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# New and Improved SaaS Metrics for Subscription Businesses

These six performance SaaS Metrics are key indicators of your startup's health. Your ability to deliver attractive metrics is often the difference between getting your next round of funding and hitting the wall.

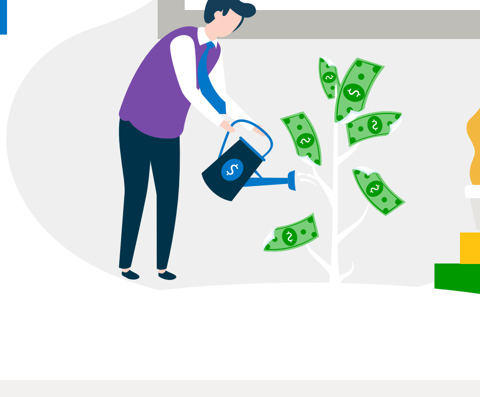
Each metric includes a definition, why you should care, how to calculate, and an interesting fact.

## 1 CARR (Committed Annual Recurring Revenue)

CARR is the leading indicator of revenue, and the current, most insightful view of the business.

ARR alone masks churn issues and potentially paints a false picture of growth.

Begin with ARR. Add known new bookings. Subtract known cancellations. Don't forget upgrades and downgrades.



Don't forget upgrades and downgrades

ARR + new bookings – cancellations = CARR

You can also use CMRR as CARR may hide seasonality or other trends.

## 2 CAC (Customer Acquisition Cost)

The cost across all sales and marketing to close a new customer.

You need to know how much revenue to generate to cover your acquisition costs.

Costs of all sales and marketing divided by the number of new logos acquired.

cost of all sales and marketing / number of new logos acquired = CAC

CAC is not just your advertising or marketing program spend.

## 3 CLTV (Customer Lifetime Value)

The net profit received throughout your relationship with a customer.

CLTV sets a limit on how much you can spend to acquire new customers.

CLTV is the net present value of the recurring profit streams of a given customer less the acquisition cost.

net present value of the recurring profit streams – acquisition cost = CLTV

The lifetime of a customer can be calculated by 1/(churn rate). If your monthly churn rate is 5%, then 1/0.05 = 20 months for customer lifetime.

## CLTV / CAC Ratio

The relationship between what it cost your company to acquire a new customer and the total net profit received from the customer.

Surprisingly, companies out there spend more to acquire a customer than they receive back over their lifetime.

Once you have your CAC and CLTV, divide CLTV by CAC.

CLTV / CAC = CLTV / CAC Ratio

A 3 to 1 ratio is healthy but you'll likely be less than 3. Once you understand your ratio, then work to improve your score.

## 4 Churn

The percent of customers that un-subscribe or do not renew their subscription.

The higher your churn, the higher your CAC to maintain growth – also a potential sign of poor product market fit.

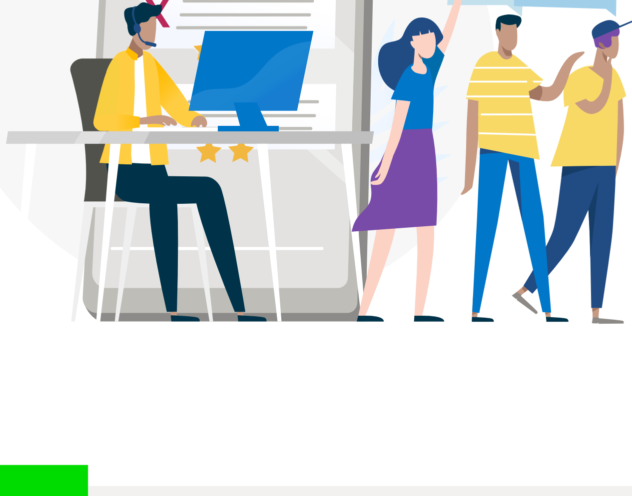
Track by monthly cohort of customers and measure how many you lose each successive month.

Total **before** churn

customers lost / no. of customers x 100 = churn

→ A healthy churn might be 3% (annually). A 3% monthly churn means you'll lose 30% of your cohort of customers after 12 months – not good!

→ Have you heard of "negative churn"? It's actually a good sign!



## 5 Free Cash Flow

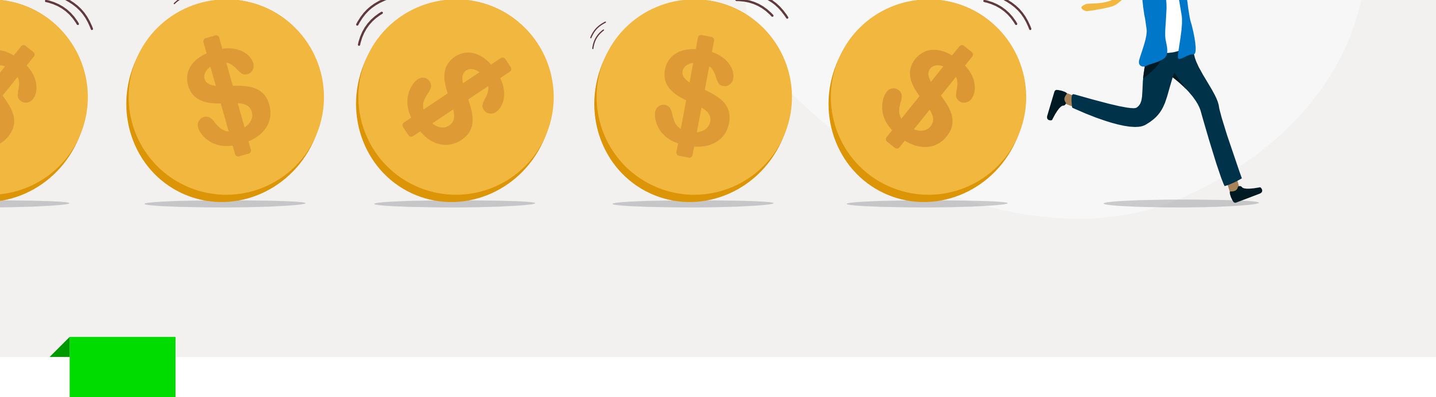
Free cash flow is what you have left over after paying operating expenses and capital expenditures.

Managing cash flow is particularly important for SaaS startups because you are delaying the recovery of your profits.

Start with operating cash flow and subtract operating expenses and capital expenditures.

cash received – operating expenses – capital expenditures = free cash flow

Divide cash balance by monthly net burn rate to determine months of runway (before you hit the wall).



## 6 CCS (Cash Conversion Score)

A new business metric from Bessemer Venture Partners, CSS helps entrepreneurs think about Return on Invested Capital that correlates to long-term value.

VCs use this as a signal of future success through company returns.

Calculate using equity and debt minus cash on the balance sheet

equity + debt – cash = CCS

Companies with a CSS of 1.0X yield an approximate internal rate of return of 120%.

Thank you to Byron Deeter, Partner at Bessemer Venture Partners. For a more in-depth explanation of these six metrics, check out our webinar and learn what investors like Byron look for from their portfolio companies.

View webinar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