

Vital SaaS Metrics for the CFO's Dashboard

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KEEP YOUR FINGER ON THE PULSE

Metrics lend visibility to the company's past performance and enable you to make informed decisions about the future. Your organization's dashboard reflects how you measure progress, your growth plans, and what your workflows are optimized for.

Gartner says that 41% of decision-makers wish management reports gave them more information relevant to their part of the business.

Modern SaaS CFOs leverage data to make agile decisions amidst uncertainty, validate their value propositions, and drive sustainable growth. But if you are not looking at the right numbers, you could miss even the most obvious insights and patterns.

“When looking at metrics a CFO considers three things; first is accurately reporting numbers, second is understanding trends, and the third important aspect is also trying to decipher what is influencing these trends.”

Karthik Srinivasan,
Senior Director of Finance,
Chargebee

As the role of a CFO evolves from a financial operations archetype to that of a strategic partner, SaaS metrics become an indispensable tool in the CFO's arsenal. Nailing the right automation technology and scalable revenue infrastructure that can turn data into actionable insights frees up the CFO's time to play a more proactive role and be a strategic adviser for spearheading business growth. As businesses scale and growth targets become ambitious, robust dashboards that help with forecasting and predictability enable SaaS CFOs to focus on the big picture - whether it's running pricing experiments, global expansion, or pivoting to a new business model.

“FP&A team (Financial Planning and Analysis) used to hold all the cards; they had all the data at their fingertips. Nowadays, valuable data resides across the business. It's a battle to find out who has the best data, much less what this data is. Otherwise, a vacuum will develop that smart executives will fill up with their own data. The CFO has to be on top of information flow at all times.”

Mark Partin,
CFO of BlackLine, a finance
automation company

There is an abundance of data in SaaS. In the interest of efficiency, it's a common practice to pigeonhole certain metrics to certain functions. While it can be successful as an accountability exercise, you could also miss out on some key levers and causalities within your organization.

“Often we isolate the metrics and believe that they are singularly driven by one or just a few teams. Whereas there is great interconnectedness of the metrics. For example, sales and marketing contribute to CAC and LTV is a derivative of your retention, but everyone in the company contributes to the LTV to CAC ratio. After all, who contributes to retention? Everyone.”

Russell Lester,
CFO of Calendly, a modern
scheduling platform.

Ross Tennebaum CFO, at Avalara, says CFOs must not only obsess about creating better visibility at the boardroom level but also ensure that every account manager or sales representative understands how what they do is connected to everything up the chain. “**It’s about how you connect that board-level output to the individual all the way down in the organization,**” comments Tennenbaum.

Org-level dashboards are a constant work in progress, as the executive team iterates consistently to ensure that the aggregated numbers at the top accurately reflect the action in the trenches. As SaaS businesses evolve and the focus shifts to more retention and expansion, your metrics dashboard also needs to evolve.

Today Tennenbaum tracks a different set of metrics in collaboration with his customer success team than the ones tracked by his accounting-focused predecessors.

“We’d look at customer downgrades and ask, ‘What are the main drivers of downgrades?’ ‘What are the main drivers of churn by different types of customers?’ Then we could say, ‘Hey, if we can drive downgrades lower by this amount, we can have this much more revenue,’ or, ‘If we can drive this much more add-on, we can have this much more revenue,’” explains Tennenbaum.

Dashboards can tell you everything you need to know or leave you swimming around in a labyrinth of numbers. If your decisions are driven by data - and we hope they are - are you confident that you have everything you need in your dashboard?

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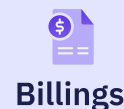
Standalone *Metrics*

TOTAL BILLINGS

WHAT IS IT?

The total value of invoices generated from subscriptions during the corresponding period. While Bookings measures the amount customers have committed to pay and Revenue measures the amount exchanged for the service offered in a particular period of time, Billings measures the money a customer currently owes you.

HOW TO CALCULATE IT?



=

Total amount your customers are charged, after considering discounts, add-ons, taxes, and coupons

(Unlink MRR, this includes both recurring and non-recurring invoices.)

Example: A customer has signed a contract with you for a year, wherein they'll pay you \$100 per month with an advance payment of six months. In this case, your Bookings will be \$1,200, Revenue will be \$100 for each month, and Billings will be \$600 for the first month and \$100 per month from the seventh month onwards.

WHAT TO MAKE OF IT?

Billings is especially useful for cash flow planning. It gives the true value of a customer (which Recurring Revenue tends to understate, as it defers the value until the service is provided). However, if your ARPU is low, and if most of your customers pay you via credit card and/or they pay you at the time of the creation and renewal of the subscriptions, Billings isn't as crucial.

TOTAL MONTHLY RECURRING REVENUE

WHAT IS IT?

The total predictable monthly recurring revenue earned from subscriptions. It includes the recurring items in your subscriptions such as coupons, discounts, recurring add-ons, etc. Note that all one-time charges like setup fees, non-recurring add-ons, non-recurring ad hoc charges, one-time coupons and discounts, and the amount charged towards taxes will not come under MRR.

HOW TO CALCULATE IT?



$$\text{MRR} = \text{Sum (Monthly recurring charge of all paying customers)}$$

OR



$$\text{MRR} = \text{ARPU} * \text{Number of paid customers}$$

WHAT TO MAKE OF IT?

SaaS thrives on subscriptions, and MRR is a fair representation of the money your subscriptions will be bringing in on a regular basis. It depicts the financial health of a business, something an investor will look at before they take a call. If you focus on accurately measuring and consistently growing your Total MRR, it's safe to say that your business is in good shape.

NEW MRR

WHAT IS IT?

New MRR is the new monthly recurring revenue earned from subscriptions that were created during the corresponding period.

HOW TO CALCULATE IT?



New MRR

=

Sum of MRR contributed by fresh subscriptions added during the month

WHAT TO MAKE OF IT?

New MRR is one of the most direct growth levers under your control (Acquiring new customers = Boosting New MRR). Keep an eye on your churn and expansion patterns to ensure that the revenue you bring in continues to stay and grow with you. Identify the effective acquisition channels and optimize your growth further.

EXPANSION MRR

WHAT IS IT?

It is the additional monthly recurring revenue generated from your existing customers - by them upgrading, purchasing add-on products or services, or moving from free to paid plans.

HOW TO CALCULATE IT?



Expansion MRR
(For this month)

=

Sum (Upgrades + Free to Paid conversions + Reactivations) from last month to this month

WHAT TO MAKE OF IT?

Often confused with Upgrade MRR, Expansion MRR also considers MRR contribution from the reactivation of a previously canceled subscription and free-to-paid conversions. Especially useful for SaaS businesses with a freemium model, contrasting Expansion MRR with Upgrade MRR gives a deeper understanding of how well you can convert free customers to paid customers and how often canceled subscribers return to you. Always ensure that your Expansion MRR is higher than the Gross MRR Churn metric.

CONTRACTION MRR

WHAT IS IT?

It is the MRR lost due to cancellations, downgrades to lower price plans, non-renewals, removal of recurring add-ons, or even because of customers availing discounts.

HOW TO CALCULATE IT?



Contraction MRR

= Downgrade MRR + Cancellation MRR

WHAT TO MAKE OF IT?

It is helpful in understanding how well your business can retain the MRR from existing subscribers, indirectly indicating the capability of your product/service to scale with your customers' needs.

AVERAGE COST OF SERVICE (ACS)

WHAT IS IT?

The average cost of serving one customer.

HOW TO CALCULATE IT?

ACS includes the expenses that are directly tied to serving existing customers on an ongoing basis, namely:

- Technical support
- Customer success
- Account management
- Hosting
- The economic cost of current releases
- Cost of software maintenance and current release support

As this involves departments above and below the gross margin line, the expense will differ from a software P&L's gross margin.

WHAT TO MAKE OF IT?

ACS helps in identifying the major expenses involved in serving and supporting a customer. In other words, you cannot price your SaaS product below your ACS. Your (MRR - ACS) should be able to pay back your CAC or Customer Acquisition Cost.

Standalone Metrics	1	2	3	4	5	6	7. Annual Contract Value	8	9	10	11	Relationship Metrics
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ANNUAL CONTRACT VALUE (ACV)

WHAT IS IT?

The average annualized revenue that'll be generated per customer. For instance, if a customer has signed a two-year contract of \$60,000, then its corresponding MRR would be $\$60,000/24 = \$2,500$ and ACV would be $\$60,000/2 = \$30,000$.

HOW TO CALCULATE IT?



ACV

=

Net additional MRR generated in a particular month *12 (excluding one-time fees, if any)

WHAT TO MAKE OF IT?

If your ACV is growing over time, it means your customers are paying you more with time, which will imply that your product is developing in the right direction and is delivering increasing value to your customers. If you compare the ACV of a customer with their corresponding CAC, you can understand how long it would take for you to pay back the amount you spent in acquiring that customer. Keeping track of changes in your overall ACV will help in shaping your sales, marketing, and product strategies.

GROSS MRR CHURN RATE

WHAT IS IT?

The percentage reduction in monthly recurring revenue from existing subscriptions because of factors such as subscriptions being moved from paid plans to lower or free plans, cancellations, add-ons, and other services removed from subscriptions.

HOW TO CALCULATE IT?

$$\begin{array}{c} \% \downarrow \\ \text{Gross MRR} \\ \text{Churn Rate} \end{array} = \frac{(\text{Downgrade MRR} + \text{Cancellation MRR})}{(\text{Total MRR at the beginning of the period})}$$

WHAT TO MAKE OF IT?

If this metric is high, try to understand the reason for the cancellations taking place. It could be voluntary churn wherein dissatisfied customers cancel their subscription due to lack of perceived value, or, it could be involuntary churn wherein the customer's credit card expires and hence the subscription gets canceled automatically.

Churn can be good sometimes — A drop in the MRR coming from customers moving to an annual plan shows higher value and retention. It's good hygiene to track the card expiry dates and notify customers ahead of time if your most common payment method is the credit card payment. It also helps to look into your dunning settings to improve revenue recovery rates.

Standalone Metrics	1	2	3	4	5	6	7	8	9. Average Revenue Per User (ARPU)	10	11	Relationship Metrics
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AVERAGE REVENUE PER USER (ARPU)

WHAT IS IT?

The average revenue generated from each paid subscription over a period, typically per month or year. It is important to note that your ARPU should not include free/freemium users as they do not add to your revenue. However, if you want to include free users in your ARPU calculation, it is better to have a separate metric called ARPPU (Average Revenue Per Paid User) that only calculates the revenue per paid subscription.

HOW TO CALCULATE IT?

$$\begin{array}{c} \text{\$} \uparrow \\ \text{ARPU} \\ \text{(monthly)} \end{array} = \frac{\text{Total MRR}}{\text{Total Active Subscriptions or Users}}$$

WHAT TO MAKE OF IT?

ARPU is a key unit economics indicator. If your ARPU is low, it could mean that you are targeting too many low-revenue customers, and you need to extract more value (revenue) from your product. A SaaS with a low ARPU could also be underpricing its product, and this indicates room for an increase in pricing and running experiments to see if people are willing to pay more for your product.

Adding to that, looking at ARPU can also indicate upgrade and downgrade trends helping you prioritize features that you can then upsell to customers in a particular pricing plan.

CUSTOMER LIFETIME VALUE

WHAT IS IT?

The average revenue generated from a customer over the life of their account.

HOW TO CALCULATE IT?

If you have the same ARPU across the customer base without any expansion revenue, then

$$\text{LTV} = \text{ARPU} * \text{Average customer lifetime}$$



LTV

=

ARPU

Customer churn rate

If your ARPU widely varies from customer to customer, a better way to calculate is



LTV

=

ARPU

Revenue churn rate

WHAT TO MAKE OF IT?

LTV is a good barometer for your business and acts as a lever to drive profitability. It helps in clarifying other key metrics like Customer Acquisition Cost (LTV helps in figuring out how much you should spend to acquire new customers) and Churn/Retention Rate (LTV throws light on how long a customer is retained on an average and how quickly they churn).

TOTAL NON-RECURRING REVENUE

WHAT IS IT?

The total non-recurring revenue invoiced in a particular period.

HOW TO CALCULATE IT?

Non-recurring revenue includes any revenue that isn't a subscription/recurring charge, like:

- Setup fees, ad hoc fees, metered overages, and one-off payments
- Non-recurring addons

WHAT TO MAKE OF IT?

Keeping an eye on your non-recurring revenue will give you an overall picture of the total revenue that you're making. While your recurring revenue offers predictability, diversifying to non-recurring revenue streams will open up additional sources of cash. In a recent study by Blossom Street Ventures, about 49 publicly traded SaaS companies (including Atlassian, Shopify, and Splunk) derive over 17% and 21% of their revenue from non-recurring streams.



Relationship *Metrics*

QUICK RATIO

WHAT IS IT?

The ratio between the total increase in MRR and the total decrease in MRR in a specific period. This is an indicator of how well your business is growing vis-à-vis its churn.

HOW TO CALCULATE IT?

$$\text{Quick Ratio} = \frac{(\text{New MRR} + \text{Expansion MRR})}{(\text{Downgrade MRR} + \text{Cancellation MRR})}$$

WHAT TO MAKE OF IT?

Your Quick Ratio is a good indicator of the sustainability of your business by telling you if your business is shrinking more than you are expanding. According to Social Capital's Mamoon Hamid (the creator of this metric):

- Quick Ratio < 1: Unless you increase your Quick Ratio within a month, your high churn is going to kill your business
- 1 < Quick Ratio < 4: Your business is growing, but slowly. There's much more room to improve efficiency.
- Quick Ratio > 4: Your business is growing efficiently. Mamoon Hamid wouldn't invest in a SaaS business with a Quick Ratio below 4.

NET DOLLAR EXPANSION (COHORT)

WHAT IS IT?

The current MRR of the subscriptions that were active 12 months ago and how much it has grown or shrunk over the 12 month period.

HOW TO CALCULATE IT?

$$\text{\$ Net Dollar Expansion} = \text{Net of (Expansion MRR + Contraction MRR)}$$

WHAT TO MAKE OF IT?

A VC's favorite metric that tells you how your existing customer base has grown in 12 months. A 20% growth from existing base means your business has grown by 20% without any additional spend on new customer acquisition

CUSTOMER ACQUISITION COST (CAC)

WHAT IS IT?

The average money you spend on obtaining a customer

HOW TO CALCULATE IT?



CAC

=

Total Marketing and sales spend for a given period

Number of customers acquired in that given period

Your sales and marketing spend would include the money spent on ad campaigns, events, cost of PPC campaigns, SEO, freemium support etc. Most people tend to miss out on the cost of all tools used, salaries of the marketing and sales teams, referral costs, and overhead costs.

WHAT TO MAKE OF IT?

An effective way is to look at your CAC in two ways: Blended and your Paid CAC (total acquisition cost/new customers acquired through all channels, including the ones that you don't directly pay for, like content marketing) will give you an overall picture of your acquisition strategy. Your Paid CAC (total acquisition cost/new customers acquired via paid marketing channels like ads) will exclude subscriptions gained through expansion in existing customer base and referrals and will thus inform your ability to scale your acquisition budget profitably.

LTV:CAC RATIO

WHAT IS IT?

The value generated from each customer as against the cost attributed to such customers. In other words, the return on investment (ROI) for your customer acquisition and the unit economics of your business.

HOW TO CALCULATE IT?

$$\text{LTV:CAC} = \frac{\text{Customer Lifetime Value}}{\text{Customer Acquisition Cost}}$$

WHAT TO MAKE OF IT?

The LTV to CAC ratio is an important metric to see if your business is positioned for sustained growth. It acts as a benchmark to determine how much or how little you should spend on your acquisition channels and customer segments. According to David Skok from Matrix Partners, an ideal ratio should be greater than three (this benchmark assumes that you don't include Gross Margin % in your LTV calculation and that your Gross Margin % is 80% or above). Calculate the LTV:CAC ratio for each customer segment. If you have a high ratio for a particular segment, it means that you can spend more on acquiring customers than you do at the moment from that segment.

Breaking this ratio down and examining the individual components will help you figure out ways to boost the unit economics of your business. For instance, you can maximize this ratio by reducing your churn rate, improving your ARPU, or increasing your average subscription lifetime.

CAC PAYBACK PERIOD

WHAT IS IT?

The average number of months it would take for your business to pay back what you'd spent on acquiring a customer through the revenue from that customer.

HOW TO CALCULATE IT?

$$\begin{aligned} \text{CAC Payback period} &= \frac{\text{CAC}}{\text{ARPA} * \text{Gross Margin}\%} \\ \text{CAC Payback period} &= \frac{\text{CAC}}{\text{MRR} - \text{ACS}} \end{aligned}$$

WHAT TO MAKE OF IT?

Your Payback Period is one of the best ways to measure the capital efficiency of your business— it indicates how much cash flow you'll need to keep growing profitably. David Skok recommends recovering your CAC in less than 12 months, with an average benchmark of 5-7 months for high-performing SaaS companies. If your Payback Period is long, then it means that your customers are churning before you pay back their corresponding CAC, which in turn means that you need to either cut back on your CAC (with better marketing and sales strategies) or work on retaining your customers for a longer period.

How can Chargebee help you and your finance team?

Chargebee Analytics gives you 360° business visibility on subscription analytics. It helps you identify the key performance indicators driving revenue, subscriptions, signups, activations, churn, and a host of other metrics that you need to make effective decisions.

Our Analytics module comes equipped with 150+ readymade reports and 10 default dashboards such as Critical Business Metrics, Churn Watch, Executive Watch, and Sales Watch.

“It wasn't so much about what numbers we couldn't see or could see. It's about the level of accuracy and confidence that we had with RevenueStory.”

Sim Ahmed, Head of Marketing, ScreenCloud

“RevenueStory for Chargebee enabled us to get deep into our business financials, reducing our reporting effort basically to zero, while adding extensive options for explorative analysis – all that based on the existing information in Chargebee.”

Robert Weissgraeber, MD & CTO of AX Semantics

Chargebee Analytics



Unlock interactive dashboards & metrics that drive your business growth.



Analyze historical data and perform period level comparisons.



Get true summary of your company financials with comprehensive accounting reports.



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