E-book

Navigating the Market Downturn with Better SaaS Metrics

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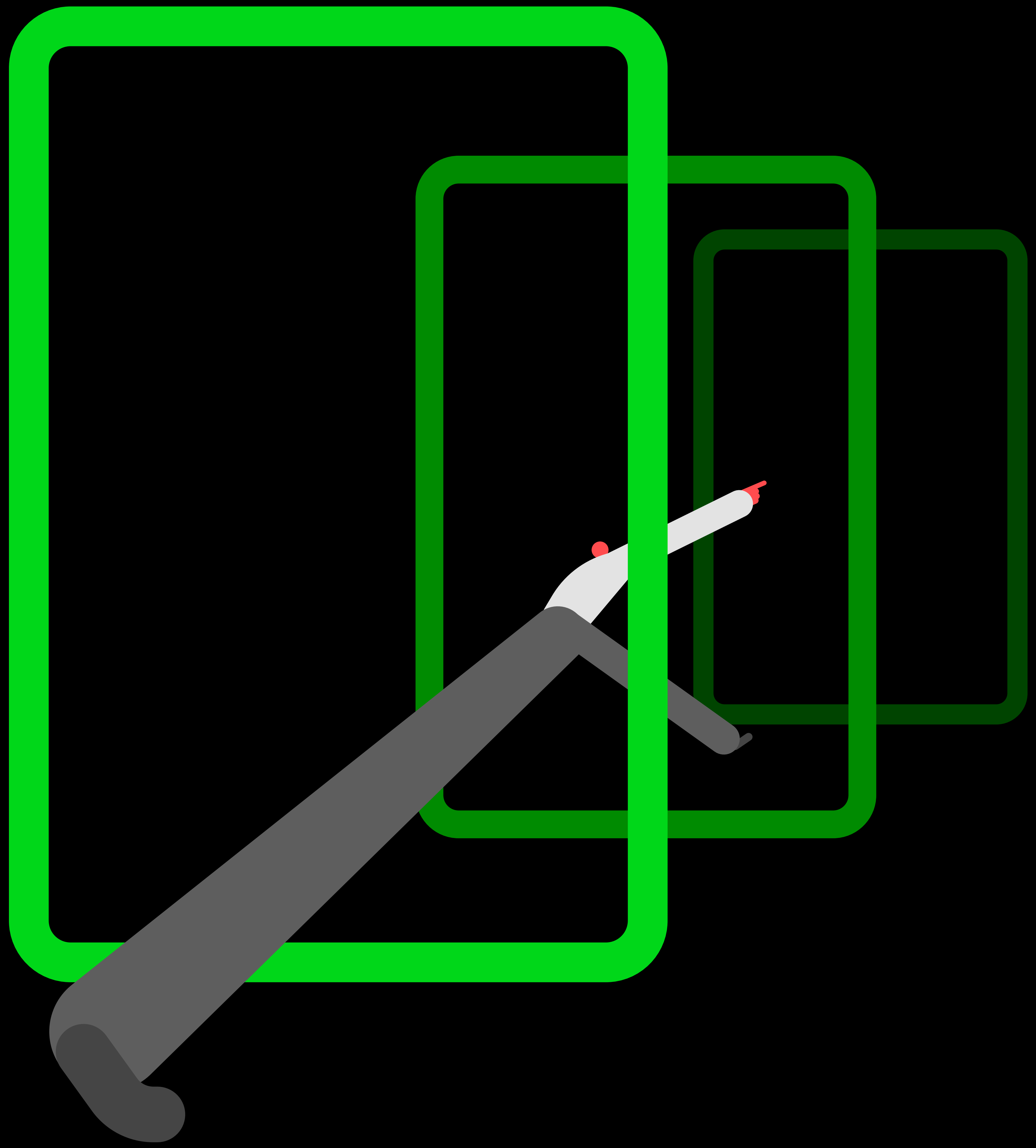


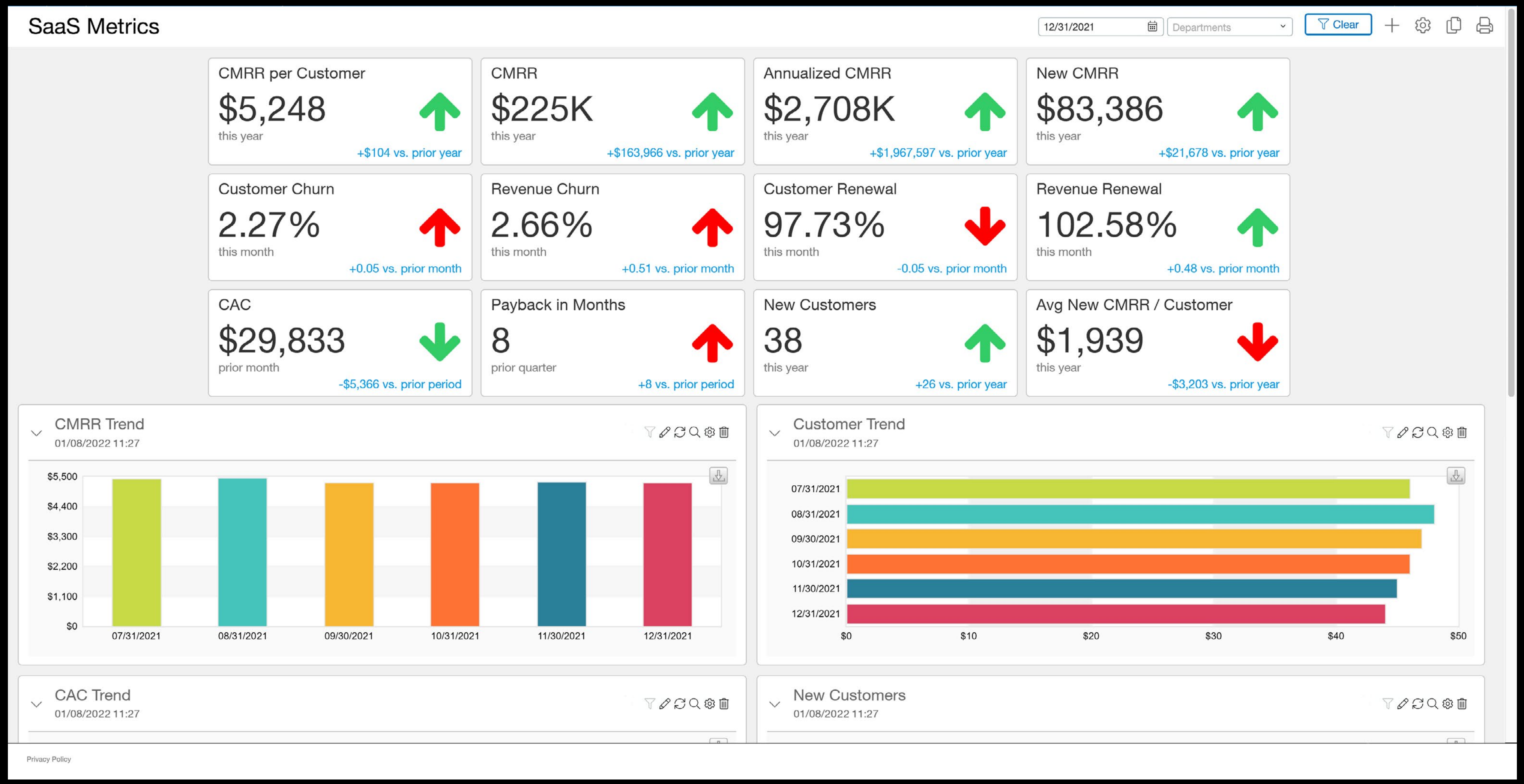
Introduction

The boom prevailing in early-stage SaaS companies has started to lose steam, mirroring the broader downturn across financial markets.

But don't panic. As the CFO of a subscription revenue company, times like these are ideal for buckling down and taking a disciplined look at your SaaS metrics. After all, valuations and investor expectations have changed for early-stage SaaS companies. Why wouldn't you shift your approach to match the new environment?

Let's look at some of the most influential metrics you can use to help guide your team through the market downturn. The financial seas might be stormy, but if you steer your ship well, you can navigate them successfully.

Upsells and upgrades: Prioritise existing customers



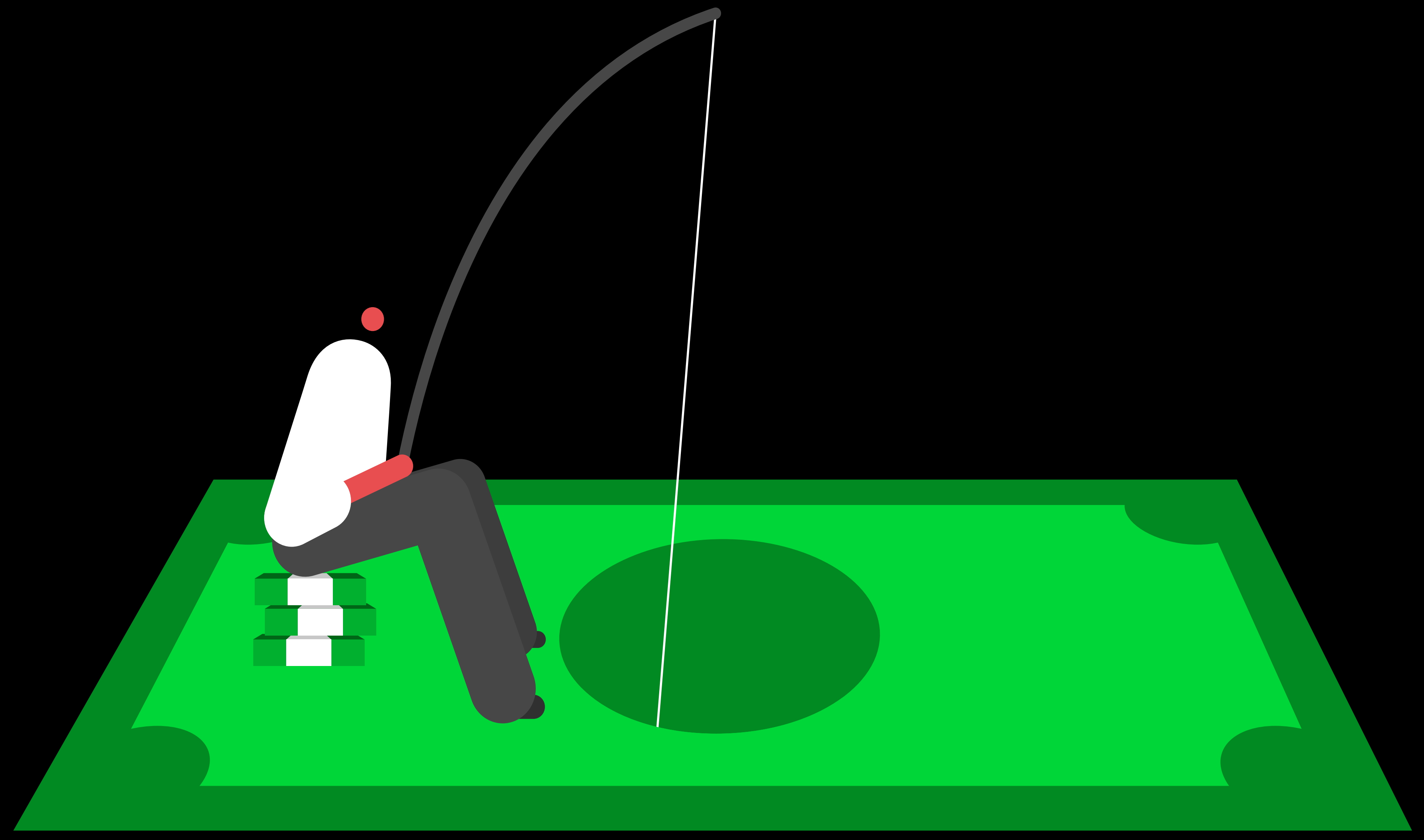
In times of trouble, satisfying your existing customers is much simpler and less labor-intensive than chasing down new leads. Even though that might sound like an inherently defensive strategy, you should think of it as "playing a different kind of offense."

Any strategy contributing to your bottom line is an active and aggressive business move, even if it seems passive. There's nothing wrong with strategically retreating and prioritising existing business relationships until the market heats back up.

Your subscription upsells and upgrades are two of your most essential data points here. They provide important sources of revenue at a time when your churn rate is likely to be high and your new subscriber numbers are likely to drop. a complete SaaS finance tech stack can be a very effective way to track and improve the situation if you aren't already using one.

Consider boosting these figures with customer incentives like a free trial or a 2-month discount on your top subscription tier. During a downturn, focusing on long-term, sustainable cash flow is essential. Pleasing your existing customers is a non-negotiable part of that equation.

Are your sales reps effective?



During poor market conditions, you need to ensure that your sales reps are operating optimally. And there's no way you can do that without obtaining hard data on some key performance areas.

In particular, you should be examining the following performance areas:

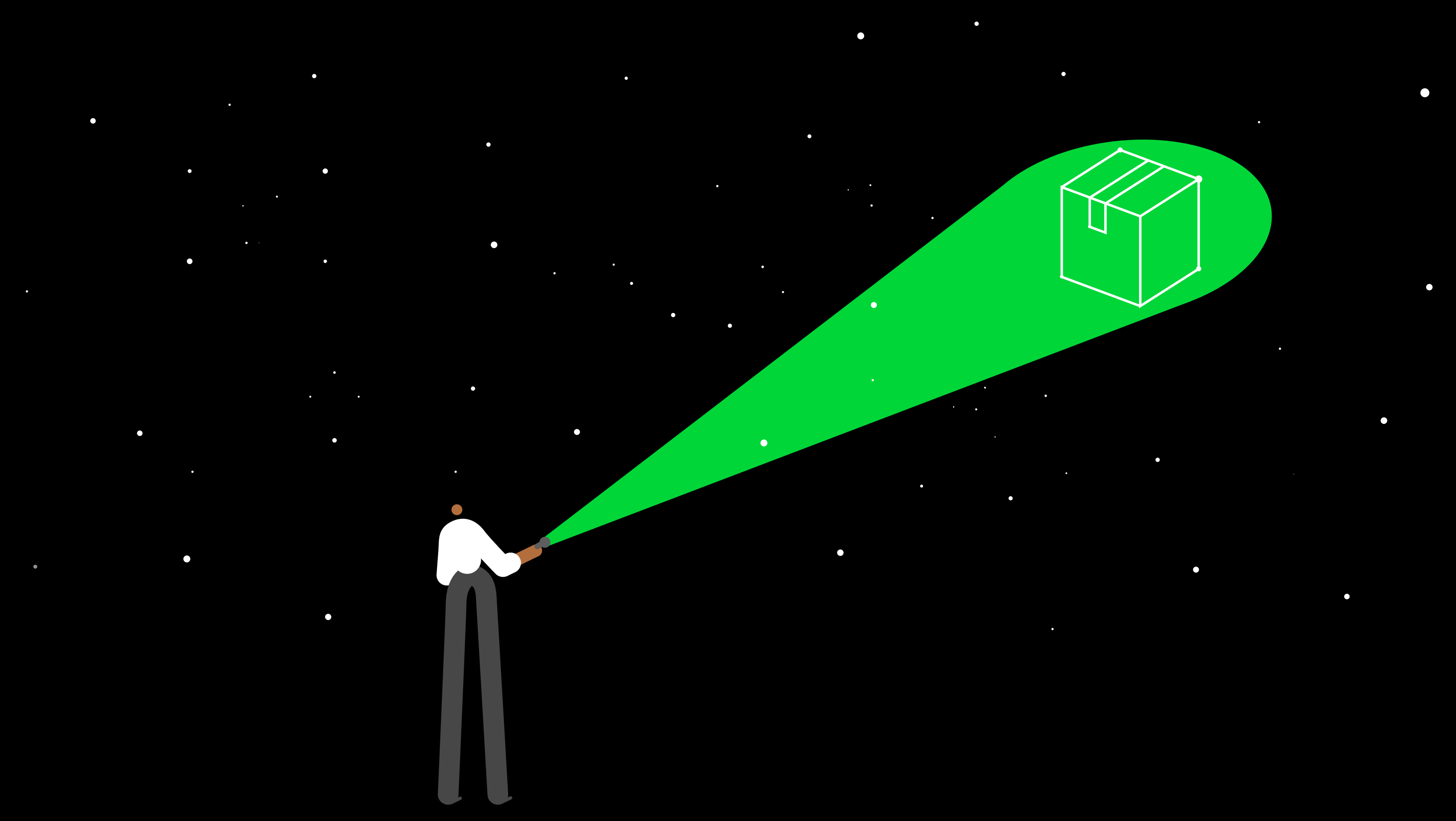
- **Look at each rep's deal size and flow.** To gauge your top performers, you need a sense of your reps' average deal value and velocity. The size of deals acquired and the speed with which they're acquired are the vital building blocks of your ARR.

- **Are your reps hitting their monthly sales goals?** If the answer to this question is no, is this an ongoing pattern or more of an anomaly?

- **Professional resilience**: After a rep's had a quarter where they failed to hit their targets, do they bounce back or flame out? An occasional slip can be balanced out by solid follow-up resilience.

It would also be worthwhile implementing plans to motivate your top performers even more. From higher sales commissions to quarterly sales competitions with cash prizes, your options are only limited by your creativity.

NRR by customer profile and product type



Just as it's critical to put your company's sales staff under the microscope during lean times, you have to take an equally objective look at your customers and products.

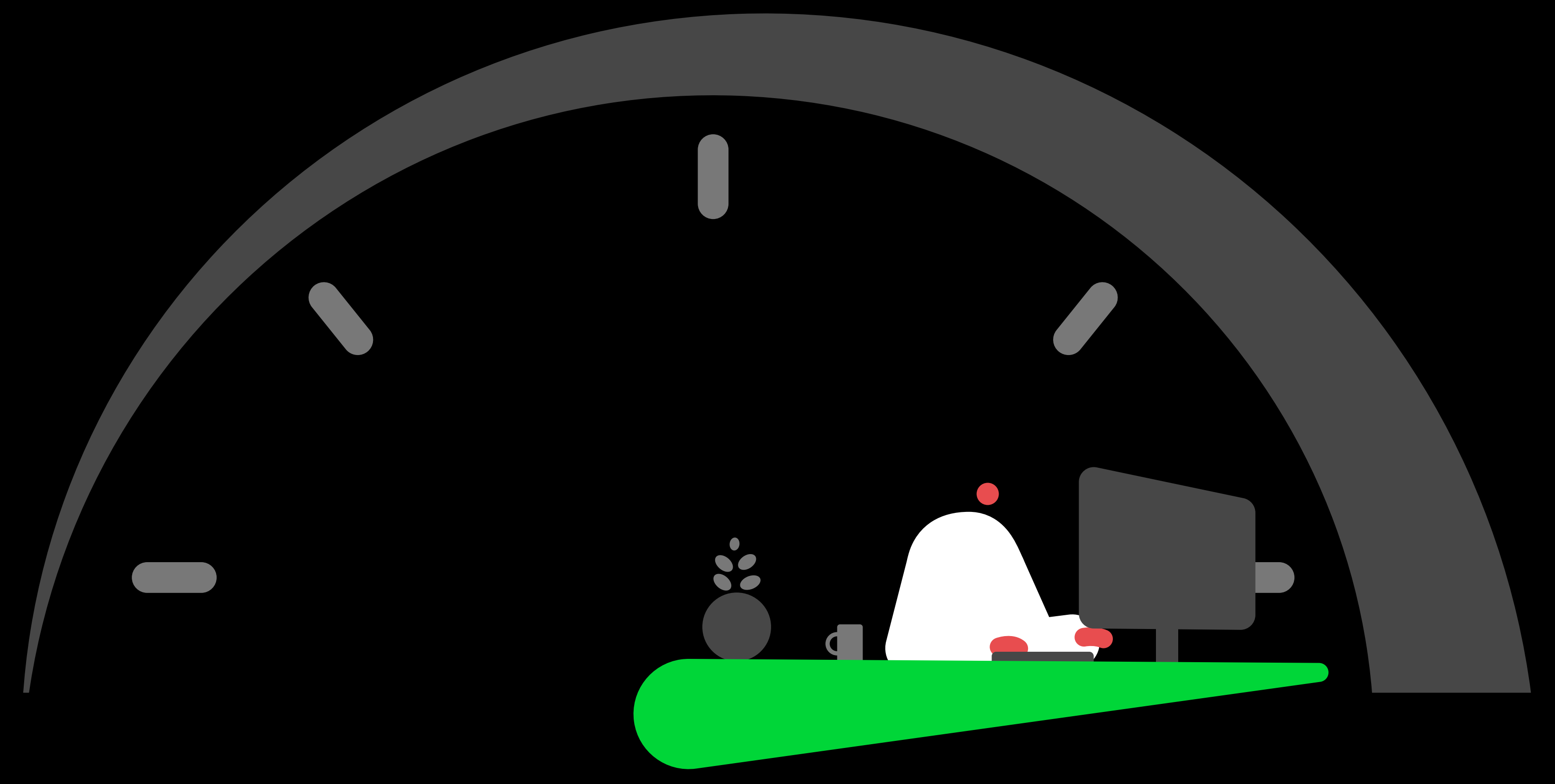
As we mentioned at the beginning of this article, harsh market conditions often call for a more defensive strategic approach. Your net revenue retention (NRR) for your different customer types and product segments is one of your primary defensive metrics.

In particular, your NRR helps you achieve two strategic goals:

- **Objectively identify your most profitable customers and products.** Knowing which product lines are holding up best during a financial storm is very important. Identifying these portions of your business allows you to devote more time and resources to them.
- **Stop chasing your tail without results.** If you're not checking on your NRR regularly, you can devote money and time to bad ideas that will never get off the ground. Now is an excellent time to be honest about those issues.

These two steps will allow you to achieve more with fewer resources. And as we all know, that's the "Holy Grail" of any business endeavor, especially during the early stages of a looming recession.

Are you lighting your cash on fire?



It can also be beneficial to adopt a more strategic position with respect to your cash flow and the frame of reference you use to track it. Your cash burn rate (CBR) is the best way to do this.

In the most basic terms, your CBR measures how quickly your company spends its capital.

During economic times of plenty, most companies have a growth-oriented mindset around their cash flow. That's entirely appropriate. But when things start to slow down, there's a lot to be said for getting a bit more conservative around your cash flow.

In concrete terms, this might mean:

- **Investing in automation.** An automated accounting SaaS can help your company save substantial amounts of time and money. Investments in automation tools generally have high and rapid ROIs.

- **Pivoting to fixed expenses.** This is advantageous for many companies because it brings some much-needed predictability to their balance sheet during a period when predictable things are few and far between.

As a CFO, it's your responsibility to be mindful of how quickly your funds are dissipating and to do everything you can to lengthen the runway.

Summing up

Financial downturns are a painful part of the business cycle. The real secret lies in managing them effectively. SaaS metrics are an indisputably important part of thriving during a market downturn.

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