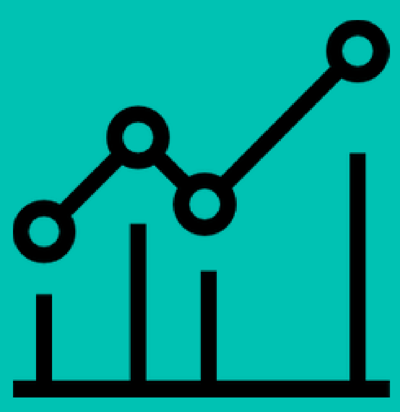
Top KPIs subscription model companies should be measuring



Why is tracking the right KPIs so important?

When traditional software companies switch to a subscription model, they can often be inundated with the amount of new data they are able to track and measure. But not all data is valuable, or truly gives you an accurate picture of the performance of your subscription offerings.

While KPIs should be measured to identify how your business is succeeding, there are some overlapping but also separate KPIs that will provide you insights into your actual product and services performance.

Annualized contract value

Annualized contract value (ACV) is your annualized revenue per customer contract. Finding this number can be useful for B2B companies who offer a mix of subscription terms, such as enterprise 3-year contracts along with shorter-term contracts. Knowing your ACV can help you identify what kind of customers you need to acquire and if you need to reduce acquisition costs. *If you're calculating based on usage, you can input estimates here as well.* See an ACV calculation to the right:

Contract	24 months
Contract Value	120 000 €
Monthly recurring revenue (MRR)	120 000 / 24 = 5000 €
ACV	5000 x 12 = 60 000 €

$$\text{ACV} = \frac{\text{Contract value / contract}}{\text{12 months (one year)}}$$

Customer lifetime value

ARPA (Average revenue per account)	60 000€
Gross Margin	25 000€ (41.6%)
Customer Churn Rate	6%
LTV	60 000 x 0,416 / 0,06 = 416 000€

$$\text{LTV} \quad \frac{\text{ARPA x Gross Margin}}{\text{Customer Churn Rate}}$$

Customer lifetime value (LTV) is important for subscription businesses to predict future revenue and profit, but it can also be telling for the success of your subscriptions. Using ARPA data, and churn rate, you can make basic predictions about LTV. If you want to increase your LTV, look to securing more subscription renewals, increase your pricing, or look for upsell opportunities.

Customer churn rate

Think of your customer churn as your average drop-off. If contracts are being canceled at a high rate, you may need to evaluate the quality and/or value of your offerings and make adjustments. B2B SaaS companies may also choose to look at Customer retention rate (CRR), which is the inverse of churn, to monitor performance and growth. See how to calculate churn rate here on the right:

Customers at the start of the month	1000
Existing customers that left in that month	50 (5%)
New customers gained in that month	500
New customers that left	10 (2%)
Total customers that left	50 + 10 = 60
Churn rate	60 / 1000 = 6%

Customer acquisition cost

Total cost for marketing activities	200 000€
Total cost for sales activities	50 000€
Costs for marketing/sales staff	300 000€
Total new customers for the period	50
Customer acquisition cost	550 000 / 50 = 11 000€

$$\text{CAC} = \frac{\text{total sales and marketing costs}}{\text{total new customers acquired}}$$

If you want to accurately calculate the profit you make from each of your contracts, then you must know how much you spend to acquire them. Calculating the customer acquisition cost (CAC) can help you find your return on investment, and understand if you're spending too much to gain customers, or if you should invest more. CAC is a very individual calculation for each SaaS company, because the way you allocate your resources for marketing and sales may be different. Try to include every activity and overhead cost (like sales staff salaries) to get an accurate picture.

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