all kinds of churn - dollar churn, customer churn, net dollar churn, etc. In short, churn rate shows the frequency at which your customers leave your business. Investors look at it the following way:

$$\text{Monthly Unit Churn} = \frac{\text{lost customers}}{\text{prior month total}}$$

Churn

Median Customer Churn Rates by Industry in 2022

Industry	Churn
Energy/Utilities	11%
IT Services	12%
Computer Software	14%
Financial Services	19%
Telco	31%
Consumer Goods	40%
Wholesale	56%

Source: customergauge.com

LTV
Life Time Value

LTV is the present value of the future net profit from the customer over the duration of the relationship.

$$LTV = \frac{ARPU \times Gross\ Margin}{Churn\ Rate}$$

CAC
Customer Acquisition Cost

CAC should be the full cost of acquiring users, stated on a per user basis.

One common problem with CAC metrics is failing to include **all the costs** incurred in user acquisition such as referral fees, credits, or discounts.

CAC

Average CAC by Industry

Industry	Organic CAC	Inorganic CAC
B2B SaaS	$205	$341
Biotech	$532	$855
Business Consulting	$410	$901
Commercial Insurance	$590	$600
Cybersecurity	$345	$512
E-commerce	$87	$81
Financial Services	$644	$1,202
IT	$325	$840

Source: FirstPageSage

Burn Rate

Burn rate is the rate at which cash is decreasing.

Investors tend to focus on net burn to understand how long the money you have left in the bank will last for you to run the company.

$$\text{Burn Multiple} = \frac{\text{Net Burn}}{\text{Net New ARR}}$$

Burn Rate

Burn Multiple benchmarks for SaaS companies:

Burn Multiple	Efficiency
Under 1x	Amazing
1-1.5x	Great
1.5-2x	Good
2-3x	Suspect
Over 3x	Bad

Source: David Sacks

Deferred Revenue

Deferred revenue, also known as **unearned revenue**, refers to advance payments a company receives for products or services that are to be delivered or performed in the future.

The company that receives the prepayment records the amount as deferred revenue, a liability, on its balance sheet.

Active Users

Different companies have almost unlimited definitions for what "active" means since it really varies by company and depends on the business model.

When measuring your active users remember to: (1) clearly define it; (2) make sure it's a true representation of "activity" on your platform; and (3) be consistent in applying that definition.

Network Effects

A product or service has a **network effect** when it becomes more valuable as more people use it/devices join it. By increasing engagement and higher margins, network effects are key in helping software companies build a durable moat that protects them from competition. Examples:
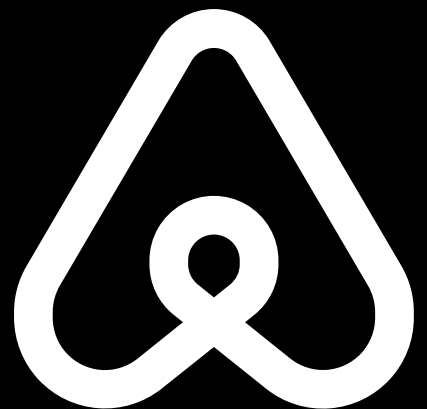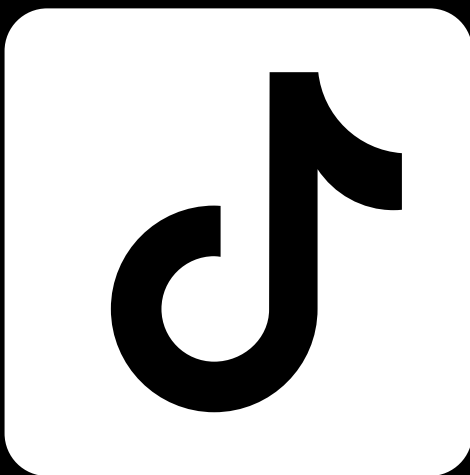
Virality

Virality is the speed at which a product spreads from one user to another.

Virality is often measured by the **viral coefficient or k-value** — how much users of a product get other people to use the product [average number of invitations sent by each existing user * conversion rate of invitation to new user].

Virality

Examples of viral products/services:

NPS
Net Promoter Score

NPS is a metric (first shared in 2003) used to gauge customer satisfaction and loyalty to your offering.

It is based on asking **How likely is it that you would recommend our company/product/service to a friend or colleague?**

-100-0	0-30	30-70	70-100
Poor	Good	Great	Excellent

NPS

Average NPS by industry

Industry	NPS
Hotels	49
Brokerage/ Investments	49
Software & Apps	41
Life Insurance	39
Banking	34

Source: Satmetrix NICE

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Customer Concentration Risk

Customer concentration is defined as the revenue of your largest customer(s) relative to total revenue.

If your largest customers pay you $3M/year and your total revenue is $30M/year, the concentration of your largest customer is 10%.

Investors prefer companies with relatively low customer concentration.

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