CUSTOMER SUCCESS OPERATING MODEL

PART 2. METRICS

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An initiative by:

Winning by Design

The Operating Model Overview

Recurring Revenue is the Result of Recurring Impact

The result of an operating model are:

1. Interoperability
2. A Common Language
3. Standardized Data Model

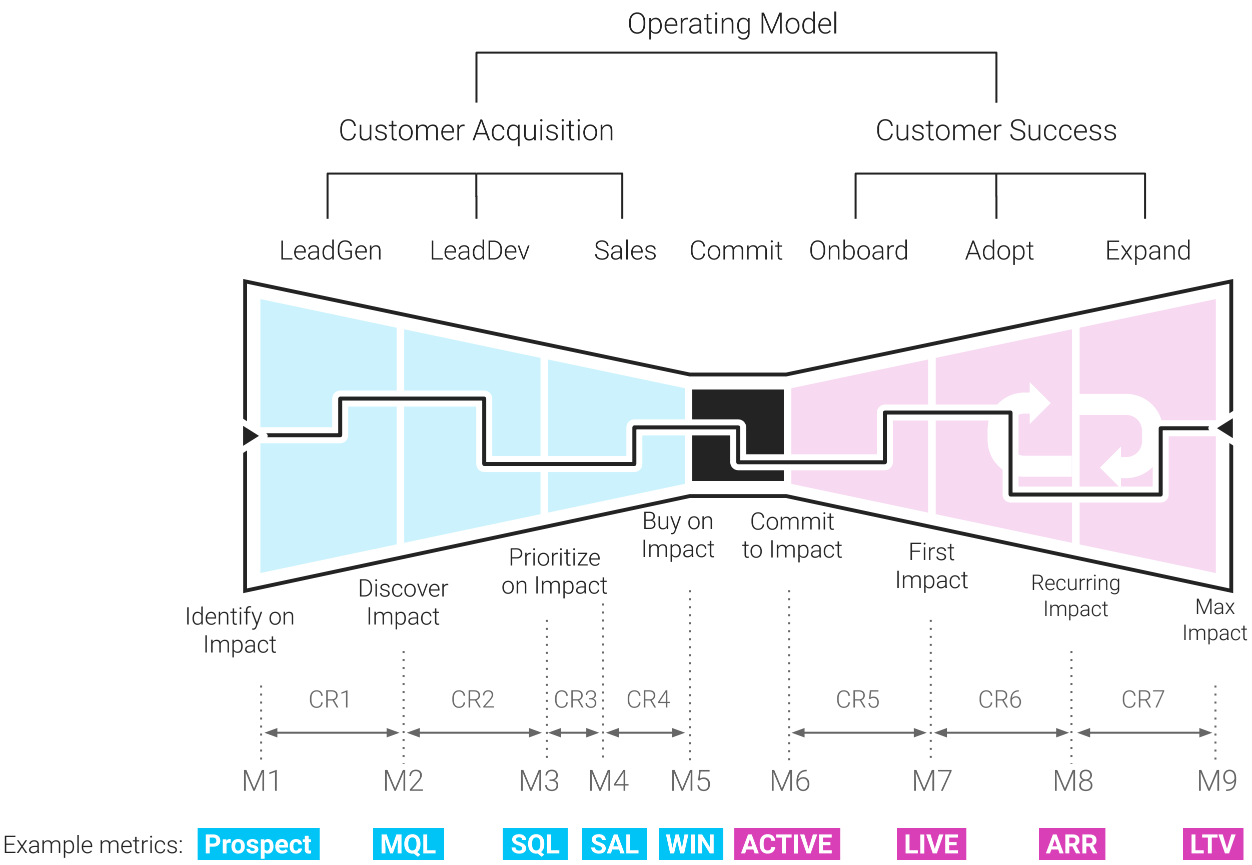
There are three kind of metrics to run a business:

M1-M9. Volume metrics are in part indicative of effectiveness. For example; ARR, the amount of customers, etc.

CR1-CR7. Conversion metrics are in part indicative of efficiency. For example: Retention Rate, Usage etc.

These standardized metrics allow us to calculate performance metrics.

PM1-PM4. Whereas Conversion metrics are based on metrics in the same domain, Performance metrics compare a variety of metrics against each other such as Cost and Lifetime Value.



Performance Metrics

PM1

LTV:CAC Ratio

The Customer Lifetime Value (LTV) to Customer Acquisition Cost (CAC) ratio measures the relationship between the lifetime value of a customer and the cost of acquiring that customer.

Key metrics:

- Annual Revenue (VM5)
- Onboarding Churn (CR5)
- Retention/Churn (CR6)
- Expansion/Contraction (CR7)
- Length of the contract (t7)

PM3

Net Revenue Retention/GRR

Measures how much your annual (ARR) or monthly recurring revenue (MRR) has grown or shrunk over time.

It factors in customer expansion as well as revenue churn from losing a customer as well as downgrades.

Key metrics:

- Annual Revenue (VM5)
- Onboarding churn (CR5)
- Retention/Churn (CR6)
- Expansion/Contraction (CR7)
- Length of the contract (t7)

PM2

Growth Rate

Growth rates refer to the percentage change of recurring revenue within a specific time period, often a year.

Common growth rates are:

- Rapid Growth 10-20%
- Hypergrowth 20-40%
- Double/Triple 100%/200%
- Blitz Scaling: >1000%

Key metrics: $15M+

- Growth from Acquisition
  - CR1, CR2, CR3, CR4, Discount
- Growth from Expansion
  - CR5, CR6, CR7
  - Length of the contract (t7)

PM3

Rule-of-40/50/60

The Rule of 40 states the combined revenue growth rate and profit margin should equal or exceed 40%.

SaaS companies above 40% are generating profit at a rate that's sustainable, whereas companies below 40% may face cash flow issues.

Key metrics: $25M+

- Growth Rate
- Profit (Cost)
  - Customer Acquisition Cost
  - Cost To Serve
  - Cost of Raw Goods