



waterstone
MANAGEMENT GROUP LLC

The Subscription Scorecard: Updating the Balanced Scorecard for the SaaS World

Perspective by
Waterstone
Management Group

Mark Hauser, Managing Partner
Andrew Loulousis, Manager

January 2016

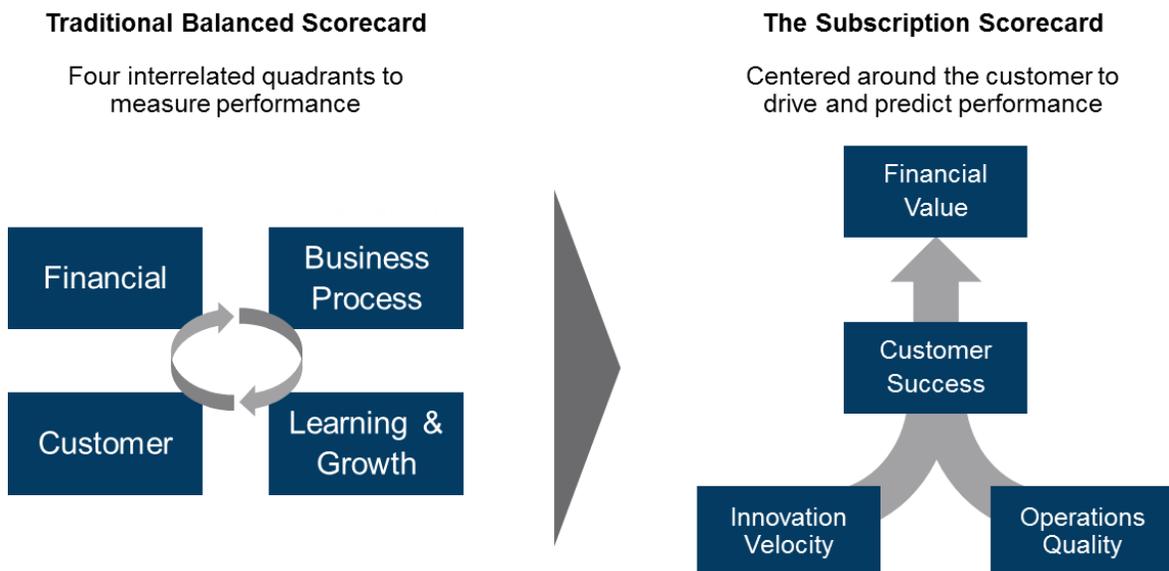
Chicago | San Francisco
(877) 603-1113
www.waterstonegroup.com

The Subscription Scorecard: Updating the Balanced Scorecard for the SaaS World

The balanced scorecard (BSC) is a tool that's been used for many years to measure strategic, operational, and financial performance. The concept behind the BSC is simple: a company and/or business unit prioritizes a set of 15 to 20 financial and non-financial metrics across four quadrants linked to the company's market and operations strategy in order to measure and manage performance. While the BSC is a good organizing framework and remains relevant today, it needs a major shift to be effective in a Software-as-a-Service (SaaS) world where traditional BSC measures don't adequately gauge and predict performance. SaaS companies have a constant window into how customers use their products as well as an opportunity to gain insight and add value at continuous customer touch points. When harnessed correctly, this knowledge can be used to form close, profitable, and predictable long-term customer relationships.

Introducing the Subscription Scorecard

To better address the dynamics of a subscription / SaaS business model, the BSC needs to be "rebalanced" with Customer Success at the center driving Financial Value. In turn, Innovation and Operations measures are re-oriented around driving Customer Success.



New Metrics for the Subscription Scorecard

The metrics within each of the four Subscription Scorecard categories will vary based on the company's strategy, priorities, and starting point. However, through our client case work and research, we advise that most of the following metrics should be used to manage and predict performance in a SaaS world.

Financial Value

The Financial Value category measures the economic value of a subscription model and needs to consider customer adoption, growth rate, operating margin, and cash flow over multiple years:



	Metric	Description
1.	Revenue / Growth	Total revenue, recurring revenue, and growth by customer type (new and existing) and cohort
2.	Booked Revenue	Total amount of future revenue booked but not yet recognized as revenue, including deferred revenue and off-balance sheet bookings, by customer type and cohort
3.	Operating Margin	Total company operating margin and operating expense by function (Sales, Marketing, R&D, Professional Services, Customer Support, Customer Success) as a percentage of revenue
4.	Fixed Capital Efficiency	CAPEX as a percentage of booked revenue
5.	Average Contract Value (ACV) Growth	Growth in the average total \$ size of contracts signed; tracked over time for new and existing customers

Customer Success

Customer Success is measured on a more granular basis beyond simple aggregate customer satisfaction and/or net promoter scores:



	Metric	Description
1.	Customer Retention Rate	Renewal rate (\$ and units) for customer subscriptions
2.	ARPU / ARPC	Average revenue per user / customer in \$ and growth over time
3.	Share of Customer Wallet	Percentage of customer addressable spend captured by a company's available products and services
4.	Customer Lifetime Value	Monthly recurring revenue per customer plus monthly upsell/cross-sell revenue, multiplied by gross margin, then divided by churn rate
5.	Customer Success Offering Adoption	Emerging metric as a company develops success offerings; percentage of customers that elect to purchase premium offering tier(s)

Innovation Velocity

Innovation Velocity measures the rate the company delivers new and continuing value to customers:



	Metric	Description
1.	Release Value Rate	Number of new or updated user stories included in each release divided by the time in months between releases
2.	Add-on Adoption Rate	Percentage of revenue and/or customer usage that comes from most recent add-on features or releases
3.	Platform Extensions	Number of high value extensions or APIs that are currently available to customers on the platform
4.	Product Usability	Measures the quality of a customer's experience using a product (broader than just number of defects per module); typically measured with a system usability scale or usability testing
5.	Ecosystem Scale	Volume of third party revenue and extended application solutions tied to the company's platform

Operations Quality

Operations Quality metrics are oriented around measuring organizational performance and efficiency and go beyond "table stakes" operating metrics of up-time, support response time, and performance against SLAs, etc.:



	Metric	Description
1.	Customer Onboarding Velocity	Go-live volume counts by go-live duration periods (duration defined as number of days it takes to get new customers up and running from deal close to initial usage/modules and to full usage/modules)
2.	Customer Onboarding Backlog	Product module units and \$ (ACV and TCV) in backlog by customer segment
3.	Customer Payback Period	Average cost of acquiring customer divided by customer's average monthly gross margin (measured in months)
4.	Customer Productivity Rate	Total number of customer users divided by total number of software company employees by function (measures how efficient and scalable the organization is in serving customers)
5.	Customer Journey Scores	Customer satisfaction scores measured explicitly at key touch points in the customer lifecycle: initial sale, implementation and onboarding, ongoing product release, customer support, renewals, and upsell/cross-sell experiences

Taking Action on the Subscription Scorecard

Software company executives, whether leading a pure-play SaaS company or migrating the company's offerings from on-premise to Cloud, need to mobilize action around the Subscription Scorecard. This mobilization varies based on the starting point, but typically entails the following:

1. Prioritize and Standardize Subscription Scorecard Metrics

Set five priority metrics for each of the four scorecard categories with clear definitions based on the company's strategy, priorities, and key initiatives.

2. Retool Business Reporting and Analytics Approach

Establish a subscription analytics group that sets and drives system priorities, determines data and measurement approach, provides data visualization and reporting cadence, and manages ongoing business user requirements.

3. Leverage the Subscription Scorecard to Manage and Predict Performance

Progressively embed the Subscription Scorecard into planning, budgeting, and operating performance management. Operationally, the Subscription Scorecard should be used to foresee and head-off retention issues, anticipate future customer product needs, and identify customers that represent high probability upsell/cross sell opportunities. Strategically, the Subscription Scorecard should strive to establish correlations between the different Subscription Scorecard categories (e.g., correlation between Customer Success metrics and Financial Value metrics; Operations Quality metrics and Customer Success metrics; and/or Innovation Velocity metrics and Customer Success metrics).

Regardless of whether a software company needs to build an analytic-based management approach or is already collecting data and needs to extract value from it, the Subscription Scorecard is an organizing framework that can be leveraged to great effect in maximizing Customer Success and driving corporate value. With software leading the way, more and more industries are embracing the subscription model and propelling the overall rise of the subscription economy. Given its broad applicability to this movement, the Subscription Scorecard and its emphasis on Customer Success will be relevant for many years to come.

Waterstone Management Group helps technology companies and investors create measurable value by identifying and capitalizing on disruptive growth opportunities and driving excellence in Services, Cloud, and Customer Success performance. To learn more about the Subscription Scorecard and how it can be used to maximize Customer Success and drive corporate value within your organization, please contact:

Mark Hauser, Managing Partner

(312) 508-6162

mhauser@waterstonegroup.com

Andrew Loulousis, Manager

(312) 508-6175

aloulousis@waterstonegroup.com