ANNUAL PLANNING FOR STARTUPS

# How To Identify Gaps, Decrease Churn and Maximize Opportunities

This is your ultimate guide to optimizing and aligning your budgeting process across pre-sales, sales, marketing, and customer success.

revgenius

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# Introduction

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**In the fast-paced world of SaaS businesses**, every department plays an important role in the journey to achieve lasting and efficient growth. Whether you work in pre-sales, sales, marketing, or customer success, creating and following an annual plan that tracks progress with data-driven insights is vital.

When it comes to pre-sales and sales, it's not just about hiring salespeople. In this playbook, we'll explore four key drivers that go beyond that: ramp time, average selling price, sales cycle, and conversion rates. These factors are essential in boosting your sales team's performance and driving revenue growth.

Moving on to marketing, it's all about scalability. We'll look at four main drivers that contribute to scalable growth:

- the right staffing for lead generation,
- monthly budget allocation,
- strategic, consistent messaging, and
- channel analysis to accurately forecast and make informed decisions about marketing activities.

We're also giving customer success its own chapter in this ebook because it has its own set of drivers that are different from sales and marketing. We'll look at how the customer success team can strike a balance between meeting client needs and maintaining profitability, how to integrate cross-sells and upsells to maximize revenue, and how to use health scoring to assess the well-being of each account.





In the final chapter, you'll learn how annual planning across the company can work to identify gaps, decrease churn and maximize opportunities. We'll share how keeping a close eye on company-wide metrics like cost of customer acquisition, lifetime value and magic ratio can help you find new opportunities for growth as well as anticipate problems before they happen.

We think this playbook is your ultimate guide to optimizing your budgeting process across pre-sales, sales, marketing, and customer success. By understanding the drivers of sustained and efficient growth in each area, you'll have the power to make data-driven decisions and adapt your strategies to reach your business goals.

So, let's get started on this journey of effective budgeting for sustainable SaaS growth. Get ready to unlock the insights and tools you need to thrive in the world of SaaS.

Let's do this!

# This eBook is brought to you by RevGenius, Harmonize and Sigma Computing.

Harmonize

GTM Harmony delivers Harmonize: SaaS service designed to assist Founders, CEOs, and GTM leaders by providing them with the vital GTM metrics they need to make informed decisions.

After an initial consultation to understand their current state and goals, our software integrates into their CRM, pulling actual data and recalculating models monthly to ensure up-to-date and accurate projections.

sigma

Sigma is a cloud-native analytics platform using a spreadsheet-like interface that empowers business users to collaborate and make data-driven decisions through self-service business intelligence. Sigma requires no code or special training to augment with new data, perform "what-if" analysis in real-time, and answer natural language questions.

Through the modern intelligence cloud, at Sigma we empower everyone to data confidently.

CHAPTER 1

# Sales and Pre-Sales

This chapter provides insights into how companies can strategically align their efforts to drive sales growth while maintaining operational efficiency.

There are two ways to approach annual planning: Bottoms-Up and Top-Down.

- **Bottoms-Up forecasting starts with people and ends with a top-line revenue target.**
- **Top-Down starts with a revenue target and fits people into this target.**

The Bottoms-Up approach focuses on establishing goals for existing, recurring growth, while the Top-Down approach centers on setting targets and devising strategies to achieve them. Integrating these approaches provides C-level executives with valuable insights into aligning goals with achievable strategies.

## Sales and Pre-Sales: Staffing & Leads

For pre-sales and sales, the main focus is ensuring that you have enough Account Executives to cover the revenue targets and that those Account Executives have enough SDR and/or Solution Engineering support to cover the pipeline needs.

The secondary focus is marketing, which typically gets less attention. You want to make sure marketing is bringing in enough leads to support the sales targets. Ideally, your marketing and sales leaders work together to decide what portion of the pipeline will be covered by marketing versus sales outreach. (We'll touch on marketing in the next chapter).

When you look at both Marketing and Sales, it appears that you don't have much to move around besides the hiring dates of the people needed to execute. And that's mostly true. But there are additional four levers that pre-sales and sales can access.

## Ramp Time

It's essential to quickly ramp up your account executives and SDRs (and Sales Engineers, if needed) to deliver revenue. To do that, you can focus on sales enablement, set hiring dates, create training plans, and strategically configure the pre-sales team.





However, ramp time is commonly overlooked. If your company doesn't have someone dedicated to sales enablement – specifically, getting the sales department selling – then you can't expect incremental improvement. Imagine being able to train a sales representative 20% faster! The impact on productivity numbers, when you will hire, and what size team can't be emphasized enough.

However, it's essential to maintain a realistic perspective while evaluating and enhancing these. Ramp times are influenced not only by the skills of your sales team but also significantly by the length of your sales cycle, the effectiveness of your hiring process and your capacity to attract top talent possessing industry or ICP knowledge.

In addition, you should consider if you have enough Solution Engineers. You may find that it takes longer than expected to train AEs and / or SDRs on a complex product. If so, it's time to look at hiring your first solution engineer. A solution engineer that is adept at speaking to clients about product complexity can be deployed to the portion of prospects that need it while your SDRs are trained to be much faster and scalable. Training, efficient hiring plans, and having the right support are critical to decreasing ramp time.

## Average Selling Price

What about the Sales Team? They can impact average selling prices by uncovering additional value drivers for prospects, negotiating price increases and looking for up-market opportunities.

You can only expect to sell more if you provide more value. This sometimes means more features or functionalities, but also may be a different persona or market segment that values your products or services more. Honing in on the portion of the market that provides your sellers the highest selling price is a reliable way to drive up the average selling price.

## Price Increases

Another avenue may be price increases. This can be a lot harder depending on your customer's usage. When approaching renewals, keep in mind that reasonable price increases should not drive away your customers - provided they can't live without your product. But be careful. This can also make them consider your competitors. When trying to increase prices on new business, the main objective is not to price yourself out of the market. A competitor with a similar offering and value is not a competitor you want to try and beat on price alone.

## Go Up-Market

Lastly, "going up market" is a plan that many companies strive to achieve, but often find challenging. When you go up market, all of the numbers for an annual plan appear better, the productivity looks healthy and the business can scale exponentially. All of this is what every business wants, but going up market is hard work. If you started at the lower end of the market, going upstream is a major change that will likely require resources your company does not have from a hiring standpoint. For example, your company would probably have to hire an entirely different sales team to support significantly larger prospects and selling cycles. Also, venturing into an upmarket segment necessitates significant product development. However, with investment, patience, and a solid up-market strategy, this could be a viable way to increase the average selling price.

## Compressing the Sales Cycle

You may be thinking, “OK, but maybe I can shorten the sales cycle to increase deal flow.” It’s a great idea but it has to be done in a sustainable fashion.

**Here are a few ways to do that:**

- **Find segments that will buy faster**
  To find a segment that will buy faster, you have to identify the buyer’s pain point that can be solved very quickly and that has an extremne impact. It works when time passing is painful for the prospect and there is no cheaper competitor they could go with instead. If your prospect isn’t in a hurry to buy, this isn’t going to work. Your product either can’t create urgency this way or the wrong ideal client profile (ICP) has been targeted. Consider data analysis by using pattern recognition in deals with shortened time to close.

- **Measure milestones in deals and find what steps can be compressed**
  Measuring milestones allows you to understand the duration of each stage, if it’s necessary for the sales cycle, and if it can be compressed and or eliminated. Using timestamps in Salesforce is the easiest way to analyze this (you can use history reports, but they are a pain). This also assumes you are using best practices and have a linear sales process in place to measure the time between stages. Adding to this, the buying process and timeframe should largely be driven by the buyers themselves; nobody wants to be sold through a process, but they do want to buy. The balance here is to make sure the prospect isn’t rushed through the process of buying while also making sure to minimize wasted time.

- **Eliminate friction in the buying process (online payments and digital signing)**
  Eliminating friction can be as simple as putting your contract into a digital signing platform and accepting any form of payment possible. Make it easy to sign and easy to pay. This can shave off days and sometimes weeks off of the sales cycle. You can accept checks, credit cards, PayPal, ApplePay, etc.



Chapter 1: Sales and Pre-Sales

## Improving conversion rates

Employing tracking and governance strategies are key to improving conversion rates.

### Here are a few steps to follow:

- **Align your funnel to forecastable stages**
- **Create reports that use these definitions**
- **Channel conversion rates vs. People conversion rates**
- **Design dashboards that instantly update**

It's very important to align the teams responsible for the prospect funnel, namely Marketing and Sales. This alignment will ensure conversion rates can be monitored and improved. While every stage in the funnel doesn't need to be tracked, it makes sense to monitor specific stages for conversion rates to be forecastable.

For example, if all lead stages were tracked, daily conversion rates from each stage would vary wildly depending on the amount of traffic, day of the week, and other factors. Using data that fluctuates too much will give false signals on what is working and what is not, making it nearly impossible to forecast.

Lastly, find your industry average and make sure that you aren't trying to get a higher conversion rate than what is typical. If you're already closing 70% of the deals that are in the sales cycle, then you should focus on a different area to improve.

**PRO TIP**

**Conversion rates** should be calculated weekly and monthly using channel conversion rates and people conversion rates. **Channel conversions** are calculated using only the channel that carried the lead along the prospect journey. **Focus on the source** and who worked the lead. When you break it out this way, certain people will be better at converting from different channels. This allows you to focus people on the channels that work for them and not assume your best channel works the same for your entire sales team. (This is almost never the case). **Enabling sales people** to focus on what works for them will allow you to improve your conversion rates for each person and channel, which improves the overall conversion rate.

## Key Takeaways

When you focus on average deal size, sales cycle and conversion rates, the operational side can provide a lot of valuable input. By improving average deal size, sales cycle, and conversion rates, you are essentially making sales a force multiplier, allowing your team to do more, with less people.

This level of transparency also allows better and more cogent conversations with the other parts of the business. If something isn't working, you can initiate more productive conversations about the assumptions that caused the disconnect. Perhaps you didn't hire enough people, set your conversion rates too high, weren't able to sell your average price or the sale took a lot longer than anticipated.

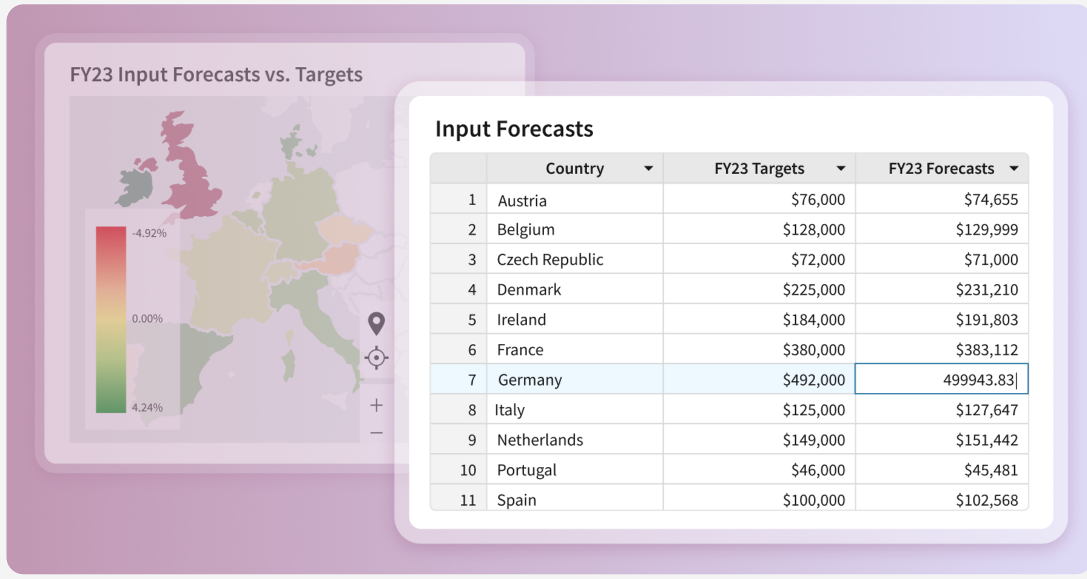
## Additional resources:

## Using Data in RevOps
Presented by Sigma

In revenue planning and operations, you need to be able to answer any question in the business within 60 seconds. Your job is literally to see it coming.

When you're working as CRO or in RevOps, the most important thing is to make sure you have access to literally *all* of the data, that it's not an extract, and that it's live. There shouldn't be a single time you can't get access to the data you need. Make sure to look at the lowest level of detail. For example, you might have a sales rep whose productivity is higher than the rest — maybe they are closing 7% higher than the industry average. Is there something that person is doing uniquely that we can see in the data, that we can then repeat to other areas of the business? What can I go change and see that then rolls up to bigger wins for the business? That line of thinking goes across any data point and any workflow in the business.

The one thing we do differently in Sigma is we have a feature that allows you to enter your own data and context, and it writes it back to the cloud data warehouse. That's a game changer because it kicks off a two-way connection with the data, which isn't possible in other business intelligence platforms.




Source: Sigma Computing

Sigma is a cloud-native analytics platform using a spreadsheet-like interface that empowers business users to collaborate and make data-driven decisions through self-service business intelligence.

CHAPTER 2

# Marketing

This chapter presents best practices to improve marketing efficiency and facilitate planning and budgeting processes.

In Chapter 1, we covered pre-sales and sales and identified which levers increase efficiency beyond hiring more people. In this chapter, we'll explore marketing planning and how to avoid a few pitfalls.

Everyone wants to know whether marketing is bringing in enough quality leads to support the sales targets. To answer this question, sales, marketing, and customer success (CS) must work together. We're including CS because that team can play an important role in turning customers into advocates. (We're defining "advocates" as referenceable customers).

Here are some best practices that will improve marketing efficiency as well as ease the planning and budgeting processes.

- **Staff up for the number of leads needed and be ready to pivot**
- **Secure monthly program budgets**
- **Ensure messaging continuity between pre-sales, sales, marketing, and customer success**
- **Differentiate between Channel Diagnostics vs. Channel Forecast**
- **Secure a budget for large investments needed**





## Map Lead Requirements to Channels

Based on Part 1, you'll be able to determine how many SDRs and Account Executives you need. You'll also have a good sense about the number of the required leads, (derived from conversion rates by channel, sales cycle, and average deal size). With these calculations, you can start moving from the bottom of the funnel to the top using simple math.

Once you have the number of leads you need, the marketing director will figure out which channel will produce that number of leads, using rough percentages as a starting point to allocate budget. Typically, you'll want a dedicated manager for any channel producing 50% or more of the leads you expect, depending on your specific business.

**The goal is to map the lead requirements to channels and allow the channel managers to build detailed monthly program plans to hit those targets.**

Those plans should include monthly program budgets as well. The marketing director will determine the number of people required to execute these programs, keeping in mind budget constraints. To achieve the desired number of leads, think about the best combination of channels each month, while optimizing program costs.

## Be Ready to Pivot

You will discover that a channel you believed would be wildly successful turns out to be disappointing. In this case, you need to pivot. Getting to the bottom of why a channel wasn't successful is critical. What changed? Was the original hypothesis wrong or do things need more time and some tweaks?

**In other words, adapt and change direction from data based insights.**

It's crucial to have hiring managers with experience in diverse channels to ensure a smooth transition and avoid skill set gaps. To bridge such gaps, you have two options: provide training or make new hires.

**It's simply unrealistic to expect someone with no experience in social channels to generate a substantial number of leads if their expertise lies primarily in areas like paid digital ads.**





## Ensure Cohesive and Consistent Communication with Prospects & Customers

Marketing is usually the first contact a prospect has with the company (outside of cold outreach). This is fine as long as there is a system in place where the marketing interaction ends and a pre-sales person puts the prospect into an automated cadence or sequence. If this doesn't happen, prospects get emails from your marketing system and the SDRs at the same time. This should be avoided because the prospect may be turned off by over communication. For example, if the lead doesn't respond to an SDR and after a certain time, they are removed from the prospecting system and then moved back into a nurture stream that is managed by the marketing automation system.

**To ensure consistent and cohesive communication with customers, it's important to consider the use cases of prospecting automation software for customer success.**

In some cases, marketing activities like sending newsletters and product updates may not be aligned with customer success efforts. This can lead to customers receiving multiple emails within a short span of time, lacking a sense of continuity.

To address this, it is crucial to map out the entire journey from prospect to customer (and eventually to advocate). By doing so, you can identify the systems involved in communicating with the end user and orchestrate the messaging at each stage. This ensures that the communication remains consistent and aligned throughout the customer's experience.

## Channel Diagnostics vs. Channel Forecasting

When diagnosing a channel, you want to know the conversion rate for that channel and any sub-channels (e.g. a channel may be a social platform, and a sub-channel would be Facebook vs. Instagram, specifically). You also want to know the conversion rate of each person responsible for working and closing those leads.

Calculating the channel and sub-channels is pretty straightforward if you have an attribution system in place. When calculating conversions for people, it's useful to ignore channels in the initial analysis and find out which leads each account rep is closing the most and then move on to which channel sourced the lead. The full analysis should tell you which channels close at the highest rate with each sales representative. This will allow you to provide feedback to create a performance-based routing





system, whereby the leads the representatives are most likely to close will be routed mostly to them. (We say mostly because you also want your lead follow-up time to be extremely fast and sometimes that means routing a lead to someone that is available rather than an expert).

Tools like Chilipiper can make this performance-based routing easy to set up and maintain, assuming you regularly use channel diagnostics. When you are channel forecasting, use the blended conversion rate from the top level channel to forecast the number of expected leads. This differs from channel diagnostics because you are more focused on predicting which leads will come in than how to increase your conversion rates.

REMEMBER

**If you are trying to increase conversion rates, you need all the details you can get, but if you are forecasting, you can use top-level channels and historical data.**

## Channel Diagnostics and Forecasting: An In-Depth Analysis

The next section will provide guidance around three main questions:

- **Which channels are performing best?**
- **Who is closing the best leads?**
- **What does "best" look like?**

Determining which channels are performing best is related to your specific business model and attribution system. As marketing has become more of a science and less of an art, we're finding that attribution systems like first touch and last touch are not enough to truly explain the buyer's journey. Now, we have software like Segment and Clari that can capture all marketing interactions. Even if the browser was reset, the interactions are still captured. You can see the full marketing interactions across the journey and even past the website and into the product.

**However you choose to analyze your data, it's important to know which channel is performing best and who is closing those deals.**

Keep in mind that this will probably change over time. Be prepared to do this analysis regularly and update your lead routing accordingly. If you find it takes a lot of manual work to calculate this, consider re-designing the process and systems to support automation.





## Marketing and Sales On the Same Page

What the sales team calls the best lead versus what marketing calls the best lead is rarely the same thing. It can even vary from person to person! To get ahead of this, show the complete analysis of the best-performing channels to help your team fine tune their performance. Instead of showing one channel's conversion or one person's conversions, show a combined analysis. That changes the conversation from fairness of lead distribution to a discussion about education and improving conversion rates. If a sales representative consistently excels at closing leads from webinars, consider having an enablement person work closely with them. The goal is to determine if their success can be taught and replicated across the rest of the sales team or if it's simply a personal style that cannot be easily trained.

If the successful approach can be taught, you may want to set up a training program around it. However, if it's more of a personal style, it's best to accept it as it is and focus on finding other areas for improvement within the team.

## Company-Wide Investments Included in the Marketing Plan

Another area that is commonly overlooked is the bigger investments that are required as the business enters different stages of growth. For instance, if your company is pivoting into a PLG motion, there will be significant investment to dial in the right ICP. Or maybe you're making a big splash in a new industry and "the event" each year is $125k, but the revenue for this segment won't support such a large expenditure. That's where you need a few guiding principles to help facilitate this process:

- **Match business cycle to expenditure**
- **Attribution vs. Execution**
- **Large Investment / Event Reviews**

When a company decides to break into a new portion of the market, (either going upstream or to a different vertical), the investment associated with this should be matched to the expected business cycle.

For example, let's say your company took 3 years to get a decent brand presence in the United States and now you're launching in a new region. All larger investment expenditures should be capitalized over the number of years expected to receive benefit; in this instance, 3 years would be reasonable.





If this guideline is ignored, the marketing budget may get bloated during the first year of any new company pivot because the revenue obtained from those expenditures takes much longer to realize than one year.

**PRO TIP**

**To implement this process**, you would nominate a C-level marketing executive (CMO) to manage the capital expenditure approval process and be accountable. **Keep in mind** that the marketing plan may take time to gain momentum. **Replacing a marketing** team once a year due to the lack of performance in one area does not match the performance to the business cycle. **Marketing departments** should not be held to the same monthly or quarterly standard that sales is, but rather to a yearly or bi-yearly standard to match performance to business cycle.

"Remember that planning is fluid. It is not a "set it and forget it" exercise. It is important that you build your plan, work it and review it. Planning is a team sport. All areas of GTM drive the impact."

**Mollie Bodensteiner**
Go-to-Market Strategy and Operations Leader

## Tracking Attribution for Major Investments

Attribution must be built into big marketing investments, such as large industry events. When planning a large event, attribution can get lost in the frenzy of details. It's not uncommon for the marketing team to oversee a large event in which a "ton" of prospects were touched on and business was created, but a solid attribution program tracking process wasn't put in place.

**In short, execution was chosen over attribution. This translates into the finance team getting an incomplete picture and believing that the event was not successful, which is usually not the case.**

From the operational perspective, it's worth figuring out how you want to track interactions at larger events. QR codes are one way to do this. In addition, with OCR on phones, and voice-to-text translation, there's no reason why you couldn't be talking to people and tracking as much as possible without a ton of administrative overhead.

For instance, it's important to know if you are talking to a net new lead or if a company is currently in your pipeline. The attributions for those are different (new leads are first touch, while current leads are technically multi-touch; the first creating pipeline, while the latter moves the current pipeline along faster, increasing velocity).

Without this administrative work, subsequent approvals for the same event are highly unlikely. While there may be no relationship between the event and missed sales targets, they will be viewed through that lens. Your team is better off talking to less people and having more quality conversations than a shotgun approach where no attribution is completed and no tracking or review can be provided.

**If the attribution process is laid out and executed as planned, an event review becomes extremely easy to compile. It can be used as the business case for next year's budget for the same event (assuming your company was successful at the event and attracted the right personas, etc).**

### PRO TIP

**The review should include:**

- the number of new prospects
- current pipeline
- new customers.

**It should answer these questions:**

- How many prospects did you meet that were new?
- How many of those turned into meetings?
- How many meetings turned into proof of concept or a full demo?
- How many of those turned into customers?

**On the flip side of pipeline creation:**

- How many prospects did you meet that were currently in the pipeline and how did you accelerate them faster through the sales stages? (Increasing sales velocity at events is a key metric for marketing to show value in an event review.)
- Finally, how many customers did you meet and did you move that customer closer to be an advocate?

Be sure to manage expectations when you will provide this report back to sales, marketing, customer success and finance. This depends on the business cycle and you may have to phase out the presentation if the cycle extends beyond a year.

This process secures the necessary marketing budget in each year of a plan without removing larger, necessary investments.

**PRO TIP**

**For instance**, if your tracking shows it takes about 2 months after an event for a new prospect to show up in the system as a qualified lead, then you'd only provide the new prospect portion of the review after 2 months have passed.

**If the sales cycle from qualified** to closed is another 9 months, then you'd use weighted pipeline values to project revenue until you have 9 months of closing time to provide the accurate number.

**For increasing sales velocity** and converting customers to advocates, this time frame could be much shorter. That said, make sure that the business cycle was matched to the business outcomes.





## Key Takeaways

When combining best practices, marketing teams should find it easier to:

- **have the right number of channel managers**
- **be able to forecast and diagnose channels**
- **secure the appropriate budget to execute each year**

**Budgeting this way is important because marketing programs and events are the most common place to cut budget when attempting to make an operating plan "work".**

Even so, the plan may mathematically work, but without matching the business cycle to outcomes, it will fail. This often prevents marketing teams from having enough staff, programs or investments each year to provide the leads the sales team needs to hit their targets.

In fact, we started this chapter by asking: Is marketing producing enough quality leads?

## Additional resources:

Webinar

**Organic Growth Playbook and the Rise of the “Who” Economy**

Watch Now

Webinar

**Your 2023 Content Marketing Playbook**

Watch Now

Webinar

**Annual Planning for Sales and Marketing**

Watch Now

Article

**How to Use AARRR Pirate Metrics Framework**

Read Now

# Using Data in Marketing

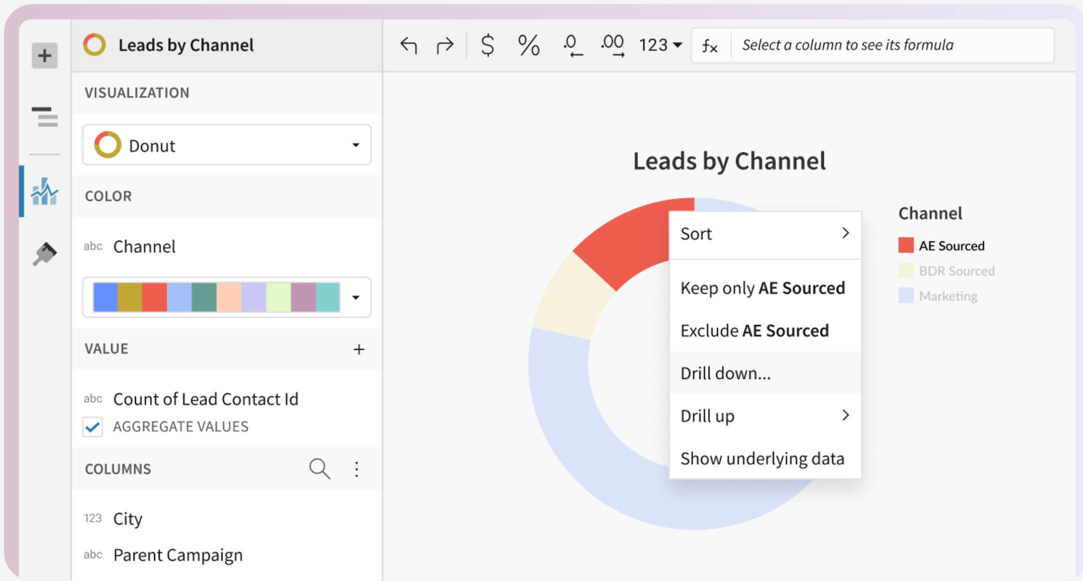
Presented by Sigma

Too many data teams spend time iterating on the data itself and talking about what went wrong. Our goal is to use real-time data streams to augment forecasting and make it live versus static. That helps us spend less time on the actual data and more time using it to make informed tactical and strategic decisions going forward.

Don't be afraid to prioritize engagement metrics that may not drive immediate revenue. Even if it's not factored into your attribution model, metrics like engagement can be a strong leading indicator of what content is driving interest on different channels, as well as contribute to brand awareness.

When it comes to driving pipeline for the sales team, marketing having a holistic view of the business is crucial. Take Field Marketing for example. It's best to make this a regional focus so that field marketers decide how to invest their dollars based on the needs of their region.

Understanding the full funnel of each sales rep in their territory, where the funnel sits, who the pipeline is with, and which members of the sales team may not be hitting targets, allows them to strategically invest dollars that will make more impact.




Source: Sigma Computing

Sigma is a cloud-native analytics platform using a spreadsheet-like interface that empowers business users to collaborate and make data-driven decisions through self-service business intelligence.

CHAPTER 3

# Customer Success

In this chapter we analyze Customer Success metrics and best practices.

**It wasn't long ago that companies almost solely focused on new sales** and did not pay much attention to customer retention, upselling, and turning customers into referrals or references. When Salesforce broke the SaaS ceiling of $1B for the first time in SaaS history, it was not accomplished with new sales. It was achieved through upsells and finding customers where mutual extraction of value enhanced the relationship. This means being ready to lose customers that you probably shouldn't have signed and be even more ready to delight the customers that get tremendous value from your product or service.

**The metric to focus on is Net Revenue Retention (NRR) and it's calculated by taking all of the revenue from a cohorted year and comparing it to next year's revenue from those same customers.**

Successful SaaS businesses achieve between **115% to 120% of NRR**, because the customers they churn are offset by the upsell and cross-selling opportunities presented during the year.

Free

**Calculator you can use to find your ceiling**

## Properly Label Accounts by Difficulty and Revenue

Labeling accounts by difficulty and revenue is essential during the prospecting and onboarding process. This allows the onboarding team to properly prepare the resources needed to make sure a new customer is onboarded quickly and efficiently, reducing time to value. While the implementation may be difficult, once it's set up the client needs little to no support. Do it during the buying process, not the onboarding process. You may find that the difficulty and revenue categories typically align and splitting this up doesn't make a lot of sense.

Every account doesn't need this level of evaluation, but when a deal is larger or the prospect organization is deeply complex, then assigning a label early on in the process can potentially keep a bad customer fit from becoming a customer at all.

**Signing long-term customers that spend more each year is the path to a healthy NRR metric.**





## Balance Client Needs With Profitability

Revenue complexity is based on the amount of work the account manager or customer success manager will need to do to keep the client happy. This is usually measured in how much time it takes to service and upsell a client. If you find this takes 2 or 3 account managers, then the account coverage needed would be 2x or 3x depending on the specific needs.

Making sure this resourcing is profitable can be tricky because most clients will need a lot of help to get onboarded and ramp up adoption across their team. Once that initial period is over, the needs for the account will be highly specialized and depend on how many issues pop up in the software or service during their subscription.

**Even so, the best way to tackle this is to calculate the Average Cost of Service metric. This allocates all of Customer Success headcount, a portion of G&A, R&D, Hosting, Software cost to maintain customers (and a couple other costs depending on your business).**

This essentially provides the cost to keep a customer versus acquire a customer. Using this, you can calculate the payback period. You can also calculate your lifetime value (LTV) to customer acquisition cost (CAC) ratio, which forecasts the amount of profit your company makes from each customer given acquisition and maintenance cost by using a Gross Margin estimate.

## Bake Your Cross-Sells and Upsells Into the Account Management Process

Ensuring that cross-sells and upsells are part of your renewal process is easier said than done.

**Real-Life Example**
To understand best practices, let's look at Salesforce again. Their derivative pricing model allows them to start with a base price of access to the CRM system or Service cloud. But when you want a full sandbox, you pay per user and if you want full analytics, you pay a small amount per user. This allows Salesforce to constantly grow with their customers, extracting as much value as they are injecting into organizations.





If you haven't set a pricing model that is derivative-based, consider other ways to diversify and increase your average selling price.

The most straightforward way is to introduce new products and new functionality, which is the easiest option from a change management standpoint. You could also implement a different pricing model, but that could cause major business disruptions if not executed with great care. Nevertheless, if your company is selling one product or service with no add-ons from functions or support, then this lever will prove hard to utilize. You always want to plan to expand with great customers and be ready to cut your losses with customers that weren't a fit. Design your business and offerings around this and you'll achieve a desirable NRR.

### Make sure to classify your cross-sells or upsells!

Many organizations focus on customer acquisition cost alone and the GTM portion of the business ignores metrics like payback period. This leads to a huge focus on Expansion and Cross-Sells being classed as "new sales." While that drives down CAC, it usually requires more customer success people to implement and maintain, so it drives up the average cost of service. And that drives up the payback period.

REMEMBER

**Watch the payback period closely. You need to make sure that the cost to acquire and maintain a customer is profitable in the long run.**



## Net Promoter Score (NPS) Monitoring

NPS has become a central function of CS orgs. It's how that team communicates to internal and external stakeholders that customers are happy. To ensure your NPS strategy is effective, avoid the following pitfalls.

### Measure Different Personas Differently

Economic buyers, project managers and end users are all different personas. These different personas reflect the health of different business areas.

PRO TIP

**The economic buyer** will be able to provide feedback on the buying process and all of their interactions.

**The project manager** can provide feedback on the implementation timeline and onboarding.

**Finally**, the end user can provide feedback on the product or service itself.

Each of these are 3 feedback mechanisms that should provide data-based insights on pivoting to an improved prospect or customer experience in 3 unique areas of the business. All of which will help improve Net Revenue Retention.

Commonly, NPS is sent out to the person(s) who signed the contract to ask how the implementation went and if they would recommend the company to a colleague. Usually, the economic buyer knows if the implementation was succesful but doesn't know much about the details.

**It's better to send the NPS survey to the internal project manager and not the economic buyer.**

This will give you a much more accurate assessment of the implementation. Survey the economic buyer on the sales and marketing process alone. Check with end users on the functionality and ease of use of the software.





## Find the Right Way and the Right Time to Measure

Methods of surveying, such as via email or in-app can produce wildly different results. Economic buyers don't always log into the software so email is probably the best way to send a NPS survey. Admin users are better surveyed through the email as well as they're usually busy performing tasks in an app and interrupting them may cause negative NPS results.

**Lastly, when surveying end users in a product, develop a consistent cadence and get the user's consent.**

Don't ask for NPS when they hover over the logout button, as that's plain annoying. And don't ask an end user for NPS if they haven't been using the software sufficiently to provide feedback (this goes for implementation as well; time this for at least several weeks after the implementation because the first couple of weeks could go smoothly and then turn out terribly. An early NPS would not show this).

## Focus on the Useful Health Scoring of Each Account

Health scores on accounts are a nebulous topic. Some people have asked: “Why don’t health metric software companies offer health scoring out of the box?” The answer to this is quite easy.

**It’s your organization’s responsibility to measure and find buying and churning signals.**

It can be as simple as making it easy to cancel as long as a reason is provided. That reason can be used to improve processes, teams or systems to avoid churning in the future.

**Real-Life Example**
A customer reads an article and then goes back into their account to make the suggested changes. That event is logged and a customer success person reaches out in 24 hours to make sure the customer’s issue was resolved. Why? Because the tracking software found that customers who visit a help page usually churn within 48 hours because they couldn’t find the solution.

### PRO TIP

**Consider showing a banner** to the customers with some decent product usage, inviting them to participate in NPS. The banner could flash on their dashboard and you could give them the option to ignore it or exit without responding. This is a much better way to get authentic responses about your software and avoid bad NPS scores due to intrusive approaches.

**How can you predict when current customers will churn before they actually go through the process?**

**This requires setting up tracking** in your software to see what users are doing when they churn. Software like Segment or HEAP can help narrow this down, but it’s a lot of work to set up all of the events you’d like to monitor and track. With this technology, it’s possible to track all events that led to a customer churn.

Health metric software is not going to know this or be able to analyze it to figure it out. To be predictive, your company has to find the path to a customer buying and churning via software like Segment. These paths will contribute to the health score you implement using whichever health scoring software you choose.

If your company is only looking at customer behaviors such as last login, time logged in, or pages visited, you are far behind and probably having a hard time fixing churn issues before they happen. Without predictive churning capabilities, it will be difficult to save your most valuable accounts. Those accounts are the path to a healthy NRR and payback period.





## Operationalize Post Sales to Optimize NRR

Core to achieving your NRR goals is a well-tuned, post-sale operation:

**A well defined customer journey that takes into account the following:**

- **The customer experience.**
  The most common focal point for customer journeys (and the design center for many journey mapping exercises) is the customer experience. Implementing a journey to deliver a great experience is about understanding what the customer's ideal experience is at each stage of the journey, looking at the actual experience you're delivering, assessing the gaps and then closing those gaps, typically prioritizing those that will have the largest impact first.

- **Scale.**
  Instrumenting the journey for scale means ensuring that you've defined the activities, artifacts and owners for every stage. When your team does a kickoff with a customer, it's worth asking:
  - What artifacts do they use?

- Who prepares those artifacts?
- Who delivers them?
- What happens to the data they contain?

- **Value.**
  It's impossible to overstate the importance of ongoing value alignment throughout the journey. The best way to do this is to create a value framework that clearly defines the use cases and outcomes that drive your customers to buy. Then use that framework at every stage of the journey to align with the customer, ensuring they are bought into what success looks like, and regularly reporting out on outcomes.

- **Stakeholder engagement.**
  Even if you do all of the above perfectly, the lack of stakeholder engagement is a thread to every renewal or expansion. Build stakeholder engagement into the journey, ensuring that the team is engaging, at a minimum, with the Economic Buyer and the Champion, at regular intervals (e.g. quarterly and monthly respectively). The value framework is the ideal artifact to use for these interactions.





**Staffing models.**
You'll want to build one of these for each of your post-sale functions: implementation/onboarding, support and customer success. Having these in place will enable you to calibrate actual and perceived workload against industry standards.

**Reporting for leading indicators of churn, the most common of which are:**

- **Product adoption.**
  Create a way to measure this at each stage of the lifecycle and then measure against expectation.

- **Stakeholder engagement.**
  Create ways to track this engagement (e.g. economic buyer attendance at an EBR, champion attendance at regular check-in meetings) and then measure actual against expectation.

- **Value.**
  Using your value framework, track the customer's implemented use cases and outcomes against what they stated as their reasons for buying. Delivering at least one use case/outcome as quickly as possible will dramatically increase the likelihood of renewal.

## Key Takeaways

In this chapter, we focused on labeling a prospect pipeline for onboarding, resourcing, cross-sells, NPS, and health scores.

**With proper governance in place, labeling prospects according to difficulty in implementation and/or revenue makes it easier to assign the necessary resources to support those accounts.**

Once you know the projected needs for support, it's easy to determine if the customer will be profitable in the long run and be a candidate to continually increase your NRR. If you can't increase your average selling price through upsells or cross-sells, continuing to improve your retained revenue becomes almost an impossible task. The SaaS ceiling quickly limits your organization to a specific level of growth.

**NPS is a great measure for customer feedback, but it needs to be segregated to provide different areas of the business proper feedback to improve.**





Lastly, make it easy to cancel and ask clients why they are canceling. This is a good way to start creating a feedback mechanism for churned customers. For current customers, producing a predictive health score for your clients is imperative to prevent churn before it happens and therefore key to keeping NRR high. It also helps your team determine which customers are a bad fit.

**When you use data-based insights (versus a gut feeling) to know it's time to part ways to focus on more profitable clients, you find the decision to be logic-based and focused on NRR. All of these methods will help increase NRR without sacrificing the prospect journey or customer experience.**

## Additional resources:

Article

**Revenue Objectives of Customer Success**

Read Now

Article

**How to Build a Customer-Centric Sales Culture**

Read Now

Webinar

**How to Rebuild and Thrive after RIFs?**

Watch Now

## A Holistic Data-Driven View of Customer Health

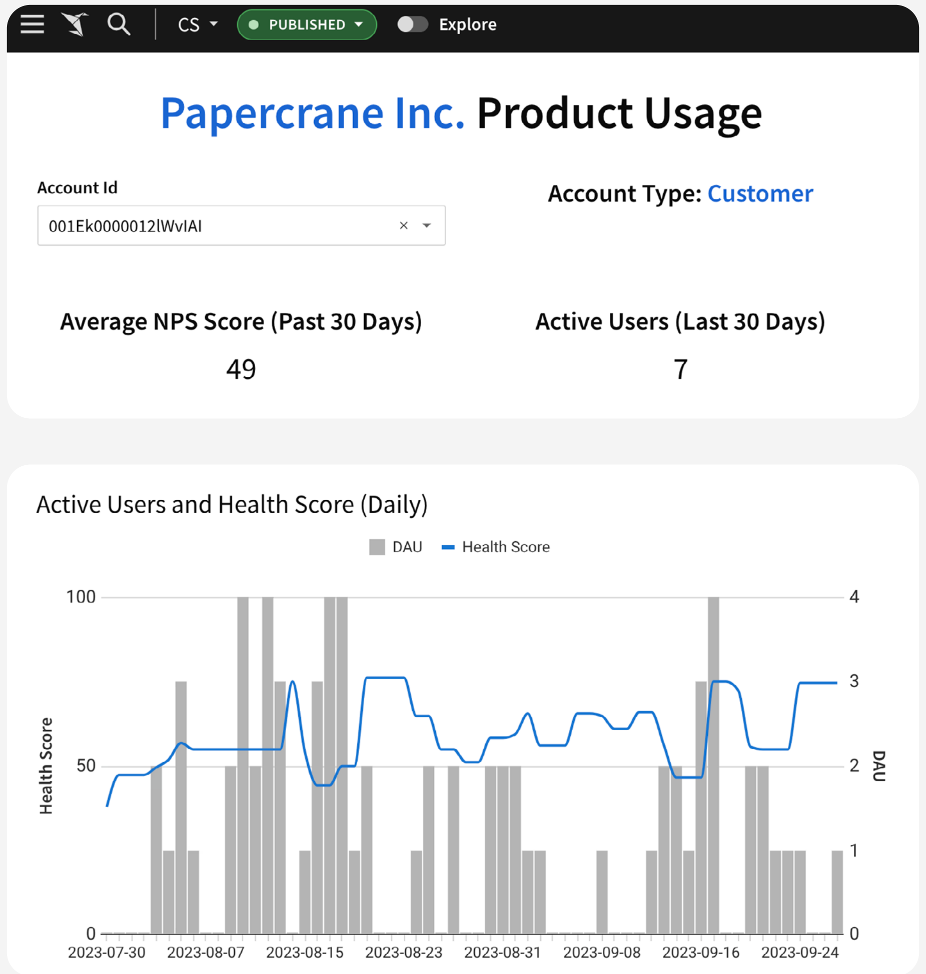
Presented by Sigma

For data-driven customer success, you want to understand who is using what features, and what's the next most likely feature that either keeps them retained or makes them willing to buy more. And buy more either means a higher-level license, or that they've extended access to another person who might want a license. It's all about product telemetry.

There is no one data point that highlights a customer's health. At Sigma, we look at license utilization, stickiness through DAU vs. MAU, client engagement, feature adoption, and account team sentiment. We can combine all of these data elements into a single table for a complete view of the customer's health.

Each of the data points that we capture tells a different story. The combination of qualitative and quantitive data allows us to build a complete profile of an account. By reviewing individual areas of risk, we can focus efforts to strengthen accounts and minimize churn.

The other key is combining historical data on high growth as well as "at risk" or churned accounts. That helps us identify patterns to better highlight clients at risk.




Source: Sigma Computing

Sigma is a cloud-native analytics platform using a spreadsheet-like interface that empowers business users to collaborate and make data-driven decisions through self-service business intelligence.

CHAPTER 4

# Tying it all Together

**You now have a good understanding of pre-sales, sales, marketing, and customer success** and how each department can achieve sustained and efficient growth. All of these departments contribute to the overall Go To Market efforts in the company. They are measured using metrics such as:

- **Customer Acquisition Cost (CAC)**
- **Payback Period**
- **Lifetime Value (LTV)**
- **Magic Ratio**

Let’s dive into each metric and cover best practices.

## Customer Acquisition Cost

**Customer Acquisition Cost or CAC is the entire cost of sales and marketing needed to acquire one new customer.**

This includes software, pre-sales, events, and anything related to sales and marketing. This includes the cost of sales and marketing staff, marketing programs, and software to keep track of acquiring customers. Activities and functions such as research and development and general and administrative expenses are not part of this cost.

CAC is a useful metric because it can tell you how much it costs to merely acquire a customer, which is the first part of the overall picture of profitability.

$$\text{CAC} = \frac{\text{Total expenses to acquire customers}}{\text{Total \# of customers acquired}}$$

## Payback Period

CFO and finance staff are quite familiar with the payback period metric, but it's commonly overlooked in the Go To Market function.

It measures the number of months it takes to recoup the funds expended to acquire a customer or to reach a break-even point.

Revenues collected after the payback period are mostly profit minus the average cost to service the client.

**This is where the payback period is superior to CAC: it includes all the cost to maintain and service a customer.**

Specifically, this means the salaries and bonuses of customer success representatives are allocated to this metric.

$$\text{Payback Period} = \frac{\text{CAC}}{(\text{MRR} - \text{ACS})}$$

The payback period also includes the cost of software to maintain customers (e.g. Gainsight and Service Cloud), a portion of research and development (R&D) and general and administrative (G&A) expenses that are required to maintain those customers. For R&D it's a portion of time spent on bug fixes. For G&A, it's the portion of time spent billing, collecting, and otherwise assisting current customers. When all of these costs are included, the organization now knows how long they need to keep a customer before they can be profitable.

**PRO TIP**

**Each onboarded customer** should belong to a cohort and each cohort should be tracked for CAC, LTV, and Payback period. This allows the business to remove lifetime value estimate, calculate the actuals, and sum the actuals together by cohort.





## Lifetime Value (LTV)

**The lifetime value or LTV of a customer is usually estimated using renewal rate and gross margin in the business.**

While this is a good directional value, there needs to be more fidelity for this to be a useful metric for data-driven insights.

$$\text{LTV} = \frac{\text{ARPU}}{\text{Revenue or Customer Churn}}$$

## Magic Ratio

The last metric we'll touch on is the magic ratio, which includes all sales and marketing costs as a ratio. It indicates the company's operational efficiency and long-term sales and marketing sustainability.

**Magic Ratio is calculated by determining the amount of annual recurring revenue increase generated for each dollar spent on sales and marketing.**

So, it's essentially the contribution margin created by your GTM machine.

If the margin is more than 1, then anything over 1 is going into the expenses or profits of the business. Anything under 1 is burning more cash than it creates.

**Real-Life Example**
It's typical to see annual plans with the first year below 1, but in years 2 and 3, the plan should be growing well above the 1 mark, and hopefully $1 the organization puts into sales and marketing, the company receives $3 in revenue.





With these metrics laid out, it is easy to see which areas of the business need more analysis and investigation.

**If CAC is too high, you'll want to analyze all of your sales and marketing costs.**

This includes salaries, commissions, marketing programs, and events. When you study the costs, you can see where the inefficiency is coming from, recommend changes, and continue to measure CAC until it decreases.

You'll also want to make sure that the payback period is not extending due to unforeseen maintenance costs. Lowering CAC, but increasing payback period by roughly the same amount will not improve GTM engine efficiency; it will just shift the metrics from one area to another. In this case, start looking for ways to cut costs on the maintenance side from customer success staff, development costs from bug fixes, and bespoke improvements that are being made for possibly just one customer.

The balance between CAC and payback period is not always straightforward. For example, a new customer expansion program may be implemented by customer success, but allocated to new sales. This lowers CAC, but increases payback period by increasing the average cost of service via the increased labor from the customer success team.

This is a common occurrence as many Go To Market organizations focus on CAC and not payback period.

You can use an average calculation formula to determine overall LTV to help you understand which customers are providing the most value and which customers are being lost quickly. Be sure to track each customer cohort separately. Narrowing churn down to customer cohorts allows for much more rapid discovery of issues that caused churn. It also allows you to diagnose churn issues in that group and match them to the time period. Then you can investigate what was happening during this time (e.g. software changes, market conditions) that would cause a customer to churn. Quickly applying improvements to keep other members from that cohort or similar cohorts paves the path for predictive prevention of churn.

**As mentioned earlier, the magic ratio is a quick look at the contribution the sales and marketing teams are making to the rest of the company. The goal is to get the ratio above 1 and to work toward a target of 3 and above.**

Naturally, this is a rough estimate based on SaaS businesses and can be misleading if the other parts of the business are not run as efficiently as sales and marketing.





For instance, a company may have a very healthy magic ratio of 4, (i.e. for every $1 spent in sales and marketing, the company receives $4 dollars in revenue). This same company may also have a large development team that is oversized and overpaid. When all the money is collected, the business is operating at a loss, but not due to sales and marketing.

**The magic ratio metric allows the business to quickly see if the new sales and marketing engine is running efficiently enough to keep the lights on. In other words, it's not a very insightful metric when looked at in a silo.**

## Key Takeaways

Reducing CAC while lowering payback period and extending LTV of a customer is a very reliable way to sustainably and efficiently grow your business. Keeping an eye on the magic ratio allows you to shift resources and priorities. When each metric is paired with insights, you get diagnostic criteria that serves as a roadmap on where to implement changes for improvement.

## Conclusion

As we all know, plans do not always unfold exactly as we expected. That's why the ability to track, measure, interpret and act on data-based insights is critical to running a successful SaaS business. Metrics are only the first step, but this series has outlined:

- **Three areas of GTM (Presales/Sales, Marketing, Customer Success)**
- **The main drivers for each department**
- **The metrics those drivers improve**
- **Tying those metrics together.**

Once tied together, these metrics provide powerful insights to keep your business growing sustainably and efficiently.
Happy Annual Planning!

# Improving the Payback Period Metric

Presented by Sigma

One of the biggest levers you can focus on that will drive the business forward is shortening the payback period — the time a customer has to be with you to pay back the sales and marketing costs of acquiring that customer. At Sigma we set and achieved a goal to cut our payback period by 33% in five months. Here's why:

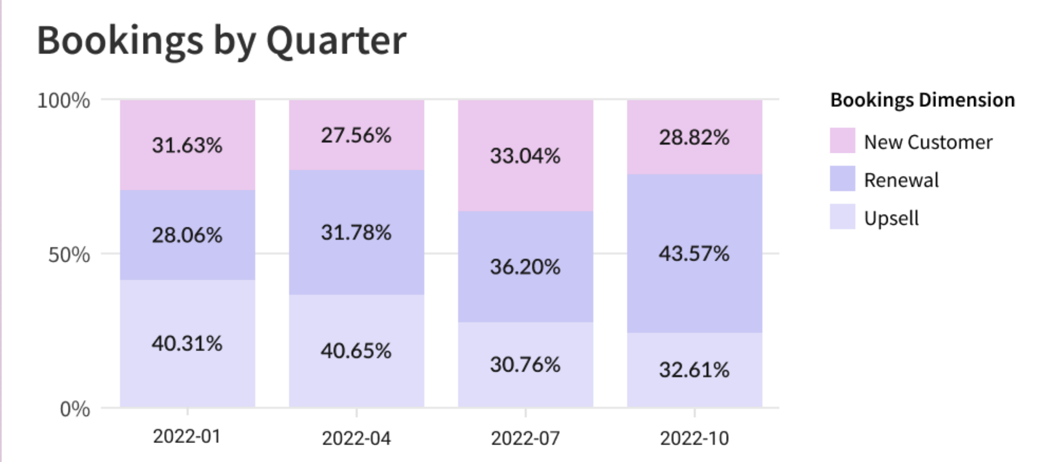
The cost of sales and marketing increases disproportionately to every other cost in a business as it grows. Because that line item is the one that will always increase as company growth continues, investors want to see if you can make efficiency improvements there, which reflect your ability to do so in other areas.

To drive efficiency, we look at the top-performing channels and their efficiency gains over time — and then allocate budget accordingly. We also take a forecast-driven approach, rather than the more typical flat budgeting allocation method.





By doing that we do two things: allocate budget to the best-performing and most efficient channels, while also driving the top line. The goal is finding the least expensive route to find the most interested customers — and then execute the highest converting methods. If you do that right, it means the customer you found is most likely to complete an engagement with you.




| Booking Dimensions | Quarter | Bookings | Number of Deals |
|---|---|---|---|
| New Customers | 2022-01 | $4,782,500 | 180 |
| Renewal | 2022-04 | $5,242,500 | 201 |
| 1234556 | 1234556 | 1234556 | 1234556 |

Source: Sigma Computing

Sigma is a cloud-native analytics platform using a spreadsheet-like interface that empowers business users to collaborate and make data-driven decisions through self-service business intelligence.

MISSION

## RevGenius' mission is to build trusted spaces for curious revenue professionals who are collaborating on the future of B2B GTM.

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GTM Harmony delivers Harmonize: SaaS service designed to assist Founders, CEOs, and GTM leaders by providing them with the vital GTM metrics they need to make informed decisions.

After an initial consultation to understand their current state and goals, our software integrates into their CRM, pulling actual data and recalculating models monthly to ensure up-to-date and accurate projections.

sigma

Sigma is a cloud-native analytics platform using a spreadsheet-like interface that empowers business users to collaborate and make data-driven decisions through self-service business intelligence. Sigma requires no code or special training to augment with new data, perform “what-if” analysis in real-time, and answer natural language questions.

Through the modern intelligence cloud, at Sigma we empower everyone to data confidently.

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