The All-Inclusive Guide to Subscription Metrics for B2B SaaS

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Chapter 1: Introduction

Subscription-based businesses have gained immense popularity in recent years. In fact, from a meager $31.5 billion in 2015, the SaaS[1] industry has grown multifold to reach an estimated $171.9 billion. This marks a 5x growth in just seven years, and the industry is growing at a lightning-fast pace of 17%.

While SaaS businesses are great for retaining customers and generating recurring revenue, the monetization model isn't very straightforward. This is especially true when you've got multiple pricing tiers or custom pricing contracts with various clients. Keeping track of your finances and growth becomes a challenge in this case.

In addition, as your client base grows, it can get challenging to understand who's driving how much revenue and how extensive your expenses are.

This is where subscription metrics come into the picture. They help you measure the performance of your subscription business model. Based on the analysis of these metrics, you can understand if your model is sustainable (or not).

Chapter 2: Subscription Metrics and Their Importance

Every business needs to track certain key metrics that can serve as a yardstick based on which the business performance is calculated and gauged. These metrics can also give a quantitative figure to help you understand if your business is going in its intended direction or faltering.

What Are Subscription Metrics?

In the case of a subscription-based SaaS business, several such key metrics need to be calculated and monitored regularly to ascertain if the business is growing or not.

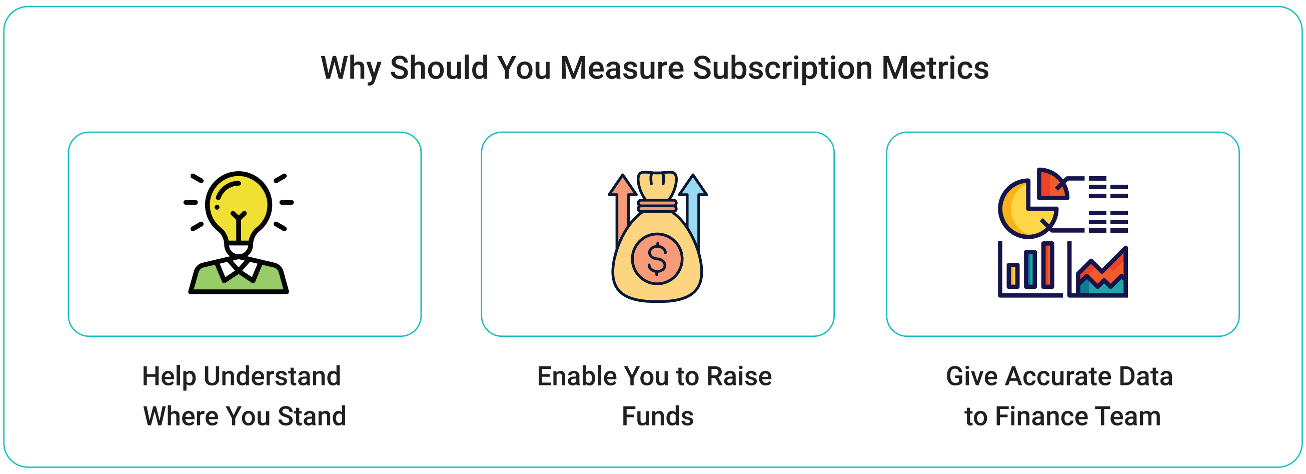
Unlike other business models, SaaS business models are slightly more complicated because there's recurring revenue coming in month-over-month for some accounts and year-over-year for others.

Similarly, there may be subscription cancellations at any given point, which could stem the flow of revenue.

This makes it essential to consider numerous subscription metrics together to understand your business better. A one-size-fits-all approach doesn't work here, making it critical to identify the right subscription metrics to track for your SaaS business.

Why Should You Measure Subscription Metrics?

As mentioned above, subscription metrics are critical to the smooth functioning of your SaaS business. Here's why you should consider measuring and tracking them regularly.



1. Help Understand Where You Stand

By regularly monitoring your subscription business metrics, you'll get an accurate idea of where your business currently stands compared to your goals. Understanding this position is critical as it can help inform your future business growth strategies. Be it client acquisition[2], client retention[3], or revenue generation, you can find it all by tracking these metrics.

What's more?

When you track various subscription metrics related to your business, you'll also have lots of data at your fingertips. You can utilize this information to make data-driven decisions for your business, which can fuel its growth.

Tracking your subscription metrics becomes even more important if you've introduced new pricing models or additional features.

In this case, your SaaS metrics will come in handy to understand your overall expenditure and revenue generation from these new developments. This can help you tweak those features or pricing models to reduce your expenses and grow your revenue.

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[1] SaaS: Software as a Service. It's a business model where software is leased out to clients for a specific period in exchange for a recurring fee.

[2] Client Acquisition: The process through which you can acquire new clients for your SaaS business.

[3] Client Retention: The process through which you can retain your existing clients by getting them to renew their subscription contracts.

2. Enable You to Raise Funding

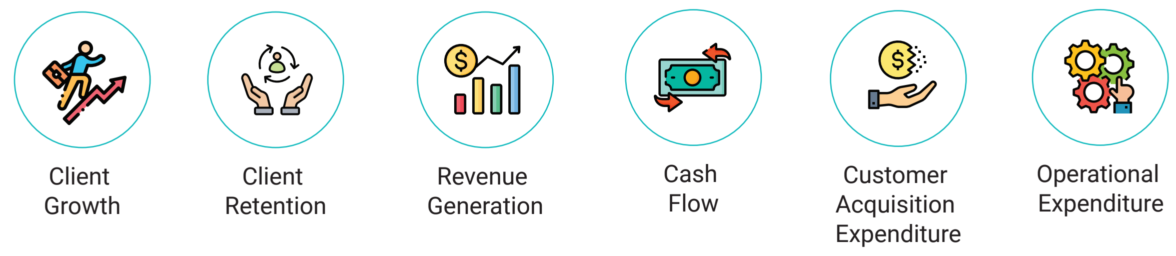
You might need to raise funding for your business regularly to gain the much-needed capital that can help supercharge your business growth. But getting financing for your business is no mean deal.

You've got to convince potential investors to invest their money into your business.

In fact, the importance of valuation and capital efficiency has skyrocketed for investors, so you need to provide them with hard data in the form of subscription metrics. It tells them how scalable your organization is. In Armand Naessens's (Investment Analyst, Newion) words in Younium's webinar, "*It tells us something about how the team thinks about its growth plan.*"

With subscription metrics, you can show potential VCs how your business is performing in terms of:

You Can Show Your Business Performance in Terms of



The idea is to give the investors a clear picture of your business to convince them why it is worth their time and investment.

Armand also goes on to say "*If the metrics are there, it becomes way easier for us to do the analysis and come up with an honest and real picture of the organization.*"

But you need to be careful while measuring the metrics.

A lot of this metrics data comes out to be inaccurate if it's not centralized well. That's why it's important to have a solution like subscription management platform.

3. Give Accurate Data to the Finance Team

Financial reporting is critical for compliance and regulations. But as subscription expert and Younium's Director of Operations, Erik Molin, pointed out, there's a problem with it: "*It gives us a retroactive view of how things turned out, and if we compare it with subscription metrics, we get an outlook of the future.*"

Now here's the thing — you need both for a complete picture of your subscription business. With the right subscription metrics, finance teams would be better equipped to see client subscriptions' complete value compared to what they see in the financial system. This would help them with better reporting, revenue analysis, and forecasting.

The finance team would also be in a better position to identify any threats or opportunities that are arising and work to thwart them off or take advantage of them.

Finally, the finance team will have all the requisite figures whenever there's any audit. This ensures a smooth audit process as well.

Chapter 3: Important Subscription Metrics to Track

By now, you might have understood just how important subscription metrics are for a SaaS business.
Without them, you won't be able to understand your progress for each key performance indicator (KPI)[4], and that could spell disaster for your business growth.

But here's the thing — it's just as important to track the right subscription metrics. If you measure and monitor the wrong ones, all your efforts will go in vain.

So, how do you decide which metrics to track and which ones to avoid?

Here's a comprehensive list of subscription metrics you should be tracking.

1. Contracted Monthly Recurring Revenue (CMRR)

CMRR is a measure of the monthly revenue that your business will get from a new contract or change in a particular contract. The assumption here is that the contract will keep renewing without any modifications.

You can track CMRR through bookings. Wolter Rebergen, Younium's Subscription Expert, says, "*A booking is, in essence, an event that initiates or changes a contract*." So, whenever you have a new expansion, contraction, or churn, you have to create a new booking for the CMRR.

The advantage that CMRR brings is that it is a good measure to find what the future holds for you as it removes all the intermittent fluctuations of contracts. But if you want to get a picture of the near future, Monthly Recurring Revenue (MRR) would be a better metric. That's because it includes all the variations in the given period.

For example, if a contract costs $1000/month, with a 3-month ramp-up of $500, here's how the CMRR and MRR would look. CMRR will ignore the ramp-up as it's only for 3 months, but MRR won't.

Month	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Feb
CMRR	1000											
MRR		500	500	500	1000	1000	1000	1000	1000	1000	1000	1000

When a contract change occurs, though, MRR and CMRR both change. Let's say a client adds another feature to their plan, which costs $500/month, effective September. The CMRR will change to $1500 in August, while MRR will change to $1500 in September.

Month	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Feb
CMRR	1000						1500					
MRR		500	500	500	1000	1000	1000	1500	1500	1500	1500	1500

[4] KPIs: *These are quantitative indicators that are set based on your business goals. They can help businesses understand what they need to do to reach their goals.*

2. Forecasted Monthly Recurring Revenue (FMRR)

This is a usage-based subscription metric, which can be tracked when you've got a service that a client utilizes regularly such that it can be considered recurring in nature.

This service, however, isn't a part of your contract. As a result, you're required to forecast its usage to determine how much it's used every month.

Once you've forecasted the usage, calculating FMRR is easy. As Erik says, "*Forecasted MRR is basically the estimated usage times the price.*"

FMRR = Forecasted Usage x Cost Per Unit

Calculating the FMRR is necessary if you want to calculate the other important usage-based subscription metric — EMRR.

3. Estimated Monthly Recurring Revenue (EMRR)

The EMRR gives you the total estimated revenue your client would be generating for you month-over-month. Like CMRR and FMRR, this revenue would also be a constant as it ignores any fluctuations in the short term.

You can use the EMRR to determine the total revenue a client might drive for your business, including the contracted and non-contracted revenues.

EMRR is essentially the sum of CMRR and FMRR.

EMRR = FMRR + CMRR

4. Annual Recurring Revenue (ARR)

As the name suggests, it's the recurring revenue that your business generates every year. It's calculated for 12 months from the month the subscription begins. But as Wolter puts it, "*ARR is a relevant metric only if your subscription term is a minimum of one year.*" Else, you should go with MRR, which is better suited for monthly subscription terms.

The advantage of calculating ARR is that it allows you to report how much revenue you generated last year. At the same time, due to the recurring nature of SaaS, you'll also know how much revenue you'll get in the next year. Wolter rightly says that recurring revenue reporting is as much looking forward as it is backward.

Here's the formula to calculate ARR.

ARR = MRR of Current Month + MRR of Coming 11 Months

But with Younium, you won't have to calculate it manually. The platform will do it for you.

5. Annual Contract Value (ACV)

This subscription metric is measured using the booking value, just like the CMRR. It's a measure of how much revenue a particular booking will drive in a year.

The concept is the same as CMRR in the sense that the ACV remains constant unless there's a new contract event that can change the booking.

Similarly, what MRR is to CMRR, ARR is to ACV. You look at the former for a shorter term while the latter is better for the longer term.

ACV = Monthly Revenue From the Booking x 12

Here's how the ACV and ARR would be different for the same contract ($1000/month with a $500/month ramp-up for 3 months) for a year, considering the contract is made in February but starts in March. So, the ARR in February would be (0+(3*500)+(8*1000))=9500, and so on.

Month	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Feb
ARR	9500	10500	11000	11500	12000	12000	12000	12000	12000	12000	12000	12000
ACV	12000											

Like MRR and CMRR, ARR and ACV both change when the contract is modified. Let's take the same example that's cited for CMRR. The ACV will change to $18000 in August because the contract order was signed in August. Similarly, the ARR will retrospectively change to $13500 in March.

Month	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Feb
ARR	12000	13500	14500	15500	16500	17000	17500	18000	18000	18000	18000	18000
ACV	12000						18000					

6. Customer Churn Rate

Churn is when a client leaves you or cancels a part of their contract. Calculating the customer churn rate is important as you can determine your enterprise value from it.

The Customer Churn Rate is the rate at which you're losing your clients. It can be calculated as below.

$$\text{Customer Churn Rate} = \frac{\text{Customers Lost During the Period}}{\text{Total Customers in the Period}} \times 100$$

7. Average Revenue Per Account (ARPA)

This subscription metric is a measure of how much revenue the average account generates for your SaaS business every month or year.

There are two types of ARPA: New and Existing. The former looks at the average revenue for all the new clients. It can give you an idea of the average price point that they've selected.

Similarly, the latter shows you the average revenue an existing client drives. Comparing the two can show you the difference in behavior between them.

Finding your ARPA requires you to calculate your CMRR first (or ACV, if you've got annual values). You can then use the below formula or just rely on Younium to calculate it for you.

$$\text{ARPA} = \frac{\text{CMRR}}{\text{Total Number of Clients}}$$

ARPA also helps you calculate your MRR, which is the ARPA multiplied by the number of clients for that month.

8. Customer Acquisition Cost

This is a crucial metric that helps you "*calculate the cost necessary to get new customers through the door,*" as per Wolter. Rebergen, in his interview on Sifted, says that CAC — compared with the ACV — is critical because "*it simply translates to profitability*."

To determine this metric, you must find your sales and marketing costs. You can then divide this figure by the number of customers you've acquired to get the average acquisition cost per customer.

$$\text{CAC} = \frac{\text{Marketing Cost + Sales Cost}}{\text{Number of Acquired Clients}}$$

CAC can be high for a business with a high ARPA but has to be much lower for volume businesses. In most scenarios, a shorter customer journey leads to lower CAC.

9. Lifetime Value (LTV)

It's important to know how much revenue a customer brings in for your business throughout their lifetime of working with your business. Ideally, this should exceed your CAC. Only then will acquiring customers be profitable. The best practice to calculate the LTV for a subscription-based business is first to calculate the ARPA and then the Customer Churn Rate.

$$\text{LTV} = \frac{\text{ARPA}}{\text{Customer Churn Rate}}$$

10. Payback Period

This is the period after which you'll reach your break-even point. Knowing this duration is critical as it can help you understand how much cash you may need to grow your SaaS business. You, however, need to use this metric in tandem with LTV to get a more accurate picture of cash requirements.

To find the payback period, you need to know the ARPA, CAC, and gross margin percent[5].

$$\text{Payback Period} = \frac{\text{CAC}}{\text{ARPA X Gross Margin Percent}}$$

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[5] Gross Margin Percent: *The total profit your SaaS makes before deducting your selling and other administrative costs. You can get it by subtracting your revenue from the cost of your SaaS and dividing it by your revenue.*

11. Net Revenue Retention (NRR)

This is yet another important metric that SaaS businesses must track. It shows the percentage of revenue you've retained from existing clients and can give you an idea of your growth potential. This is different from MRR, which factors in all the active subscriptions for that month. A good NRR for volume business is 90%, but it's about 125% for value businesses.

$$\text{NRR} = \frac{\text{Recurring Revenue at the Beginning + Expansion - Contraction - Cancellation}}{\text{Recurring Revenue at the Beginning}}$$

Younium can help you visualize your NRR for each month and provides detailed information that can help you modify your strategy.

12. LTV:CAC Ratio

This ratio is among the most important ones for determining the profitability of your business. Wolter says, "*Typically if your LTV is greater than three times your CAC, you are profitable.*" Here's how you can calculate your profitability per client by using this ratio.

$$\text{Profitability Per Client} = \text{LTV - 3 X CAC}$$

Calculating this ratio is critical to analyzing the success of your business. A higher ratio, about 4:1, indicates that you've got a great business model in place that can fuel your business growth. It also ensures a high return on investment (ROI).

13. Magic Number

This is yet another subscription metric that you should be measuring to figure out your sales efficiency. It can give you an idea of how well you're spending your sales and marketing budget to drive results. Using the magic number, you can understand how much growth your business is experiencing related to your spending. You can calculate your magic number using the below formula:

$$\text{Magic Number} = \frac{\text{(Current Quarter's Revenue - Previous Quarter's Revenue) X 4}}{\text{Previous Quarter's Sales and Marketing Expenses}}$$

Chapter 4: Introducing Younium

Calculating and tracking subscription business metrics manually is time-consuming, and you might also end up with errors. Additionally, you'll have to put effort into visualizing the information manually.

That's where Younium can help.

How Younium Can Help

Younium is a subscription hub for SaaS businesses. It's a platform that, as per Niclas Lilja, the Founder of Younium, "*is a system that isn't limited to a single price for a single offer.*"

It can help you with subscription management, billing, and even financials. But it also provides detailed reports through which you can track your subscription metrics. Here's how it can help you.

1. Real-Time Access to Data

When you leverage Younium, you'll get access to a fully-customizable dashboard from where you can track all the major subscription metrics in real time. This means that you'll know exactly where your business stands at that moment.

Younium provides extremely granular information through this dashboard. From NRR and MRR to LTV, you can track it all here. You can also drill in to see data related to one-time or usage fees.

And how does this help?

While real-time data can be great for understanding the financial health of your business, it plays a major role when you want to raise funds. VCs and potential investors would like to see your performance metrics, and this dashboard will make it all available to them. Using it, they'll better understand your business and its future.

2. Data Consistency

Without a solid tracking system, your sales revenue may end up being different from the revenue reported in your financial statements. Owing to the complexity of subscription models, such gaps between subscription metrics and financial reporting can easily creep in. This creates a disconnect between what's actually sold to your clients and what's reported.

As a result, data accuracy takes a hit too. But with Younium, you'd have a single source of truth that ensures data consistency and reduces the errors that teams could be making.

It also means that teams would be able to access the metrics and financial data with ease. This can speed up processes like invoicing. In fact, Voyado, a Younium client, reduced their billing lead time by 300%. Younium also reduced their invoicing process to a day from several weeks.

3. Integrations with Other Platforms

Younium offers APIs and plug-and-play connectors through which you can easily integrate it with other finance systems. Doing so helps streamline your billing operations as your subscription and financial data will all be available in a single spot.

For instance, you can seamlessly do invoicing and manage your accounts receivable through Younium. It'd also help you with banking and tax compliances when you integrate it with relevant platforms like TaxJar.

4. Simplified Metric Tracking

Our clients, Formpipe, have experienced this first-hand. With Younium, they've eliminated spreadsheets for tracking subscription metrics. And as Wolter explains, "*This has led to less manual work, faster reporting, and the ability to perform a more detailed analysis on the business as well as reduced risk for manual errors.*"

Finance teams typically have to spend about four to ten hours for subscription reporting when it's done manually. The time taken to do it will only increase as your client base grows. But Younium helps simplify these tasks by automating them. It also ensures that the revenue and other metrics you track are entirely accurate.

The end results from these advantages?

- Increased productivity of your finance team.
- Reduced discrepancies.
- Improved subscription metrics tracking.
- Unlimited potential for scalability.

If you'd like to experience the above positive changes to your business and set it on the path to supercharged growth, get in touch with us for a demo of Younium or watch our product tour.