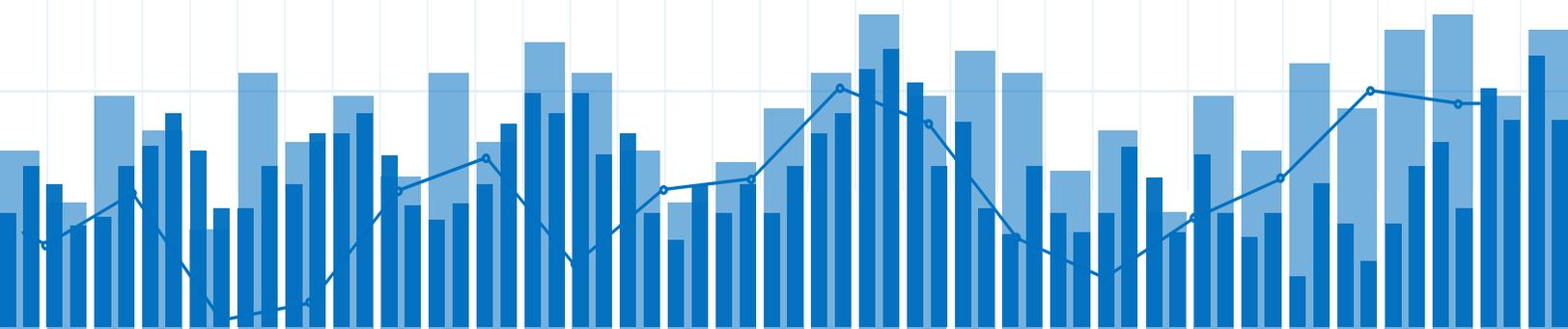


Key Performance Indicator Framework for B2B SaaS

An Executive Guide to Key Performance Indicators that Align Departments and Drive Enterprise Value

RevOps²
SaaS Performance Index



SaaS Key Performance Indicator Framework

Why a KPI Framework?

Data Driven, a term most B2B SaaS companies would say describes their approach to decision making.

Multiple reports, dashboards, and excel spreadsheets are prepared for each board meeting and executive team meeting to highlight performance and decide on future actions required.

After attending these sessions, you are convinced that your company is data-driven.

However, two questions that CEO's and CFO's must ask are "Are we making metrics-informed decisions" and "Are we tracking the right metrics and KPIs"?

RevOps Squared has created the *Key Performance Indicator (KPI) Framework* to address those very questions.

The *KPI Framework* was built upon four foundational pillars of B2B SaaS Enterprise Value. Using KPI data from B2B SaaS companies, we have developed the RevOps Squared *SaaS Performance Index*

The SaaS Performance Index enables B2B SaaS companies to benchmark their KPIs against "Like" company peer groups based upon company size, Annual Contract Value (ACV), distribution model, and solution type.



The Challenge

The CEO and CFO, in collaboration with the executive team invest weeks of time developing the annual financial plan. Revenue, expenses, staffing levels, and KPIs are modeled, debated, and decided upon.

Finally, the annual plan is completed, and top-level company objectives are finalized. Each department head then goes back to their organization and develops their departmental goals and action plans.

Many companies have implemented a structured objectives setting model, such as Objectives and Key Results (OKRs), which do a good job of aligning top level OKRs to departmental and individual OKRs.

One challenge with top-down, objective centric models is that many departmental objectives, goals and Key Performance Indicators are not causal in relation to corporate goals and objectives.

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Departmental goals are often correlated, but not always directly causal in achieving the annual financial plan. Causal is defined as directly affect the KPI calculation.

Moreover, the direct correlation of department objectives to Enterprise Value beyond revenue growth is typically not communicated – thus not top of mind for most employees

The Opportunity?

The majority of early stage, venture-backed SaaS companies offer stock options to employees. Options provide a key reason why employees should understand how their department's measurements and performance impacts Enterprise Value.

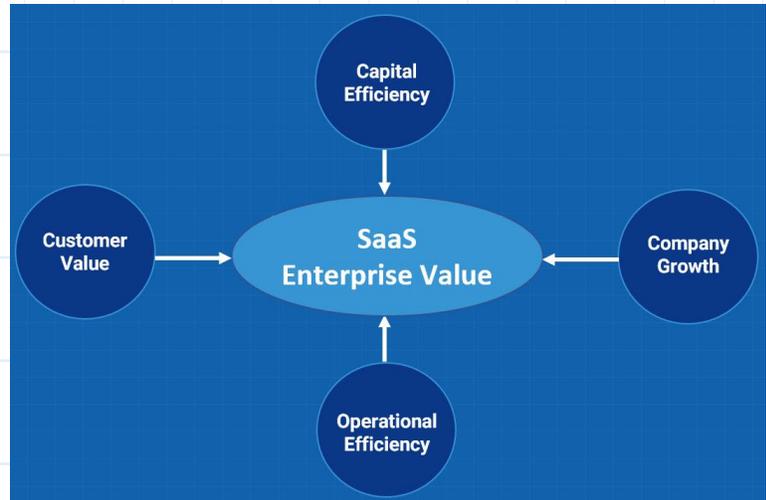
Senior leadership is even more motivated to ensure their team's performance directly increases enterprise value, due to the wealth creation effect of their equity options.

Lastly, CEO's and CFO's are responsible for ensuring that every KPI captured, measured, analyzed, and presented to investors and employees directly impacts company performance and enterprise valuation.

The RevOps Squared KPI Framework is built upon four foundational pillars of Enterprise Value to help ensure KPIs directly drive enterprise value and departmental alignment.

The four pillars are: 1) Capital Efficiency; 2) Company Growth; 3) Operational Efficiency and 4) Customer Value.

Enterprise Valuation Framework



Enterprise Valuation Pillars

Capital Efficiency:

This first enterprise valuation pillar measures how a company converts dollars invested into revenue, i.e., Annual Recurring Revenue (ARR), EBITDA, Free Cash Flow and Net Income.

Company Growth:

This is a key enterprise valuation multiplier. Growth rates provide an exponential increase on perceived and real Enterprise Value. Company Size is a key factor in determining the multiple impact of growth.

Operational Efficiency:

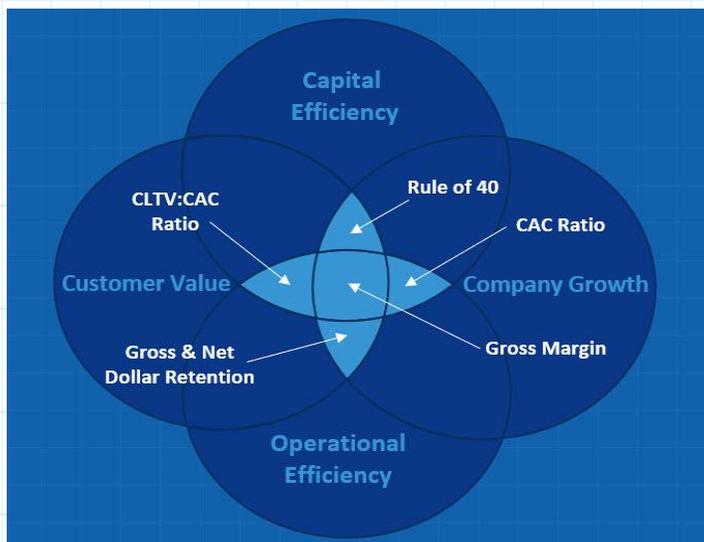
This measures the output delivered by each department for every dollar of expense. This will be reflected in revenue per employee and in multi-variate ratios like the Customer Acquisition Cost Ratio.

Customer Value:

This pillar is often overlooked in business, but in the recurring nature of the SaaS business model, customer value directly impacts gross and net dollar retention rates. Customer expansion ARR, Net Promoter Score and utilization KPI's are critical to understanding Customer Value.

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First Five Key Performance Indicators



First Five KPI's

Customer Acquisition Cost Ratio:

This KPI measures the efficiency of every dollar invested in marketing and sales compared to the amount of New ARR generated.

Gross and Net Dollar Retention:

This KPI measures how effectively a SaaS company retains and grows existing customers.

Customer Lifetime Value to Customer Acquisition Cost Ratio:

This KPI measures the total Gross Profit contribution over the life of the customer.

Gross Margin:

This KPI measures how efficiently the product is delivered after Cost of Goods Sold is factored in.

Rule of 40:

This KPI measures the combined percentage rate of growth plus Free Cash Flow. EBITDA is often used as a proxy for FCF

What about <xxx> KPI?

The First Five KPIs in the Framework are not the only KPIs that should be captured, analyzed and continuously improved.

RevOps Squared categorizes other KPIs as second or third level KPIs.

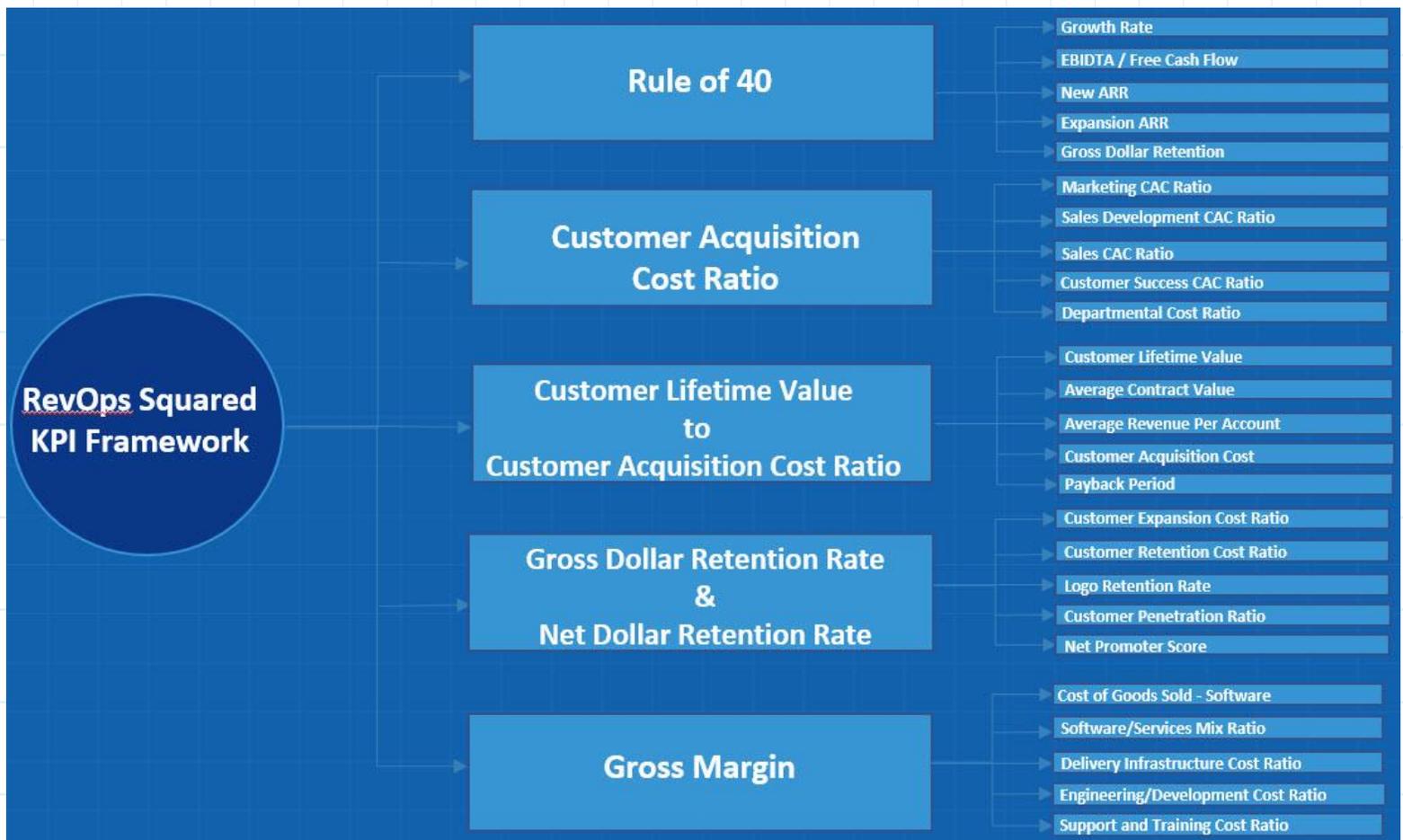
Second level KPIs are causal in nature, meaning they directly impact the First Five KPIs. Common second level KPI's include payback period, logo retention rates, customer acquisition cost and annual contract value.

Second level KPIs introduced in the RevOps Squared KPI Framework measure ARR(\$)² generated against each dollar of Go-To-Market expense. Examples include Marketing CAC Ratio, Sales Development CAC Ratio and Customer Retention Cost Ratio.

Third level KPIs are correlated KPIs, such as Close Rate, Lead Conversion Rates, Sales Cycle Time, Activity Conversion Rates, etc. Third level KPIs are best used as measurable objectives for front line managers and individual contributors.

The more standardized and causal you can make every level of KPI, the less subjectivity will be brought into decision making, performance analysis and every employee will be more aligned to the corporate level KPIs and performance.

SaaS Key Performance Indicator Framework



Second Level Key Performance Indicators

As you can see in the RevOps Squared KPI Framework above, each of the First Five KPIs are directly aligned to the Second Level KPI's that have a causal effect on the First Five KPI's.

As mentioned previously, there is not a one size fits all. The key is to follow well established, guiding principles in defining, instrumenting, capturing, and analyzing any KPI or metric.

First, does the second level KPI directly drive, meaning have a causal relationship to affect a First Five Enterprise Value KPI?

Second, does the KPI serve to align executive team members and their departments around **metrics** that **matter** and **measure up** to industry peer group benchmarks and directly affect enterprise value?

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The KPI Alignment Effect

How often have you reviewed the results of the previous quarter and the departmental reports and KPIs looked great, even though the company missed the quarterly financial plan?

An underlying factor could be explained by the Functional Silo Syndrome. This concept was coined in 1988 by Phil Ensor, an organizational development executive at Goodyear Tire. In order to maximize operational productivity, roles become specialized and the measurements of the job itself and the department it reports into become a priority over overall company objectives and performance metrics.



By implementing RevOps Squared Key Performance Indicator (KPI) Framework, your Company will not fall victim to the Functional Silo Syndrome. The Frameworks facilitates alignment across all departments and functions to the Company goals, objective, and enterprise value.

Conclusion

- Key Performance Indicators should directly affect the top Enterprise Valuation Metrics
- Every employee, manager, and executive leader should understand how their objectives and KPI's impact the First Five KPIs and Enterprise Value
- Benchmarking your KPIs against like company peer groups provides a metrics-informed perspective on your performance which can be aligned to investor expectations
- Aligned and standardized KPI's enable SaaS companies to move from data-driven to metrics informed decision making

RevOps Squared

RevOps Squared enables B2B SaaS companies to evolve from data-driven to metrics informed decision-making, which leads to increased enterprise value.

This is accomplished by identifying, calculating, and benchmarking industry standard Key Performance Indicators that directly measure capital efficiency, operational efficiency, revenue growth, and customer value.

If you would like to learn more about the RevOps Squared KPI Framework, the SaaS Performance Index, or would like to schedule a complimentary briefing, please visit www.revopssquared.com