



edisonpartners

GROWTH INDEX

2018



edisonpartners

INTRODUCTION

Welcome to our fourth annual **Edison Growth Index!**

Here, we've distilled and prescribed characteristics, practices and best-in-class methods associated with "fast growers," versus the rest of the pack. As discovered in previous years and validated again this year, the central driving force for fast growers is the appropriate, aligned go-to-market model executed with excellence and coupled with financial discipline and investment.

We concentrate on the Sales & Marketing domain since it is the cornerstone of the go-to-market model and the centrifuge for achieving 30+% growth. Simply put, you will not be a fast grower without Sales & Marketing excellence.

Use this report to compare your business to like companies in the Edison portfolio, as well as industry guidance. The benchmarks and advice will enable you to map your own plan and journey to becoming a fast grower, or accelerate even faster to a \$100M company.

A big 'thank you' to this year's participants for their contributions to the study. [Edison Edge](#) programs like this would not be possible without your continued involvement.



Kelly Ford Buckley

Partner



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IN THIS REPORT



- Key operational and financial metrics for growth-stage companies, i.e., companies who have moved beyond startup mode and, in many cases, are focused on growth beyond the topline
- Analysis of the results of a survey conducted with senior executives across the Edison portfolio companies during February 2018
- A focus on the characteristics common in companies with 2017 GAAP revenue growth rates of 30% or higher

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- I. Participant Demographics
- II. Topline Growth
- III. Gross Margin Expansion
- IV. Bottom Line Growth
- V. Closing Thoughts
- VI. Metric Definitions
- VII. Appendix

THE MANY DIMENSIONS OF GROWTH

REVENUE



Early-Stage CEO

Revenue
Gross Margin
EBITDA
Cash Flow
Other Value Drivers

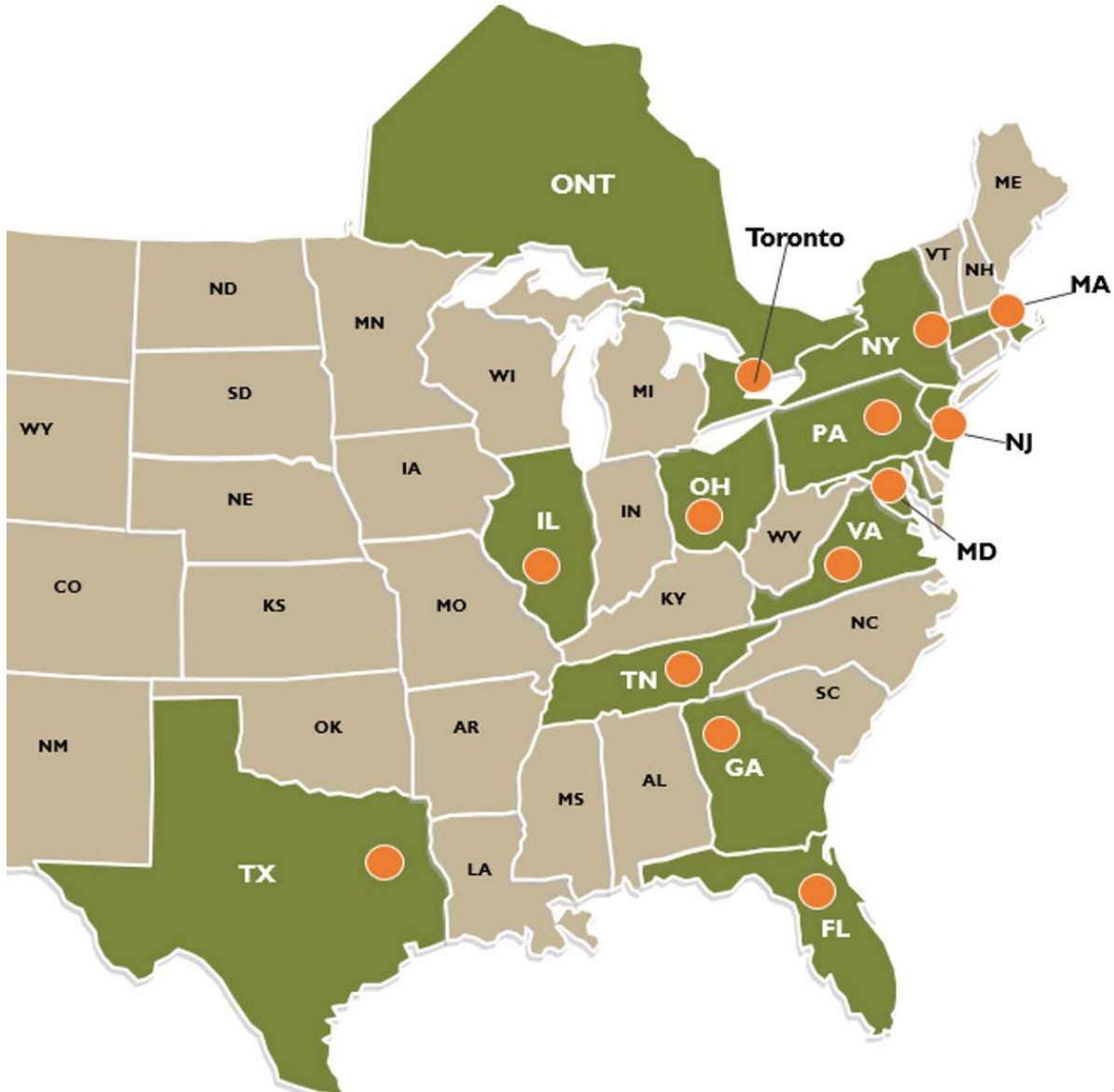
(We need a bigger thought bubble)



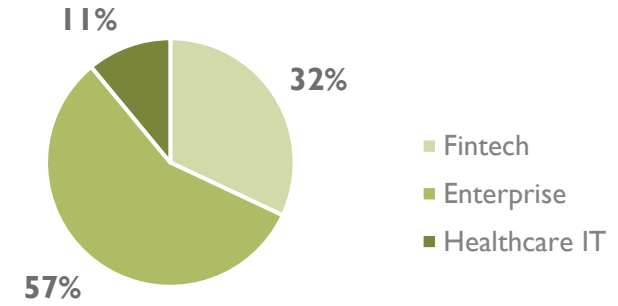
Growth-Stage CEO

I. PARTICIPANT DEMOGRAPHICS

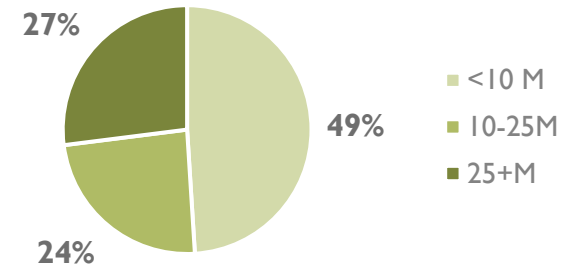
PARTICIPANT DEMOGRAPHICS



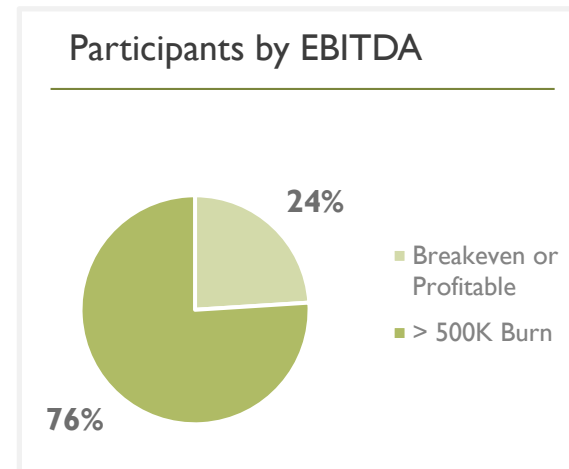
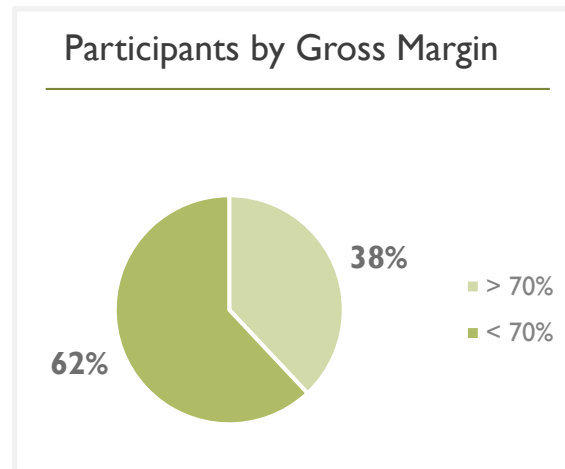
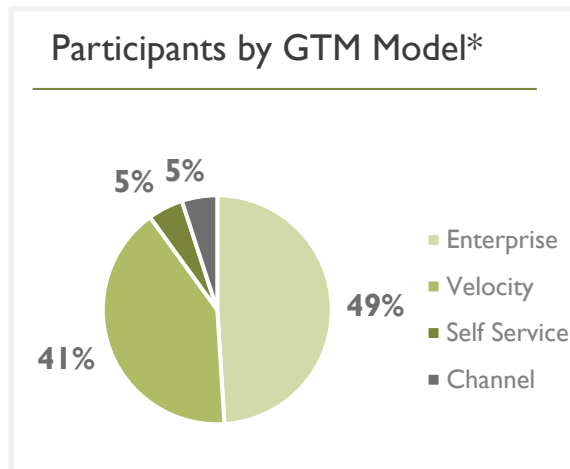
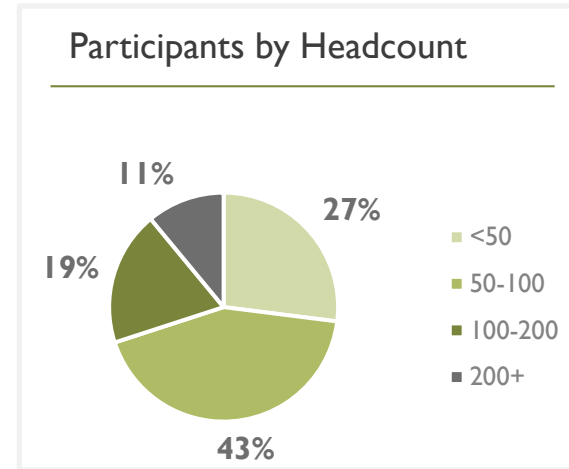
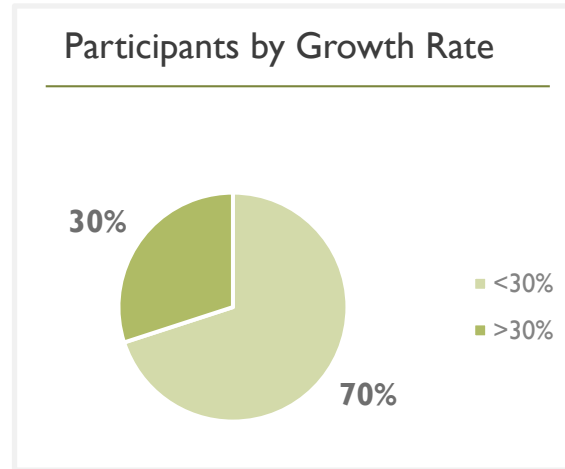
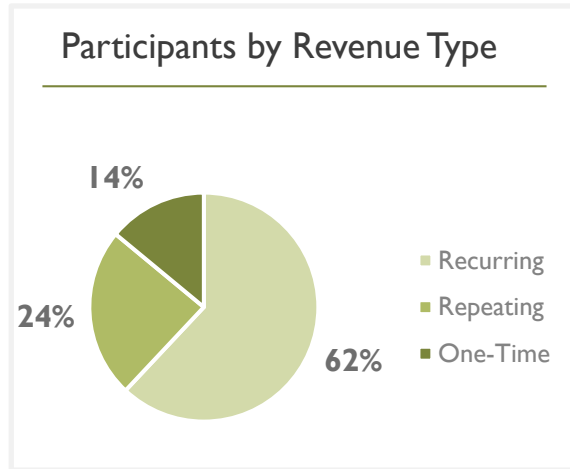
Participants by Industry



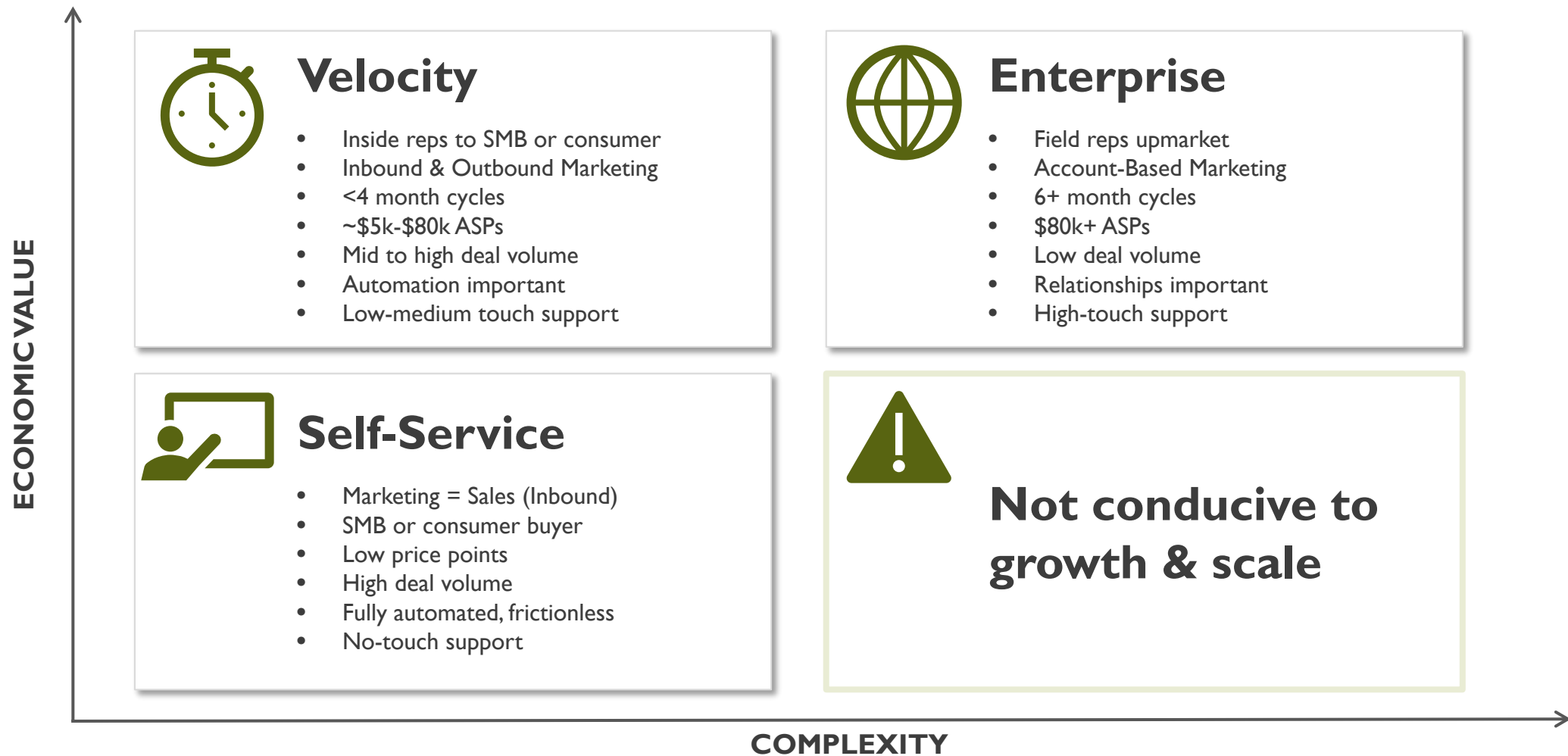
Participants by Revenue Range



PARTICIPANT DEMOGRAPHICS



PARTICIPANT GO-TO-MARKET MODEL COMPOSITION



Our Growth Index participants are primarily businesses with Velocity and Enterprise direct go-to-market models, with 5% of companies having a Self-Service component, and 19% also selling through indirect channels. As such, you will see that this analysis prioritizes Enterprise and Velocity dynamics.

II. TOPLINE GROWTH



FAST GROWERS HAVE 4 TOPLINE CHARACTERISTICS IN COMMON



① Investment in Sales & Marketing

Spend >70% more as a percentage of revenue



② Higher ASP

Enjoy a >3X higher average selling price (ASP)



③ Strong Close Rates

Convert pipeline to closed business at 2X the rate of slower growers



④ Higher Retention

Retain dollars at a higher rate

FAST GROWERS INVEST MORE IN SALES & MARKETING

- Fast Growers
- Slower Growers

Sales & Marketing Expense
% of Revenue



① Investment in Sales & Marketing

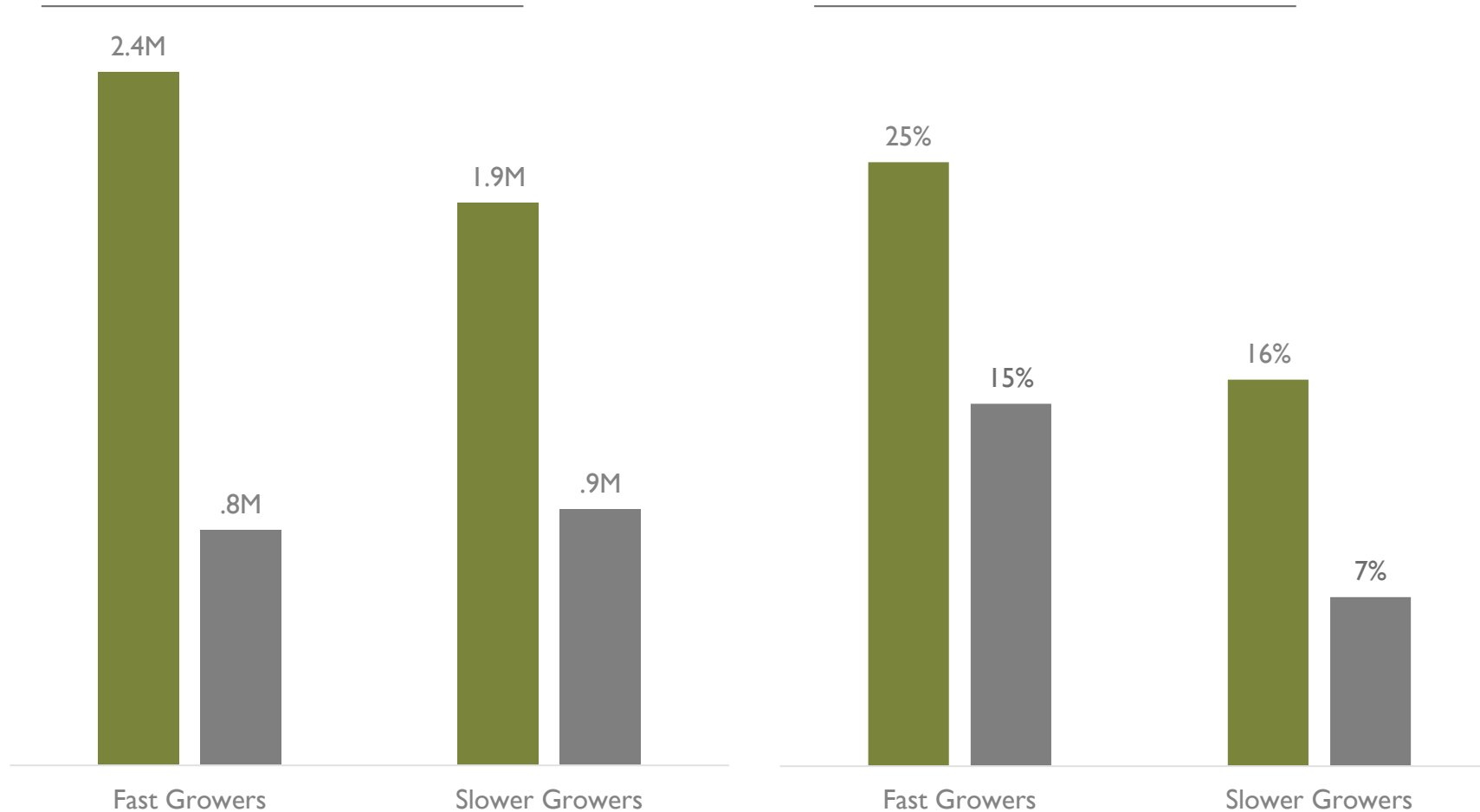
Fast growers spend >70% more in Sales & Marketing

SALES & MARKETING SPEND



Sales & Marketing Expense
\$USD

Sales & Marketing Expense
% of Revenue



Perspective

Sales and marketing provide the shortest and most direct path to revenue growth, so it is only logical that it would be a common characteristic for fast growers.

Since our inaugural Index in 2014, this trend has remained consistent year over year.



CAC GUIDELINES BASED ON GTM MODEL

Customer Acquisition Cost by GTM Model

\$USD; SaaS companies

	SELF-SERVICE	VELOCITY	ENTERPRISE								
CAC GUIDANCE	30 to 200	<table border="0"> <tr> <td><i>low-touch</i></td> <td><i>high-touch</i></td> </tr> <tr> <td>300 to 800</td> <td>3k to 8k</td> </tr> </table>	<i>low-touch</i>	<i>high-touch</i>	300 to 800	3k to 8k	<table border="0"> <tr> <td><i>w/o Sales Engineer</i></td> <td><i>w/ Sales Engineer</i></td> </tr> <tr> <td>25k to 75k</td> <td>75k to 100k</td> </tr> </table>	<i>w/o Sales Engineer</i>	<i>w/ Sales Engineer</i>	25k to 75k	75k to 100k
<i>low-touch</i>	<i>high-touch</i>										
300 to 800	3k to 8k										
<i>w/o Sales Engineer</i>	<i>w/ Sales Engineer</i>										
25k to 75k	75k to 100k										
GROWTH INDEX PARTICIPANTS	<p>102</p> <p>All B2B & B2C companies within range</p>	<p>19,946</p> <p>15% of companies within range</p>	<p>206,687</p> <p>8% of companies within range</p>								
FAST GROWER CAC	100	43,800	175,868								
SLOWER GROWER CAC	103	11,001	252,915								



Perspective

Index participants are spending **well above** the recommended ranges for scalable growth. That said, this year's data is heavily influenced by two dynamics:

1. Earlier stage companies with <\$10M revenue focused on rapidly building their growth engines
2. Companies investing heavily in expansion upmarket, while continuing to grow their midmarket business

The companies in range with guidance are those with more mature growth engines, or slower to build them.

Of course, CAC only tells part of the story, and means very little without examining CAC payback and CLTV. This year, fast growers recovered CAC one month faster than slower growers (17 months, vs. 18 months on average), placing both fast and slow growers within the recommended range of 9-18 months.

Achieving best-in-class CAC and CAC payback requires a keen focus on:

- **Attribution** (best sources of demand for volume, velocity and value)
- **Repeatability** (segments, sectors, selling disciplines, price points)
- **Alignment** (between marketing, sales development, sales & product)



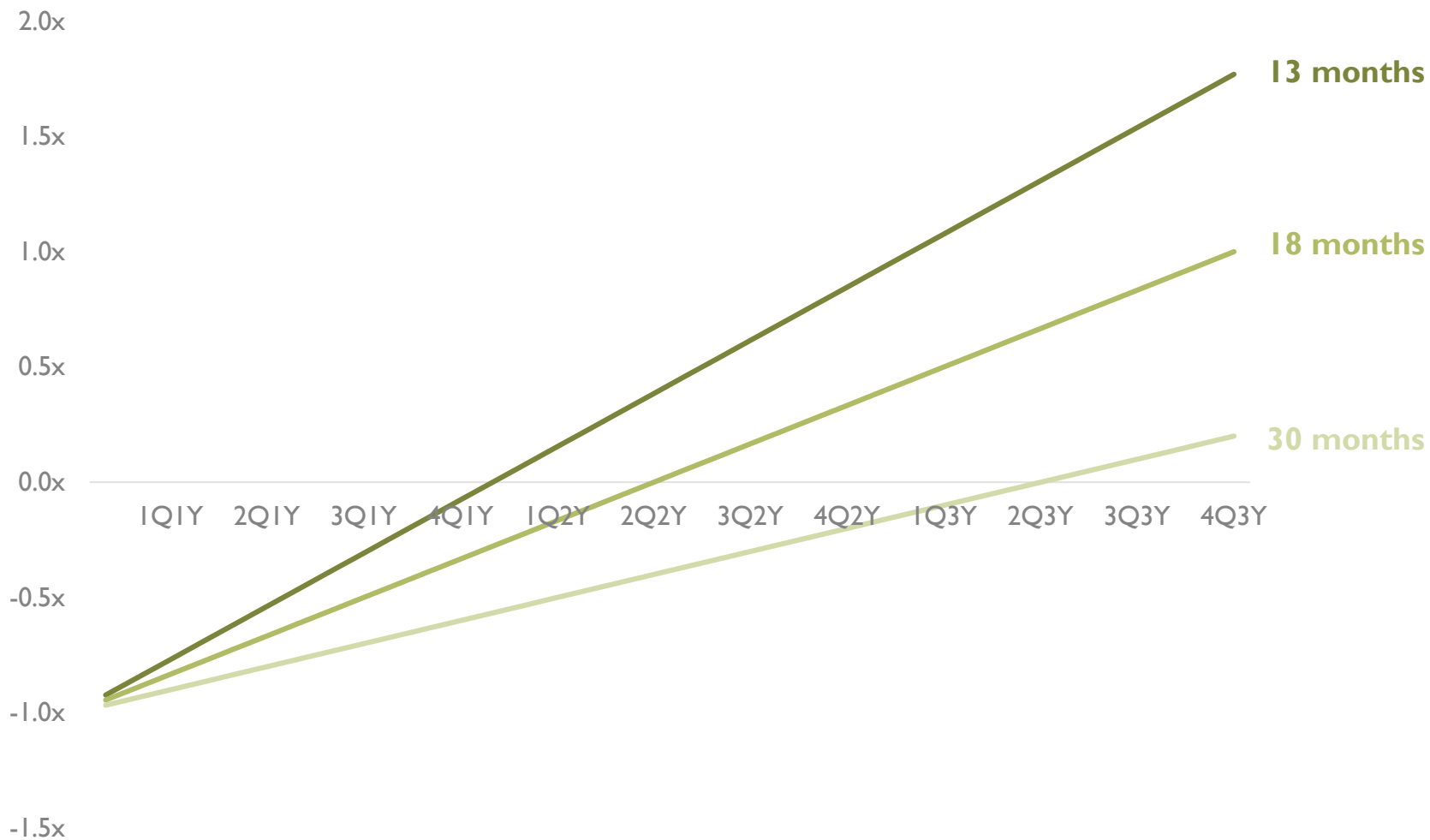
CAC RECOVERY ALSO SIGNIFICANTLY AFFECTS CASH



Perspective

Net Cash Flow per Customer
Multiple of CAC

Time to Recover CAC
Months



The longer it takes to recover CAC, the worse it is for cash flow – as illustrated by the chart on the left showing three example Edison companies.

The number one thing you can do to combat CAC’s impact on cash flow is collect payment upfront, and incent advance payment for multi-year contracts. This will enable the receipt of more cash than recognized as revenue, and provide a more concrete view of cash runway.



FAST GROWERS HAVE HIGHER ASPs

- Fast Growers
- Slower Growers

② Higher ASP

Fast growers enjoy an average selling price (ASP) that is **>3X** higher than that of slower growers

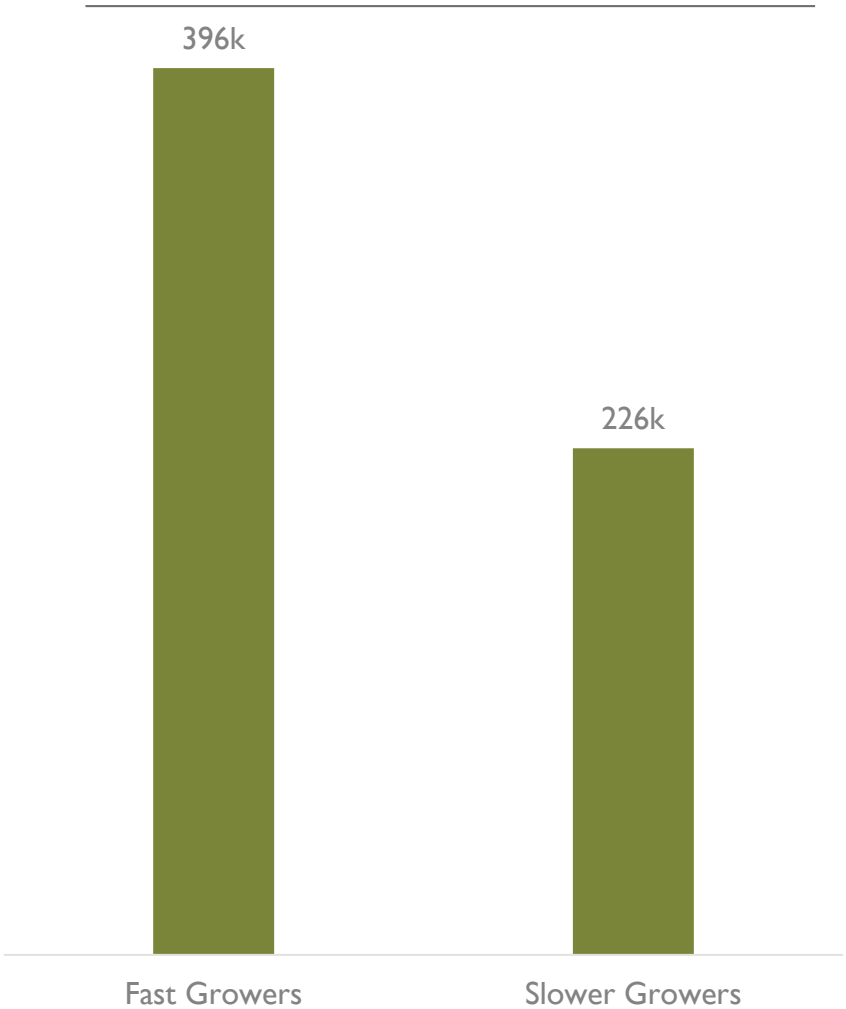
Average Selling Price
\$USD



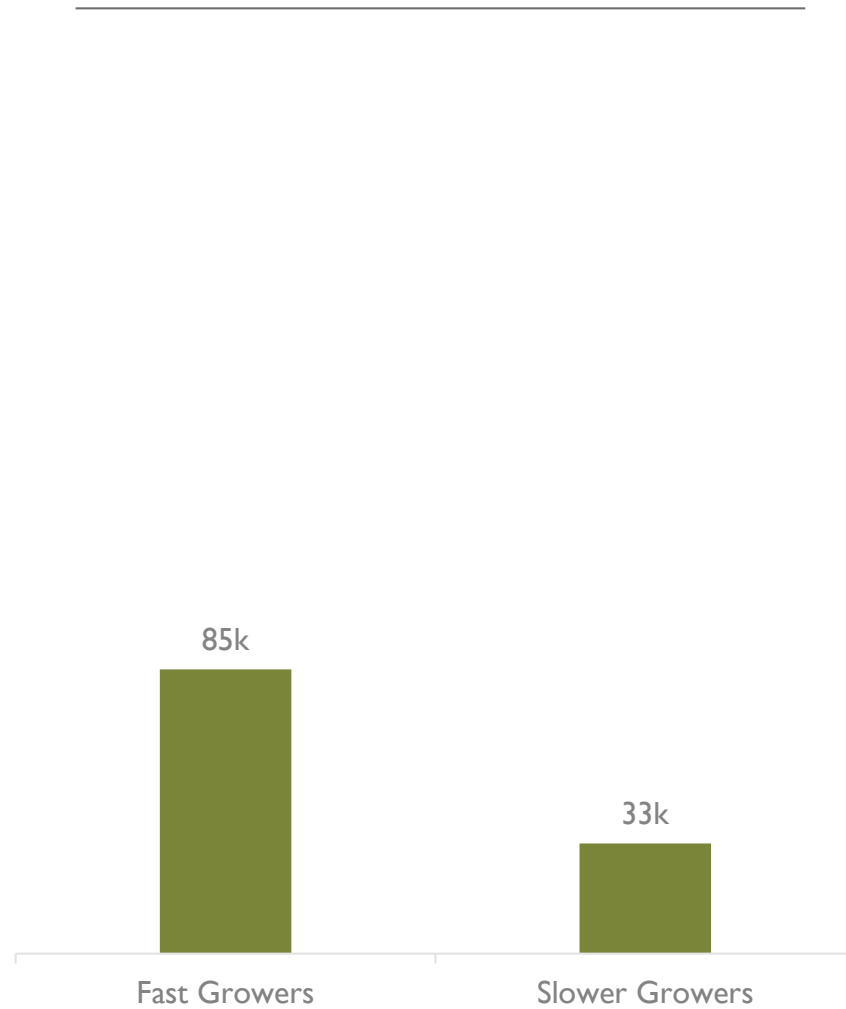
ASPs ATTRIBUTABLE TO ENTERPRISE MODELS



ASP – Enterprise Models
\$USD



ASP – Velocity Models
\$USD



Perspective

As noted earlier, Enterprise go-to-market models have significantly higher ASPs than Velocity and Self-Serve models. Even within their respective segments, fast growers have roughly 2X higher ASPs.

Scaling Velocity models is hard, as lower price points obviously require a high volume of, well... everything. However, companies with Velocity models do enjoy something that Enterprise often lack during the growth stage, and that is access to a higher volume of data.

Fast growers obsess over buyer journey data, run regular experiments, fail and learn fast, and use insights to continually optimize not only their marketing and sales motion, but also their product. In fact, this year's fast growers with Velocity models drove ASPs >2X higher than that of last year. This is reflective of two dynamics:

1. Successful moves up market with the same inside sales teams
2. Diversified product sets enabling sellers to sell more than one product to a single new account



OPTIMIZE PACKAGING & PRICING TO DRIVE UP ASPs



Perspective

Fast growers follow the best practice of using multiple pricing levers to drive up ASPs and customer lifetime value. And those with \$10M+ in revenue commonly have diversified product sets whether through add-ons or entirely new products.

This graphic details best methods for getting more leverage from your pricing and packaging model.

Companies that have not yet evolved beyond simple edition or seat based pricing are missing an opportunity to capture more value per customer.



USERS

Named user or seat based pricing with volume-based tiering



FEATURES

An enhancement that offers differentiation and/or drives adoption and usage should be included in the platform price.



ADD-ONS

Price features enhancing the platform's core value proposition as an add-on module for 10-30% of platform price.



DATA

If your platform collects data that is valuable to your customers, then package data access (and perhaps even insights) as part of a premium edition. If the data is also valuable to third parties, create a new data services revenue stream.



Price education and customization service offerings (typically high value) as 10-20% of platform.

USAGE



Tier based on some depth of usage volume metric, e.g., contacts, campaigns, storage, integrations/connections to other systems, support level

NEW PRODUCTS



An offering with an independent value proposition should be priced separately based on a metric that represents and tracks the value the customer realizes from usage. Two or more of the above levers continue to apply when diversifying your product portfolio.

FAST GROWERS ARE BETTER AT CLOSING DEALS

- Fast Growers
- Slower Growers

③ Strong Close Rates

Fast growers close pipeline at >2X the rate of slower growers

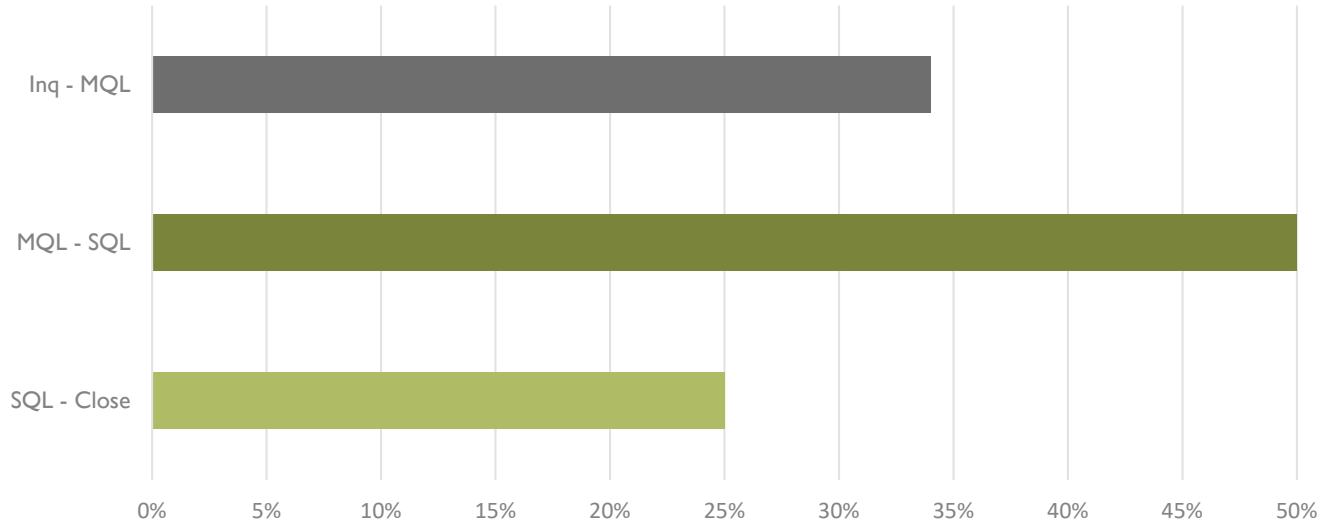
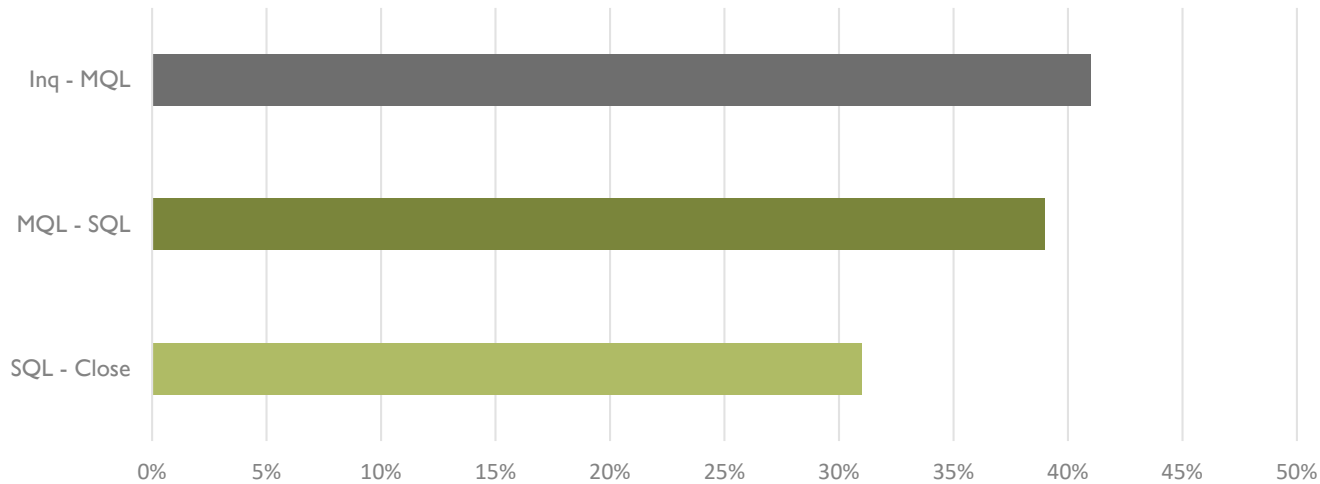
Close Rate
% of SQLs converting to New Customers



FAST-GROWER FUNNEL DYNAMICS

Conversion Rates by Stage

%



Perspective

Both fast growers and slower growers are converting leads and opportunities in line with guidance, but conversion rates obviously do not tell the full story.

For example, the slower-grower funnel has a fat middle, which is likely the result of lighter qualification and discovery practices. Giving sellers more at bats requires close monitoring as it can negatively impact downstream sales productivity. This is most common with Velocity models, and also illustrated on the next page where we look at Enterprise vs. Velocity funnel dynamics.

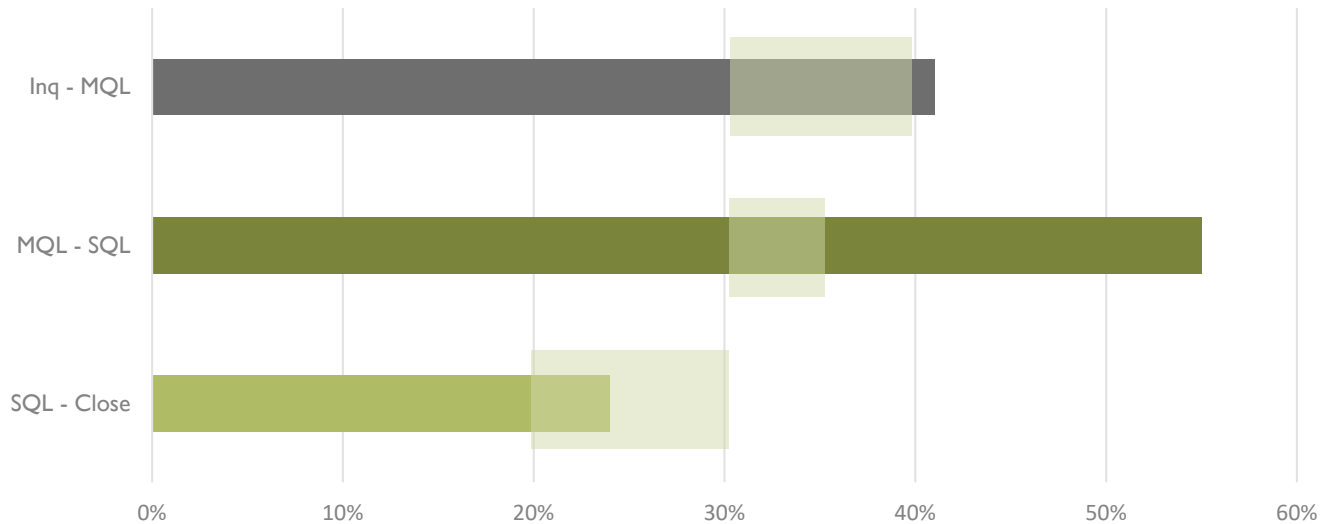
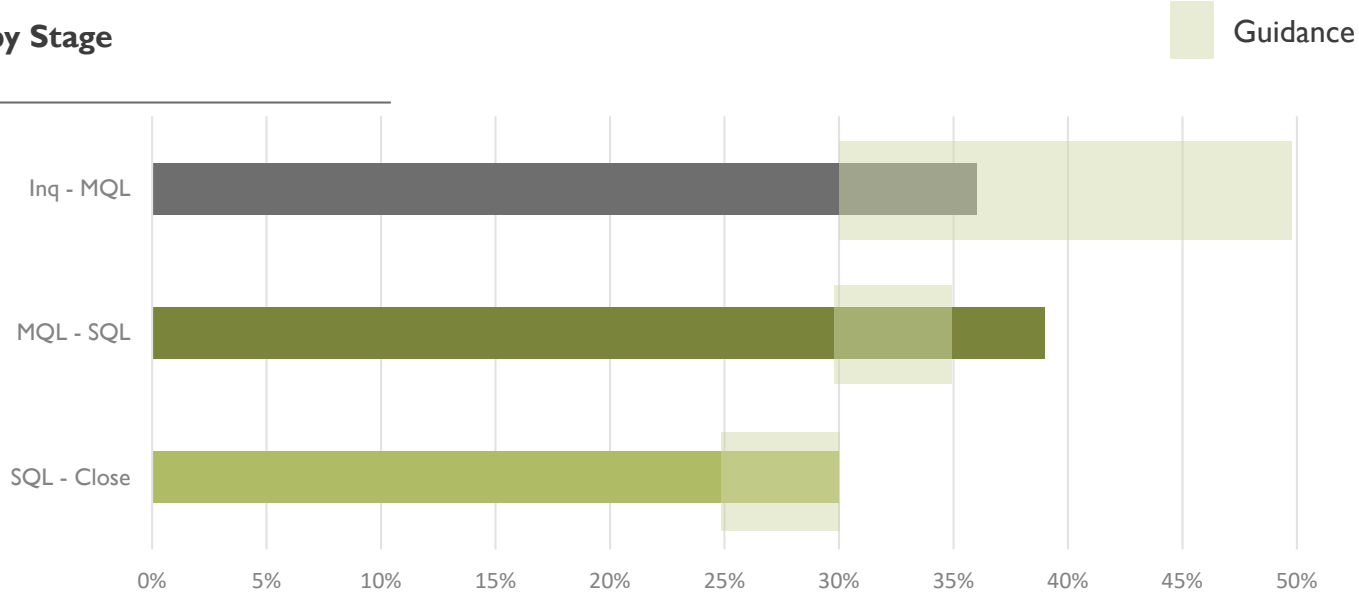


FUNNEL DYNAMICS BY GO-TO-MARKET MODEL



Conversion Rates by Stage

%



Perspective

Again, on average, Index participants are converting funnel stages at best-in-class rates. There are similarities between these and the funnel charts on the prior page, as participants with Enterprise models represent the majority of fast growers.

The acquisition initiatives of companies with Enterprise models are more targeted (named accounts) and more complex, driving engagement with multiple stakeholders typically in varying stages of readiness. Most, if not all, of this year's fast growers are embracing account-based marketing and sales best practices:

1. Setting goals aligned with desired outcomes at each stage of the buyer journey
2. Focusing on accounts aligned with Ideal Customer Profile
3. Strong account and contact data hygiene
4. Creating relevant, personalized content
5. Driving engagement through coordinated marketing and sales touch points
6. Continually measuring and analyzing results



FAST GROWERS BETTER AT RETAINING & UPSELLING CUSTOMERS

■ Fast Growers
■ Slower Growers

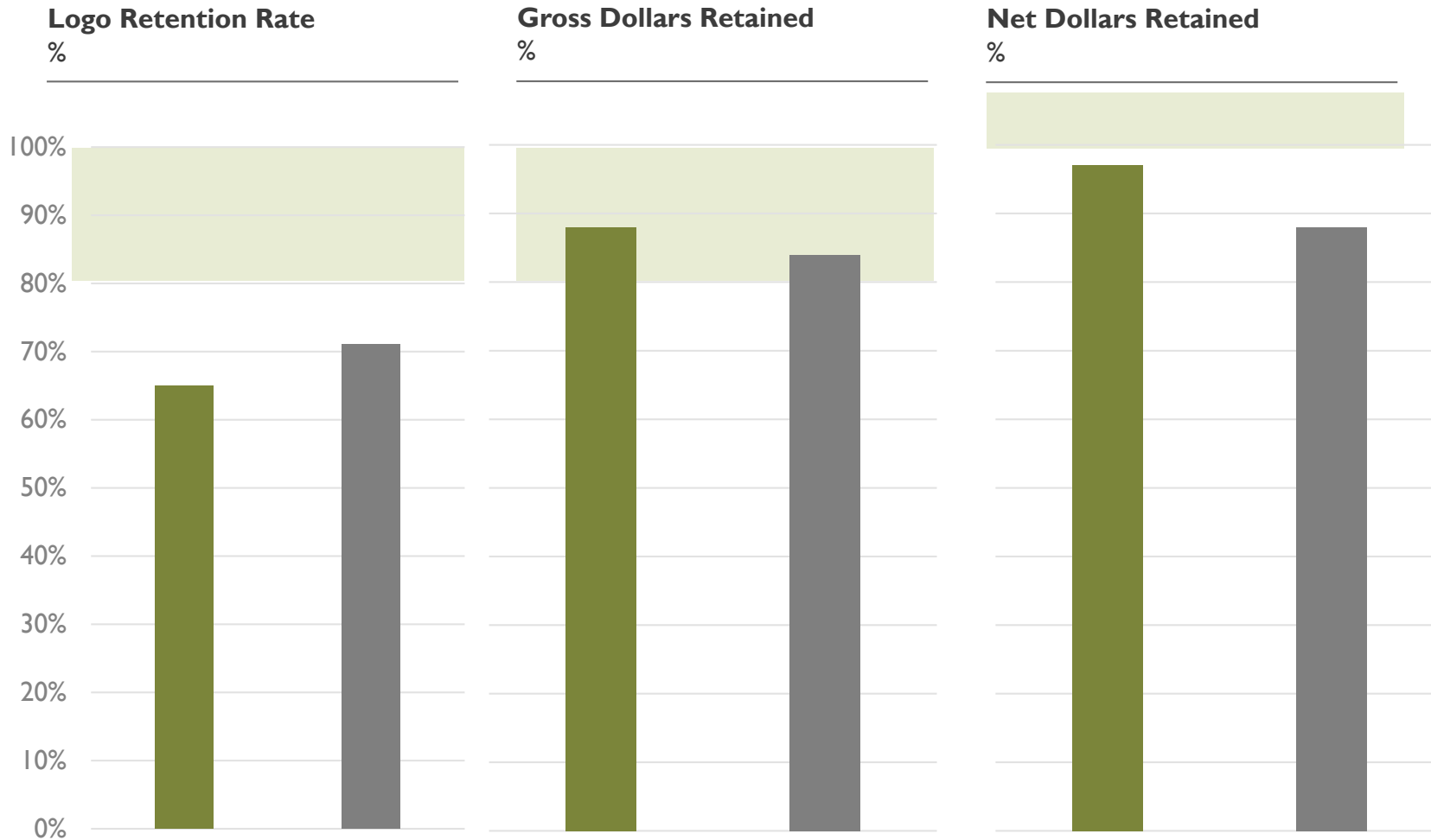
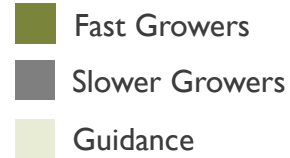
④ Higher Retention

Fast growers retain revenue at higher rates

Net Dollars Retained
%



CUSTOMER & REVENUE RETENTION DYNAMICS



Perspective

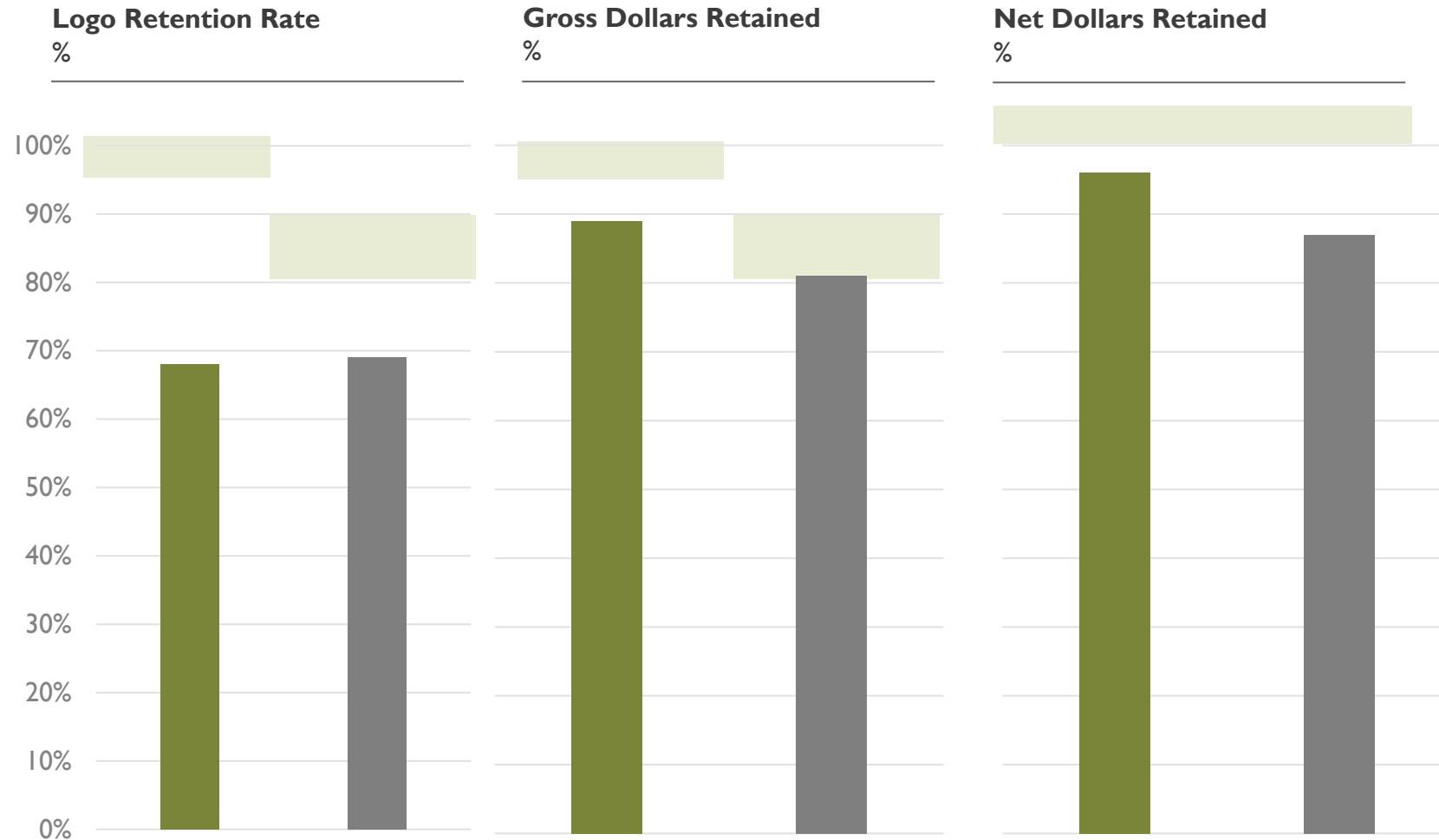
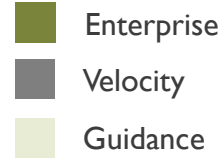
Retention is the strongest indicator of health for SaaS businesses. If you're able to exceed 100% Net Dollars Retained, you have *guaranteed* growth. Essentially, you could fire the entire sales team (not recommended, of course) and still grow.

This year's fast growers come close, but are not yet operating at best-in-class Net Dollar Retention rates.

Dollar retention should be prioritized over logo retention. In fact, dollar retention exceeding logo retention is often a strong indication that a company is focused on retaining its higher value and higher margin customers.



ANNUAL RETENTION TRENDS BY GO-TO-MARKET MODEL



Perspective

Strong retention is expected with Enterprise go-to-market models, so it's no surprise that this year's fast growers have strong retention.

Net Dollars Retained coming up short of guidance commonly indicates a lack of customer lifecycle and product diversification strategy. (Flip back to page 18 for packaging and pricing considerations in this regard.)

Companies are certainly encouraged to prioritize dollars retained, but logo retention should not be ignored. A median logo retention rate of 58% for Velocity models begs the question: *Did we sell our product/services to the right customer segment in the first place?*

Page 26 highlights this and other questions organizations need to be asking themselves to drive up retention.



IMPACT OF CHURN



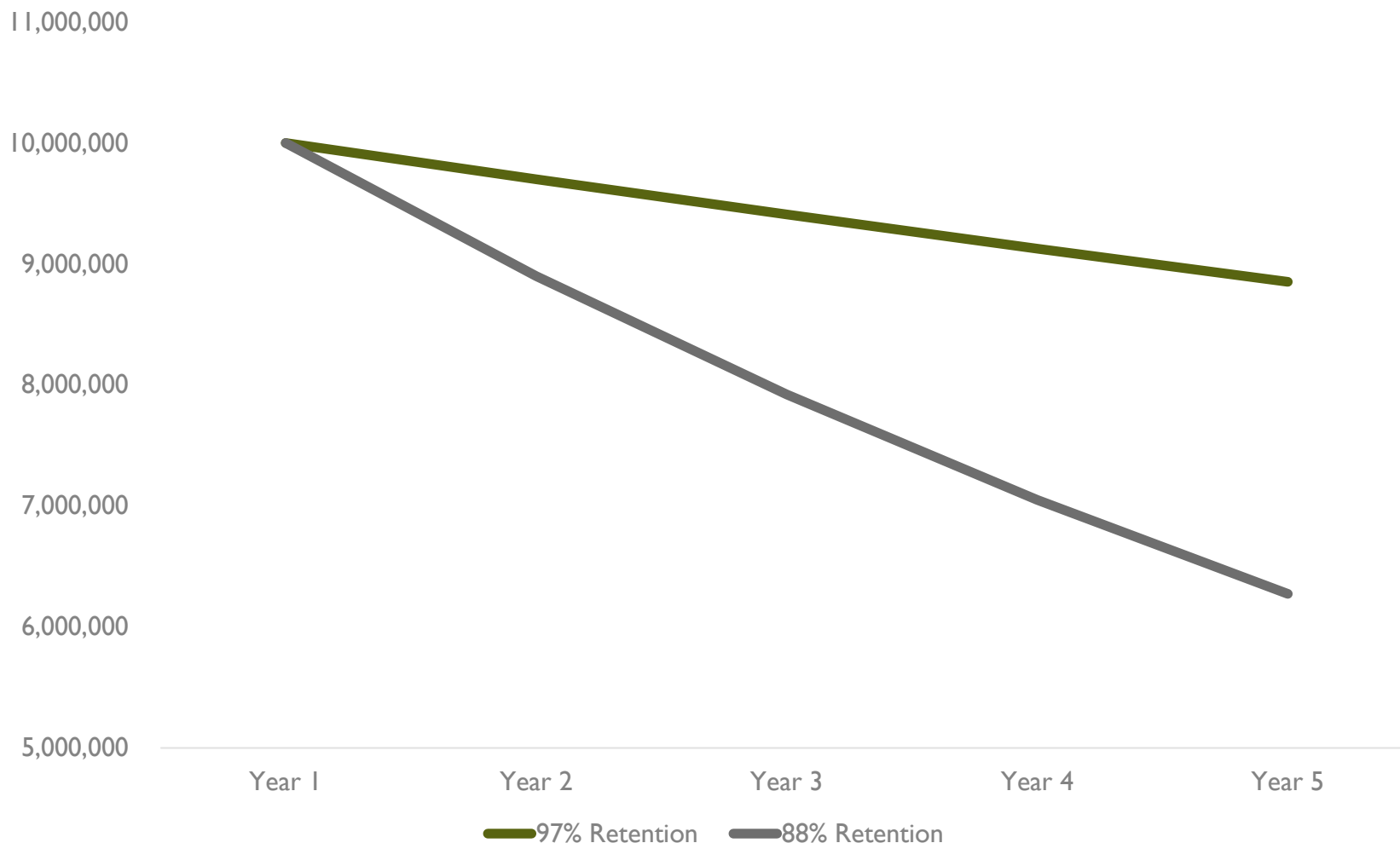
Perspective

While a nine-point delta in retention rate (between fast growers and the rest of the portfolio) may not seem significant on the surface, it can have a meaningful impact over time.

Consider two companies with \$10M ARR and retention rates of 97% and 88%. After one year, the ARR bases grow/shrink to \$9.7M and \$8.8M, respectively. Three years later, those ARR bases turn into \$9.1M and \$6.8M.

Now, consider your customer's lifetime. If you intend to keep your customers for 5+ years, you can expect a 62% lift with only a 9% increase to net retention.

ARR Growth over time
\$ USD; Years



GOT CHURN? 8 QUESTIONS TO ASK YOURSELF

1 ARE YOU SELLING TO YOUR IDEAL CUSTOMER PROFILE?

Focus your entire company on the buying organizations that derive the most value from your product and are willing to pay for it.

2 IS YOUR PRICING MODEL ALIGNED WITH THE VALUE REALIZED FROM YOUR PRODUCT?

Cost cannot outsize customer consumption or outcomes. Adopting a value-based pricing approach ensures usage aligns with price.

3 DO YOU HAVE A DEFINITION FOR CUSTOMER (ACCOUNT) HEALTH?

Identify one or more metrics that correspond with attributes you know result in a successful customer, or a customer at risk of churning.

4 DO YOU TAILOR YOUR CUSTOMER SUCCESS PRACTICES?

Delineate between practices designed for CSMs managing 100 \$20k ARR accounts (1:many), vs. those managing 20 \$100k accounts (1:1).

5 ARE CUSTOMERS ASKING FOR PRODUCT IMPROVEMENTS THAT ARE NOT BEING MET?

When customers don't feel heard and release schedules slip, step back from that last customer complaint to consider the bigger picture and potential of a customer-driven culture.

6 ARE YOU EASY TO DO BUSINESS WITH?

The ability to offer frictionless experiences plays a big role in delighting and retaining customers, particularly with support and contract related processes.

7 WHAT IS YOUR PRACTICE WHEN THERE IS A NEW POINT OF CONTACT AT AN ACCOUNT?

Treat new POCs as if she is becoming a customer for the first time. And try to hone in on whether she stands to benefit personally from continued, successful use of your product.

8 ARE YOUR CUSTOMERS PAYING UP FRONT FOR ANNUAL CONTRACTS?

Customers who pay in advance have a greater commitment to the product and successful adoption of it.



III. GROSS MARGIN EXPANSION

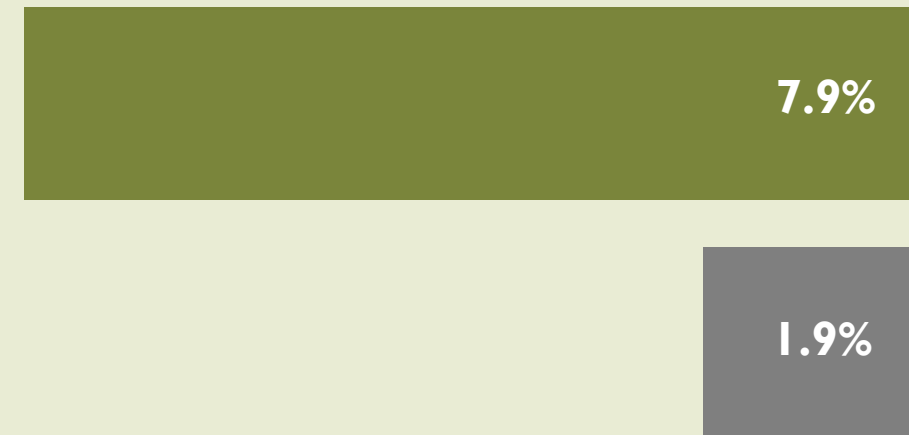
FAST GROWERS EXPAND GROSS MARGIN AT HIGHER RATES

- Fast Growers
- Slower Growers

① Gross Margin Improvement

Fast growers experienced an 8% lift in Gross Margin from the prior year

Gross Margin Growth
% of Revenue



COST PROFILE OF SOFTWARE VS. SERVICES COMPANIES



Perspective




Companies maintaining high gross margins are *true* software companies, primarily SaaS companies emphasizing software product revenue over lower-margin service revenue.

Companies with SaaS-level margins (>70%) are also those incurring more hosting costs than COGS-related labor costs, i.e., customers are paying for technology, not people.

Labor & Hosting Costs % of COGS



METHODS TO DRIVE GROSS MARGIN EXPANSION

1	SIMPLIFY PRODUCT		<ul style="list-style-type: none">✓ Build services tasks into product whenever possible✓ Automate migrations and integrations✓ Focus product development on usability✓ Instrument product to understand usage & aid support
2	LIMIT SERVICE DEPENDENCIES		<ul style="list-style-type: none">✓ Streamline onboarding & implementation✓ Automate tactical, human-assisted tasks✓ Offer more efficient tech support via live chat✓ Ensure robust, self-serve training offerings
3	REDUCE HOSTING COSTS		<ul style="list-style-type: none">✓ Continually assess customer data storage requirements, and modify data retention policy✓ Ensure close working relationship between R&D and hosting operations to continually improve efficiency
4	INCREASE PRICE		<ul style="list-style-type: none">✓ See page 18 for ways to capture more value for your products and services

And perhaps the best indirect method for driving up gross margin: **CUSTOMER RETENTION**. New customers require substantially more support than longer-term customers. Programs that focus on customer success and improve customer retention lower the cost of support.



FAST GROWERS HAVE RECURRING REVENUE MODELS

- Recurring Model
- Other Revenue Model

② Recurring Revenue Model

The majority of fast growers have annual subscription models

Revenue Model
% of Fast Growers



THE SAAS TRADEOFF

HIGHER PERFORMANCE AT HIGHER COST

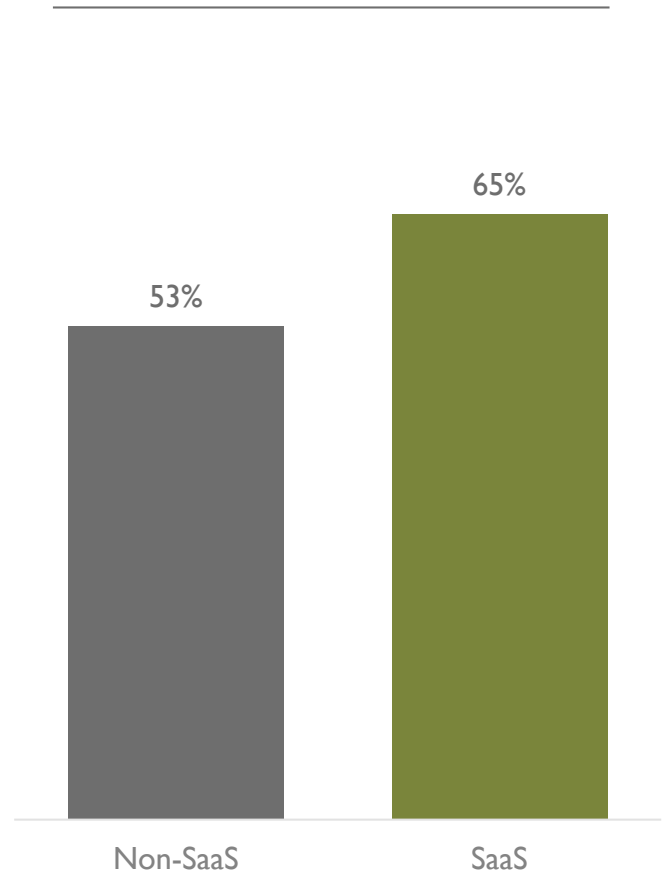


Perspective

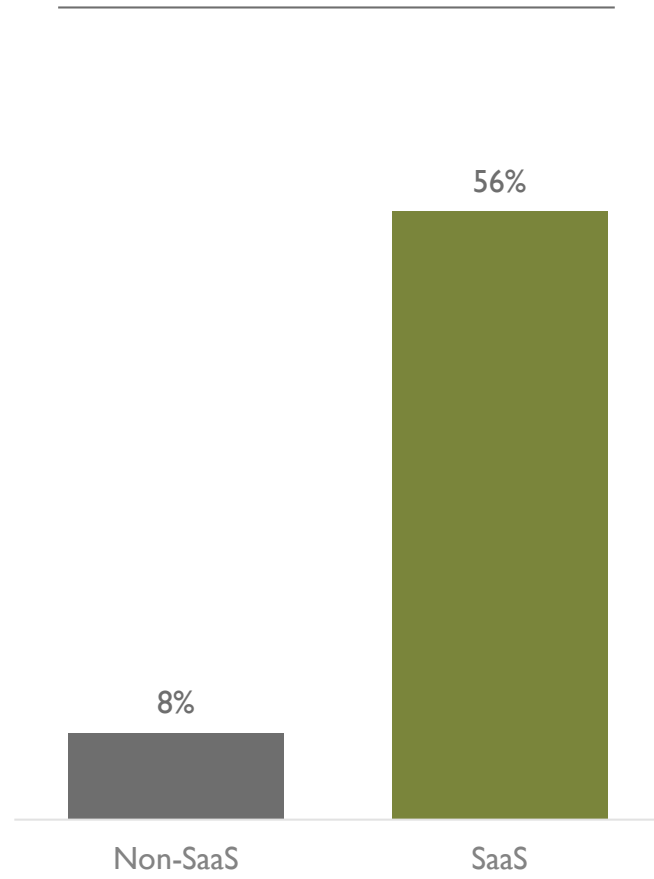
The major advantage for recurring revenue businesses is higher quality revenue, as witnessed in higher gross margins. And as we saw with faster growers, gross margin will expand more quickly as topline increases at a faster rate.

The tradeoff lies in the need for greater expense, and hence, higher cash burn.

Gross Margin
%



Operating Cash Burn
% of Revenue



IV. BOTTOM LINE GROWTH



FAST GROWERS HAVE THESE BOTTOM LINE CHARACTERISTICS IN COMMON

1

Rapid Hiring

Fast growers grew headcount by 55%

2

Higher Revenue per Employee

*Fast growers drove up revenue per employee
>3x higher than slower growers*

3

Heavy Losses

Fast growers incurred 133% EBITDA loss



FAST GROWERS HIRE MORE

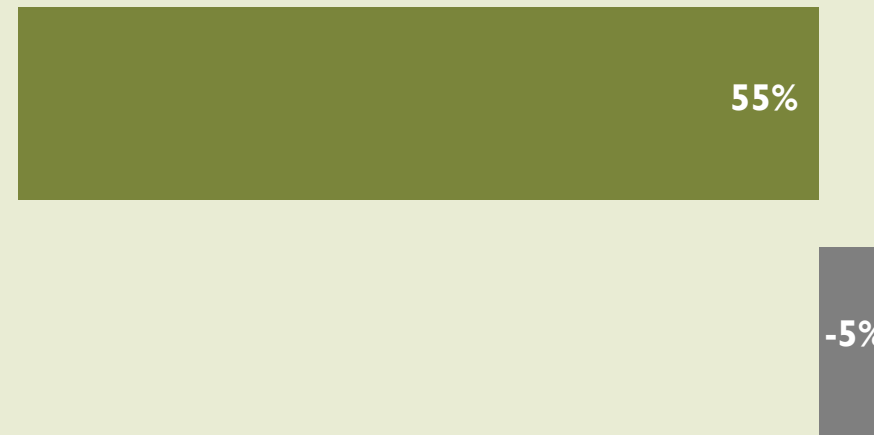
- Fast Growers
- Slower Growers

Change in Headcount
This year vs. last year



Rapid Hiring

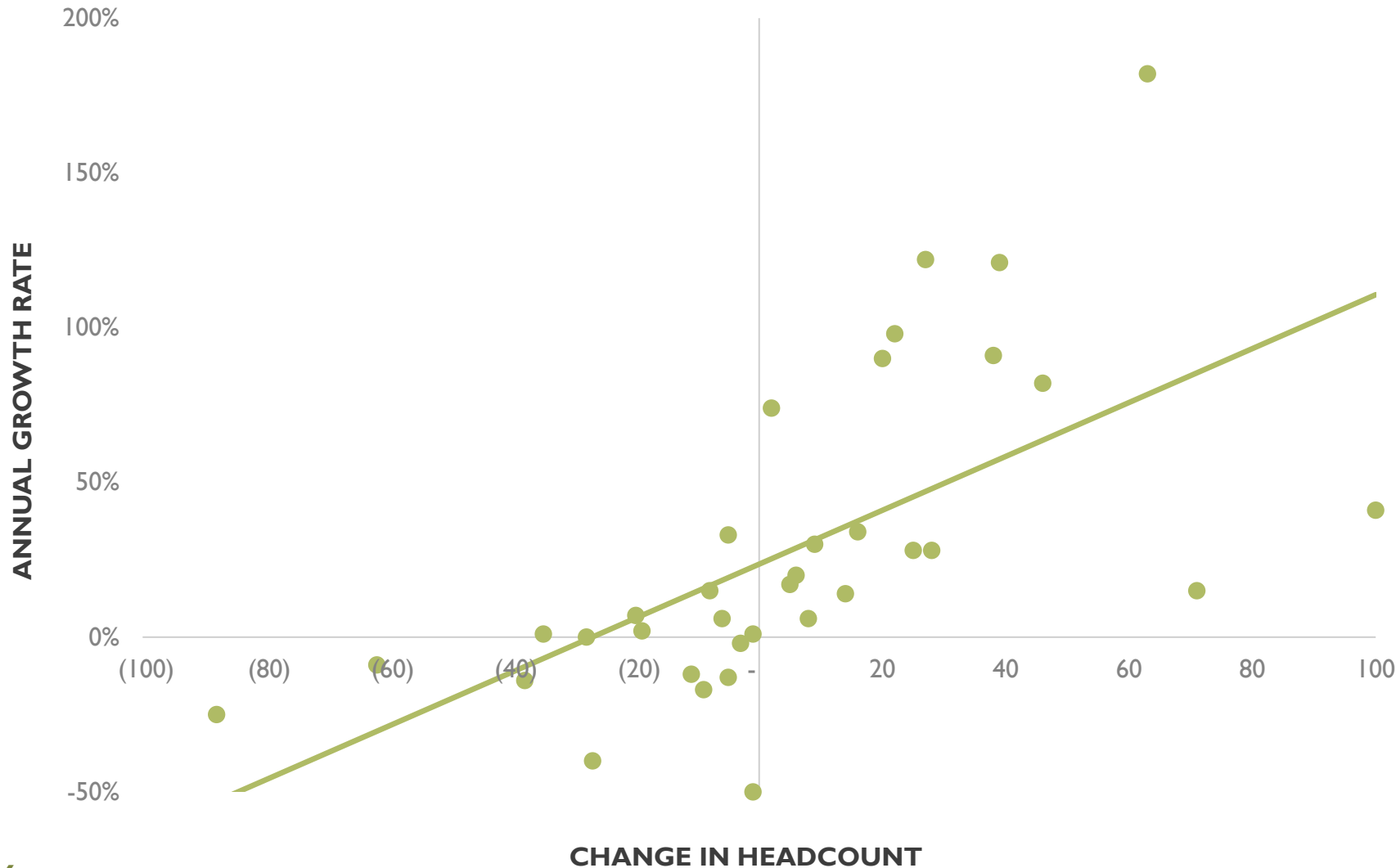
Fast growers grew headcount by 55%



WHICH CAME FIRST: THE HIRING OR THE GROWTH?



Growth Rate vs. Change in Headcount
%, # of employees



Perspective

It seems logical that a correlation would exist between growth rate and change in headcount, but which drives which?

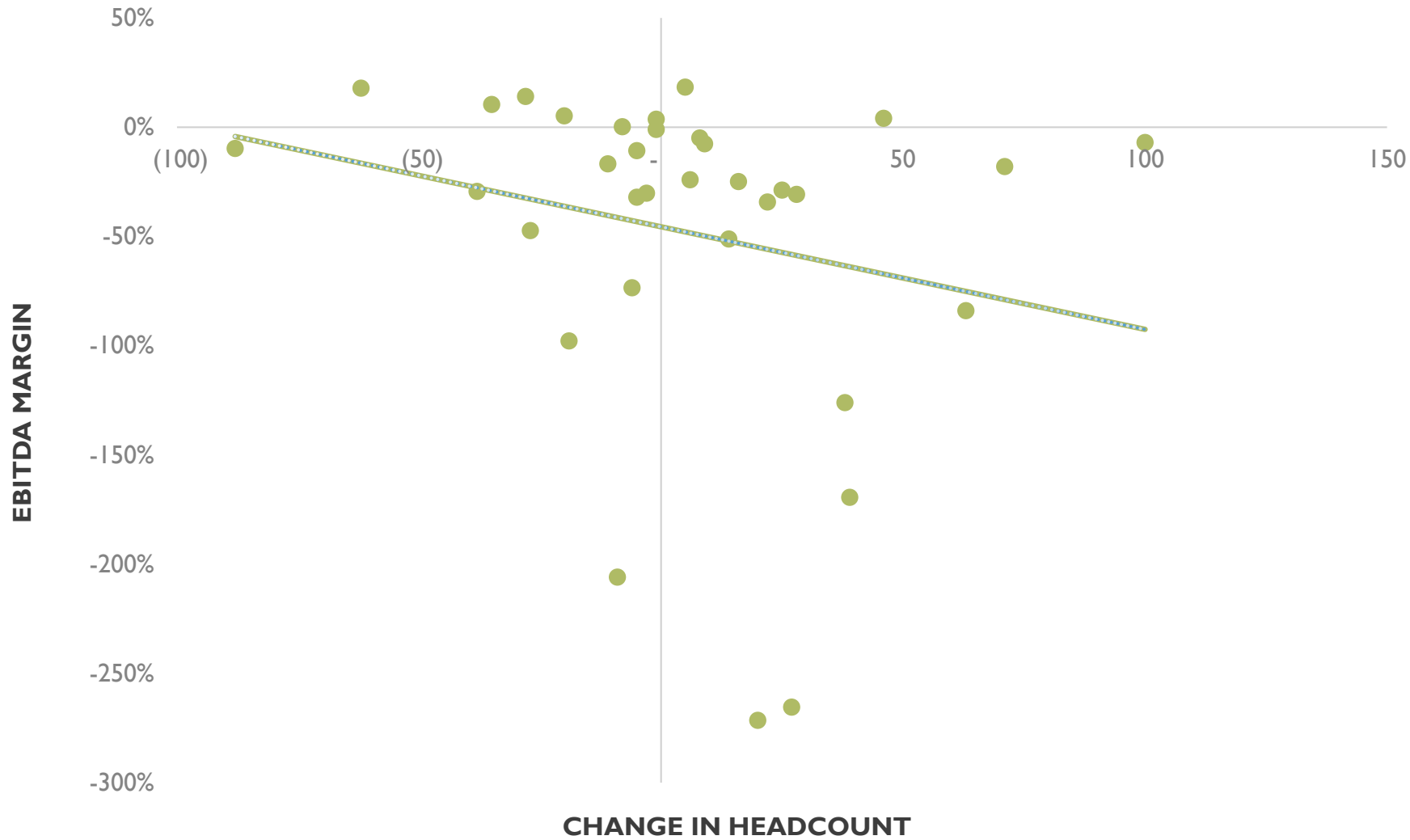
Given that growth rate is derived from GAAP revenue (a trailing metric), it can be concluded that hiring is following visibility to growth, i.e., bookings.

But what happens when the rapid bookings trend starts to slow down?



WHAT CAME SECOND? LOSSES!

EBITDA Margin vs. Change in Headcount
%, # of employees



NOTE: EBITDA is calculated as Gross Profit less the sum of Total Operating Expenses.



Perspective

Fast growing companies hire quickly. Hiring quickly drives a steep expense ramp. A steep expense ramp drives significant losses.

Note the concentration of companies that are profitable: They reduced headcount this year.

If you're asking yourself, "how do I balance rapid hiring, with a responsible OPEX structure?" then you just might like the next slide...



ESTABLISH HIRING TRIPWIRES TO KEEP YOU HONEST



Scenario: So, the board just approved the upcoming fiscal year budget – an aggressive growth plan requiring aggressive hiring to keep pace. You made your first eight hires in Q1, and now you’re sitting in April’s board meeting. You knew weeks ago that you were only hitting 65% of the bookings forecast, yet you made those eight hires anyway. Now, we’re faced with a shorter cash runway, which could mean reducing headcount by 20%. How could we have prevented this from happening?

Solution: Measurable tripwires to triangulate topline, bottom-line and headcount growth.

Month	Hiring Tripwires	Position(s) to Hire Next Month	New Headcount
January	1M of cash collections; \$500k New Bookings	Staff Accountant, 2 AEs	3
February	Cash burn <\$500k; \$500k New Bookings	Customer Success Manager, SDR	2
March	80% Retention for Q1; \$500k New Bookings	2 Engineers; Marketing Coordinator	3
April	2 New AEs attain >80% of quota; \$500k New Bookings	2 AEs	2

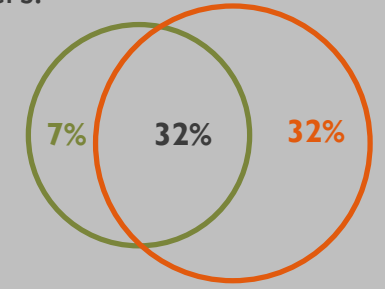
IN-HOUSE RECRUITERS ACCELERATE HEADCOUNT EXPANSION



Perspective

Companies with in-house recruiters hired 70% more employees, but they also **spent more** on external recruiting fees.

In fact, more than half of fast growers not only have an in-house recruiters, but also average higher spend on external recruiters.

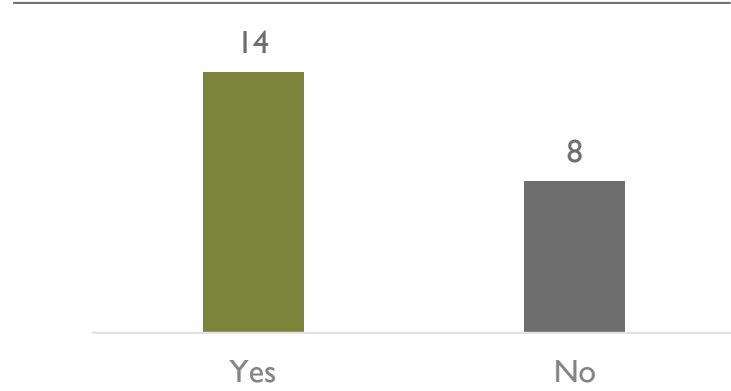


- Companies that hired 20+ employees
- Companies with an in-house recruiter

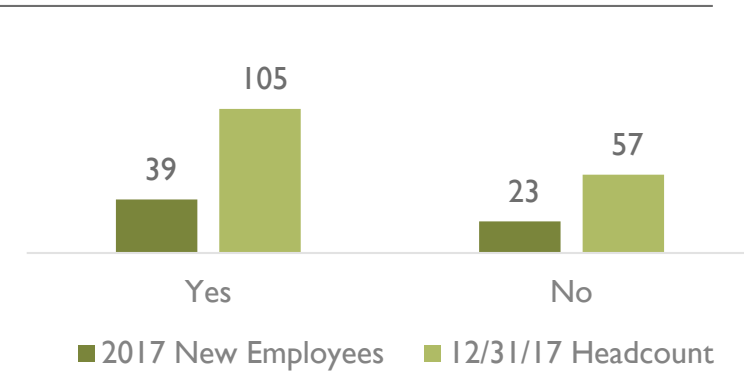
We recommend companies hiring 20+ employees annually bring recruiting in-house to handle the bulk of recruiting. In the event outsourcing is needed, the recommendation is to leverage for only two of every five hires, and to pay no more than 20% in fees for non-exec hires.



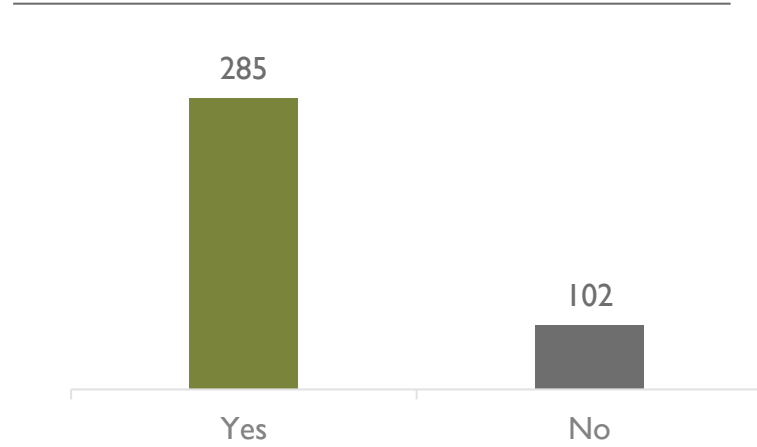
By Revenue Stage
million USD



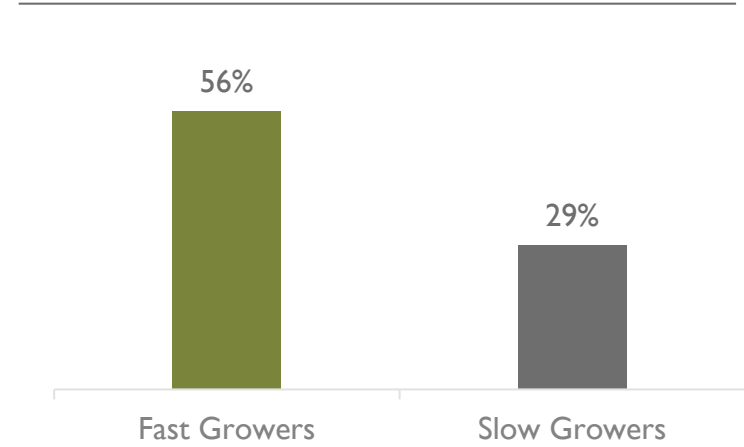
By Hiring Need and Headcount
of Employees



By External Recruiting Fees
'000 USD



By Growth Rate
% of Cohort



- Fast Growers
- Slower Growers

② Increased Revenue Per Employee

*Despite faster hiring, fast-grower revenue per employee increased at a rate **>3x higher** than that of slower growers*

Change in Revenue per Employee
This year vs. last year



4 STEPS TO MAKE SENSE OF REVENUE PER EMPLOYEE

1 SET REVENUE PER EMPLOYEE GOALS
Aim for >\$200k revenue per employee. Although if you want to catch up to Google and Facebook, then you better aim higher!

2 SET EXPECTATIONS FOR AVERAGE COST PER EMPLOYEE
If the average salary is \$100k, assume an extra 20% for taxes, benefits, and T&E; the cost per employee is \$120k.

3 DETERMINE THE RATIO OF EMPLOYEE TO NON-EMPLOYEE EXPENSES
Typically, anywhere from a 50/50 to 80/20 split, and employee costs are the majority of OPEX.

4 RUN THE NUMBERS!
Incorporating the expense side of per-employee metrics provides a more complete picture of how the business is scaling as each hiring decision is made.

For more on per-employee metrics, check out our [blog](#) and download this easy-to-use, per-employee metric [calculator](#).

Revenue per Employee	\$200,000	(customizable field)
Average Salary per Employee	\$100,000	(customizable field)
Taxes, Benefits, T&E, etc.	120%	(customizable field)
	\$120,000	
Employee Expenses as a % of OPEX	60%	(customizable field)
Total OPEX per Employee	\$200,000	
Net Margin (\$) per Employee	\$0	
Net Margin (%) per Employee	0%	

FAST GROWERS INCUR HIGHER LOSSES

- Fast Growers
- Slower Growers

EBITDA Margin
% of Revenue

3

Heavy Losses

Fast growers incurred *significantly higher losses* than slower growers

133%

53%

FUNCTIONAL SPENDING AS A % OF REVENUE



Perspective

In addition to spending more on Sales and Marketing, fast growers also spend more in all other categories.

For the second year in a row, G&A spend represents the highest concentration for fast growers. Our guidance is to minimize spend in this category (as it is not a direct driver of growth).

So, what the heck is driving such high G&A spend?



% OF REVENUE

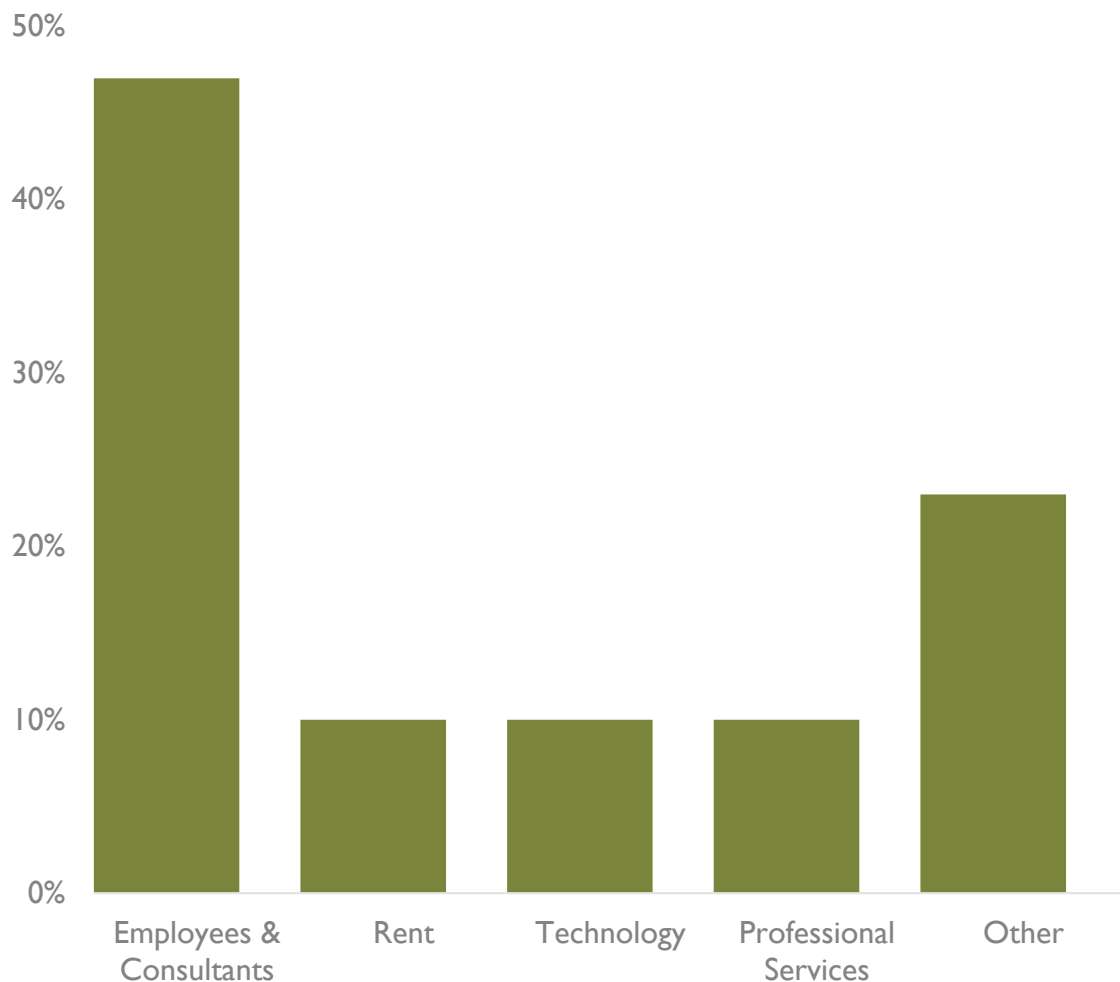


NOTE: All data represents the median of the subset

WHY IS G&A EXPENSE SO HIGH?

G&A Expense Type

% of Total G&A Expenses



Expense Type	% of G&A
Employee Expenses	45%
Other Expenses	14%
Rent	10%
Technology Expense	10%
Travel & Entertainment	7%
Legal Fees	4%
Other Professional Fees	2%
Recruiting Fees	2%
Accounting Fees	2%
External Consultants	2%
Insurance	1%
Total G&A	100%

Perspective



Personnel comprises approximately half of G&A, and generally includes CEO, CFO, HR, Controller, General Counsel, Staff Accountant, IT Director, and/or Office Manager. A common inflator of the G&A line, which should be avoided, is the classification of other Executives here, rather than within their functional department.

The next top three G&A expenses include Rent, Technology and Professional Services. The combination of these expenses comprise 77% of total G&A or **29% of revenue**. Shockingly, slower growers, on average, are spending more on these four G&A buckets than Sales & Marketing combined!



V. CLOSING THOUGHTS



FAST GROWTH – THE DRIVER OF ENTERPRISE VALUE



Perspective

Company Valuation Revenue Multiple

EV/Revenue; Publicly-traded SaaS Companies; 2017



So, why does all of this matter?

In public SaaS companies, valuation multiples depend on the company's growth and profitability. A sustained increase in growth rate can lead to a significant appreciation in enterprise value.

The ability to lay the foundation for scalable growth early on is critical to driving a successful exit.



FACTORS AFFECTING ENTERPRISE VALUE

Quantitative Factors



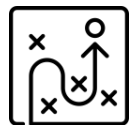
- Revenue Growth
- Revenue Scale
- Revenue Composition
- Gross Margin
- EBITDA Margin
- Number of Clients
- Client Revenue Diversification
- Total Addressable Market

Qualitative Factors

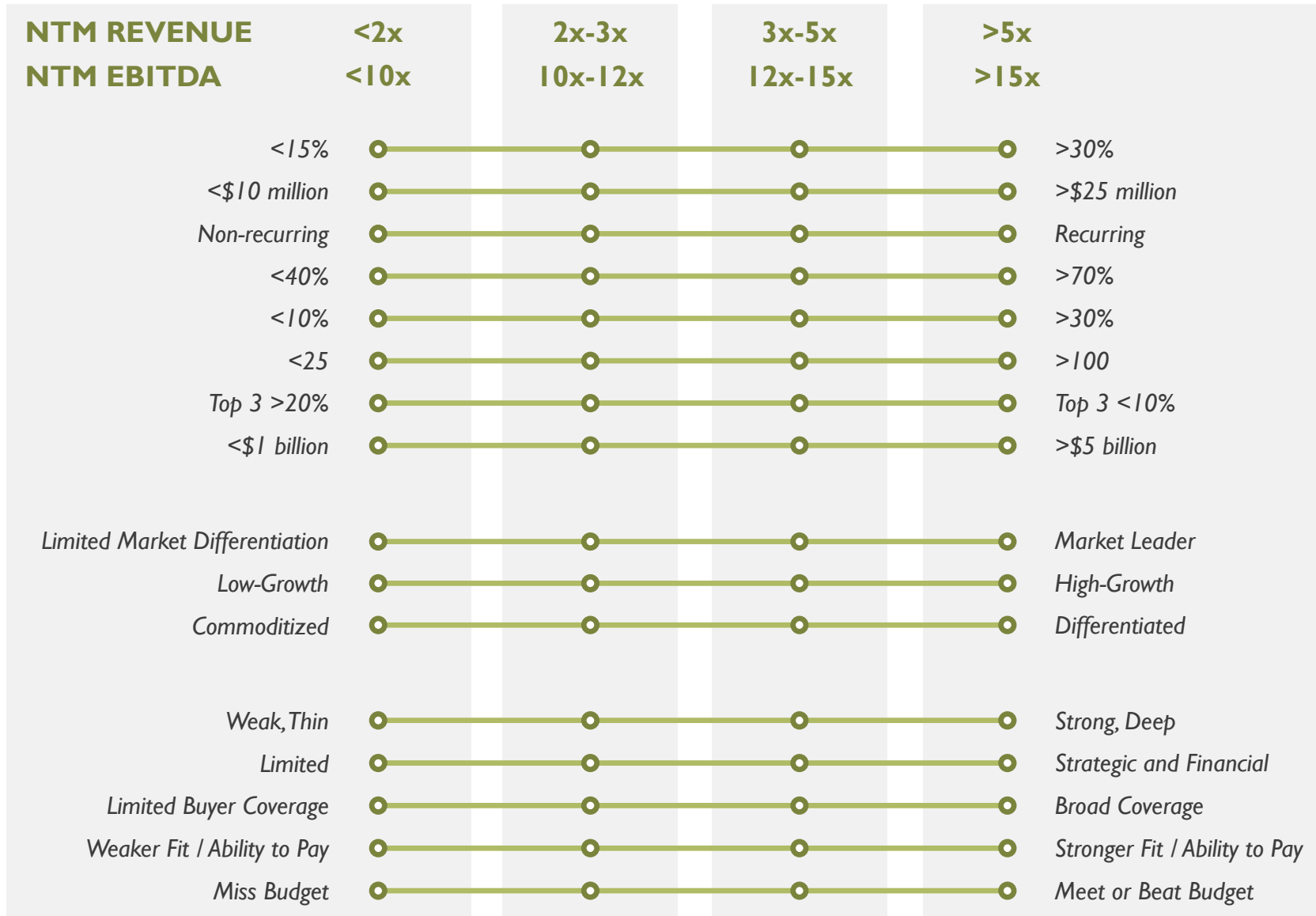


- Market Position
- Market Growth
- Technology Capabilities

Process Factors



- Management Team
- Buyer Universe
- The Right Advisor
- The Right Buyer
- Process Performance



VI. METRIC DEFINITIONS



II. TOPLINE GROWTH – METRICS REFERENCED

Metric	Definition	Formula
Average Selling Price (ASP)	The average ARR or ACV of each new deal sold.	SUM of new deal value over a period / SUM new customers in that same period
Logo Retention Rate	The ratio of customers retained in a given period.	(SUM customers at end of period LESS new customers added in period) / SUM customers at the beginning of period
Gross ARR Retention Rate	The ratio of dollars retained in a given period excluding upsells.	(SUM ARR at end of period LESS new and upsell ARR added in period) / SUM ARR at beginning of period
Net ARR Retention Rate	The ratio of dollars retained in a give period including upsells.	(SUM ARR at end of period LESS new ARR added in period) / SUM ARR at beginning of period
Inquiry > Marketing Qualified Lead (MQL) Conversion Rate	The percentage of unqualified leads (inquiries) that become Marketing Qualified Leads (MQLs). MQL is a lead that results from an inquiry or prospecting, representing a fit with the company's Ideal Customer Profile.	SUM MQLs / SUM Inquiries
MQL > Sales Qualified Lead (SQL) Conversion Rate	The percentage of MQLs that become SQLs. SQL is a lead, resulting from an MQL that has exhibited sufficient interest and has been qualified based on certain criteria, e.g., BANT. SQLs are commonly considered the first stage of the sales pipeline.	SUM SQLs / SUM MQLs
SQL > Closed Conversion Rate	The percentage of SQLs that become closed deals; otherwise known as Close Rate.	SUM Closed Deals / SUM SQLs
Customer Acquisition Cost (CAC)	An estimated cost of what it takes to acquire a customer.	SUM all sales & marketing expenses / SUM new customers added
CAC Payback	This is an indicator of how long it takes to recover CAC.	CAC / (Average MRR * Gross Margin %)
Customer Lifetime Value to CAC Ratio	The average recurring revenue derived from customers over time as a multiple of the cost of acquiring those customers.	CLTV / CAC



III. GROSS MARGIN EXPANSION – METRICS REFERENCED



Metric	Definition	Formula
Cost of Goods Sold (COGS) or Cost of Revenue	Expenses incurred that are directly attributed to the sale of a product/service. For SaaS companies, this generally is comprised of customer success compensation, hosting costs, and software subscriptions/licenses.	SUM Expenses incurred that are directly attributed to the sale of a product/service
Gross Margin	The percentage of income remaining after deducting COGS from Revenue	(Revenue LESS COGS) / Revenue
Gross Profit	Income (dollars) remaining after deducting COGS from Revenue	Revenue LESS COGS
Labor Costs in COGS	Labor expenses incurred that are directly attributed to the sale of a product/service. For SaaS companies, this generally is comprised of customer success and professional services compensation.	SUM Labor expenses incurred that are directly attributed to the sale of a product/service
Hosting Costs in COGS	Expenses incurred that are related to delivering software applications through the cloud. Hosting services allow organizations to make their website accessible to the world wide web.	SUM Expenses incurred that are related to delivering software applications through the cloud
Operating Cash Burn	Cash flow used in operating activities. Operating Cash Burn includes all cash activities for a company EXCEPT FOR long-term investment (i.e., fixed activities) and financing activities (i.e., equity or debt raise).	Cash inflows LESS cash outflows related to operations

IV. BOTTOM LINE GROWTH – METRICS REFERENCED



Metric	Definition	Formula
Cost of Goods Sold (COGS) or Cost of Revenue	Expenses incurred that are directly attributed to the sale of a product/service. For SaaS companies, this generally is comprised of customer success compensation, hosting costs, and software subscriptions/licenses.	SUM Expenses incurred that are directly attributed to the sale of a product/service.
Product Budget % of Revenue	The percentage of annual revenue that can be attributed to R&D and Product Management headcount and other related expenses.	Annual Product budget / Annual Revenue
Sales Budget % of Revenue	The percentage of annual revenue that can be attributed to Sales headcount and other related expenses.	Annual Sales budget / Annual Revenue
Marketing Budget % of Revenue	The percentage of annual revenue that can be attributed to Marketing headcount and other related expenses.	Annual Marketing budget / Annual Revenue
General & Administrative (G&A) Budget % of Revenue	The percentage of annual revenue that can be attributed to General and Administrative headcount and other expenses.	Annual G&A budget / Annual Revenue
Total Operating Expenses ("OPEX")	All expenses EXCEPT FOR Interest, Taxes, Depreciation, Amortization, and COGS	SUM all expenses EXCEPT FOR Interest, Depreciation, Amortization, Taxes and COGS
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	Gross Profit LESS SUM of Total Operating Expenses

VII.APPENDIX

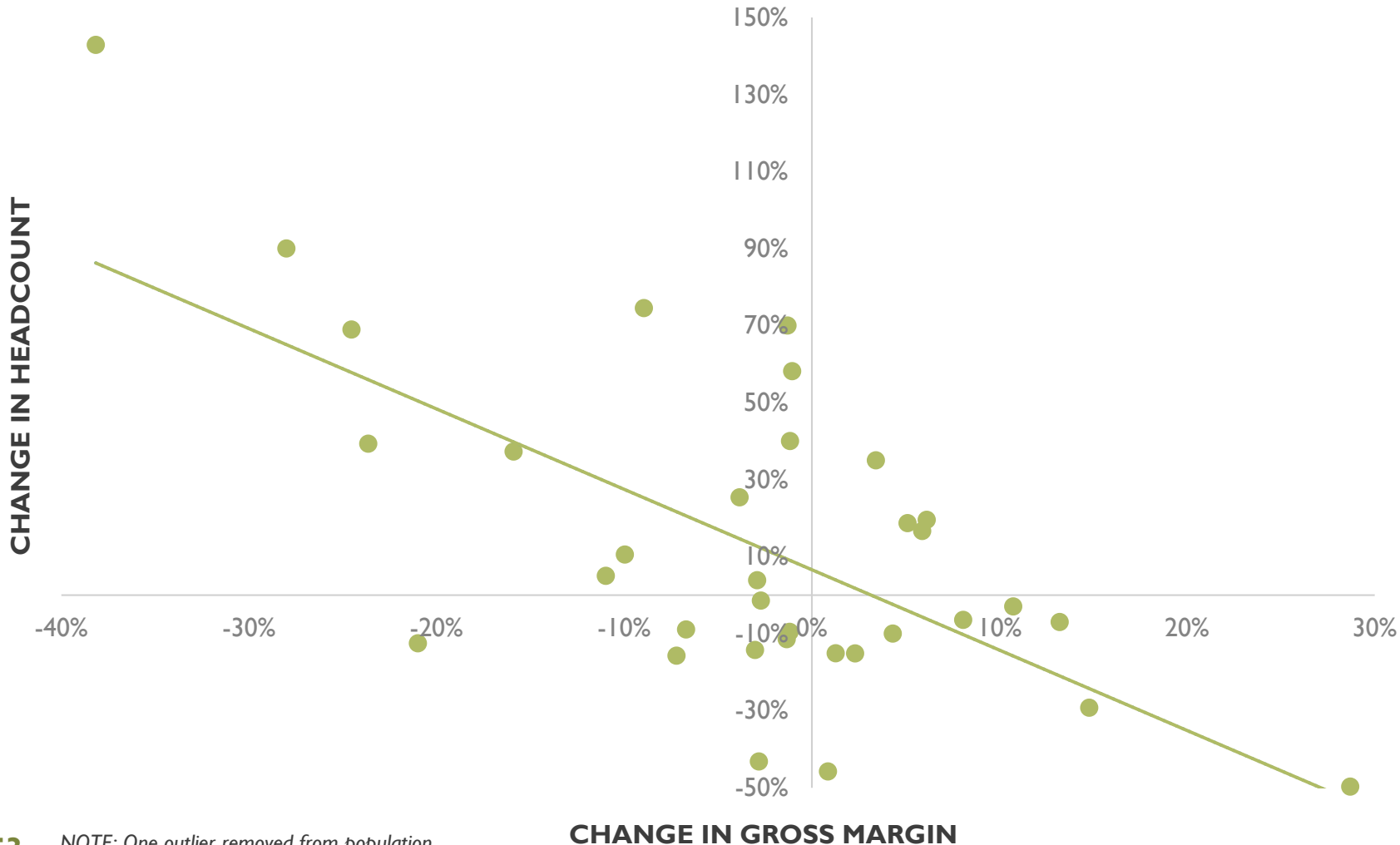


RELATIONSHIP BETWEEN GM EXPANSION & HEADCOUNT



Perspective

Change in Gross Margin vs. Change in Headcount
Last year vs. this year %



With the correlation between expanding gross margin and limiting labor costs comes a strong negative correlation between the change in gross margin and the change in headcount.

Specifically, hiring professional services and customer support employees drags down gross margin. Tracking utilization rates of the current staff can help to ensure the company is deploying and servicing customers as efficiently as possible.



FAST GROWERS MAINTAIN BALANCE OF HIRING AND REVENUE GROWTH



Perspective

While fast growers increased headcount at a significantly higher percentage than slower growers, they managed to increase revenue per employee, as well. Stated differently, revenue growth outpaced headcount growth for the year. Only one of our fast growers managed to hire employees faster than topline grew, whereas the slower grower results were much more sporadic.





edge

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