KPMG

Experience centricity: The new data-driven approach to decision making

Digital architecture to collect and analyze metrics across the customer journey –
Cultivate Land Adopt Expand Renew

September 2020

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The global imperative for digital transformation has never been greater as digital increasingly becomes intrinsic to how we live and interact. Every business must put a sharp focus on accelerating their transformation to connect with their customers through compelling, personalized experiences that drive long-term loyalty and growth.

– Shantanu Narayen, Chairman, President, and Chief Executive Officer of Adobe

Every digital transformation begins and ends with the customer. During these uncertain times it is critical that platforms deliver seamless, cross-channel experiences and provide a single source of truth about the customer at every touchpoint. **Experience centricity: The new data driven approach to decision making** *is a must-read for every company that wants to directly connect with the customer to understand the single source of truth and create value for all stakeholders – employees, customers, suppliers, local communities, and society at large.*

– Mark Hawkins, President and CFO, and
Joe Allanson, Executive Vice President and CAO of Salesforce

Providing personalized guest experiences, earning customer loyalty and increasing the share of wallet throughout the customer journey is critical for businesses today as they embark on digital transformation. **Experience centricity: The new data-driven approach to decision making** *presents an experience-centric framework to measure what matters, and delight customers across all touchpoints of the customer journey.*

– Leeny K. Oberg, Executive Vice President and
Chief Financial Officer of Marriott International

Customer expectations have reached all-time highs and personalized, intuitive, and engaging experiences are the new normal. As businesses become progressively digital, it is essential to turn digital data into insights that transform the business with customer experience as the cornerstone. A comprehensive data-driven framework that highlights the critical trade-offs between growth, profitability, and sustainability is key as organizations embark on this journey to derive insights from data in new ways and deliver significant value to all stakeholders.

– Mark Garrett, Board Member, Cisco, GoDaddy, HireRight, Pure Storage
and Snowflake and Senior Advisor, General Atlantic

Digital transformation as a part of the Board agenda includes not only technology tools to work smarter and more efficiently, but also business model transformation on how to connect with the customer directly and delight the customer at every touchpoint. This paper provides a framework to run a digital business.

– Matt Thompson, Board Member of NCR Corporation

Delivering a delightful product and service experience is the #1 strategic priority at leading companies across sectors. In today's world, customer consumption patterns and behaviors change rapidly, and companies need to stay on top of what's happening. The CLAER approach outlined in this publication provides a powerful framework to create an experience-centric customer journey. A must-read and a reference guide to every executive leader, who wants to compete (and win) on Customer Experience.

– Leslie Stretch, President and CEO, Medallia

As organizations look to digitally transform business models and create more unique and digitized customer experiences for competitive advantage, they also seek innovative measures and indicators to gauge effectiveness and progress. The CLAER framework provides a compelling roadmap for those wanting to evaluate the attractiveness and appeal of the journey they are creating for their customers. Prasadh, Satya and Chaitanya have made a significant contribution with this playbook.

– Paul Knopp, CEO and Chair of KPMG US

There's so much to learn from Prasadh and his experience. This treatise is a must-read for every CEO, CFO, and CRO, as they embrace new consumption models in this era of cloud computing.

– Dheeraj Pandey, Founder, CEO and Chairman of Nutanix

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Prasadh and team have created the master reference for companies that want to build and measure an experience-centric SaaS business.

– Ron Gill, Operating Partner, Lead Edge Capital and Board Member, HubSpot, Benchling and Azul Systems

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Exceptional customer experience is emerging as the cornerstone of long term growth strategy as organizations move to a new paradigm of digital-first channels and distributed operations. **Experience Centricity: the new data-driven approach to decision making** *provides timely insights on understanding customer signals and effectively aligning the organization to enable customer delight. Prasadh, Satya and Chaitanya have created a comprehensive yet practical framework based on their experience working with leading global companies.*

– Arun M Kumar, Chairman & CEO, KPMG in India

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With transformation projects like a data-driven decision system, it is critical to get started in several areas and work on improvement over time instead of waiting to get a start until the systems, process, and organizational model are done. They may never be 'done' because the customer and market keep changing. Thus, an operating model must be agile for evolving preferences. So jump in and take steps to use more data, tweak the work process, and learn from actions quickly.

– Rob Giglio, Chief Marketing Officer of DocuSign

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Customer’s expectations have never been higher and those who deliver delight will have a definite edge. This article’s discussion on ownership, accountability and execution is particularly timely as we move to more work from home.

– Neil Williams, Former Executive Vice President, CFO of Intuit

Executive summary

Customer-centric platform models are the future

Today's customers are seeking phenomenal experiences. They want companies to get a deeper understanding of them and delight them with each interaction. Products aren't the main differentiator anymore. Instead, companies are competing for the hearts and minds of all customers, and successful companies are focused on exceeding their expectations during every point of the journey. Access to modern technology applications, rapid innovation, and evolving consumer behavior has transformed several industries as well as created entirely new business models. As a result, companies are offering more subscription services to its customers, and the customer can cancel or grow with a single click. This trend can be witnessed in multiple sectors—software, retail, transportation, hospitality, financial services, education, gaming, and many others—and is expected to cut across most sectors in the future. All these disruptive companies have embraced a platform-based model (i.e., seamless scalable network to connect customers with products and services) with digital channels at the core and a singular focus on customer centricity.

New age metrics to measure business health

As a result of digital interactions, businesses have access to customer data and insights that enable a deep understanding of customer behavior patterns, feature usage, likes, and dislikes. This rich data can be harnessed and analyzed through key metrics to create a powerful feedback loop for long-term success. The technology industry, especially software, has been at the forefront of detailed data collection and data-driven decision making. This experience can now extend to most sectors that are embracing digital transformation and where customer experience is a differentiator.

Most large companies track detailed metrics. However, these are often siloed and based on the internal function (inside out) rather than on customer activity along their journey (outside in). This paradigm shift can unlock new insights to achieve deeper customer engagement and delight.

The metrics that (really) matter

In this publication, we present a framework for metrics to be collected and analyzed across five stages of the customer journey—cultivate, land, adopt, expand, and renew (CLAER). These stages define the customer journey from initial awareness through engagement with the product/service to, ultimately, (continuous) renewal or separation. At each stage, we define business drivers along key dimensions—growth, profitability, and sustainability (GPS)—as a lens by which to measure the health of the business. We also describe key drivers that track the financial health of a business.

In addition to internal stakeholders and leaders within companies, external stakeholders such as investors and analysts also need to incorporate new models for valuing platform businesses. The preferred approach is to use unit economics, which helps stakeholders understand the financial viability and long-term sustainability of a business. Investors use this framework for platform and subscription businesses when the cost to book (CTB) or customer acquisition cost (CAC) is significant to book new business. The underlying objective is to determine the long-term operating margin for the business, which is a key input to valuation models.

A digital foundation for success

While the Coronavirus Disease 2019 (COVID-19) has devolved into a major global emergency, it also creates an opportune moment to invest in the future. Experience-centric business models have demonstrated superior performance and a sustainable competitive advantage.

The future success of companies across sectors will be defined by their ability to provide customers contextualized and personalized experiences at every stage of the customer journey. The winners will be those who make customer experiences and delight the cornerstone of their strategy, decisions, and culture. This model requires companies to reorient around a digital-first vision for their business with digital capabilities at the heart of their competitive strategy. These digital capabilities are now feasible to implement given a variety of robust and powerful tools available that support standards and API-based integration. An integrated and digital technology infrastructure, with processes designed based on the customer journey and supported by data-driven governance, is key to this transformation.

Digital transformation needs to be accelerated using DevOps and agile techniques to implement fast and iterate. Speed to market needs to be a key priority to avoid being disrupted by nimble start-ups or fast-footed competitors. Successful transformations can build an attractive and sustainable business model for the future and reap the rewards from customers and investors alike.

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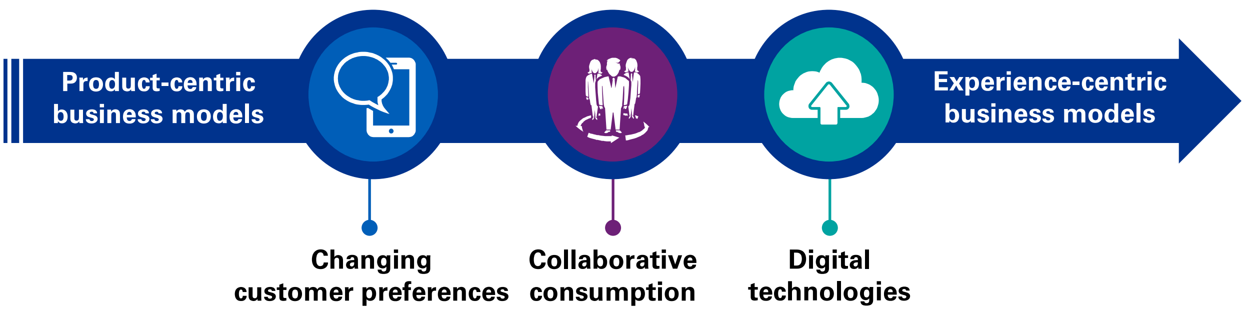
1 Evolution of business models to remote everything

Today's customers are seeking phenomenal experiences, and they want companies to get a deeper understanding of them and delight them with each interaction as experiences rise above everything else. Products aren't the main differentiator anymore. Instead, companies are competing for the hearts and minds of all customers, and companies should exceed their expectations during every point of the journey. Access to modern technology applications, rapid innovation, and evolving consumer behavior has transformed several industries as well as created entirely new business models. This has resulted in companies offering more subscription services to its customers, and the customer can cancel or grow with a single click. Coronavirus Disease 2019 (COVID-19) is further accelerating a shift in business models to remote everything, like purchases and delivery of both products and services are moving to digital channels. Businesses globally are thereby moving from being product based to service based, with a focus on providing the best possible customer experience across their engagement journey.

Key drivers of the shift to experience-centric business models

The following are the key drivers that have led to the shift to an experience-centric model:



Changed customer profile – There has been a gradual change in the consumer profile over the last decade that is reflected in purchase patterns and customer behavior. Millennials and Generation Z have very different spending patterns (delayed milestone ownerships—house, cars, etc.), lower financial/economic independence, and higher discretionary/lifestyle spends. Businesses are also wary of large investments with a risk of obsolescence and limiting their inability to quickly change course. Customers expect to have the flexibility to personalize product features, have access to product enhancements, and customize payment schedules. In many cases, today's customer is also paying for the experience the brand brings and not just the functional use of the product/service.

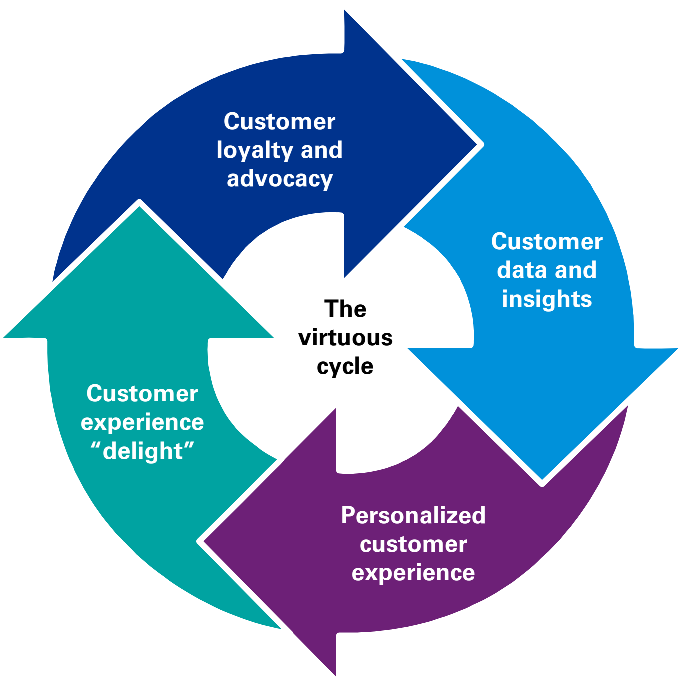
Access over ownership – The changing customer composition and preferences over the last decade have shifted the focus from ownership to access. Millennials and Generation Z have led the shift in business-to-consumer (B2C) models to enable the affordability of products and services. Additionally, consumers have gotten used to having problems solved by technology ("there must be an app for that") and having intuitive user interfaces that make products easy to learn and use. In business-to-business (B2B) models, the shift is driven by customers who are looking for access to various platforms and interoperability among products/services. In the enterprise, software as a service has made it much easier for individual departments or even individual users to pick up new tools, try them, and deploy them to solve their business problems. Additional factors such as access to the latest innovations, convenience, and increased focus on customer experience have led customers to embrace collaborative consumption models. These models, enabled by technology and digital platforms, have facilitated the creation of new markets across the globe.

Technology-led disruption – We are in a technology-driven economy with rapid innovation across sectors led by access to disruptive technologies including, cloud, AI, and IoT. To thrive and be relevant, organizations need to quickly adapt their business model, operating model, organization structure, products, and customer segments. The pace and intensity of these disruptions are evident from the changes in the S&P 500 composition. The average tenure of companies on the index is forecasted to narrow down to just 12 years by 2027, from 24 years in 2016.[1] It is also instructive to note that the largest companies on the index are all from the technology sector and have demonstrated an ability to innovate at a rapid pace. These companies have also embraced a "digital-first" approach to understand, anticipate, and meet customer expectations across their experience journey.

Together, these serve as indicators of the shift in the market and customer requirements. A flexible service/subscription model centered around customer experience would make products and services accessible and attractive to customers. Organizations need to adopt digital technology platforms and evolve their business models to be agile to respond to disruption.

Not a new strategy, but a new way of doing business

An experience-centric service model drives business to be more customer-focused. This model requires processes, people, and strategies to be aligned to exceed customer expectations, and create a delightful experience. The experience delight, in turn, drives customer loyalty and advocacy, leading to higher long-term revenue growth. As a result of digital interactions, businesses have access to customer data and insights that enable a deep understanding of customer behavior patterns, feature usage, likes, and dislikes. It offers businesses the opportunity to leverage their consumers' digital profile along with available offline data (such as historical and current POS transactions as relevant to the specific industry) to build a 360-degree view of their personas and engagement journey. Businesses can then design and deliver personalized experiences to build a loyal customer base.



This model requires companies to reorient around a digital-first vision for their business, as data and insights across every stage enable significant improvements in subsequent stages. The technology (and data) transformation can drive the business model and eventually cultural transformation. Some of these benefits have been seen in the SaaS model, which offers vendors a unique ability to understand the usage of their product. A SaaS vendor can get metrics on overall usage patterns, used and unused features, rates of adoption of new features, and other metrics in ways that client-server vendors were never able to do. They can then also more quickly and more proactively release improvements in

[1] Scott D. Anthony, S. Patrick Viguerie, Evan I. Schwartz and John Van Landeghem, "2018 Corporate Longevity Forecast: Creative Destruction is Accelerating." Innosight, February 2018.

response. These benefits can also be leveraged by platform models across sectors to ensure experience centricity remains a key driver of competitive advantage.

However, the experience-centric model must continuously evolve based on real-time customer signals and insights. Additionally, companies would need to understand that there is a thin line between customer delight at a personalized experience and customer apprehension due to a perceived intrusion of privacy. A sustainable model would need to include listening and learning as core organizational capabilities, allowing flexibility and agility in the face of market transitions.

2 Experience centricity by design

Experience-centric models are very attractive to investors given their focus on long-term value creation. Some of the largest global companies have successful experience-centric models and thereby enjoy a significant premium to their peers. This transition spans sectors and industries, as technology has created entirely new business models across a variety of areas: e-commerce, ridesharing, media, fintech, edtech, hospitality, and even healthcare. An experience-centric approach can help identify opportunities to enhance and personalize the product/service across sectors, significantly improving customer intimacy. Below are a few examples:

Industry	Industry trends and outlook	Metrics currently tracked	New-age metrics
Software/ technology	— The software industry is going through a fundamental transition SaaS. — Most companies have embraced the transition from on-premises-only offerings to the cloud or software applications on device (i.e., desktop or mobile) that is enabled with cloud-based service offerings. — A Fortune 500 company that successfully transitioned its business model to being digital grew recurring revenue from $0.9 billion to $8.4 billion over six years, at an annualized growth of 45 percent.	— A transition to the cloud enables companies to digitally acquire customers and provide great customer experiences. These digital interactions create data across the customer journey. — A Fortune 500 company with its customer experience platform tracks real-time customer data across the customer journey: discover, try, buy, use, and renew. Metrics across each of these stages include website traffic, sign-ups, app installs, active users, trials, paid subscriptions, customer engagement, and renewals.	— Additional metrics that can be considered based on other companies include new feature adoption, speed of onboarding, altitude/ usage metrics, products per customer, gross margin per customer, customer satisfaction (CSAT), and Net Promoter Score (NPS) to yield deeper insights into the install base.

Industry	Industry trends and outlook	Metrics currently tracked	New-age metrics
Hotels/ hospitality	— Supply growth is a disrupter in this industry. — Peer-to-peer marketplace models are faced with customer experience consistency challenges, as the experience is dependent on the host's approach to hosted facility. — Legacy leading brands offer something that is predictable and reliable to its customers with consistency and delightful experience as differentiators. However, legacy brands need to focus on digital transformation to compete with technology companies.	— Given the bulk of their business originates in their websites (direct or referred by partners), they track website traffic, engagement, and funnel conversion. They also track detailed unit economics metrics based on supply (rooms): total available rooms, occupancy rate, average daily rate (ADR), revenue per available room (RevPAR), gross operating profit per available room (GOPPAR), and cost per occupied room (CPOR).	— Applying a customer journey lens can identify new metrics that could also be tracked, such as mobile app installs (critical for mobile-first customers) and average revenue per user (ARPU) with a focus on up-sell revenue (additional services).
Aviation	— Given the capital-intensive nature of the business, airline companies focus on return on invested capital (ROIC). — Convenient flights, customer loyalty programs, and growth in customer wallet are focus areas. Detailed data is tracked both at a customer and operational level.	— Companies track unit economics metrics primarily based on supply (seat miles): revenue passenger miles (RPM), passenger revenue per available seat mile (PRASM), revenue per available seat mile (RASM), and cost per available seat mile (CASM).	— The aviation industry could also track customer journey metrics such as mobile app installs CLTV, CAC, and ARPU to generate new insights.

Industry	Industry trends and outlook	Metrics currently tracked	New-age metrics
Automotive	— Changing customer preferences has resulted in introduction of mobility services over delivery of best-in-class automotive. — Mobility services range from rental, leasing, and financing offers to innovative fleet services, insurance, and e-payment platforms. Additionally, app-based mobility solutions such as car sharing, mobility-as-a-service (MaaS) and ride hailing.	— The industry traditionally tracks sales and financial metrics such as vehicle bookings/sales, average selling price (ASP), and gross margins (at a region, dealer, category, family, model and variant level). — They also track sales force effectiveness metrics (such as bookings/sales FTE, sales quota attainment), product quality/issues (service issues/warranty) and CSAT.	— The industry could also track metrics such as active users, customer engagement, customer renewal/churn, and NPS. — For mobility models, the metrics need to also include unit metrics such as CLTV, CAC, revenue passenger miles (RPM), revenue per available seat mile (RASM), and cost per available seat mile (CASM).
Telecom/ media	— The lines between entertainment and communications continue to blur. If you're a media company, you can no longer rely exclusively on wholesale distribution models. You must develop a direct relationship with your viewers. And if you're a communications company, you can no longer rely exclusively on oversized bundles of content. — The industry is undergoing an unbundling as traditional revenue streams become standalone over-the-top (OTT) applications including device purchase, voice/video communication, messaging, entertainment, and other app-based services.	— The industry traditionally tracks unit economics metrics such as CLTV, CAC, average revenue per user (ARPU), and minutes of usage (MOU). — Quality of service (QoS) metrics such as call success/drop rate and network quality are also actively tracked for regulatory reasons. — In addition, they also track customer metrics such as total/active subscribers, subscriber growth, and customer churn.	— Additional customer journey metrics that can be considered include app installs (for mobile-first customers), usage, engagement, products/customer, CSAT, and NPS. — It is crucial to expand the share of customer wallet with ancillary services and track cross-sell success to avoid the risk of operators being relegated to a "dumb pipe" used for carrying data.

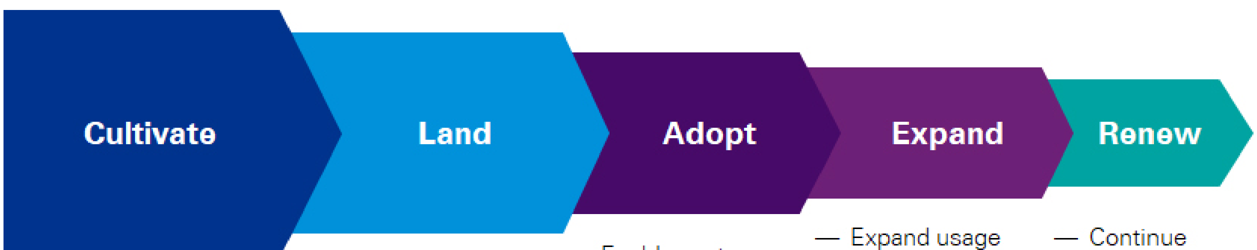
Industry	Industry trends and outlook	Metrics currently tracked	New-age metrics
Retail/ e-commerce	— The retail industry has been the most impacted by the digital revolution with e-commerce taking center stage and dominating. — However, some brick-and-mortar as well as click-and-mortar companies are successfully leveraging customer centricity and omnichannel experiences as differentiators against online-only models.	— Traditional retailers measure supply-driven metrics such as revenue per square foot, stock-out ratio, and gross margins. — E-commerce companies have access to a richer dataset and measure funnel metrics such as website traffic, sign-ups, app installs, active users, engagement, sales conversion, repeat sales, and gross margins. — Retail companies actively also track CSAT and NPS.	— The industry needs to measure unit economics at an order level as well as customer level. Metrics include CLTV, CAC, ARPU and cost to serve (CTS). — Additional metrics include trial rate (subscriptions), sales and marketing/ customer success efficiency.

3 Measuring and driving performance across the experience journey

Experience-centric models generate long-term economic value through a continuous focus on superior customer experience. These companies align their organizations, operating models, processes, and KPIs to the goal of customer delight. Traditional businesses evaluate their organizational performance through market outcomes (e.g., revenue, revenue growth, market share) and functional metrics (e.g., marketing ROI, new accounts/logos, SLA compliance). These metrics do not provide sufficient visibility into the performance and underlying health of experience-centric businesses.

In organizations where customer experience is at the center of their operating and business model, metrics, signals and insights need to be collected and analyzed across the customer journey. We define this customer experience journey across five stages: cultivate, land, adopt, expand, and renew (CLAER). These stages define the customer journey from initial awareness and engagement through engagement with the product/service to, ultimately, (continuous) renewal or separation.

The CLAER experience journey



Cultivate
- Communicate value proposition to target markets
- Generate opportunities and leads to build the sales pipeline

Land
- Prioritize, develop, and convert opportunities
- Deliver and implement solution

Adopt
- Enable customers to derive value from solution
- Proactively track customer experience

Expand
- Expand usage of solution through up-sell and cross-sell
- Develop customer loyalty

Renew
- Continue solution usage
- Transition customer relationship to recurring

Measuring and monitoring key drivers along the customer journey equips organizations with the data and insights to better manage their business. It can help drive a culture of customer obsession, thereby ensuring processes, people, and strategies are aligned to deliver the best customer experience.

We define business drivers along the following dimensions: growth, profitability, and sustainability (GPS). The GPS framework provides a lens by which the health of the business can be measured effectively.

Our GPS framework for business drivers

Growth

Growth drivers such as **customer count and revenue** are critical performance indicators to measure business acceleration.

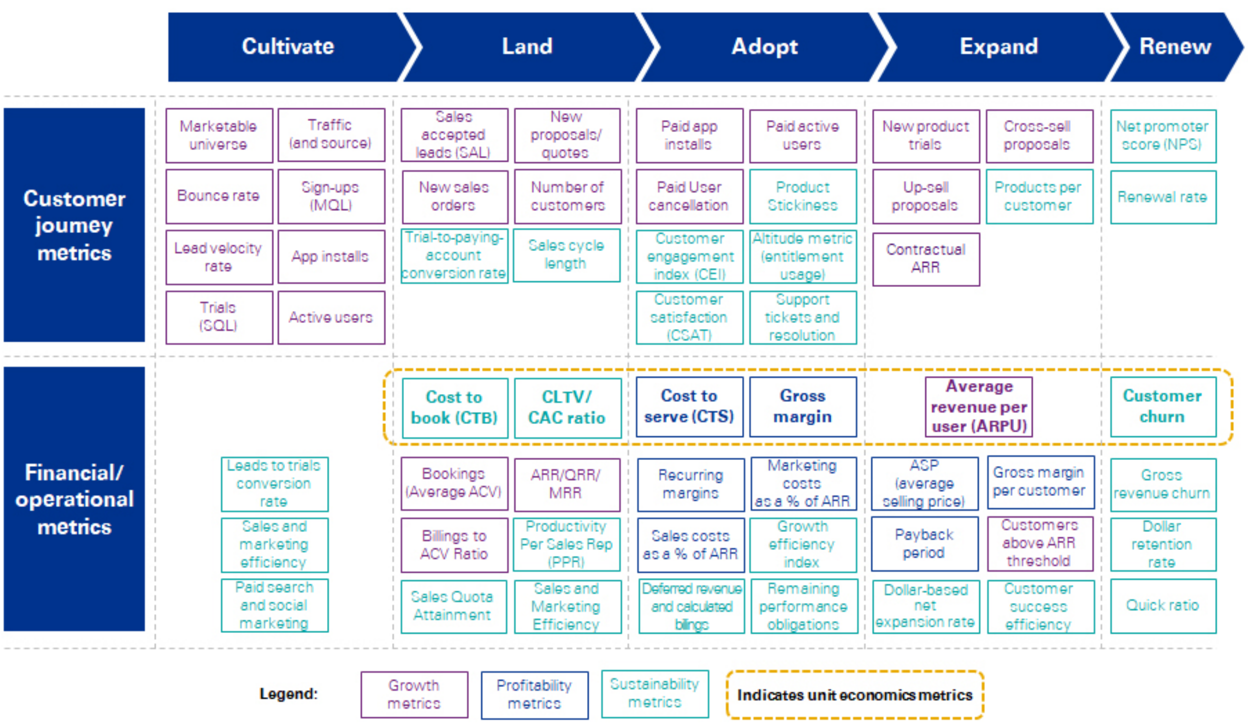
Profitability

Profitability is analyzed in terms of **costs, margins, and cash flow**, along with the related drivers for each of these segments.

Sustainability

Sustainability metrics such as **customer satisfaction, advocacy, and churn** track indicators of long-term success.

Most businesses have functions that are accountable for the respective activities and outcomes. However, their performance is typically measured in a siloed manner without considering the impact on the customer journey. We propose a framework that considers both customer journey metrics (based on their activity/actions, typically leading indicators) and operational/financial metrics (tracking efficiency, typically lagging indicators). Capturing both lagging indicators (outcomes) as well as leading indicators (trends) enables appropriate calibration of strategy and initiatives. The business drivers broken down across the customer journey are as follows:



3.1 Execution and governance

To ensure clarity of business roles and responsibilities, it is essential businesses leverage a functional responsibility matrix. We identified the following roles and responsibilities for the actors (functions):

— **Owners (O):** They own the strategy for the stage and are accountable for outcomes. As stage KPI owners, they are the final decision authority, through monthly executive reviews.

— **Executors (E):** They are responsible for executing the action as per the process or plan. Their success is also monitored and measured through segment KPIs.

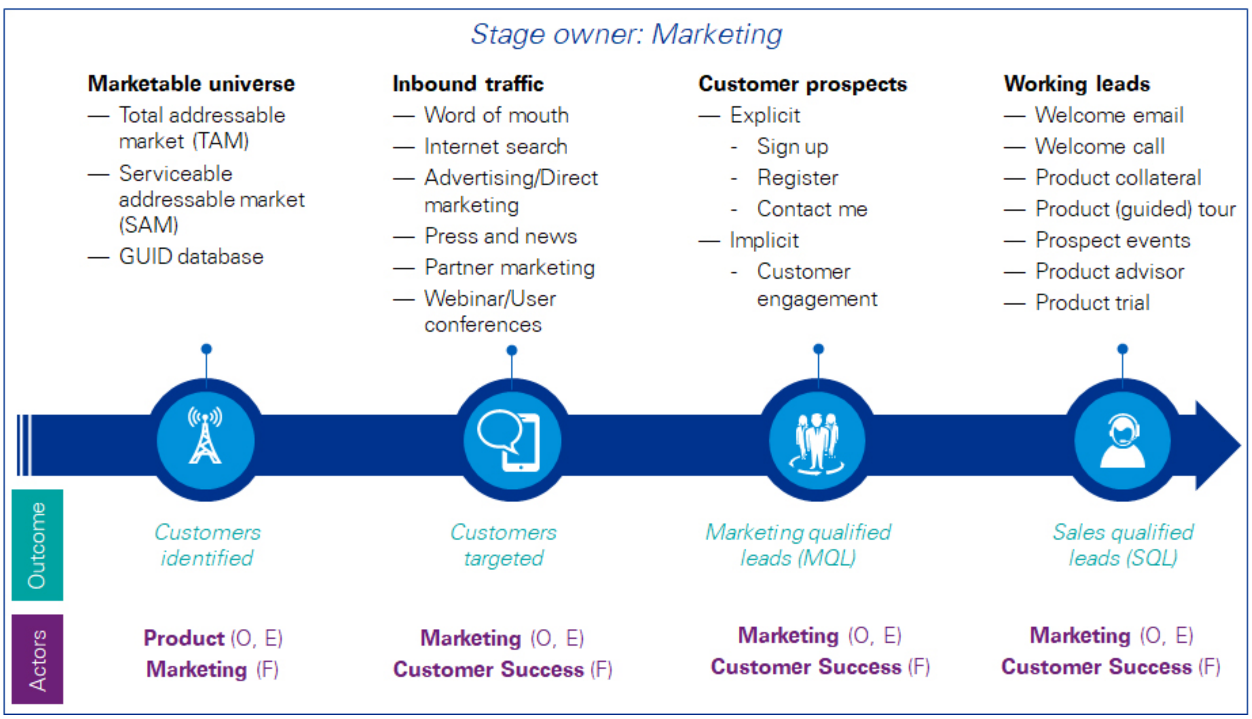
— **Facilitators (F):** They assist owners and executors by providing the necessary support or advice due to their skills, function, or role to ensure that tasks are carried out effectively.

In the sections below, we will review the business drivers to be tracked at each stage of the customer experience journey. We first define the stage—including activities, outcome, and actors (roles of various functions)—before delving into the measures of success, impact on financials, and leading practices.

3.2 Cultivate – Cultivating the funnel

The cultivate stage focuses on creating awareness, trust, and engagement with customers. It requires businesses to create targeted marketing and content to create a pipeline of qualified leads while maximizing ROI. The marketing strategy helps generate awareness within the target market and directs website traffic to initiate the funnel. How customers interact and engage with the content and collateral helps businesses identify qualified leads for deeper engagement.

Cultivate stage



The first step is to define the total addressable market (TAM) for the company and product. This is typically defined by the product development team as part of the new product innovation process, with inputs from sales and marketing teams. The TAM is then further refined into the serviceable addressable market (SAM) based on company presence and coverage. Marketing is then responsible for building the marketable universe, which represents a database of unique customer profiles with a valid global unique ID (GUID) who can be contacted or targeted.

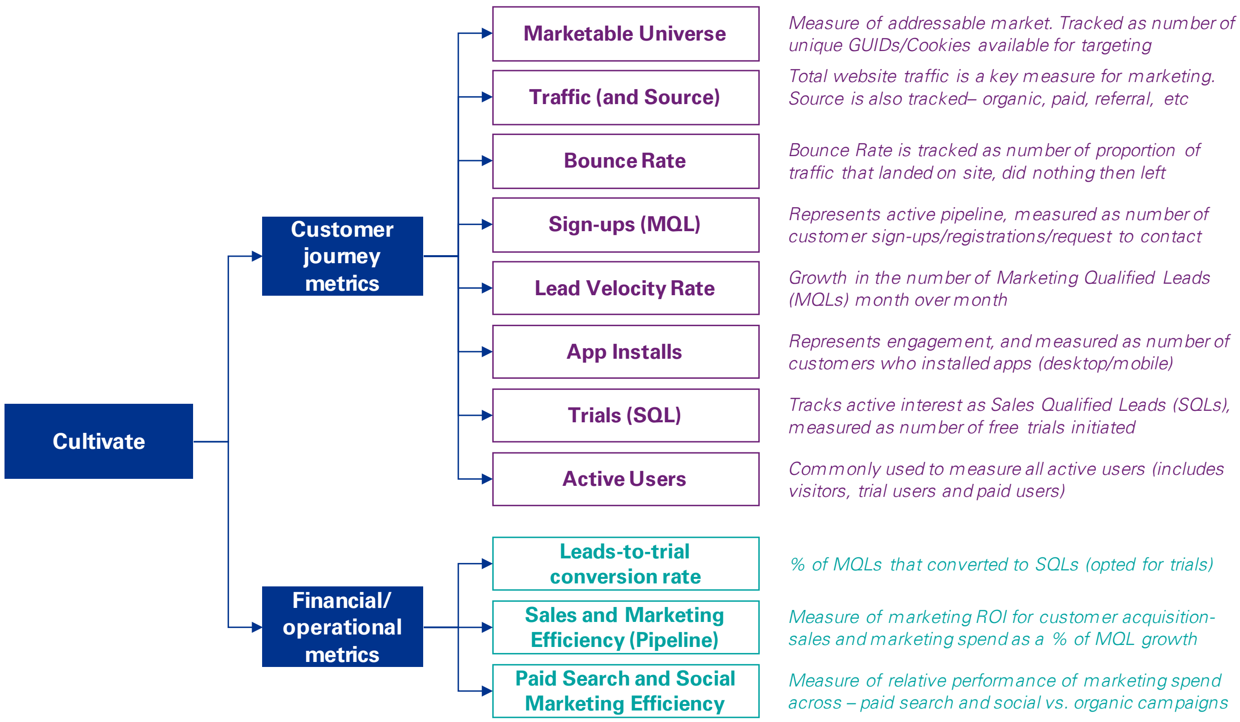
The marketable universe is typically stitched together through emails, cookies, and any other available information. Businesses can also enhance the marketable universe by generating additional traffic to the company websites. Traffic can be generated organically (word of mouth, press and news coverage) through paid advertising (internet searches and social media) or events/campaigns (webinars and partner marketing). Display and paid search incur a cost to the company and are optimized through initiatives—such as search engine optimization (SEO), search engine management (SEM), social media optimization (SMO)—to ensure new traffic is generated efficiently. These potential customers (prospects) are nudged with a call to action (sign up/register/call back) to identify serious prospects—tracked as the marketing qualified leads (MQLs). MQLs create the pipeline for the company to initiate deeper engagement.

The MQL pipeline is typically actively engaged through relevant content and campaigns. Typical activities include welcome emails/calls, product collateral, guided tours, and prospect events. Product teams are also accountable for some metrics around free to paid conversions since the first impression and first-mile experience is crucial for products. The focus needs to be around helping the customer achieve their intended outcomes and around what they can do next. Product-related metrics and intelligence are getting more sophisticated with the use of product analytic tools to get deep insight on customer behavior inside the product.

The goal of the cultivate stage is to ensure a growing base of trial users who can transition to becoming paid customers. In practice, the definitions of marketing qualified leads (MQL) and sales qualified leads (SQL) vary considerably depending on the company and business. Generally, MQL means the marketing team has qualified it for further marketing activities or to send up the chain (e.g., to inside sales or SDR). SQL means sales have qualified it and may include confirming there is budget, and we have the decision-maker contacts. SQLs includes trail users, given they have demonstrated an active interest in the product or service. However, sales teams may have alternate criteria to initiate the next activities either by inside sales or segment/geography sales teams. Many organizations have observed that offering a complete customer experience—through demos, product walk-throughs, customer testimonials, and free trials—yields a meaningful engagement with the identified leads and helps generate rich customer profiles to enable personalized marketing communications and offers.

The metrics that (really) matter

In most organizations, metrics tracked at the cultivate stage tend to focus on brand reach, brand recall, marketing ROI, total pipeline, and qualification ratios. We propose the following key metrics to measure effectiveness of the marketing and communication initiatives at the **cultivates stage**:



Customer journey metrics:

a. **Marketable universe –** Marketable universe represents the number of unique customer profiles with a valid GUID who can be contacted or targeted by the company. New traffic to the website (and occasional inquiry emails) add to the marketable universe. With an increasing user base, platform benefits also help boost organic traffic. This metric is therefore a useful proxy for the addressable market (the base from which the pipeline can be generated) and should therefore be monitored to ensure steady growth.

b. **Traffic and source –** Given the digital nature of most product/services, website traffic represents customer prospects and is a critical measure to be closely tracked. In several cases, website traffic can be engaged to initiate trials with minimal friction. It is also important to track the source of the traffic (organic/paid/event) to monitor the effectiveness of various originating channels. Traffic measurement should also include customer segment (enterprise/mid-market/SMB/retail) and geography to better understand their trends. This would help nudge customers to the most viable channel, given typically nonlinear paths to purchase.

c. **Bounce rate –** While traffic measures inbound visits to the website, businesses need to track their attention as well as engagement with the brand and product messaging. Bounce rate is measured as the proportion of website visitors who did not perform any navigation/actions before leaving. These visitors did not evince interest in the content and represent dropouts from the funnel since it is significantly harder to reengage such customers. A sound understanding of content and channel effectiveness from engaged customers can help continuously improve the consumer experience and lower bounce rate.

d. **Sign-ups/MQLs –** The next stage for engaged prospects is to guide them to an action that signals intent (sign up/register/call back). This helps identify serious prospects—the MQLs—which are tracked as the pipeline for the company. Tracking the acquisition channel enables businesses to measure the lead quality of various channels—organic, paid, and events. As customers and users become advocates for the business, they bring in qualified leads through referrals and word of mouth. Pipeline monitoring needs to track this steady increase in the number and quality of leads within the pipeline as well as faster progression across the sales process. Any softness in the pipeline is an early warning sign and needs to be resolved quickly to sustain growth.

e. **Lead velocity rate** – Lead velocity rate (LVR) measures the growth of MQLs over a defined period (day/week/month). This metric helps businesses track pipeline growth and quality as a leading indicator for proportionate growth in revenue. It helps set future direction and strategies for the marketing team.

f. **App installs** – Customers are increasingly accessing products/services through apps (desktop apps in B2B, mobile apps primarily in B2C) rather than websites as the flagship customer experience. With several products/services vying for customer attention, app installation is a valuable signal of consideration and purchase intent. This is a key metric to track for the customer journey within the sales cycle. Metrics on customer usage and engagement on websites versus apps also provide useful insights to product teams on user experience (UX).

g. **Trials** – As mentioned previously, the key goal of the cultivate stage is to ensure a growing base of trial users typically tracked as SQLs. In many cases, trial users represent the hand-off point where the sales team takes over from the marketing team to convert them into a paying customer. Trials also help identify points of friction in the product purchase and usage to identify opportunities for improvement. The experience of many companies has demonstrated trials to be a very effective customer acquisition tool, as it gives customers a "test drive" to understand product capabilities and outcomes that can be achieved.

h. **Active users** – A commonly measured and reported metric by companies is the number of all active users (includes visitors, trial users, and paid users). This is measured over a defined period—daily active users (DAUs) and monthly active users (MAUs) based on trial or paid users. However, it is important to not just track it as a vanity metric; businesses need to closely track active trial users since trials increase likelihood of purchase and active paid users as this metric demonstrates engagement and satisfaction at various stages in the customer journey.

Financial/operational metrics

a. **Lead-to-trial conversion ratio** – This measure indicates the effectiveness through which a business can convince prospects (potential customers) to try their products/services. A key step in ensuring higher conversion ratios is using a call to action, seamlessly guiding customers to the next step in the journey. A low conversion ratio indicates potential improvement opportunities in marketing content/communication or friction in trial sign-up. Sales and marketing teams can follow customers' navigation and engagement to identify key moments of truth to help improve the lead-to-trial conversion.

b. **Sales and marketing efficiency (Pipeline)** – Businesses actively track the effective utilization of its resources through return on investment (ROI) metrics. Sales and marketing efficiency is calculated as the dollar increase in pipeline value for every dollar spent on sales and marketing. It helps measure the payback on investments made in sales and marketing. Experience-centric businesses incur significant up-front costs in acquiring customers, and it is important to monitor and optimize these costs to increase long-term value. This metric is also tracked at the land stage based on bookings, and a variant is sometimes referred to as the "magic number," which reflects its importance.

c. **Paid search and social marketing efficiency** – Marketing teams employ a variety of channels for customer engagement. Key areas are broken into paid search advertising, paid social advertising, and organic search/social campaigns (using SEO/SEM/SMO techniques). Paid search and social is expensive due to their reach and high competition. It is therefore essential to track all the above channels using standard metrics such as click through rate (CTR), cost per click (CPC), cost per conversion, and conversion rate.

Impact on customer lifetime value (CLTV) and financial metrics

The cost to acquire a customer (primarily marketing and sales) plays a key role in determining payback over the lifetime of the customer. The cultivate stage is a relatively low-cost means to build pipeline relative to the land stage, as it does not involve expensive sales personnel.

It is important to track the above growth metrics to ensure a healthy pipeline that serves as a strong foundation for future customer and revenue growth. It is also crucial to maximize efficiency of marketing investments at this stage by tracking the aforementioned sustainability metrics. Together, these can dramatically increase the overall value created by the business. Marketing can also turbocharge the referral channel for leads to dramatically drive down customer acquisition cost.

Leading practices

It is important to note that marketing strategy will depend on the nature of the product/service and consumer profile. The following are key success factors to effectively navigate this stage:

— **Access to relevant marketing content:** Businesses need to back visibility (marketing) with detailed marketing collateral (content). Consumers need to obtain all the relevant information to make a purchase decision—across landing pages, FAQs, and product tutorials. The content also needs to address the needs of multiple B2B stakeholders—users, influencers, buyers, deciders, and gatekeepers. The marketing content needs to highlight the value of the product/service across cost, speed/time, and quality outcomes in a quantifiable manner.

— **Building trust through content:** It is vital that organizations build trust by leveraging user-generated content such as reviews and social mentions. This is true for B2B marketing as well where content includes detailed case studies, credentials, and customer testimonials to drive assurance for the product/service and the business. To help establish trust among their customers and be seen as an expert/thought leader, some companies also invest in creating content about industry-leading practices without any direct linkage to their product suite.

— **Two-way engagement and communication:** Marketing communication and engagement is increasingly personal. Sales both for B2B and B2C is now highly relationship driven—from initiating initial conversations with potential customers to understanding their needs and collaboratively customizing the product/service to meet consumer needs.

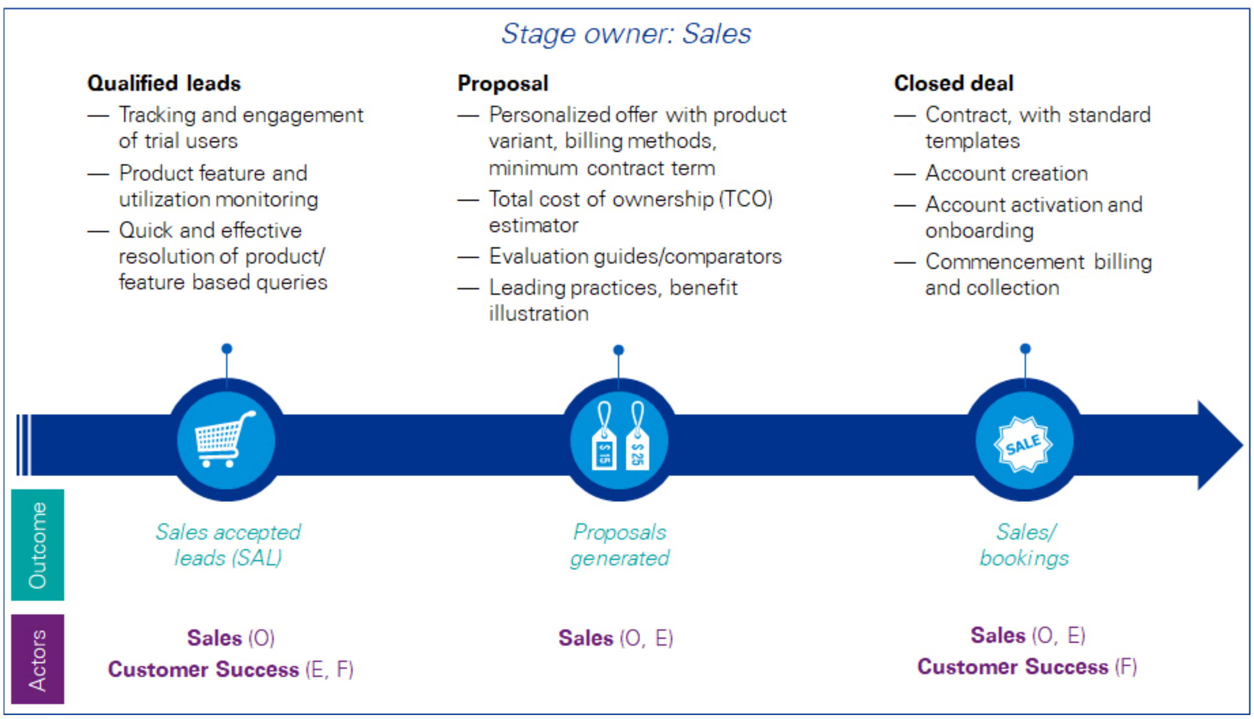
— **Free trials to drive experience-based engagement:** Offering free trials that include a fully featured product/service, combined with frequent interaction, to drive feature usage results in a positive engagement experience. It provides all stakeholders within the customer-buying process the opportunity to assess the value delivered by the product/service, removing any unknowns. Further, free trials help digitize customer data through sign-ups and usage tracking, providing organizations detailed insights to drive better customer experiences.

3.3 Land – Landing the sale

This stage involves nurturing trials/sales qualified leads (SQLs), the sales team accepting the leads, and finally landing a sale. It includes all customer engagement activities that contribute towards making an initial sale to qualified prospects and trial customers. Trials should be monitored and tracked to identify points of high and low engagement across the product. Identification of instances of low usage and feature drop should be followed up with engagement to ascertain the root cause—difficulty in usage, lack of understanding of benefits, or need versus value mismatch. Businesses should address these friction points through product demos, product customization, and relationship management to ensure there is no leakage of potential leads due to unavailability of information or misinformation. Businesses should ensure that the digital journey of leads is being tracked during trials and the insights are leveraged while designing/customizing product offerings (price, features, timelines, etc.).

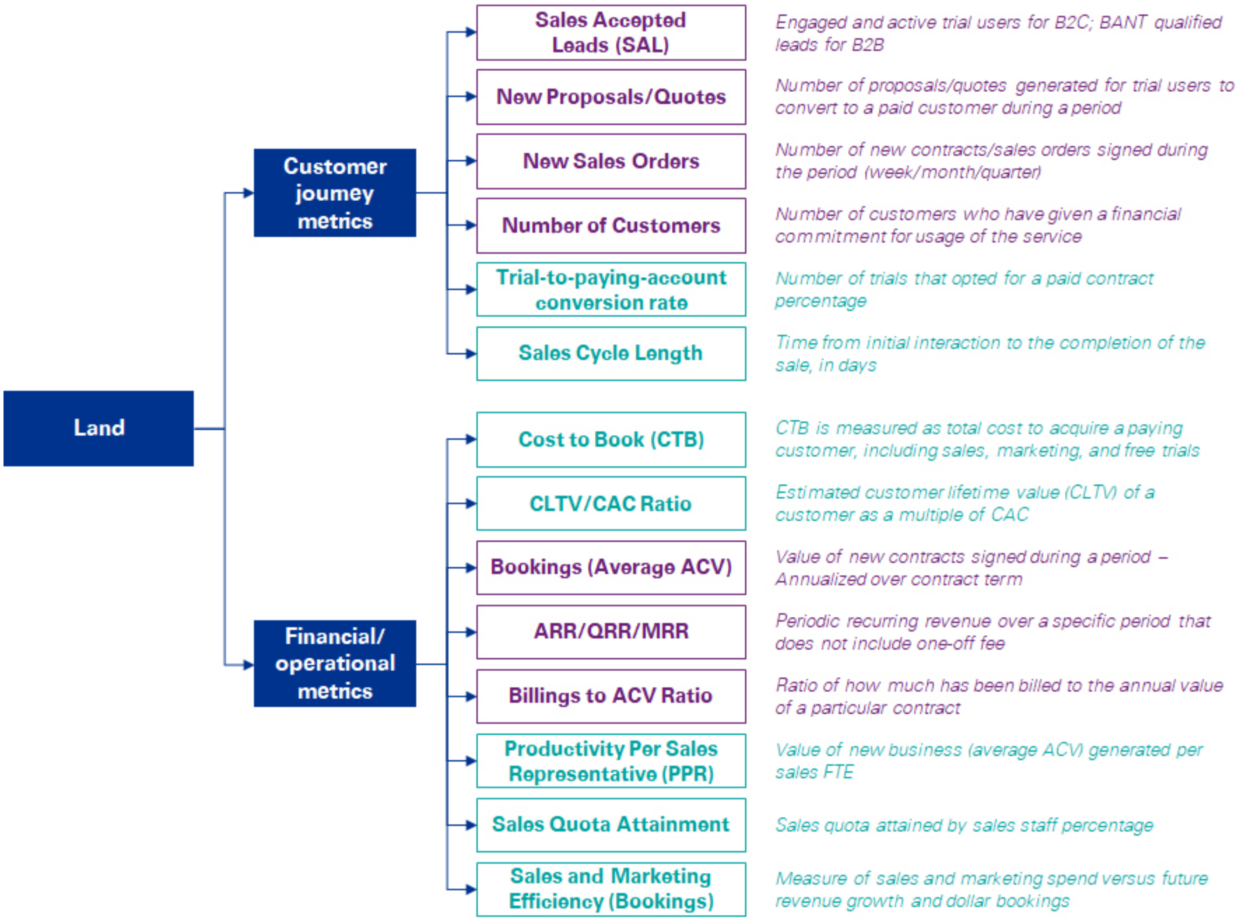
The highest priority for companies in this stage is to enable and encourage self-serve by customers so they can initiate a paid subscription without any (expensive) sales team intervention. This self-service model is preferred in digital businesses and for the SMB/retail customer segment, given the low cost, and is a key enabler for exponential growth.

Land stage



The metrics that (really) matter

In most organizations, metrics tracked at the land stage tend to focus on outcomes such as sales/bookings. We propose the following key metrics to effectively measure leading and lagging indicators for the sales teams in the land stage:



Customer journey metrics:

a. **Sales accepted leads –** While trial users and other engaged customers are treated as sales qualified leads, high-touch (and cost) sales teams are typically only deployed based on likelihood of purchase. SALs represent customers with a high probability of conversion, where sales teams need to engage and close the deal. For B2C customers, active and engaged trial users are considered SALs. For B2B, a more rigorous framework, including budget availability, authority to sign a contract, need for the product/service, and timeframe for closure (typically referred to BANT framework), is typically used to prioritize leads. SALs are important to track and analyze by customer segment, product, deal size, and geography.

b. **New proposals/quotes –** The final stage before a sale is to generate a customized proposal/quote. In some instances, especially for B2B sales, the quote needs pricing approval for nonstandard/discounted offers. It is therefore important to track the number of proposals generated by the sales teams. Analysis of quotes also yields insights around discounting that can be monitored to improve margins.

c. **New sales orders –** Following generation of proposals/quotes, a closed deal results in a sales order. While firms track value of bookings closely, it is also important to monitor the number of new sales orders as a measure of momentum. New sales orders are typically further analyzed based on sales channel to measure channel effectiveness. When viewed in conjunction with total contract value, annual contract value, and contract term, this can yield insights around relative performance of B2B versus B2C segments, different geographies, and sectors as well as highlight any early warning signs needing intervention.

d. **Number of customers –** The total number of paying customers in the business is an important metric to measure business momentum, especially as platform efficiencies start to accrue with a larger customer base. After adjusting for seasonality, this metric is expected to show a growing year-on-year trend due to network effects (referrals).

e. **Trial to paying account conversion rate –** This conversion rate reflects the success of sales and marketing efforts during the cultivate and land stages, which has led to new paying customers being onboarded. This metric helps businesses identify marketing and sales strategies that were effective in driving conversions. The conversion is also tracked separately for customer self-serve (in-app conversions) and for sales-led conversions (with intervention by sales teams). Additionally, tracking the conversion rate over a regular period helps monitor the efficiency with which the business is acquiring customers. Over a longer term, the conversion ratios for the same product, leveraging the same sales channel, should show an increase due to efficiencies achieved in processes.

f. **Sales cycle length –** Measured in days, sales cycle length tracks the time taken for a customer to move from a marketing qualified lead (MQL) to a paying customer. Alternative, this metric is also calculated based on the time taken for a customer to progress from an SQL stage to a paying customer. The sales cycle length may be longer in the initial stages, as the business and product establish market presence and customers understand the value gained from the product offering. However, in the long term, as the brand is established in the market, the sales cycle length for B2C consumers reduces considerably due to word of mouth, referrals, and an established brand proposition. B2B sales cycle length, however, would be longer and dependent on the purchase cycle of the customer, as it typically involves multiple decision makers and processes. To optimize the sales cycle length, businesses must innovate and continuously offer the best customer experience to drive referrals.

Financial/operational metrics:

a. **Cost to book (CTB) –** CTB is defined as the total cost of acquiring a new paying customer, including sales, marketing, free trial, onboarding, and any professional services for implementation. It is a key driver of the unit economic metrics and helps to evaluate the long-term profitability of the business. The cost to book (CTB) metric is analyzed along with cost to serve (CTS) and non-GAAP operating margin (i.e., ARR – CTB – CTS = Operating Margin, or Operating Margin Percentage = 1 – CTB Percentage + CTS Percentage). Note: Under accounting rules, certain sales commission costs are capitalized and amortized over the expected customer relationship period; as such, CTB should be adjusted for amortization in the calculation of operating margin.

b. **CLTV/CAC ratio –** Customer lifetime value (CLTV) is estimated by projecting lifetime margin earned from a paying customer. It is a composite metric that includes other key drivers such as annual recurring revenue (ARR), cost to serve (CTS)/margin, and churn. CLTV can be difficult to calculate, especially since it includes variable metrics associated with the customer, such as churn and margin. Customer acquisition cost (CAC) is measured as total cost of sales and marketing efforts to acquire new customers, including the cost of onboarding. Unlike CTB, the CAC metric typically does not include the cost of free trials and professional services to implement the product/service. CAC in conjunction with customer lifetime value (CLTV) helps ascertain the return on investment from each customer acquisition. This CLTV/CAC ratio in turn helps strategize spends and optimize budgets across customer segments. A CLTV/CAC ratio of three or higher is considered healthy. Some companies calculate this ratio based on CAC versus three-year CLTV as opposed to a ten-year CLTV or expected period calculated based on churn data. Although uncommon in practice, some investors believe that internal rate of return (IRR) must be factored in the calculation of this ratio, which would also consider the time value for the payback. Additionally, they believe that this metric needs to be analyzed along with the company's operating margin. That is, if CLTV/CAC is high, incremental investment in sales and marketing for growth may be tolerated for a lower operating margin.

c. **Average annual contract value (ACV) –** ACV is measured based on contractual value of revenue to be received from the customer. Average ACV measures average revenue (one-time and recurring) that the business will receive per customer over one year. The below analysis shows some drawbacks, which are the result of revenue recognition rules, to using the ACV metric.

ABC Corp enters into a cloud-based service contract with the customer for a three-year period and the customer is obligated to pay $1 million for Year 1, $2 million for Year 2, and $3 million for Year 3. The nature and quantity of services perioded for all three years is the same, and the payments are back-end loaded due to cash flow reasons (i.e., price ramp deal). Revenue recognition accounting rules specify that ABC Corp would recognize $2 million in revenue for each of the three years. The ACV and ARR metric for this example would be as noted:

Values in $ million	Year 1	Year 2	Year 3
ACV	1	2	3
ARR	2	2	2

If the above scenario does not apply to a company or if contractual amounts and revenue recognition are similar, then the average ACV, in conjunction with other metrics such as customer acquisition costs, total contract value, number of customers, and annual recurring revenue, yields actionable insights. For example, if the average ACV has seen growth from one period to another, it may mean a pricing change, an increased number of customers, or additional features added to the product offering. On the other hand, a higher average ACV measured against a lower number of customers may point to larger contracts being sold, e.g., enterprise/B2B contracts. Viewing LVR in conjunction with bookings growth helps monitor funnel conversion effectiveness. For example, a lower bookings growth relative to the LVR suggests opportunities to enhance sales conversion by investing in sales effectiveness, pricing corrections, or customer success engagement.

d. **Annual recurring revenue (ARR)/quarterly recurring revenue (QRR)/monthly recurring revenue (MRR) –** These drivers measure the amount of revenue to be collected by a company over a defined period (month/quarter/year). It offers predictability and transparency regarding the revenue outlook. These metrics do not include one-time charges but do account for any up-sells, down-sells, customer churn, and discounts. These drivers highlight the momentum at which the businesses are growing across a defined time.

e. **Billing to ACV ratio –** This is defined as the ratio of how much has been billed to the annual value of a particular contract. This ratio depends on the average duration of the contract and advance payment terms. The average length of a contract and payment terms would vary depending on the type of product, pricing, and customer segment (B2B or B2C). With time, the ratio turns favorable as more payments are made up-front based on customer satisfaction and trust. It essentially indicates that the business is generating sustained value for the customers and vice versa.

f. **Productivity per sales representative (PPR) –** Sales performance at the land stage is typically measured as new business (new ACV) generated per sales FTE. This metric is leveraged to ascertain and improve the efficiency of the sales team. Given increasing pipeline size and faster progression for referral leads, this metric is expected to show an uptick period over period, presenting a quick way to measure the pipeline health and growth. The metric is also further analyzed by new logos and cross-sell to existing customers to ensure a balanced approach to hunting new customers and farming existing customers.

g. **Sales quota attainment –** Sales quota attainment is a measure of the total number of sales employees either achieving or exceeding the defined quota. It is a critical measure of the efficiency of the sales team. A sales quota attainment of 70 percent–80 percent is a typical benchmark accounting for a proportion of new salespeople still ramping up to on-target earnings (OTE) performance. Some companies normalize this metric to measure sales quota attainment against a ramping quota (accounting for new sales representatives). This metric allows tracking sales quota attainment at regular intervals to help identify any limitation or challenges across sales target or incentive planning. For example, in cases where sales quota attainment reduces month on month, it could be an effect of poor target planning or ineffective incentive planning by the sales function head. A simple rule of thumb for quota calculation is to peg it as a multiple of on-target earnings (OTE); typical multiples range from 4 times to 10 times OTE based on gross margins of the product/service. A similar, but separate and frequently used measure of quota attainment is calculated based on total new business booked/total quota capacity, which would help for planning purpose on how much quota capacity that should be planned to have on board in order to hit a certain bookings target.

h. **Sales and marketing efficiency (bookings) –** This metric helps measure the efficiency with which sales and marketing efforts were able to generate revenue. It considers the growth in the recurring revenue as a result of the spending on sales and marketing. Also known as the magic number, it is calculated by considering the current period's revenue "growth" (annualized) by last period's sales and marketing spend (i.e., cash sales and marketing spend). Generally, for pre-initial public offering (IPO) companies, a magic number ratio below 0.75 highlights inefficient or unsustainable client acquisition strategies, warranting a relook at the go-to-market strategy. A magic number ratio higher than 0.75 for pre-IPO companies indicates that the business model is sustainable and presents a case for investments in growth. A better view of this metric can be obtained by using a gross-margin-adjusted magic number that is calculated by considering the current period's incremental margin as a proportion of last period's sales and marketing expenses. A GM-adjusted magic number of 0.5 or more for pre-IPO companies is ideal, given typical 70 percent–80 percent subscription gross margin. Note: gross margin adjusted magic number analysis is generally not used for companies with license revenue where the gross margin is in excess of 90%. Practically, it is best to analyze this metric and certain other metrics discussed in this publication longitudinally (i.e., how the metric is tracking over time) rather than over a universal benchmark with a focus towards operational efficiency over a period.

   Public company investors generally calculate this metric based on trailing 12-month period sales and marketing spend to eliminate seasonality as compared to trailing 12-month period "incremental" recurring revenue (i.e., over the same period as the expense) plus trailing 12 months' license revenue (if any). Further, for pure software as a service companies, this metric is analyzed on a gross margin adjusted basis as well. Investor sales and marketing efficiency metric range is around 1x (efficient)-2.5x (inefficient), with a ratio of below 1.2x considered best in class. This sales and marketing efficiency metric over time goes up as companies become bigger. As a result, investors' common practice is to evaluate the sales and marketing efficiency metric along with operating margin or changes in operating margin in relation to revenue growth.

Leading practices

Qualified leads that opt for trials utilize this experience to firm up their purchase decision. Trial users evaluate the product/service on the value derived from it relative to the need that led to the purchase decision. Therefore, businesses must ensure that trial users experience the product in a manner that meets their needs and targeted outcomes. While this stage is highly focused on customer engagement and conversions for both B2B and B2C customers, there are differences across parameters, such as deal size, decision makers, and timelines. Therefore, it is necessary to formulate an engagement and communication strategy that considers these differences. The following are leading business practices that organizations undertake in the land stage to enhance the overall user experience and keep users engaged.

— **Active engagement based on triggers** – Successful businesses design and defined milestones that trigger interventions. Some examples:

  – Account setup -> Email communication highlighting the next steps

  – Low activity/engagement -> Push notifications/chatbots with offers to help

  – Feature usage drop/cart abandonment -> Chatbot/notification/call/email-based communication to understand friction points

  – Usage milestone (approaching free trial limit – time or feature-based) -> Proactive engagement to obtain user feedback on value derived and purchase intent

B2C engagement across the defined triggers is often driven through email marketing and digital interventions. On the other hand, B2B engagement is focused on engagement through assigned sales staff, account managers who build a meaningful relationship with potential customers through regular communication, query handling, and relevant insights.

— **Highlighting the value derived** – Leading organizations focus on highlighting value through features, quantifiable differentiators, and past credentials. Tools such as webinars, detailed demos, ROI case studies, testimonials, and product walk-throughs are leveraged to help customers assess value add from the product. During trials, B2B leads may be assigned product advisers to enable product usage, design personalized offerings, and resolve queries.

— **Customized product/service offering** – Offering potential customers customizable product offerings, contract lengths, and payment plans based on their requirements helps overcome any pre-purchase friction. In a B2C segment, the various plans available to choose from are typically standardized and on monthly prepaid terms with limited lock-in. In contrast, account managers and potential customers in a B2B segment work collaboratively to address the specific needs of stakeholders such as the user, decision maker, and influencer. For example, the personalization may be carried out across various parameters such as number of users, accessibility, overages, payment terms, feature usage, and contract duration.

3.4 Adopt – Using the product/service

The adopt stage includes focused efforts directed towards building a meaningful and long-lasting relationship with customers. The key objective during this stage is to initiate and enhance product usage across customers in a manner that is beneficial to them. The customer success teams play a lead role during this stage by empowering customers with product knowledge that enhances their experience and helps them derive maximum value from the product/service. Additionally, they monitor product/feature usage, customer satisfaction, and customer engagement to design and deliver personalized customer experiences. Customer insights gained through monitoring product usage, feature adoption, and sentiment also allow continuous improvement of the product offering.

Adopt stage

Stage owner: Customer Success

Initiation

- Onboarding strategy and journey design
- Install/first-time usage tracking
- Best practices webinars
- Initial outreach by customer adviser

Engagement

- Design experience based on identified customer segments and personas
- Tracking of regular product and feature usage
- Customer adviser support for new feature usage
- Customer events

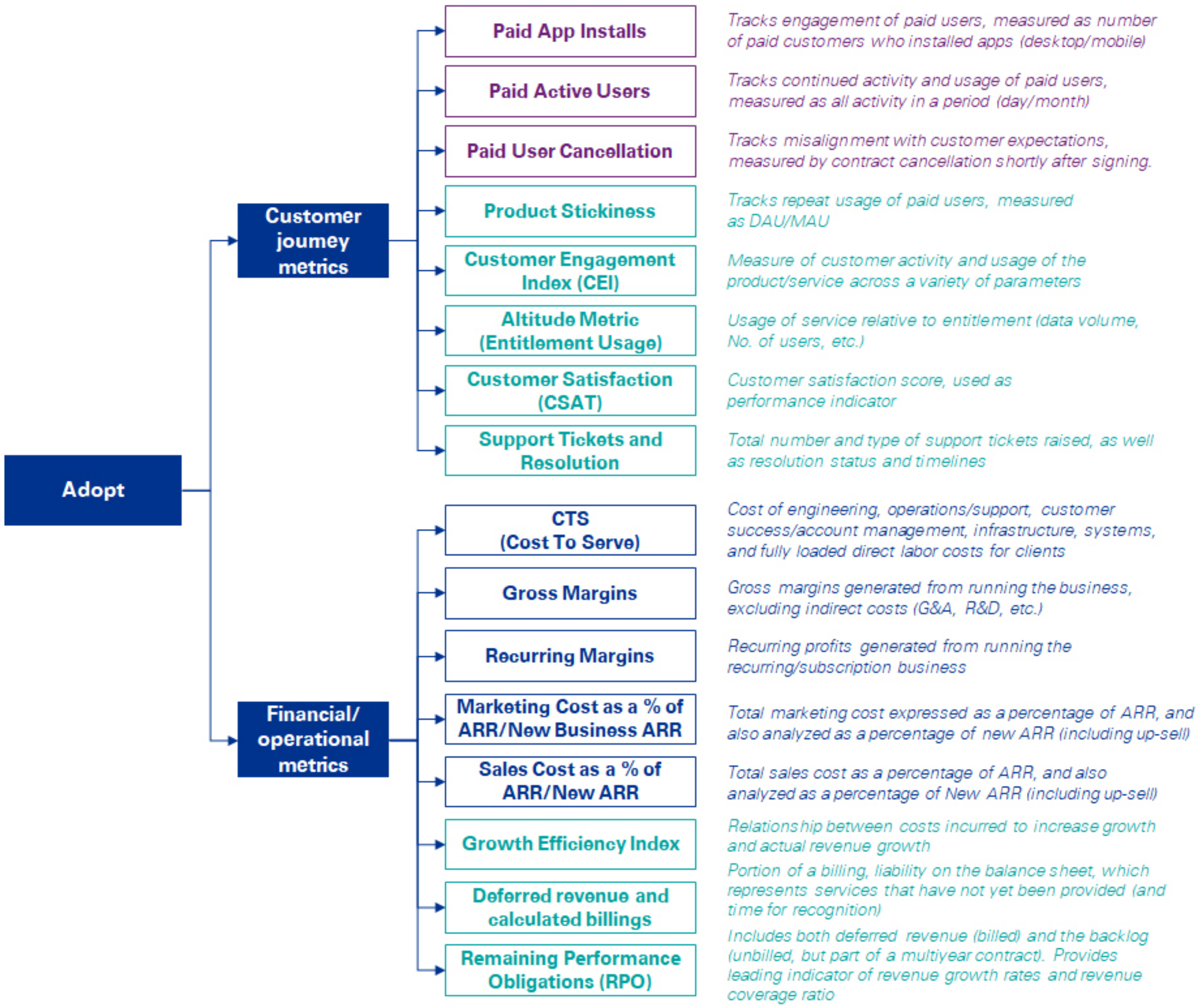
Satisfaction

- Product/feature usage as per entitlement
- Customer query and issue resolution
- Customer feedback and sentiment monitoring
- Retention for potential cancellations/returns

	Initiation	Engagement	Satisfaction
Outcome	*Active customers*	*Engaged customers*	*Satisfied customers*
Actors	**Customer Success** (O, E)	**Customer Success** (O, E) **Sales** (F)	**Customer Success** (O, E) **Operations** (F)

The metrics that (really) matter

Product adoption and usage are key outcomes to be tracked during the adopt stage. These outcomes drive long-term customer engagement and growth while ensuring that investments in customer acquisition generate operating profits. It is important that businesses monitor key metrics highlighted below:



Customer journey metrics:

a. **Paid app installs** – Following a sale, app installation (desktop/mobile) is a key signal of intent by customers to invest time and effort into the product/service. Paid app installs are a fundamental driver of revenue for the business and need to be monitored closely. Low usage or deletion of apps are serious triggers that warrant immediate intervention.

b. **Paid active users** – Post-purchase, usage is a key metric tracked by businesses. Activity is defined as login/exploration/usage of the product or service and is tracked very closely for paid customers. This metric is measured typically as daily active users (DAUs) and monthly active users (MAUs) and provides useful trends on the health of the customer base.

c. **Paid user cancellations** – Cancellations in the immediate aftermath of a sale are red flags for the business and typically occur when there is a breakdown in the customer experience. It is critical to measure customer activity and engagement to prevent them reaching a cancellation stage. However, it is important to track cancellations very closely and invest in robust retention protocols. In the event attrition is inevitable, it is critical to gather detailed feedback from customers to help prevent recurrence and ensure a smooth customer exit to leave open the possibility of reengagement at a later stage.

d. **Product stickiness** – This metric tracks continuing usage of the product and is typically tracked as the daily active users (DAU) as a proportion of monthly active users (MAU). With sophisticated product analytics tools being deployed by companies, this metric is further tracked at a feature level to understand product stickiness at a finer grain.

e. **Customer engagement index (CEI)** – CEI is a key metric being tracked by experience-centric businesses across sectors. The indicators of engagement vary by business, but typically include the continued usage of product features by customers and is directly correlated to the health of customer success. This metric is usually calculated weekly, and a customer will be assigned a CEI rating ranging from 0–100 (higher the better) and analyzed based on low, medium, and high CEI scores. Low usage of features could be a result of an inferior understanding of the product and the features present, which could lead to lower usage and thereby potentially an opportunity loss for renewals. It is essential that customer success teams track the usage of the product across customer segments to identify and minimize friction. This helps create a more engaged and valuable customer relationship.

f. **Altitude metric (entitlement usage)** – In simple terms, altitude metric defines the utilization of services across various parameters (data volume, number of users, etc.) against the allowed or entitled usage. Altitude metric measured for a specific period, against the revenue from the customer, helps ascertain the value the customer is receiving for the money being paid. It helps highlight the underutilization and overutilization of the product. In cases of underutilization, increased engagement with the customer may be necessary to help them derive maximum value from the product or prepare for a potential contract down-sell sought by the customer. In cases of overutilization, customers may be offered additional or new product offerings to meet their needs (up-sell).

g. **Customer satisfaction (CSAT) –** CSAT measures customer satisfaction with a product or service availed from a business. It is essential to understand the value customers perceive they derive from an interaction, engagement, feature, or product. Insights from these tools or surveys help businesses not only improve future experiences but also continuously innovate their products, services, and processes.

h. **Support tickets and resolution –** This is indicative of the total number of instances raised to support, type of issues encountered, and variety of problems. Support tickets and their analytics are key parameters to monitor as they help identify friction during adoption and usage. The duration taken to resolve the tickets, including SLA compliance and associated penalties is also a key metric to be tracked. Effective and swift resolution of queries and tickets are an indicator of a positive customer experience.

Financial/operational metrics:

a. **Cost to serve (CTS)** – CTS is defined as the recurring service expense for a customer and is usually calculated as a percentage of revenue. It includes all direct costs such as subscription costs, research and development, account management, customer success, engineering, customer support, operations and billing, infrastructure, fully loaded labor cost and any channel partner or similar sales commissions that are paid on a recurring basis. It is an equivalent to the operating costs of existing installed base in businesses and therefore a key driver of profitability.

b. **Gross margins –** Gross margins are measures of profitability and calculated as the difference between subscription revenues and costs as a proportion of subscription revenue. A higher gross margin indicates larger available funds to invest in sales, marketing, R&D, and overall business growth. Although businesses could choose to increase gross margins at this stage, it is necessary to invest in customer success and R&D to sustain the customer experience. As companies grow their customer base and benefit from economies of scale, it results in lower sales and marketing costs as a percentage of revenue and increases gross margins at later stages. Ideal gross margins for recurring-revenue-based businesses falls between 70 percent–80 percent.

c. **Recurring margins –** Recurring margins are the profits generated from the recurring revenue business. Recurring margins provide an indication towards the long-term operating margin of the business. Recurring margin is calculated based on exit ARR less annual recurring expense (i.e., cost to serve expense). See section 3.6 *Unit economic metrics – The how and why* for expenses that are included in cost to serve.

d. **Sales cost as a percentage of ARR/new business ARR –** This metric is defined as the total cost of sales as a percentage of the annual recurring revenue or, more specifically, total sales cost as a percentage of new business ARR (as it reduces the base effect of existing subscriptions). During the initial stage of an organization, this number is higher and slowly tapers down as the business is more established and has a larger base of existing and growing customers. It is essential to track this number across channels, geographies, and customer sets to design a well-rounded sales strategy.

e. **Marketing costs as a percentage of ARR/new business ARR –** This metric is defined as the total cost of marketing as a percentage of the annual recurring revenue or, as above computed, as total cost of marketing as a percentage of new business ARR (measuring effectiveness of marketing in growing the business). A higher number in the early stages of a business is justifiable, as it depicts investment across brand building and customer acquisition. This metric depicts the efficiency of the resources and funds allocated to acquiring customers.

f. **Growth efficiency index (GEI) –** The growth efficiency index (GEI) is calculated based on the trailing 12-month sales and marketing expense, divided by the year-over-year increase in the trailing 12-month subscription revenue. The growth efficiency index is a measure of revenue growth efficiency across the initial stages. It indicates how much sales and marketing expense is incurred to attain new revenue. A lower GEI indicates lower sales and marketing spending to acquire incremental revenue and reflects increased operational efficiencies. A GEI of lower than 1 is considered optimal. However, a GEI of greater than 1 specifies larger spending to bring in revenue and therefore requires reconsideration of sales and marketing spends. When businesses prepare to launch new products or enter new geographies and channels, the GEI may see variations, and therefore, businesses must track GEI during similar business phases for an accurate understanding of business health. If stock compensation expense is excluded in calculation of this metric, some investors think that this metric would need to be evaluated concurrently along with dilution run rate for benchmark companies to eliminate the form of sales and marketing expense payment (stock versus cash).

g. **Deferred revenue and calculated billings –** In certain billing models, customers may be billed in advance for the services they are provided. Therefore, deferred revenue is a portion of the billing that has not yet been recognized, for services that have not yet been provided. Deferred revenue highlights the revenue that is yet to be earned, and therefore, if customers were to cancel subscriptions, deferred revenue may be the amount owed to customers. It is therefore essential to understand and plan the cash flows in a business. Deferred revenue is also analyzed over the period by which services will be provided and recorded as revenue. Additionally, revenue coverage ratio based on deferred revenue, which is calculated as deferred revenue/annual revenue guidance.

Some investors focus on calculated billings metric (even though current RPO provides better information), which is calculated by adding quarterly revenue to the change in deferred revenue from the prior quarter to the current quarter less the change in unbilled accounts receivable from the prior quarter to the current quarter. If a SaaS company is growing its bookings, either through new business or upsells/renewals to existing customers, billings will increase. Some investors believe that calculated billings, is a better forward-looking indicator of the health of a SaaS company for two reasons:

(1) Revenue understates the true value of the customer because it gets recognized ratably
(2) Due to the recurring nature of revenue, a SaaS company could show stable revenue over a period of time (just by working off its billings backlog), which could make the business seem healthier than it truly is.

It can be challenging to use calculate billings as a metric, if a company employs non-standardized billings policies (i.e. when billing customers monthly, quarterly, annual-in-advance or three years in advance) or when they have time and material professional services revenue.

h. **Remaining performance obligations (RPO) –** Revenue recognition rules define RPO. RPO is an audited financial metric in a company's financial statements. Investors prefer this metric since it is standardized and is used as a primary metric to evaluate the health of the business for subscription/recurring revenue business models. RPO is the remaining performance obligations over the life of the contract—both deferred revenue (billed) and the backlog (unbilled, but part of a multiyear contract). This metric provides an accurate visibility into revenues likely to be recognized by the business (barring churn) and provides a view of the long-term health of the business. This metric is analyzed as current RPO (i.e., next twelve months) and thereafter trended on a quarterly basis, with time bands compared to prior-period comparatives for growth rates. Additionally, revenue coverage ratio is calculated as current RPO/annual revenue guidance.

   Investors would consider this metric as one of the primary metrics in case of single revenue model and the company does not generate significant fixed fee professional services. Annual contracts may also play a significant role as to whether this metric would be considered one of the primary metrics. Investors may not consider this metric to be one of the primary metrics in cases of a mixed business model (i.e., aggregate disclosure of this RPO amount in the financial statements versus disaggregation of the disclosure based on business model). For example, aggregate disclosure of the metric with mixed SaaS, maintenance, and services revenue streams with no standard contract terms.

Leading practices

The adopt stage is one of the most critical stages of the customer journey. Specifically, in a recurring business model, this stage calls for highly experience-focused activities and strategies to ensure that the customer journey is frictionless and delivers the expected outcomes. The following are leading practices adopted by successful businesses during the adopt stage:

— **Design a frictionless onboarding experience** – Onboarding is a key milestone in the customer experience journey. It is essential that businesses design a seamless onboarding strategy with tools such as interactive tutorials, feature call-outs, personalized engagement content, and FAQs to maximize their first-mile experience and drive rapid product adoption. Businesses may also offer virtual/in-person training to B2B customers to maximize the value from the product offering while also nurturing the account relationship. The onboarding process needs to find a good balance between a fully supported onboarding process (e.g., an engaged professional services and customer success team) and a fully self-service process. The former likely has a higher likelihood of ensuring successful onboarding and full appreciation of the product but adds substantially to the cost to book. The latter is much less costly and easier on the customer but requires significant investment in the product to ensure the user experience is truly intuitive and flattens the product learning curve. The choice of model would depend on customer segment—enterprise/small and medium business/retail.

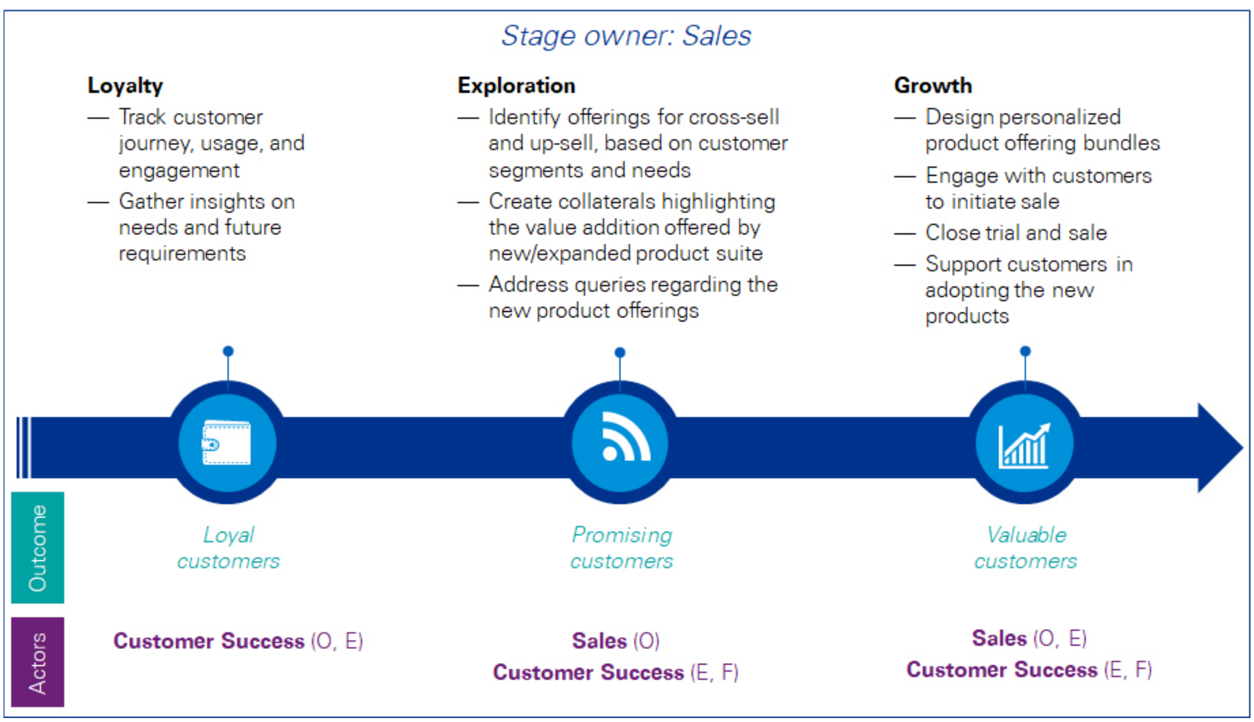
— **Map customer segments** – Businesses must classify customers across various segments based on predefined parameters: customer size, needs, and behaviors. Creating customer segments and personas helps leverage the available insights to innovate and personalize product experiences. Additionally, it helps businesses prioritize opportunities that add the maximum value to the customer journey. It also helps businesses design growth strategies and allocates resources based on high-, medium-, and low-value customer segments.

— **Measure and monitor customer engagement** – In a recurring revenue model, continuous usage and engagement with the product is the key to a long and healthy customer lifecycle. Therefore, businesses must measure customer engagement with the product, across their journey from onboarding to exit. Key parameters such as frequency of usage, usage duration, and most/least popular features should be continuously measured and monitored. This helps customer success teams identify friction points and address them swiftly. With B2B clients, the account manager or customer success executive assigned must engage in regular feedback sessions to address any challenges that may arise.

3.5 Expand – Increasing customer share of wallet

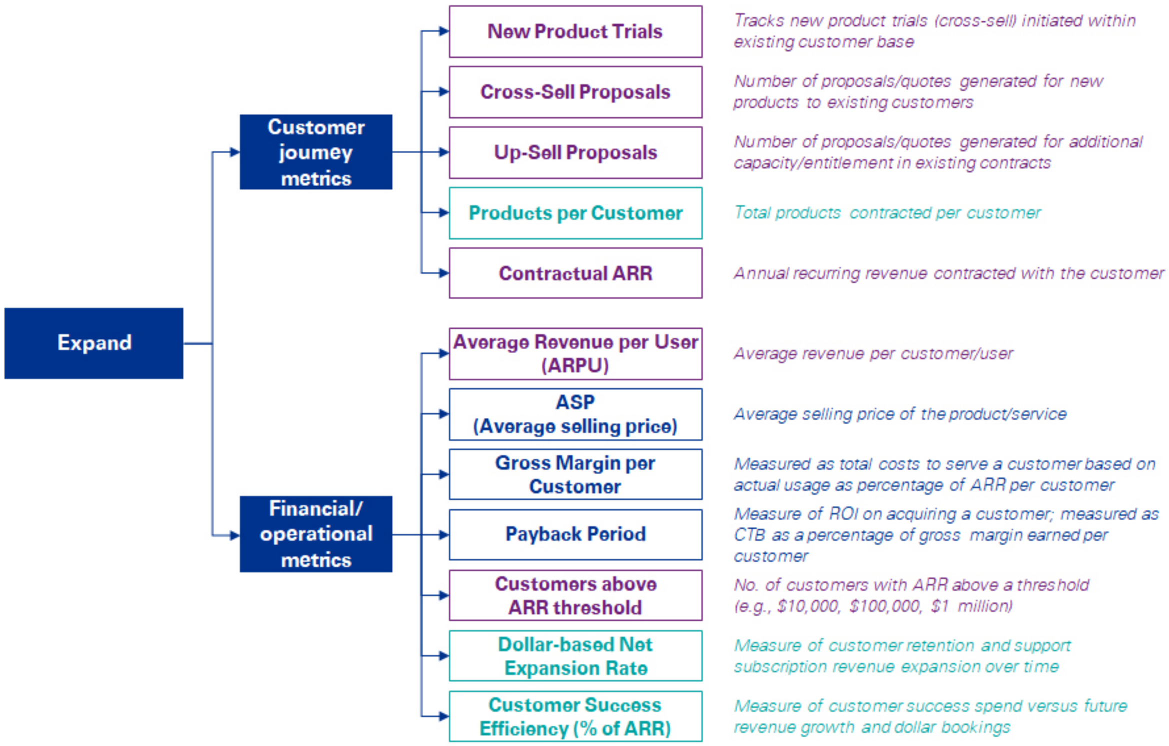
At this stage, most customers are highly engaged with the product. The core focus of the business during the expansion stage should be to derive a higher value from existing customers. Equipped with detailed customer insights, customer feedback, and customer segmentation from the adopt stage, customer success teams should identify cross-sell and up-sell opportunities to drive growth. Success at this stage helps cost-effectively improve the CLTV/CAC ratio by growing share of customer wallet and an increase in average revenue per user.

Expand stage



The metrics that (really) matter

The expand stage is where the investments in customer success begin to pay off and generate strong increases in share of wallet and revenue per customer. It is important that businesses track and monitor key metrics that **drive profitability and sustainability at the expand stage**. Key metrics are highlighted below:



Customer journey metrics:

a. **New product trials** –The focus of the customer success team in this stage is to identify and facilitate cross-sell and up-sell to existing customers. A key measure of their success in this endeavor is to track new product trials initiated by existing customers. The sales conversion is also better for these trials, given they are existing and satisfied customers.

b. **Cross-sell proposals –** Following trials for cross-sell opportunities, the customer success teams supported by the sales team generates customized proposals/quotes. It is important to track such proposals that drive an increased revenue per customer. Cross-sell opportunities showcase the ability to add adjacent products to existing customers and is an important driver of long-term value.

c. **Up-sell proposals –** Based on usage analysis, customer success teams supported by the sales team generates customized proposals/quotes for up-sell (added capacity/entitlement). These opportunities are tracked to ensure effective organic growth in customer usage of products/services.

d. **Products per customer –** This metric is defined as the number of products/services that the customer has purchased from the business. The metric usually reflects degree of success of cross-sell initiatives to encourage adoption of complementary products/services, which is an indicator of customer trust and confidence in the brand and customer experience. Leading companies also publish this metric externally to showcase their ability to successfully launch adjacent products/services in the market.

e. **Contractual ARR –**This metric measure the amount of annual recurring revenue contracted with the customer with a focus towards identifying the high-value segment of customers, where up-sell and cross-sell opportunities can be leveraged. In the long term, businesses should look to increase the contractual ARR from their customers as a result of increased wallet share or enhanced value provided to customers through new features, updates, etc.

Financial/operational metrics:

a. **Average revenue per customer/user (ARPC/ARPU)** – These metrics are tracked either monthly or annually as a measure of the amount of revenue generated per customer. Any material changes to the ARPU need to be analyzed for underlying drivers. A lower ARPU indicates that reaching revenue goals will require additional investment in sales and marketing to change—customer size and type, product mix, or pricing. Most leading businesses measure APRU across distinct sets of customers—existing versus new, B2B versus B2C, and geography. It provides an accurate outlook on the business and highlights changes in customer behavior.

b. **Average selling price (ASP) –** This is defined as the average price paid by a customer in a product/service contract. ASP is a key metric to track as part of the expand motion as it measures success in cross-sell and up-sell to customers. Successful customer wallet share expansion can be observed through a corresponding increase in ASP from contracts. ASP needs to be tracked using multiple lenses for best effect—geography (mature versus new), customer segment (enterprise versus mid-market/small- and medium-sized enterprise), product (maturity within product lifecycle), and customer vintage (time since onboarding). ASP also helps monitor product discounting. Businesses in early stages use multiple levers to acquire customers including price discounting to incentivize upgrades to premium product/service tiers. Discounting is a key lever that flows directly to the bottom line, and therefore needs to be tracked rigorously. A key trend to monitor is that discounting should progressively be reduced based on increasing product awareness and use base to avoid value leakage.

c. **Gross margin per customer –** This is defined as the gross margin earned per customer, based on their actual usage of the product/service, and also referred to as Gross Margin-adjusted Annual Recurring Revenue. This depends on their utilization of entitlements and supporting infrastructure (processors, data, etc.). The metric is measured as the total cost to serve a customer including operations, customer success, sales and marketing as a percentage of the annual recurring revenue from the customer. While most platform companies have very healthy gross margins, this metric needs to be seen in conjunction with the altitude metric to ensure these gross margins are not due to customers not effectively using their entitlement.

d. **Payback period –** Another lens to evaluate the return on investment from acquiring a customer is through a payback period analysis. The payback period is calculated as the cost to book a customer relative to gross margin per customer and is measured in months. For example, if the cost to acquire a customer is $140, with an average ARR of $200 and gross margin of 70 percent, then the payback period is 12 months. A payback period of up to 18 months is a good measure of long-term sustainability.

e. **Customers above ARR threshold –** Aligning customer segmentation to a financial metric facilitates a more effective engagement strategy design for each segment of customers. It facilitates resource planning across sales, account management, and marketing to yield optimal results. An additional insight would be to review how many new businesses signed above the threshold in the current period have potential for an up-sell (i.e., some deals sell the entire opportunity to the customer versus others have significant potential up-sell opportunities). For example, it is important to analyze how many new deals greater than $50,000 ARR were at enterprise-level companies (i.e., say at one location of a multi-national company) with a potential to add multiple locations at that company in future ultimately resulting in a multimillion-dollar ARR account. Such enterprise accounts could then be tracked closely for future share of wallet expansion.

f. **Dollar-based net expansion rate** – This a measure of net customer value growth that provides a comparative view of the aggregated revenue from existing customers over a period. It is indicative of the health of customer relationships and the sustainability of revenue over time. Dollar-based net expansion rate along with cross-sell and up-sell percentage provides a view on the quality of customers in a business and their experience.

g. **Customer success efficiency (percentage of ARR) –** This metric measures the efficiency of the money spent on customer success to bring in revenues to the business. The key to recurring revenue is keeping customers engaged throughout their lifecycle, as the revenue is relationship driven. During the initial stages, the customer success spends are directed towards engaging customers and enhancing utilization/usage of the product. In later stages, the spending is used to identify opportunities of cross-selling, up-selling, managing churn, and driving renewals.

Leading practices

The expand stage provides businesses the opportunity to leverage customer insights collected during the previous stages and map products with the various consumer segments based on white space identification. Leading businesses utilize customer feedback, interactions, product/feature usage, and adoption to identify additional features or product offerings that may create a smoother experience for users. The customer success teams equip sales and marketing teams with key insights, enabling them to design and create offerings that have the potential for the highest experience value for the customer and economic value for the business. The following are leading practices across businesses:

— **Leverage customer inquiries and feedback –** Customer tickets and queries provide a deeper insight into challenges or roadblocks that customers may face while using the product. Customer success teams can work collaboratively with support teams to understand the need of the customers and better meet the expectations. For example, a customer subscribed to a limited usage pack of photo editing tools may raise a query after running out of total uses allocated. Customer success teams can leverage this insight to offer the customer a new bundle that meets their usage needs.

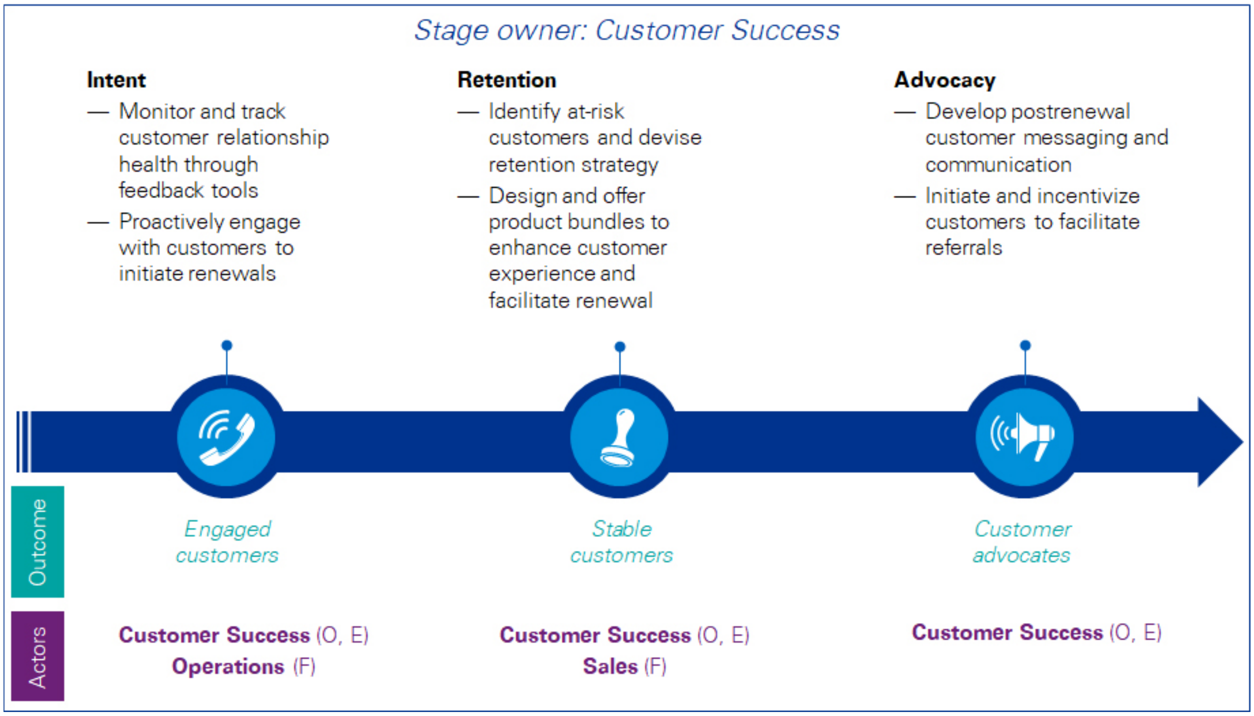
— **Designing strong value propositions** – Businesses leverage insights from the customer journey to develop personalized value offerings that lead to customer delight. A key strategy for cross-selling is offering customers bundled products that are targeted to meet their usage needs, at a price that beats the total individual price of the products. Additionally, tracking the customer journey to offer personalized product recommendations at key milestones of product usage, e.g., data volume usage from a network carrier, limited time offers for extension closer to renewal date, etc., are strategies that create greater perceived benefit in the minds of customers.

3.6 Renew – Customer loyalty and advocacy

The renew stage focuses on sustaining the customer relationship and preventing churn. Happy customers even serve as excellent brand ambassadors and referral agents. Brands must focus on identifying, nurturing, and establishing these customer segments, as they result in a higher CLTV and ROI. They enable optimization of sales and marketing processes by sharing qualified leads with the business through referrals. Further, a higher value derived through existing customers helps businesses focus sales and marketing efforts towards attracting new customers. This stage enables businesses to start reaping long-term value from their loyal base of customers.

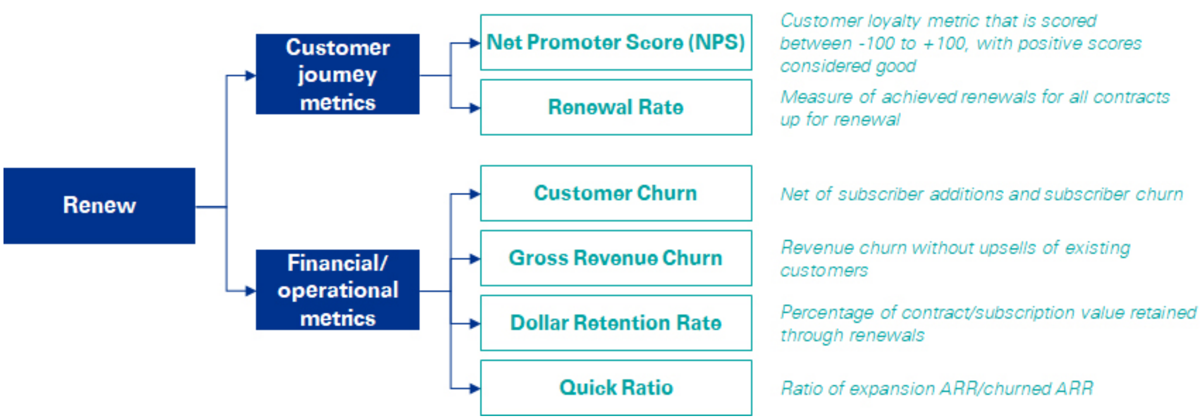
During this stage, all functions work collaboratively to achieve the three Rs—retention, renewals, and referrals. All business processes and strategies are focused on creating customer delight across every touchpoint and channel, as customers that reach the renewal stage are highly connected and engaged. To derive meaningful value from these customers and enable renewals, customer success teams should focus on not just meeting but exceeding customer experience expectations. Customer experience success is a key enabler that helps achieve retention, renewals, and referrals at this stage.

Renew stage



The metrics that (really) matter

The renew stage is the culmination of the customer journey where engaged customers continue their relationship and others terminate theirs. This stage defines customer churn and plays a key role in determining the exponential growth trajectory of the business. It is important that businesses monitor key sustainability and unit economics metrics at the renew stage:



Customer journey metrics:

a. **Net Promoter Score (NPS) –** NPS is a customer loyalty metric that is scored between -100 and +100, a positive score indicating higher loyalty. A high NPS represents a set of customers that are advocates for the business and add continuous value through renewals, upgrades, and referrals. A low score may require businesses to identify friction points across the customer lifecycle and take corrective measures to ensure that customers are satisfied with the product, experience, and value derived from the offering. While the NPS represents an explicit statement from customers based on survey responses, it is important to track customer sentiment across their experience journey. Customer sentiment can be tracked through structured as well as unstructured data (e.g. call center interactions, voice/video/text analysis from communications) to identify implicit signals and initiate timely interventions proactively.

b. **Renewal rate –** This is a measure of renewals for all contracts that are up for renewals. This driver is a direct indicator of customer satisfaction and experience success. It indicates that the business can provide continual high value to the customers, for the price that they pay. Customer retention could be a factor of continuous innovation of products, processes, and features. Renewals are the key to the success of a business, as it helps reduce the CAC by deriving higher value from existing customers. It is a clear indicator of sustained growth in business and directly impacts the unit economic metrics. Some companies capture "likelihood to renew" as a subjective input from the account sales or customer success representative. These inputs from account sales or customer success representatives help initiate proactive retention efforts. A special aspect of renewals tracked is the proportion of customers retained after initiating a cancellation. Percentage of customers retained after customer initiating a cancellation is a key measure of success for the customer success team in salvaging a potential customer loss.

Financial/operational metrics:

a. **Customer churn –** Churn represents the percentage rate of cancellations over time and is often calculated on an annual basis. While churn is a standard part of business functioning and growth a higher rate of churn may indicate a poor customer experience with the product/service offering. When identified at an early stage, businesses can utilize this data to obtain feedback from customers while in parallel reviewing processes and offerings to ensure future churn can be controlled. It is further essential that businesses conduct a deep dive to identify the customer sets or segments that are churning out of the business, e.g., is the churn across high- or low-value customer segments? Assessing customer churn against other metrics such as NPS empowers businesses with insights across parameters that require reassessment—pricing, features, product bundles, etc.

   Generally, public company investors expect churn to be in a single-digit percentage for enterprise customer segments as compared to in the teens' range for the small and mid-sized business segment.

b. **Gross revenue churn –** Gross revenue churn is defined as the total revenue lost due to the absence of renewals or downgrades, usually due to the lack of up-sells and cross-sells. It indicates the total loss to a business, without considering up-sells or cross-sells. Tracking the gross revenue churn is essential to the health of the business. While churn is a normal part of business, it is essential to understand the root cause behind the churn to take corrective measures for the future. Gross revenue churn can be minimized by eliciting customer feedback regularly, understanding customer needs, and designing product offerings to meet their expectations.

c. **Dollar retention rate –** The dollar retention rate (DRR) metric is used to measure retention of the revenue base and includes the benefit of up-sells, cross-sells, and price increases. If the DRR is 100 percent, it means the company has renewed 100 percent of its revenue from the previous year. DRR is an aggregate metric because it considers both lost revenue from customer cancellation (i.e., lost customers due to unhappy customers) as well as down-sell and up-sell to existing customers (satisfied customers). In practice most software as a service companies disclose net dollar retention rate that measure net revenue from existing installed base on an annual or month basis. Dollar retention rate, net is calculated based on the total revenue less any revenue churn (caused by departing customers, or customers who have downgraded) plus any revenue expansion from upgrades, cross-sells or upsells.

d. **Quick ratio –** The quick ratio measures the growth efficiency, which combines revenue and churn. In simple terms, it measures the total revenue being added for each dollar lost during a period. A value of four or higher is considered as an ideal quick ratio. A quick ratio lower than four indicates that the business is unable to bring in revenues as quickly as the churn.

Leading practices

— **Design and implement detailed feedback loops –** Customer feedback frameworks, timelines, and processes are established at the beginning of the customer journey. They are highly effective tools that can be leveraged during referrals to gain a deep understanding of the customers' perception of the business and products. The data and insights from these feedback tools—CSAT, NPS, etc.—can be utilized as lead indicators to proactively address customer challenges and concerns to enable a smooth experience. For B2B customers, assigned account managers conduct timely and regular one-on-one feedback sessions to keep communication lines open and instill trust in customers.

— **Segment and work on high-risk customers –** Customer success teams that proactively segment customers based on their engagement, interactions, feedback, and value add to the business can better identify customers that are likely to churn out. The key is to identify this high-risk segment early, thereby enabling functional teams to work together to identify friction points or roadblocks that can be addressed through corrective actions. An early signal on likelihood to renew is therefore quite valuable. Additionally, some companies have a dedicated renewals team, which is financially incentivized on retaining customers and ARR. Having a dedicated team is important to ensure focus on renewals (especially for high-risk customers), which can be a tougher outcome to achieve than up-selling to a happy and engaged customer.

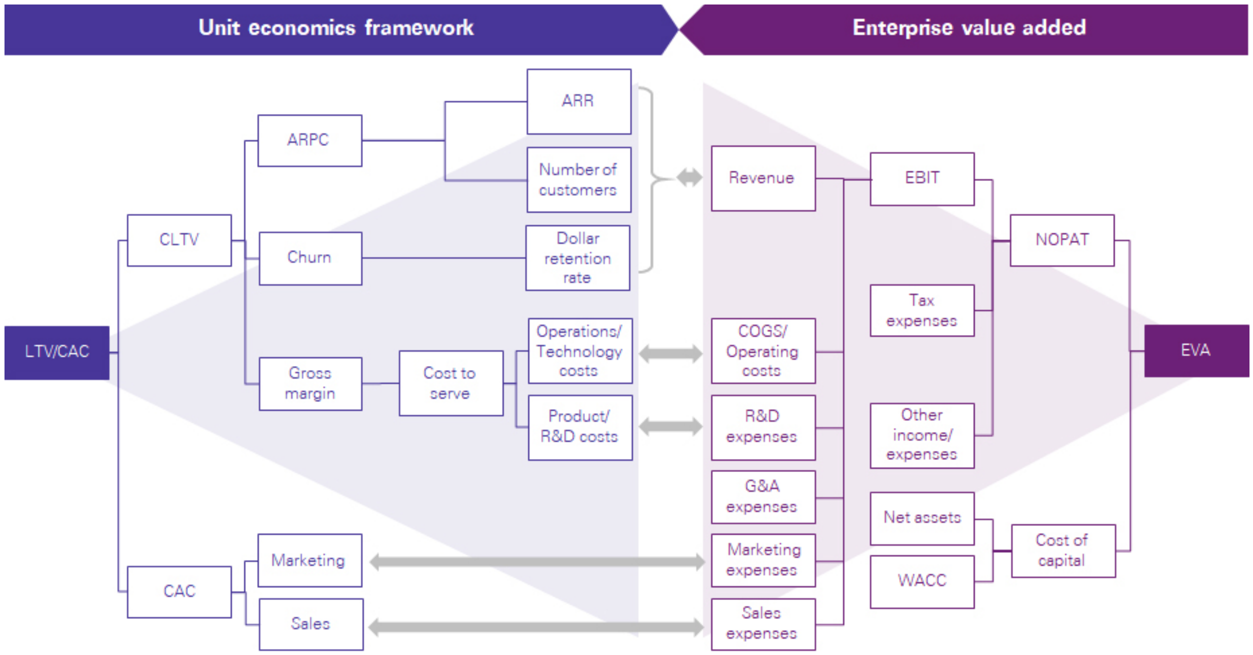
— **Design customer experience strategies personalized to the customer adoption journey –** Designing and implementing an experience strategy for customers yields multiple benefits as it creates a personalized journey path for each customer. Highlighting milestones for delight and crafting experiences that enhance the customer journey is a key step in ensuring the success of the experience strategy. Creating a value add at each step of the customer journey helps build customer stickiness and enables renewals. For example, businesses involve innovators and early adopters through feature and product testing, thereby building a sense of ownership.

3.7 Unit economic metrics – The how and why

While the previous chapters defined key metrics, across the customer lifecycle, from growth, profitability, and sustainability drivers' point of view. It is also important to identify and understand key drivers that track, monitor, and drive the financial health of a business.

The highlighted metrics directly impact the unit economic metrics of a business and therefore need to be tracked and monitored continuously. These metrics when measured against each other provide a great window into the growth, profitability, and sustainability of the business.

Unit economics helps better understand the financial viability of the business model and the long-term sustainability of a business. Investors use this framework for subscription business when the cost to book (CTB) or CAC is significant to book new business with an underlying objective to determine the long-term operating margin for the business, which is in an input to valuation models.

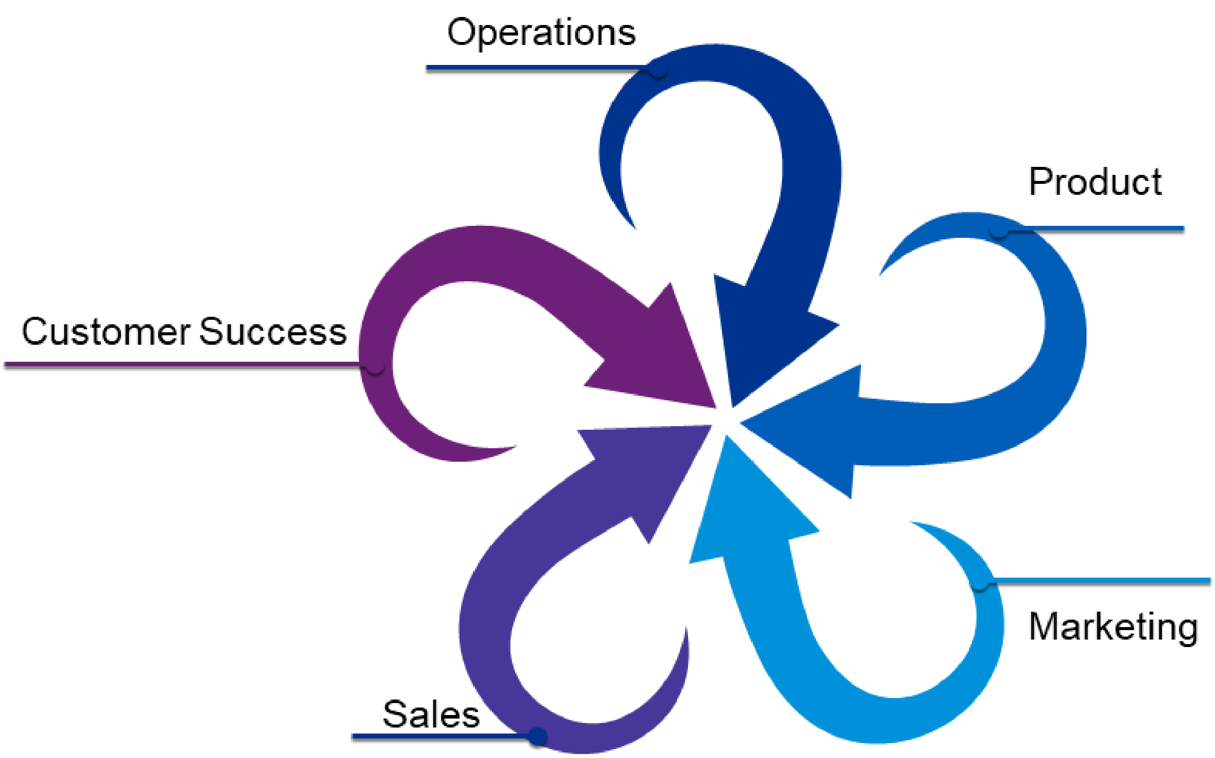


Expense line item	Cost to book (One time)	Cost to serve (Recurring)
Cost of subscription	Gross margin impact as a result of one-time discount or sign-up discount on subscription offerings.	Assuming cost to serve existing customers and new customers are the same. Generally, cost of subscription revenue to include direct and indirect cost to generate recurring subscription revenue.
Cost of professional services	Generally, 100 percent of the cost is considered cost to book since these are implementation and setup costs and not recurring costs.	If any service costs are recurring costs, then those costs are cost to serve.
Research and development	Amount spent on acquisition of new business.	Predominately (90 percent of the expense or more) considered cost to serve as it is spent on improving features for existing customers.

Expense line item	Cost to book (One time)	Cost to serve (Recurring)
Sales and marketing	Amount spent on acquisition of new business. Direct and indirect costs relating to trial users or freemium users of subscription offerings. Trial users are sales lead generators as such considered cost to book. Freemium users are also considered sales lead generators as such considered cost to book, unless, providing freemium offering benefit paying customers and/or business plans support freemium users at operating model maturity, then a portion of freemium users' costs would be allocated to cost to serve.	Generally, it is the residual amount of sales and marketing after allocation of amount spent on acquisition of new business to cost to book. Amount spent on renewal of existing customer install base. Certain compensation plans compensate sales or channel partners as a percentage of recurring revenue, these types of structures would be considered recurring costs (i.e., cost to serve).
General and administration	Costs should be same for new versus existing customers. Allocated based on billings mix or revenue between new and existing install base.	Costs should be same for new versus existing customers. Allocated based on billings mix or revenue between new and existing install base.

4 Leading practices for an experience-centric business model

Given the magnitude of change, a shift to experience-centric models cannot happen overnight. It requires a cohesive strategy and supporting investments to reorient the organization. Employees, processes, KPIs, products, interactions, and all business priorities need to be focused on providing the best possible customer experience. Organizations are traditionally structured based on functional capabilities. Each function needs to be oriented towards the "North Star" of customer delight to ensure a successful model:



Product: First impression and first-mile experience are crucial for products. The focus needs to be around helping the customer achieve their intended outcomes and around what they can do next. All the other capabilities such as marketing, sales, and customer success can improve but cannot overcome a fundamentally poor product usage experience. There are several key considerations in designing a delightful product experience:

— Product onboarding needs to be very quick, as successful implementation (or deployment) and subsequent activation is a key friction point for product usage. Products need to have an intuitive user interface and self-service capabilities to help users navigate the sequence of steps to successfully achieve their desired outcomes. Good product design principles include tips, first-time demos, and actions familiar to users.

— Products need to provide deep visibility and insights into customer usage patterns, along with the opportunity for users to provide feedback and improvement ideas. Additionally, products need the ability to generate real-time reporting, including triggers/alerts based on observed usage patterns to provide timely nudges/support in case of inactivity. Leading companies use sophisticated product analytics tools to provide deep insights into product and feature usage.

— The product needs to support multiple platforms to allow seamless integration with existing customer install base and technology investments. The product experience needs to be optimized for multiple platforms and devices. Mobile-first product usage is a must-have feature (to be considered an essential part of the minimum viable product or MVP), especially in the aftermath of COVID-19 disruption and changes in usage patterns.

— The product needs to address the value proposition within the existing top customer segments to accelerate adoption before increasing the customer velocity for broader customer use case. A focus on the core features is essential, with a modular architecture for ease of addition of features and functionally. Several products incorporate advanced features into separate or premium products to ensure the core product is simple and accessible.

Marketing: For new customers, the first point of interaction with a business is typically with a brand or product marketing campaign. These include digital marketing (websites, social media, search, email) as well as integrated campaigns (events, webinars, sponsorships, media, and analyst relations). Making a great first impression is critical given short attention spans of customers. The following are key considerations in designing an effective marketing experience for the customer:

— Strong brand visibility across channels to ensure the widest possible customer reach. Marketing communication needs to effectively engage and communicate the product value proposition to the target audience. The messaging needs to be tailored by incorporating geography and customer segment insights, with a focus on outcomes for the customers.

— Campaigns and communications also need to be personalized to the customer and integrate multiple devices, based on their harvested interests and signals. Forms and data inputs need to be prepopulated where feasible to avoid repeated data entry.

— It is also a delicate balance to ensure that campaigns are personalized and follow the customer across channels without being too intrusive or overwhelming from the perspective of timing, frequency, and content density.

— Partnerships with synergistic products/platforms can boost campaign effectiveness due to brand association synergies. Additionally, referrals from existing customer advocates offer significantly higher engagement as well as conversion and should be a key priority.

Sales: The sales function plays the crucial role of converting prospects into paying customers. However, this is also a key area of friction in the experience journey. Building trust is crucial to ensure the business acquires a customer whose expectations and outcomes are in complete sync. A well-designed sales process can even help co-opt customers to be partners/extended sales teams for the business. The following are key considerations in designing a frictionless sales experience:

— The biggest hurdle to a successful sale is doubt in the minds of the customer. Businesses have evaluated freemium, money-back, and trial models among others to improve customer conversion.

However, a full-featured product trial has been found to be the most effective in driving sales, as it eliminates uncertainties in customers' minds about product features.

— Another important requirement for customers is flexible consumption models, with tiers based on usage and tools to estimate total cost of ownership relative to alternatives. This flexibility allows them to opt for a fit-for-purpose plan without the risk of postpurchase dissonance.

— Customers value personalization. In a sales context, it would be important to allocate a knowledgeable sales agent who understands the customer needs and serves as the single point of contact across the sales cycle to ensure customer continuity. Effective sales processes also tailor product bundles and offers based on specific customer requirements.

— In many cases, the sales process also involves a channel partner. It is important to look at the sales process holistically from a customer lens, as the customer perceives the channel partner to be a representative/extension of the business.

Customer success: The customer success function is the secret sauce that separates good businesses from the truly great ones. This function supports customers all through their engagement journey with the business to help them achieve their desired outcome. Consistently superior customer experience helps ensure customers are "for life", which results in increase in CLTV and is overwhelmingly rewarded by investors. Given the wide range of activities performed by the customer success function, there are some key considerations in designing a delightful experience:

— The first and most important role of the customer success team is to ensure a seamless first-mile experience for customers. Even while on free trials of the product, customers need to be engaged and derive value before they convert to paying customers. Customer success teams need to track product usage metrics closely, especially for new customers to help them navigate and use the product effectively. The proactive nature of this process also generates customer goodwill.

— Customer success teams need to ensure focus on listening to customer feedback and suggestions. On one hand, responsiveness to feedback elevates the customer experience to one of a trusted partnership. This process also yields valuable insights to inform product development.

— One key feature of good experience-centric businesses is a vibrant online user community that provides support, suggestions, and encouragement to other users. Customers value membership in such a community of like-minded users, solving similar problems across geographies and sectors. Customer success teams need to help create and nurture user communities for long-term success.

— Customer success teams guide the long-term relationship of the customer by guiding them across renewal cycles as well as facilitating cross-sell and up-sell. To be effective in this process, they need to continuously monitor customer product/feature usage as well as their satisfaction/sentiment to generate data-driven insights on customer health. Using these insights, they need to proactively identify opportunities to work with customers and nudge them towards their desired outcomes.

Operations: The operations (including finance) teams are "invisible" during most parts of the experience journey, with the customer typically engaging with them only for support. They also offer a valuable opportunity to delight the customer:

— An experience-centric model typically requires the availability of 24/7 support to ensure that customer issues are always resolved at the earliest. Additional considerations that are important for customers include data privacy and security, especially given an evolving regulatory landscape. Operations teams can enhance customer experience by tools such as application performance monitoring and continuous SLA tracking to ensure customers are proactively alerted about any issues. Additionally, self-service tools such as chatbots, wikis, and user communities help resolve minor issues without needing to call for support. The speed and ease of issue resolution are important drivers of customer delight. Customers also value transparent communication during events such as outages and data breaches.

— Businesses can also adopt a modular architecture with flexible cloud-based infrastructure and agile product development. This modular architecture would enable them to support business growth while ensuring SLA commitments are met, especially around reliability, availability, and serviceability. Modern product design principles also include accelerated product releases using DevOps and agile techniques, enabling rapid implementation and iteration.

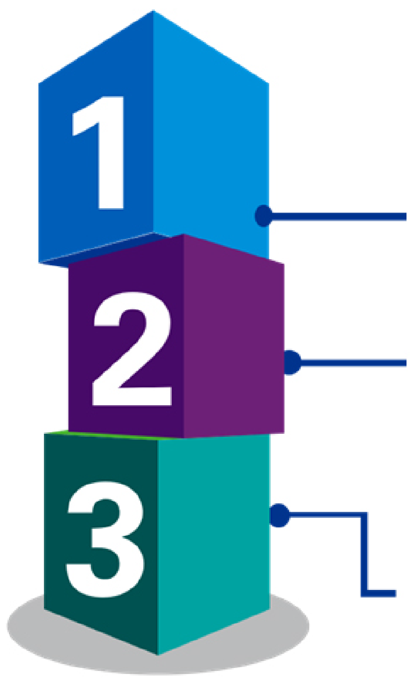
— Finance teams also need to be able to share usage, billing, and payment history for customers on demand. For B2B businesses, customers often need flexibility in billing and invoicing based on geography/company code/cost center, and finance systems as well as processes need to incorporate this into their design. An effective practice is also to implement a robust self-service model to empower customers. Additionally, leading support functions also provide proactive alerts to customers about usage limits, payments due, and credit limit utilization to enhance transparency and trust.

5 Getting started - Digital architecture to drive real-time insights

However, every crisis also creates an opportunity. The COVID-19 pandemic has led to a significant change in customer requirements and is expected to accelerate the shift from product-based to service-based business models. Organizations that invest for the future when confronting a crisis have always emerged stronger and effectively captured the addressable market opportunity. Experience-centric business models have demonstrated superior performance and a sustainable competitive advantage.

Companies need to quickly develop a vision for the future with digital capabilities at the heart of their competitive strategy. Digital transformation also needs to be accelerated using DevOps and agile techniques to implement fast and iterate. Speed to market needs to be a key priority to avoid being disrupted by nimble start-ups or fast-footed competitors.

As outlined previously, building an experience-centric business model requires a significant transformation across the organization. Based on our discussions with leading global companies, we see the following as key drivers of a successful implementation:



Build data & digital capabilities

— Digitize the customer journey in order to enable access to data that enhances customer experience

— Equip the organization with technology, tools and systems that enable a seamless flow of data across business units, function and roles

Drive a customer experience centric culture

— Align functions and processes to customer success goals

— Drive collaboration through roles & processes that focus on customer experience

Process and govemance model

— Align KPIs to customer journeys, creating accountability across functions and roles

— Identify & assign roles for KPIs monitoring, tracking and actioning

— Creating data & insight accessibility across the organization through dashboards & tools in order to drive insight based decisions

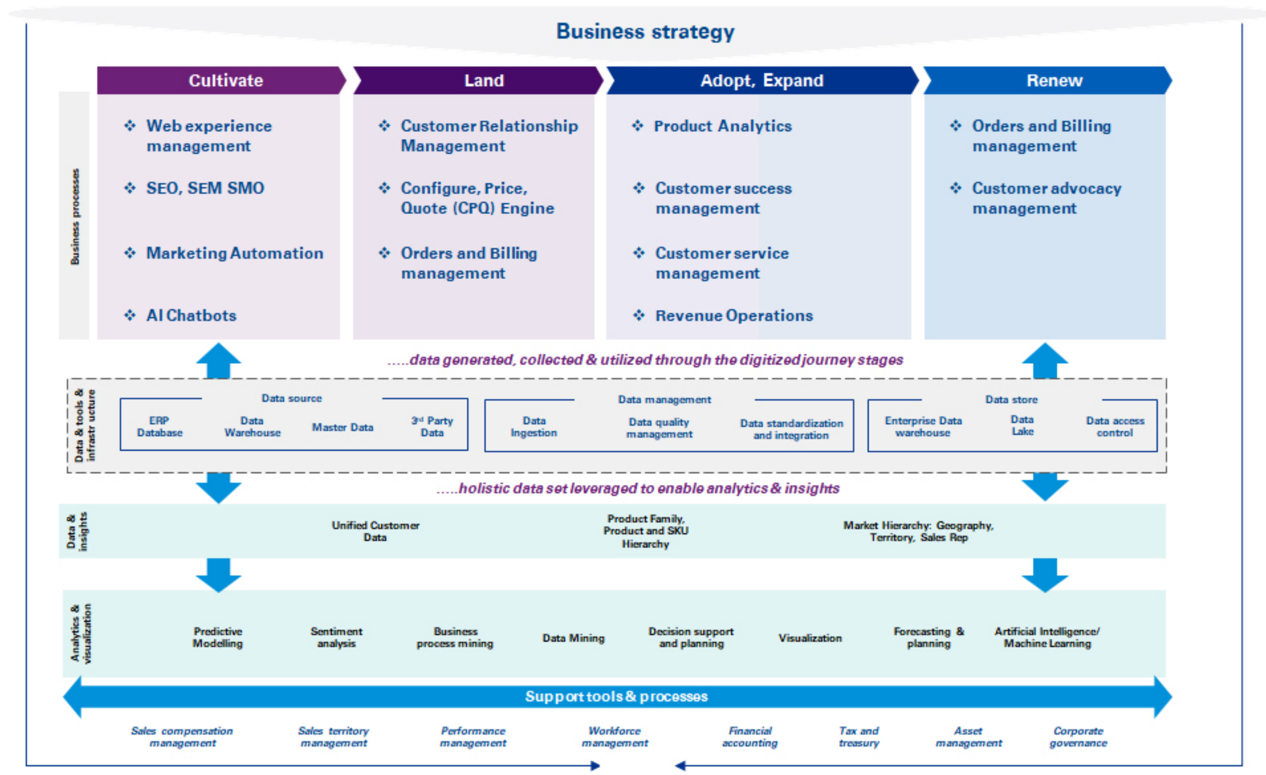
Building data and digital capabilities

A foundational capability to successfully implement an experience-centric business model is a strong technology and digital infrastructure, which drives the flow of real-time data and insights.

There is a proliferation of function-specific SaaS applications (such as sales, marketing, and finance) within organizations. However, these tools operate mostly in siloes, which may lead to an ineffective or flawed strategy for customer profiling, marketing strategies, and customer engagement. A well-planned, integrated, and structured digital architecture enables organizations to generate a holistic view of the customer across touchpoints and helps identify actionable insights to enhance customer experience. When digital architecture is viewed from a customer-experience journey perspective, it helps drive a seamless and delightful customer experience. There are multiple benefits to this approach:

- Provides end-to-end mapping of the customer journey with business processes and capabilities, thereby identifying redundancies
- Helps identify the best fit of tools and application portfolio to meet customer needs while staying true to the business's strategic goals
- Drives collaboration across the organization by linking success, capabilities, processes, and people to customer experience
- Highlights opportunities for new capability development/investment to enhance the customer journey; also enables planning, investment, and prioritization of capability building—digital, technological, and infrastructural.

The following illustration depicts an enterprise architecture based on the customer journey. This illustration aligns business processes across each stage of the customer journey with the relevant technology applications. While there are a variety of powerful and mature applications to choose from, their ability to support standard API-based integration needs to be a key consideration. Additionally, successful implementations have adopted an architecture designed to support business strategy and requirements, rather than integrate a best-of-breed application landscape.



For a fast start on the transformation journey, companies could focus on new business customer data aggregated into a single customer database throughout the entire customer journey from initial awareness. In parallel, cleanse and migrate legacy data over time.

Customer journey and KPIs design

For organizations to implement and sustain an experience-centric business model, they need agile processes that allow quick changes based on market, technology, and consumer changes. A common failure by organizations is that processes are not sequential with functional hand-offs; instead, processes should be aligned across the customer journey with multiple functions collaboratively executing their activities in parallel. For example, insights from the customer success team on customer engagement and product usage are inputs for the sales team to identify opportunities for up-sell and cross-sell. Therefore, common KRAs and KPIs based on the customer lifecycle are needed to align multiple functions towards a common agenda.

An experience-centric business model requires the entire organization to align towards a shared strategy. It is essential that the customer journey and must-win KPIs at each stage are clearly defined and understood across all functions and levels. As a pragmatic approach, the design process can also include crowdsourcing of primary metrics from all functions within the organization and evaluate the correlation and interrelation of the various KPIs. Data required to measure these KPIs must be captured and integrated, allowing a real-time visibility into the health of the business. Accountability for these metrics must also be clearly defined and understood across the business.

Process and governance model

An experience-centric business model requires a cultural shift in the way customers are viewed by everyone in the organization. This change in culture can only be successful if spearheaded by key leaders within the organization including visible personal sponsorship by the Chief Executive Officer (CEO). They would need to drive skill development, clear communication, and frequent interactions so the entire organization gains a deep understanding of the new way of working, which would include all meeting discussions based on the customer journey framework and KPIs.

In experience-centric business models, customer experience and customer success are critical for long-term growth, as it directly impacts customer churn and thereby the customer lifetime value. Customer success functions are increasingly being elevated to a C-level function to ensure that the customer is squarely at the center of all strategic decisions taken by the leadership. Customer success is the glue that brings other functions together in the adopt, expand, and renew stages. Customer success teams track the customer purchase lifecycle and product/service usage to identify engagement points, friction points, and moments of truth. They support the sales and marketing teams by helping identify new revenue opportunities, revenue leakages, and potential customer churn.

The key to succeeding as an experience-based organization is leveraging data to develop forward-looking insights that help businesses stay ahead of the market curve and customer needs. Leading companies invest in creating a data and analytics (D&A) center of excellence (COE) to capture data and generate these insights. The D&A COE is responsible for managing the digital infrastructure across the value chain and ensuring the flow of real-time insights.

The most critical element of an experience-based model is to live by the common metrics defined for the organization. Leading companies implement a robust governance mechanism, including a defined cadence for metrics review, that measures overall business health. Several companies use a weekly review forum to evaluate insights from KPIs and calibrate the strategy and tactics to drive customer loyalty and growth. The D&A COE typically manages this governance process, supporting the CEO and functional leadership in making fact-based decisions aligned with the strategy.

In summary

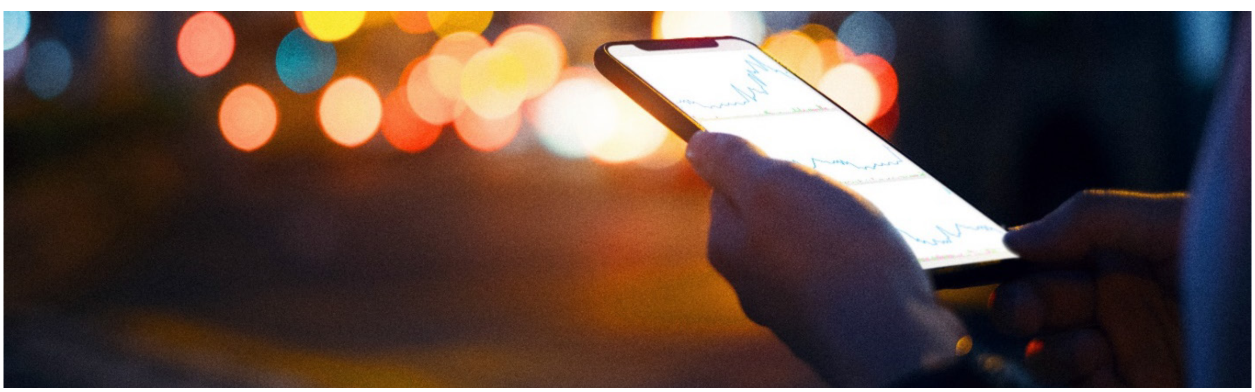
The future success of companies across sectors will be defined by their ability to provide customers contextualized and personalized experiences at every stage of the customer journey. The winners will be those who make customer experience and delight the cornerstones of their strategy, decisions, and culture.

An integrated and digital technology infrastructure, with processes designed based on the customer journey and supported by data-driven governance, is key to this transformation. Organizations will need to embrace a culture of learning and continuous evolution, always aligning towards the overarching goal of customer experience excellence.

Disrupt or be disrupted!

The future will be defined not by incremental innovations but by companies that transform and fundamentally change the status quo using a customer-first lens.

A digital vision for the future needs to be enabled by an accelerated implementation with timelines tracked in weeks rather than months and years.

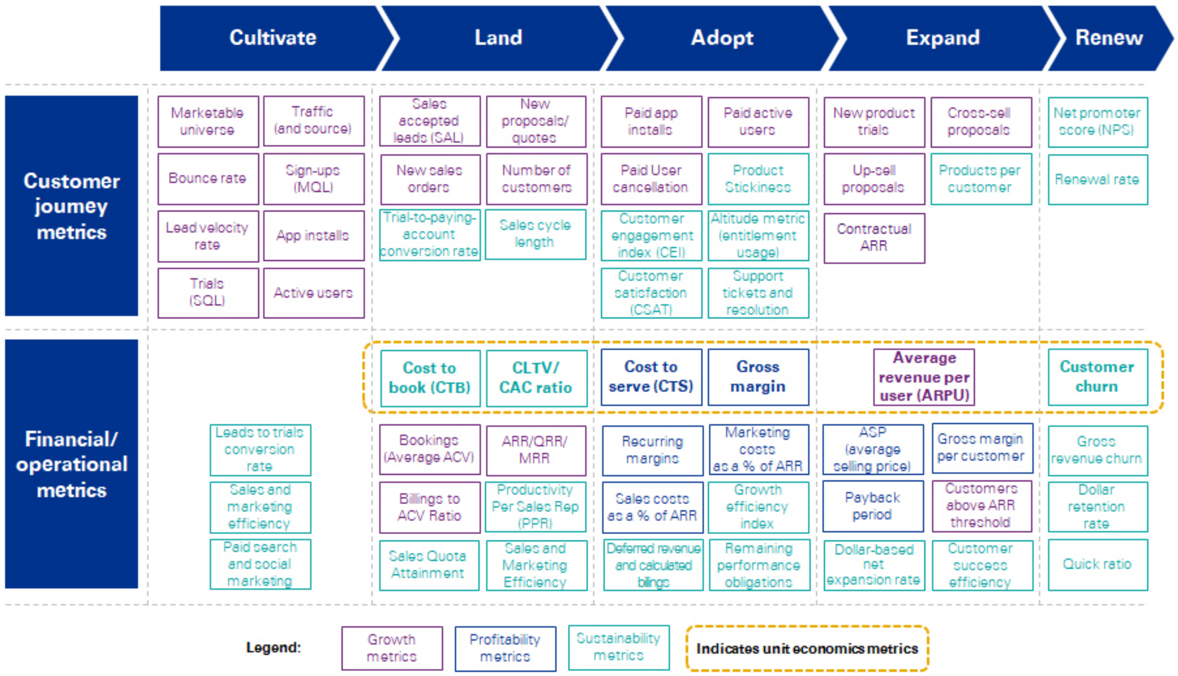


KPMG

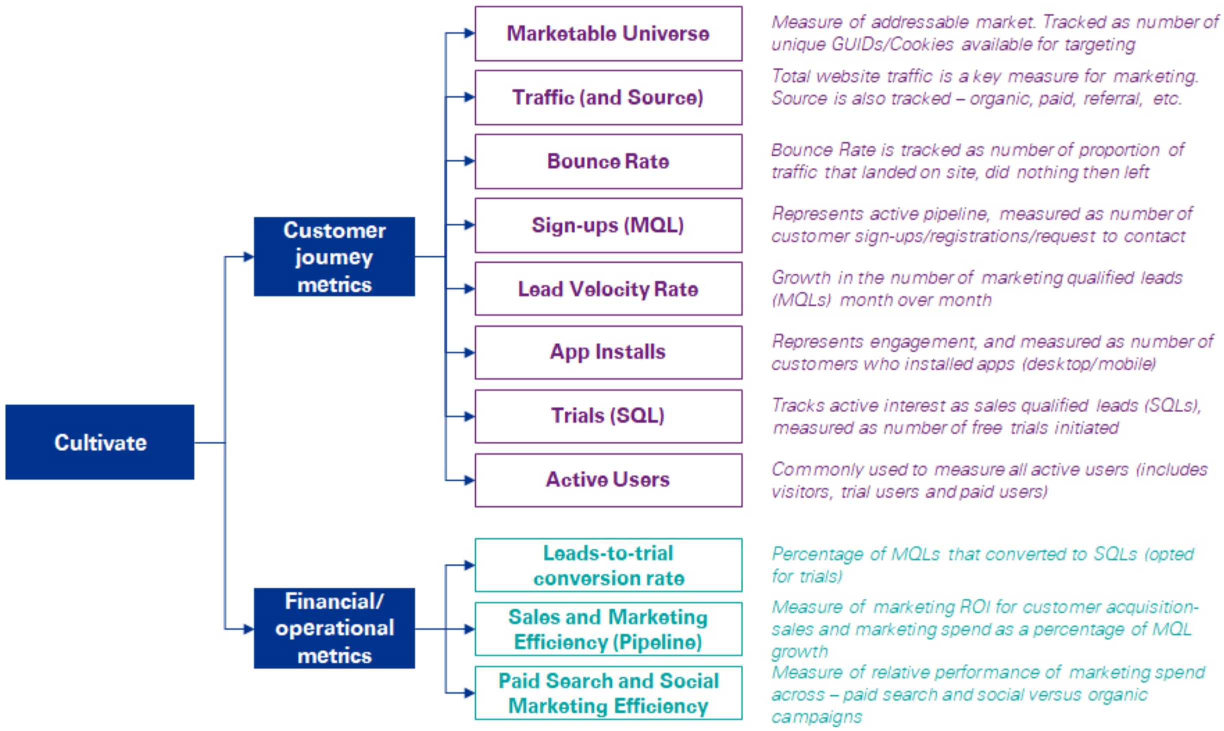
Appendix

Strategic drivers – Formulae and examples

GPS framework across customer experience journey



1. Cultivate



Cultivate – Customer journey metrics

Marketable universe

Marketable universe = **Total number of unique GUIDs/cookies available for targeting**	— Represents the number of customers with valid GUIDs who can be contacted or targeted by the company (includes customers with email opt-ins). — New traffic to the website (and occasional inquiry emails) add to the marketable universe. — This metric is therefore a useful proxy for the addressable market (the base from which the pipeline can be generated) and should therefore be monitored to ensure steady growth.

Traffic and source

Website traffic = Page impressions and identified unique visitors **Source = Referring source (organic, paid, partners, etc.)**	— Given the digital nature of most product/services, website traffic represents customer prospects and is a critical measure to be closely tracked. — Traffic measurement should also include customer segment (enterprise/mid-market/SMB/retail) and geography to better understand their trends.

Bounce rate

Bounce rate = **Single-hit visits (Visitors with no activity on website prior to leaving)/Total website visitors**	— Bounce rate is measured as the proportion of website visitors who did not perform any navigation/actions before leaving. These visitors did not evince interest in the content and represents dropouts from the funnel, given it is significantly harder to reengage such customers. — Bounce rate should be measured and analyzed across multiple dimensions : time (daily/weekly/monthly), customer segment (enterprise/mid-market/SMB/retail), and geography to better understand underlying trends.

Sign-ups/Marketing qualified leads (MQL)

Sign-ups/MQL = Number of customers who have signed up/registered/requested contact	— This metric helps identify engaged and serious prospects—the marketing qualified leads (MQL), which are tracked as the pipeline for the company. — Tracking the acquisition channel and pipeline aging enables businesses to measure the lead quality of channels—organic, paid, and events. — Pipeline monitoring needs to track this steady increase in the number and quality of leads within the pipeline as well as faster progression across the sales process.

Lead velocity rate

Lead velocity rate (LVR) = Avg [(MQL in current month – MQL in previous month)/MQL in previous month]* 100	— Lead velocity rate (LVR) measures the growth of marketing qualified leads (MQL) over a defined period (typically monthly, but can also be tracked daily/weekly) — This metric helps businesses track pipeline growth and quality, as a leading indicator for proportionate growth in revenue. It helps set future direction and strategies for the marketing team.

App installs

App installs = Number of unique instances of application installation across platforms (mobile/desktop)	— With several products/services vying for customer attention, app installation is a valuable signal of consideration and purchase intent. — Customer usage and engagement on websites versus apps also provides useful insights to product teams on user experience (UX). — This is a key metric to track the customer journey within the sales cycle.

Trials/Sales qualified leads (SQL)

Trials = Number of customers who initiated a trial – includes both with and without payment method (if offered)	— Trial users in many cases represent the hand-off point where sales teams take over from marketing teams to convert them into a paying customer. — Trial users typically seamlessly transition to paying users where payment method is provided. It helps identify points of friction in the product purchase and usage to identify opportunities for improvement.

Active users

Active users = Total number of users including – visitors (excluding single hit/ bounce cases) + trial users + paid users	— Commonly measured and reported metric by companies. Typically measured daily and monthly—daily/monthly active users (DAU/MAU) based on trial or paid users. — The active users are closely tracked—especially the trial and paid users—given the likelihood of purchase/engagement.

Cultivate – Financial/operational metrics

Leads-to-trial conversion rate

Leads to trial conversion rate = Percentage of sign-ups that initiated trials	— This metric measures the effectiveness of the business's call to action, by which potential customers are nudged to try the products/services. — The conversion rate is tracked on a regular basis (weekly/monthly) to identify any need for interventions by the sales and marketing teams.

Sales and marketing efficiency (pipeline)

Sales and marketing efficiency (pipeline) = **(Current pipeline – last period pipeline)/Last period sales and marketing expense**	— Measures payback of sales and marketing investments in growing the pipeline. Typically tracked as a lagging measure (i.e., sales and marketing spend in each period helps increase pipeline in the subsequent period). — This metric is also tracked at the land stage based on bookings, and a variant is sometimes referred to as the "magic number," which reflects its importance.

Paid search and social marketing efficiency

Paid search and social marketing efficiency = **Click through rate (CTR), cost per click (CPC), cost per conversion and conversion rate for paid search and social channels**	— Measures payback of budget spent for display/paid search and social campaigns to drive the pipeline. Calculating this metric also requires effective attribution of marketing campaigns/activities to outcomes. — These metrics are tracked across the cultivate stage: – Website traffic origination is tracked through click through rate (CTR) and cost per click (CPC). – Conversion into sign-up/MQL is tracked through cost per conversion and conversation rate. — Paid search and social is expensive due to their reach and high competition. Tracking their payback is key and needs to be rationalized by adopting referral channels when sufficient scale is achieved.

2. Land

- **Land**
  - **Customer journey metrics**
    - **Sales Accepted Leads (SAL)** — *Engaged and active trial users for B2C; BANT qualified leads for B2B*
    - **New Proposals/Quotes** — *Number of proposals/quotes generated for trial users to convert to a paid customer during a period*
    - **New Sales Orders** — *Number of new contracts/sales orders signed during the period (week/month/quarter)*
    - **Number of Customers** — *Number of customers who have given a financial commitment for usage of the service*
    - **Trial-to-paying-account conversion rate** — *Number of trials that opted for a paid contract percentage*
    - **Sales Cycle Length** — *Time from initial interaction to the completion of the sale, in days*
  - **Financial/ operational metrics**
    - **Cost to Book (CTB)** — *CTB is measured as total cost to acquire a paying customer, including sales, marketing, and free trials*
    - **CLTV/CAC Ratio** — *Estimated customer lifetime value (CLTV) of a customer as a multiple of CAC*
    - **Bookings (Average ACV)** — *Value of new contracts signed during a period – Annualized over contract term*
    - **ARR/QRR/MRR** — *Periodic recurring revenue over a specific period that does not include one-off fee*
    - **Billings to ACV Ratio** — *Ratio of how much has been billed to the annual value of a particular contract*
    - **Productivity Per Sales Representative (PPR)** — *Value of new business (average ACV) generated per sales FTE*
    - **Sales Quota Attainment** — *Sales quota attained by sales staff percentage*
    - **Sales and Marketing Efficiency (Bookings)** — *Measure of sales and marketing spend versus future revenue growth and dollar bookings*

Land – Customer journey metrics

Sales accepted leads (SAL)

Sales accepted leads = **Active and engaged users based on engagement score (B2C) OR** **qualified leads using BANT framework (B2B)**	— SALs represent customers with a high probability of conversion, where sales teams need to engage and close the deal. — For B2C customers, active and engaged trial users are considered SALs. — For B2B, a more rigorous framework, such as budget availability, authority to sign a contract, need for the product/service, and timeframe for closure (typically referred to BANT framework), is typically used to prioritize leads.

New proposals/quotes

New proposals/ quotes = **Number of proposals/quotes generated for trial users to convert to paid customers**	— The final stage before a sale is to generate a customized proposal/quote. In some instances, especially for B2B sales. — The quote needs pricing approval for nonstandard/discounted offers. — Analysis of quotes also yields insights around discounting that can be monitored to improve margins.

New sales orders

New sales orders = **New orders signed during the period (week/month/ quarter/year)**	— New sales orders are viewed in conjunction with total contract value, annual contract value, and contract term to insights around relative performance of B2B versus B2C segments, different geographies, and sectors. — New sales orders are typically further analyzed based on sales channel to measure channel effectiveness. This metric also highlights any early warning signs needing intervention.

Number of customers

Number of customers = **Total number of active, paying customers (who have given financial commitment for usage of service)**	— This metric measures the paid customer base and tracks business momentum, especially as platform efficiencies start to accrue with a larger customer base. — After adjusting for seasonality, this metric is expected to show a growing year-on-year trend due to network effects (referrals).

Trial-to-paying-account conversion rate

Trial to paying account conversion rate = % of free trials that converted to be a paid contract	— The conversion is tracked separately for customer "self-serve" (in-app conversions) and for sales-led conversions (with sales team intervention). — Tracking the conversion rate over a regular period helps monitor the efficiency with which the business is acquiring customers. — Over a longer term, the conversion ratios for the same product, leveraging the same sales channel should show an increase, due to efficiencies achieved in processes.

Sales cycle length

Sales cycle length = Time from sign-up (MQL) to becoming a paying customer (sale)	— The sales cycle length is measured in days, and it tracks the time taken for a customer to move from a marketing qualified lead (MQL) to a paying customer. — The sales cycle length for B2C consumers reduces considerably due to word of mouth, referrals, and an established brand proposition. — B2B sales cycle length would be longer and dependent on the purchase cycle of the customer.

Land – Financial/operational metrics

Cost to book (CTB)

CTB = Total cost to acquire a paying customer, including sales, marketing, free trial, onboarding, and any professional services for implementation	— CTB is a key driver of the unit economic metrics and helps to evaluate the long-term profitability of the business. — The CTB metric is analyzed along with cost to serve (CTS) and non-GAAP operating margin (i.e., ARR – CTB – CTS = Operating Margin, or Operating Margin % = 1 – CTB% + CTS%).

CLTV/CAC ratio

CLTV = (ARR per account * Margin) * (1/Churn %) **CAC = Cost to acquire a paying customer, includes sales, marketing, onboarding** **CLTV/CAC ratio = Customer lifetime value (CLTV) of a customer as a multiple of CAC**	— Customer lifetime value (CLTV) is estimated by projecting lifetime margin earned from a paying customer. It is a composite metric that includes other key drivers such as annual recurring revenue (ARR), cost to serve (CTS)/margin, and churn. CLTV can be difficult to calculate, especially since it includes variable metrics associated with the customer, such as churn and gross margin. — Customer acquisition cost (CAC) is measured as total cost of sales and marketing efforts to acquire new customers, including the cost of onboarding. Unlike CTB, the CAC metric typically does not include the cost of free trials and professional services to implement the product/service. — CAC in conjunction with customer lifetime value (LTV) helps ascertain the return on investment from each customer acquisition. An LTV/CAC ratio of three or higher is considered healthy. Some companies calculate this ratio based on CAC versus 3-year LTV as opposed to a 10-year LTV or expected period calculated based on churn data.

Bookings (TCV, Annualized ACV, Average ACV)

Total contract value (TCV) = Contractual value over the term of the contract (one-time and recurring)

Annualized ACV = Measured based on contractual value of revenue to be received from the customer

Average ACV = Average revenue (one-time and recurring) that the business will receive per customer over one year

- ABC Corp enters into a cloud-based service contract with the customer for a three-year period and the customer is obligated to pay $1 million for Year 1, $2 million for Year 2, and $3 million for Year 3. The nature and quantity of services perioded for all three years is the same and the payments are back-end loaded due to cash flow reasons (i.e., price ramp deal). Revenue recognition accounting rules specify that ABC Corp would recognize $2 million in revenue for each of the three years. ACV and ARR metrics for this example would be as noted:

Values in $ million	Year 1	Year 2	Year 3
ACV	1	2	3
ARR	2	2	2

- If the above scenario does not apply to a company or if contractual amounts and revenue recognition are similar, the average ACV, in conjunction with other metrics such as customer acquisition costs, total contract value, number of customers, and annual recurring revenue, yields actionable insights.

ARR, QRR, MRR

ARR, QRR, MRR = Periodic recurring revenue over a specific period that does not include one-off fees

- These drivers measure the amount of revenue to be collected by a company over a defined period (month/quarter/year). It offers predictability and transparency regarding the revenue outlook.
- It highlights the momentum at which the businesses are growing across a defined time.

Billings to ACV ratio

Billings to ACV ratio = Total billings to customer/Annual value of contract

- This ratio depends on the average duration of the contract and advance payment terms. These would vary depending on the type of product, pricing, and customer segment (B2B or B2C).
- With time, the ratio turns favorable, as more payments are made up-front based on customer satisfaction and trust.

Productivity per sales representative (PPR)

Productivity per sales representative (PPR) = Value of new business (average ACV) generated per sales FTE

- The metric is also further analyzed by new logos and cross-sell to existing customers to ensure a balanced approach to hunting new customers and farming existing customers. The metric is expected to grow period over period, presenting a quick way to measure sales effectiveness.

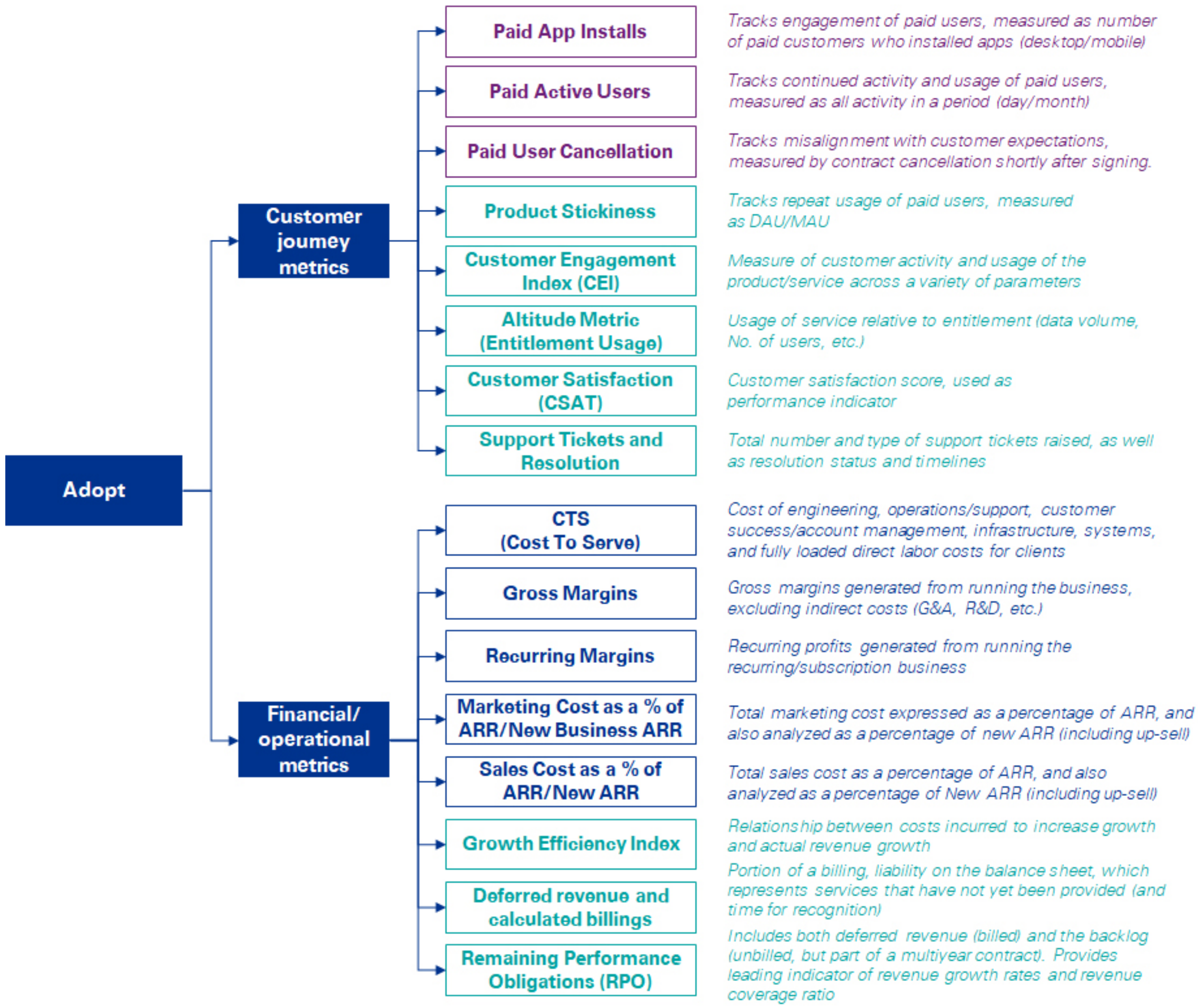
Sales quota attainment

Sales quota attainment = % of sales personnel achieving or exceeding their sales quota **Sales quota attainment = total new business booked/total quota capacity**	— A sales quota attainment of 70 percent–80 percent is a typical benchmark, accounting for new salespeople still ramping up to on-target earnings performance. — Some companies normalize this metric to measure sales quota attainment against a ramping quota (quote lowered by accounting for new sales representatives). This allows tracking sales quota attainment at regular intervals to help identify any limitation or challenges across sales target or incentive planning. — Separate and frequently used measure of quota attainment is calculated based on total new business booked/total quota capacity, which would help for planning purpose on how much quota capacity that should be planned to have on board in order to hit a certain bookings target.

Sales and marketing efficiency (bookings)

Sales and marketing efficiency (bookings) = (Current quarter ARR – last quarter ARR)/Last quarter's sales and marketing spend **Investor sales and marketing efficiency = Trailing 12-month sales and marketing/trailing 12-month incremental recurring revenue [(or current quarter recurring revenue – last quarter recurring revenue) * 4] + trailing 12-month license revenue (if any)**	— Also known as the magic number, a ratio below 0.75 for pre-IPO companies highlights inefficient or unsustainable client acquisition strategies, warranting a relook at the go-to-market strategy. A magic number ratio higher than 0.75 indicates that the business model is sustainable and presents a case for investments in growth. — A better view of this metric can be obtained by using a gross-margin-adjusted magic number, which is calculated by considering the current period's incremental margin as a proportion of last period's sales and marketing expenses. A GM-adjusted magic number of 0.5 or more is ideal, given typical 70 percent–80 percent gross margin. — Public company investors sales and marketing efficiency metric range is around 1x (efficient)-2.5x (inefficient), with a ratio of below 1.2x considered best in class. This sales and marketing efficiency metric over time goes up as companies become bigger. As a result, investors' common practice is to evaluate the sales and marketing efficiency metric along with operating margin or changes in operating margin in relation to revenue growth.

3. Adopt



Adopt – Customer journey metrics

Paid app installs

Paid app installs = Number of unique instances of application installation across platforms (mobile/ desktop) by paying customers	— Following a sale, app installation (desktop/mobile) is a key signal of intent by customers to invest time and effort into the product/service. — Paid app installs are a fundamental driver of revenue for the business and need to be monitored closely. — Low usage or deletion of apps are serious triggers that warrant immediate intervention.

Paid active users

Active users = Total number of paid users including with activity in the defined period	— Postpurchase, usage is a key metric tracked by businesses. — Activity is defined as login/exploration/usage of the product or service and is tracked very closely for paid customers. — This metric is measured typically as daily active users (DAUs) and monthly active users (MAUs).

Paid user cancellation

Paid user cancellation = Number of paid users canceling service before the end of the contract period (i.e., excludes churn during renewal)	— Cancellations in the immediate aftermath of a sale are red flags for the business. — It is critical to measure customer activity and engagement to prevent users from reaching a cancellation stage. — As the attrition is inevitable, it is critical to gather detailed feedback from customers to help prevent recurrence. — Smooth customer exit opens the possibility of reengagement at a later stage.

Product stickiness

Product stickiness = Daily active users (DAU)/Monthly active users (MAU)	— This metric tracks continuing usage of the product and is typically tracked as the daily active users (DAU) as a proportion of monthly active users (MAU). — Using sophisticated product analytics tools, companies can further track this metric at a feature level to understand product stickiness at a finer grain.

Customer engagement index (CEI)

Customer engagement index (CEI) = Rating ranging from 0–100 (higher the better) based on the product/service usage data	— It typically includes the continued usage of product features by customers and is directly correlated to the health of customer success. — This metric is usually calculated weekly and a customer will be assigned CEI rating ranging from 0–100 (higher the better) and analyzed based on low, medium, and high CEI scores. — Low usage of features could be a result of an inferior understanding of the product and the features present.

Altitude metric (Entitlement usage)

Altitude metric = Utilization of services across various parameters (data volume, number of users etc.) as against the allowed or entitled usage	— It is measured for a specific period, against the revenue from the customer. Helps ascertain the value the customer is receiving for the money being paid and highlights underutilization/overutilization. — In cases of underutilization, increased engagement with the customer may be necessary. — In cases of overutilization, customers may be offered additional or new product offerings to meet their needs (up-sell).

Customer satisfaction (CSAT)

Customer satisfaction = Measure of customer satisfaction typically on a scale of 1 to 10 (higher the better)	— A CSAT rating is an essential tool to understand the value customers perceive they derive from an interaction, engagement, feature, or product. — Insights from these tools or surveys help businesses not only improve future experiences but also continuously innovate their products, services, and processes.

Support tickets and resolution

Support tickets = Total No. of support tickets raised **Resolution = % of support tickets resolved (and aging)**	— Support tickets and their analytics are key parameters to monitor as they help identify friction during adoption and usage. — The duration taken to resolve the tickets, including SLA compliance and associated penalties is also a key metric to be tracked. — Effective and swift resolution of queries and tickets are an indicator of a positive customer experience.

Adopt – Financial/operational metrics

Cost to serve (CTS)

CTS = Σ (recurring service expenses, per customer)/revenue	— CTS is defined as the recurring service expense for a customer and usually calculated as a percentage of revenue. — It includes all direct costs such as subscription costs, research and development, account management, customer success, engineering, customer support, operations and billing, infrastructure, and fully loaded labor cost.

Gross margins

Gross margins = (Subscription revenue – subscription COGS)/ Subscription revenue	— Gross margins are measures of profitability and calculated as the difference between subscription revenues and costs as a proportion of subscription revenue. — As companies grow their customer base and benefit from economies of scale, it results in lower sales and marketing costs as a percentage of revenue and increases gross margins at later stages. Ideal gross margins for recurring revenue-based businesses falls between 70 percent–80 percent.

Recurring margins

Recurring margin = **(Exit ARR – Annualized recurring expense (i.e. cost to serve expenses))/Exit ARR**	— Recurring margins are the profits generated from the recurring business. — Recurring margins provide an indication towards the long-term operating margin of the business. — Recurring margin is calculated based on exit ARR less annual recurring expense (i.e., cost to serve expense).

Marketing cost as a percentage of ARR/new business ARR

Marketing cost as a % of new business ARR= 100 * Total marketing cost/ New business ARR	— This metric measures effectiveness of marketing in growing the business. A higher number in the early stages of a business is justifiable, as it depicts investment across brand building and customer acquisition.

Sales cost as percentage of ARR/new business ARR

Sales cost as a % of new business ARR = 100 * Total sales cost/New business ARR	— This metric measures the effectiveness of sales investments in generating new recurring revenue. During the initial stage of an organization, this number is higher and slowly tapers down as the business gains a larger base of existing and growing customers. — It is essential to track this number across channels, geographies, and customer sets to design a well-rounded sales strategy.

Growth efficiency index (GEI)

GEI = Growth expense/ARR growth	— GEI is a measure of revenue growth efficiency, which looks at the relationship between costs incurred to increase growth and the actual revenue increase. Growth expenses include sales and marketing expenses as well as customer success expenses. The GEI can also be measured on ACV. Additionally: — ARR growth = Growth expense/GEI **Illustration:** A growth expense of 0.6 and a GEI of 1.4, with a churn rate of 25 percent, would give a net ARR growth of approximately 18 percent.

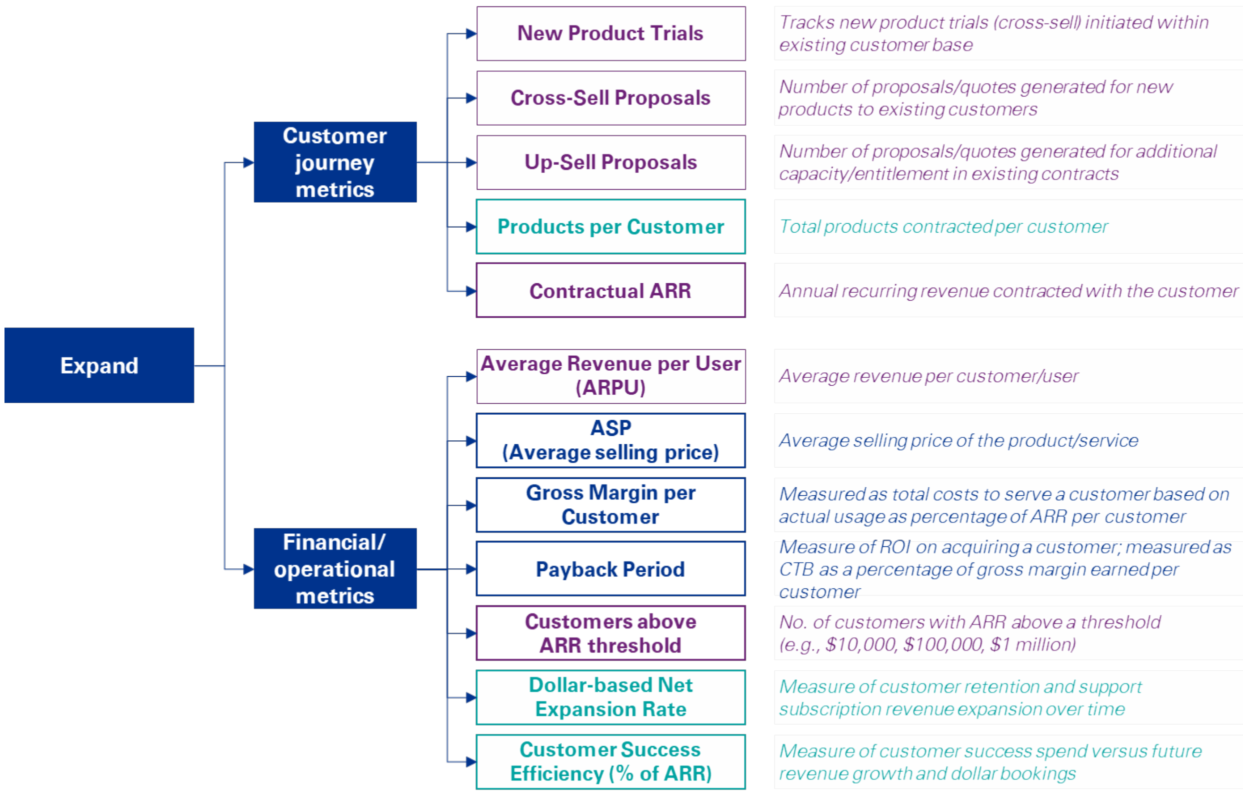
Deferred revenue and calculated billings

Deferred revenue = Portion of a billing for which revenue has not been recognized, represents services that have not yet been provided **Calculated billings = Current period revenue + (ending deferred revenue – beginning deferred revenue) – (ending unbilled accounts receivable – beginning accounts receivable)** **Coverage ratio = deferred revenue/annual revenue guidance**	— In certain billing models, customers may be billed in advance for the services they are provided. Deferred revenue is a portion of the billing that has not yet been recognized, for services that have not yet been provided. — It highlights the revenue that is yet to be earned and provides visibility concerning the actual earned revenue. — If a SaaS company is growing its bookings, either through new business or upsells/renewals to existing customers, billings will increase. Some investors believe that calculated billings is a better forward-looking indicator of the health of a SaaS company.

Remaining performance obligations (RPO)

RPO = Remaining performance obligations over the life of the contract, both billed and unbilled = deferred revenue + Unbilled deferred revenue **Current RPO = Revenue expected to be recognized over the next 12 months** **Coverage ratio = Current RPO/annual revenue guidance**	— Revenue recognition rules define RPO and is an audited financial metric in a company's financial statements. Investors prefer this metric since it is standardized and is used as a primary metric to evaluate the health of the business for subscription/recurring revenue business models. — RPO is over the life of the contract—both billed and unbilled. It includes the deferred revenue (billed) and the backlog (unbilled deferred revenue, but part of a multiyear contract). This metric provides an accurate visibility into revenues likely to be recognized by the business and provides a view of the long-term health of the business. — This metric is analyzed as current RPO (i.e., next 12 months) and thereafter trended on a quarterly basis, with time bands compared to prior-period comparatives for growth rates. — Revenue coverage ratio is calculated as current RPO/annual revenue guidance.

4. Expand



Expand – Customer journey metrics

New product trials

New product trials = **Number of new product trials initiated by existing customers**	— A key measure of customer success team performance is to track new product trials initiated by existing customers. The sales conversion is also better for these trials, given they are existing and satisfied customers.

Cross-sell proposals

Cross-sell proposals = **Number of proposals/quotes generated for new products to existing customers**	— Following trials for cross-sell opportunities, the customer success teams supported by the sales team generates customized proposals/quotes. — It is important to track such proposals that drive an increased revenue per customer. Cross-sell opportunities showcase the ability to add adjacent products to existing customers and is a key driver of long-term value.

Up-sell proposals

Up-sell proposals = **Number of proposals/quotes generated for additional capacity/entitlement in existing contracts**	— Based on usage analysis, customer success teams supported by the sales team generates customized proposals/quotes for up-sell (added capacity/entitlement). These are tracked to ensure effective organic growth in customer usage of products/services.

Products per customer

Products per customer = Σ (products/services purchased by customer)	— Products per customer includes the total number of all products/services purchased by a single customer account. This metric indicates customer trust and confidence in the brand and customer experience. — Leading companies also publish this metric externally to showcase their ability to successfully launch adjacent products/services in the market.

Contractual ARR

Contractual recurring revenue by customer segments/up-sell/cross	— The amount of annual recurring revenue contracted with the customer — It helps identify the high-value segment of customers, where up-sell and cross-sell opportunities can be leveraged.

Expand – Financial/operational metrics

Average revenue per customer/User (ARPC/ARPU)

Average revenue per customer/user = **ARR/Number of customers or users**	— The average revenue per customer or per user metric measures the average revenue per customer over a given time period (typically average recurring revenue per customer over a month/year). — Most leading businesses measure APRU across distinct sets of customers—existing versus new, B2B versus B2C, and geography. It provides an accurate outlook on the business and highlights changes in customer behavior.

Average selling price (ASP)

Average selling price = **Average price paid by a customer in a product/service contract**	— ASP needs to be tracked using multiple lenses for best effect – geography (mature versus new), customer segment (enterprise versus mid-market/small- and medium-sized enterprise), product (maturity within product lifecycle), and customer vintage (time since onboarding). It helps monitor discounting.

Gross margin per customer

Gross margin per customer = Total costs to serve a customer based on actual usage as % of ARR per customer	— This is defined as the gross margin earned per customer, based on their actual usage of the product/service, and referred to as gross-margin-adjusted annual recurring revenue. — While most platform companies have very healthy gross margins, this metric needs to be seen in conjunction with the altitude metric to ensure these gross margins are not due to customers not using their entitlement.

Payback period

Payback period (in months) = Cost to book a customer/gross margin per customer	— This metric helps to evaluate the return on investment from acquiring a customer. For example, if the cost to acquire a customer is $140, with an average ARR of $200 and gross margin of 70 percent, the payback period is 12 months. A payback period of up to 18 months is a good measure of long-term sustainability.

Customers above ARR threshold

Customers above ARR threshold = Number of customers with ARR above a threshold **(e.g., $1 million, $10 million, $100 million)**	— Customers above the ARR threshold metric facilitate segmentation of customers to align sales, account management, and marketing efforts. — An additional insight would be to review how many new businesses signed above the threshold in the current period have potential for an up-sell (i.e., some deals sell the entire opportunity to the customer versus others have significant potential up-sell opportunities). For example, it is important to analyze how many new deals greater than $50,000 ARR were at enterprise-level companies (i.e., say at one location of a multi-national company) with a potential to add multiple locations at that company in future ultimately resulting in a multimillion-dollar ARR account. Such enterprise accounts could then be tracked closely for future share of wallet expansion.

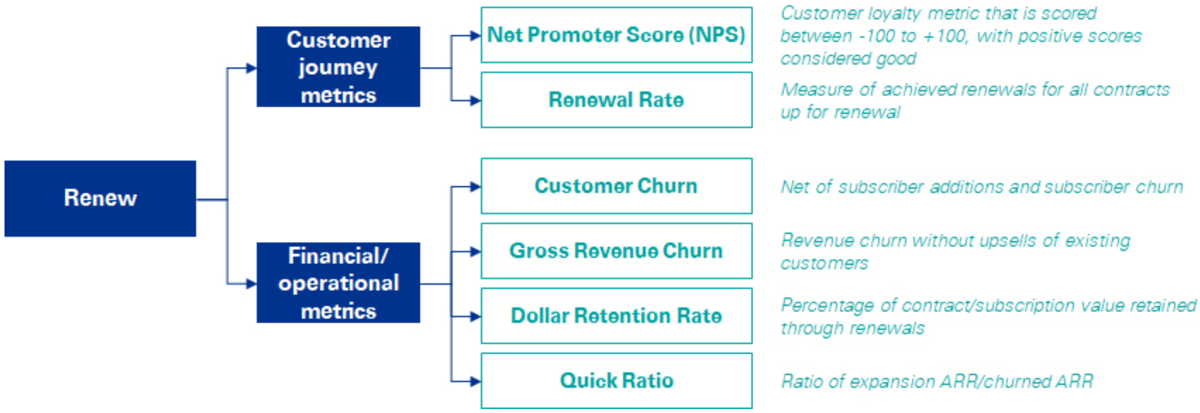
Dollar-based net expansion rate (DER)

DER = Aggregate ACV at t for current customers 12 months prior/Aggregate ACV at t-1 for the same customers	— This a measure of net customer value growth, from existing customers over a period. It tracks the health of customer relationships and the sustainability of revenue over time. — Dollar-based net expansion rate along with cross-sell and up-sell percentage provides a view of the quality of customers in a business and their experience.

Customer success efficiency (% of ARR)

Customer success efficiency (% of ARR) = Customer success expenses as a % of ARR	— This metric measures the efficiency of the money spent on customer success to bring in revenues to the business. — During the initial stages, the customer success spends are directed towards engaging customers and enhancing utilization/usage of the product. In later stages the spending is used to identify opportunities of cross-selling, up-sell, managing churn, and driving renewals.

5. Renew



Renew – Customer journey metrics

Net Promoter Score (NPS)

NPS = % Promoters – % Detractors	— NPS helps to identify customer loyalty and advocacy. Industry standard way to measure NPS is to ask all customers: "How likely are you to recommend this service to a friend or colleague?" Respondents provide a choice on a scale of 0 (not at all likely) to 10 (extremely likely). Customers that respond with a 9 or 10 are considered promoters. Customers that respond with a number between 0 and 6 are considered detractors. Customers that respond with a 7 or 8 are considered passives. — Promoters are loyal customers who continue buying and enthusiastically refer the product/service to others. Passives are satisfied but unenthusiastic customers who are vulnerable to poaching by competition. Detractors are unhappy customers who are likely to churn and create a negative perception in the minds of prospects. — NPS is calculated as the difference between the percentage of promoters and percentage of detractors. Passives don't contribute to the score. If all customers gave you a 9 or 10, your NPS is +100. If all customers gave you a score between 0 and 6, your NPS is -100. — An NPS between 30 to 70 are considered good. Very few exceptional companies achieve an NPS higher than 70. — While the NPS represents an explicit statement from customers based on survey responses, it is important to track customer sentiment across their experience journey. Customer sentiment can be tracked through structured as well as unstructured data (e.g. call center interactions, voice/video/text analysis from communications) to identify implicit signals and initiate timely interventions proactively.

Renewal rates

Renewal rate = 100* contracts renewed/ contracts up for renewal	— Renewal rate is calculated in contract, customer, and value terms. It is measured as No. of contracts/No. of customers/dollar value as a percentage of No. of contracts/No. of customers/dollar value up for renewal. — A special aspect of renewals tracked is the proportion of customers retained after initiating a cancellation.

Renew – Financial/operational metrics

Customer churn

Gross customer churn = **100 * Total customers cancelling contracts/ Total customers at the start of the period** **Net customer churn=** **100 * (Total customers canceling contracts – Total new customers added)/Total customers at the start of the period**	— Churn represents the percentage rate of cancellations over time and is often calculated on a quarterly and annual basis. — Businesses also conduct a deeper dive into churn to track trends across contract size, customer segments, geographies, and products/services.

Gross revenue churn

Gross revenue churn = 100 * (Cancellations or reduction in contracted revenue)/Contracted revenue at the start of the period	— This metric measures revenue lost without affect from up-sells or upgrades from existing customers and is usually tracked as loss in MRR/ARR terms. — Tracking the gross revenue churn is essential to the health of the business. Gross revenue churn can be minimized by eliciting customer feedback regularly, understanding customer needs, and designing product offerings to meet their expectations.

Dollar retention rate (DRR)

DRR = 100 * ARR at the end of the year/ARR at the start of the year	— The dollar retention rate (DRR) metric is used to measure retention of the revenue base and includes the benefit of up-sells, cross-sells, and price increases. If the DRR is 100 percent, it means the company has renewed 100 percent of its revenue from the previous year. — DRR is an aggregate metric because it considers both lost revenue from customer cancellation (i.e., lost customers who were unhappy customers) as well as down-sell and up-sell to existing customer (satisfied customers). — Dollar retention rate, net is calculated based on the total revenue less any revenue churn (caused by departing customers, or customers who have downgraded) plus any revenue expansion from upgrades, cross-sells or upsells.

Quick ratio

Quick ratio = (New + Expansion ARR)/(Canceled + Contraction ARR)	— This metric measures the growth efficiency, which combines revenue and churn. — In simple terms, it measures the total revenue being added for each dollar lost during a period.

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