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GROWTH INDEX

2019

GROWTH INDEX 2019

INTRODUCTION

Welcome to our fifth annual **Edison Growth Index**, where we compile and prescribe characteristics and best-in-class methods associated with fast-growing companies.

This year, we found seven key traits associated with fast growers (see summary on page 3). Several traits, consistent with previous studies, correlate investment and focus on Sales & Marketing as the primary catalyst in achieving 30+% growth. A keen focus on Customer Success emerged as critical to long-term customer retention and value, as did Pricing Model sophistication as a driver of consistent growth. We also found that fast growers tend to take a more holistic approach to acquisition and retention of customers and employees alike, spending with intention to build a business model for scale that will bear exponential return as the company grows.

Use this report to compare your business to peers in the Edison portfolio, as well as industry guidance. The benchmarks and advice will enable you to map your own plan and journey to achieving or sustaining fast-grower status.

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.

Alex Symos

Vice President, Go-To-Market Center of Excellence

Jon Reynolds

Senior Associate, Financial Planning & Analysis Center of Excellence

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2019 FAST GROWER CHARACTERISTICS

TOPLINE CHARACTERISTICS

1 **Investment in Sales & Marketing**
*Spend **>100% more** as a percentage of revenue*

2 **Pricing is Strategic**
*Use pricing to drive **>75% higher ASP***

3 **Investment in Customer Success**
*Fast growers spend **6x more** as a percentage of revenue*

4 **Higher Retention**
*Retain dollars at a **17% higher rate***

BOTTOM LINE CHARACTERISTICS

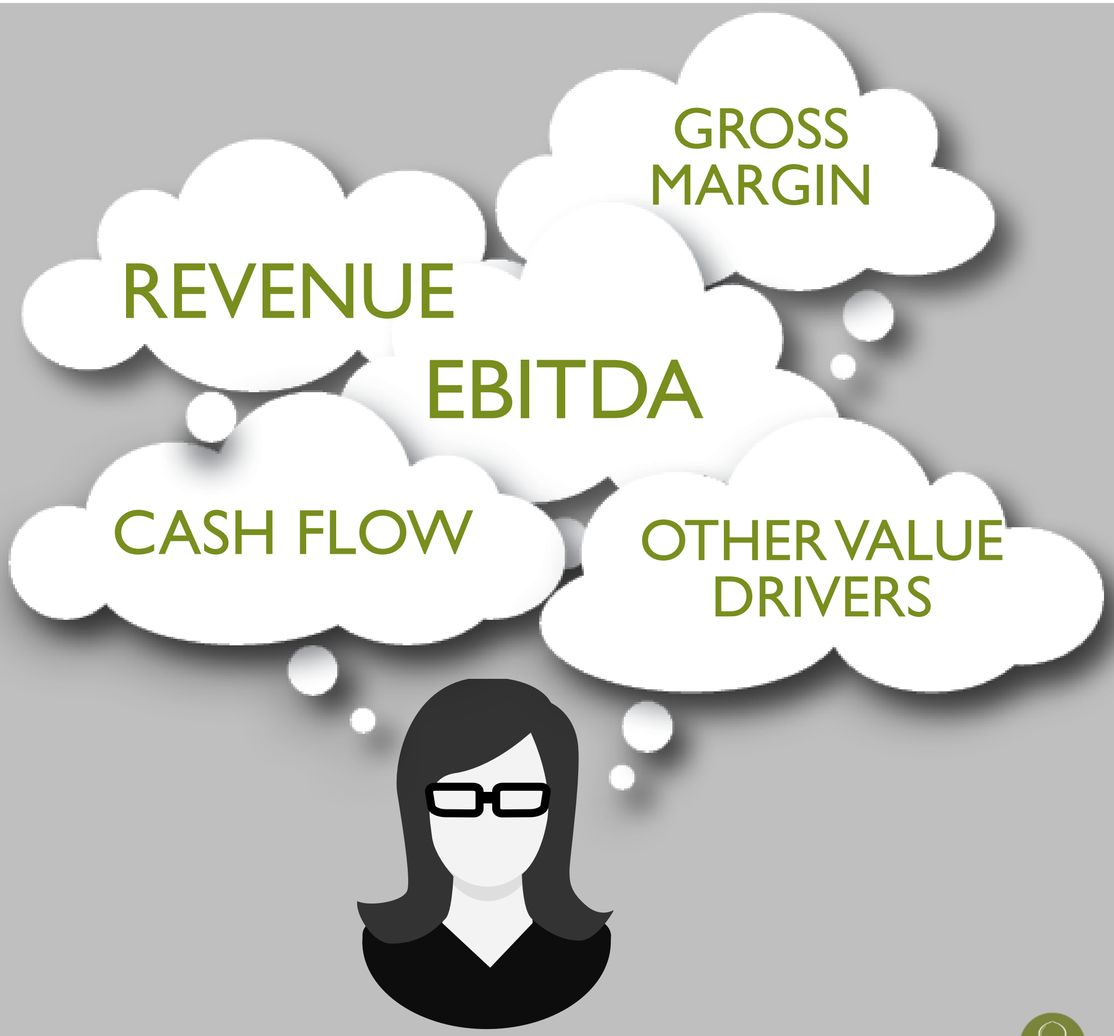
5 **Rapid Hiring**
*Fast growers **grew headcount by 22%***

6 **Higher Revenue per Employee**
*Fast grower revenue per employee increased at a rate **>3x higher** than that of slower growers*

7 **Heavy Losses**
*Fast growers incur **significantly higher losses** than slower growers*

THE MANY DIMENSIONS OF GROWTH

Early-Stage CEO



Growth-Stage CEO

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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 2019

- A focus on the characteristics common in companies with 2018 GAAP revenue growth rates of 30% or higher

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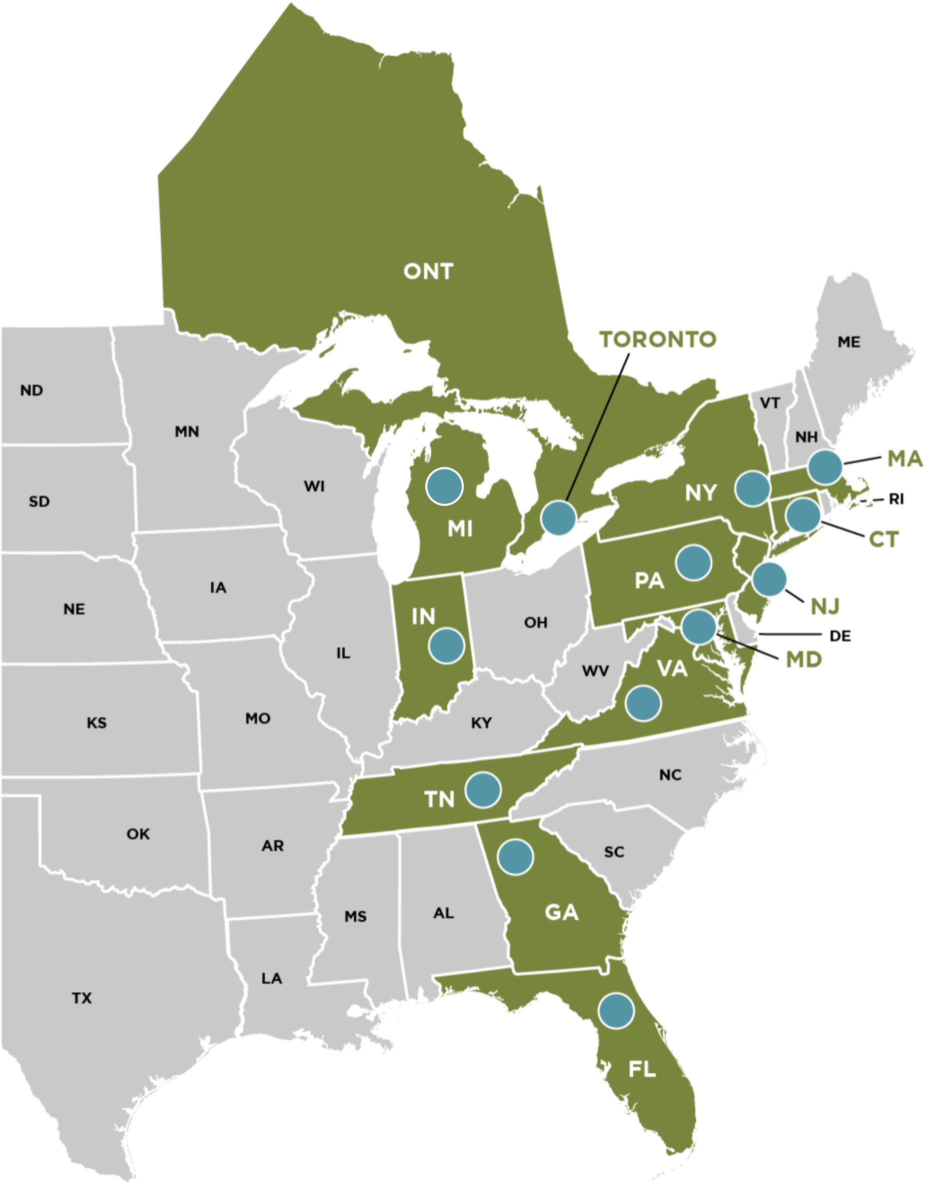
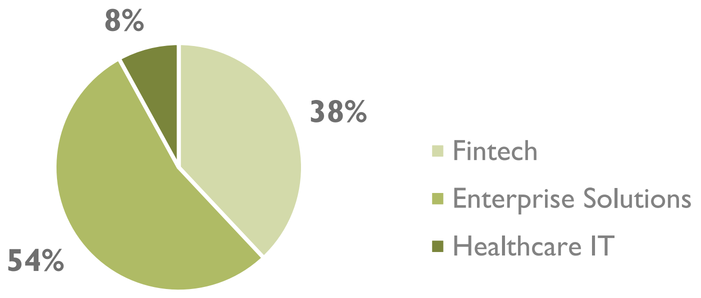
SECTION I

PARTICIPANT DEMOGRAPHICS

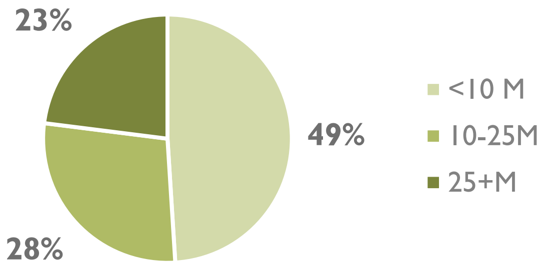
PARTICIPANT DEMOGRAPHICS



Participants by Industry

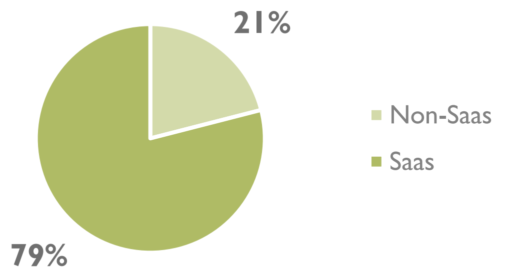


Participants by Revenue Range

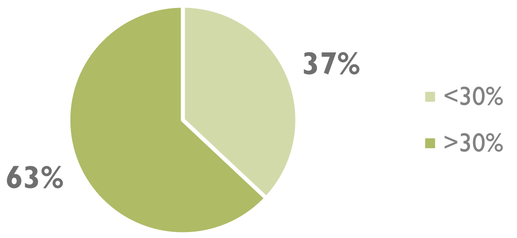


PARTICIPANT DEMOGRAPHICS

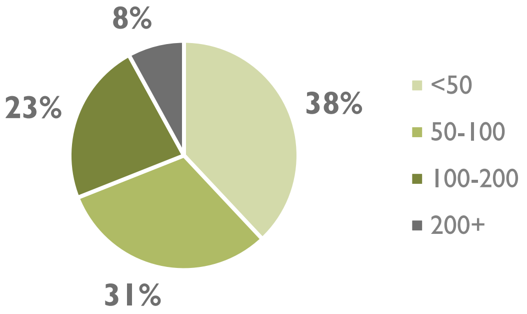
Participants by Revenue Type



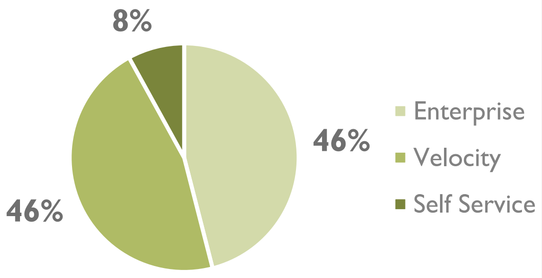
Participants by Growth Rate



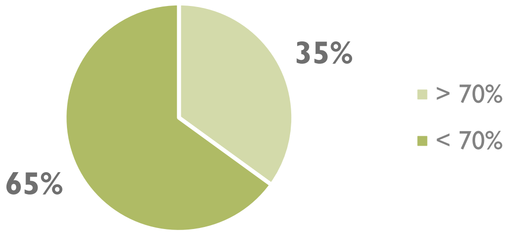
Participants by Headcount



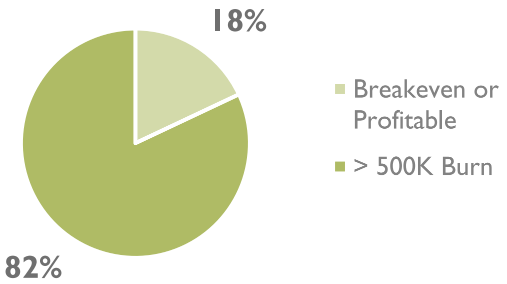
Participants by GTM Model*



Participants by Gross Margin



Participants by EBITDA



**See Go-to-Market (GTM) model definitions on page 10*

PARTICIPANT GO-TO-MARKET MODEL COMPOSITION

ECONOMIC VALUE

Velocity

- Inside reps to SMB or consumer
- Inbound & Outbound Marketing
- <4-month cycles
- ~$5k-$80k ASPs
- Mid to high deal volume (10s to 100s)
- Automation important
- Low-medium touch support

Enterprise

- Field or inside reps upmarket
- Outbound / Account-Based Marketing
- 6+ month cycles
- $80k+ ASPs
- Low deal volume (single-digit)
- Relationships important
- High-touch support

Self-Service

- Marketing = Sales (Inbound)
- SMB or consumer buyer
- Low price points
- High deal volume (100s to 1000s)
- Fully automated, frictionless
- No-touch support

Not conducive to scalable growth

COMPLEXITY

Our Growth Index participants are primarily businesses with Velocity and Enterprise direct go-to-market models, with 8% of companies having a Self-Service component, and 7% selling through indirect channels. As such, you will see that the analysis that follows prioritizes Enterprise and Velocity dynamics.

SECTION II

TOPLINE GROWTH

2019 FAST GROWERS - COMMON TOPLINE CHARACTERISTICS

1 Investment in Sales & Marketing

*Spend **>100% more***
as a percentage of revenue

2 Pricing is Strategic

*Use pricing to drive **>75% higher ASPs***

3 Investment in Customer Success

*Fast growers spend **6x more***
as a percentage of revenue

4 Higher Retention

*Retain dollars at **17% higher rate***

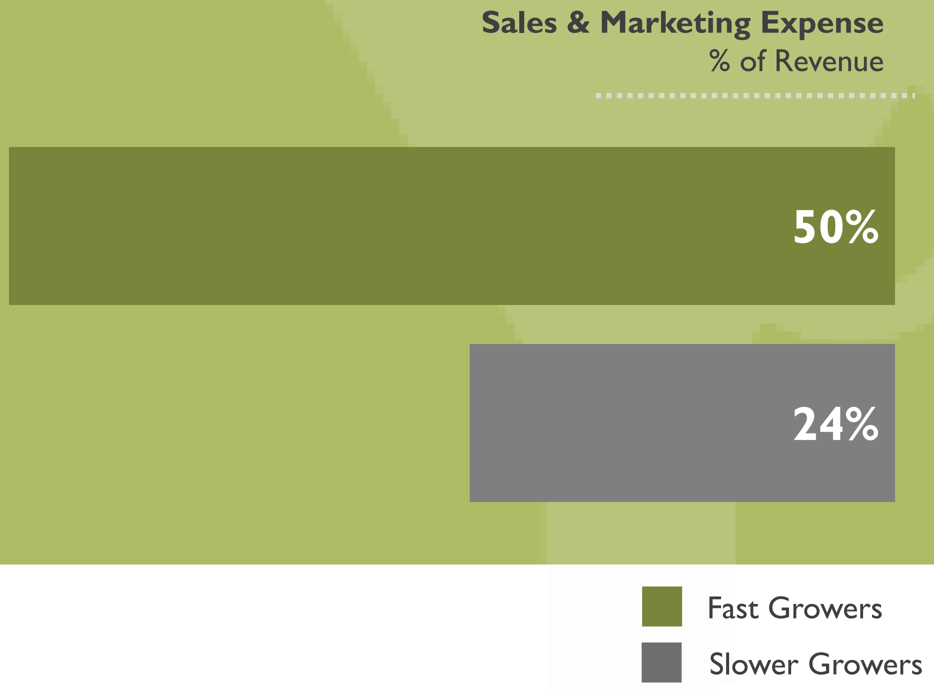
NOTE: Fast growers are companies that grew GAAP revenue by 30+% revenue this year over last year

FAST GROWERS INVEST MORE IN SALES & MARKETING

1

Investment in Sales & Marketing

Fast growers spend
***>100% more** in Sales & Marketing*



NOTE: All data represents the median of the subset

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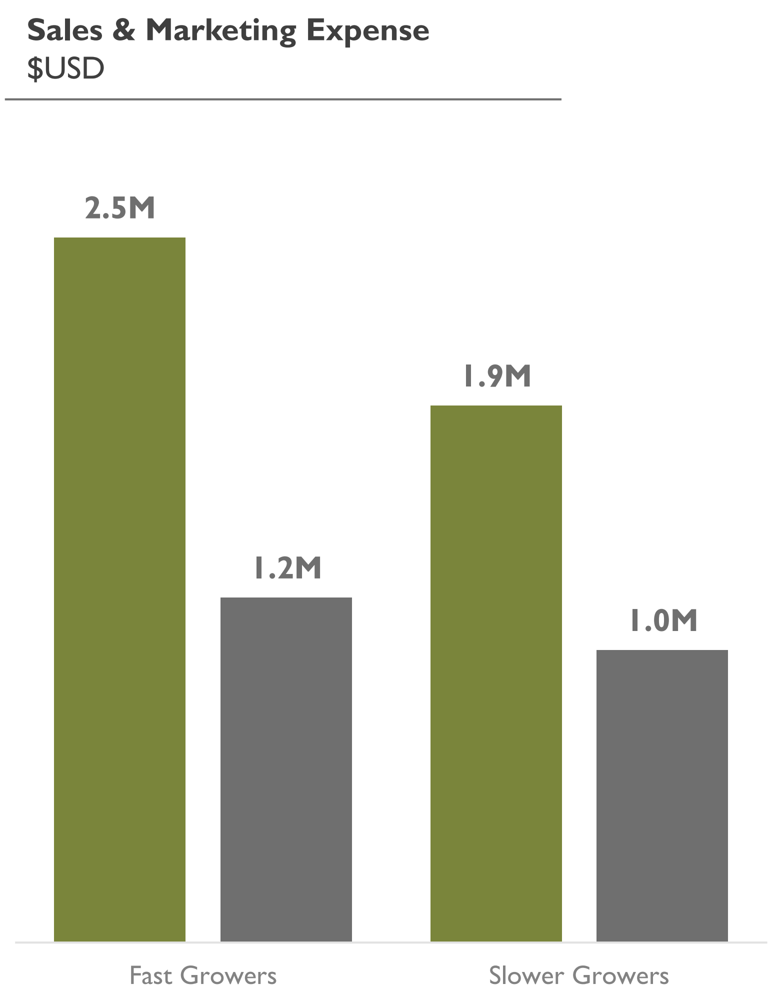
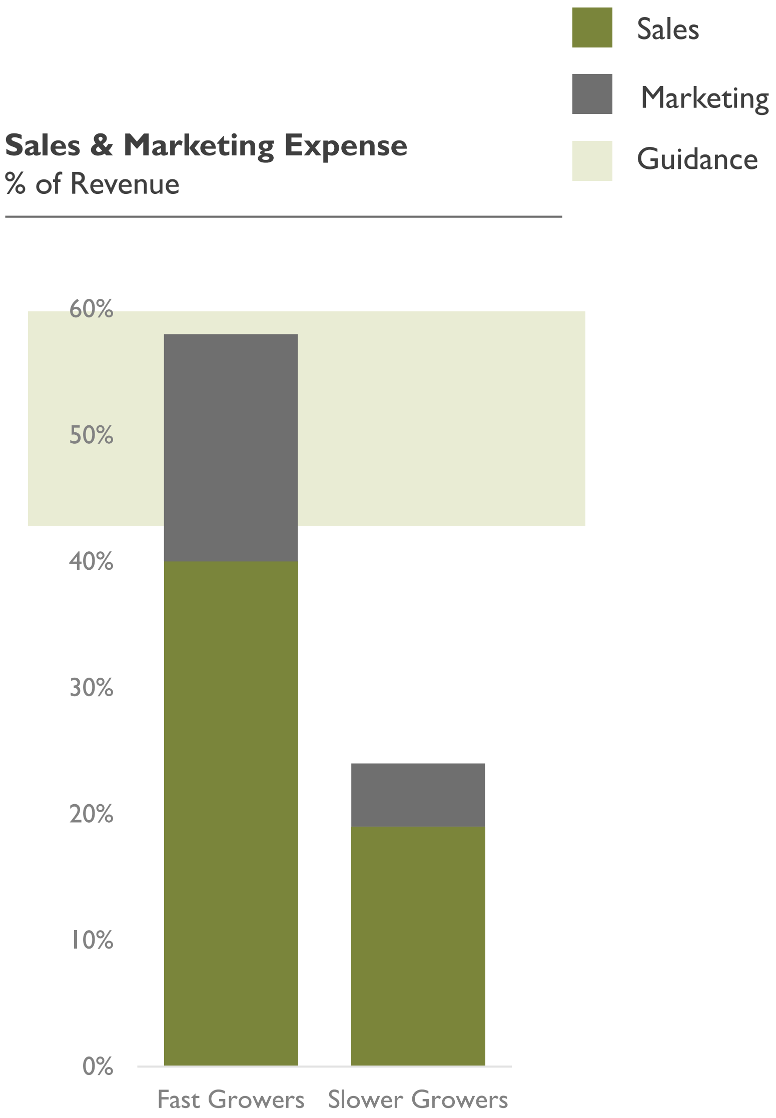
SALES & MARKETING SPEND





Perspective

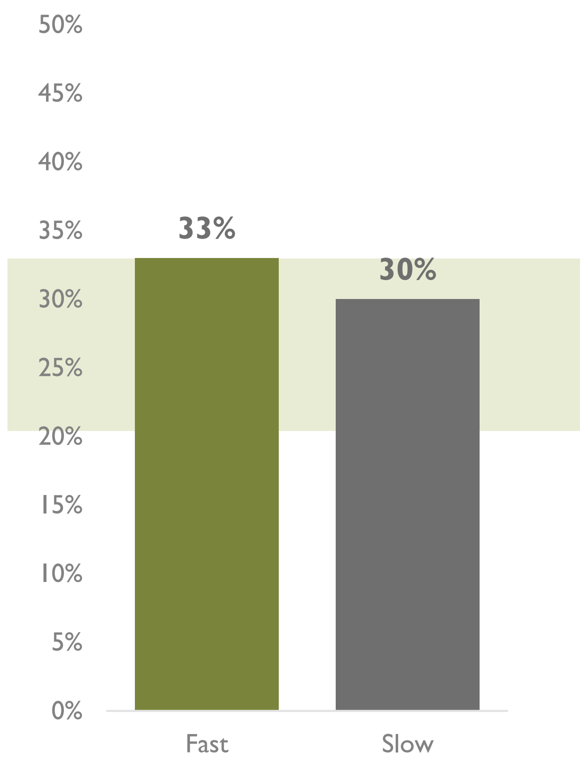
Logically, Sales and Marketing investment continues to be the best fuel for revenue growth, and strategic spend on leadership, headcount and targeted programs distinguishes fast growers from slower growers.

Fast-grower spend is consistent with previous years and in alignment with recommended range for high-growth companies, 50-60% of revenue for Sales and Marketing combined.

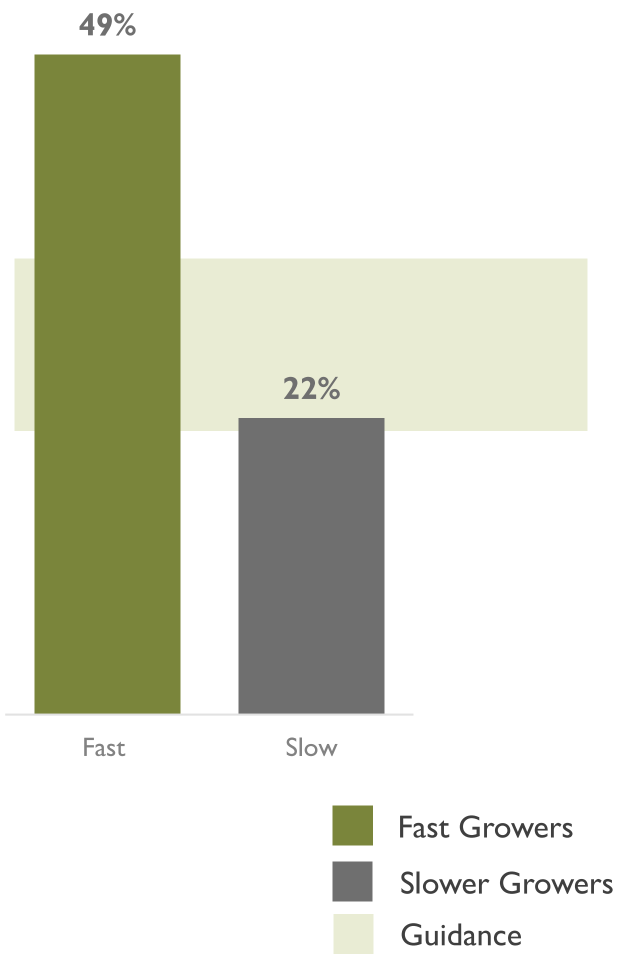
NOTE: All data represents the median of the subset

SALES SPEND BY GTM MODEL

Sales Expense Enterprise Model
% Revenue



Sales Expense Velocity Model
% Revenue



Perspective

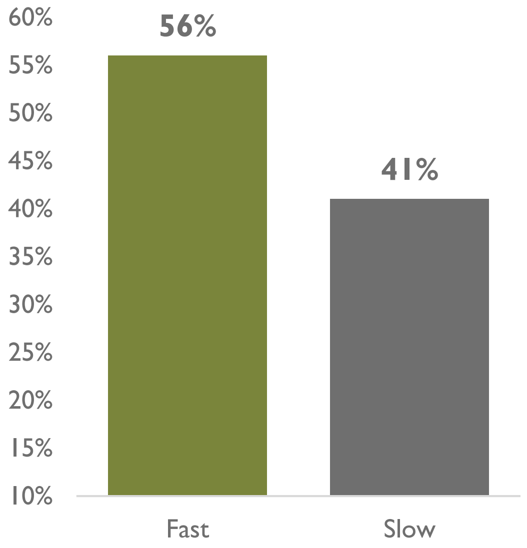
Companies with Enterprise go-to-market models spend in line with guidance across fast and slower grower groups. The data suggests that slower growers are investing as if they are fast growers, but longer, complex sales cycles make it challenging to nimbly reduce expense when growth slows.

Fast growers with Velocity models exceeded the recommended range, primarily due to a high number of earlier-stage companies ramping their hiring for scale.

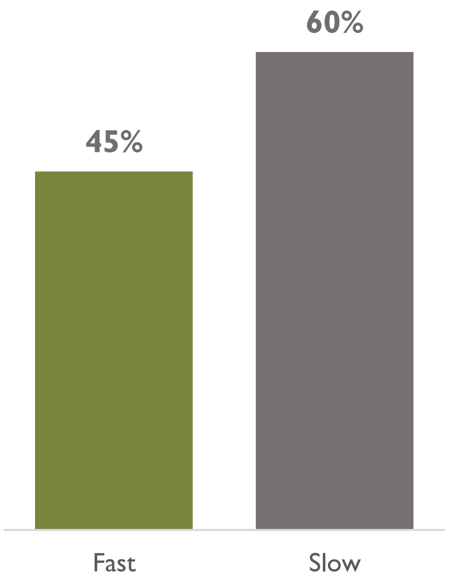
NOTE: All data represents the median of the subset

MARKETING PROGRAM SPEND
BY GO TO MARKET MODEL

Marketing Program Expense Enterprise
% Marketing Budget



Marketing Program Expense Velocity
% Marketing Budget



Fast Growers
Slower Growers
Guidance

Perspective

Companies with Enterprise go-to-market models tend to take a more targeted approach to customer acquisition than those with Velocity models, which often means more focused people spend than broader based program spend. However, this year's fast grower data shows only a marginal difference in split between headcount and program spend per model.

The majority of Index participants also prioritize events as a key program budget item. Between owned and sponsored events, associated expenses can account for 30-60% of the overall marketing program budget.

NOTE: All data represents the average spend of each subset

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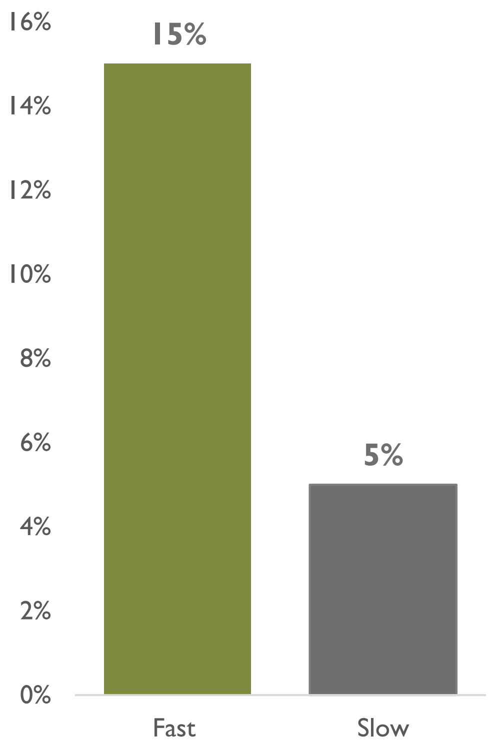
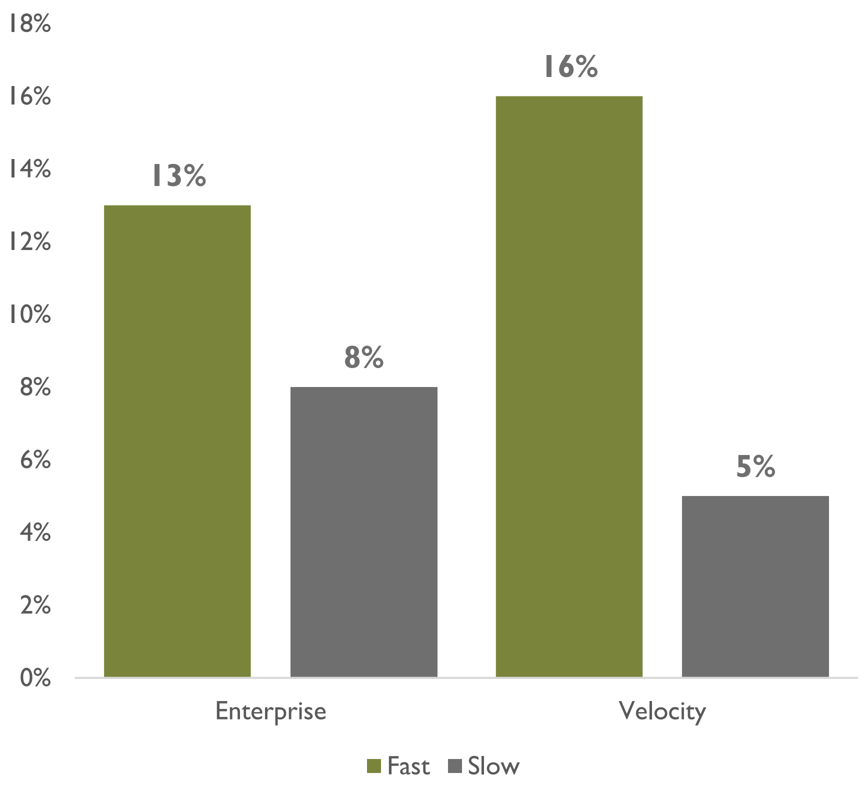
FAST GROWERS SPEND MORE ON MARTECH

Marketing Technology Spend
% Total Marketing Expense



Marketing Technology Spend by GTM Model
% Total Marketing Expense



Fast Growers

Slower Growers

Perspective

Fast growers' greater investment in marketing tech reflects a modern approach to targeting and acquiring new customers. Both fast and slower growers invest in tech for standard marketing automation, while fast growers also invest in tech to power prospect and customer engagement strategies and optimize results across all marketing programs and channels. Fast growers with Velocity models spend the most on tech as a percentage of total budgets as a means to target, drive, qualify and nurture a higher volume of opportunities.

Tech companies tend to be tech optimists by nature, but of course, tech is not a strategy, so before adding new tech to your stack, it is very important to consider:

- How the tech will enable achievement of revenue goals
- A documented process that specifies data capture, workflow and reporting
- Designated ownership of adoption and enablement
- Measurement of success / ROI

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NOTE: All data represents the average spend of each subset

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CAC BASED ON GO TO MARKET MODEL

	SELF-SERVICE	VELOCITY		ENTERPRISE	
		low-touch	*high-touch*	*w/o Sales Engineer*	*w/ Sales Engineer*
CAC GUIDANCE BY GTM MODEL	30 to 300	300 to 800	3K to 30K	30K to 75K	75K to 150K
INDEX PARTICIPANT CAC	287	27,847		166,440	
RELATIVE TO GUIDANCE	All B2B & B2C companies within range	60% of companies within range		18% of companies within range	
FAST GROWER CAC	287	27,000		135,633	
FAST GROWER CAC PAYBACK	3.7 months	17.6 months		16.4 months	

NOTE: All data represents the median of the subset of Pure-Play and Partial SaaS company data. *See pages 57-59 for definitions.*

Perspective

The median Customer Acquisition Cost (CAC) was inside recommended ranges for Self-Service and Velocity models, while those companies with Enterprise models exceeded the recommended range. Fast growers across go-to-market models had best-in-class CAC, as well as CAC recovery periods of less than 18 months. This performance can be attributed to:

1. **Strong strategic alignment** between Marketing, Sales Development, Sales & Product

2. **Repeatability** in which segments and sectors are sold, how and what price

3. **Machinery** that drives the most effective and efficient demand for volume, velocity and value (per page 17, recall that fast growers spend >100% more on marketing tech stacks)

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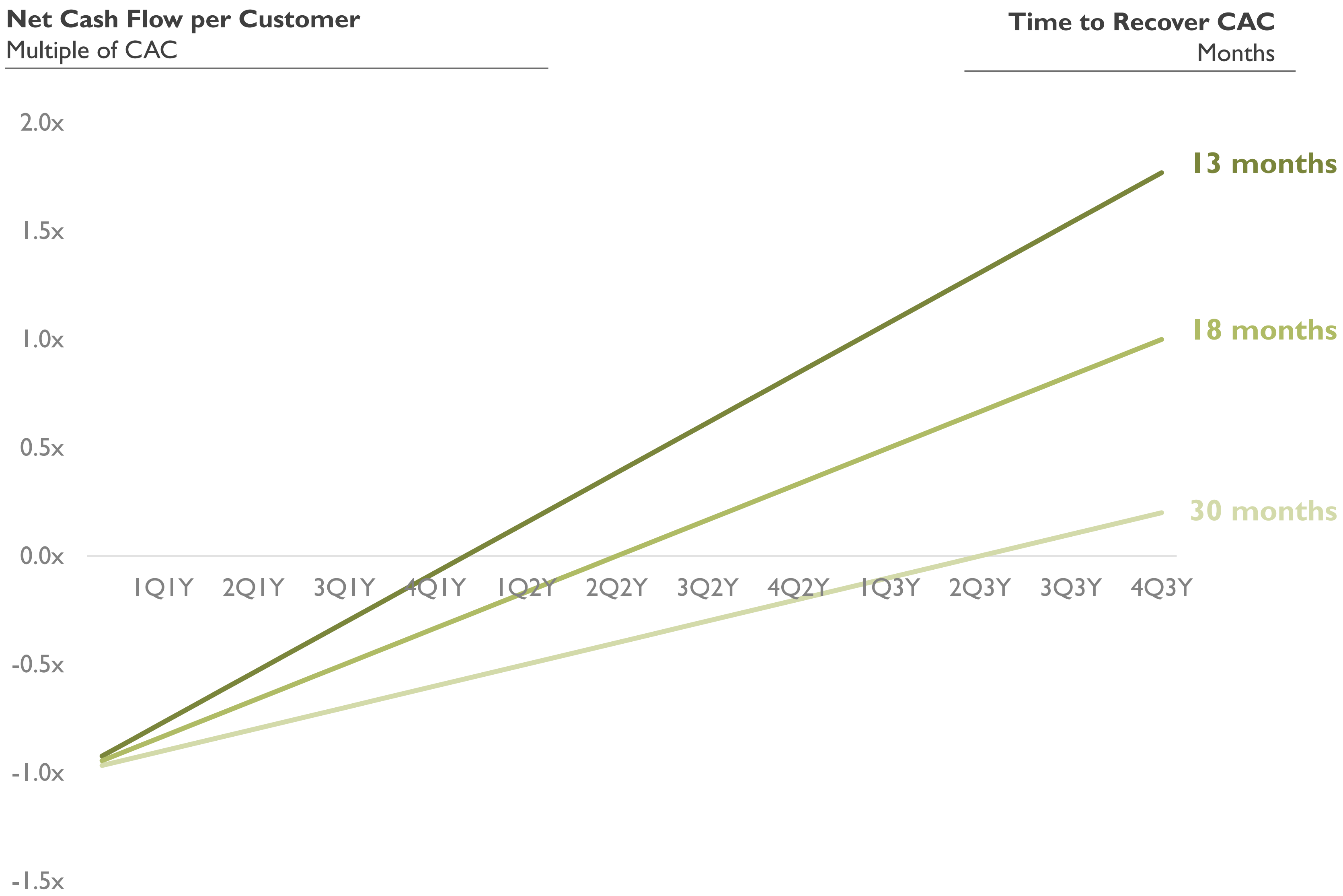
CAC RECOVERY SIGNIFICANTLY AFFECTS CASH



Perspective

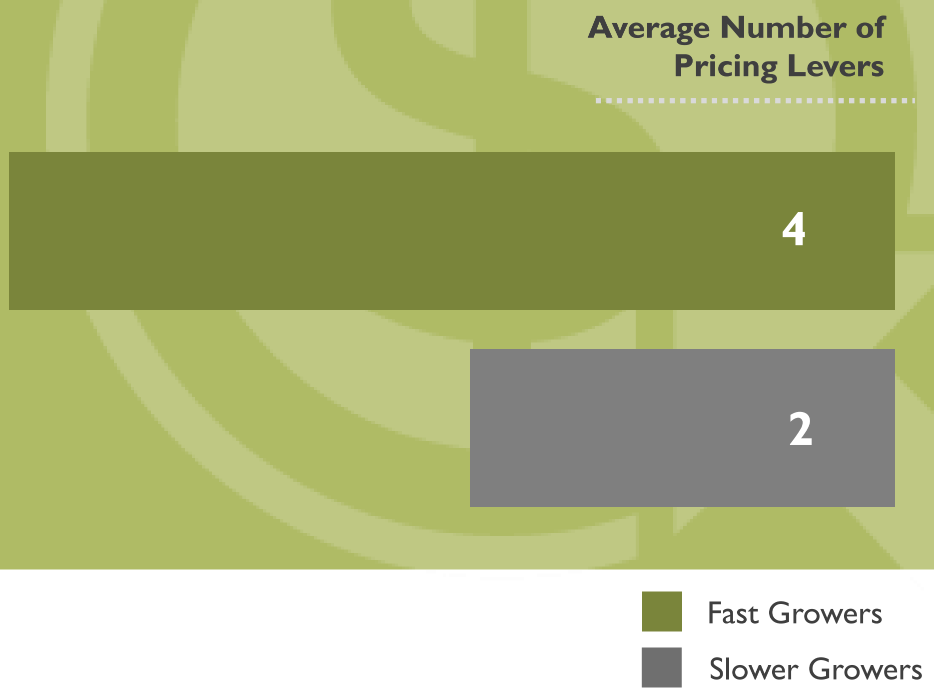
The longer it takes to recover CAC, the worse it is for cash flow – as illustrated by the chart on the left showing three scenarios of actual Edison companies.

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 PRICE STRATEGICALLY

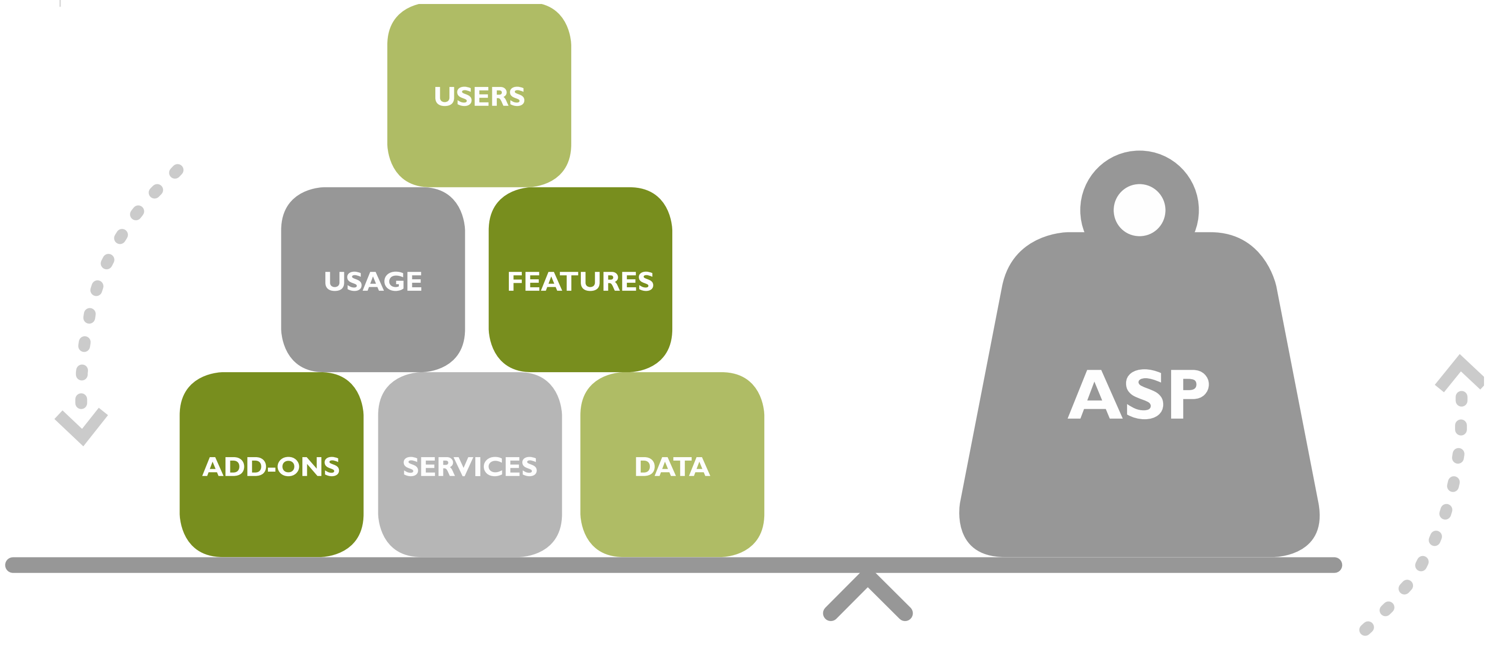
2 Pricing is Strategic

Fast growers use double the pricing levers to drive ***>75% higher ASPs***



NOTE: All data represents the median of the subset

PRICING LEVERS TO DRIVE UP ASPs



This infographic details best methods for getting more leverage from your pricing and packaging model in the interest of capturing greater value when both landing and expanding accounts.

The opportunity to diversify pricing levers comes with product-market fit and product maturity, and requires product roadmap prioritization to this end.

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 below levers continue to apply when diversifying your product portfolio.

USERS

Named user or seat based pricing with volume-based tiering.

USAGE

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

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.

SERVICES

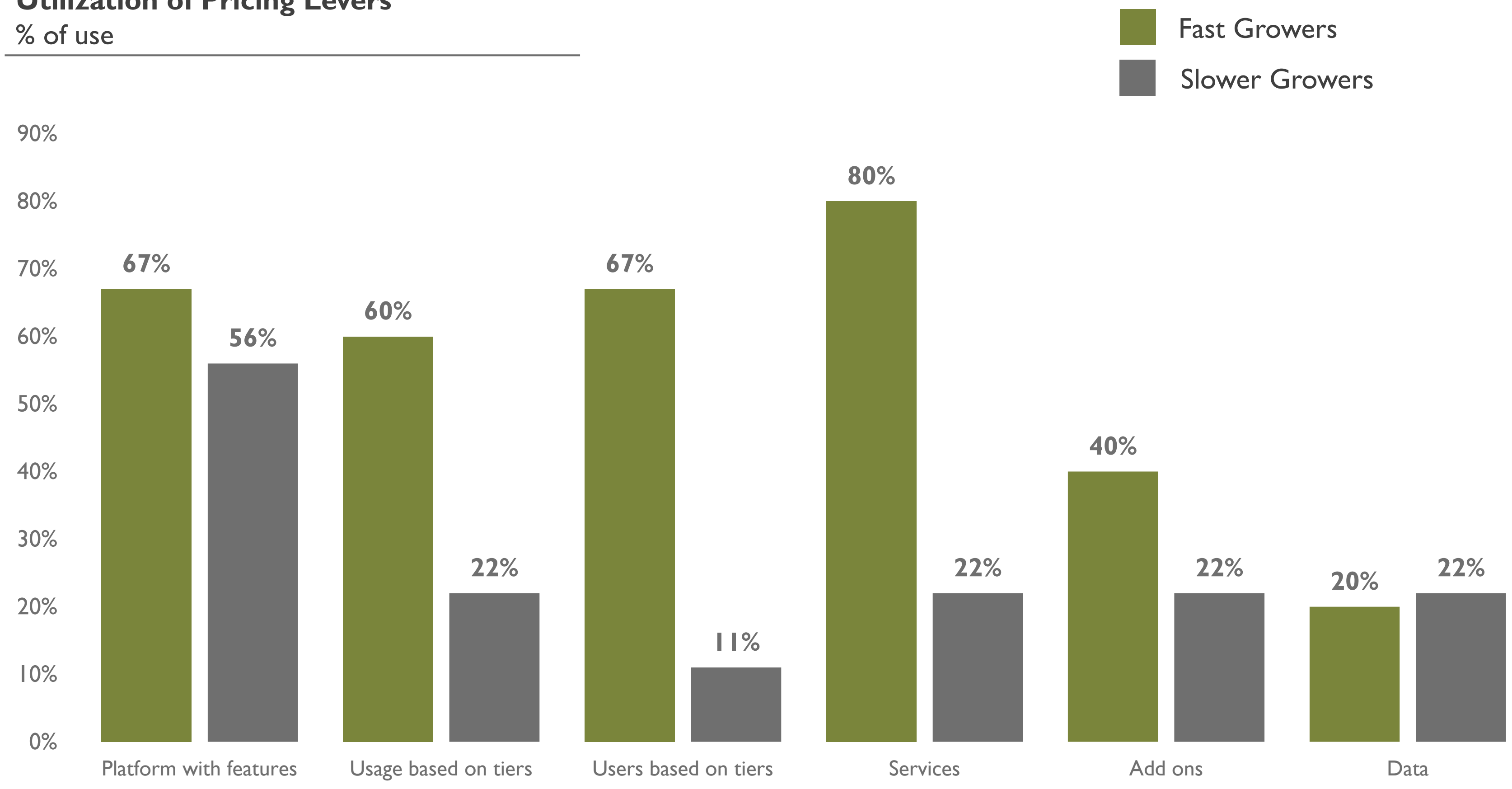
Price education and customization service offerings (typically high value) as 10-20% of platform.

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.

FAST GROWERS USE MORE PRICING LEVERS

Utilization of Pricing Levers
% of use



Perspective

Strategic pricing models assign a primary unit of value as the foundational element and layer components to create dimension and capture additional value. This unit of value underpins strategic goal-setting and can be the basis of a North Star metric, to which all employees have accountability through supporting KPIs cascaded throughout the organization.

Fast growers use multiple pricing levers to drive up ASP, CLTV and, for many, efficiently push upmarket. The majority charge SaaS platform fees combined with either usage or user fees based on volume. 80% of fast growers also charge fees for implementation, integration, onboarding and training related services. More slower growers could benefit from following suit.

NOTE: All data represents the average pricing lever utilization of the subset

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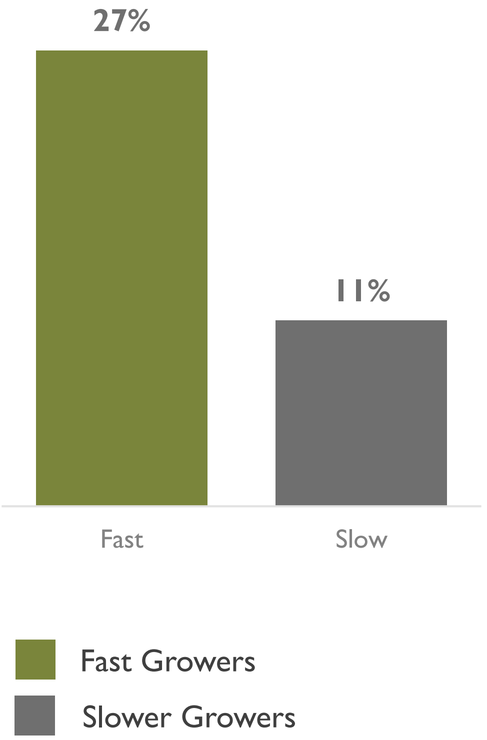
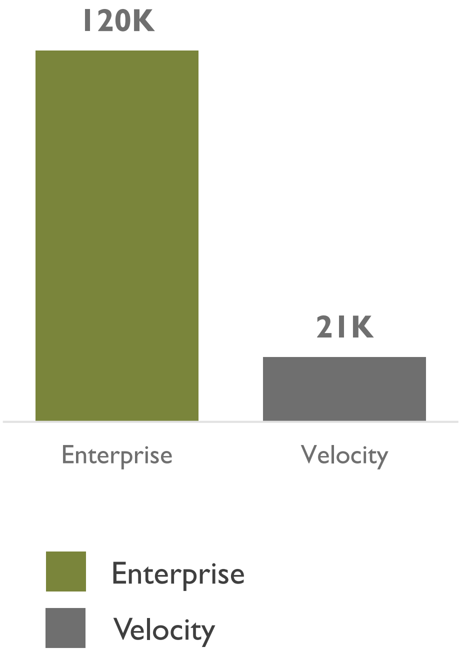
PRICE FLOOR AS A FUNCTION OF ASP

Price Floor
% of ASP



Price Floor
By Go to Market Model



Perspective

Establishing a pricing floor is a function of understanding your Ideal Customer Profile (ICP), segmentation, and the value your product delivers to each customer type.

The fast-grower floor for participants with Enterprise go-to-market models was >2x higher than slower growers and, for Velocity models, >1.5x higher.

Companies who may be sheepish about setting a concrete pricing floor by segment will not only sacrifice Sales & Marketing ROI, but also gross margin in missed price opportunity and later through increased cost to serve.

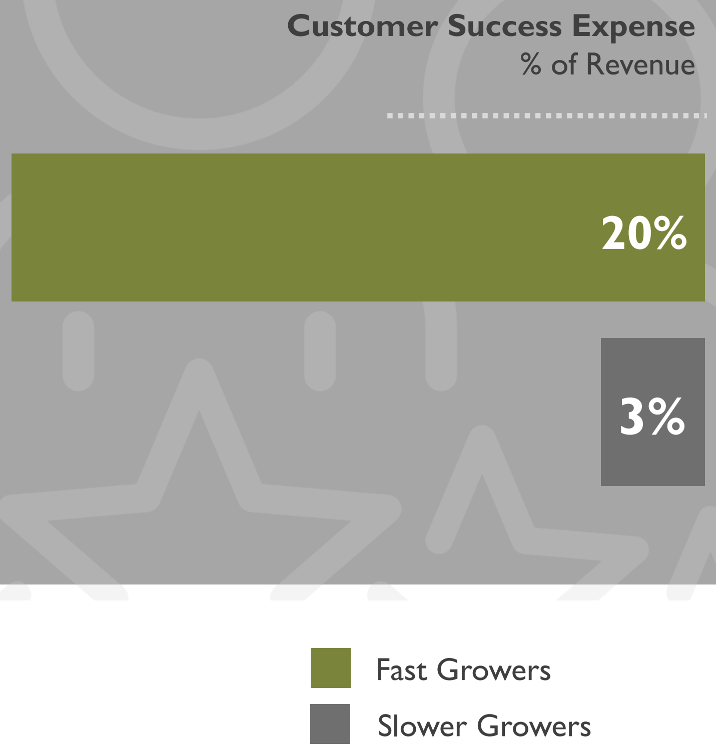
NOTE: All data represents the median of the subset

FAST GROWERS INVEST MORE IN CUSTOMER SUCCESS

3

Investment in Customer Success

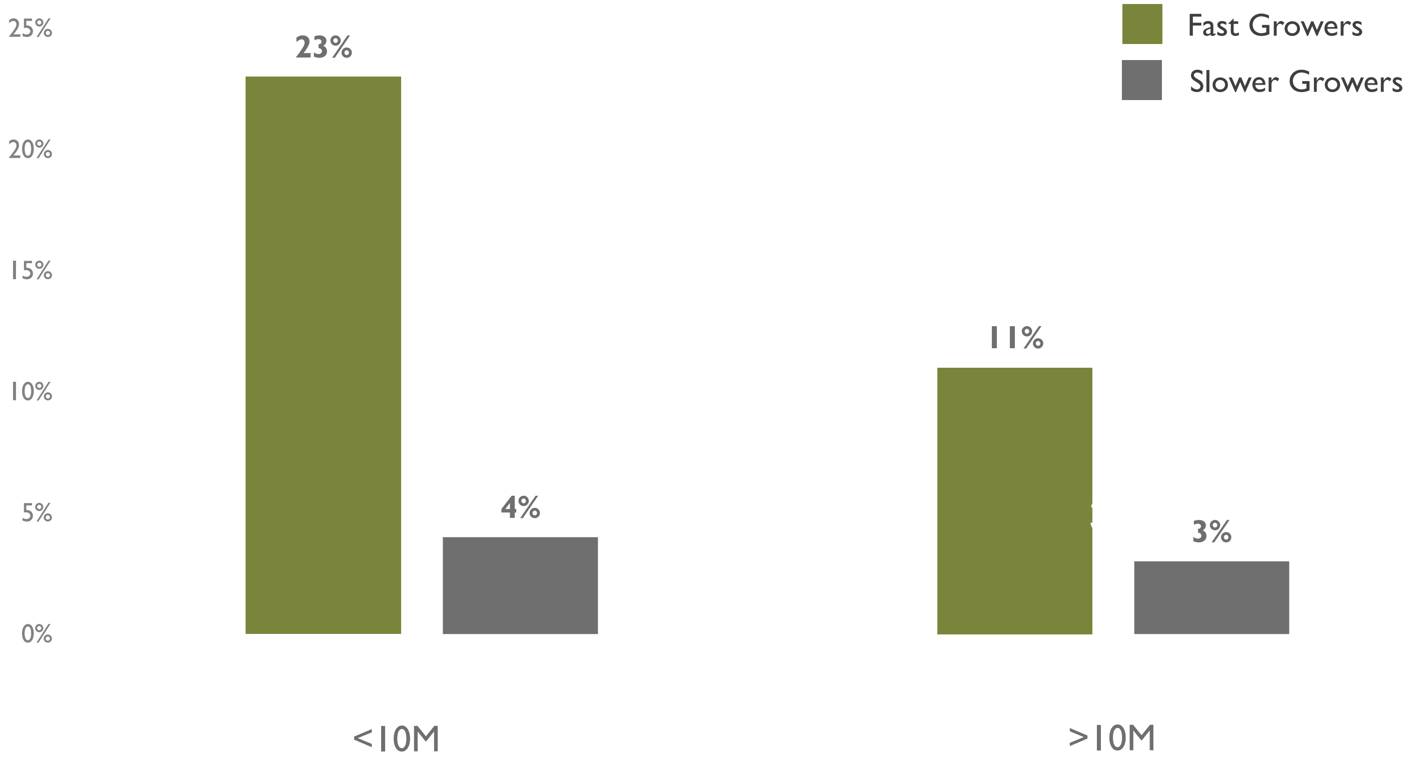
*Fast growers invest **6x more** than slower growers to onboard and retain customers*



 NOTE: All data represents the median spend of the subset

INVESTMENT IN CUSTOMER SUCCESS

Customer Success Expense
% Revenue



Perspective

While Sales and Marketing investment is critical to customer acquisition, Customer Success is the critical path to expansion and retention. This year's fast growers invested in building their Customer Success teams and grew ARR within existing accounts by 35%, achieving a net retention rate of 102%.

As is the case with Sales and Marketing spend, fast-growing, earlier-stage companies had the highest spend in Customer Success as a percentage of revenue. More mature fast growers proved to grow revenue, without the significant increases in Customer Success headcount, as they approach or achieve the best-in-class target of $2M ARR per Customer Success Manager (CSM).

NOTE: All data represents the average spend of each subset

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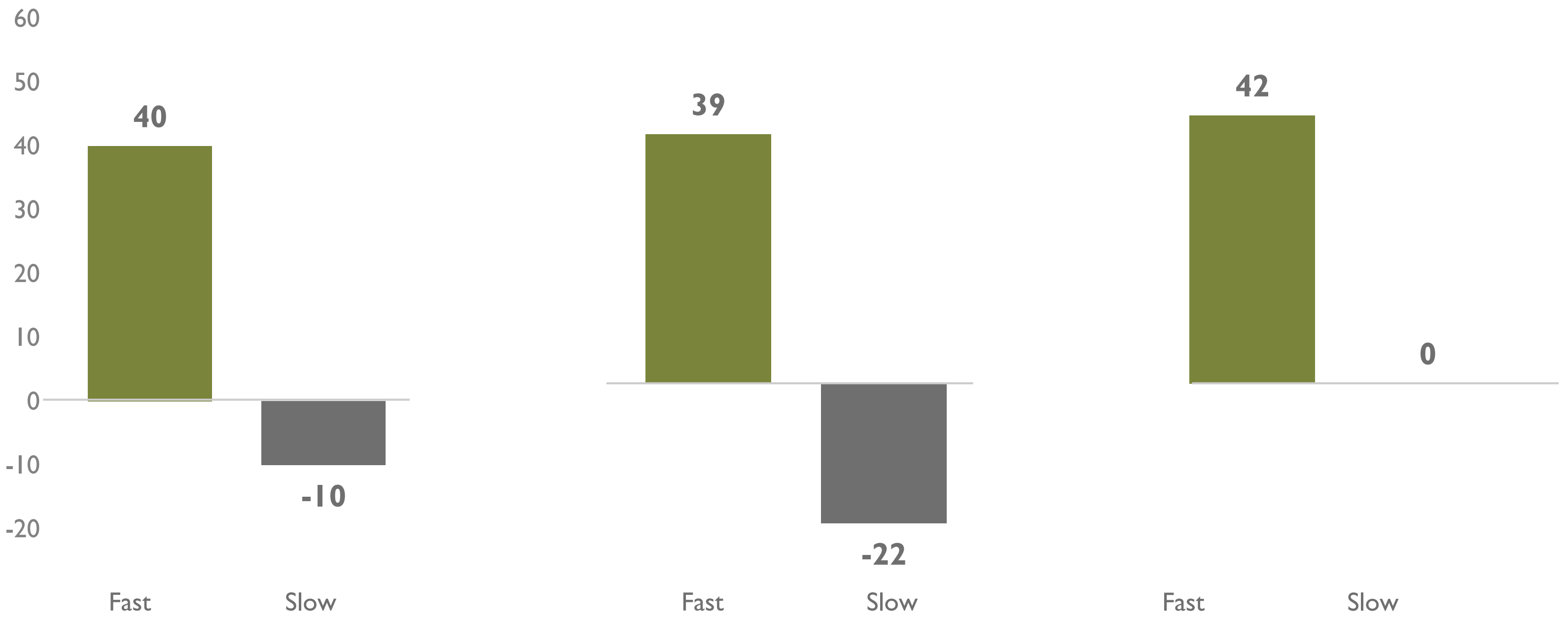
FAST GROWERS ENJOY STRONG NET PROMOTER SCORES (NPS)

NPS
Score

NPS
<10M Revenue

NPS
>10M Revenue



Fast Growers
Slower Growers

NOTE: All data represents average of the subset. See pages 57-59 for definitions.

Perspective

NPS is a leading indicator of retention and excellent NPS scores go hand-in-hand with fast-growing companies, who invest in a systematic approach to health and advocacy.

Scores can be interpreted as follows:

- 70-100 Excellent
- 30-70 Great
- 0-30 Good
- -100-0 Needs improvement

Whether fast or slower growers, NPS is a company-wide metric that is owned by Customer Success, as more often than not, Customer Success practices can have the greatest impact on scores. Low scores associated with earlier-stage companies can also be indicative of the need for tighter ICP and/or go-to-market model refinement.

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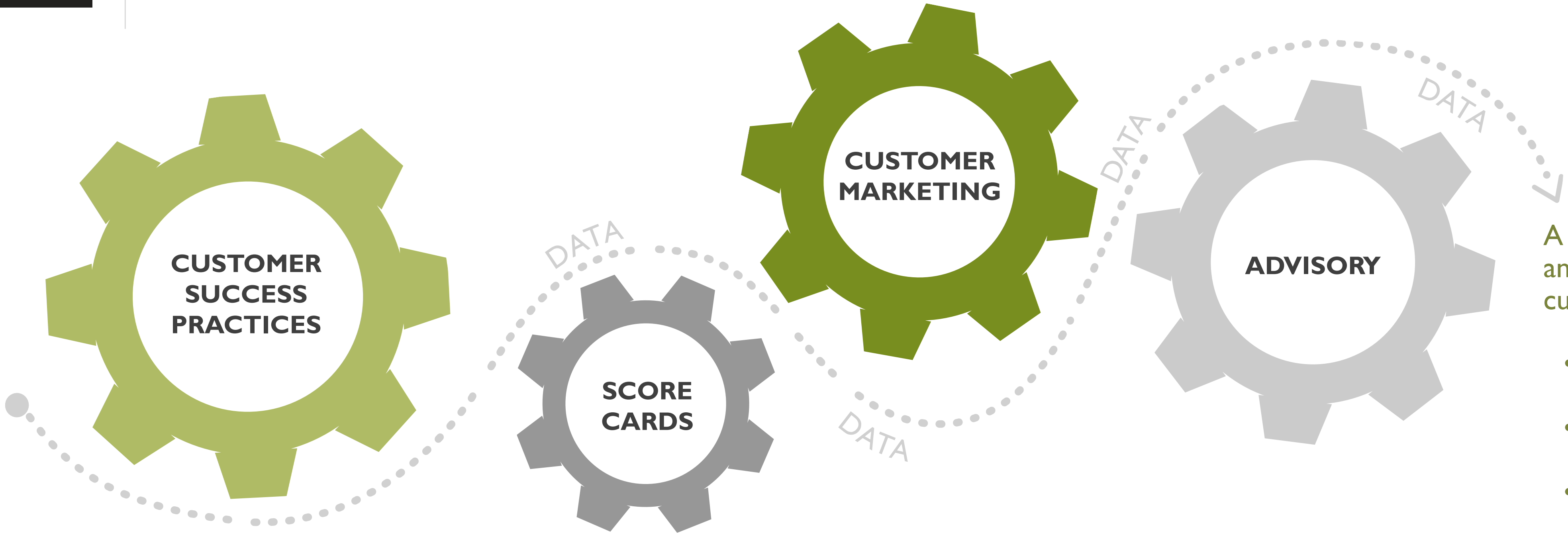
DRIVING RETENTION, EXPANSION & QUALITY MARGIN THROUGH CUSTOMER SUCCESS



A discipline for capturing, analyzing and taking action on customer data:

- Fuels retention and expansion practices
- Strengthens new customer acquisition programming
- Informs pricing strategies

CSM PRACTICES

- $2M ARR per CSM
- Non-quota carrying, but can be incented to surface expansion opportunities
- Use of tech to automate workflows and engagement

HEALTH SCORECARDS

- Apply first to onboarding and first 60-day adoption
- Track signals related to: usage, support incidents, NPS scores
- Exposes leading indicators of risk and churn
- Triggers CSM playbooks

CUSTOMER MARKETING

- Aircover for Customer Success practices
- Focuses on driving loyalty and expansion
- Spearheads customer advocacy initiatives
- Communication of new products/features

ADVISORY COUNCILS

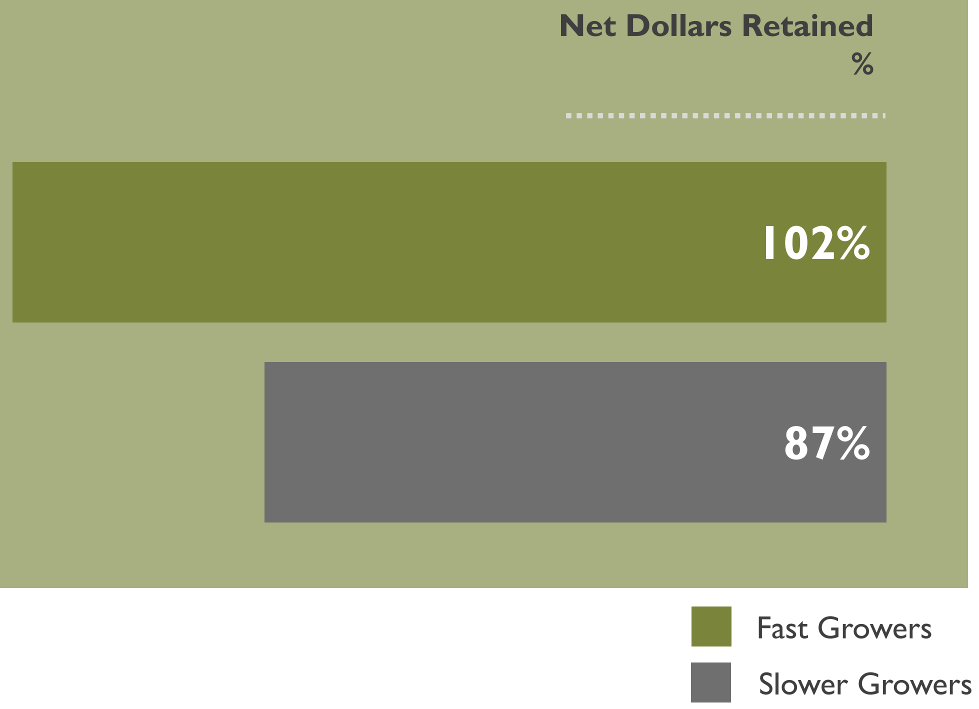
- Member selection based on ICP, usage, ARR potential
- Preview and inform product roadmap
- Mix of in-person and online meetings
- Inclusion of execs and/or practitioners
- Strong linkage with advocacy efforts

FAST GROWERS BETTER AT RETAINING CUSTOMERS

4

Higher Retention

*Fast growers retain revenue at **17% higher rates***



NOTE: All data represents the median of the subset

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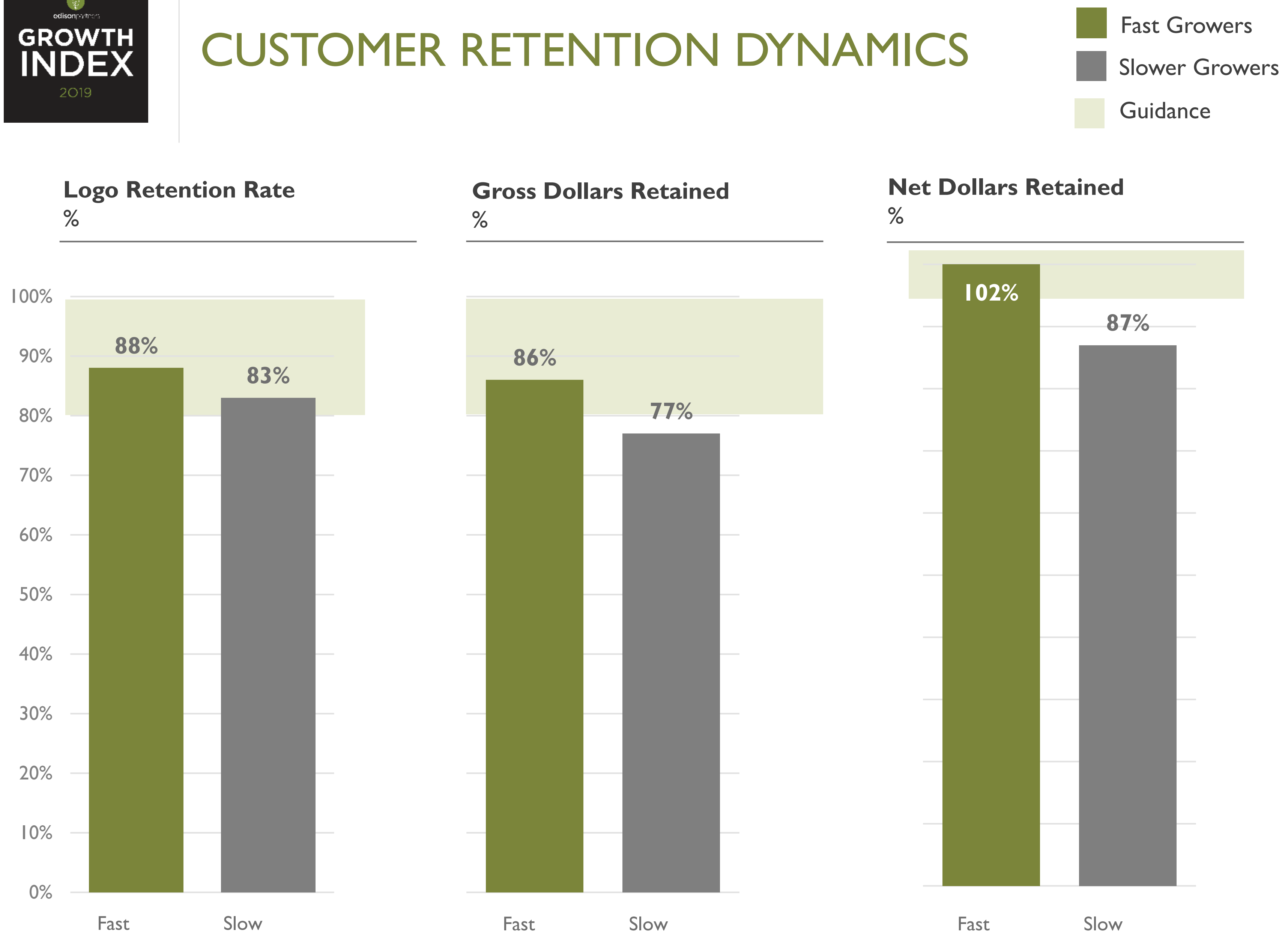
CUSTOMER RETENTION DYNAMICS



NOTE: All data represents the median of the subset.

Perspective

This year's fast growers have best-in-class Net Dollar Retention rates, indicative of keeping and growing customers.

Companies with Velocity go-to-market models accounted for 50%+ of the fast growers, carrying the group into the recommended range through retention and expansion.

Gross dollar retention for companies with Enterprise models was 90%, 15% higher than that of Velocity models.

Logo retention rates for Enterprise models lagged 15% behind guidance, while those with Velocity models were in range.

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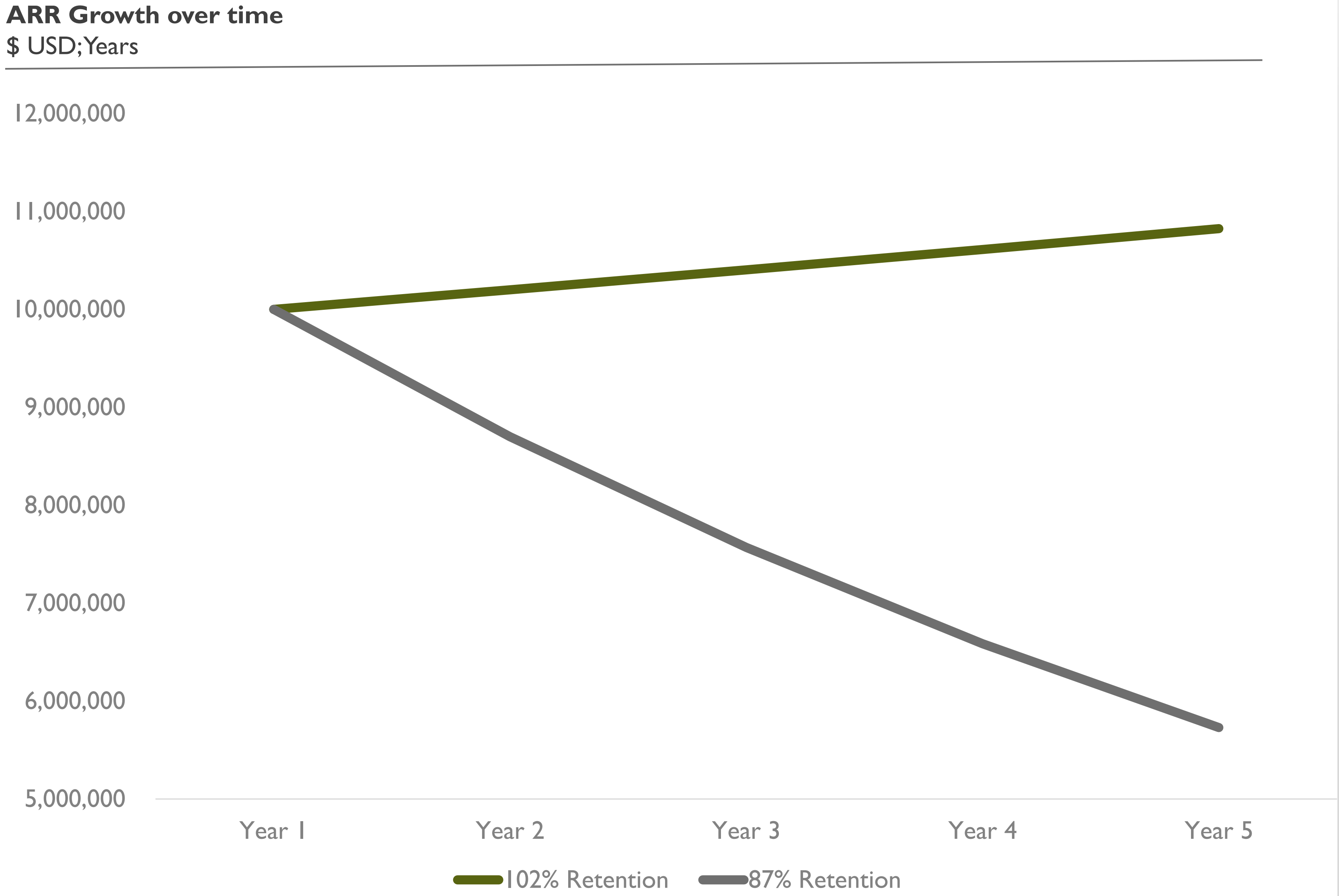
IMPACT OF NET CHURN



Perspective

The fifteen point difference between fast and slower growers will have meaningful impact over time.

Consider two companies with $10M ARR and retention rates corresponding with our two data points of 102% and 87%. After one year, the ARR bases grow/shrink to $10.2M and $8.7M, respectively. Three years later, those ARR bases turn into $10.8M and $5.7M.

Now, consider your customer lifetime. If you intend to keep your customers for 5+ years, you can expect a 89% lift with only a 15% increase to net retention.

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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 major 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.

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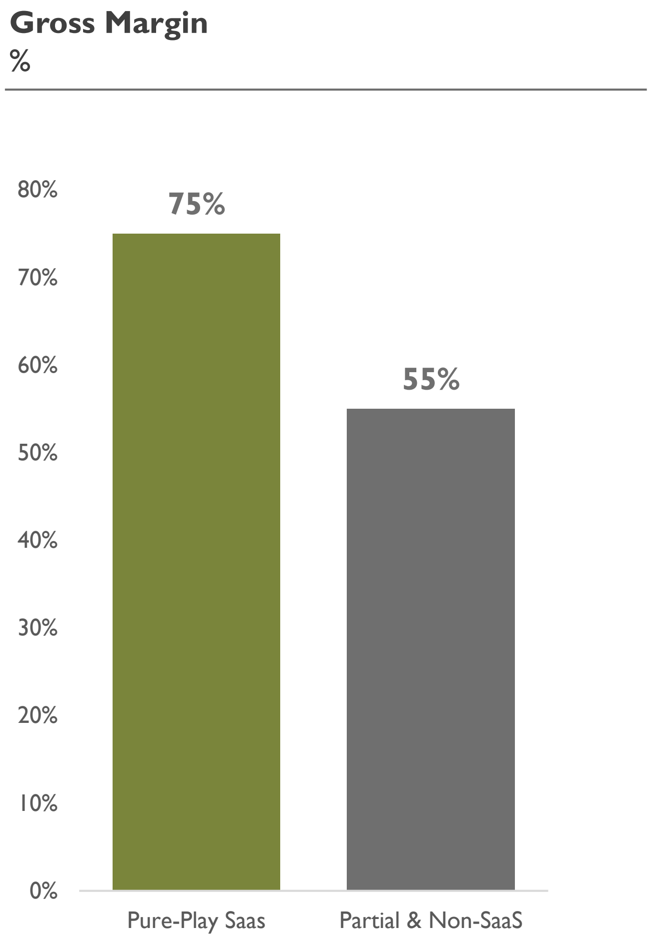
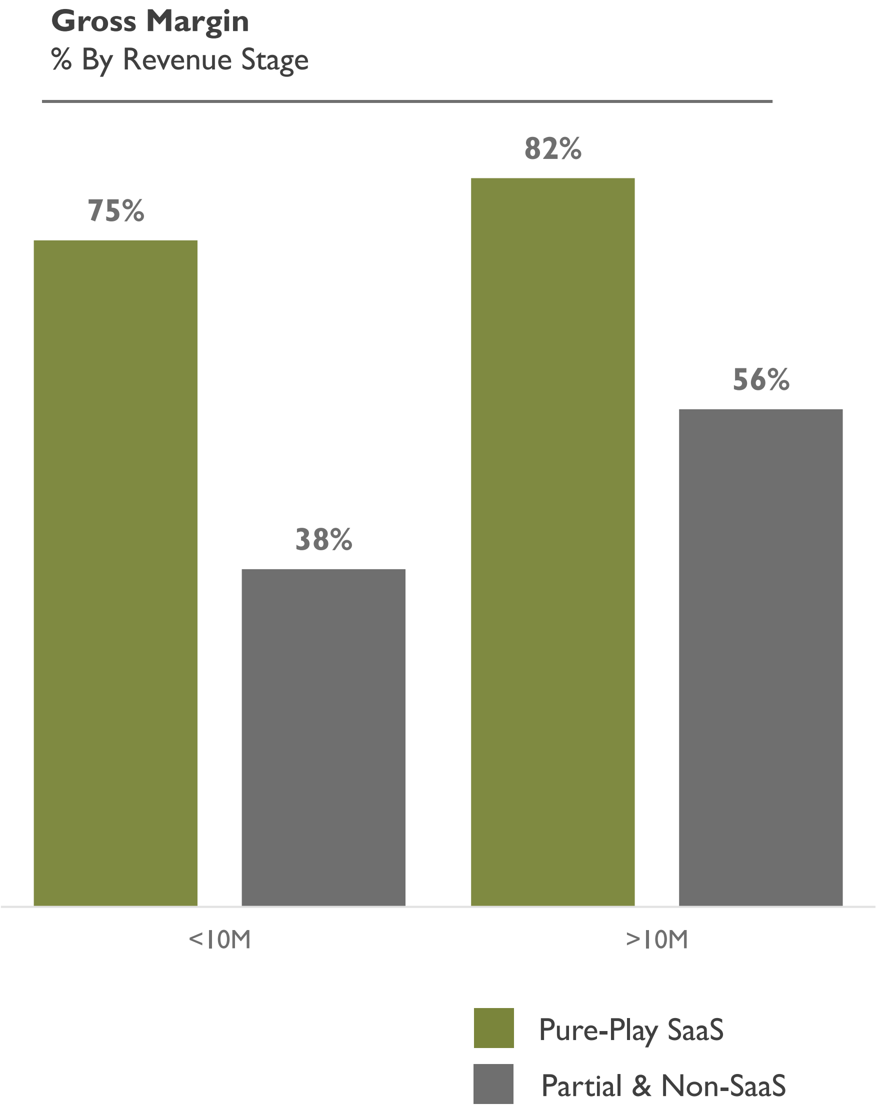
SECTION III

GROSS MARGIN EXPANSION

GROSS MARGIN SUMMARY





Perspective

We are not highlighting gross margin dynamics in this year's key fast-grower traits, as Gross Margin remained consistent with last year for both fast and slower grower groups.

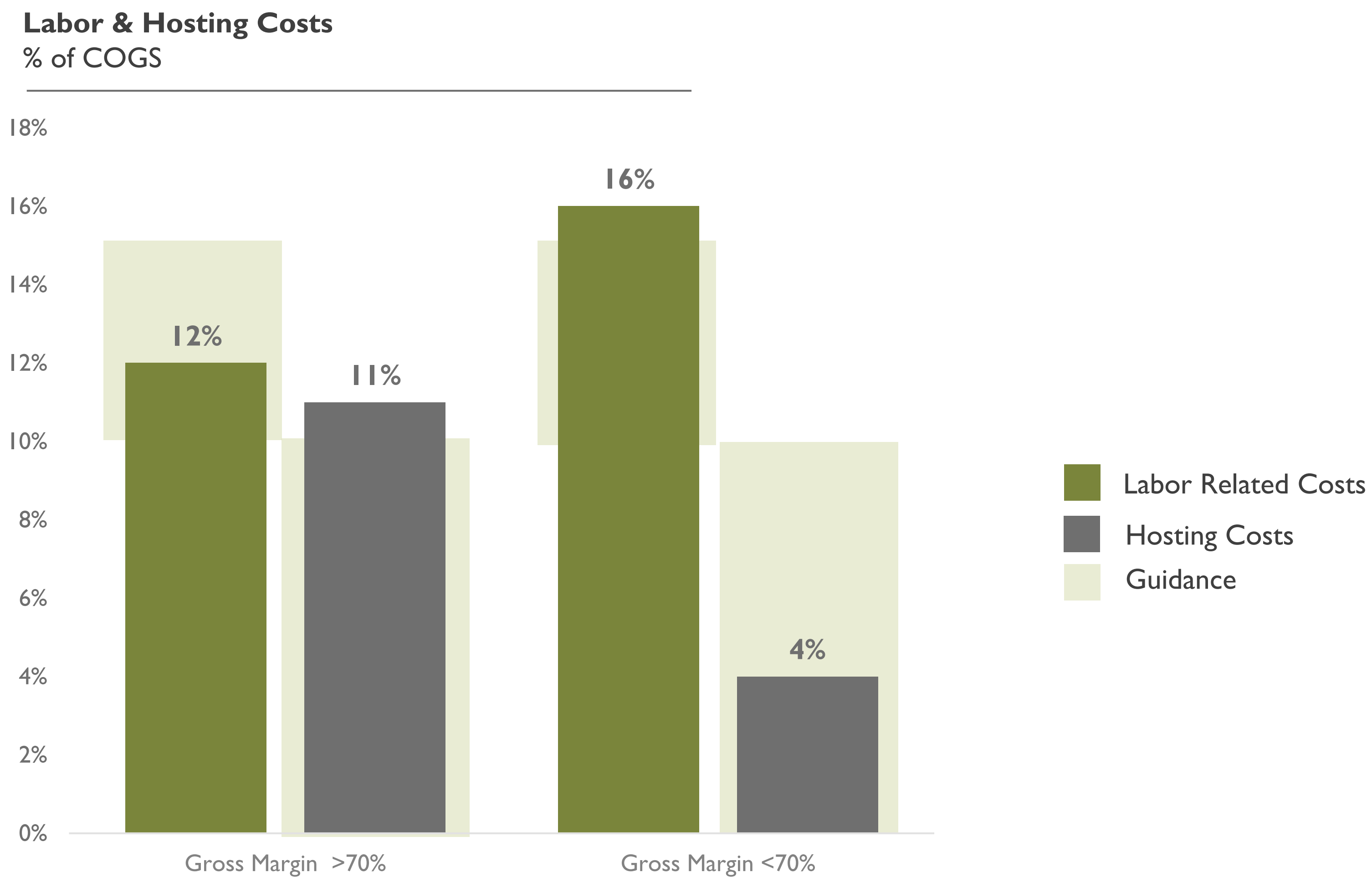
SaaS companies with >10M in revenue averaged Gross Margins around 80%. Non-SaaS and Partial SaaS companies (<10M) averaged 56%, with margins growing and contracting based on customer support and professional services requirements. Non-SaaS companies, such as adtech and transactional fintech companies, are unlikely to achieve SaaS-like margins; they averaged 38%.

Trends relative to go-to-market model were not recognized this year.

NOTE: All data represents median of the subset. See pages 57-69 for definitions.

GROWTH INDEX 2019

COST PROFILE SAAS VS. NON-SAAS



Perspective

Companies with >70% Gross Margin have labor costs in line within guidance of 10-15% of COGS. Participants' hosting costs rose slightly above the recommended range. Getting hosting costs down to 1-10% is key to achieving 80+% Gross Margin.

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

Companies that can sustain high Gross Margins are true software companies, primarily SaaS companies emphasizing software product revenue over lower-margin service revenue.

NOTE: All data represents the median of the subset. Labor refers to both employees and external consultants. See pages 57-60 for definitions.

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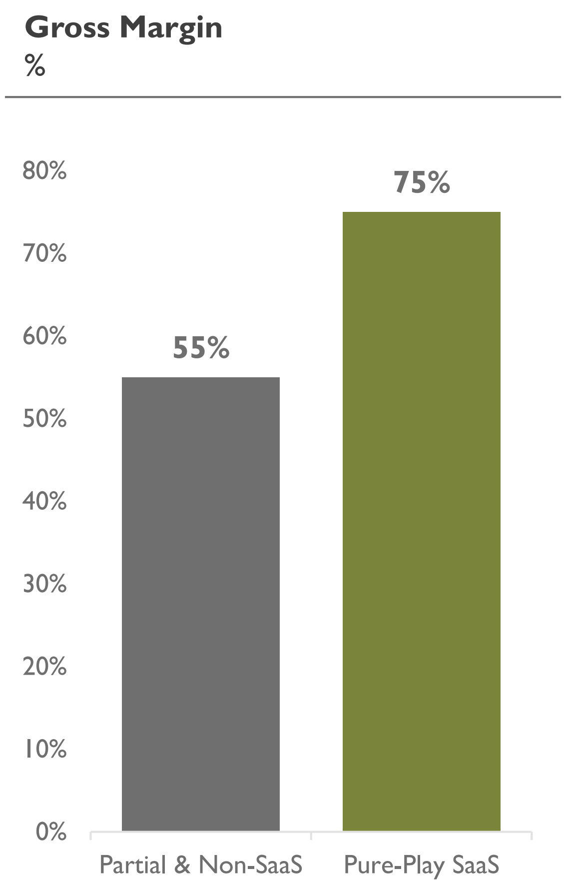
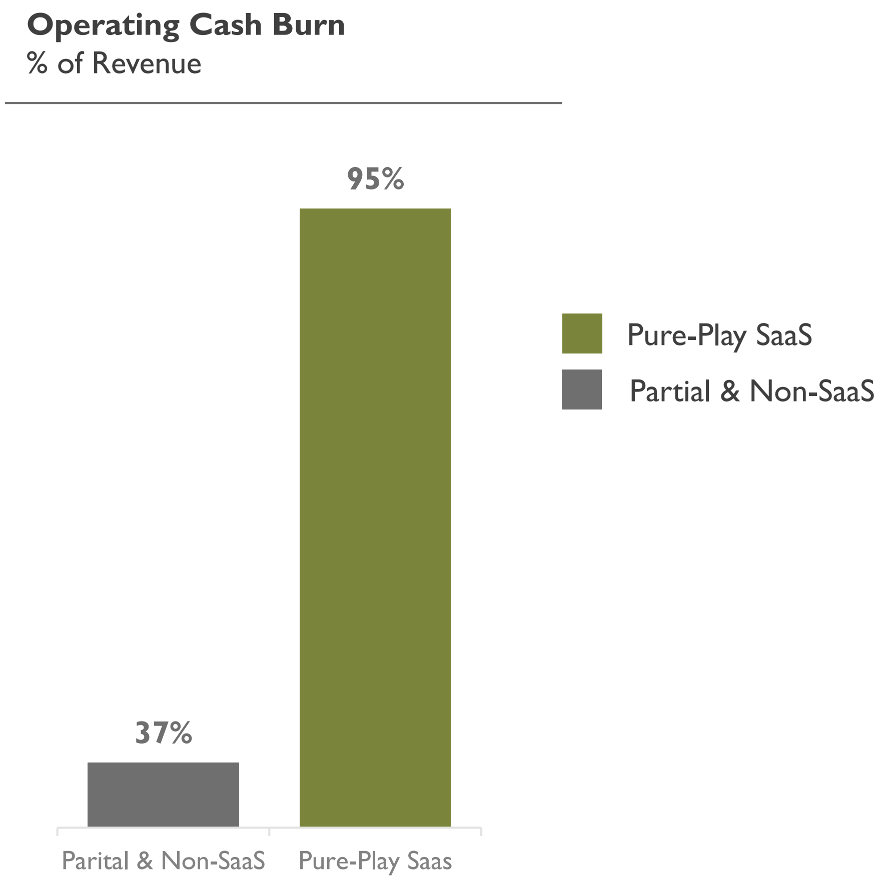
GROWTH INDEX 2019

THE SAAS TRADEOFF

HIGHER PERFORMANCE AT HIGHER COST





Perspective

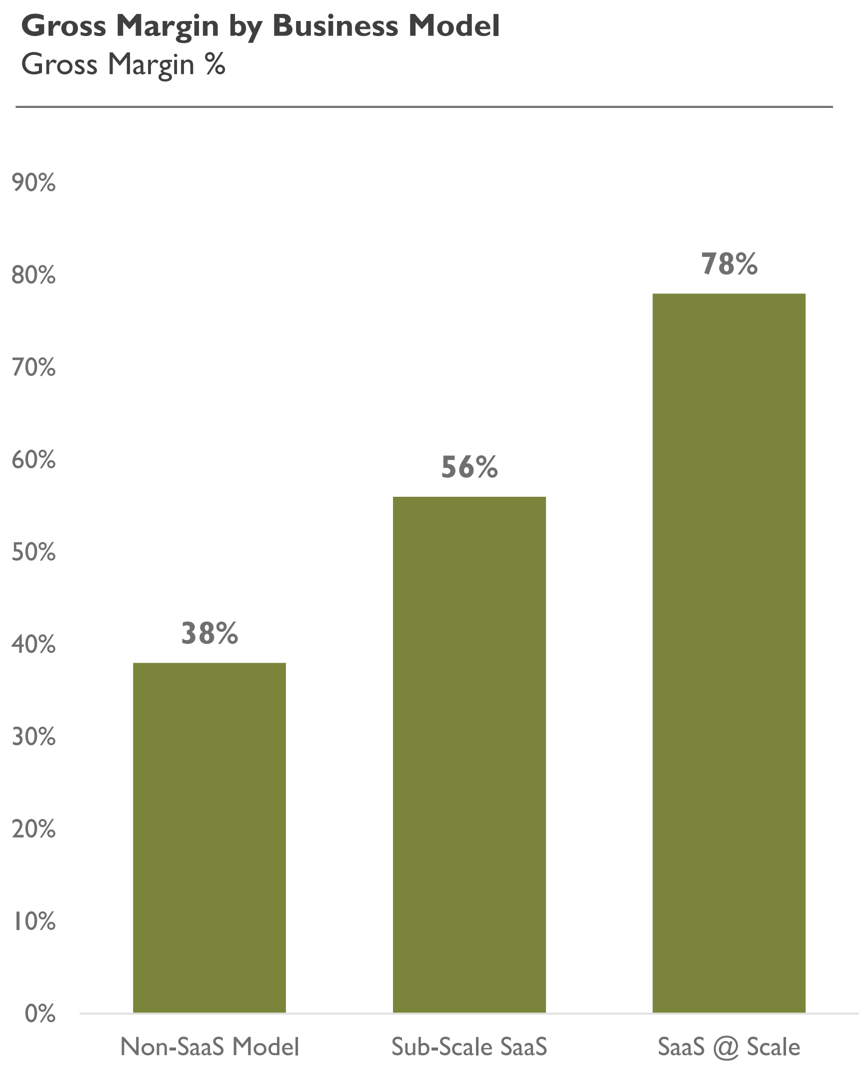
The trade-off of recurring business lies in the need for greater expense, and higher cash burn. High operating costs are necessary to fund a SaaS business strategy. Having clarity around business model and capital requirements at the earliest stage of commercialization is the difference between long-term, scalable growth, and a mediocre outcome.

The rule of 40 (Revenue Growth Rate + Cash Burn <40) serves as guidance and a working benchmark.

NOTE: All data represents average of the subset. See pages 57-59 for definitions.

GROSS MARGINS ARE DRIVEN BY STAGE & BUSINESS MODEL

GROWTH INDEX 2019



Perspective

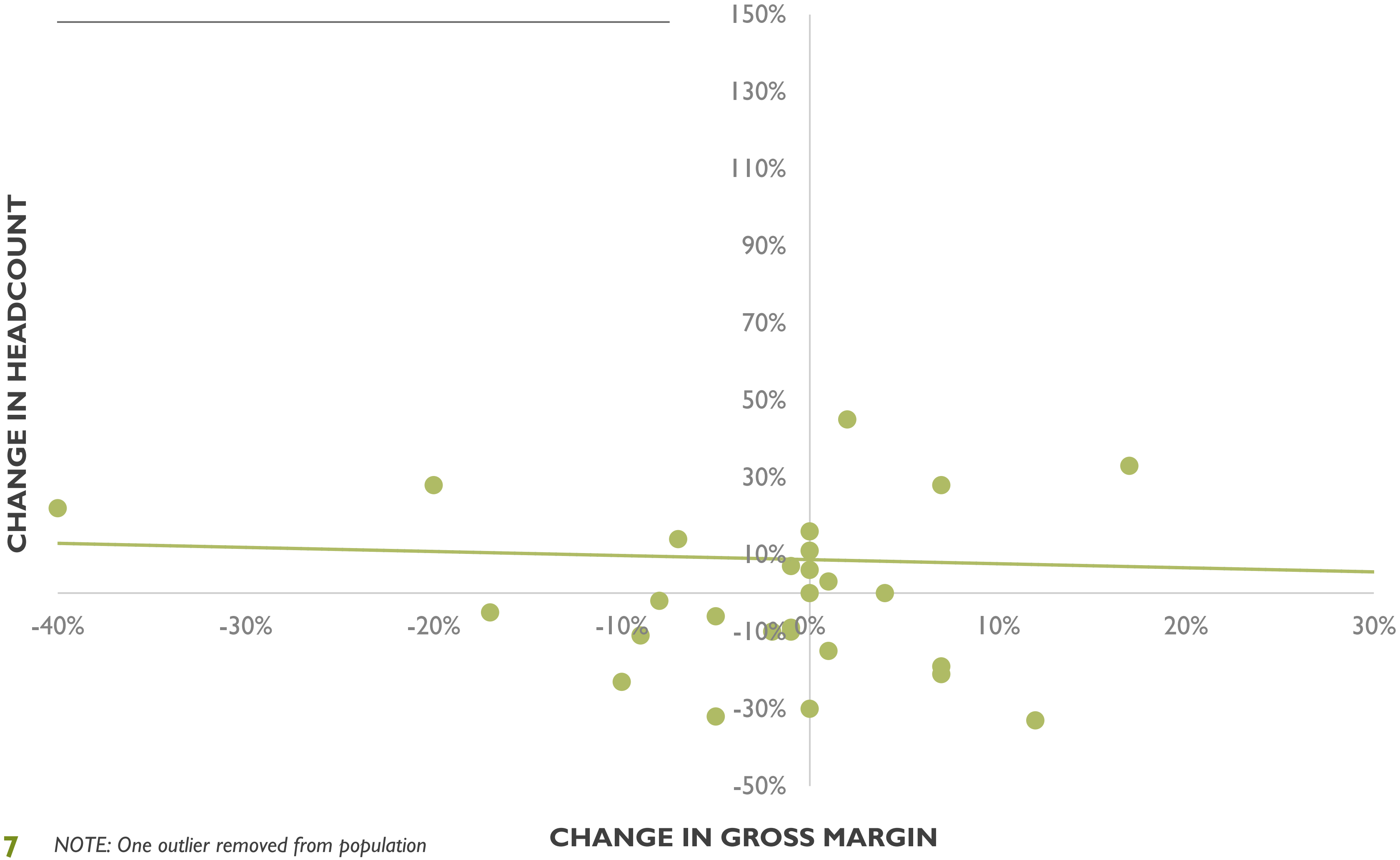
In analyzing this year's Gross Margin data, we noted companies generally fall into one of three buckets:

- Pure-play SaaS companies at scale with highly attractive Gross Margins, generally north of 70%
- Partial or sub-scale SaaS companies hiring ahead and have inflated COGS without GAAP revenue to make up for it
- Non-SaaS models, such as adtech and transactional fintech companies, that will never generate SaaS-like margins, which is simply a function of business model

NOTE: All data represents median of the subset.

RELATIONSHIP BETWEEN GM EXPANSION & HEADCOUNT

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



NOTE: One outlier removed from population

Perspective

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.

You can consider the following when assessing your headcount/ GM ratio: Δ GM/Headcount as a representation of services intensity of your business.

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METHODS TO HELP DRIVE GROSS MARGIN EXPANSION

1 SIMPLIFY PRODUCT

- 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

- 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

- 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

- See page 20 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.

SECTION IV

BOTTOM LINE GROWTH

GROWTH INDEX 2019

FAST GROWERS HAVE THESE BOTTOM LINE CHARACTERISTICS IN COMMON

1

Rapid Hiring

*Fast growers **grew headcount by 22%***

2

Higher Revenue per Employee

*Fast grower revenue per employee increased at a rate **>3x higher** than that of slower growers*

3

Heavy Losses

*Fast growers incur **significantly higher losses** than slower growers*

**Fast growers are companies that grew GAAP revenue 30+% this year over last year*

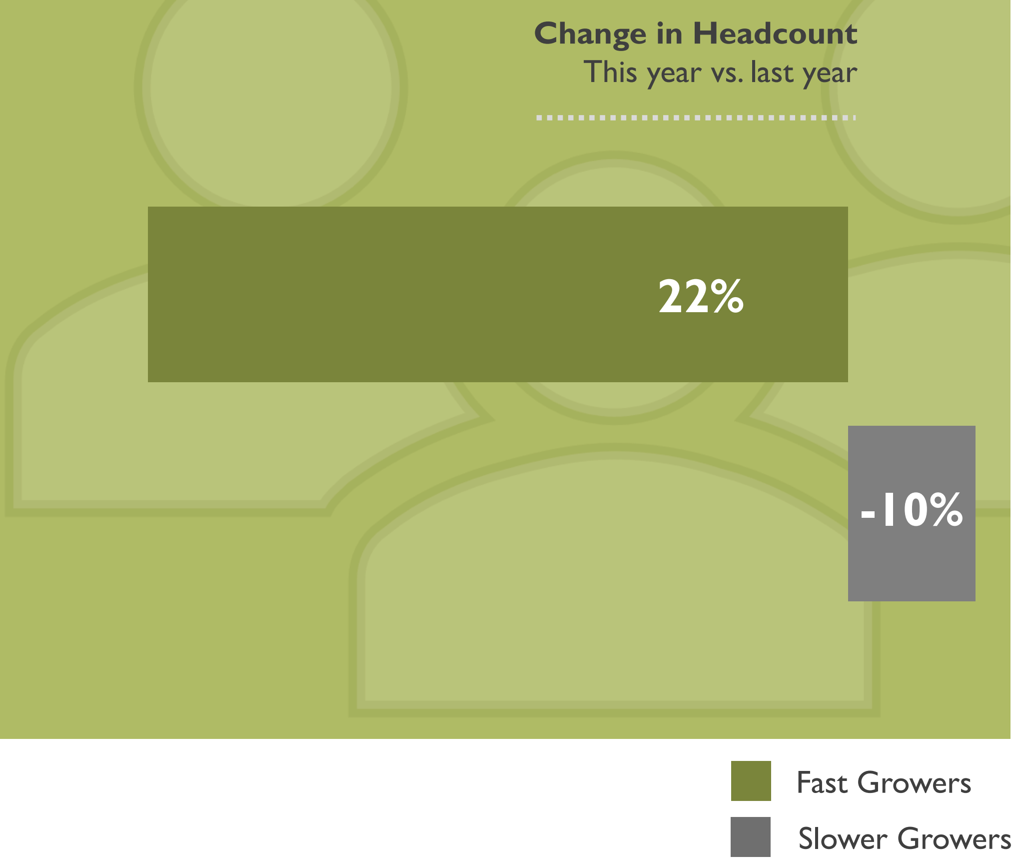
GROWTH INDEX 2019

FAST GROWERS INVEST MORE IN HEADCOUNT

1

Rapid Hiring

*Fast growers **grew headcount by 22%***



NOTE: All data represents the median of the subset

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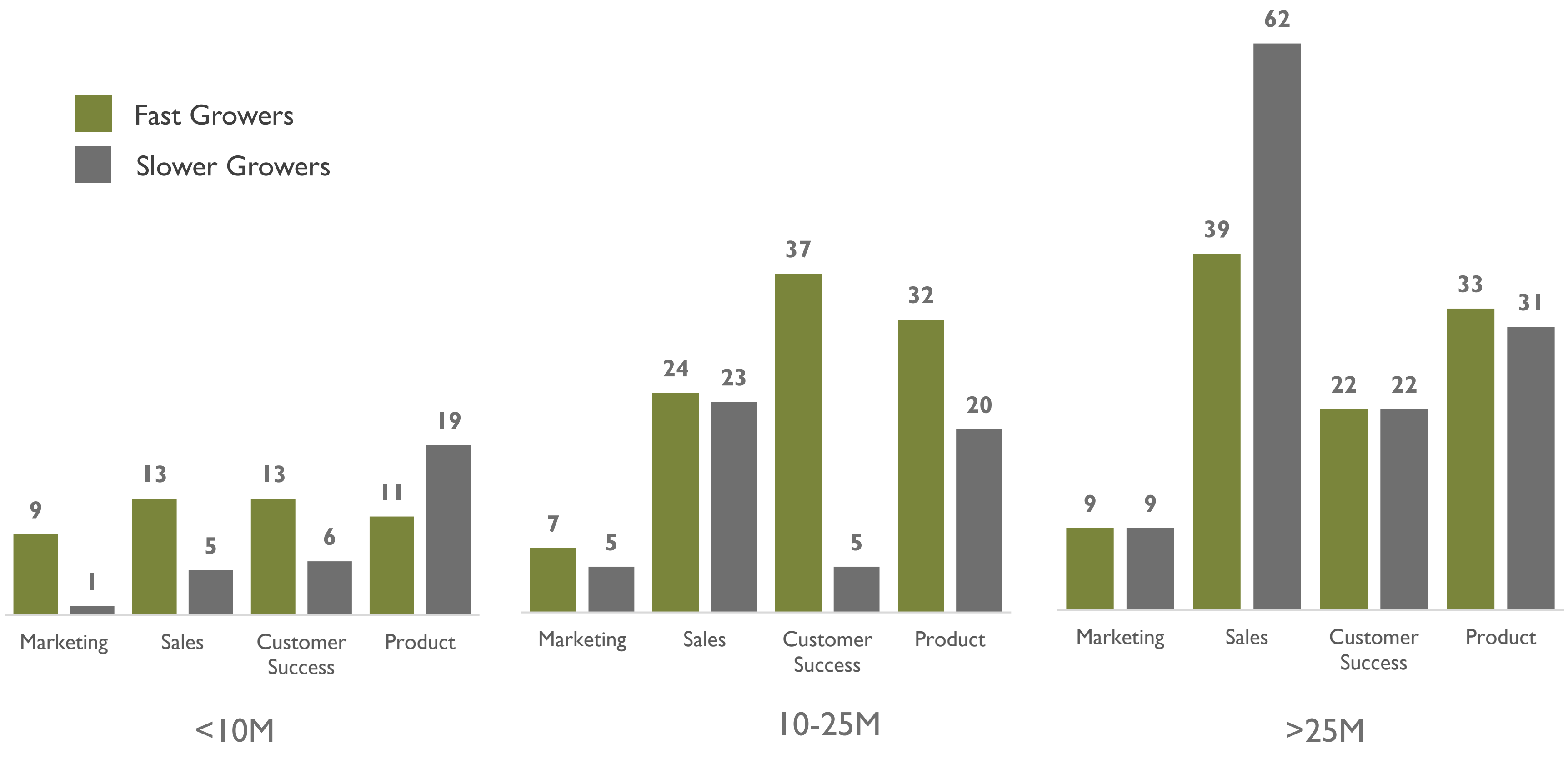
HEADCOUNT BY FUNCTION

Functional Headcount
By Revenue Stage



NOTE: All data represents average of the subset.

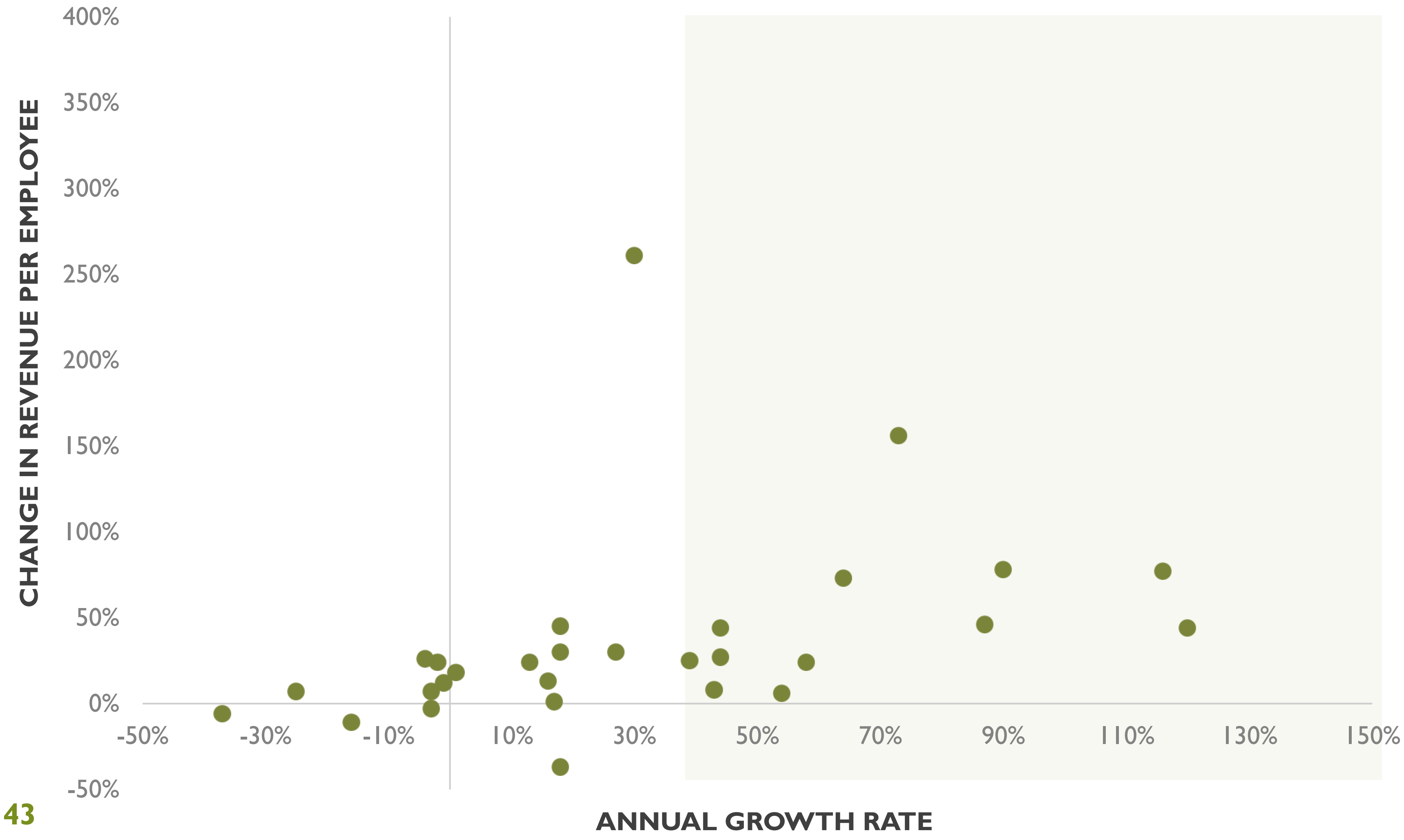
Perspective

Fast growers invest more in new headcount and hire ahead of need as a mechanism to scale quickly and efficiently.

Fast-grower headcount exceeded slower growers in nearly every functional category, regardless of stage.

FAST GROWERS MAINTAIN BALANCE OF HIRING & REVENUE GROWTH

Change in Revenue per Employee vs. Growth Rate
%

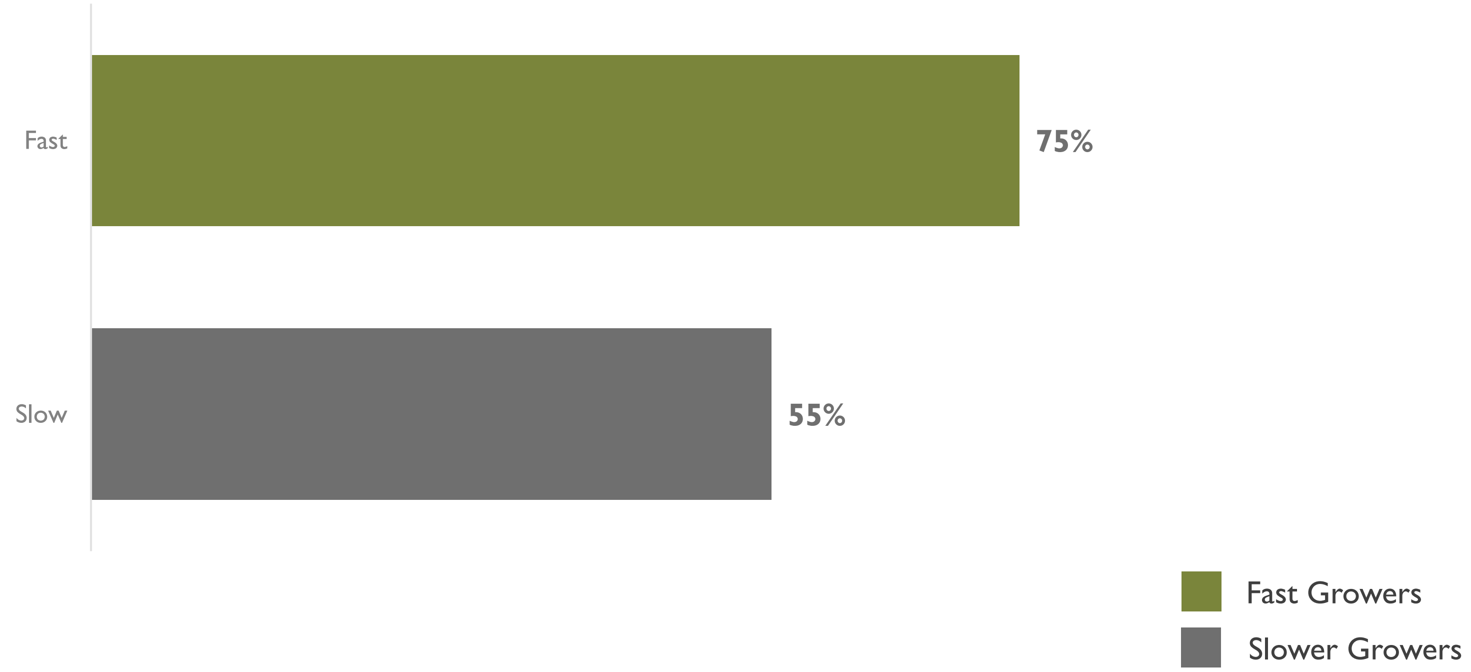


Perspective

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, where the slower grower results were much more sporadic.

FAST GROWERS HAVE HIGHER EMPLOYEE RETENTION

Employee Retention
%



Perspective

Fast growers retain employees 36% better than slower growers. No meaningful trends were found by department, except that fast growers also retained 20% more employees in Sales and Marketing than slower growers. More generally, we also found that fast growers have distinctive cultures in common, involving:

- Defined methods for engagement and cadence of communication
- Financial transparency
- Cross-organizational fluency in corporate objectives and performance
- An institutionalized performance management process, and accompanying discipline for talent development and swift exiting of poor performers

These are all core elements of what we refer to as the *People Equation.*

NOTE: All data represents the average of the subset

GROWTH INDEX 2019

COMPENSATION BENCHMARKS

Role	Salary	Variable	Salary	Variable	Salary	Variable
CEO	$251,400	$148,750	$262,109	$109,567	$500,000	$200,000
Finance Leader	$147,534	$34,497	$220,500	$60,450	$250,515	$78,563
Marketing Leader	$134,750	$26,667	$193,017	$53,640	$230,000	$82,500
Sales Leader	$148,476	$80,976	$144,999	$130,000	$283,750	$128,750
Technology Leader	$144,943	$25,075	$179,227	$56,182	$287,000	$96,350
Customer Success Leader	$103,364	$29,400	$163,802	$52,744	$197,500	$64,469
	< 10M		10M – 25M		>25M	

Perspective

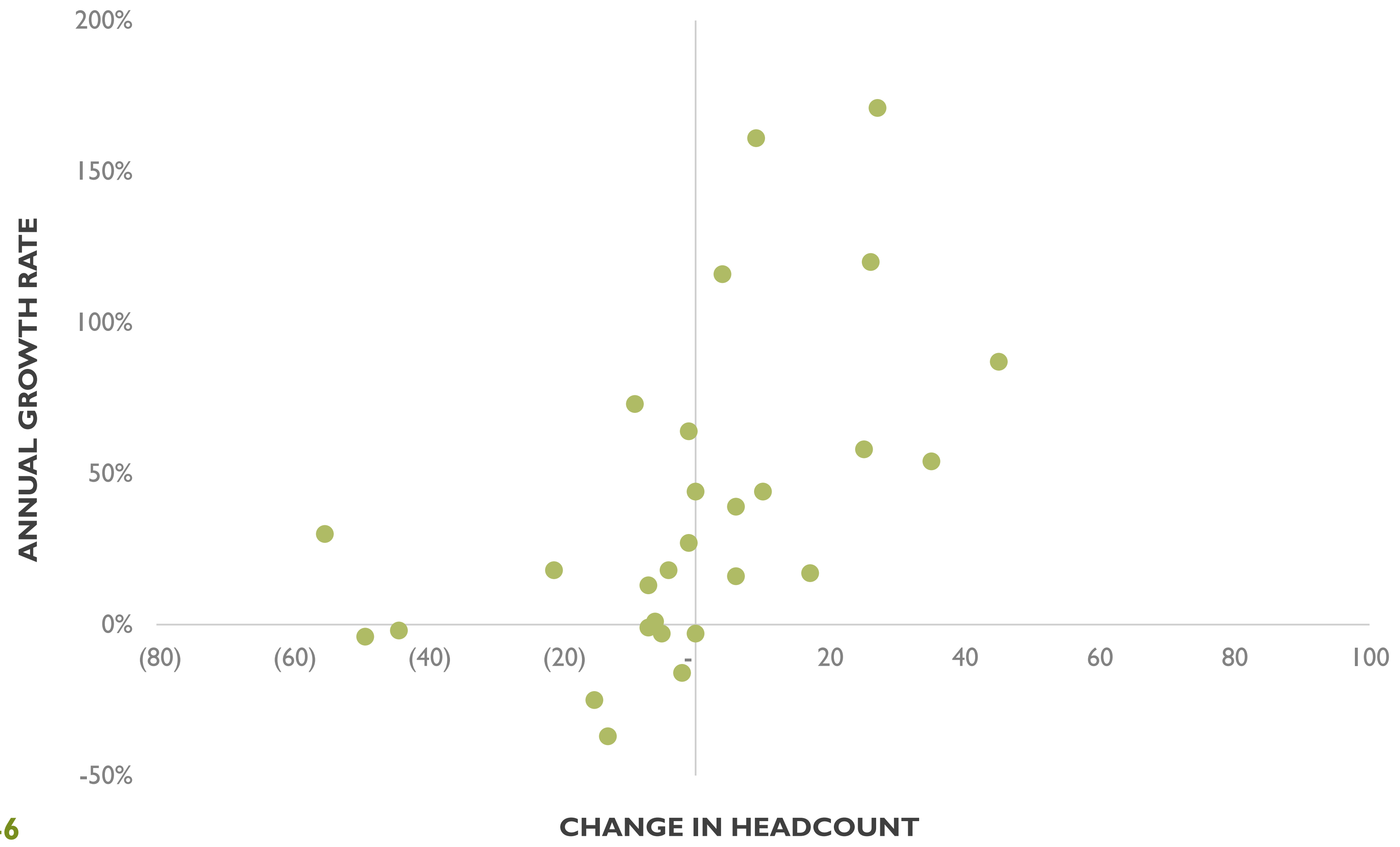
Leadership plays a pivotal role in creating culture, cascading vision and, ultimately, delivering financial results. As such, compensation is a critical dimension of attracting and retaining the right talent.

We observe a relationship between company stage, leadership experience and increase of compensation by an average of 30% as revenues surpass 10M, and an additional 45%, as companies cross the 25M threshold, where investment in a C-suite with seasoned leadership is commonplace. First-time leaders (Heads or VPs of a function) are most often hired in <10M companies.

NOTE: All data represents the average of the subset and is reflective of companies with headquarters based in the Eastern United States, including the Midwest

WHICH CAME FIRST: THE HIRING OR THE GROWTH?

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



Perspective

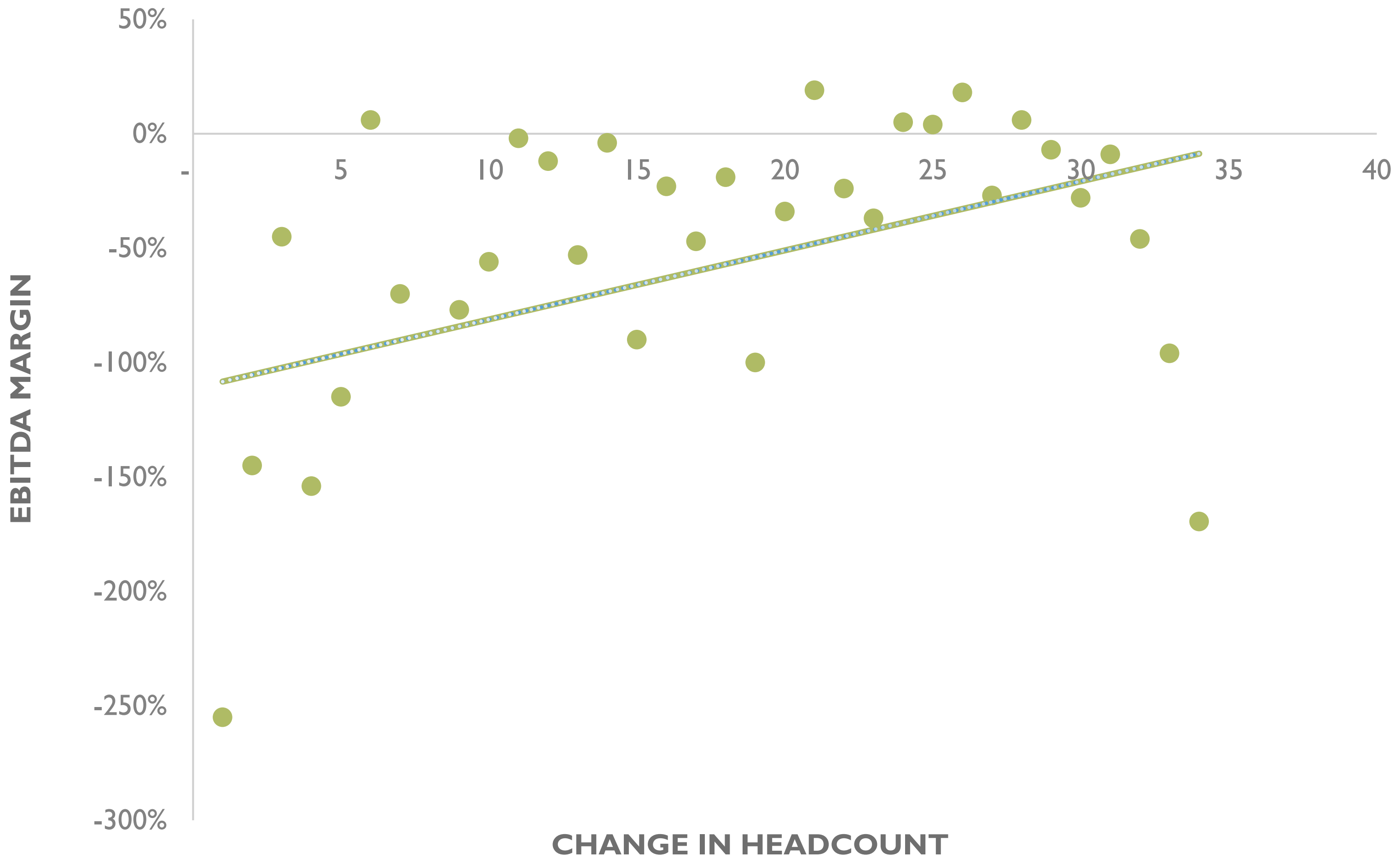
It seems logical that a correlation would exist between growth rate and change in headcount, but which drives which?

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 growers 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 page…

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.

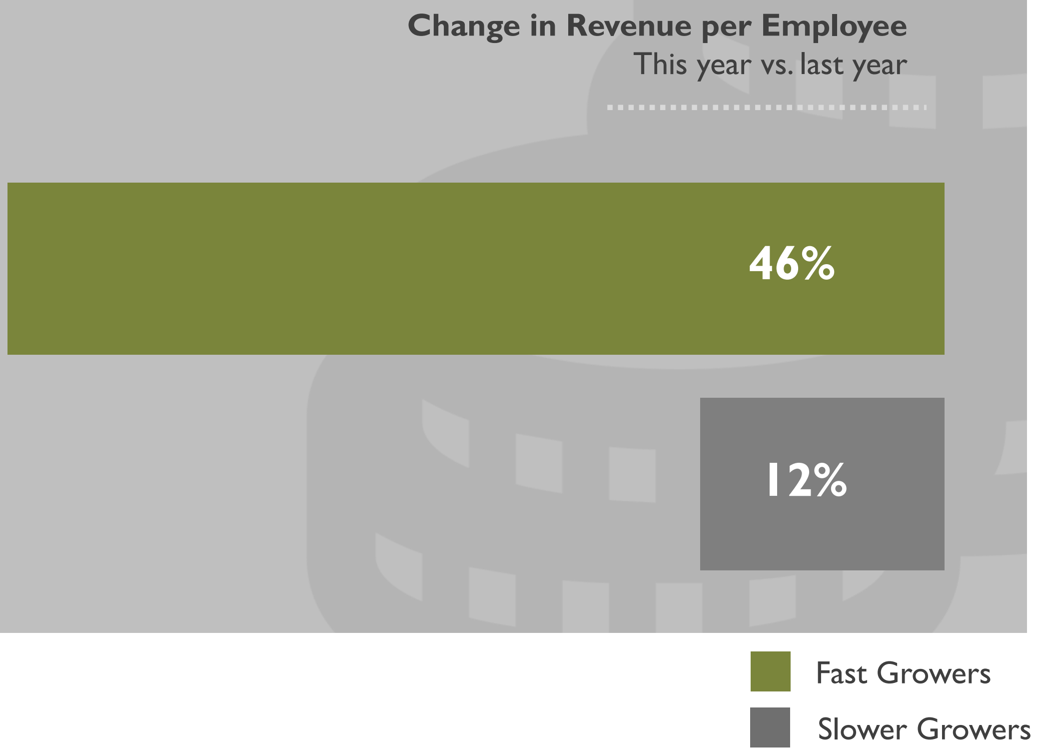
Month	Hiring Tripwires	Position(s) to Hire Next Month	New Headcount
January	1M of cash collections; $500K New Bookings	Staff Accountant, 2 AEs	3
February	Cash burn <$500K; $500K New Bookings	Customer Success Manager, SDR	2
March	80% Retention for Q1; $500K New Bookings	2 Engineers; Marketing Coordinator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

FAST GROWERS MAINTAIN BALANCED HIRING & REVENUE GROWTH

2

Increased Revenue Per Employee

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



NOTE: All data represents the median of the subset

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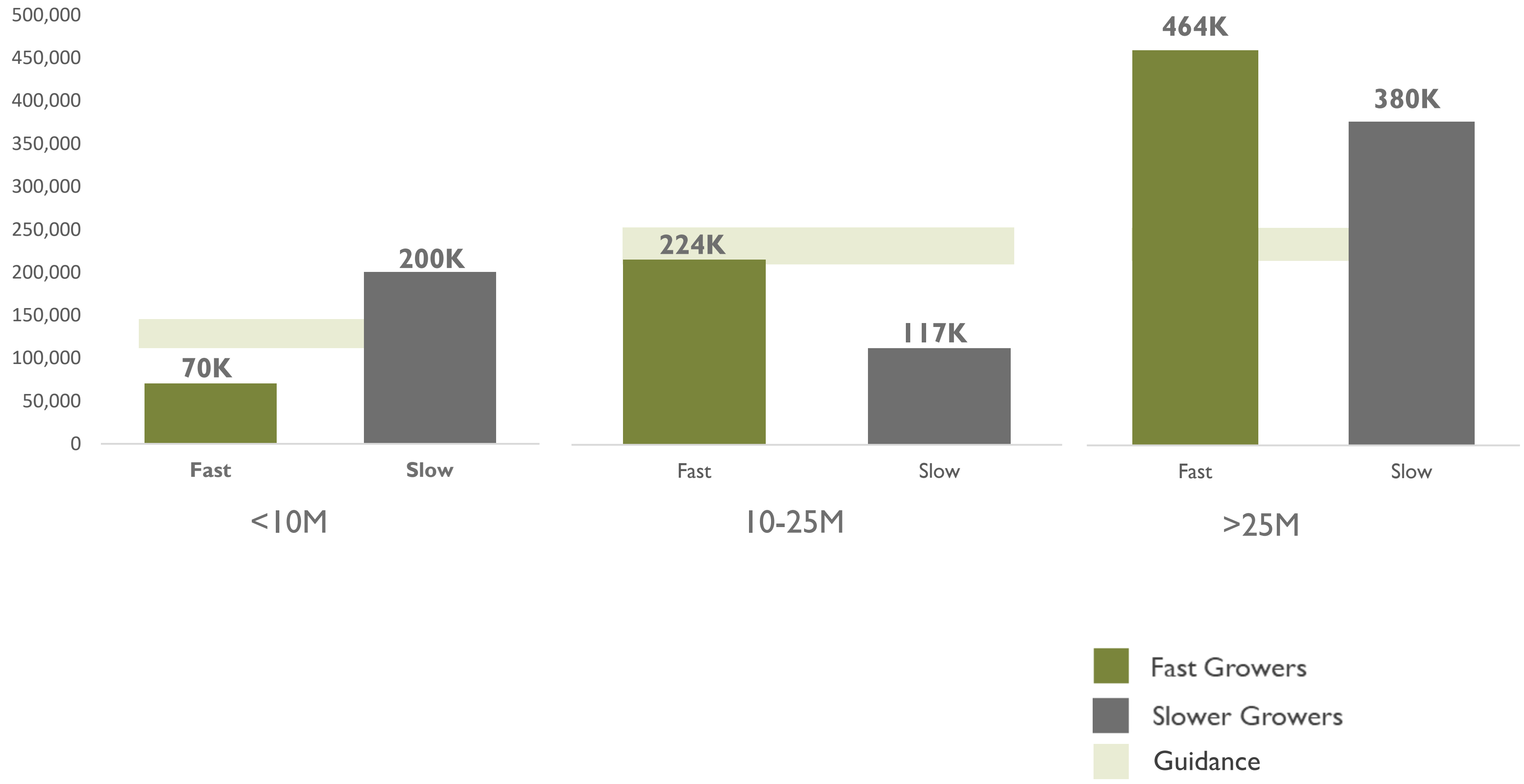
FAST GROWERS ARE HEALTHY GROWERS

Revenue per Employee
By Revenue Stage



NOTE: All data represents the median of the subset

Perspective

The revenue per employee median for fast growers across all stages of growth is 114K.

The predominance of earlier-stage companies (<10M) hiring ahead of growth places the fast growers slightly below guidance – but only for now.

Slower growers, who have not scaled efficiently, may have a tendency to understaff in functional areas outside of Sales. While this appears favorable in the short term, lack of appropriate investment in all areas can be detrimental in the long run as faster growers nose ahead with scale.

Fast growers (>10M) enjoy best-in-class revenue per employee rates. The next page provides recommendation for achieving this.

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4 STEPS TO MAKE SENSE OF REVENUE PER EMPLOYEE

1

SET REVENUE PER EMPLOYEE GOALS

Aim for >$200k revenue per employee, within guidance for each functional area.

2

SET EXPECTATIONS FOR AVERAGE COST PER EMPLOYEE

If the average salary is $100k, assume an extra 30% 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.

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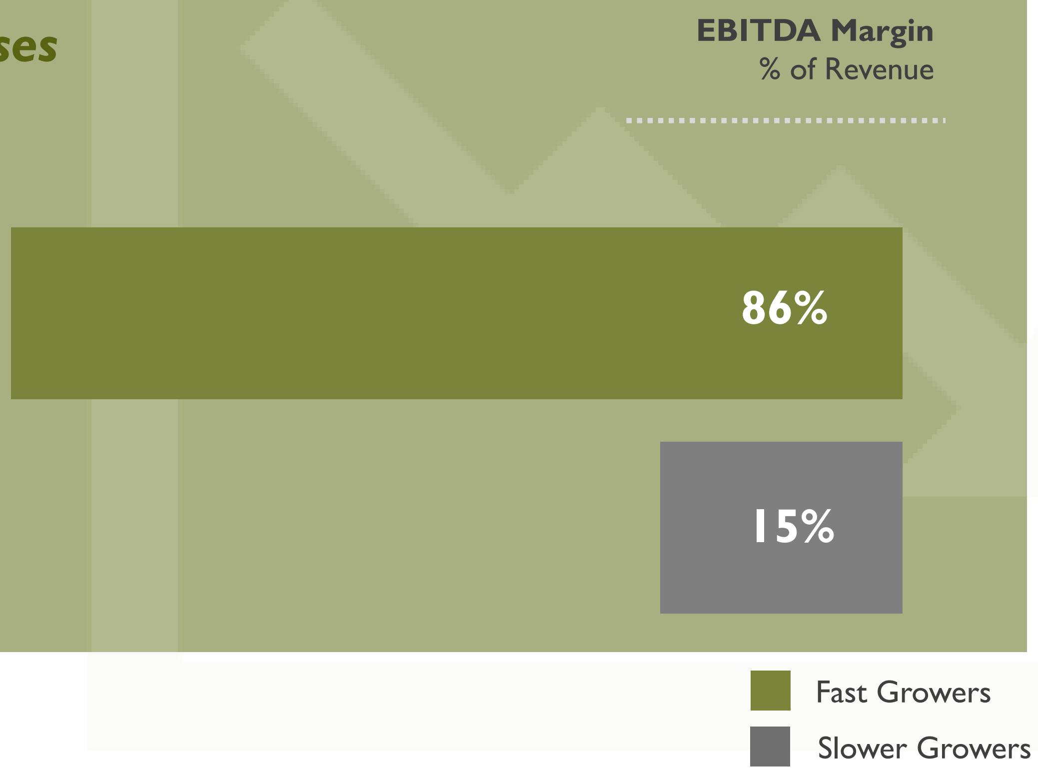
Revenue per Employee	$200,000	(customizable field)
Average Salary per Employee	$100,000	(customizable field)
Taxes, Benefits, T&E, etc.	120%	(customizable field)
	$120,000	
Employee Expenses as a % of OPEX	60%	(customizable field)
Total OPEX per Employee	$200,000	
Net Margin ($) per Employee	$0	
Net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

FAST GROWERS INCUR HIGHER LOSSES

3

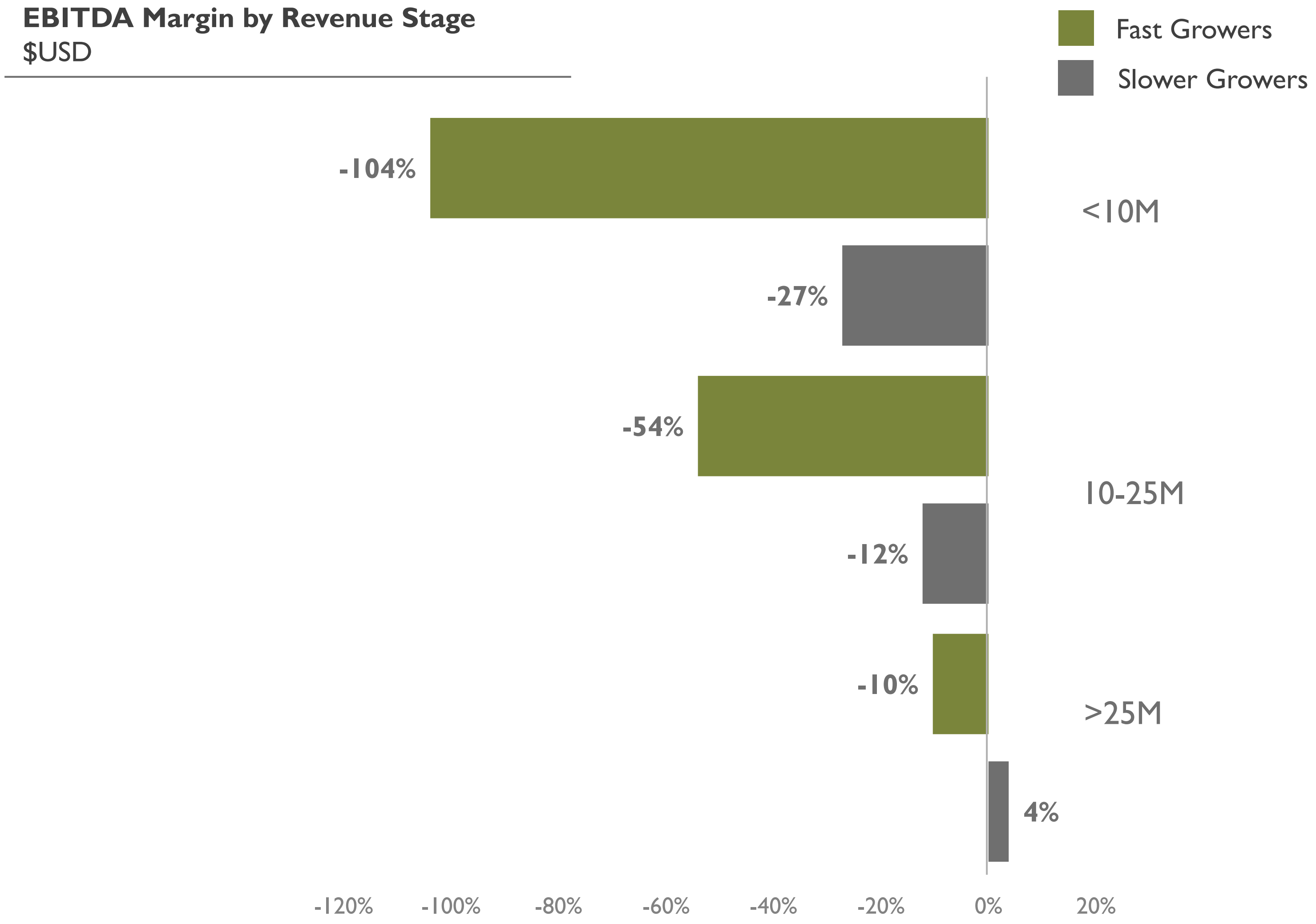
Heavy Losses

*Fast growers incur **significantly higher losses** than slower growers*



NOTE: All data represents the median of the subset

HEAVY LOSSES BY STAGE



NOTE: All data represents the median of the subset

Perspective

Heavy losses correlate to company stage with companies >25M hovering at break even and those with <10M incurring losses consistent with those of fast growers.

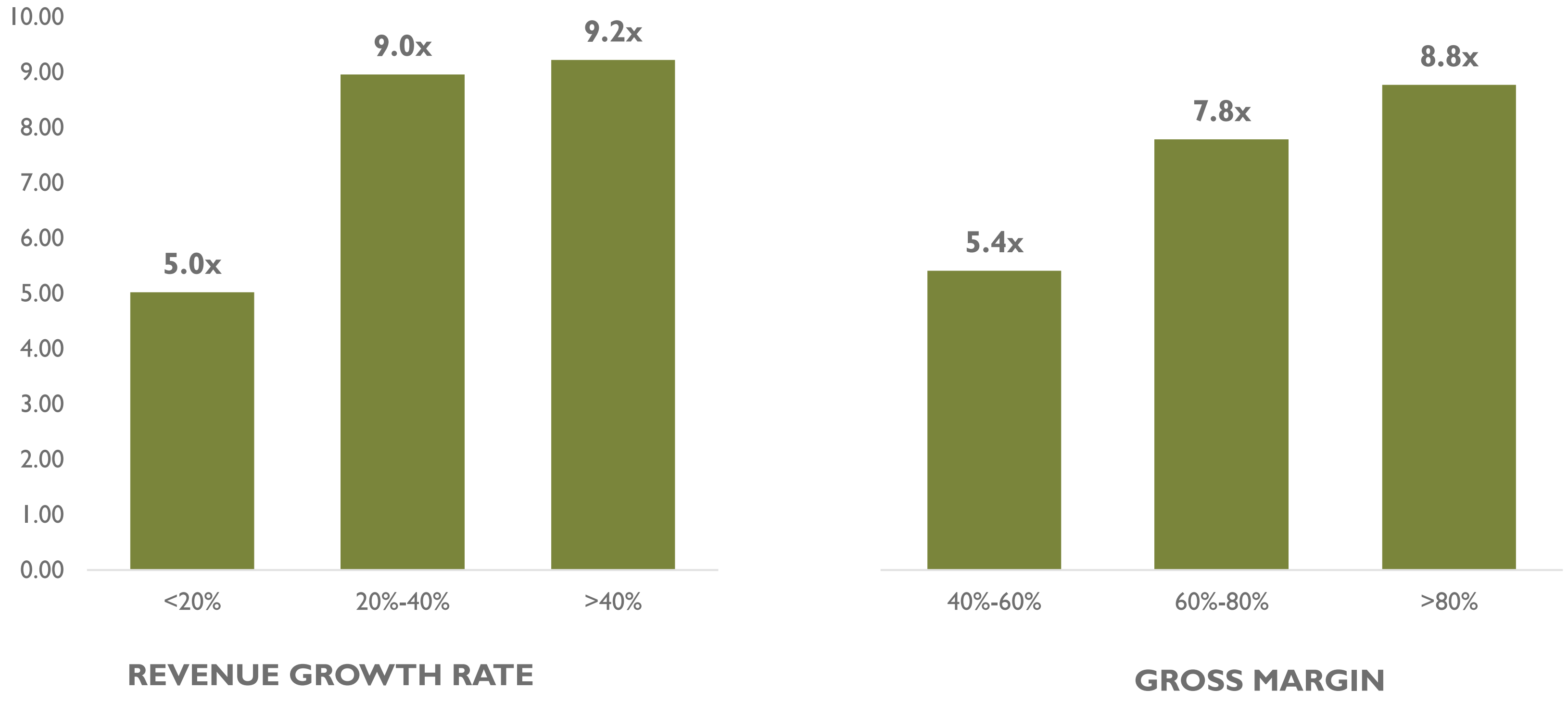
Trends identified based on business model are consistent with those summarized on page 36.

SECTION V

CLOSING THOUGHTS

FAST GROWTH – THE DRIVER OF ENTERPRISE VALUE

Company Valuation Revenue Multiple
EV/Revenue; Publicly-traded SaaS Companies; 2018



Perspective

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.

NOTE: All data represents the median of the subset

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SECTION VI

METRIC DEFINITIONS

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I. 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
CAC Payback	This is an indicator of how long it takes to recover CAC.	CAC / (Average MRR * Gross Margin %)
Customer Acquisition Cost (CAC)	An estimated cost of what it takes to acquire a customer.	SUM all sales & marketing expenses / SUM new customers added
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
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
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
Net Dollar Retention Rate	The ratio of dollars retained in a give period inclusive of upsells.	(SUM ARR at end of period LESS new ARR added in period) / SUM ARR at beginning of period
Net Promoter Score (NPS)	Index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others.	% Total Promoters - % Total Detractors
North Star Metric	A specific metric that best captures the ultimate goal for the business and serves to unify a company to produce a single result that everyone can concentrate on. Often reflects core value the product delivers to customers.	Unique to organization

II. 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
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
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
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
Rule of 40	Analyzes the health of a Saas business by considering Revenue Growth Rate and Cash Burn. Achievement of <40 is considered to be a successful outcome.	Revenue Growth Rate + Cash Burn

III. 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.
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
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	Gross Profit LESS SUM of Total Operating Expenses
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
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
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

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