As a ghost-writer for SaaSpirin, I wrote the below article for VeryCreatives.

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Below is my original article.

SaaS Metrics - Keeping Your Business On Track

Whether you've just launched yourself into the world of SaaS or looking to make a start - this is an exciting time for your business. To keep up with today's high-performing SaaS companies you need to grow at a rapid and exponential pace; not just to contend in a hasty market, but to overtake, establish and keep going.

What do you think most successful SaaS ventures have in common? For starters they're making sure performance statistics and metrics are put at the forefront of their business. By paying close attention to the numbers, especially the *right* kind of numbers, you'll be on the right path towards growing a successful software-as-a-service company.

Let's take a closer look at why you need metrics, what to track and how to use the best data to grow your SaaS start-up in no time.

Why You Need To Start Measuring Growth Early

SaaS business models tend to be more intricate than other conventional businesses. Subscription based software-as-a-service businesses are future-focused. You need to be one step ahead of your competitors as well as the ever-evolving tech landscape. Alongside nourishing your company's growth and maintaining customer loyalty, you are relying on your venture's *future* income to keep your business sustainable. This is why it is essential that you keep an eye on data trends and your SaaS KPIs from day one.

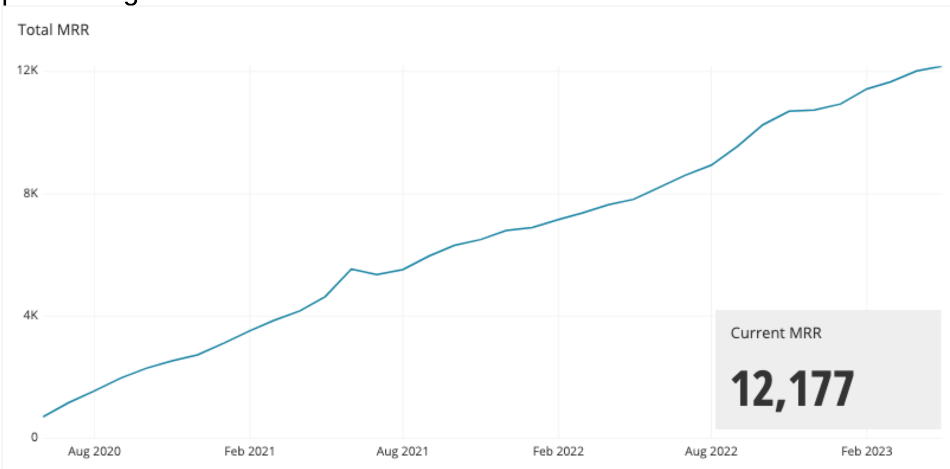
Today's decisions will influence tomorrow's performance and with the right set of KPI trackers in place you'll be set for the long run. KPIs not only give you a snapshot of your business's current health, but guide you towards a focus. Even if you have an MVP for now you can use similar strategies to establish and grow.

KPI Metrics To Look At

No matter which market your SaaS business model caters to, you will find appropriate metrics to track. Define what KPIs (Key Performance Indicators) mean the most to your business and which metrics to focus on. The line can seem blurry between the two, but according to Jonathan Taylor at Klipfolio, KPIs keep track of which business objectives you've managed to hit, and metrics track the status of your business processes. Metrics and KPIs are largely interchangeable terms today, so we'll focus on those that align with your SaaS.

Monthly Recurring Revenue (MRR)

This is an important and commonly mentioned SaaS metric. As the name states, your MRR is simply all of your recurring revenue normalized to a monthly amount. Take the number of customers in a month and multiply it by the average monthly billed amount to get your MRR. If 5 customers are paying you $50/month, your MRR would be $250. Pietro Bezzo, co-founder of Connect Ventures, believes that MRR is a vital metric that investors look at when evaluating the health of a business. MRR helps you plan ahead by forecasting finances coming in, as well as predict a growth momentum.



Use a line plot like this to visualise your MRR trajectory seamlessly.

A key point to remember when measuring your MRR is that it is only a measure of your revenue and not your profit. Use it to estimate how much revenue your SaaS is generating on a monthly basis, but keep in mind that this exists as long as your customer is doing recurring monthly business with you. Don't be misled by exponential growth during the early stages of your start-up, which will plateau as your company matures and establishes a steady pace.

Annual Recurring Revenue (ARR)

Your ARR goes hand in hand with the above mentioned MRR. Simply put, the ARR is the total of your MRR for a year, or MRR multiplied by 12 (for the months in a year). According to Dave Kellogg, enterprise SaaS companies should use annual recurring revenue as a key metric as most of them use annual contracts as opposed to monthly. Some clients may want to engage in an agile plan, so you need to see how best to accommodate and calculate your own KPIs accordingly.

If your SaaS venture deals with annual subscriptions, a good way to shake things up in your metric course and keep your business running for long-term would be to try different renewal prices. This way, as long as your customer is happy with your service, they'll be happy to be back for more at a different, and even increased, price point.

An important thing to remember when calculating your ARR is the word *recurring*. If you offered a discount during your year of audit, you will not be able to include it in your ARR. Only when your customer starts paying your full price you include it in full value for your ARR. Extend your MRR line plot to visually showcase the ARR of your SaaS.

Average Revenue Per Account (ARPA)

The name of this SaaS KPI metric can be tailored to your business model:

Average Revenue Per Account (ARPA)
Average Revenue Per Customer (ARPC)
Average Revenue Per User (ARPU)

This metric tells you how much revenue each customer, user or account is bringing you per month. Take your MRR and divide it by the number of customers to give you the ARPA. David Skok of Matrix Partners advises SaaS businesses to use the ARPA metric for fresh customers. “Plot a trend line to show you the average price point that your new customers have chosen”, recommends Skok. By keeping your new and existing ARPA trends separate, you will be able to accurately compare the behaviours of customer groups alongside your changing price point.

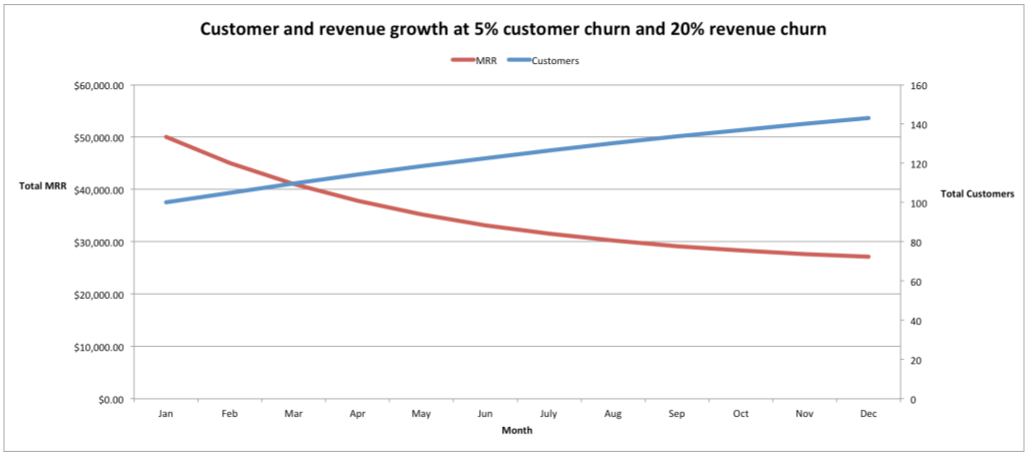
Keep in mind that anomalies can skew your average. As Ravi Parikh points out, a single account can throw your average off giving you a false positive or misleading outcome. If you have a significant price range between two of your biggest accounts, you will need to look at the bigger picture and be smart about showcasing your pricing strategy externally. The ARPA metric is useful for internal benchmarking and comparing your own customer base between periods.

Churn

So far we’ve touched upon what your SaaS has been making, now it’s time to talk about the losing. Your ‘customer churn rate’ or ‘logo churn’ refers to the percentage of patrons that leave your business every month. If you have an annual subscription model then you need to calculate your churn rate per year rather than monthly. Because subscription-based SaaS models depend on new customers as well existing customers, your churn rate is one of the most important numbers to look at for customer retention.

The longer you are in business, the lower your churn rate needs to be. Skok explains this in detail, but here’s an example – a churn rate of 3% of your first 100 customers means you’ve lost 3 customers in the first month which is ok. However, 3% of a million customers means losing 30,000 patrons, and that’s definitely not ok. As Lars Lofgren from Kissmetrics says, keep your monthly churn rate at 1-2%. Above 5% and you need to drop everything else until you lower it.

Once you’ve figured out your customer churn rate, use this to track your revenue churn rate – the revenue you have lost due to cancellations. Put them both together and you’ll observe a course like the below:



By studying the relationship between customer and revenue churn, you'll be able to see which area needs attention. It could be your price point, customer relationship, competitor activity or change in market dynamics. Start with getting feedback from your customers and see where that leads you.

Customer Acquisition Cost (CAC) + Payback

Customers are the lifeline of any SaaS business, and that means you're spending time, money and effort on acquiring them. Your CAC is a total of all sales and marketing costs incurred when bringing in a new customer. As Jordan McBride cautions, if you're too stingy about your CAC you risk losing out on potential customers, and if you're spending too freely you're not going to make a profit. The challenge lies in "spending the right amount to drive new customers to your service without jeopardising revenue". It is natural for you to spend more than you're getting when you start, but eventually income will have to overtake expenditure. Divide your marketing spend by the number of users to calculate a basic CAC, and then get ready to expect a *payback*.

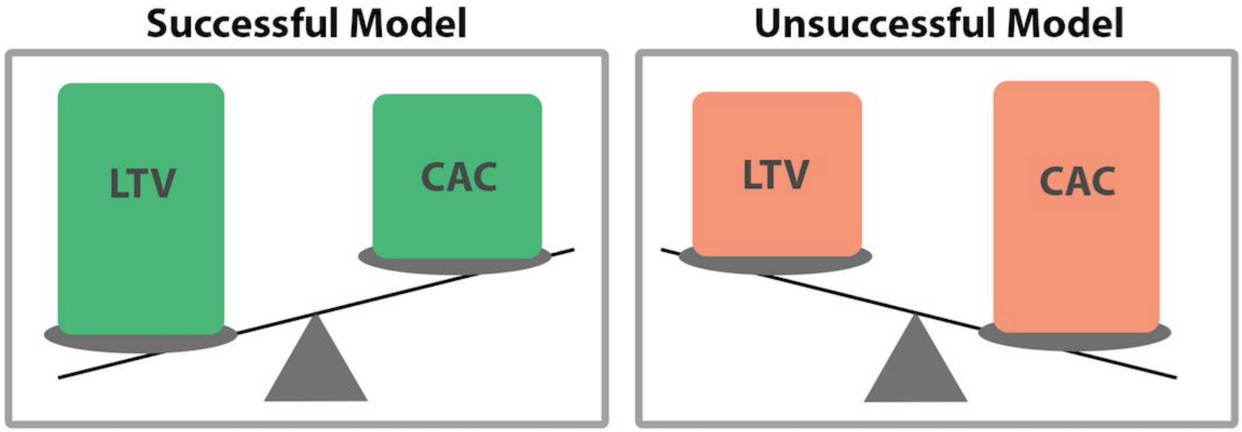
According to Baremetrics, your average payback time as a SaaS is 12 months. Dave Kellogg calculates the CAC Payback Period by dividing CAC by MRR per customer. So the less you spend the better right? That depends on how long your new customer sticks around. Which bring us to our final SaaS metric.

Lifetime Value (LTV)

Let's call this a continuation of the CAC metric as they work closely together. The LTV predicts how much revenue you will get from a customer for the duration of their subscription with your SaaS. We love Neil Patel's simple method of taking the average subscription length and multiplying it by the ARPA.

You can also use the commonly used LTV to CAC ratio. McBride helps us benchmark this to 3, that is for every $ you put in, you need to get $3 back as illustrated below.

LTV > (3 x CAC)



The lifetime value should be at least 3X larger than what you've spent on acquiring that customer for it to be worth your SaaS time. Focus on the long-term and you should be able to recover these figures by the 12-month mark. If not, then you need to relook your expenditure. Clint Fontanella has two ways to improve your LTV: customer satisfaction and customer retention. Basically, keep your customer happy and they'll be coming back for more.

So What's Next?

There are plenty more SaaS KPI metrics out there, and in this fast-paced evolving world you can expect only more. Don't let the stats overwhelm you. Only you can decide what works best for your SaaS model, and using two or three of these metrics alongside each other will give you the best results, rather than focusing on just one method or all of them at once. Together with revenue and cost KPIs, make sure to include profit margins, inventory and number of people you have employed. As a SaaS venture, you need to be agile enough to adapt.

Revisit your company's goals every quarter to see if your KPIs have been met and how. The essence of a SaaS is to be customer-focused and aligned with the future, while keeping your venture sustainable, efficient and smart.