Note: I had the opportunity to publish this article on the SaaS Industry website. Unfortunately, the startup rebranded themselves and the website was taken down, resulting in my published work being lost.

Despite this setback, I was able to preserve my work in Google Docs. I also want to mention that the website where my articles were published has been archived on the Wayback Machine.

Here is the link to access it:
https://web.archive.org/web/20220716105724/https://saasindustry.com/how-to-guides/12-different-ways-to-measure-saas-financial-metrics

Thank you for taking the time to review my work, and please feel free to contact me if you have any questions or would like to discuss my writing further.

12 Different Ways to Measure SaaS Financial Metrics

Software as a service has taken the technology industry by a storm in the past decade! With an enormous number of companies moving to SaaS platforms daily to several SaaS startups sprouting in the world today, it has become more than just a buzzword.

As new financial models, payment, and subscription options barge into the gigantic world of the cloud, knowing the basics of finance in SaaS has become a prerequisite for all those who want to make a name and achieve success in this field.

So, onto the main agenda of this article,

What is SaaS finance?

The financial awareness about your SaaS business regarding its performance, growth potential, and position in the market on factors like the business' operations, revenue, or logistics in the present to base on plans for an overall healthy business is called SaaS finance.

Why do you need it?

Finance is the food of any company, and the health and performance of the company depend heavily on this.

Since almost everything in today's world is cloud-based and most of the subscription-based models are SaaS models, it is essential to keep tabs on the growth of your business in an effective manner. This goal can be achieved by efficient financial handling inside the company; for that, you need hands-on experience with SaaS finance!

This article will allow you to peek into the finance aspect of SaaS businesses and help you understand the As and Bs of SaaS finance. Keep on reading!

SaaS finance and metrics will hold your hand and guide you towards achieving the following successes and checkboxes you'll need to tick off as a SaaS business:

- It understands the costs and benefits of transitioning to subscription models.
- Making obvious, bold financial decisions for the good of your business
- Analyzing the trend charts of the market and predicting the position and competence your company holds
- Obtaining new customers and maintaining the existing ones.

There are a lot of problems a business can face financially, a few being tax obligations, liquidity, and revenue flow. One can strategically overcome these challenges with the basic knowledge of SaaS financing.

Components of SaaS finance

Say hello to SaaS finance by knowing the name of its key components, KPIs, Key Performance Indicators, and financial modeling.

- <u>Key Performance Indicators:</u> Determine the financial health of your business using various measuring scales called KPIs. You can use these to increase profitability and ensure revenue by knowing the pros and cons of switching to a better and customized revenue model based on what suits it.

- Financial modeling: Foreseeing economic challenges and overcoming them by predicting the best damage control measures using all the market data present is called financial modeling. This can help you significantly improve your strength and name in the present market among consumers.

Financial models

There are various financial models that a SaaS business can opt for, but the most common amongst all is the subscription-based revenue model. Some of the components the financial models are based on are discussed below. This will give you a broader spectrum of what SaaS finance is.

- Balance sheet: This is the summary of a company's business which includes its assets, liabilities, equities, licenses, and patents. It gives you a systematic, categorized catalog of cash flow movements (cash inflows and outflows).

- Discounted cash flow valuation: This is a to-the-point cash flow valuation concerning money's time value. SaaS works on subscription models and makes the cash flow predictable. You can make decisions based on past data and predict prospects.

- Analyzing the sensitivity of a business: You need to understand that revenue is never constant and keeps changing depending on many factors that can positively or negatively impact your business. Determining and predicting the possible outcomes of changes in these possible changes or variables can help you understand the financial status of your pockets.

12 most essential financial metrics

- Recurring revenue: Monthly recurring revenue helps you predict the growth of your business in a fleeting time frame. In contrast, annual recurring revenue helps you anticipate long-term successes—measures the consistency of the revenue inflow.

- Customer lifetime value: This tells you about the number of loyal customers who would probably pay for a long time.

- Customer acquisition cost: If your business spends some money to gain new customers, that gives you the customer acquisition cost.

- Payback period: The number of months it takes your organization to break even on the amount it spent on each customer acquisition.

- The average revenue per user: Expectancy from each customer is the average revenue per user. This helps you understand where and how you can target new consumers. This also tells you about the gains or losses in the revenue depending on the predicted cash inflow.

- Churn rate: A low churn rate is beneficial as it simply signifies the number of users who abandoned your services and switched to other better options. After all, satisfying your customer to the maximum of your potential is essential.

- Burn rate: the rate of your company spending its cash on hand or if you're a new business, your initial capital.

- Discount rate: It will be easier to assess how much future cash flows are worth under the status quo if you use an industry-standard discount rate.

- Market size: Understanding your target audience who will use your service is essential. With this, you will have an approximation of how large your product market is and how you can increase your sales significantly.

- Gross margin: The profit you make can be marginalized and understood to hop on hot trends. Your business's total revenue without the expenditures will give you the gross profit margin over time.
- Cost of goods sold: To increase your profit margin, you need to look for ways to improve your product's price and attract more consumers.

- Sales rep ramp is the amount of time it takes for a new salesperson to attain their maximum productivity. It is critical because it directly impacts your company's growth.

Helpful finance platforms

- Divvy: Expense management tool to track, save time, and manage budgets and subscriptions.

- Pigment: Helps in building business plans and models and visualizes all the data that helps in predictions and wise decision-making that will impact the business significantly down the line.

- Quickbooks: It is popular accounting software that can generate financial statements, track accounts with money flow movements, and panning your taxes and future.

- Cloud Zero: The engineering and finance can pinpoint unit expenses like budget per customer by associating cloud costs to products, services, technical teams, and more.

- Oracle NetSuite: It may be used to assess invoices, expedite compliances, do statistics, and change your general ledger.