

Endeavoring to Achieve Customer Immortality

SaaS Metrics that Drive Valuations Series

A key to driving higher valuation for SaaS companies is understanding and extending the duration of customer life while growing dollar retention. By appropriately analyzing, optimizing, and presenting these key metrics, which demonstrate a company's ability to keep clients happy and sell more over time, companies are "endeavoring to achieve customer immortality." Navidar has a proven track record of helping our clients accomplish this feat, often resulting in elevated valuations during exit discussions. We compiled the following list of 10 methods to extend customer life and dollar retention, based on our deep SaaS expertise.

Navidar has been the trusted advisor for many SaaS companies that call the middle-corridor of the U.S. home. Collectively, our team has completed more than 50 SaaS transactions, representing \$10 billion in M&A, capital raises, and public offerings.

Growing Dollar Retention
Incentive Compensation
Raise Prices
Partnerships
Stickiness
Marketing
Extending Customer Life
Valuations
Land & Expand
Engagement
SaaS Software Cloud Innovation
Delighting & Education
Multi-Product
Upstream

1 Multi-Product Strategy

There is a strong correlation between average number of products per customer and both customer life and dollar retention – our basic formulas are presented later in this note. As such, it often makes sense for point-solution providers to build or buy a suite of related products, which, when executed well, can drive dollar retention north of 100%. We regularly help our clients evaluate these enticing strategic moves.

2 Drive Land and Expand

Besides signing new customers, existing clients ought to buy more over time, which drives up dollar retention. To inspire this behavior, Navidar has advised clients to modify their sales teams' incentive compensation to drive expansion in the number of products per client as well as users, departments, and divisions at each client.

3 Move Upstream

As the size of customers increases, the duration of customer life typically does as well. Even marginal increases in average customer/contract size can boost retention since it reduces the mix of smaller businesses that tend to fail at a higher rate and increases the mix of larger firms that can be slower to switch vendors.

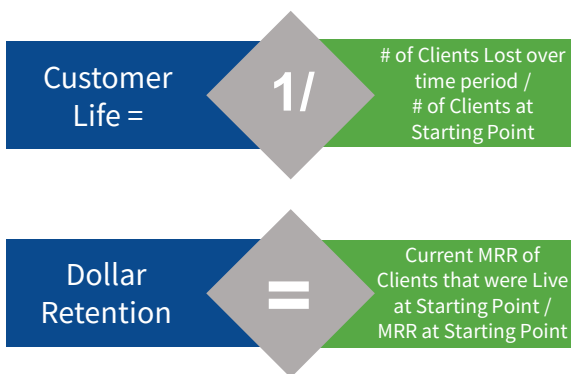
4 Product Innovation

SaaS customers expect quarterly product releases at a minimum to remain happy. As such, on balance, it is generally better if companies increase their innovation efforts, constantly canvassing their user base, compiling desired features, then ranking and quickly implementing.

5 Engagement Fixation

Companies need to be alerted and quickly respond when customer engagement slows (e.g., declining product usage or missing implementation milestones). This can be accomplished through big-data analysis, tracking actions in-app as well as on social, phone, email, website, events, and other channels. We also encourage implementing a Net Promoter Score where clients are periodically surveyed about likelihood for referrals.

Formulas¹



¹Typically calculated on an annual or monthly basis

6 Increase Stickiness

A “sticky” solution is one that is inherently difficult to replace. Besides the other methods mentioned in this note that drive stickiness, Navidar may advise our clients to explore increasing the value provided to their customers in such a way that is not easily transferrable to competitive solutions. This can be accomplished by enriching data and embedding processes and integrations that are arduous to uproot.

7 Delighting & Supporting Customers

We have found that companies excelling in retention tend to have a relentless focus on delighting and educating customers. On balance, it is generally better to systemize best practices in customer support, emphasize client success, and education to create more customers that are product experts (potentially through free or reduced-cost training.)

8 Savvy Marketing

Given the subscription nature of SaaS, to encourage renewals, customers need to be continually sold and marketed to. We advise clients to promote via in-app as well as through email and other channels. Regularly scheduled creative alerts can entail information ranging from new features and functionality to educational tips-and-tricks.

9 Partnership Power

Clients sourced through partnerships can carry longer customer lives. Identifying and capitalizing on such opportunities is one reason we encourage our clients to meticulously segment (e.g., by source, time frame, size, type), track, and optimize SaaS metrics that drive valuations.

10 Raise Prices

Increasing prices can effectively grow dollar retention and create a perception of greater value that could expand customer life. Navidar has worked with clients who have successfully used price increases to remove undesirable clients while maintaining desirable ones. Still, this approach must be delicately balanced with the potential for short-term downward pressure on customer life.

Stay tuned for future notes in this series that address more SaaS Metrics that Drive Valuation. To view previous issues in this series, visit www.Navidar.com.

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About Navidar

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