SaaS Metrics 2.0 – A Guide to Measuring and Improving what Matters

By David Skok 323

“If you cannot measure it, you cannot improve it” – Lord Kelvin

This article is a comprehensive and detailed look at the key metrics that are needed to understand and optimize a SaaS business. It is a completely updated rewrite of an older post. For this version, I have co-opted two real experts in the field: Ron Gill, (CFO, NetSuite), and Brad Coffey (VP of Strategy, HubSpot), to add expertise, color and commentary from the viewpoint of a public and private SaaS company. My sincere thanks to both of them for their time and...
SaaS/subscription businesses are more complex than traditional businesses. Traditional business metrics totally fail to capture the key factors that drive SaaS performance. In the SaaS world, there are a few key variables that make a big difference to future results. This post is aimed at helping SaaS executives understand which variables really matter, and how to measure them and act on the results.

The goal of the article is to help you answer the following questions:

- Is my business financially viable?
- What is working well, and what needs to be improved?
- What levers should management focus on to drive the business?
- Should the CEO hit the accelerator, or the brakes?
- What is the impact on cash and profit/loss of hitting the accelerator?

(Note: although I focus on SaaS specifically, the article is applicable to any subscription business.)

What’s so different about SaaS?

SaaS, and other recurring revenue businesses are different because the revenue for the service comes over an extended period of time (the customer lifetime). If a customer is happy with the service, they will stick around for a long time, and the profit that can be made from that customer will increase considerably. On the other hand if a customer is unhappy, they will churn quickly, and the business will likely lose money on the investment that they made to acquire that customer. This creates a fundamentally different dynamic to a traditional software business: there are now two sales that have to
be accomplished:

1. Acquiring the customer
2. Keeping the customer (to maximize the lifetime value).

Because of the importance of customer retention, we will see a lot of focus on metrics that help us understand retention and churn. But first let’s look at metrics that help you understand if your SaaS business is financially viable.

The 3 Keys to Success in SaaS:
1) Acquiring Customers
2) Retaining Customers
3) Monetizing Customers

The SaaS P&L / Cash Flow Trough

SaaS businesses face significant losses in the early years (and often an associated cash flow problem). This is because they have to invest heavily upfront to acquire the customer, but recover the profits from that investment over a long period of time. The faster the business decides to grow, the worse the losses become. Many investors/board members have a problem understanding this, and want to hit the brakes at precisely the moment when they should be hitting the accelerator.

In many SaaS businesses, this also translates into a cash flow problem, as they may only be able to get the customer to pay them month by month. To illustrate the problem, we built a simple Excel model which can be found here. In that model, we are spending $6,000 to acquire the customer, and billing them at the rate of $500 per month. Take a look at these two graphs from that model:

https://www.forentrepreneurs.com/saas-metrics-2/?from=timeline&isappinstalled=0
If we experience a cash flow trough for one customer, then what will happen if we start to do really well and acquire many customers at the same time? The model shows that the P&L/cash flow trough gets deeper if we increase the growth rate for the bookings.
But there is light at the end of the tunnel, as eventually there is enough profit/cash from the installed base to cover the investment needed for new customers. At that point the business would turn profitable/cash flow positive – assuming you don’t decide to increase spending on sales and marketing. And, as expected, the faster the growth in customer acquisition, the better the curve looks when it becomes positive.

_Ron Gill, NetSuite:_

_If plans go well, you may decide it is time to hit the accelerator (increasing spending on lead generation, hiring additional sales reps, adding data center capacity, etc.) in order to pick-up the pace of customer acquisition. The thing that surprises many investors and boards of directors about the SaaS model is that, even with perfect execution, an acceleration of growth will often be accompanied by a squeeze on profitability and cash flow._
As soon as the product starts to see some significant uptake, investors expect that the losses / cash drain should narrow, right? Instead, this is the perfect time to increase investment in the business, which will cause losses to deepen again. The graph below illustrates the problem:

Notice in the example graph that the five customer per month model ultimately yields a much steeper rate of growth, but you have to go through another deep trough to get there. It is the concept of needing to re-enter that type of trough after just having gotten the curve to turn positive that many managers and investors struggle with.

Of course this a special challenge early-on as you need to explain to investors why you’ll require additional cash to fund that next round of acceleration. But it isn’t just a startup problem. At NetSuite, even as a public company our revenue growth rate has accelerated in each of the last three years. That means that each annual plan involves a stepping-up of investment in lead generation and sales capacity that will increase spending and cash flow out for some time before it starts yielding incremental revenue and cash flow in. As long as you’re accelerating the rate of revenue growth, managing and
messaging around this phenomenon is a permanent part of the landscape for any SaaS company.

Why is growth important?

We have suggested that as soon as the business has shown that it can succeed, it should invest aggressively to increase the growth rate. You might ask question: Why?

SaaS is usually a “winner-takes-all” game, and it is therefore important to grab market share as fast as possible to make sure you are the winner in your space. Provided you can tell a story that shows that eventually that growth will lead to profitability, Wall Street, acquiring companies, and venture investors all reward higher growth with higher valuations. There’s also a premium for the market leader in a particular space.

However not all investments make sense. In the next section we will look at a tool to help you ensure that your growth initiatives/investments will pay back: Unit Economics.

A Powerful Tool: Unit Economics

Because of the losses in the early days, which get bigger the more successful the company is at acquiring customers, it is much harder for management and investors to figure out whether a SaaS business is financially viable. We need some tools to help us figure this out.

A great way to understand any business model is to answer the following simple question:

*Can I make more profit from my customers than it costs me to acquire them?*

This is effectively a study of the unit economics of each customer.
To answer the question, we need two metrics:

- LTV – the Lifetime Value of a typical customer
- CAC – the Cost to Acquire a typical Customer

(For more on how to calculate LTV and CAC, click here.)

Entrepreneurs are usually overoptimistic about how much it costs to acquire a customer. This probably comes from a belief that customers will be so excited about what they have built, that they will beat a path to their doors to buy the product. The reality is often very different! (I have written more on this topic here: Startup Killer: The Cost of Customer Acquisition, and here: How Sales Complexity impacts CAC.)

Is your SaaS business viable?

In the first version of this article, I introduced two guidelines that could be used to judge quickly whether your SaaS business is viable. The first is a good way to figure out if you will be profitable in the long run, and the second is about measuring the time to profitability (which also greatly impacts capital efficiency).

**Two key guidelines for SaaS startups**

- $LTV > 3 \times CAC$
- $\text{Months to recover } CAC < 12 \text{ months}$

Over the last two years, I have had the chance to validate these
guidelines with many SaaS businesses, and it turns out that these early guesses have held up well. The best SaaS businesses have a LTV to CAC ratio that is higher than 3, sometimes as high as 7 or 8. And many of the best SaaS businesses are able to recover their CAC in 5-7 months. However many healthy SaaS businesses don’t meet the guidelines in the early days, but can see how they can improve the business over time to get there.

The second guideline (Months to Recover CAC) is all about time to profitability and cash flow. Larger businesses, such as wireless carriers and credit card companies, can afford to have a longer time to recover CAC, as they have access to tons of cheap capital. Startups, on the other hand, typically find that capital is expensive in the early days. However even if capital is cheap, it turns out that Months to recover CAC is a very good predictor of how well a SaaS business will perform. Take a look at the graph below, which comes from the same model used earlier. It shows how the profitability is anemic if the time to recover CAC extends beyond 12 months.

I should stress that these are only guidelines, there are always situations where it makes sense to break them.
Three uses for the SaaS Guidelines

1. One of the key jobs of the CEO is to decide when to hit the accelerator pedal. The value of these two guidelines is that they help you understand when you have a SaaS business that is in good shape, where it makes sense to hit the accelerator pedal. Alternatively if your business doesn’t meet the guidelines, it is a good indicator that there is more tweaking needed to fix the business before you should expand.

2. Another way to use the two guidelines is for evaluating different lead sources. Different lead sources (e.g. Google AdWords, TV, Radio, etc.) have different costs associated with them. The guidelines help you understand if some of the more expensive
lead generation options make financial sense. If they meet these guidelines, it makes sense to hit the accelerator on those sources (assuming you have the cash). Using the second guideline, and working backwards, we can tell that if we are getting paid $500 per month, we can afford to spend up to 12x that amount (i.e. $6,000) on acquiring the customer. If we’re spending less than that, you can afford to be more aggressive and spend more in marketing or sales.

3. There is another important way to use this type of guideline: segmentation. Early-stage companies are often testing their offering with several different uses/types of customers / pricing models / industry verticals. It is very useful to examine which segments show the quickest return or highest LTV to CAC in order to understand which will be the most profitable to pursue.

Unit Economics in Action:
HubSpot Example

HubSpot’s unit economics were published in an article in Forbes:

<table>
<thead>
<tr>
<th>HubSpot</th>
<th>Q1’11</th>
<th>Q2’11</th>
<th>Q3’11</th>
<th>Q4’11</th>
<th>Q1’12</th>
<th>Q2’12</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTV:CAC</td>
<td>1.7</td>
<td>1.9</td>
<td>1.9</td>
<td>2.6</td>
<td>3.5</td>
<td>4.7</td>
</tr>
<tr>
<td>CAC</td>
<td>$6,025</td>
<td>$7,876</td>
<td>$8,541</td>
<td>$7,809</td>
<td>$6,880</td>
<td>$6,793</td>
</tr>
<tr>
<td>MRR CHURN</td>
<td>3.5%</td>
<td>2.7%</td>
<td>2.8%</td>
<td>2.3%</td>
<td>2.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>AVG MRR</td>
<td>$429</td>
<td>$507</td>
<td>$548</td>
<td>$560</td>
<td>$583</td>
<td>$577</td>
</tr>
<tr>
<td>SOFTWARE MARGIN</td>
<td>83%</td>
<td>81%</td>
<td>80%</td>
<td>82%</td>
<td>81%</td>
<td>82%</td>
</tr>
<tr>
<td>LTV</td>
<td>$10,074</td>
<td>$14,964</td>
<td>$15,919</td>
<td>$20,325</td>
<td>$23,776</td>
<td>$31,806</td>
</tr>
</tbody>
</table>

You can see from the second row in this table how they have dramatically improved their unit economics (LTV:CAC ratio) over the five quarters shown. The big driver for this was lowering the MRR Churn rate from 3.5% to 1.5%. This drove up the lifetime value of the customer considerably. They were also able to drive up their AVG MRR per customer.
Brad Coffey, HubSpot:

In 2011 and early 2012 we used this chart to guide many of our business decisions at HubSpot. By breaking LTV:CAC down into its components we could examine each metric and understand what levers we could pull to drive overall improvement.

It turned out that the levers we could pull varied by segment. In the SMB market for instance we had the right sales process in place – but had an opportunity to improve LTV by improving the product to lower churn and increasing our average price in the segment. In the VSB (Very Small Business) segment, by contrast, there wasn’t as much upside left on the LTV (VSB customers have less money and naturally higher churn) so we focused on lowering CAC by removing friction from our sales process and moving more of our sales to the channel.

Two kinds of SaaS business:

There are two kinds of SaaS business:

- Those with primarily monthly contracts, with some longer term contracts. In this business, the primary focus will be on MRR (Monthly Recurring Revenue)
- Those with primarily annual contracts, with some contracts for multiple years. Here the primary focus is on ARR (Annual Recurring Revenue), and ACV (Annual Contract Value).

Most of the time in this article, I will refer to MRR/ARR. This means use MRR if you are the first kind of business, or ARR if you are the second kind of business. The dashboard shown below assumes monthly contracts (MRR). However in the downloadable spreadsheet, there is a tab that shows the same dashboard for the second kind, focusing on ARR instead of MRR.
SaaS Bookings: Three Contributing Elements

Every year in a SaaS business, there are three elements that contribute to how much ARR will change relative to the previous year:

What happened with new customers added in the year (or month):

- New ARR (or MRR)

What happened in the installed base of customers:

- Churned ARR (or MRR) (from existing customers that cancelled their subscription. This will be a negative number.)
- Expansion ARR (or MRR) (from existing customers who expanded their subscription)

The sum all three of these makes up your Net ARR or MRR Bookings:

I recommend that you track these using a chart similar to the one below:

https://www.forentrepreneurs.com/saas-metrics-2/?from=timeline&isappinstalled=0
This chart shows the three components of ARR (or MRR) Bookings, and the Net New ARR (or MRR) Bookings. By breaking out each component, you can track the key elements that are driving your business. The one variation we would recommend making to this chart is to show a dotted line for the plan, so you can track how you are doing against plan for each of the four lines. This is one of the most important charts to help you understand and run your business.

Ron Gill, NetSuite:

This chart is really good. I also like to look at this data in tabular form because I want to know y-o-y growth rates. E.g. “Net new MRR is up 25% over June of last year”. The Y-o-Y % is a metric easily compared with increased spending, sales capacity, etc.

The Importance of Customer Retention (Churn)
In the early days of a SaaS business, churn really doesn't matter that much. Let’s say that you lose 3% of your customers every month. When you only have a hundred customers, losing 3 of them is not that terrible. You can easily go and find another 3 to replace them. However as your business grows in size, the problem becomes different. Imagine that you have become really big, and now have a million customers. 3% churn means that you are losing 30,000 customers every month! That turns out to be a much harder number to replace. Companies like Constant Contact have run into this problem, and it has made it very hard for them to keep up their growth rate.

**Ron Gill, NetSuite:**

*One oft-overlooked aspect of churn is that the churn rate, combined with the rate of new ARR adds, not only defines how fast you can grow the business, it also defines the maximum size the business can reach* (see graph below).

![Graph](https://example.com/graph.png)

*It is an enlightening exercise to build a simple model like this for your business and plot where your current revenue run rate sits on the*
blue line defined by your present rate of ARR adds and churn. Are you near the left-hand side, where the growth is still steep and the ceiling is still far above? Or, are you further to the right where revenue growth will level off and there is limited room left to grow? How much benefit will you get from small improvements in churn or the pace of new business sign-up?

At NetSuite, we’ve had great success shifting the line in the last few years by both dramatically decreasing churn and by increasing average deal size and volume, thus increasing ARR adds. The result was both to steadily move the limit upward and to steepen the growth curve at the current ARR run rate, creating room for increasingly rapid expansion.

The Power of Negative Churn

The ultimate solution to the churn problem is to get to Negative Churn.

Negative Churn happens when:

| Expansion Revenue from Existing Customers | Lost Revenue from Churning Customers |

There are two ways to get this expansion revenue:

1. Use a pricing scheme that has a variable axis, such as the number of seats used, the number of leads tracked, etc. That way, as your customers expand their usage of your product, they pay you more.
2. Upsell/Cross-sell them to more powerful versions of your product, or additional modules.

To help illustrate the power of negative churn, take a look at the
following two graphs that show how cohorts behave with 3% churn, and then with 3% negative churn. (Since this is the first time I have used the word Cohort, let me explain what it means. A cohort is simply a fancy word for a group of customers. In the SaaS world, it is used typically to describe the group that joined in a particular month. So there would be the January cohort, February cohort, etc. In our graphs below, a different color is used for each month's cohort, so we can see how they decline or grow, based on the churn rate.)

In the top graph, we are losing 3% of our revenue every month, and you can see that with a constant bookings rate of $6k per month, the revenue reaches $140k after 40 months, and growth is flattening out. In the bottom graph, we may be losing some customers, but the remaining customers are more than making up for that with increased revenue. With a negative churn rate of 3%, we reach $450k in revenue (more than 3x greater), and the growth in revenues is increasing, not flattening.
For more on this topic, you may wish to refer to these two blog posts of mine:

- Why Churn is SO critical to success in SaaS
- Multi-axis Pricing: a key tool for increasing SaaS revenue

For information on how to calculate LTV when you have negative churn, I have written another article here: What’s your TRUE customer lifetime value (LTV)? – DCF provides the answer.

**Defining a Dashboard for a SaaS Company**

The following section should be most useful for readers who are interested putting together a dashboard to help them manage their SaaS business. To this, we created an excel file for an imaginary SaaS company, and laid out a traditional numeric report on one tab, and then a dashboard of graphs on a second tab (see below). These represent one view on how to do this. You may have a very
different approach. But hopefully this will give you some ideas. I would recommend adding a dotted line with the plan number to all graphs. This will allow you to quickly see how you are doing versus plan.

There are two versions of the Dashboard: the one shown below, which is designed for companies using primarily annual contracts (focused on ARR). You can find a version here (see Primarily Monthly Contracts tab) which is designed for companies using monthly contracts, focusing on MRR (Monthly Recurring Revenue).
<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ 640</td>
<td>$ 650</td>
<td>$ 660</td>
<td>$ 670</td>
<td>$ 680</td>
<td>$ 690</td>
</tr>
<tr>
<td><strong>Sales &amp; Marketing</strong></td>
<td>$ 150</td>
<td>$ 160</td>
<td>$ 170</td>
<td>$ 180</td>
<td>$ 190</td>
<td>$ 200</td>
</tr>
<tr>
<td><strong>Research &amp; Development</strong></td>
<td>$ 180</td>
<td>$ 190</td>
<td>$ 200</td>
<td>$ 210</td>
<td>$ 220</td>
<td>$ 230</td>
</tr>
<tr>
<td><strong>General &amp; Administrative</strong></td>
<td>$ 110</td>
<td>$ 110</td>
<td>$ 110</td>
<td>$ 110</td>
<td>$ 110</td>
<td>$ 110</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>$ 3,999</td>
<td>$ 3,932</td>
<td>$ 3,797</td>
<td>$ 3,797</td>
<td>$ 3,797</td>
<td>$ 3,797</td>
</tr>
<tr>
<td><strong>Billings-based operating profit/loss</strong></td>
<td>$ (222)</td>
<td>$ (223)</td>
<td>$ (223)</td>
<td>$ (223)</td>
<td>$ (223)</td>
<td>$ (223)</td>
</tr>
<tr>
<td><strong>Cash &amp; Deferred Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending Cash</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Funnel Metrics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw Leads/Enquiries</td>
<td>3,611</td>
<td>3,429</td>
<td>3,200</td>
<td>5,387</td>
<td>4,684</td>
<td>4,430</td>
</tr>
<tr>
<td>Conversion Raw Leads to MQLs</td>
<td>1.8%</td>
<td>2.1%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Opportunities</td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Conversion: OQTs to Win</td>
<td>52%</td>
<td>58%</td>
<td>55%</td>
<td>61%</td>
<td>54%</td>
<td>59%</td>
</tr>
<tr>
<td>Win/Loss ratio</td>
<td>75%</td>
<td>82%</td>
<td>65%</td>
<td>79%</td>
<td>85%</td>
<td>78%</td>
</tr>
<tr>
<td><strong>Sales Metrics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of FTE Sales reps</td>
<td>8</td>
<td>6.5</td>
<td>7</td>
<td>7.5</td>
<td>8</td>
<td>8.5</td>
</tr>
<tr>
<td>Quota per sales rep</td>
<td>$ 4.2</td>
<td>$ 4.2</td>
<td>$ 4.2</td>
<td>$ 4.2</td>
<td>$ 4.2</td>
<td>$ 4.2</td>
</tr>
<tr>
<td>Sales Capacity</td>
<td>$ 25.0</td>
<td>$ 27.1</td>
<td>$ 29.2</td>
<td>$ 31.3</td>
<td>$ 33.3</td>
<td>$ 35.4</td>
</tr>
<tr>
<td>Coverage ratio for plan</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Productivity per FTE sales rep</td>
<td>$ 44.0</td>
<td>$ 42.5</td>
<td>$ 42.0</td>
<td>$ 41.6</td>
<td>$ 40.5</td>
<td>$ 40.9</td>
</tr>
</tbody>
</table>

https://www.foreentrepreneurs.com/saas-metrics-2/?from=timeline&isappinstalled=0
Brad Coffey, HubSpot:

At HubSpot we obsess over these metrics – and watch many of them every day. Each night we send out a ‘waterfall’ chart that tracks our progress against our typical progress given the number of business days left in the month. Here is an example of what we look at to ensure we’re on track to meet our net MRR goals.
By looking at this daily we can take action immediately if we're tracking towards a bad month or quarter. Things like services promotion (for churned MRR) or sales contests & promotions (for new & expansion MRR) are adjustments we make within a given month in order to nail our goals. (In this model we combine expansion and churned MRR into one churned MRR line).

Detailed definitions of the various metrics used

Detailed definitions for each of the various metrics used can be found here:

Click here for detailed definitions of SaaS Metrics

Revenue Churn vs Customer Churn – why are they different?

You might be wondering why it’s necessary to track both Customer Churn and Revenue Churn. Imagine a scenario where we have 50 small accounts paying us $100 a month, and 50 large accounts paying us $1,000 a month. In total we have 100 customers, and an
MRR of $55,000 at the start of the month. Now imagine that we lose 10 of them. Our Customer churn rate is 10%. But if out of the ten churned customers, 9 of them were small accounts, and only one was a large account. We would only have lost $1,900 in MRR. That represents only 3.4% Revenue Churn. So you can see that the two numbers can be quite different. But each is important to understand if we want a complete picture of what is going on in the business.

Getting paid in advance

Getting paid in advance is really a smart idea if you can do it without impacting bookings, as it can provide the cash flow that you need to cover the cash problem that we described earlier in the article. It is often worth providing good financial incentives in the form of discounts to encourage this behavior. The metric that we use to track how well your sales force is doing in this area is Months up Front.

Getting paid more upfront usually also helps lower churn. This happens because the customer has made a greater commitment to your service, and is more likely to spend the time getting it up and running. You also have more time to overcome issues that might arise with the implementation in the early days. Calculating LTV and CAC

The Metric “Months up Front” has been used at both HubSpot and NetSuite in the past as a way to incent sales people to get more paid up front when a new customer is signed. However asking for more money up front may turn off certain customers, and result in fewer new customers, so be careful how you balance these two conflicting goals.

Calculating CAC and LTV
*Update 05/2016 – I’ve written a new article: What’s your TRUE Lifetime Value (LTV)? – DCF Provides the Answer that replaces all the formula that are shown in the link below.

Detailed information on how to calculate LTV and CAC is provided in the supplemental document that can be accessed by clicking here.

More on Churn: Cohort Analysis

Since churn is such a critical element for success in a SaaS company, it is an area that requires deeper exploration to understand. Cohort Analysis is one of the important techniques that we use to gain insight.

As mentioned earlier, a cohort is simply a fancy name for a group. In SaaS businesses, we use cohort analysis to observe what happens to the group of customers that joined in a particular month. So we will have a January cohort, a February cohort, etc. We would then be able to observe how our January cohort behaves over time (see illustration below).

This can help answer questions such as:
- Are we losing most of the customers in the first couple of months?
- Does Churn stabilize after some period of time?

Then if took some actions to try to fix churn in early months, (i.e with better product features, easier on-boarding, better training, etc.) we would want to know if those changes had been successful. The cohort analysis allows us to do this by comparing how more recent cohorts (e.g. July in the table above) compared against January. The table above shows that we made a big improvement in the first month churn going from 15% to 4%.

Two ways to run Cohort Analysis

There are two ways to run Cohort Analysis: the first looks at the number of customers, and the second looks at the Revenue. Each teaches us something different and valuable. The example graph below simply looks at the number of customers in each cohort over time:
The example graph below looks at how MRR evolves over time for each cohort. This particular example illustrates how the graph would look if there is very strong negative churn. As you can see, the increase in revenue from the customers that are still using the service is easily outpacing the lost revenue from churned customers. It is pretty rare to see things look this good, but it is the ideal situation that we are looking for. For those wondering if this can be achieved, one company in our portfolio, Zendesk, that has numbers that are even better than those shown in the example below.

In the situation above, you will need a more complex formula to calculate LTV, as the value of the average customer is increasing over time. For more on that topic, you may want to check out the accompanying definitions document.
Predicting Churn: Customer Engagement Score

Since churn is so important, wouldn’t it be useful if we could predict in advance which customers were most likely to churn? That way we could put our best customer service reps to work in an effort to save the situation. It turns out that we can do that by instrumenting our SaaS applications and tracking whether our users are engaged with the key sticky features of the product. Different features will deserve different scores. For example if you were Facebook, you might score someone who uploaded a picture as far more engaged (and therefore less likely to churn), than someone who simply logged in and viewed one page.

Similarly if you sold your SaaS product to a 100 person department, and only 10 people were using it, you would score that differently to 90 people using it. So the recommendation is that you create a Customer Engagement Score, based on allocating points for the particular features used. Allocate more points for the features you believe are most sticky. (Later on you can go back and look at the customers who actually churned, and validate that you picked the right features as a predictor of who would churn.) And separately score how many users are engaged with specific scores.

Over time you’ll also come to discover which types of use are the best indicators of possible upsell. (HubSpot was the first company that I worked with who figured this out, and they called it their CHI score. CHI stands for Customer Happiness Index. It evolved to be a very good predictor for churn.)

Brad Coffey, HubSpot:

At HubSpot we had a lot of success looking at this metric – we called it Customer Happiness Index (CHI). First – by running the
analysis we identified the parts of our application that provide the most value to customers and could invest accordingly in driving adoption in those areas. Second – we used this aggregate score as an early proxy for success as we experimented with different sales and onboarding processes. If a set of customers going through an experiment had a low CHI score we could kill the project without waiting 6 or 12 months to analyze the cohort retention.

NPS – Net Promoter Score

Since it is likely that customer satisfaction is likely to be a good predictor of future churn, it would be useful to survey customer satisfaction. The recommended way to measure customer happiness is to use Net Promoter Score (NPS). The beauty of NPS is that it is a standardized number, so you can compare your company to others. For more details on Net Promoter Score, click here.

Guidelines for Churn

If your Net Revenue Churn is high (above 2% per month) it is an indicator that there is something wrong in your business. At 2% monthly churn, you are losing about 22% of your revenue every year. That is nearly a quarter of your revenue! It’s a clear indication that there is something wrong with the business. As the business gets bigger, this will become a major drag on growth.

We recommend that you work on fixing the problems that are causing this before you go on to worry about other parts of your business. Some of the possible causes of churn are:

- You are not meeting your customers expectations.
  - The product may not provide enough value
  - Instability or bugginess
- Your product is not sticky. It might provide some value in the first few months, and then once the customer has that value, they may feel they don’t need to keep paying. To make your product sticky, try making it a key part of their monthly workflow, and/or have them store data in your product that is highly valuable to them, where the value would be lost if they cancelled.
- You have not successfully got the customer’s users to adopt the product. Or they may not be using certain of the key sticky features in the product.
- Your sales force may have oversold the product, or sold it to a customer that is not well suited to get the benefits. 
- You may be selling to SMB’s where a lot of them go out of business. It isn’t enough that what you’re selling is sticky. Who you’re selling it to must also be sticky.
- You are not using a pricing scheme that helps drive expansion bookings.

The best way to find out why customers are churning is to get on the phone with them and ask them. If churn is a significant part of your business, we recommend that the founders themselves make these calls. They need to hear first hand what the problem is, as this is so important for the success of the business. And they are likely to be the best people to design a fix for the problem.

The Importance of Customer Segmentation

In all SaaS businesses there will likely come a moment where they realize that not all customers are created equal. As an example, bigger customers are harder to sell to, but usually place bigger orders, and churn less frequently. We need a way to understand which of these are most profitable, and this requires us to segment
the customer base into different types, and compute the unit economics metrics for each segment separately. Common segments are things size of of customer, vertical industry, etc.

Despite the added work to produce the metrics, there is high value in understanding the different segments. This tells us which parts of the business are working well, and which are not. In addition to knowing where to focus and invest resources, we may recognize the need for different marketing messages, product features. As soon as you start doing this segmented analysis, the benefits will become immediately apparent.

For each segment, we recommend tracking the following metrics:

- ARPA (Average Revenue per Account per month)
- Net MRR Churn rate (including MRR expansion)
- LTV
- CAC
- LTV: CAC ratio
- Months to recover CAC
- Customer Engagement Score

**Brad Coffey, HubSpot:**

At HubSpot, we started to see some of our biggest improvements in unit economics when we started segmenting our business and calculating the LTV to CAC ratio for each of our personas and go to market strategies.

As one good example – when we started this analysis, we had 12 reps selling directly into the VSB market and 4 reps selling through Value Added Resellers (VARs). When we looked at the math we realized we had a LTV:CAC ratio of 1.5 selling direct, and a LTV:CAC ratio of 5 selling through the channel. The solution was obvious.
Twelve months later we had flipped our approach – keeping just 2 reps selling direct and 25 reps selling through the channel. This dramatically improved our overall economics in the segment and allowed us to continue growing.

We ended making similar investments in other high LTV:CAC segments. We went so far as to incentivize our sales managers to grow their teams – but then would only place new sales hires into the segments with the best economics. This ensured we continued to invest in the best segments and aligned incentives throughout the company on our LTV:CAC goals. It also allowed us to push innovation down to the sales manager level. Managers could experiment with org structure, and sales processes – but they knew that if they didn’t hit their LTV:CAC goals they wouldn’t be able to grow their teams.

Calculating LTV:CAC by segment can be challenging, especially on the CAC side. It’s relatively easy at the top level to add up all the marketing and sales expense in a period and divide it by the total number of customers (to get CAC). Once you try to segment down your spend you run into questions like ‘how much marketing expense do I allocate to a given segment’, ‘how much of the sales expense’?

We solved this by allocating marketing expense based on number of leads and sales expense based on headcount but it’s not perfect. For us the keys are: 1) Needs to account for all costs – no free lunch, 2) It needs to be consistent over time. Progress on improving the metric is more important than the actual value.

Funnel Metrics

The metrics that matter for each sales funnel, vary from one company to the next depending on the steps involved in the funnel. However there is a common way to measure each step, and the overall funnel, regardless of your sales process. That involves
measuring two things for each step: the number of leads that went into the top of that step, and the conversion rate to the next step in the funnel (see below).

![Funnel Diagram]

In the diagram above, (mirrored in the dashboard), we show a very simple three phase sales process, with visitors coming to a website, and some portion of them signing up for a trial. Then some of the trials convert to purchases. As you can see in the dashboard, we will want to track the number of visitors, trials and closed deals. Our goal should be to increase those numbers over time. And we will also want to track the conversion rates, with the goal of improving those over time.

Using Funnel Metrics in Forward Planning

Another key value of having these conversion rates is the ability to understand the implications of future forecasts. For example, let's say your company wants to do $4m in the next quarter. You can work backwards to figure out how many demos/trials that means, and given the sales productivity numbers – how many salespeople
are required, and going back a stage earlier, how many leads are going to be required. These are crucial planning numbers that can change staffing levels, marketing program spend levels, etc.

Sales Capacity

In many SaaS businesses, sales reps play a key role in closing deals. In those situations, the number of productive sales people (Sales Capacity) will be a key driver of bookings. It is important to work backwards from any forecasts that are made, to ensure that there is enough sales capacity. *I’ve seen many businesses miss their targets because they failed to hire enough productive salespeople early enough.*

It’s also worth noting that some percentage of new sales hires won’t meet expectations, so that should be taken into consideration when setting hiring goals. Typically we have seen failure rates around 25-30% for field sales reps, but this varies by company. The failure rate is lower for inside sales reps.

When computing Sales Capacity, if a newer rep is still ramping and only expected to deliver 50% of quota, they can be counted as half of a productive rep. That is often referred to as Full Time Equivalent or FTE for short.

Another important metric to understand is the number of leads required to feed a sales rep. If you are adding sales reps, make sure you also have a clear plan of how you will drive the additional leads required.

There is much more that could be said on this topic, but since it is all very similar to managing a sales force in a traditional software company, we will leave that for other blog posts.
Understanding the ROI for different Lead Sources

Our experiences with SaaS startups indicate that they usually start with a couple of lead generation programs such as Pay Per Click Google Ad-words, radio ads, etc. What we have found is that each of these lead sources tends to saturate over time, and produce less leads for more dollars invested. As a result, SaaS companies will need to be constantly evaluating new lead sources that they can layer in on top of the old to keep growing.

Since the conversion rates and costs per lead vary quite considerably, it is important to also measure the overall ROI by lead source.

Growing leads fast enough to feed the front end of the funnel is one of the perennial challenges for any SaaS company, and is likely to be one of the greatest limiting factors to growth. If you are facing that situation, the most powerful advice we can give you is to start investing in Inbound Marketing techniques (see Get Found using Inbound Marketing). This will take time to ramp up, but if you can do
it well, will lead to far lower lead costs, and greater scaling than other paid techniques. Additionally the typical SaaS buyer is clearly web-savvy, and therefore very likely to embrace inbound marketing content and touchless selling techniques.

What Levers are available to drive Growth

SaaS businesses are more numerically driven than most other kinds of business. Making a small tweak to a number like the churn rate can have a very big impact on the overall health of the business. Because of this we frequently see a “quant” (i.e. a numbers oriented, spreadsheet modeling, type of person) as a valuable hire in a SaaS business. At HubSpot, Brad Coffey played that role, and he was able to run the models to determine which growth plays made the most sense.

Understanding these SaaS metrics is a key step towards seeing how you can drive your business going forward. Let’s look at some of the levers that these imply as growth drivers for your business:

Churn

- Get Churn and customer happiness right first (if this isn’t right, the business isn’t viable, so no point in driving growth elsewhere. You will simply be filling a leaky bucket.)

Product

- You’re in a product business – first and foremost: fix your product.
  - If you’re using a free trial, focus on getting the conversion rate for that right (ideally around 15 – 20%). If this isn’t right, your value proposition isn’t resonating, or you may
have a market where there is not enough pain to get people to buy.
- Win/Loss ratio should be good
- Trial or Sales conversion rates on qualified leads should be good

Funnel metrics

- Increase the number of raw leads coming in to the Top of your funnel
- Identify the profitable lead sources and invest in those as much as possible. Conversely stop investing in poor lead sources until they can be tweaked to make them profitable.
- Increase the Conversion Rates at various stages in the funnel

Sales Metrics

- Sales productivity (focus on getting this right consistently across a broad set of sales folks before hitting the gas)
- Add Sales Capacity. But first make sure you know how to provide them with the right number of leads. This turns out to be one of the key levers that many companies rely on for growth. We have learned from experience how important it is to meet your targets for sales capacity by hiring on time, and hiring the right quality of sales people so there are fewer failures.
- Increase retention for your sales people. Since you have invested a lot in making them fully productive, get the maximum return on that investment by keeping them longer.
- Look at adding Business Development Reps. These are outbound sales folks who specialize in prospecting to a targeted list of potential buyers. For more on this topic, click here.
Pricing/Upsell/Cross Sell

- Multi-axis pricing
- Additional product modules (easier to sell more to existing customers than it is to sell to brand new customers)

_Brad Coffey, HubSpot_:  

_Turns out the pricing your product right can have a huge impact on the unit economics._ Not simply by getting the average MRR right, or by providing upsell opportunities – but also by signaling what pieces of the product are most valuable.

At HubSpot we changed our pricing in 2011 to be tiered based on the number of contacts in the system – and actually saw an increase in adoption of the contacts application after we made the change. This is counter-intuitive but makes sense given that we sell through an inside sales team. After the pricing change, sales reps now could make a lot more money by selling the contacts. And they quickly become much better at positioning that part of the product, as well as finding companies with a contacts-based use case. _Product quality will remain paramount – but it’s remarkable how much impact pricing, packaging and sales commission structure can have on product adoption and unit economics._

Customer Segmentation

Customer Segmentation analysis will help point out which are your most profitable segments. Two immediate actions that are suggested by this analysis are:

- Double down on your most profitable segments
- Look at your less profitable segments and consider changes that would make them more profitable: lower cost marketing & sales approaches, higher pricing, product changes, etc. If
nothing seems to make sense, spend less effort on these segments.

International Markets

Expansion internationally is only recommended for fairly mature SaaS companies that already have honed their business practices in their primary market. It is far harder to experiment and tune a business in far off regions, with language and cultural differences.

Brad Coffey, HubSpot

- **One of the biggest challenges we face is the trade-off between growth and unit economics (specifically churn).** Many of the things that we have done to reduce churn have (potentially) come at the expense of lowering our growth rate. Those have been some of our hardest decisions: e.g. requiring upfront payments, requiring customers buy consulting, holding sales reps accountable for churn, etc. We are always looking at things that give us growth without the tradeoff of lower growth. For example product improvement is an obvious one – a better product is easier to sell and provides more value to the customer. Services promotions actually work well too. Many of the options that SaaS companies have to adjust their business are not simply a win-win but are still worth exploring. Too many companies think that every problem is a product problem and every solution is that the product must get better.

- **The other thing that’s really important is that companies don’t try to spin these numbers.** There is so much pressure to dismiss a bad customer (who hurt your churn number) or exclude costs (only count marketing ‘program’ spend – not headcount). If you can get the accounting close enough to right it actually frees management from needing to make every decision. If the accounting is right management can obsess over setting goals (growth, LTV:CAC), hold people accountable to those goals and
then give autonomy to their team on how to achieve those goals.

Plan ahead

It takes time for most initiatives to have an impact. We’ve learned from some tough lessons that planning has to be done well in advance to drive a SaaS business. For example if you are not happy with your current growth rate, it will often take nine to twelve months from the point of decision before the growth resulting from increased investment in sales and marketing will actually be observed.

The High Level Picture: How to Run a SaaS Business

Hopefully what you will have gathered from the discussion above is that there are really three things that really matter when running a SaaS business:

1. Acquiring customers
2. Retaining customers
3. Monetizing your customers

The second item should be first on your list of things to get right. If you can’t keep your customers happy, and keep them using the service, there is no point in worrying acquiring more of them. You will simply be filling a leaky bucket. Rather focus your attention on plugging the leaks.

SaaS businesses are remarkably influenced by a few key numbers. Making small improvements to those numbers can dramatically improve the overall health of the business.

Once you know your SaaS business is viable using the guidelines
provided for LTV:CAC, and Time to recover CAC, hit the accelerator pedal. But be prepared to raise the cash needed to fund the growth.

Although this article is long and occasionally complex, we hope that it has helped provide you with an understanding of which metrics are key, and how you can go about improving them.

For more discussion on SaaS metrics and benchmarks, click here: Demystifying Churn: Measuring and Benchmarking this Metric.

Acknowledgements

I would like to thank Ron Gill, the CFO of NetSuite, and Brad Coffey & Brian Halligan of Hubspot for their help in writing this. I would like to thank the HubSpot management team without whom none of this would be possible. Most of my learnings on SaaS have come from working with them. I would also like to thank Gail Goodman, the CEO of Constant Contact who also taught us many of the key metrics in her role as board member of HubSpot.
Leo

Hi David,

Thank you for publishing this. One question: your model assumes > 100% month-on-month customer growth for 60 consecutive months. Since no startup can double its fundamental units of growth each month, I'm wondering if you could explain how to relate customer growth to growth of fundamental units.

Leo

David Skok

Hi Leo, I assume you were looking at the numbers in the sample dashboard that I provided. I do try to make it clear that readers
should ignore the numbers as they are not in any way real, or carefully thought through (same for the formulae). The goal was to provide a listing of the key metrics to track. Did I understand what you were referring to correctly?

Tapiteow
Hi David
Thanks a lot for your blog. It is so interesting!
I have a couple of questions about your annual contracts spreadsheet:
- you calculate Churned ACV with % ACV churn but how this % has been calculated? In the comments, you mention “Churned MRR / Last month's Ending MRR” -> does it mean that % ACV churn = % MRR churn?
- same for ACV Expansion
- to calculate ending ARR monthly, I am not sure to understand if it is better to use ending MRR x 12 or starting ARR + Net new ACV?
- the line Revenue in the p&l (line 49) refers to the line Ending ARR (line 20) but how is it possible to have a monthly revenue which is linked to something which is annualized? (I guess ARR is Annual Run rate?)

Thanks a lot in advance
Paul

David Skok
Hi Paul,

Thanks for your email. Let me start by saying I have been meaning to edit the blog to change the Annual terminology to help make things clearer. In most of the places where I have used ACV, I would change that to ARR (Annual Recurring Revenue), and the only place where I would keep the term ACV is when it used to refer to a new booking which is an annual contract.

Now to answer your questions:

How to measure Churned ARR (for an annualized number):

Gross ARR Churn would look at the contracts you signed one year ago, and then compute the Gross ARR Churn as the Lost ARR due to Churn / Total ARR of those contracts one year ago.
Net ARR Churn would be: (Lost ARR due to Churn + Expansion ARR due to upsell/cross sell) / Total ARR of those contracts one year ago

To calculate Expansion AAR, look at the contracts you signed on year earlier, and then compute by looking at the Expansion ARR for those contracts.

For ending ARR, use Starting ARR + Net new ACV (should work out to the same as ending MRR x 12, but better to do it that way for certainty).

Ignore the formula for Revenue, as Revenue may have timing differences to ending ARR, due to the delay in getting certain projects implemented. Revenue will be the recognizable portion of billings (as defined by GAAP accounting standards). Revenue recognition can get quite complex, and you should have an accounting firm help you here. But for simplicity’s sake, assume that you can recognize revenue ratably over the life of the contract after it has been implemented: i.e. 1/12th of the annual contract value can be recognized every month for annual contracts.

I hope this helps. If not, please continue to ask for clarification.

Thanks, David

Tapiteow

Thanks David for you quick answer and your point about ACV makes the things clearer for me. Some additional questions:

– For the ARR churn in your model, you cannot calculate it because you do not have the figures year n-1 so you use the % MRR churn calculated for the example of the monthly contract.
– The Annual recurring revenue has to been understood for 12 months, i.e. ARR 2016 : XX M€ or it must be by month, i.e. ARR march 2016 : monthly part of the annual contracts (which meant Monthly recurring revenue I thought)
– It is always also a bit difficult when I read articles about ARR to know if people talk about “Annual Recurring Revenue” or “Annual Run Rate”...In which case you use these two metrics?

Thanks for your time i You help a lot people like me

Paul
Kent Huang

Hi David,
Before we roll out certain product improvement we always get into the conversation what they could do on acquisition and retention. Qualitative measurement such as yes/no is easier to answer but when it comes to quantify the impact, we have found it extremely challenging to do so. Do you have any advice here?

Thanks!

Neeraj Juneja

David,

I am an insurance finance guy who is very interested in the insurtech space. In researching SaaS metrics, chanced upon your blog and was very impressed – great work summarizing and explaining the key measures!

Insurance is essentially a subscription model and it is interesting to see how similar measures/concepts are named differently in the SaaS world (e.g. Policy Effective Date/Month vs Cohort, Retention vs Churn, Annual Premium vs ARR, Written Premium vs Bookings/ACV, Earned Premium vs Revenue and Acquisition cost vs CAC) while others stay the same (e.g. LTV and Segmentation).

Once again – great work!

Regards,
Neeraj.

Tapiteow

Thanks David for your last answer and your point about ACV makes the things clearer for me. Some additional questions:

- For the ARR churn in your model, you cannot calculate it because you do not have the figures year n-1 so you use the % MRR churn calculated for the example of the monthly contract.
- The Annual recurring revenue has to been understood for 12 months, i.e.

https://www.forentrepreneurs.com/saas-metrics-2/?from=timeline&isappinstalled=0
ARR 2016 : XX M€ or it must be by month, i.e. ARR march 2016 : monthly part of the annual contracts (which meant Monthly recurring revenue I thought)

– It is always also a bit difficult when I read articles about ARR to know if people talk about “Annual Recurring Revenue” or “Annual Run Rate”...In which case you use these two metrics ?
Thanks for your time i You help a lot people like me
Paul

Margo
Great article. Thank you for sharing David!

Jessie Zweigenthal
Thank you, David! This is invaluable information – I feel like I just took a graduate level course on SaaS Metrics after reading this one article. With this knowledge, I feel more equipped to make strategic decisions and invest our resources wisely. I will be bookmarking this and probably coming back to it frequently!

David Skok
My pleasure Jessie. Thank you for taking the time to leave a comment. Best of luck with the venture!

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Michael Wilkins
Hey David,

This post is exactly what I’ve been looking for. After reading it I immediately shared it with all my colleagues.
I'm struggling with a few things that I haven't been able to find much documentation on...

We're looking to incorporate a lifetime pricing plan in addition to monthly and yearly. How are ARPA and MRR calculated with a lifetime subscription plan. I'm currently thinking I need to calculate a customer lifetime based on churn rate and then convert that to a monthly revenue but unsure.

Ex w/ rough numbers... 50 new lifetime subscriptions at $10ea w/ a churn rate (refunds) of 5%. Average customer lifetime would be 1/5% = 20 months

So would ARPA be $500/20 = $25 or am I missing something altogether?

Also, if 100% money back refunds are allowed in the first 90 days of a subscription for Yearly and Lifetime members, where they essentially downgrade to “Free”, should that be calculated in the churn rate on a monthly basis or how is that handled? I'm assuming they would be handled as lost customers.

Thanks in advance for your feedback!

James

Thanks for this awesome post David. I’ve read a lot on SaaS businesses, and this is the most in-depth article I've read.

I was particularly happy to read your findings on the CAC / LTV ratio and the time to recover CAC. Those are metrics we focused on extensively when deciding whether or not to launch our Smart Choice Sitters app. We're still new and learning a lot, but it appears that we should be able to achieve a 10-1 CAC-LTV and recover our CAC in less than 60 days.

However, I’ve realized that we need to pay a lot closer attention to our temporary churn rate (customers will likely unsubscribe and resubscribe a couple times each year), which we’ll not be able to avoid. However, I think we could end up with the negative churn you mentioned if we listen to our customers well enough and provide them with immense value that comes from products and services
not directly tied to the original model.

David Skok
James, delighted to have helped. Best of luck solving the churn problem. – David

Kelly S
Hi David,

If company ABC sold product for company XZY at list and was later paid a commission for that sale, would you include that in company ABC’s bookings? Basically, would you include partner application sales in bookings? More details, ABC sells a minimal amount of the XYZ product – makes up less than 1% of total sales as the main product ABC sells is it’s own SaaS product.

Thanks,
Kelly

David Skok
Hi Kelly, yes I would include that commission as part of the ABC company’s bookings. Best, David

Yaron
Hi David.
Wow, Great article, thank you so much.
I should have been reading this article 10 years ago 😊
I was trying to create the same dashboard on our business.
We are running saas conference call service (www.qconf.com) and we use both monthly packages and pay as you go package. What should be the correct metrics (LTV, MRR)? should we calculate it for the monthly packages only?
Thanks a lot

SK
This article is amazing! Thank yo so much for all the information. I’m trying to understand how to account for expansions in within one year. Customer signed contract for $100/pp/month for 20 people = $24,000 = ARR. In July they want to add 10 more people but leave the renewal date as Dec 31 so is the ARR that I add in July,
$6,000 or $12,000? My accounting brain tells me it’s $6,000 but I’ve seen examples showing it’s $12,000 and I can’t reconcile how you would ever match your cashflow (the invoice value) if you put $12,000 ARR in July? On Dec 31 you would invoice for $36,000 for year 2 but in year 1 you’ve only invoiced for $30,000, how can you put $12,000 then as ARR in July of year one?

Eagles.Ray Leimin
just read “12 Key Levers of SaaS Success” article, learn a lot, thanks.

Would you have Chinese version? or Can I translate it? thanks

Todd Serulneck
Great article, David. You’ve covered a lot of the basics. But when things are not working according to plan, there are some additional tips and tricks. Find five ideas for SaaS Quick Profits at https://toddserulneck.com/topics/saas/.

Alexandra Woroniecka
Hi David – I don’t believe I’ve ever seen this specifically stated in any of your blog posts – but what are your thoughts on churn dates for a customer who churns on the end of the month? I am a fan of booking churn dates on the date of a subscription end date – but I have seen companies that book the churn in the next month – i.e. Feb 1 churn date for a customer who expires 1/31. In your opinion – what are the cons (if any) of reporting churn/renewal rates this way?

David Skok
Hi Alexandra, I have not ever looked at the problem at that level of detail, so my opinion is now well considered. I think I’d look to recording the churn in the later of the month where you are notified of the non-renewal, and where you stop getting paid. Having said that I am not generally obsessive about trying to get the absolute level of accuracy in SaaS metrics as there are diminishing returns. To me the important thing is to have metrics that are good enough to enable wise business decisions. I am sorry I wasn’t well placed to give you a strong view here. Perhaps another reader might have an opinion.
Jean-Paul Damen

It is not fair to look at this as one market since many SAAS providers make a living focusing on various segments/verticals/sizes of companies. Newbies will not compete with SF but with smaller players and SF will still compete with on-premise business software providers. Maybe after 5 years an extra insight for some… Very nice work what you have been publishing by the way.