

Whitepaper:

SaaS acquisition and retention metrics for sustainable growth



Subscription
Billing Suite
BY BINARY STREAM SOFTWARE

Recommended metrics

Customer/subscriber churn

Revenue per customer

Customer acquisition cost (CAC)

Lifetime value (LTV)

Payback period

Monthly recurring revenue (MRR)

Subscription-based services can provide companies with an amount of data that is not available in traditional offerings. With each month, year or subscription period, there is new information that aggregates into a time-series analysis of company performance. While the potential for added insights is great, there are a few challenges that stand in the way of turning the data from unknown to actionable. Companies must determine their key metrics, the tools needed to measure them, their benchmarks for success, and finally, be able to act upon new insights quickly.

Naturally, measuring the performance of subscription offerings relies on recurring revenue and comparing one period with another. Regularly keeping track of the following metrics helps companies have a clear idea of the health of their recurring revenue, and the success of their acquisition and retention efforts:

Customer/subscriber churn

Customer or subscriber churn expresses the subscription drop off over a specific time period, and can be split into two categories: voluntary and involuntary churn. The churn rate is calculated as the number of subscriptions expiring in a period divided by the sum of the number of subscription at the beginning of the period, plus the subscriptions gained during the period.

$$\text{Period churn rate} = \frac{\text{Expired subscriptions in a period}}{\text{Subscriptions at the beginning of the period} + \text{Subscriptions gained during the period}} \times 100$$

Revenue per customer

Average revenue per customer is very simple to understand and is a quick and easy way to track subscription changes and how they correlate with revenue. One cause for caution with revenue per customer is having a few subscribers generating the majority of revenue and skewing the expected marginal increase from each new subscription, so it is best used in combination with other metrics. Revenue per customer can be calculated as follows:

$$\text{Revenue per customer} = \frac{\text{Total revenue for the month}}{\text{Number of subscribers during the same month}}$$

Customer acquisition cost (CAC)

Customer acquisition includes all costs incurred by an organization in order to convince a potential customer to sign up as a subscriber.

$$\text{Customer acquisition cost} = \frac{\text{Costs spent acquiring customers over a period}}{\text{Subscriptions at the beginning of the period} + \text{Subscriptions gained during the period}}$$

Lifetime value (LTV)

Lifetime value is an estimate of the profit generated from an average subscription from sign up to churn:

$$\text{Lifetime value} = \frac{\text{Average revenue per customer} \times \text{Gross margin percentage}}{\text{Customer churn rate}}$$

LTV is especially important for companies making long-term decisions related to product development, marketing, and investment into specific geographies or markets.

Payback period

The payback period of a new customer acquisition is the measure of how much time is needed for a company to recoup costs. As an individual metric, it can help outsiders understand the company's pricing efficiency and profitability. Generally, a payback period of less than 12 months is considered healthy, but evaluating it along with the expected lifetime value for the average subscriber presents a clearer picture of the company's future outlook.

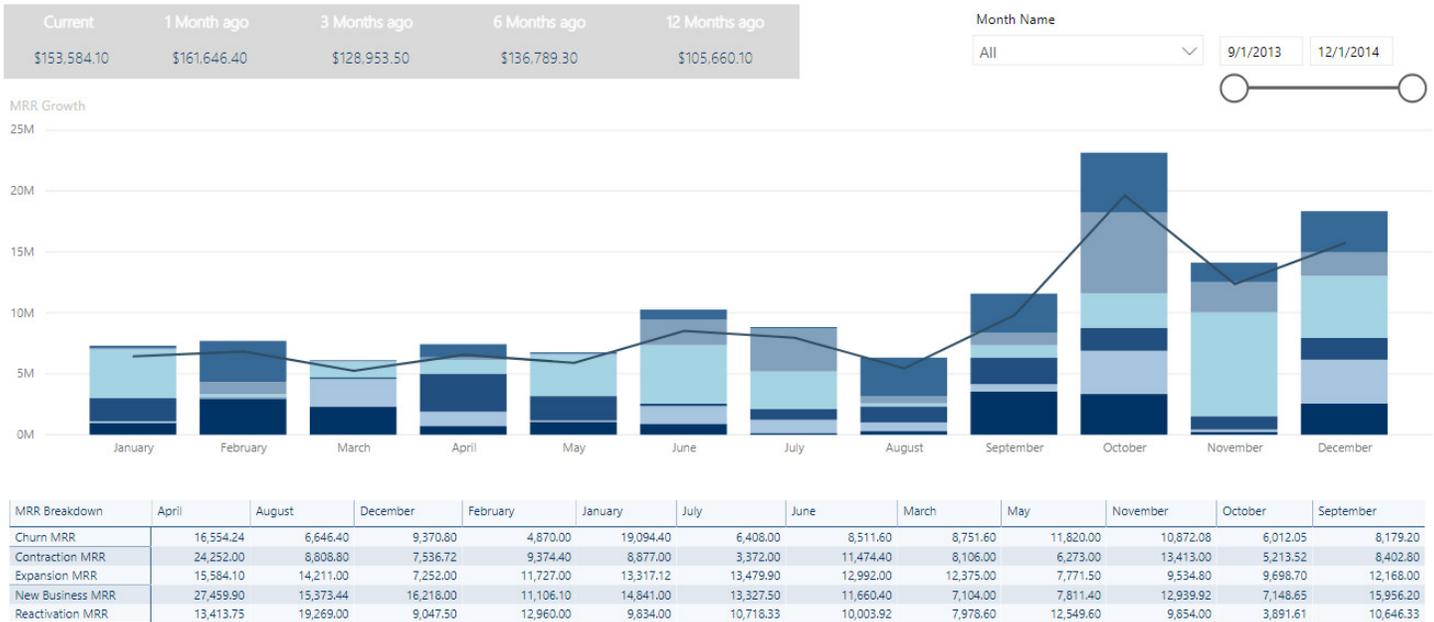
Monthly recurring revenue (MRR)

MRR is one of the most commonly used metrics for tracking subscription commerce performance. Properly measuring and understanding MRR is key to retaining revenue momentum and being able to analyze and react to revenue declines before they escalate to become a more significant problem.

More specialized metrics can be derived from raw MRR to track specific aspects of monthly performance:

New MRR	Recurring revenue gained from new subscribers
Churned MRR	Lost recurring revenue from churned subscriptions
Expansion MRR	Recurring revenue gained from subscription upgrades
Contraction MRR	Lost recurring revenue from subscription downgrades
Net MRR	New MRR + Expansion MRR + Reactivation MRR – Churned MRR – Contraction MRR

Net MRR measured and tracked monthly can show aggregate changes and drilling down further into its individual components can help explain positive or negative trends.



Measuring with accuracy and confidence

Having an accurate and easy-to-use system to help keep track of all these metrics is essential to a sustainable success and allows you to focus on analyzing results and making the best business decisions. Subscription Billing Suite (SBS) is a comprehensive solution to billing, deferrals, and recognition that streamlines the entire quote-to-cash process at every step from billing and invoicing to reporting and forecasting. Backed by Microsoft's Azure cloud and Power BI, SBS offers real-time analysis and forecasting on-the-go so you can always keep your finger on the pulse of your business.

SBS provides consistent and reliable invoicing for a wide range of pricing models, and allows you to take control of your pricing and billing schedules at the line item level within Microsoft Dynamics GP, Microsoft Dynamics 365 Business Central and Microsoft Dynamics 365 for Finance and Operations.

Learn how Subscription Billing Suite can help you scale

A comprehensive solution for pricing, billing, invoicing, and recognition challenges directly embedded within Dynamics 365.

Discover more



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