

ONIX

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**SaaS Startup Metrics
for Smarter, Faster
Business Growth**

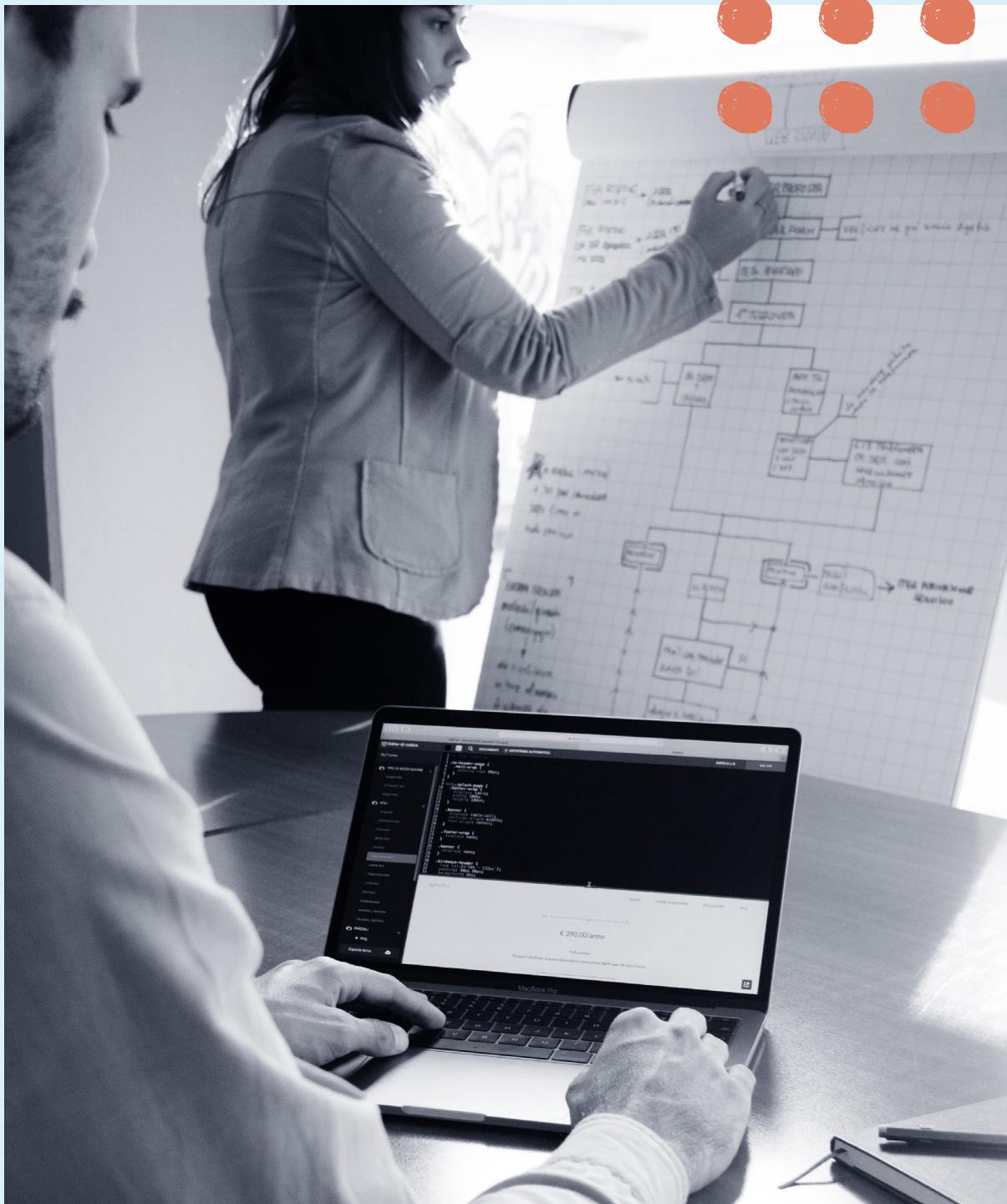


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SaaS growth metrics

Customer Retention Rate (CRR) or Gross Logo Retention

CRR is the percentage of customers who stayed with the company after a certain time period.

$$CRR = \frac{\text{Customers at the end of the period} - \text{New customers}}{\text{Customers at the start of the period}} \times 100$$

Based on this metric, you can understand if and for how long you will be able to retain new customers.

The average CRR for most software products is **below 20% over 8 weeks**.

An increase in CRR by only 5% has been found to increase profits anywhere from 25% to 95%.

Dropping CRR may be a result of a new competitor activity or a problem in customer service.

You can calculate your CRR monthly, quarterly, or otherwise, and decide what action is considered ‘returning,’ e.g., downloads or first logins. Pay attention both to the trend and the absolute value.

Customer Renewal Rate

The percentage of customers who renew their subscriptions at the end of a period (usually a subscription period).

$$CRR = \frac{\text{Customers who renew the subscription}}{\text{Total number of customers who were up for renewal}} \times 100$$

85%-92.5% means good renewal retention; anything above is considered best-in-class.

Monthly Recurring Revenue (MRR)

The amount of cash flow coming in and recurring monthly.

There are five types of MRR:

- New MRR is revenue gained from new customers/ subscriptions;
- Add-on MRR (expansion MRR) is gained as a result of upselling/upgrades and cross-selling;
- Churned MRR is revenue lost as a result of customers canceling their subscriptions;
- Contraction MRR is revenue lost as a result of downgrading subscriptions;
- Reactivation MRR is revenue generated by a customer that had churned but now returned to a paid subscription.

$$MRR_t = \Sigma \text{Recurring Revenue}_t$$

When your business scales up, and the number of subscription plans and options grows, it's highly recommended to use the average MRR for calculations. You need to multiply the number of customers you have by the average of their monthly fees.

Most SaaS businesses that generate most of their revenue from monthly subscriptions, with some longer-term contracts, should primarily focus on the monthly recurring revenue as the clearest indicator of revenue generation. It helps work out the total amount of predictable revenue that a company expects every month. Every SaaS startup should strive to increase MRR.

If your churn MRR is higher than your new MRR, you are likely losing as many customers as you are gaining each month, i.e. you risk going out of business quickly.

If your add-on MRR is higher than your churned MRR, it means your existing customers that are upgrading cover the revenue lost from the customers who are canceling. In this scenario, the average new customer you acquire will grow your revenue.

It's challenging for many SaaS companies to achieve a balance between value and price. For example, sometimes, a big number of accounts does not bring an adequate MRR because the free plan users can get too many functionalities (and much of the product value) for free. The balance between the value and revenue is broken. The company can fix that by limiting functionalities for free subscription users and stimulating them to shift to a paid option.

Companies that sell high-value products or services, work with a relatively small roster of customers, or work on big consecutive contracts, often focus on their quarterly or even yearly revenue. However, it is still beneficial to check in on revenue metrics at smaller intervals. If your bigger contracts mean you have whole months where you're not billing, you could be facing cash flow problems while you still need to pay salaries, operational costs, etc. If the figures alert you to potential problems on the horizon, you can start to figure out possible solutions, e.g., to break down the services into smaller billable chunks or ask customers with big contracts to pay a percentage upfront.

Annual Recurring Revenue or Annualized Run Rate (ARR)

The amount of revenue that your SaaS business generates that recurs over the course of a year.

$$\boxed{\text{ARR} = \text{MRR} \times 12}$$

For most enterprise SaaS companies and others making primarily yearly contracts, with some contracts for multiple years, the annual recurring revenue is an easier and clearer metric than MRR.

Every year, three elements determine how much ARR will change compared to the previous year:

- 1) What happened with the customers added in the year – New ARR;
- 2) What happened in the installed base of customers – a negative number of the Churned ARR (from existing customers that canceled their subscription);
- 3) Expansion ARR (revenue from existing customers who upgraded their subscription).

The sum of these three makes up your Net ARR.

Once your SaaS company has achieved positive retention rates, ARR can give you an estimation of how much revenue you might generate in a year, not including customers you'll likely book during the remainder of the year. Many SaaS startups tend to undervalue their services and charge not enough to make the business sustainable. By iterating on your pricing strategy until you are charging enough, your SaaS company can become self-sustaining much earlier.

Customer Churn Rate, or Logo Churn Rate

The rate at which existing customers cancel or fail to renew their subscription to a service during a given time frame.

$$\boxed{CCR = \frac{\text{Customers that churned in period t}}{\text{Total customers at the start of period t}}}$$

$$CCR = \frac{\text{Churned customers}}{\text{Starting customers}_t - \text{Bound customers}_t}$$

If you have 12-months of data, you can use that to calculate the exact annual customer churn figure:

$$ACCR = 1 - (1 - m_1)x(1 - m_2)x\dots x(1 - m_{11})x(1 - m_{12})$$

To calculate the customer churn rate, companies pull data from their accounting, CRM, or ERP systems. For SaaS companies, the optimal churn rate is **2-5%**. A **5-7%** annual churn is considered acceptable. SaaS companies that sell to smaller businesses should expect higher churn, while companies that cater to enterprises should strive for very low customer churn.

Growing customer churn also may be an indicator of cheaper or better offers or more successful marketing from the competition.

Double digits of the customer churn rate signal fundamental problems with the product: you need to talk to your customers urgently to figure out and fix the problems.

If you measure churn rate after introducing a new subscription plan or product feature, you can understand whether they were justified or not.

It's important to monitor both monthly and annual customer churn rates and keep them down to a point where the expansion revenue from existing customers is higher than lost revenue from churning customers.

Each month, there will be a portion of the customer base that is currently unable to churn, typically because they are still bound by their contract. Factoring these customers into your churn statistic will under-report the real churn rate, so it's reasonable to exclude them from your calculations.

By grouping together customers with similar attributes, you can create churn cohorts to try and identify the triggers that cause high churn. Such cohort analyses should give you a good understanding of retention and customer lifetimes.

When tracking churn on a monthly or quarterly basis, be sure to dig deeper than just the customer count. Contact the churned customers or otherwise try to get information that can shed some light on why they left. Also, contact the customers who have been around the longest to learn what keeps them. Discuss this information across departments, including sales, marketing, and customer success.

Companies can try to get ahead of churn and improve retention by defining the usage levels that correlate to retention and driving customers to that level of usage, or delivering more value to customers.

Revenue Churn or MRR Churn Rate

The amount of revenue lost due to customer churn, or specifically, the rate at which monthly recurring revenue is lost as a result of lost customers and downgraded subscriptions.

$$\text{Revenue Churn Rate} = \frac{MRR_{t-1} - MRR_t}{MRR_{t-1}}$$

$$\text{Gross Revenue Churn} = \frac{\text{MRR lost in a given month}}{\text{MRR at the beginning of the month}}$$

$$\text{Net Revenue Churn} = \frac{(\text{Churned MRR} - \text{MRR from upsells}) \text{ this month}}{\text{MRR at the beginning of the month}}$$

Monitoring the revenue churn can help identify when customers aren't happy with your product. If churn is rising each month or within a certain cohort, it's a strong sign that something needs to change.

To find out what changes should be made, the company's reps should talk with customers who have churned or are at risk of churning (these at-risk customers can be identified by tracking NPS).

The Gross Revenue Churn provides a realistic picture of your revenue churn and a clearer understanding of the product's health than the net churn that includes the after-sales revenue.

Net Revenue Churn **above 2% per month** is considered high and a clear indication of problems in the business. As the company scales up, this will become a major drag on growth.

One way to combat the effects of churn is to focus on the expansion revenue, e.g., encouraging existing customers to upgrade to a more expensive plan.

Healthy SaaS companies should generate at least 30% of their revenue from expansions in order to offset inevitable churn. Expansion revenue is often easier to gain because it's easier and cheaper to upsell to customers than to acquire new customers.

Negative churn may happen when your existing customers are purchasing add-ons, upgrading to higher plans, or their lifetime value increases to such an extent that it makes up for any revenue lost when other customers churn.

Bookings

The total value of all new deals obtained over a time period.

$$\text{Bookings}_t = \sum \text{Value of New Deals}_t$$

This metric is a useful way of measuring cash flow. As a recurring revenue business, a SaaS company can't guarantee that the same number of people will be paying for annual subscriptions month after month, and they count revenue that is expected in the future. It is reasonable to 'amortize' and divide those annual payments by 12.

MRR Growth Rate

The metric measures the improvement of revenue generation over time, typically from one month to the next.

$$\text{MRR Growth Rate} = \frac{\text{MRR}_t - \text{MRR}_{t-1}}{\text{MRR}_{t-1}} \times 100$$

A steady month-on-month MRR Growth Rate indicates rapid, exponential growth, as it requires more revenue every month to sustain the same growth rate.

A **15-20%** MRR growth number is a good target for early-stage SaaS startups to aim for.

However, usually, as long as a SaaS startup's MRR is below \$20K, it doesn't make sense to talk about percentage growth rates; measuring growth in terms of net new MRR per month may be more useful.

Net New MRR or Total New MRR

The total recurring revenue at the end of each given month by including add-on and churn.

$$\text{Net MRR} = \text{Existing MRR} + \text{New MRR} + \text{Reactivation MRR} + \text{Expansion MRR} \\ - \text{Churned MRR} - \text{Contraction MRR}$$

For most SaaS businesses, it's more useful to report on the amount of new revenue generated each month. This is done by breaking down their MRR figures and grouping together MRR from different sources.

Net Dollar Retention

The percentage of revenue from the existing customers that a business retains from the prior period, after accounting for upsell, downsell, and churn.

$$\text{Net Dollar Retention} = \frac{\text{Starting MRR} + \text{Expansion MRR} - \text{Contraction MRR} - \text{Churned MRR}}{\text{Starting MRR}}$$

Net Dollar Retention shows at what rate a business might continue growing (or shrinking) if it were to rely only on sales from its existing customer base.

Software companies should aim for Net Dollar Retention of **greater than 100%**. The best enterprise software companies have Net Dollar Retention in excess of **120%**.

SaaS Quick Ratio

A simple ratio of growth to churn designed to compare a SaaS company's revenue growth over a particular period.

$$\text{SaaS Quick Ratio} = \frac{\text{New MRR}_t + \text{Expansion MRR}_t}{(\text{Churned MRR}_t + \text{Contraction MRR}_t)}$$

SaaS Quick Ratio provides a clear indicator of the health of your revenue growth, not just its speed. Successful, fast-growing SaaS companies sustain an average Quick Ratio of **3.9**.

Burn Rate

The rate at which the company uses its cash supply over time.

Base Burn is the amount of money the company spends on the office rent, salaries, benefits, legal fees, and other operating costs.

Growth Burn includes the marketing and sales costs of new customer acquisition.

SaaS commonly use two types of Burn Rate metrics:

- The Gross Burn Rate refers to the amount of money a company spends per month.
- The Net Burn Rate refers to the amount the company loses in a month.

$$\text{Gross Burn Rate} = \frac{\text{Total amount spent}_t - \text{Total spent}_{t-1}}{\text{Total amount spent}_{t-1}} \times 100$$

$$\text{Net Burn Rate} = \frac{\text{Net loss}_t - \text{Net loss}_{t-1}}{\text{Net loss}_{t-1}} \times 100$$

Burn Rate is important to investors because it indicates when a startup should look to raise its next round of startup funding. Facing a cash shortage, the startup could cut all new customer acquisition to generate profit. If the earned revenue is higher than the amount spent in a month, Net Burn will be negative.

Zero Cash Date (ZCD)

The predicted date the startup runs out of cash, as a result of its current burn rate, and assuming no new revenue generation.

$$\text{ZCD} = \frac{\text{Total cash}}{\text{Burn Rate}} + \text{Current month}$$

ZCD indicates when the startup should seek new funding. As a startup becomes cash flow-positive and builds up its cash reserves, its ZCD should move further and further into the future.

Cost of Goods Sold (COGS)

All of the company's expenditure associated with serving customers and delivering its solution during a specific period, such as:

- application hosting fees
- third-party web fees (like CDNs or licensing for products embedded in the application)
- customer support costs.

Knowing the Cost of Goods Sold, analysts, investors, and managers can estimate the company's bottom line. Typically, a good SaaS business model implies COGS around **10-20%** of the total revenue.

If COGS increases, net income will decrease, so businesses try to keep their COGS low.

It's also important to know COGS because it helps determine the gross margin – how much money is left for operating expenses, profit, and reinvestment into the company.

Gross Margin

The percentage of revenue left over after the cost of servicing that revenue (i.e. the costs of delivering the service that generated the revenue) is taken into account.

$$\text{Gross Margin\%} = \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}}$$

Gross Margin is an important indicator of how profitable and scalable a company is. It tells how much money it keeps hold of for each dollar it earns in sales. The higher the Gross Margin, the more money is available to invest

back into growth.

Typically, a good SaaS business model should have a Gross Margin of about **80-90%**.

Operational Efficiency Ratio

The ratio between a business' selling, general, and administrative (SGA) expenses, and the sales figures.

$$\text{Operational Efficiency Ratio} = \frac{\text{Total of all expenditures for a period}}{\text{Total revenue for the period}}$$

The ratio essentially reveals whether the cost of running a business is comfortably higher than the revenue it brings in.

SaaS marketing metrics

Unique Website Visitors

The number of distinct people (assuming the same device and browser is used for each visit and the visitor doesn't clear their cookies between visits) that visit the website over a particular period (commonly a month).

This metric is a reflection of the size of the company's audience and a good measure of the overall marketing efforts' impact.

Growth in unique monthly visitors is a gauge of the effectiveness of the top-of-funnel marketing. Companies should measure the volume of traffic, leads, and customers generated from their organic and paid traffic channels. By measuring unique visitors coming from each source, they can measure the effects of marketing on different channels.

It's important to track existing customers independently, as they can distort your traffic numbers. One way to identify returning customers is to use event tracking to count each time a visitor opens a log-in screen or clicks the link in the navigation. Alternatively, in-app analytics can identify log-ins and usage per month.

Being able to distinguish qualified marketing visitors from returning customers, marketers can set actionable traffic KPIs, accurately track traffic growth each month, understand which type of marketing is more effective, and build a solid traffic-generation plan. If they need immediate results and have the budget for it, paid search is the right investment, whereas content creation will help grow organic traffic over time. The analysis of paid traffic data helps find out whether the targeting is correct and whether they should continue the promotion.

Bounce Rate

The percentage of users who visited only one page of a website and left without any interactions or clicks.

$$\text{Bounce rate} = \frac{\text{Total number of one-page visits to a page}}{\text{Total number of entries to a page}}$$

Bounce rate measures a website's effectiveness in encouraging visitors to continue with their visit. It helps startups understand whether they attract the right audience and whether the page (or product) needs to be optimized to reduce bounce rate and increase user attention and confidence.

As a rule of thumb, a bounce rate in the range of **26-40%** is excellent; **41-55%** is roughly average; **56-70%** is higher than average, but may not be alarming, depending on the website. For example, the average bounce rate for landing pages is **70-90%**. If a company's bounce rate is **above 90%**, it is likely driving wrong people to its site.

Signups

The number of distinct people that sign up over a particular period of time (commonly a month).

For SaaS companies that adopt the self-service model, the number of signups is one of the most important SaaS KPIs, since it measures the effectiveness of their marketing

The ways to increase signups include writing helpful educational content for both prospective and existing users and optimizing the website's conversion rate.

New Email Subscribers

The number of visitors who have signed up for a newsletter, mailing list, or blog updates over the last 30 days.

This metric is good for at-a-glance analysis and monthly email marketing reporting. It measures the growth of the company's email marketing lists and compares it to previous list growth.

Marketers use this data to analyze growth performance and understand what content stimulates subscription.

Lead Volume or Lead Growth

The number of visitors that have filled out a contact form on your website, usually in exchange for a download or free resource.

Lead Volume is an important leading indicator for the business' ability to generate future revenue.

While engaging with and educating the Leads, a marketer, salesperson, or an automated system will qualify them and often assign them a Lead status: Open, Active, Inactive, or Dead.

Only **5-15%** of leads are sales-ready from the moment the lead is generated.

If you meticulously track the number of people who move through each subsequent step to become a customer, you can understand which part of your marketing system needs to be improved the most.

Marketing-Qualified Leads (MQLs) or Prospects

The number of leads that fit the appropriate demographics of a customer and demonstrate interest in the SaaS solution, either by viewing several product-focused pages on the website (e.g., pricing pages), or engaging with more product-focused content offers.

This metric is used by marketing teams to measure the quality of leads they generate and pass to sales. It aligns sales and marketing and allows both teams to frame conversations around demand generation efforts.

Marketing teams normally have targets associated with MQLs that include number of MQLs and acceptance rate, e.g., leads that go on to become Sales Qualified Leads (SQLs).

Sales-Qualified Leads (SQLs) or Sales-Accepted Leads

The number of leads that meet the MQL qualification criteria and have demonstrated sales-readiness, usually by requesting a sales conversation or free demo.

At the point that Marketing hands over an MQL, the lead is ready to learn more, but likely not yet ready to purchase. When the Sales team takes over and engages and further educates the prospect, they will typically designate them as an SQL.

Free Trials & Demo Requests

The number of demo requests.

It's essential to choose a simple, consistent rule for qualification and stick to it.

Usually, free trials and demo requests are regarded as SQLs. If marketing drove those leads and got them to the point where they are "qualified," the request should be designated an MQL. If a salesperson manually did the qualification, regardless of the lead source, the request should count as an SQL.

Product-Qualified Leads (PQLs)

The number of leads who have used a product and reached pre-defined triggers that signify a strong likelihood to become a paying customer. For freemium business models, a PQL is the new MQL.

It helps pre-qualify potential customers based on their interactions with the software product: number of features used, time spent in the product, and frequency of usage. Using this data, product developers can run experiments to increase the PQL volume.

Opportunities

The number of SQLs that have been handed over to the sales team as indicating the potential for a deal.

Regardless of a business's unique qualification criteria, an opportunity represents a higher probability of closing.

Paying Customers

The number of persons that have committed to paying for a service for a specified period.

Rapid, large-scale customer acquisition is a prerequisite for business growth.

It's important to track how marketing-generated leads convert into paying customers to assess the overall performance of the company's marketing strategy.

Visitor-to-Lead Conversion Rate

The rate at which website visitors convert into leads.

$$\text{Visitor to Lead conversion rate} = \frac{\text{Number of leads}}{\text{Number of Visitors}}$$

Any conversion rate is a benchmark for how effectively a company is turning leads into customers.

The **2%** site visitor-to-lead rate is considered average.

A landing page conversion rate can be considered good if it exceeds **10%**.

Looking at conversion rates enables a company to calculate the input (website visitors) that is needed to achieve the goal (a certain lead volume). By increasing the conversion rates, it directly increases its revenue.

Lead-to-Customer Conversion Rate

The rate at which leads convert into customers.

$$\text{Lead to Customer conversion rate} = \frac{\text{Number of Customers}}{\text{Number of Leads}}$$

Generating large volumes of poor-fit leads will result in an extremely low conversion rate, and vice versa, so this metric can offer a revealing insight into the quality of the leads the company is generating.

A good SaaS conversion rate is considered typically to fall within **3-5%**.

A strong conversion rate would be anything **from 8%**.

Whatever conversion rate you measure, make sure to define different lead types and track how they close. It will allow you to see which campaigns were most successful and get insights into common behavior across all customers. This will help shape new marketing campaigns throughout the year.

There are two ways to acquire more customers: to increase the number of people entering the sales funnel, and to improve the rates at which visitors turn into identifiable sales-ready leads and leads into customers. Tools like pop-ups, email subscriptions, free downloads, and landing pages can be used, and it's important to improve the conversion rates over time.

MQL-to-SQL Conversion Rate

The rate at which marketing-qualified leads turn into sales-qualified leads.

$$\text{MQL to SQL conversion rate} = \frac{\text{Number of SQLs}}{\text{Number of MQLs}}$$

This metric can provide useful insights into lead quality and the performance of the company's sales development reps.

The average conversion rate from MQL to SQL is **13%**, but it varies significantly based on the source the lead came from.

Activation Rate

or specifically, **Free Trial to Paid Customer Conversion Rate**

The number of users taking a specific action to get value out of a product.

$$\text{Free Trial to Customer conversion rate} = \frac{\text{Number of Customers}}{\text{Number of Free Trials}}$$

When **80%** of free trial users do not convert into paying customers, for a B2B SaaS company:

- even **8%** and above means excellent conversion rates;
- **3-5%** is average and means good business operations;
- **below 3%** means below-average conversion.

Small improvements to the rate, e.g., by optimizing the free trial or other onboarding processes, will boost the revenue.

Marketing Spend-to-Average Contract Value Ratio

The ratio of the amount spent on marketing to the average contract value.

$$\text{Marketing Spend: Annual Contract Value}$$

The ratio is useful for tracking how expenditure on marketing channels translates into sales revenue. To consider a campaign successful, you need at least a **1:1** ratio.

Month-on-month MQL Growth Rate or Qualified Lead Velocity Rate (LVR)

The rate at which the numbers of qualified leads are growing over time.

$$\text{MoM MQL Growth Rate} = \frac{MQL_{st} - MQL_{st-1}}{MQL_{st-1}} \times 100$$

LVR is an indicator of future sales attainment. The rate also helps calculate how many new MQLs/PQLs the company needs to generate each month to achieve the revenue goal by the end of the year.

Month-on-month SQL growth rate

The rate of growth in sales-qualified leads.

$$\text{MoM SQL Growth Rate} = \frac{SQL_{st} - SQL_{st-1}}{SQL_{st-1}} \times 100$$

The rate helps calculate the number of SQLs the company needs each month for hitting the revenue target by the end of the year.

SaaS sales metrics

Annual Contract Value (ACV)

The value of subscription revenue from each contracted customer (excluding one-time fees), normalized across a year.

$$ACV = \frac{\text{Total contract value}}{\text{Total years in contract}}$$

The metric is used by SaaS businesses that have a primary focus on annual or multi-year subscription plans. ACV can help you understand the health of your SaaS business.

Businesses have different methods of calculating their ACV, taking or not taking into account:

- One-time fees (e.g., training & set-up costs) which will make the first year's ACV in a multi-year contract higher than the following years
- Expansion revenue from upsells/cross-sells
- Customer churn rate
- Calculating ACV for all contracts and adding them together
- Calculating ACV for all contracts and finding the average value

Total contract value (TCV)

The value of a customer's contract once executed, including any recurring revenue from the contract and all one-time charges like professional service fees, onboarding fees, and any other charges incurred throughout the contract term.

$$TCV = (MRR \times \text{Contract term in months}) + \text{Total of one-time fees}$$

Changing the MRR or offering longer or shorter contract terms can have a dramatic effect on TCV. Make sure to account for any variations when comparing TCV bookings when you update your pricing strategy or contract length.

Understanding your TCV can help improve your revenue estimates, increase your marketing return, and optimize your sales revenue.

Basing your calculations on TCV instead of CLV (Customer Lifetime Value) gives a more accurate revenue growth prediction. This accuracy can protect a startup from increasing staffing spend too quickly or limiting its marketing budget unnecessarily. Breaking down TCV bookings by customer segment can help sales teams see which customer groups are spending the most, helping concentrate on the most profitable leads and simultaneously increasing revenue and lowering costs.

By knowing which package lengths work best for which cohorts, companies can optimize their sales for longer contracts, increasing your average TCV.

Dividing TCV bookings by the company's Customer Acquisition Cost (CAC) measures its marketing efforts efficiency. The company can understand which marketing channels it should double down on and which channels might be hindering its growth.

Average Revenue per Account (ARPA) or Annual Revenue per User (ARPU)

ARPA measures how much revenue is contributed by an “average” account or customer per month or per year.

There are two types of ARPA:

- 1) ARPA per new account refers to metrics based on new accounts appearing after the subscription plan or product price was changed.
- 2) ARPA per existing account involves the data from accounts established before the price change.

$$ARPA = \frac{MRR}{\text{Number of active accounts}}$$

The calculation can tell you how much each customer is worth and which tier of customers, subscription drives, or deals prove most valuable. You need these metrics to define the future service revenue, in case you’re going to change the pricing plan or roll out a promotion. You can also use ARPA to compare yourself to competitors and consider different acquisition channels.

It’s helpful to track ARPA separately for new customers and existing customers. This makes it easy to see how they respond to upselling and cross-selling over their lifetime.

Once a company has got its churn rate under control and has a reliable way to acquire new customers, upsells and cross-sells become the keys to increasing the revenue. Annual plans are another way to grow the ARPA since they lock customers into a longer billing cycle and help you reduce churn.

Average Selling Price, or Average Sale Price (ASP)

The average initial price that customers pay at the time of sales conversion.

$$ASP = \frac{\sum \text{Deal Revenue}}{\text{Number of deals}}$$

Understanding the ASP is the key to determining the right sales model for a SaaS startup. ASP places a limit on the Customer Acquisition Cost it can justify. High-touch sales strategies are viable with a high ASP; a low ASP forces the company towards a self-service model.

Customer Acquisition Cost (CAC)

The average amount a business spends on sales, marketing, and other associated costs to acquire a single new customer, usually calculated at the rate of a year.

$$CAC_t = \frac{\text{Sales \& Marketing Cost}_t}{\text{New Customers}_t}$$

$$CAC_t = \frac{\text{Sales \& Marketing Cost}_{t-1}}{\text{New ARR}_t}$$

CAC is useful for analyzing a startup's scalability and profitability and measuring its marketing strategy or team's efficiency. As a result, they can optimize the return on their advertising investments.

CAC is designed to measure their ability to generate new revenue from sales and marketing expenditure. However, if a product sells itself without salespeople, CAC can be calculated without the headcount costs. Adding the costs and revenue associated with customer success strategies into the calculation distorts the measurement, so they are best to track separately.

CAC changes drastically based on the selling model complexity. Freemium or self-service business models may have CACs between \$0 and \$200. Light- and high-touch inside sales may inflate CACs to between \$300 and \$8,000. With a field sales team, CAC can go from \$20,000 to up to \$200,000. CAC also grows in the course of expanding the customer base.

To reduce CAC, companies may try A/B testing to improve their conversion rates, minimize the touch required to complete a sale, or improve their trial process to make the product easier to use more quickly.

To eliminate wrong channels, companies should track the cost per acquisition for individual marketing campaigns. If they generate leads from paid and unpaid channels, it's important to calculate CAC separately for each. They need to track those campaigns over the long term to see which ones actually bring customers and profit.

CAC Payback Period, or Months to Recover CAC

The time it takes for each customer to become profitable.

$$\text{CAC Payback Period} = \frac{\text{CAC}}{\text{MRR per customer}}$$

Startups should aim to recover their CAC **within 12 months**, otherwise the business will require too much capital to grow.

This number should get smaller over time as your business grows.

Gross Margin-Adjusted Payback Period

The number of months required to repay the initial cost of acquiring a customer, accounting for the business's gross margin.

$$\text{Gross Margin Adjusted Payback Period} = \frac{\text{CAC}}{(\text{MRR per customer} \times \text{Gross Margin})}$$

Benchmarks for the metric range between **12 and 20 months**, with longer paybacks being more common for enterprise deployments.

Customer Lifetime Value (CLV, sometimes referred to as LTV or CLTV)

The total amount of revenue generated by a single customer over the life of their account.

$$CLV = \frac{ARPA}{Customer\ churn\ rate}$$

CLV gives you a long-term perspective on customer engagement strategies and the ability to predict how valuable customers will be to your business over time. It helps you understand how much you can spend to attract a new customer at an early stage and whether it's time to reconsider pricing and product marketing strategy to attract more users. It facilitates business decisions about sales, marketing, product development, and customer support. CLV can also display the value of your startup company to investors.

By segmenting CLV by different customer types and buyer personas, you'll know exactly where your most valuable customers are and where to focus your time to grow your business the fastest. Track CLV to test and select customer acquisition channels, purchasing cycles, and retention strategies.

A viable SaaS business is about making more profit from its customers than it costs to acquire them. In a balanced business model, CAC is significantly smaller than CLV, whereas in an unbalanced model, CAC exceeds CLV.

One way to improve cash flow and increase the average CLV is to encourage customers to buy a discounted annual subscription instead of monthly. The entire first year of payments is available to the company immediately, while saving the customer money on their subscription fees.

Customer referral programs also increase the CLV: in addition to the direct revenue customers will generate over their lifetime, they assist in generating revenue from other customers as a result of successful referrals. If the cash flows expected from customers in the future are considerably higher than the CAC, it is a sign to increase the marketing costs.

CLV- to-CAC ratio

CLV-to-CAC shows in a single metric the lifetime value of a business' customers and the total amount it spends to acquire them.

$$\frac{CLV}{CAC}$$

Generally, for a SaaS business to survive, its CLV should be at least three times greater than its CAC. 3x CLV/CAC allows a business, operating under normal software margins, to be operating profit break-even in year four.

Any lower ratio (say, 1:2) means the company is spending too much money on customer acquisition.

Any higher ratio means it's spending too little and probably missing out on business.

However, earlier-stage investors often target figures in excess of 4x or 5x, and the best-in-class performers have a CLV/CAC ratio that is closer to 5x and sometimes as high as 7 or 8.

Your CLV can be lower than your CAC in certain instances, but you should prepare to make up the deficit eventually through new products, features, etc.

Win Rate

The number of deals won, as a percentage of total deals, both won and lost.

$$\boxed{\text{Win Rate} = \frac{\text{Closed} - \text{Won Opportunities}}{\text{Total Opportunities that were both Closed} - \text{Won} + \text{Closed} - \text{Lost}}}$$

This metric provides a simple look at sales efficiency and the sales reps' ability to close deals. For a good benchmark to aim for, 1 means that customer revenue will recoup sales and marketing expenditure in the next four quarters.

Most SaaS companies operate around the **0.8 mark**, meaning they recoup the cost of the revenue and sales expense in the customer's 5 quarters.

Revenue Per Lead

The average amount of revenue each lead (as opposed to customer) will contribute.

$$\boxed{\text{Revenue Per Lead} = \frac{\text{ACV}}{\text{Number of lead}}}$$

Calculating Revenue per Lead on a per-sales-person basis, using only the active leads as a sample, provides an insight into the efficiency of the entire sales team and the types of leads they are tasked with closing.

Sales Efficiency aka Magic Number

The ratio between a business' new revenue generated during a specific period and the cost of the sales and marketing teams' efforts: salaries, benefits, commissions, office space, software, and ad spend.

$$\boxed{\text{Sales Efficiency} = \frac{\text{Revenue}}{\text{Sales\&Marketing costs}} \times 100}$$

Sales Efficiency is a leading SaaS health indicator. It can also show when investments in sales and marketing are too low.

- A ratio **between 0-0.5** normally indicates the company doesn't have a sustainable investable growth model; better sales efficiency is needed.
- A ratio of **0.5-1** isn't necessarily capital efficient but indicates sales and marketing efficiency; for many investors, this rate is acceptable.
- A ratio of **1 or greater** implies strong sales efficiency and a capital-efficient growth model. However, if it is much higher than 1, you are probably under-investing in sales and marketing.

When a company has good sales efficiency, it's a great time to scale the sales team.

SaaS success metrics

Daily Active Users (DAU)

The number of unique users, as defined by ID and login, that return to a website or app on a given day (period d). As a best practice, users are considered ‘active’ when they derive value from the interactions with the SaaS.

$$\boxed{\text{Daily Active Users} = \text{Number of Active Users}_d}$$

Large numbers of active users are generally a benchmark to determine the health of a SaaS company’s customer base. But since usage patterns and frequency may be different for different SaaS, there is no universal measure of good versus bad usage.

Every company should also define the usage of certain features or combinations, at a certain frequency, that defines an ‘active user.’

For DAU to provide value for a SaaS startup, it should be looked at in combination with other measurements that give insights into user engagement and how valuable users are finding the product.

Weekly Active Users (WAU)

The number of unique users that return to a website or app on a given week.

$$\boxed{\text{Weekly Active Users} = \text{Number of Active Users}_w}$$

This measurement is useful for SaaS businesses whose apps are used predominantly during the workweek, such as productivity tools or analytics.

Monthly Active Users (MAU)

The total number of unique users that return to a website or app in a given month.

$$\boxed{\text{Monthly Active Users} = \text{Number of Active Users}_m}$$

This metric gives an indication of a company’s performance over time in terms of being able to attract and retain subscribers, giving clarity over whether it’s gaining or losing users over time.

If you’re seeking funding for your startup, MAU is a key metric that needs to be established. This gives investors the number of new and repeat users, as well as indicates a healthy growth trajectory. New users and reactivations show an increase in MAU against the churn rate of existing subscribers, so if MAU are increasing, it’s a good sign for investors that the startup is managing its acquisition and retention well.

DAU/MAU Ratio, or Stickiness Ratio

The ratio of Daily Active Users and Monthly Active Users

$$\text{Stickiness ratio} = \frac{\text{DAU}}{\text{MAU}}$$

This metric gives a quick snapshot of the customer retention and shows the long-term prospects of a startup. The percentage allows for tracking the growth or decline of a product, forecasting, budgeting, or deciding to develop new features.

The DAU/MAU ratio is unique for each product, but the higher it is, the higher income-generation rate the company can achieve.

- The average stickiness ratio for SaaS companies is between **10-20%**.
- **20%** is generally considered a good sign.
- Stickiness over **50%** indicates extreme success and a strong user base.

Not every product should be used daily to be considered successful, but as a rule, SaaS should possess usability, reliability, usefulness, and emotional and social effect to become sticky.

Number of sessions

A session is a group of user interactions with a web or mobile app within a given time frame.

$$\text{Number of Sessions per User} = \frac{\text{Total number of sessions}}{\text{Total number of users}}$$

The number of sessions is measured per user or per cohort, e.g., customers on a specific subscription plan, within a certain period (week, month, quarter, or year).

More usage by more users is generally a strong sign of a healthy SaaS product. The growth of active users and session-related KPIs may prove that your business is moving in the right direction. These numbers can help evaluate the impact of product enhancements, new marketing channels, sales approaches, etc.

However, being “active” doesn’t always mean being happy and successful for customers. It’s important to know not only how often users open your app and how long they spend using it, but also what they do during that time. For example, a lot of random in-app activity could signal that something is amiss because customers can’t figure out what to do.

Average Session Duration

The average amount of time users spend on a website or app during a specified time frame.

$$\text{Average Session Duration} = \frac{\text{Total duration of all sessions in seconds}}{\text{Number of sessions}}$$

If you calculate the session duration for a group of bounced or churned customers, you may find a clue on why they left and how to improve user interaction.

Time in App

The metric measures how long users stay on an app within a certain period.

This metric helps identify how frequently the app is used and its value to users. Similarly to session interval and duration, it helps understand user behavior over time and gives a clear view of app usage patterns.

The metric is important for startups whose revenue directly depends on the time spent in-app. Time in app helps measure the product's value to customers, understand app usage patterns and user behavior over time, and increase app usage and engagement.

Session Interval

The time between two consecutive sessions shows the frequency in which customers open and use the app.

The frequency allows to measure the value generated by a SaaS product for the customers and quantify the retention value and stickiness of the product.

Number of Support Tickets Created

The number of complaints, requests for help, questions, and suggestions that customers submit daily, weekly, and monthly.

A SaaS company should keep an eye on the average daily, weekly, and monthly numbers of tickets. In case of a ticket volume spike, product performance and quality should be reassessed promptly.

When a company is growing quickly, it should budget and plan the staffing to scale with the customer count and accommodate the future support ticket volume.

Average First Response Time

The average amount of time it takes for customer support to respond to a case after it's been submitted by a customer.

$$\text{Average First Response Time} = \frac{\text{Total of all First Response Times}}{\text{Number of Cases Opened}}$$

The time to respond must be the shortest possible ranging from a few minutes to an hour.

Only 21% SaaS companies reply to support queries **within an hour**, which is considered a good benchmark. A few hours, but less than a day, including off-work times, is the average.

It's bad when it takes more than a day to respond to a case.

This may be applicable across all response channels, but chat should be much faster, within seconds.

Average Resolution Time

The average amount of time it takes the support team to resolve or close a support ticket.

$$\text{Average Resolution Time} = \frac{\text{Total of all Resolution Times}}{\text{Number of Cases Resolved}}$$

Support is one of the most top reasons companies reject deals in the SaaS sector. The lower the average resolution time, the more satisfied the customers are.

The good Resolution Time is **less than 12 hours**.

The average benchmark is **12-48 hours**.

The Resolution Time **over 48 hours** is a bad result.

It can be reduced by using resources from teams other than Support, e.g., mandating that every employee spend at least 30 minutes answering support queries daily. Pushing engineers to the frontline of support can result in a drastic cutback in the Average Resolution Time.

Net Promoter Score (NPS)

NPS quantifies customer satisfaction using a survey question:

“How likely are you to recommend the service/company to a friend or a colleague, from 0 to 10?” Those who gave 0-6 points are detractors, users with 7-8 points are neutral/passive, and promoters would give 9-10.

$$NPS = \%Promoters - \%Detractors$$

The higher a company's NPS, the better: it indicates satisfied users who will likely stay over time.

A high NPS leads to 20-60% of organic growth, whereas a high number of detractors results in economic penalties.

- The median NPS score for SaaS companies is **26%**;
- NPS **over 30%** is considered excellent;
- Leading companies beat the benchmark of **70%**.

It's smart to measure NPS after product updates to see which changes triggered a positive or negative response. It's also useful to have a few customers respond to an in-app NPS survey every day. This gives a constant pulse of feedback, getting a “10” boosts the team's morale and motivates to deliver more value, and if there is ever a customer issue, support can be offered quickly.

Customer Satisfaction Score (CSAT)

CSAT is used to rate individual interactions with a company (e.g., using a new product or service feature or conversation with customer support) by asking a question: “How would you rate your overall satisfaction, from 1 to 5?”

$$CSAT = \frac{\sum Customer Responses}{5 \times Number of Responses} \times 100$$

As a measure of customer experience, CSATs can provide a simple window into the type of service a SaaS company offers and complement its NPS measurements.

This metric is also an industry benchmark: the American Customer Satisfaction Index site regularly publishes up-to-date CSAT metrics derived from multiple organisations across various industries.

A good score will typically fall between **75% and 85%**; for example, for computer software, the benchmark is **79%**.

CSAT and NPS scores should be supplemented with further qualitative research to understand the drivers behind the scores so the company can take action to improve key areas.

Customer Effort Score (CES)

CES is used to measure customer experience by asking a question:

“How easy was it to use the product/service, from 1 to 5?” The 5-point scale uses extreme positive, positive, neutral, negative, and extreme negative answer options.

$$\text{CES} = \% \text{Positive \& extreme positive responses} - \% \text{Negative \& extreme negative responses}$$

CES fits in seamlessly with product goals because user experience (UX) and user interface (UI) depend largely on ease of use. The metric is useful for product development, onboarding, customer service, upselling, and other startup's activities.

SaaS companies often ask the CES questions at the end of onboarding or after a support interaction. Customer success and product development teams are using CES to their customer journey metrics to improve onboarding and ease of feature use and to reduce churn. Product teams are using CES to measure how well the UI supports new feature adoption and to identify moments of customers' frustration. Customer success teams are using CES even earlier in the customer journey to measure the ease of transition between the sales and customer success managers. They can use CES to monitor many success milestones to see how easily customers achieved them.

If CES is low, you need to create a cross-functional team to review feedback and prioritize possible actions that will create a better experience for the customers. Tracking CES over time, you'll be able to see the results of your efforts in the score and your customer retention numbers.

Upsell Rate

The rate allows you to calculate the percentage of a period's revenue that was generated from upselling – encouraging existing customers to increase their spend by purchasing more seats, more storage space, going to a higher-priced tier, etc.

$$\text{Upsell Rate} = \frac{\text{ACV of Upsell}}{\text{Total ACV}_t}$$

Usually, the percentage is calculated within a cohort, showing the number of customers that purchased more divided by the total number of customers in the cohort.

The Upsell Rate provides additional insight into the meaning and direction of the company's monthly renewal rates and the work of its account management and customer success teams. The latter team's focus can be applied to those cohorts with low upsell rates, and the account management team – on cohorts that have not

recently purchased additional products.

The Upsell Rate can also improve your annual budget process. One way to pressure test your renewal assumptions is to segment your expected renewals for the year into those who have upsold and those who haven't. See what happens when you apply a high churn rate to the second bucket. This analysis will show you an expected burn rate in a bear case renewal situation.

Cross-Sell Rate

The rate works out the proportional revenue generated by encouraging customers to purchase extra features and complementary services.

$$\text{Cross - sell Rate} = \frac{\text{ACV of Cross - sells}_t}{\text{Total ACV}_t}$$

SaaS companies that cross-sell to approximately one-third of their customers have the lowest churn rate. For cross-selling purposes, a SaaS company may offer, e.g., premium support or product training. Avoid suggesting too many unfamiliar products and services. The price of the offering should be appealing and manageable.

Viral Coefficient (VC) or Virality

The coefficient measures how many new users a current user is referring to the business.

$$VC = \frac{NOU \times ANOR \times \text{Referral Conversion Rate}}{\text{Number of Users}}$$

Or

$$VC = AN \text{ of invitations by existing user} \times \% \text{ Invitees that convert to customers}$$

***NOU means Number of Users and ANOR means Average Number of Referrals**

Improving the virality of your SaaS solution is a crucial part of achieving explosive growth. The greater your viral coefficient, the faster your company will grow.

A coefficient greater than 1 means that for every new customer you acquire, you gain an additional customer (or more) as a result of successful referrals; a viral coefficient of less than 1 is still valuable.

The majority of software companies end up getting ~80% of their new customers from existing customers once they hit scale. However, typically, SaaS apps don't have enough customers to see the economic benefits of viral revenue until their ARR reaches \$1m-\$2m.

To accelerate the word-of-mouth "free" lead generation, it's recommended to:

- Provide users with multiple ways to share your offer, at least through email and social media.
- Ask happy customers for more referrals, both directly and through automation tools.
- Over-hire in Customer Success, if the company can afford to.
- As soon as it starts to get any referrals, double-down on the effort, e.g., by attending conferences and niche events, PR, etc.

Referral Revenue

Total revenue generated by successful customer referrals over a particular time period.

If your Referral Revenue is greater than your Customer Acquisition Cost, it means you're getting a positive ROI on your referral program. This should guide you when deciding whether to keep running your referral program. It's important to aim for an increase in Referral Revenue over time.

Integration of a company's reference platform with a CRM helps easily measure the number of deals that were closed (new business + cross-sells/upsells), the monetary value of those deals, and the customer references that were used to close those deals. Additionally, companies conduct surveys and capture feedback from the requestors and the references themselves on their experiences. This feedback helps understand the value of the program.

Referral Return on Investment (ROI)

The metric compares the amount spent on customer referrals with the revenue those referrals will generate over their lifetime.

$$\text{Referral ROI} = \frac{\text{CLV} - \text{Referral incentive}}{\text{Referral Incentive}}$$

This metric can be used to work out how many dollars in CLV the company generates for each dollar it spends on referral incentives and running the referral program.

Got a question? Would you like to know more about Onix?



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