

# A little book about SaaS

how to scale a SaaS startup

# Dear startup

Every year we work with several hundred early stage tech startups. Working with such a large amount of startups enables us to identify patterns in the challenges different types of startups face.

We've made this book to provide general information about SaaS and address some of the most common challenges that are specific for early stage enterprise SaaS - in a format you can put in your pocket and share with your team.

Feel free to contact us anytime for independent advice and a second opinion on how you can grow your SaaS startup.

All the best,  
**The Startup & Innovation team  
at Vaeksthus Copenhagen**

# What is Enterprise SaaS?

Software as a Service (SaaS) is a software distribution model in which applications are hosted by a vendor or service provider and made available to customers over a network, typically the Internet.

Some of the benefits of the SaaS business model include:

- Easy administration
- Automatic updates and patch management
- Compatibility: all users will have the same version of software
- Easier collaboration
- Global accessibility

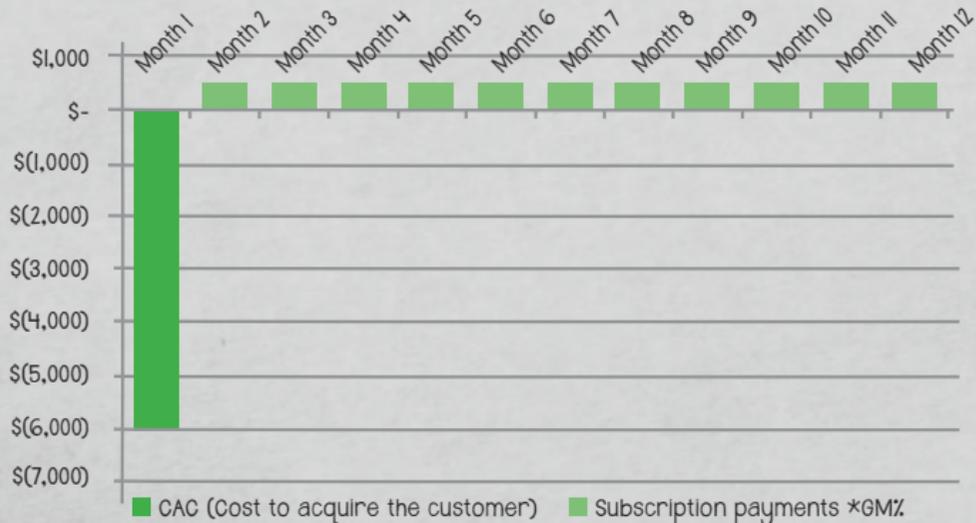


SaaS has been incorporated into the strategy of all leading enterprise software companies. One of the biggest selling points for these companies is the potential to reduce IT support costs by outsourcing hardware and software maintenance and support to the SaaS provider.

# SaaS as subscription model

SaaS is often sold in a subscription model - giving it a unique cashflow compared to earlier software sales methods.

Single Customer Cash Flow



# Pricing vs. Sales method

All startups needs to achieve product/market fit in a large market.

But SaaS startups also have some more specific challenges, they need to face and overcome before the business can fly:

- Pricing vs. Sale
- Execution vs. metrics
- Investment

Read more about these challenges on

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# Metrics

If you want to scale your SaaS startup it's necessary to know your most important metrics. These numbers are the key to understand your business and how to run it faster and better.

It's also the numbers any investor will use to estimate the value of your business and want to see, before placing their money in your business.

- MRR: Monthly Recurring Revenue
- CAC: Customer Acquisition Cost
- CLTV: Customer Lifetime Value
- AADS: Annual Average Deal Size
- Churn: % of customers leaving your service

# Metrics – MRR

## MRR = Monthly Recurring Revenue

Friends, MRR is probably the most important metric for any SaaS startup.

MRR differs from traditional accounting methods, in that it allows you to normalize different contracts to a monthly basis. This gives you a clear idea of the past, present and future performance of your subscription revenue.

What is important about MRR is not a single number per se, but rather the momentum in the components of your company's MRR:

- MRR from renewals
- MRR from new sales
- MRR from upgrades
- MRR from losses or revenue churn

# Metrics – CAC

MRR = Customer Acquisition Revenue

CAC is a measurement of your total marketing and sales cost of acquiring a customer. This metric is very important in order to analyze the profitability of different sales and marketing channels and is compared to the metric CLTV.

Some of the common sales & marketing expenses are: paid advertisement, sales and marketing staff salaries, CRM and marketing automation software licenses, events, sponsorships, gifts to customers, content production, social media and website maintenance and more.

# Metrics – CLTV

CLTV = Customer Lifetime Value

CLTV is a measurement of the total revenue you make off a customer during the period of time they are using your service. The relationship between CLTV and CAC is critical for your ability to scale a SaaS startup, because it encourages firms to shift their focus from quarterly profits to the long term health of their customer relationships. Customer lifetime value is an important number because it represents an upper limit on spending to acquire new customers

# Metrics – AADS

AADS = Annual Average Deal Size

AADS is the total revenue you make off a customer in one year. This is a critical metric to know in order to understand what type of sale and marketing is feasible to attract a given customer. Low AADS is feasible if you have low CAC and no support cost. With high AADS you can support outbound sales and a lot of support.



# ... continued

A rough overview - if your average annual/annualized deal size is...

- \$60-\$1000 AADS: You won't be able to hire any sales people, or do any I:I marketing
- \$1000-\$5000 AADS: You'll be able to make an inside sales team work and I:I marketing
- \$5000-\$20,000 AADS: then you can do a little of everything
- \$20,000+ AADS: You are firmly enterprise-ish, with inside sales and a field sales component
- Above \$100k: Pure Enterprise. Suits, ties for everyone. SMB falls away

[\(http://www.saastr.com/a-little-less-about-pricing-a-little-more-about-deal-size-please/\)](http://www.saastr.com/a-little-less-about-pricing-a-little-more-about-deal-size-please/)

# Metrics – Churn

Churn is the % of customers leaving your service. This is normally measured monthly or yearly. It is the critical metric to measure how happy your customers are with your service. The goal should be to get negative churn, which means you sell more to existing customers than you lose on customers that leave your service.

## Example:

If 1 out of every 20 subscribers to a high-speed Internet connection discontinued his or her connection every year, the churn rate for that Internet provider would be 5%.

# Great numbers for scaling

If you want to scale your SaaS startup, it's important you have a service that solves a problem on the global markets.

More specifically for SaaS startups, you need these numbers for scaling:

- CLTV larger than 3 times CAC
- CAC needs to be paid back in less than 1 year

# Challenges – Pricing vs. Sale

One of the most common problems for early SaaS startups is to face that their CAC is too high compared to AADS. This is often because they have chosen a sales model that doesn't fit with the size of revenue they make off their customers - SaaS startups that combine low price and high complexity end up in the SaaS Startup Graveyard.

If you want to build a scalable strategy for your sale, here is some advice for you:



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- Get rid of free plans
- Shorten the free trial
- Raise the price
- Establish an enterprise plan
- Offer prepaid annual contracts
- Don't give away customer support
- Avoid the discount trap



(<http://www.saastr.com/a-little-less-about-pricing-a-little-more-about-deal-size-please/>)

# Challenges – Execution

Execution towards relevant goals is the most common challenge within all startups. The first step to achieve effective execution is to be able to measure the key growth metric. For SaaS this would often be MRR. Once this is possible, we recommend a growth plan with a target of 5-10% Weekly growth in MRR. This allows all work that is done to be measured against impact on MRR growth - and that enables great execution.

# Challenges – Investment

Because of sales cost coming up front and revenue coming in over a longer period of time, most enterprise SaaS startups need large amount of external capital to grow. This usually means investors.

Luckily, investors love the recurring revenue model as it delivers relatively stable returns over time. But many startups fail to understand what levels of revenue is needed in order to secure funding. This means that many startups spend a lot of time trying to secure investments from investors before they have the numbers needed.

But what numbers are needed, you may ask. Here are some rules of thumb about the results you need to document in pre-seed, seed and A-round:

- **Pre-seed:** No specific rules
- **Seed round:** 10K MRR. / > 200+% YoY growth on MRR or annual run rate (ARR) basis
- **A-round:** 50-150K MRR. / > 100% YoY growth on MRR or annual run rate (ARR) basis

If you need to know a little more about funding, you can download 'A little book about funding' here:

[www.vhr.dk/a-little-book-about-funding](http://www.vhr.dk/a-little-book-about-funding)

# Inspiration

Want to know how you get from 0 dollars to 100M ARR faster - with less stress, and more success?

Visit [www.saastr.com](http://www.saastr.com) and read all there is to know about running a SaaS startup.

Articles, podcasts, courses, Q&A, jobs etc., if it's out there - you find it here!

# Event

The SaaStr Annual is held in San Francisco, mid-Q1, each year. The inaugural 2015 event drew nearly 2,000 SaaS founders and execs and grew to 5,000 attendees over 3 days in 2016.

Tickets for 2017 are on sale now:

<http://bit.ly/IW66lZW>

















# Contact us

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# This is a very quick guide ...

... for you to build a scalable SaaS startup. Go out and change the world!

We've made this book to provide general information about SaaS and address some of the most common challenges that are specific for early stage enterprise SaaS - in a format you can put in your pocket and share with your team.

**Get the online version here:**

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