



SAAS NORTH

# Why SaaS Metrics are Broken: Time for the Next Era Metrics Playbook?

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# SAAS NORTH

The **betakit** Keynote Stage

@ SAAS NORTH

NOV  
2023

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# SAAS METRICS ARE BROKEN: TIME FOR THE NEXT ERA METRICS PLAYBOOK?

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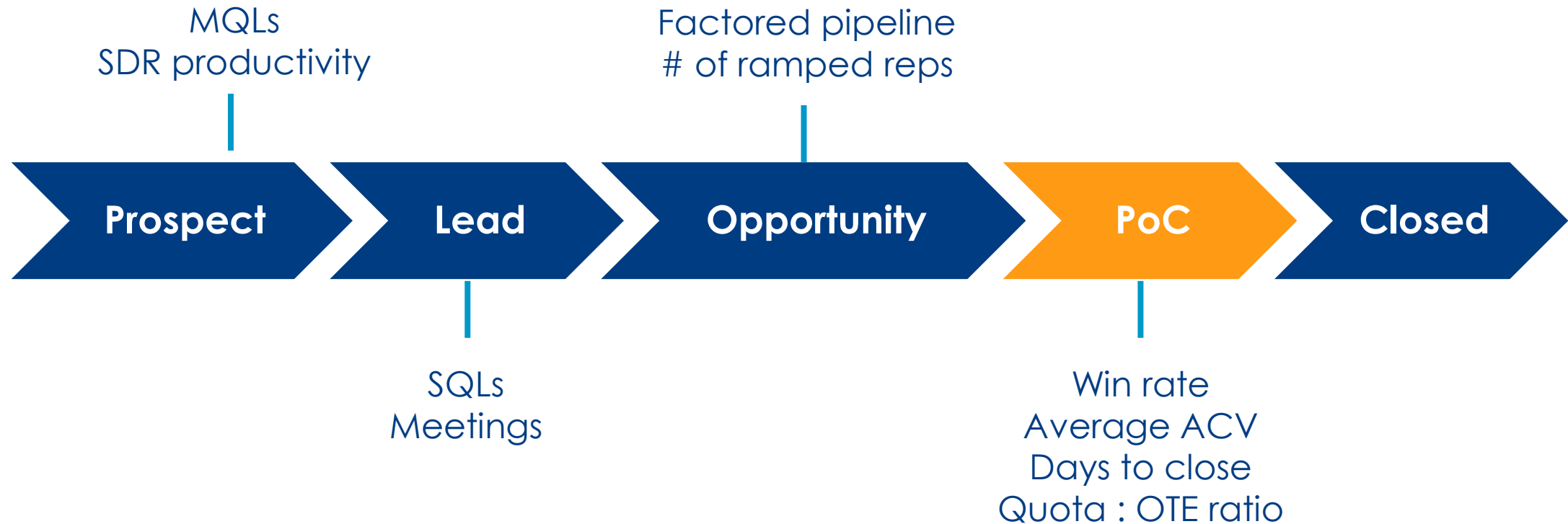
Kyle Poyar  
SaaS NORTH

# SAAS METRICS: WITH THE RIGHT DATA, WE CAN PREDICT THE FUTURE



- Software was on-prem and had a fantastic economic model
- We started to see the rise of SaaS. This meant lots of \$\$\$ on sales & marketing and customers who could leave at any time.
- SaaS metrics helped us understand the power of SaaS business models. With the right inputs, we could predict the future and get comfortable investing early in a company's revenue generation.
- This also helped create a bubble in SaaS valuations as folks might've gotten *too* comfortable predicting SaaS businesses...

# THE SAAS GROWTH PLAYBOOK V1.0 (AKA EVERY SAAS BIZ LOOKS LIKE SALESFORCE)



# THESE MADE FOR GREAT SAAS BUSINESSES

	<u>CAC payback</u>	<u>Net dollar retention</u>	<u>Gross margin</u>
<b>Good</b>	18 months	105%	70%
<b>Great</b>	<12 months	120%+	85%+

**The magic of SaaS revenue:**  
efficient customer acquisition + sticky customers who spend more & more = highly profitable businesses at scale.

# BUT SOFTWARE HAS CHANGED. OUR METRICS AREN'T KEEPING UP.

	<u>CAC payback</u>	<u>Net dollar retention</u>	<u>Gross margin</u>
Good	18 months	105%	70%
Great	<12 months	120%+	85%+

**CAC payback assumes products grow via sales & marketing.** In a PLG model, products drive acquisition, conversion, expansion.

**Usage-based companies like Snowflake see smaller 'lands' followed by tremendous expansion (NDR of 150%+).**

**SaaS companies are seeing new revenue streams with different margin profiles like payments, FinTech, and marketplaces.**

# CONSIDER A FEW EXAMPLES



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- Net revenue retention peaked at 177%!
  - Have a consumption model, recognizing revenue as customers consume the platform.
  - **How much should we spend on customer acquisition when LTV is essentially limitless?**



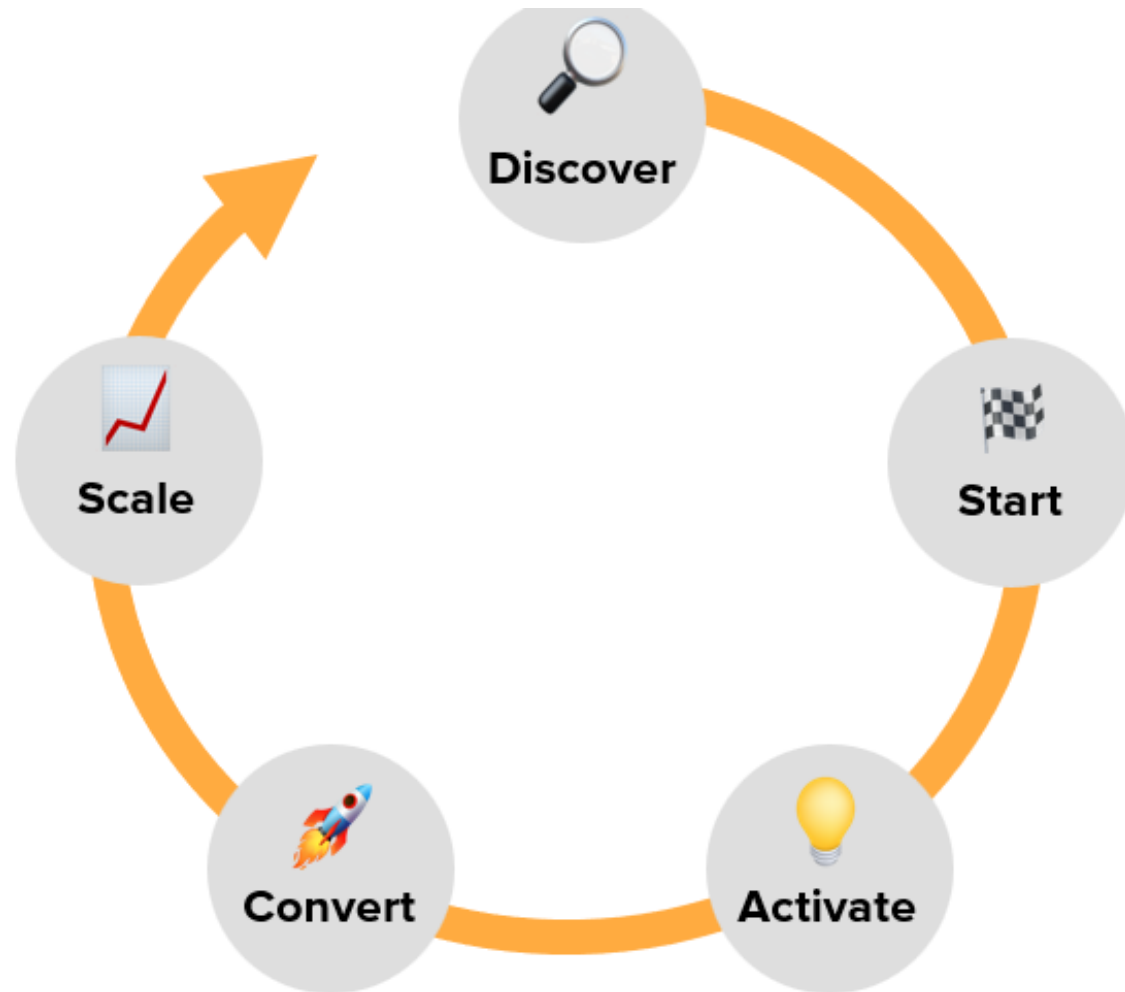
- 
- Spend 50% (!) of revenue on R&D and only 20% on sales & marketing.
  - With Atlassian's efficient self-service motion, the product sells itself.
  - **How do we contemplate R&D as a revenue-generating function?**



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- 76% of Shopify's revenue comes from merchant solutions and only 24% from subscription software.
  - Revenue includes payments, capital, and marketplace fees.
  - **How do we benchmark "ARR" and margins for non-software revenue?**

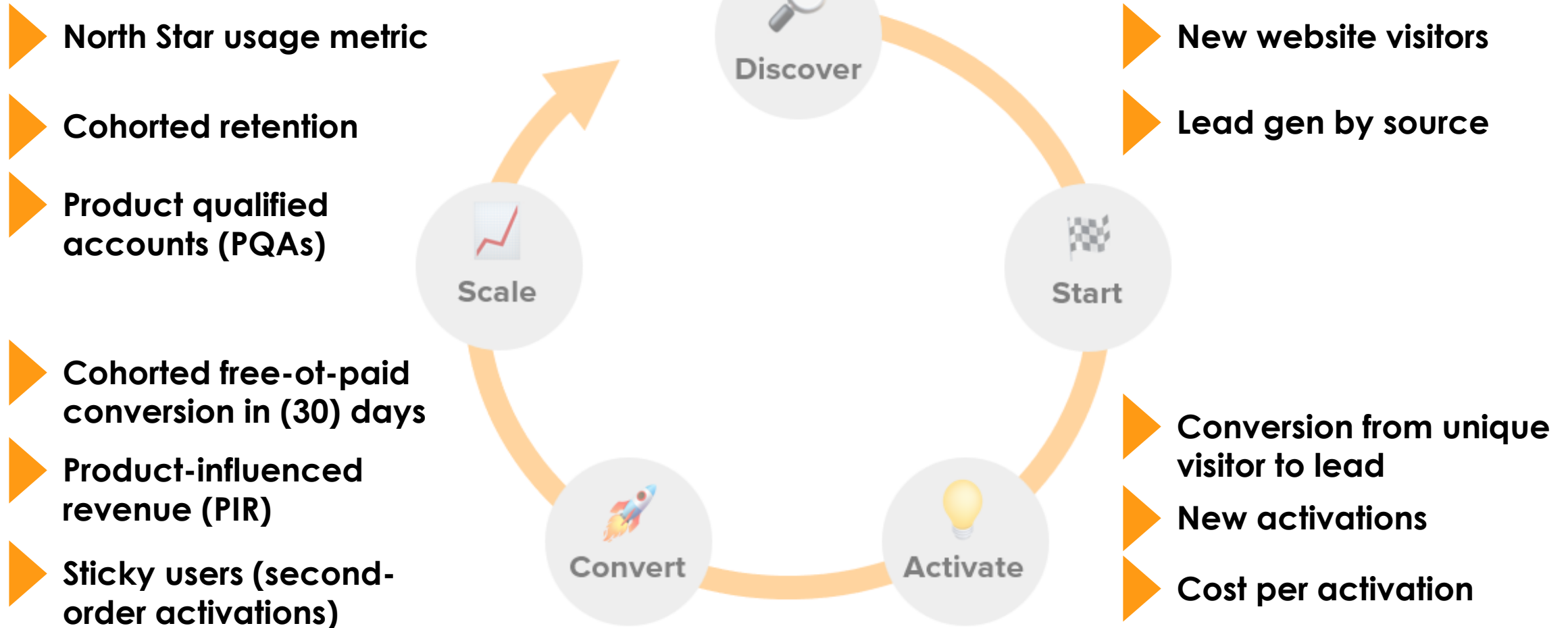
# WE NEED A NEW PLAYBOOK: THE USER JOURNEY

- ▶ Focus on the user, not just the buyer
- ▶ Treat product usage, not only sales or marketing touchpoints, as a signal of buying intent
- ▶ Look for efficiencies: manual effort → automated, productized approaches















# METRICS FOR EACH STAGE OF THE USER JOURNEY



# BENCHMARKS ACROSS THE USER JOURNEY

	PLG	Sales-Led
 <b>Discover</b>	45% from organic/SEO 10% from product/virality	25% from organic/SEO <5% from product/virality
 <b>Start</b>	6% visit to sign-up (freemium) 3-4% visit to sign-up (free trial)	N/A
 <b>Activate</b>	20-40% activation	N/A
 <b>Convert</b>	5% free-to-paid (freemium) 10% free-to-paid (free trial)	N/A
 <b>Scale</b>	100%+ NDR (good) 120-140%+ NDR (great)	100-120% NDR

# ACCELERATING GROWTH = REDUCING FRICTION

	PLG	Sales-Led	TL;DR
 <b>Discover</b>	45% from organic/SEO 10% from product/virality	25% from organic/SEO <5% from product/virality	<ul style="list-style-type: none"> <li>• Focus on SEO, word of mouth &amp; product referrals</li> </ul>
 <b>Start</b>	6% visit to sign-up (freemium) 3-4% visit to sign-up (free trial)	N/A	<ul style="list-style-type: none"> <li>• Nail first impressions</li> <li>• Make your user the hero</li> </ul>
 <b>Activate</b>	20-40% activation	N/A	<ul style="list-style-type: none"> <li>• Deliver value before the paywall</li> <li>• Personalize product onboarding</li> </ul>
 <b>Convert</b>	5% free-to-paid (freemium) 10% free-to-paid (free trial)	N/A	<ul style="list-style-type: none"> <li>• Test a reverse trial motion</li> <li>• Adopt product-led sales</li> </ul>
 <b>Scale</b>	100%+ NDR (good) 120-140%+ NDR (great)	100-120% NDR	<ul style="list-style-type: none"> <li>• Go user → team → company</li> <li>• Sell to Product Qualified Accounts</li> </ul>

# BRING INVESTORS ALONG WITH THE RIGHT BOARD-LEVEL KPIS

## Annual revenue run rate “ARR”

Incorporates non-subscription re-occurring revenue.

## Quarter-on-quarter change in net new “ARR”

Indicates to what extent the company is growing non-linearly.

## Cohort-based retention by customer type

Customer type should ideally be agnostic to conversion channel.

## Quarterly net new “ARR” vs. cash burned

Provides visibility into the efficiency of your business model.

## Product-influenced revenue

Represents the efficiency and effectiveness of your PLG efforts.





## “ARR” per FTE

Indicates capital efficiency. No complicated math required.

Growth-oriented KPIs | Efficiency-oriented KPIs

# ARE YOU ON THE RIGHT TRACK?

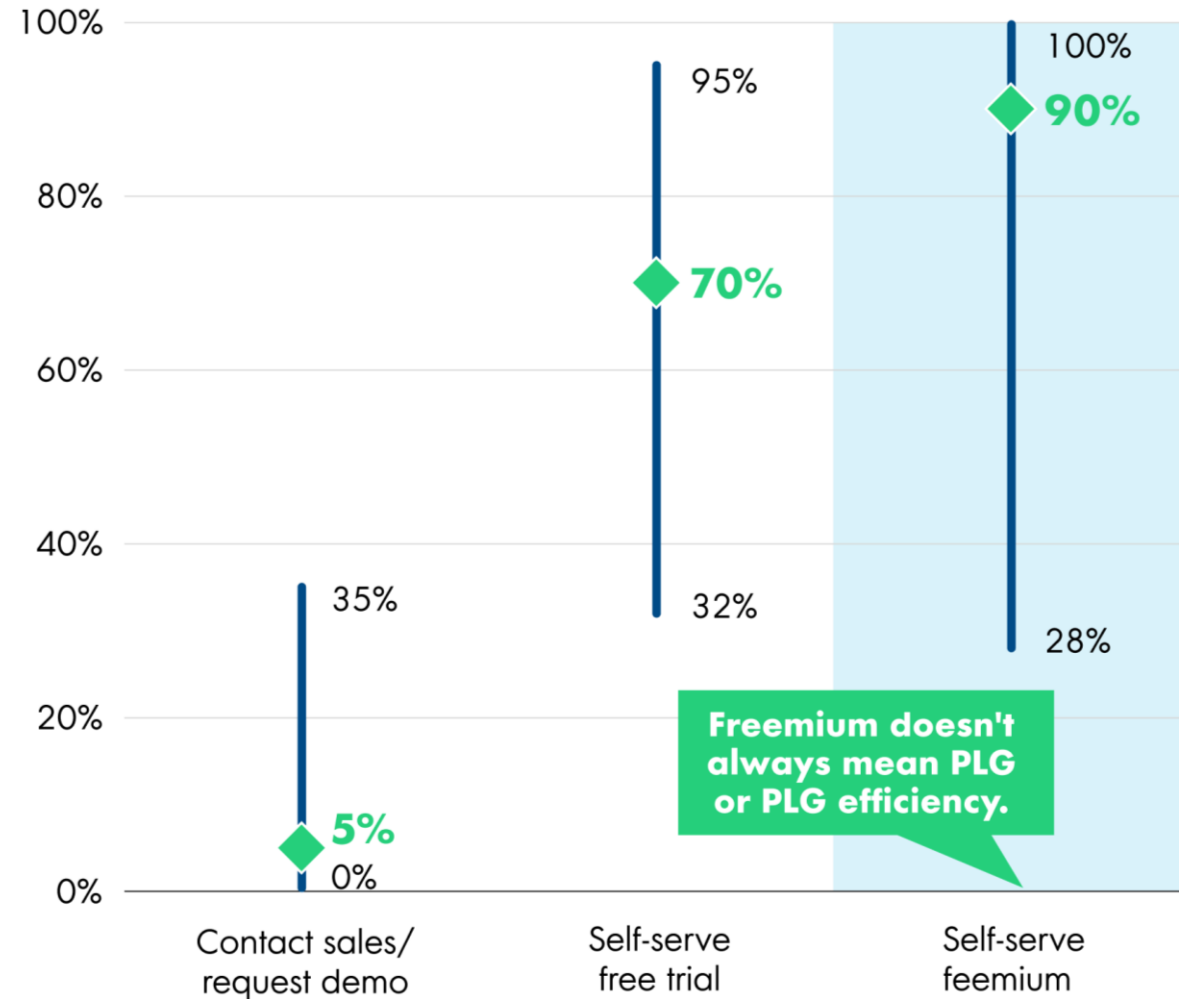
"ARR" per FTE benchmarks	GOOD	GREAT
\$1-\$5 million ARR	\$90k	\$125k+
\$5-\$20 million ARR	\$150k	\$200k+
\$20-\$50 million ARR	\$200k	\$250k+
More than \$50 million ARR	\$250k	\$300k+

 <b>Dropbox</b>	\$799k
 <b>twilio</b>	\$771k
 <b>Adobe</b>	\$617k
 <b>splunk</b>	\$455k
<b>Public SaaS Median</b>	<b>\$283k</b>

# ARE YOU ON THE RIGHT TRACK?

## Product-influenced revenue benchmarks

How much revenue is from customers that have meaningful product activity before any sales interaction.



# CLOSING TAKEAWAYS

1. SaaS metrics helped us understand the power of SaaS business models.
2. We've grown accustomed to the traditional set of SaaS metrics, but they're no longer keeping up with PLG, usage-based pricing, and new monetization models.
3. It's time for a new playbook focusing on the user journey, not the B2B sales process.
4. Accelerating growth becomes a function of delivering value and reducing friction.
5. Bring investors along with the right Board-level KPIs including annual revenue run-rate ("ARR"), net new ARR vs. cash burned, cohort-based retention, and ARR per FTE.

# OPENVIEW

- Read OpenView's 2023 SaaS benchmarks report ([saasbenchmarks.com](https://saasbenchmarks.com))
- Subscribe to my weekly newsletter, Growth Unhinged
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