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Chargebee

An honest, first-time-founder take on *measuring what really matters in SaaS*

Hi, I'm Krish.

In 2011, we founded Chargebee, with a singular goal in mind: **can we get some curious folks together to solve a persistent SaaS problem and learn how to build an organization.** And do it in an elegant, customer-driven way.

Chasing and measuring our progress towards that goal, and, in the process, **serving some truly great brands**, has taught us **a lot.**

freshworks

kissflow

freedom

Linux Academy

Doodle

GetAccept

zenchef

Having made countless decisions – **ones that matter in the short-run, ones for the long haul,** ones that seem obvious at first, ones that seem tangled till the end, all with lots of data – **I've made good friends with metrics** (and also made peace with decisions that are backed with little data).

What follows is a retelling of what I have learned from this founding relationship with numbers and my take on measuring what really matters across different stages.

What really matters.

The three stages of SaaS Growth

1

Product - Market Fit

(0 - 1M)

What Matters

Problem Validation.

Survival.

2

Product - Scale Fit

(1M - 10M)

What Matters

Repeatability.

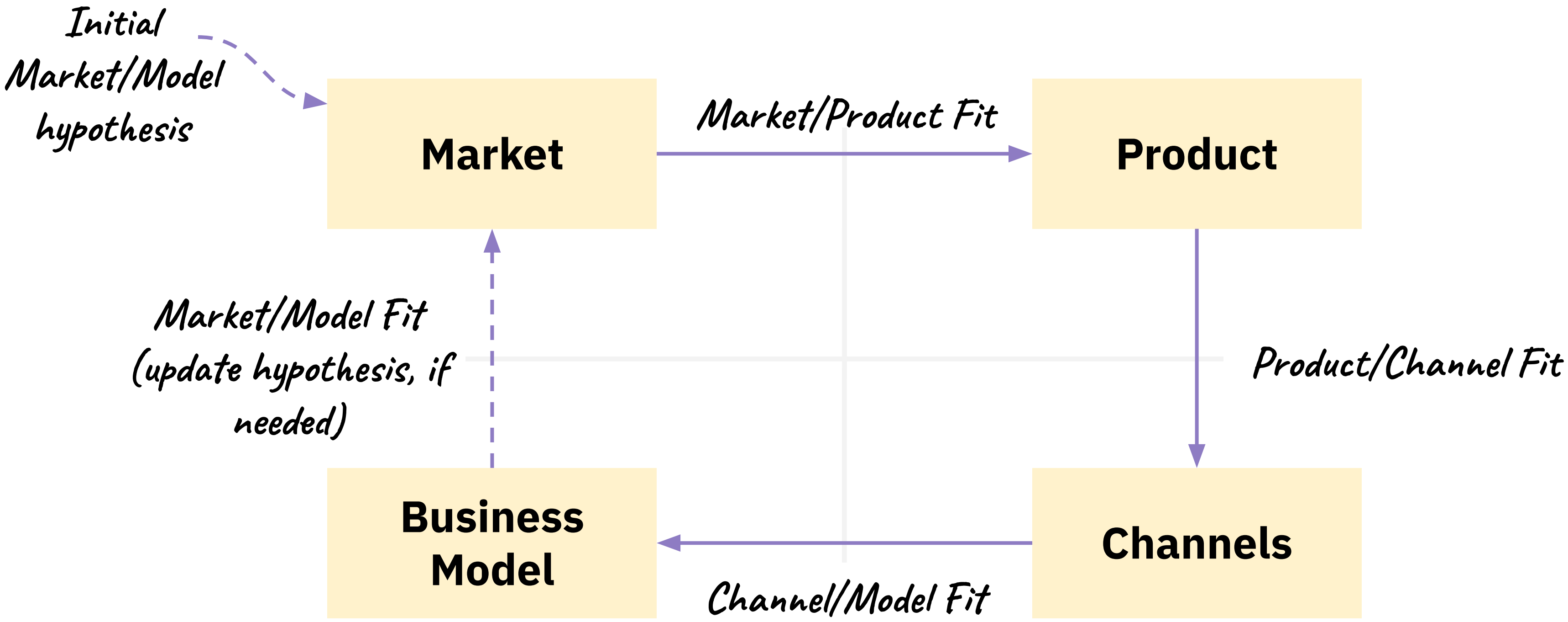
3

Product - Growth Fit

(10M+)

What Matters

Health.



Initial Market/Model hypothesis

Market

Market/Product Fit

Product

Market/Model Fit (update hypothesis, if needed)

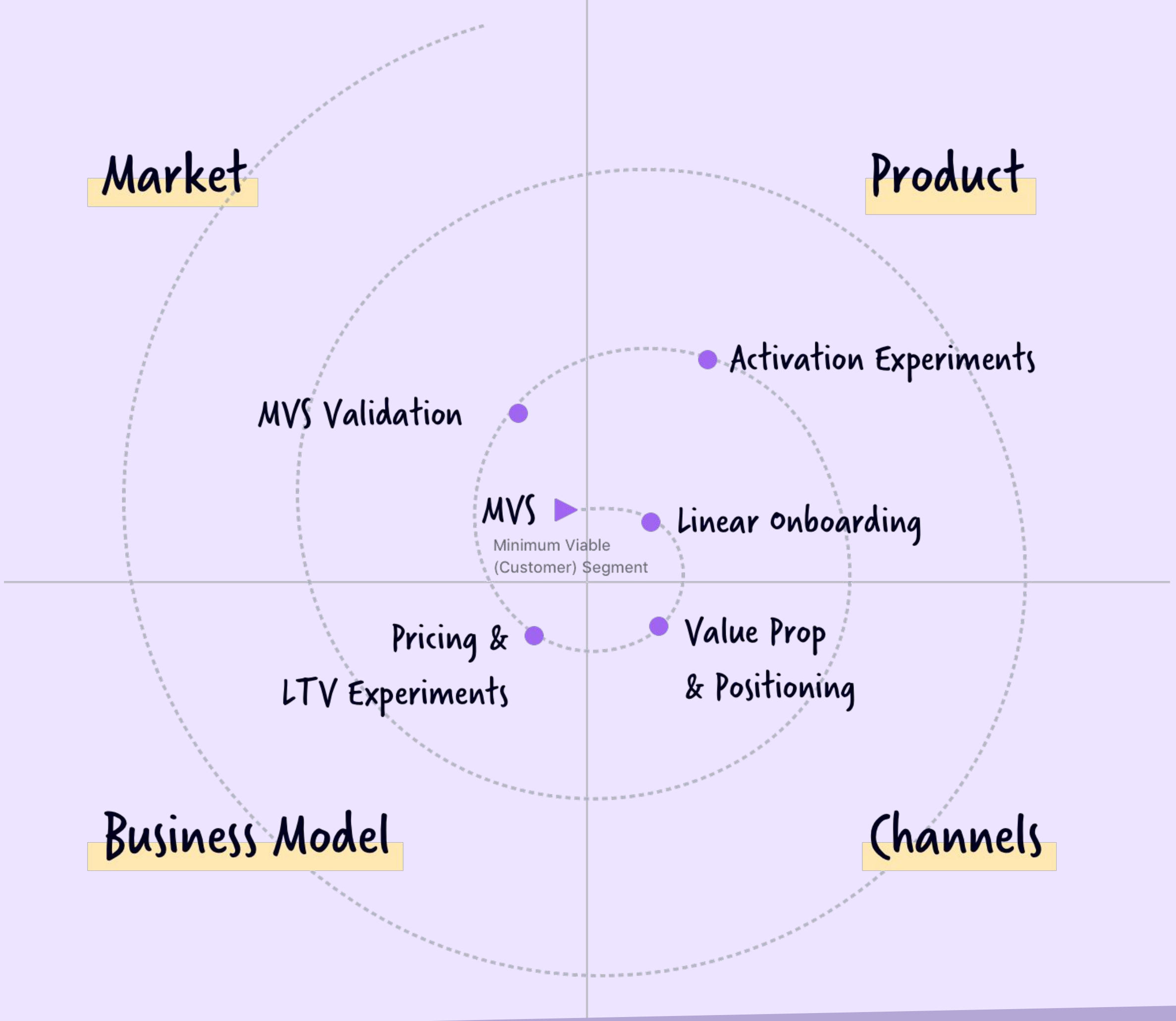
Product/Channel Fit

Business Model

Channels

Channel/Model Fit

Brian Balfour's four-fits framework


Market
Product
Activation Experiments
MVS Validation
MVS ▶
Minimum Viable (Customer) Segment
Linear Onboarding
Pricing & LTV Experiments
Value Prop & Positioning
Business Model
Channels

Stage 1

Some key questions you'd want to answer:

Market and Channel

- Is the problem statement resonating with the prospects?
- What am I really replacing — excel sheets, developer hours, or better business outcomes?
- How can I consistently engage with similar prospects?

Product

- How much value do they assign to the problem? (Is the product a vitamin or a painkiller in their eyes?)
- How is the product (prototype) engagement with the early prospects?

Business Model

- What are they willing to pay?
- What should the first price structure look like? And how are potential competitors charging for this?

And, of course, the BIG one:

Can I Survive until all this clarity surfaces?

Which means, you can safely ignore:

✗ **LTV**

✗ **Churn rate**

✗ **CAC Payback**

I used to try and find answers for these questions. Very diligently, early-on.
Turns out, the metrics mean absolutely nothing in isolation. Nothing at all, this early.

Looking back, I would assume (48 months * ARPU) as the LTV and plan the customer acquisition, accordingly. And I would instead obsess more about speaking with each lead and customer to gather vital qualitative feedback.

You should definitely track these:

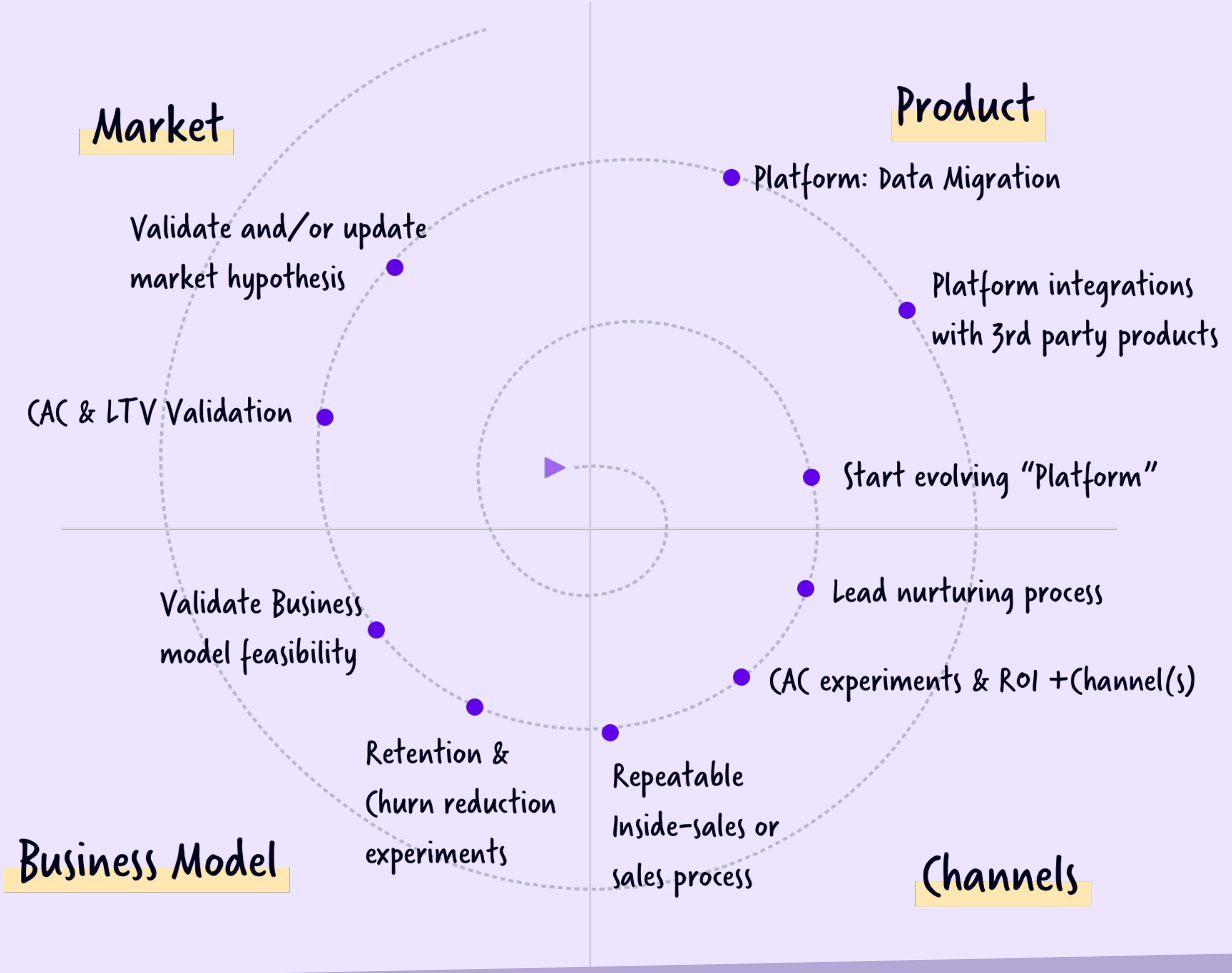
- **MRR, Qualified Leads, Activations**
- **Reasons for churn**
- **Product engagement metrics**
- **Monthly burn (default alive or dead)**
- **The source of every single lead**
  - **Qualify and track each one carefully**
- **Classify each feature request by customer segments**

Building for the right customers

In the early days of Chargebee, we had all types of customers, including small agencies that hired us for recurring billing. **A job our product solved for.**

But we realized, not all of them were not quite hedging their existence on the subscription business model.
So, though they were hiring us for the right reasons,
they weren’t the segment we’d learn the most from.

Stage 2



Market

Validate and/or update market hypothesis

CAC & LTV Validation

Product

Platform: Data Migration

Platform integrations with 3rd party products

Start evolving "Platform"

Business Model

Validate Business model feasibility

Retention & Churn reduction experiments

Channels

Repeatable Inside-sales or sales process

CAC experiments & ROI +Channel(s)

Lead nurturing process

Some key questions you'd want to answer:

Market and Channel

- Where can I find more of my ideal customers? (repeatability)
- How scalable is the channel that is working? (scalability)
- Can someone other than the founders sell?

Product

- Which segment of customers gets the most value out of the product?

Business Model

- Are we priced optimally for the segment that gets the most value out of the product? (pricing and Value Metric alignment)

Plus, the big, hairy, fork-in-the-road question:

Do I want to build a bootstrapped business or take the venture route?

Which means, you can safely ignore

✗ **Margins**

✗ **Quick ratio**

Instead, pay more attention to:

☐ # of qualified leads per channel (impacts CAC)
☐ Time to onboard customers (impacts S&M cost)
☐ Value realization time for Customers (impacts churn risk)

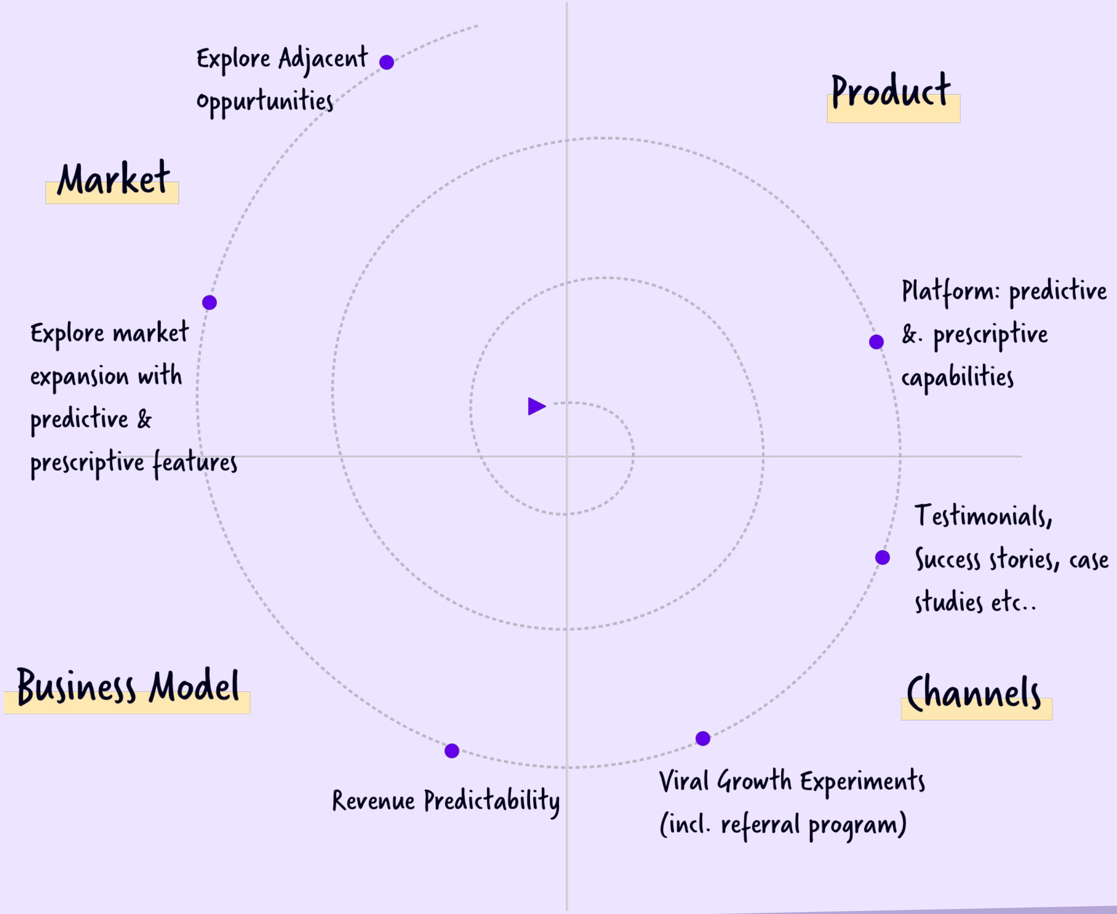
And, you must track:

- ARR, Cash flow
- Churn rate (especially of ideal Customers)
- Net Dollar Retention
- CAC and Payback (by channels)
- Qualified leads, opportunities and Sales Cycle by segments
- Onboarding time

Getting the price right

This is **THE stage** for pricing iterations. From both qualitative and quantitative perspective, you can learn enough about how a given segment derives value from your product. And **arrive at hypotheses for value metrics that could drive the most revenue.** In other words, pricing that contributes to expansion and thus helps you offset churn.

Stage 3



Market

Explore Adjacent oppurtunities

Explore market expansion with predictive & prescriptive features

Product

Platform: predictive &. prescriptive capabilities

Testimonials, Success stories, case studies etc..

Channels

Viral Growth Experiments (incl. referral program)

Business Model

Revenue Predictability

Some key questions you'd want to answer:

Market and Channel

- Which segment of customers find the most value out of the Product?
- Which channels deliver the most valuable customers?
- Which channels possess the best scaling potential?

Product

- How should you balance the roadmap for existing customers and the new ones?
- Should you build a second product/module to solve adjacent problems?

Business Model

- What are the blockers for growth?
- How to plan for better Cash Flow? (annual plan vs. monthly; fundraise/debt for growth)

Plus, another big, hairy, fork-in-the-road question:

Is this market large enough to grow or should I move into adjacencies?

Here are 4 efficiency metrics we started tracking, for ourselves:

- **Growth Efficiency Index (GEI)**
    - **[New ARR/Operating Cash]**
    - How much are we spending to get additional ARR
- **Recurring profit margin**
    - Profit left for growth (S&M) investment after incurring recurring cost
- **CAC Payback (in months)**
    - Months it takes to realise the acquisition costs of each customer
- **ROSE - Return On Staff Employed**
    - **[Recurring rev/employee cost]**
    - Revenue earned for each dollar spent on employee cost

Understanding efficiencies and inefficiencies by segments

Entering this stage, **we recasted all the metrics by customer segments.** This helped us understand our business through an entirely different lens. By this stage, you also have sufficient data to do this right.

Segmented data **across Product, Marketing, Sales, Onboarding, Customer Success, and Financial Metrics** is telling us new stories about efficiencies and inefficiencies. I’m certain there’s more to learn.

> Looking for the perfect summary statistic (metric) is like trying to write a dust jacket blurb that replaces the need to read the book.

Author, Bayesian Statistics the Fun Way

Will Kurt