

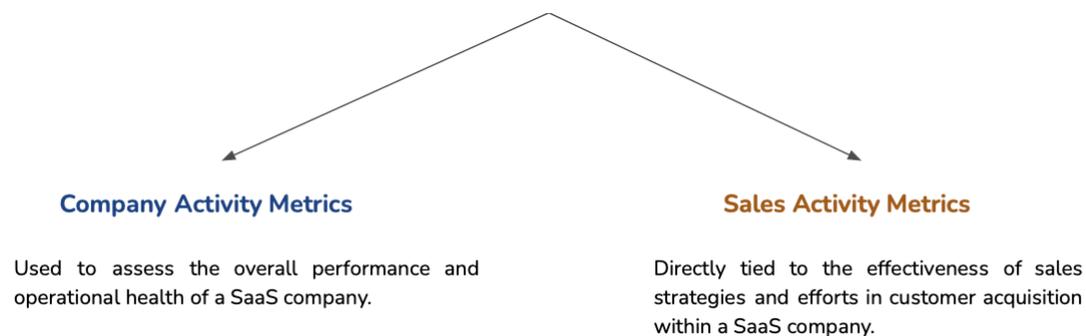
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[Essentials of Software-as-a-Service \(SaaS\) Business.](#)

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5.3 Company Activity Metrics - Part 1

Over the course of the next two videos, we will cover several actionable business metrics that can help in managing SaaS Business. These can be divided into two categories: Company Activity Metrics and Sales Activity Metrics.



Company Activity Metrics

Company Activity metrics are used to assess the overall performance and operational health of a SaaS company. They are particularly focused on the efficiency of business operations and the quality of customer interactions. This could encompass everything from resource management to customer satisfaction, which are crucial for maintaining the operational integrity and service excellence of the business.

Sales Activity Metrics

Sales Activity Metrics are used to evaluate the effectiveness of sales strategies and efforts in customer acquisition within a SaaS company. By assessing these metrics, we can fine-tune our sales strategies, optimize marketing expenditures, and improve team performance to drive revenue growth and customer conversion.

Let's explore these two categories in detail, starting with company activity metrics.

Company Activity Metrics

- *indicators used to evaluate the **overall performance and operational health** of SaaS company*

- focused on **internal business operations and customer interactions**

Company Activity Metrics are indicators used to evaluate the overall performance and operational health. They help us identify strengths to build on and weaknesses to address in our SaaS company. These metrics are focused on internal business operations and customer interactions. Or in other words, they look at how the business runs day-to-day operations and how it engages with customers. This includes everything from how effectively we manage our resources to how satisfied our customers are with our services.

Let's learn about specific Company Activity metrics. Firstly, we have a customer churn rate that measures the percentage of customers who cancel or do not renew their subscriptions during a given period.

Customer Churn Rate

- *the percentage of customers who cancel or do not renew their subscriptions during a given period.*

This metric can help us with identifying potential issues with our service offerings, pricing, customer support, or overall user experience. If we understand why customers leave, we can implement targeted strategies to improve retention and adjust our customer service practices.

Let's take a look at the formula. Churn rate is calculated by dividing the number of customers lost during a certain period by the number of customers at the start of the period, then multiplying by 100 to get a percentage.

$$\text{Churn Rate} = \left(\frac{\text{Number of Customers Lost During the Period}}{\text{Total Customers at the Start of the Period}} \right) \times 100$$

Suppose we are a SaaS company that offers an online project management tool. At the beginning of the year, we had 10,000 customers. Over the year, 1,000 customers decide not to renew their subscriptions. The annual churn rate for our company is 10%.

$$\text{Churn Rate} = \left(\frac{1,000}{10,000} \right) \times 100 = 10\%$$

This number gives us a clear indicator of customer turnover - a tenth of our customer base was unsatisfied or found better value elsewhere. By investigating the reasons behind these cancellations—perhaps through exit surveys or customer feedback—we can take specific

actions to better meet customer needs and reduce future churn.

Now that we've understood the importance of measuring the percentage of customers who choose to leave our service, it's crucial to also focus on those who stay. Since retaining customers is often more cost-effective than acquiring new ones, this brings us to another vital metric: Customer Retention Cost.

Customer Retention Cost

- *the total cost involved in retaining existing customers*

This is a key financial metric used by SaaS companies to quantify the total cost involved in retaining existing customers. It includes all expenses related to activities that help keep customers engaged and subscribed to the service, such as....

- **Customer Support:** *costs related to personnel and tools used to assist customers*

Customer support. This covers all expenses related to personnel, technology, and resources needed to provide support to customers. For example, salaries for support staff, investments in customer service software, and the infrastructure needed to handle customer inquiries and issues.

- **Retention Campaigns:** *costs of marketing activities specifically aimed at existing customers*

Then there are retention campaigns where expenses include the costs of creating and sending email campaigns, personalized content or special offers, intended to increase customer loyalty and reduce churn.

- **Loyalty Programs:** *costs related to rewarding customers for their continued business*

And lastly, loyalty programs that involve costs related to setting up and maintaining schemes that reward customers for their ongoing business. This may include discounts on renewals, rewards, exclusive offers, and other incentives.

Having identified the key expenditures in customer retention, let's learn how we can calculate Customer retention cost metric. First, we need to calculate the total amount spent on retention activities during the specified period (Total Retention Costs). Then divide this total by the number of customers who were retained during that same period (Number of Retained Customers). The result is the average cost per retained customer.

$$\text{Customer Retention Cost} = \frac{\text{Total Retention Costs}}{\text{Number of Retained Customers}}$$

Now let's be more practical. Over the past year, our company implemented several strategies aimed at retaining our customers. We invested 50.000€ in enhancing customer support through additional training for our support team and upgrading the support ticketing system. We spent 20.000€ for targeted email campaigns and 10.000€ to introduce a new loyalty program offering discounts and exclusive access to beta features. Sum of all the costs associated with these initiatives is 80.000€.

Throughout the year, we retained 2.000 customers who renewed their subscriptions or remained active users of our platform.

Now let's find out how much we are spending on average to retain each customer. We divide the total retention costs by the number of customers we retained.

- 50 000€ invested in customer support
 - 20 000€ spent for targeted email campaigns
 - 10 000€ invested to a new loyalty program
- } 80 000€
- 2 000 customers retained

$$\text{Customer Retention Cost} = \frac{80,000\text{€}}{2,000} = \boxed{40\text{€ per customer}}$$

The result is 40€ per customer per year - or in other words, it costs our company 40€ each year to retain each customer. This figure helps us to assess whether the investment of 40€ per customer is justified by the revenue they generate over the same period. Are our retention strategies not only effective but also profitable? If the average revenue per customer significantly exceeds CRC, our strategies can be considered successful. However, if the revenue is close to or less than the cost of retention, it may be time to rethink our approach to retention strategies.

Monthly Recurring Revenue

- the total amount of predictable revenue that a company expects to receive every month from its customers

Another metric that we will discuss is called Monthly Recurring Revenue. It measures the total amount of predictable revenue that a company expects to receive every month from its customers. This includes all recurring charges such as monthly subscription fees for our SaaS product.

It is a crucial metric, especially in the early stages of a SaaS business, as it provides a clear measure of growth. However, it is also essential for later operational scaling within your company. It helps you with strategic financial planning and ensure that your budget can

accommodate potential expenses like expanding your teams.

Remember that this metric is closely influenced by secondary metrics such as churn rate and average revenue per user, which directly affect its fluctuations. If we understand these relationships we can devise strategies to effectively increase their MRR.

Let's take a look at how this metric is calculated.

$$MRR = total_customers_A \times price_A + total_customers_B \times price_B + total_customers_C \times price_C$$

Suppose our company offers three types of subscription plans:

Basic at 10€/month

Standard at 20€/month

Premium at 30€/month

The customer distribution across these plans is as follows:

100 customers on the Basic plan,

50 customers on the Standard plan,

30 customers on the Premium plan

First, we need to multiply the total number of customers by the subscription fee for each subscription plan. For instance, for the Basic plan we multiply 100 customers by a subscription fee of 10€. Then sums up all revenues.

Subscription plans:

- Basic at 10€/month
- Standard at 20€/month
- Premium at 30€/month

Total customers across plans:

- 100 customers on the Basic plan
- 50 customers on the Standard plan
- 30 customers on the Premium plan

Basic MRR: 100 customers x 10€ = 1000€
Standard MRR: 50 customers x 20€ = 1000€
Premium MRR: 30 customers x 30€ = 900€

Total MRR: 1000€ + 1000€ + 900€ = 2 900€

The total MRR of 2.900€ tells us that each month, we can reliably expect to receive 2.900€ in revenue from our current subscribers. Knowing our MRR allows us to forecast future revenues with greater accuracy and make informed decisions about potential expansions or investments. If we know the amount of cash that will be coming in each month, we can plan for both expected and unexpected expenses. It also serves as a key indicator of the effectiveness of our marketing and sales strategies. If MRR increases, it suggests that new strategies are successful in attracting and retaining more paying customers. Conversely, if

MRR stagnates or declines, it may be time to reassess our tactics.

If you're interested in understanding the broader financial landscape of your business, consider calculating the **Annual Recurring Revenue (ARR)**. This metric extends the concept of Monthly Recurring Revenue (MRR) by projecting it across an entire year and provides a comprehensive view of expected annual earnings from your recurring revenue streams. In the following video, we will continue exploring other actionable business metrics. Looking forward to seeing you there.