



Financial and Revenue Modeling for SaaS

Discovery concepts



Background

Financial and revenue modeling is extremely important concept to understand the health of various functions of a successful SaaS organization. The modeling is typically owned by SaaS finance team. The modeling is used within many teams for several purposes:

1. Product management and R&D
 - Business case development
 - SaaS metrics
 - MRR Delta
 - DevOps
2. Sales & Marketing
 - Bookings plan
 - CAC
3. Operations
 - Optimization
 - Head count plan
 - Churn
4. Investor community
 - Performance
5. Executive strategy development

Outputs

This model will allow one to dive deeper into the following outputs:

- Fish modeling
- MRR delta
- Hiring plan
- Bookings plan
- Cloud spend impact
- Growth planning
- CAC modeling
- Onboarding modeling
- Marketing and TAM impact, TAM>SQL>MQL>Bookings
- Pricing and productization impacts
- Churn impacts
- General understanding of how to start financial and metric modeling
- Customer success revenue modeling
- Model to help with transformation.
- Income Statement

Background

The following slides take you through various concepts in SaaS will collect data based on your business plan. The concept is to build discovery questions and use this to dive deep into financial and revenue models.

The questions are filled out with sample data. Enter your values and delete ones which are not applicable.

Bundling and Pricing Input

It is common for SaaS companies license or bundle services as Good, Better, Best.

1. How many licenses/bundles do you have? Max 3

3

Each bundle may have one or more pricing strategies depending on the value the SaaS company is selling. This may be based on seats, API calls, capacity, or something else. Regardless of what is sold, this translates into three concepts:

- a) Monthly Recurring Revenue (MRR) – how much do you charge for a service every month
- b) Non Recurring Revenue (NRR) – One time costs to use the service. E.g. setup fee, order hardware, one time usage
- c) Usage Costs – for burst traffic beyond the bundle pricing

Not all SaaS companies use all these but it is a tool in their pricing strategy

Bundling and Pricing Input

2. How do you price your bundles?

Enter your pricing for each bundle below. If you don't have mixed pricing or multiple bundles, enter \$0

	BASIC	PRO	PREMIUM
MRR	\$9.99	\$29.99	\$59.99
NRR	\$5.00	\$5.00	\$5.00
Usage per unit	\$0.25	\$0.20	\$0.15

Professional Services

SaaS companies may offer various options in which customers commit and onboard. This typically is based on preferences of the customer and complexity of the solution.

- 3. Do you offer professional services? Enter Yes or No If no, skip to question 6
- 4. How many professional service packages do you offer?
- 5. Enter the cost of each one time professional service below

Self Start	<input type="text" value="\$0"/>
Pro Start	<input type="text" value="\$550"/>
Premium Start	<input type="text" value="\$1050"/>

Customer Success Model

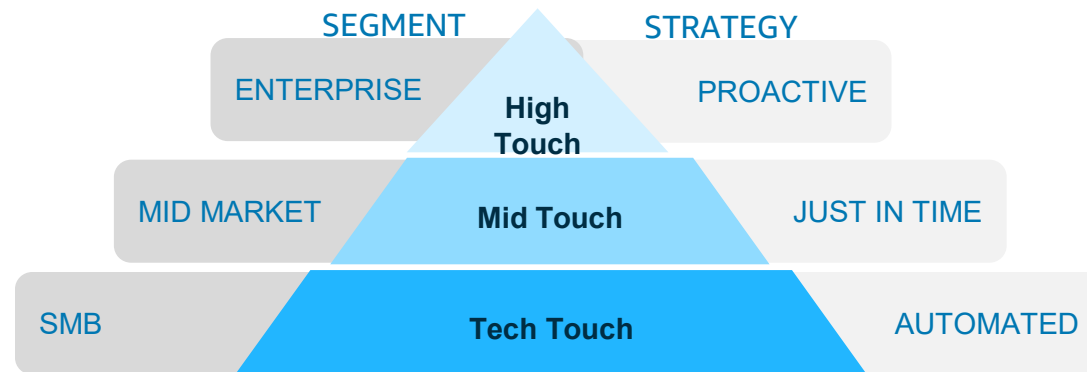
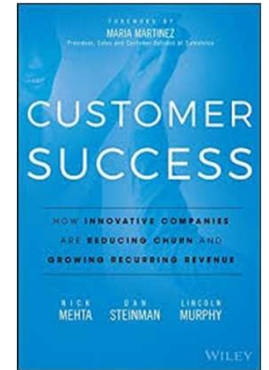
SaaS companies may have many customer success strategies and industry references like "Customer Success" define 3 tier models. In this model we have built in three customer segments:

Here is an example:

Tier 3: **TechTouch** are typically self service who typically sign up for month-to-month contracts.

Tier 2: **MidTouch** typically have in house expertise but require help due to various reasons. These customers have lower churn and sign up for short term contracts.

Tier 1: **HighTouch** demand turn-key solutions, these customers are lowest churn and sign up for long contracts



Customer Success Model

Describe your tiers in detail.

6. How many tiers do you have? Max 3

7. Describe your tiers in detail here:

Market Opportunity

The business may have identified the market opportunity for the SaaS offering and how many customers could be targeted also known as Total Addressable Market (TAM).

6. What is your TAM?

18,250

7. From your TAM, how do these customers get distributed by percentage? Enter 0 in each row you don't have a all three tiers.

Tier 1	9%
Tier 2	73%
Tier 3	18%

License Distributions

8. Now that we have bundle and licenses, enter how many licenses each tier will purchase.
Enter your pricing for each bundle below. If you don't have mixed pricing or multiple bundles, enter \$0

	BASIC	PRO	PREMIUM
Tier 1	\$9.99	\$29.99	\$59.99
Tier 2	\$5.00	\$5.00	\$5.00
Tier 3	\$0.25	\$0.20	\$0.15

Professional Services

Self Start	\$0		
Pro Start		\$550	
Premium Start			\$1050

Marketing and Sales Funnel

As your marketing and sales teams nurture leads, your TAM will dwindle as it goes down the funnel. We will assume these are quarterly metrics.

9. Of you TAM, what % of opportunities will your marketing nurture? MQL

67.5%

10. Of your Marketing leads, how many leads will sales be able to nurture? SQL

45%

11. Of you Sales leads, how many customers do you expect to commit?

23%

Contracting

While the value of SaaS is the ability for customers to sign up and opt out when needed, contracting may provide value in pricing. Based on your tiers (question 7) what is the expected contract term in months. Tip: Enter averages or most common term lengths.

12. What is the contract term in months?

Tier 1	24
Tier 2	12
Tier 3	1

Growth

As part of a SaaS companies bookings plan, the business should understand the target year-over-year growth rate. What is the expected growth rate of your company. Note, this is number of customers.

13. Year over Year growth rate in percentage?

35%

Deep Dive

The model makes certain assumptions for the following inputs. For the deep dive and more representative model it would be good to have:

1. Expansion rate per month by tier in percentage of MRR
2. Contraction rate per month by tier in percentage of MRR
3. Churn rate per month by tier in percentage of customers
4. Hiring plan with loaded cost, cost center, and start and end dates
5. Cloud spend by month
6. Current financial income model by month and quarter