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

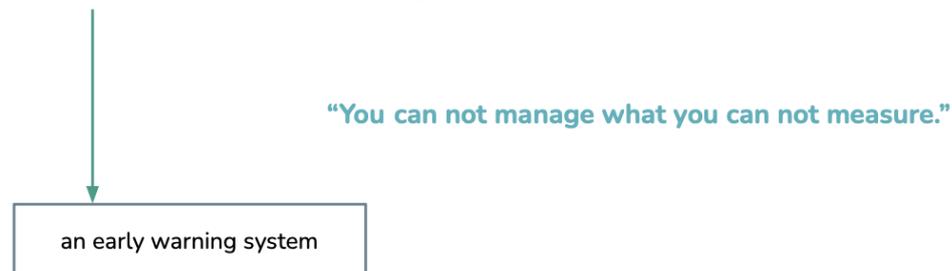
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## 5.1 Introduction to SaaS Business Metrics

Welcome to the new chapter about Business Metrics in Software-as-a-Service! In a sector as dynamic as the SaaS industry, how can we make informed decisions when everything around us is constantly changing? The key lies in developing and utilizing robust business metrics. This crucial topic, which supports the success of any SaaS business, is what we will explore in depth in this and upcoming videos.

Business metrics: measurements that reflect the success of our business operations and the effectiveness of our decisions as managers or entrepreneurs.



Business metrics are essentially measurements that reflect the success of our business operations and the effectiveness of our decisions as managers or entrepreneurs. Why are these metrics so critical? The reason is straightforward: 'You cannot manage what you cannot measure.' In other words, when we make any decision, it should be supported by data that provides us with clear insights into our operations. Business metrics are the tools that transform data from customer interactions and other business activities into this vital knowledge. They allow us to make informed choices.

Many managers acknowledge the importance of basic metrics such as **revenue, cash flow, income, costs, and employee turnover**. These are fundamental indicators of financial health and operational efficiency of our business. But what research shows is that a successful SaaS vendor should develop more sophisticated and concrete metrics to measure the success of his software as a service business. These metrics do more than just measure — they serve as an early warning system that will indicate when things do not go as they should. Having this early warrant system constructed out of the business metrics will allow us to react flexibly and take corrective actions.

However, creating these advanced metrics is not without its challenges. Let's take a look at reasons why SaaS vendors struggle to establish such metrics:

1. **The inherent volatility of the SaaS market:** metrics that are relevant today may quickly become outdated
2. **Lack of data:** without enough data, it's difficult to develop effective metrics
3. **The character of the data:** the lack of quantitative data

### **1. *The inherent volatility of the SaaS market***

First, there is an inherent volatility of the SaaS market. This field is extremely turbulent. It means that metrics that are relevant today may quickly become outdated. The fast pace at which technology and market conditions evolve in the SaaS industry requires that metrics too must be flexible and adaptive.

Imagine that we currently develop a set of metrics tailored to our SaaS company's needs. In the upcoming months, both our company and the broader industry landscape could undergo significant changes. The metrics we invested heavily in could quickly become obsolete due to these shifts. Consequently, we must continually reassess and adjust our metrics to ensure they remain relevant and accurate. This ongoing process of evaluation and modification is essential to keep the metrics aligned with the current business landscape. It ensures that we can make decisions based on the latest data.

### **2. *Lack of data***

Secondly, many SaaS companies are startups, often lacking the comprehensive datasets that older, established companies have. These startups are typically in their early stages, sometimes only a few months to a few years old, and may not have accumulated sufficient data to formulate effective business metrics.

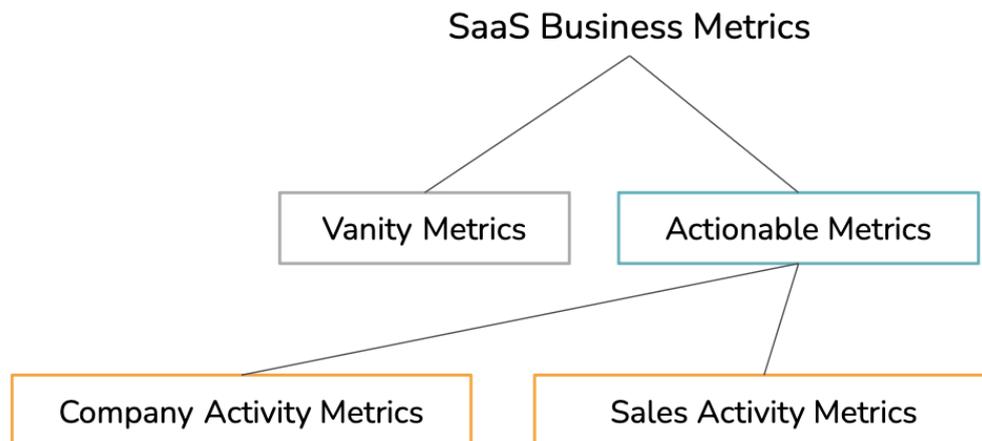
Imagine that our company collected some data, which we then analyze using specific metrics to extract meaningful information. These metrics help us understand and evaluate our business performance, providing the insights we aim to achieve. However, if we don't have enough data, this entire system breaks down. This is a common challenge for startups in the software as a service sector. Often, these companies haven't had the opportunity to gather sufficient data to support robust metrics. Without enough data, it's difficult to develop effective metrics that can truly guide business decisions and strategies.

### **3. *The character of the data***

Furthermore, data collected by SaaS companies often tend to be qualitative — like customer comments or written reviews— which can be rich in detail but hard to quantify.

They do not easily translate into the quantitative metrics traditionally used to measure business performance.

Despite these challenges, certain metrics have proven to be particularly beneficial for SaaS businesses.



We can categorize them into two main very distinct groups: Vanity Metrics and Actionable Metrics. Our focus will be on Actionable Metrics that are further divided into two subcategories: Company Activity Metrics and Sales Activity Metrics. Throughout this chapter, we will explore each of these categories in detail, and show you how they can be applied to make data-driven decisions in the SaaS company.