EBOOK

SaaS Finance Leaders: 5 Steps to Drive Your Company from Early to Growth Stage

Intro by Jeff Epstein, Operating Partner, Bessemer Venture Partners

Software and SaaS

sage |Intacct

INTRODUCTION

Jeff Epstein

Operating Partner,
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Jeff Epstein is an Operating Partner at Bessemer Venture Partners, one of the largest and oldest venture capital firms in the United States. Bessemer was an early investor in Sage Intacct through its' sale to Sage. Jeff is a strong supporter of Sage Intacct—many of his roughly one hundred portfolio companies use Sage Intacct for their accounting. As an operating partner and CFO to one of the largest public software companies in the world, Oracle, Jeff has helped software companies through all stages of growth.

Jeff recently presented with Sage Intacct's Head of Operations and Finance, Marc Linden, at the Sage Intacct SaaS Finance Summit in San Jose. At the summit, he shared what investors look for in each stage of investment—the business model, growth expectations, and desired capital efficiency—for businesses seeking to grow through outside investment.

WHAT YOU NEED TO PROVE AT EACH STAGE

Investors expect you to prove different aspects of your business model at each stage of growth to achieve your next round of funding. This eBook focuses on the early and growth stages.

In your early stage, you need to prove your revenue model. According to Jeff Epstein, this means that seventy-five percent of your sales reps are meeting their quota, and your growth is greater than 100%.

When you hit your growth stage, you're proving your net renewal model. This means you need to demonstrate that your customers are coming back a second and third time to buy from you.

STAGE	AMOUNT RAISED	USE OF FUNDS	THE MEANING
SEED	$2.5M	Product market fit	Acquire 10 ecstatic customers
EARLY STAGE	$6M	Prove revenue model	75% of sales making quota
GROWTH STAGE	$10M	Prove recurring revenue model	Customers buy a second and third time
LATE STAGE	$23M+	Grow to $100M in gross profit	Scale repeatable and predictable processes
M&A OR IPO	$75M+	Expand product line, go global, acquisitions	Move into adjacent markets and geographies

EARLY STAGE GOALS TO PROVE YOUR REVENUE MODEL

To get to this stage, you've already proven your product market fit. To prove your revenue model you must demonstrate that you can efficiently and consistently scale your sales.

Build a repeatable, efficient sales process. Streamlining your quote-to-cash process as early as possible will enable transactions to flow more smoothly, allowing Sales to focus more on selling.

Key goal: 75% of your sales team can achieve their quotas while maintaining a growth rate of 100%.

Establish promising initial unit economics. Unit economics is the time that it takes to earn back the cost of acquiring a customer. It's calculated by dividing your customer lifetime value (CLTV) by the cost to acquire a customer (CAC). Now is the time to shift from manual and ad-hoc calculations on billings and cash to consistent, real-time metrics to support your data-driven decisions.

Key goal: 2X your CAC Payback Period in <18 months.

Ensure your financials are solid. The best time to take on ASC 606 automation is in the earlier stages of growth. The more contracts you have in flight or complexities, such as frequent changes or multi-element arrangements, the more challenging it is to update contract history later.

Key goal: GAAP-compliant financials, including ASC 606 revenue recognition.

GROWTH STAGE GOALS TO PROVE YOUR RECURRING REVENUE MODEL

To get to this stage, you've proven your product market fit and your ability to efficiently scale your sales. To prove your net expansion revenue model, you must demonstrate that you can retain your customers and sell them additional offerings.

Manage your customer lifetime value (CLTV). Investors want to see that you're selling to customers a second and third time. This may mean expanding your offerings. You also need to know the original contract, plus its performance obligations, so you can track and measure changes over time.

Key goal: Net Renewal Rate >100%, where Starting Revenue – Churn + Upsell =>100%.

Show Capital Efficiency. You need to prove the model is working. This shows the repeatability and predictability of your product/market fit and unit economics. To track this, you need to know expenses by dimension as well as the expected billings, revenue, and cash, by customer.
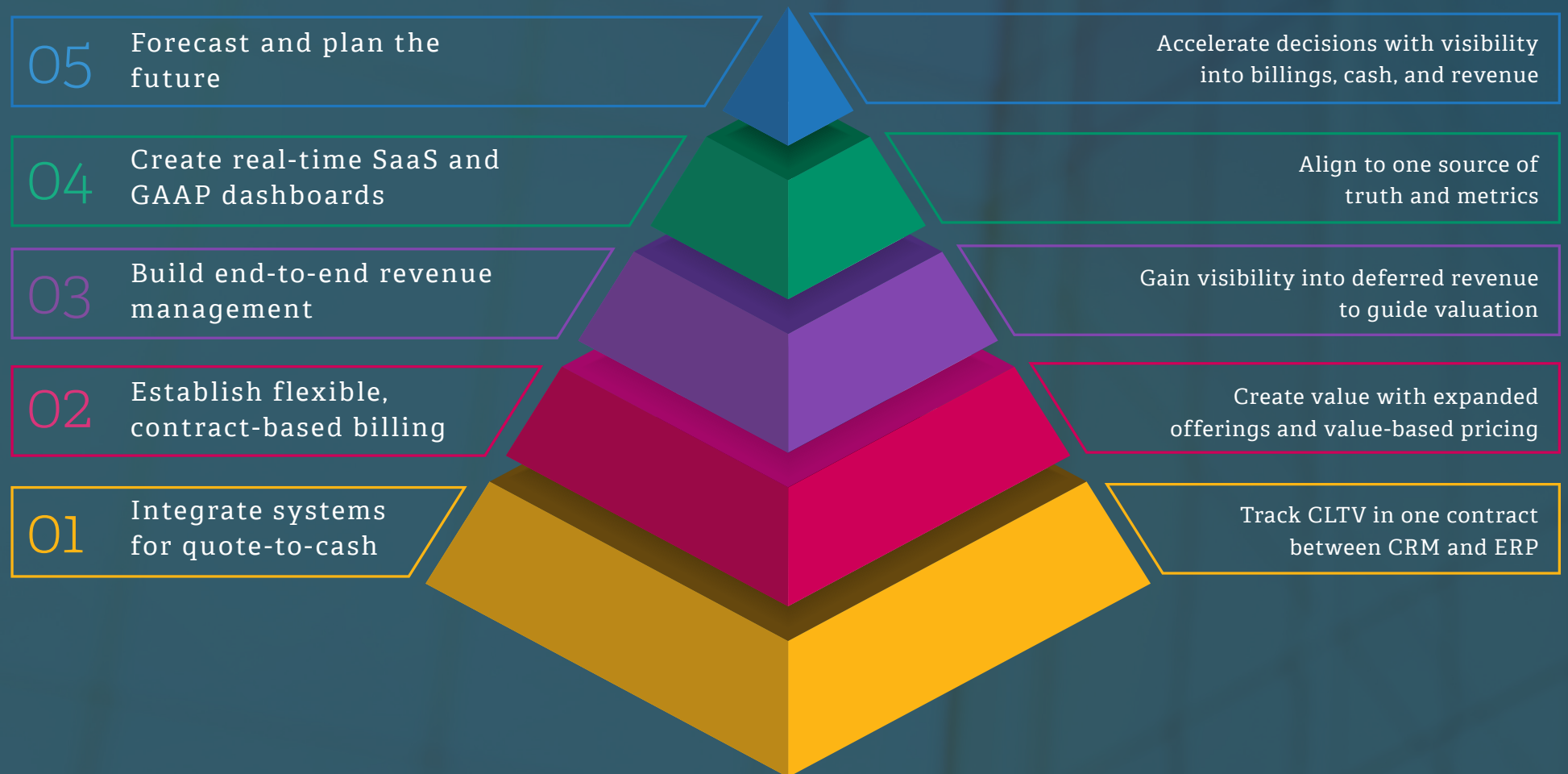
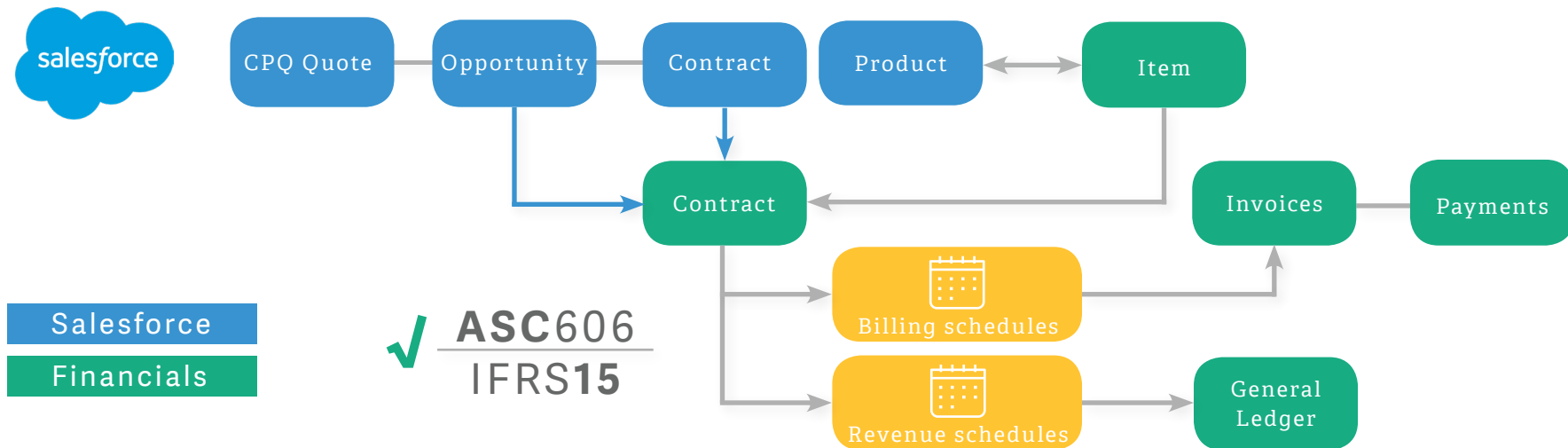*Key goal: Annual Gross Profit / Total Capital Invested > 100%.*

Define and track gross and net churn. Enterprise value stems from retention and churn rates. As the volume and complexity of your subscriptions increase, automating, tracking, and producing these metrics further adds to the complexity. Additionally, there are a multitude of ways companies calculate churn.

Key goal: Analyze churn metrics by different aspects of your business, such as by product, channel, customers, or other dimensions.

5 STEPS TO ACHIEVE YOUR GROWTH STAGE GOALS

05 Forecast and plan the future

Accelerate decisions with visibility into billings, cash, and revenue

04 Create real-time SaaS and GAAP dashboards

Align to one source of truth and metrics

03 Build end-to-end revenue management

Gain visibility into deferred revenue to guide valuation

02 Establish flexible, contract-based billing

Create value with expanded offerings and value-based pricing

01 Integrate systems for quote-to-cash

Track CLTV in one contract between CRM and ERP

STEP 1: Integrate Configure, Price, Quote (CPQ) to Financials

salesforce

| CPQ Quote | Opportunity | Contract | Product | Item |

Contract

Invoices — Payments

Salesforce
Financials

√ **ASC**606 / **IFRS**15

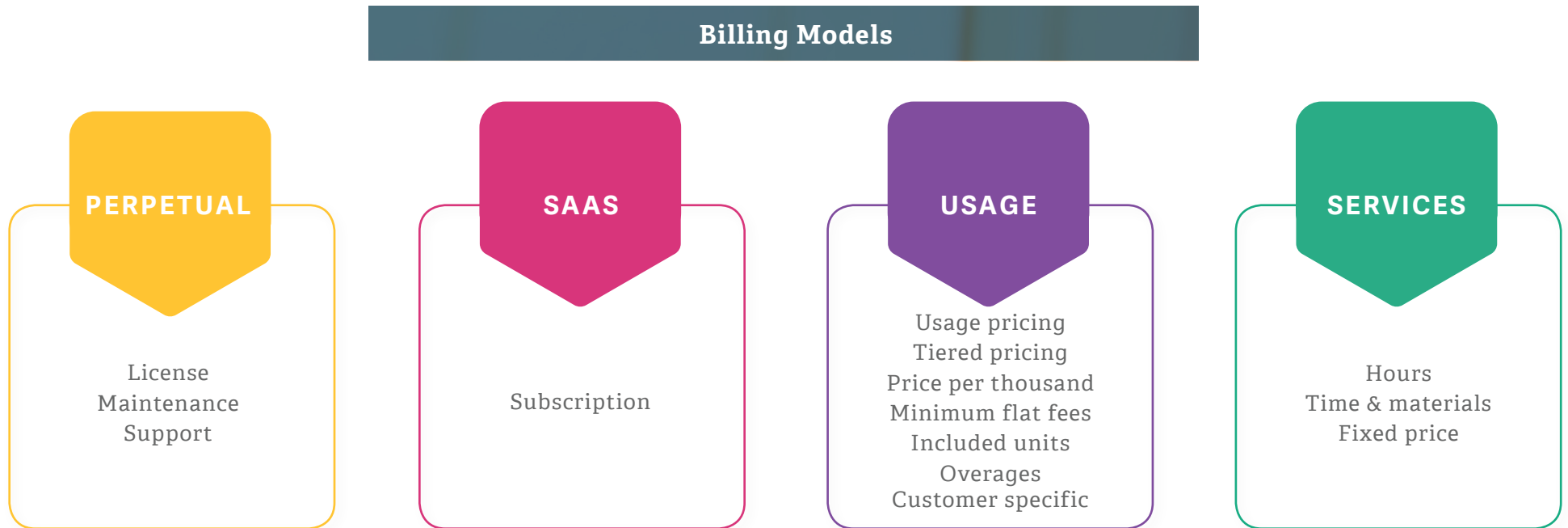Billing schedules

Revenue schedules — General Ledger

As you scale sales to prove your revenue model, it's important to remove friction points from the sales process and have a single version of the truth. Organizations often wish to implement Salesforce CPQ for complex sales, improve workflow and collaboration with Finance, and standardize contracts as much as possible. Natively connecting your CRM and CPQ process to your financials provides a number of benefits:

- A single contract between Sales and Finance streamlines the initial sale as well as renewals and add-on business.
- Sales and Finance both have common metrics on CTLV, CAC, and Churn to drive decision making.
- You remove obstacles to billing and bring cash into the business sooner—cash that you can invest in reducing churn and increasing CLTV.

Pro Tip

A comprehensive, bi-directional integration between Sales and Finance, including the item catalog, means less re-keying. But, it also allows you to collect more data—data that can be analyzed and reported on downstream to improve decision-making.

STEP 2: Establish Flexible, Contract-based Billing

Billing Models

PERPETUAL

License
Maintenance
Support

SAAS

Subscription

USAGE

Usage pricing
Tiered pricing
Price per thousand
Minimum flat fees
Included units
Overages
Customer specific

SERVICES

Hours
Time & materials
Fixed price

As you grow, you may expand your offerings to attract new customers, increase your average sales price, and retain existing customers. The ability to handle different types of revenue streams and billing provides more flexibility to innovate and differentiate and maximize CLTV. Usage billing provides strong value to customers since they pay according to usage, but you may also need to support subscriptions, services, and even perpetual billing models.

Pro Tip

Not all billing solutions will support a blend of models across subscription pricing, usage billing, professional services, and perpetual licensing. Avoid reliance on a hodgepodge of billing systems to reduce customer confusion and simplify your internal operations to outmaneuver your competition. Learn other impacts in Step 4.

STEP 3: Build End-to-end Revenue Management

		Unbilled	Billed	Paid	Total
1	Deferred Revenue	9,000.00	2,000.00	0.00	11,000.00
2	Sales Revenue	0.00	1,000.00	0.00	1.000.00
3	Total	9,000.00	3,000.00	0.00	12,000.00

As your revenues grow, financial audits add the credibility that your financials are fairly stated.

This means your financials need to be GAAP, ASC 606 and IFRS 15 compliant. It's important to use a solution built for recurring revenue vs. orders.
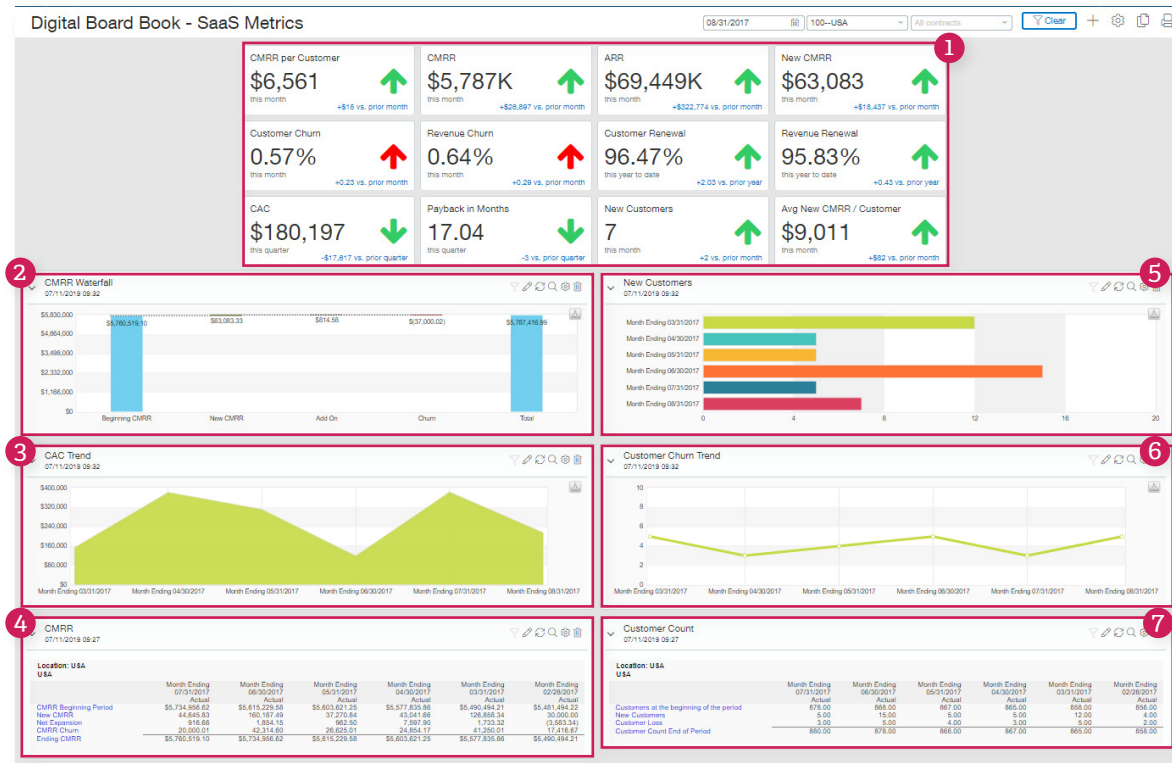
Automating compliance, especially revenue recognition and expense amortization, can save hundreds of hours of time and decrease the risk of errors.

But, even more important, it should provide visibility into your unbilled, billed, and paid revenues. You get a full understanding of deferred revenue to guide your valuation.

Pro Tip

Order-based solutions present challenges to getting a single view of your revenue recognition across unbilled, billed, and paid because the data lives in different places. With a contract-based solution, all this information comes from a single source—the subscription contract.

STEP 4-1: Create Real-time GAAP and SaaS Dashboards

Both GAAP and SaaS metrics are critical to your business.

GAAP metrics tell you where you have been and where you are now. SaaS metrics tell you where the business is going.

Automatically connecting your contractual obligations to billing, revenue management, and the general ledger can automate the creation of SaaS and GAAP metrics.

You get on-demand visibility to make both immediate and strategic decisions that grow the business— without spending weeks to compile. That means you can act faster than your competition.

1. SAAS KPIs
2. CMRR Waterfall
3. CAC Trend
4. CMRR Analysis
5. New Customers Trend
6. Customer Churn Trend
7. Customer Count Analysis

Pro Tip

Managing all of your revenue streams in one solution allows a more holistic view of your SaaS and GAAP performance.

Bonus

If that one solution is your financial system of record, you can trust the data more than spreadsheets and "dirty" CRM.

STEP 4-2: Create Real-time GAAP and SaaS Dashboards

Customers Vendors Employees	Locations Departments Classes
WHO	**WHERE**
WHAT	**USER SPECIFIED**
Items Warehouses Projects Contracts	Based on reporting needs

Sample Contract Line Item	
Base flat/fixed amount	$2,500
Billing Price List	Usage with Minimum
Start Date	01/01/2019
GL Account	4000 - Revenue
Customer	Wellington Company
Employee	Kyle Reese
Location/Entity	North America
Department	Sales
Project	QuickStart
Partner	Business Advisors
Segment	Hospitality
Channel	Reseller

You need visibility into many different drivers of your business—customers, products, projects, channels, and more—to do cohort analysis to find opportunities for growth.

Dimensional reporting allows you to view performance from any angle necessary.

Dimensions enable you to get fast answers to your business questions so you can respond instantly to your executives, board, and investors.

Pro Tip

Don't limit your analysis. Unlimited dimensions allow you to get very specific metrics, into product, region, segment, geography, and supporting data for decision-making to drive growth and outmaneuver your competition.

STEP 5: Forecast the Future

Subtotal name	Customer ID	Customer Name	Contract ID	Item Name	Contract Line Drill Down	2018/01-2018/03	2018/04-2018/06	2018/07-2018/09	2018/10-2018/12	2019/01-2019/03	2019/04-2019/06
▼ Billing											
	C-00080	Knowledgebase Marketing	K-00045	Subscription	957	150,000.00	150,000.00	150,000.00	150,000.00	150,000.00	150,000.00
	C-00080	Knowledgebase Marketing	K-00045	Implementation	958	25,000.00					
Sum for Billing						175,000.00	150,000.00	150,000.00	150,000.00	150,000.00	150,000.00
▼ Payment											
	C-00080	Knowledgebase Marketing	K-00045	Implementation	958	25,000.00					
	C-00080	Knowledgebase Marketing	K-00045	Subscription	957	150,000.00	100,000.00	150,000.00	200,000.00	150,000.00	100,000.00
Sum for Payment						175,000.00	100,000.00	150,000.00	200,000.00	150,000.00	100,000.00
▼ Revenue											
	C-00080	Knowledgebase Marketing	K-00045	Implementation	958	2,083.35	2,083.35	2,083.35	2,083.35	2,083.35	2,083.33
	C-00080	Knowledgebase Marketing	K-00045	Subscription	957	150,000.00	150,000.00	150,000.00	150,000.00	150,000.00	150,000.00
Sum for Revenue						152,083.35	152,083.35	152,083.35	152,083.35	152,083.35	152,083.33
Sum Total						502,083.35	402,083.35	452,083.35	502,083.35	452,083.35	402,083.33

Data is of a Contract closed on 1/1/2018

Forecasts can help guide decisions that make your business a success—hiring, product investment, and much more. They'll also be required for business loans or investor funding.

When you're connected across CRM, CPQ, and financials via a contract, you can automatically generate forecasts. You get one view of your customers (vs. disparate orders) across billing, revenue recognition, and cash.

You shift from manually reporting the past in time-consuming spreadsheets into real-time forecasts. And you can free up time to strategically guide the business into the future.

Pro Tip

Your ability to forecast recurring revenues over time is more complex with order-based solutions because bookings, upsells, and renewals have to be linked together through revenue arrangements. This pushes forecasting into spreadsheets and prevents you from finding the forecast and patterns the business needs to make data-driven decisions. Instead, purchase a complete Subscription Revenue Management solution built to support, and forecast, your subscription business.

weave

- Weave delivers a multi-channel communications platform that helps dental, optometry, and other businesses efficiently engage with clients, streamline scheduling, and improve engagement and loyalty

- In the top 100 best tech startups in Utah

- Funded by Lead Edge Capital, Catalyst Investors, Crosslink Capital, A. Capital Ventures

- Raised $37.5M Series C Funding

Weave scales high-volume billing with 100% growth

Weave had a high growth trajectory and needed a scalable solution. After a poor experience with NetSuite's revenue recognition at a prior company, they selected Sage Intacct due to its ability to automate subscription billing, revenue recognition, accounts payable, reporting, forecasting, and to manage deferred revenue and revenue recognition much better than order-based financial suites.

BUSINESS **RESULTS** AFTER SWITCHING TO SAGE INTACCT

Increased monthly invoices 245% to 6,800	Achieved 100% YoY ARR and 4X employee growth with no new finance hires
Quote to cash process is 100% faster	Cut DSO by 50%
Funded launching 2 new product lines	+66% in gross margin
Reduced financial due diligence time from 3.5 months to 3 days	Secured Series C funding

" Our relationship with Sage Intacct has been a partnership in the common goal of growth. To have kept doing it the old way would have been a staff-killer. "

- Joel Meriwether, Director of Finance

<6 months ROI

SAGE INTACCT IS UNIQUELY QUALIFIED TO HELP YOU GET TO THE NEXT STAGE

Sage Intacct is uniquely qualified to support you on the path to your next round of funding.

Our solution is proven and validated by our customers across these 5 steps. That's why we're #1 in customer satisfaction in Accounting and ERP and #1 in Subscription Revenue Management on G2 Crowd*.

We are the only solution that:

- Offers one native quote-to-cash with Salesforce CPQ covered by our Buy-with-Confidence guarantee
- Is built from the ground up to support ASC 606 and endorsed by the AICPA
- Provides unlimited reporting dimensions
- Can deploy recurring billing across perpetual, usage, recurring, and professional services
- Delivers prebuilt, customizable GAAP and SaaS metrics dashboards

We handle the automation so that you can focus on the strategy, guidance, and story-telling to prove your models to investors for your next growth stage.

05 Forecast and plan the future

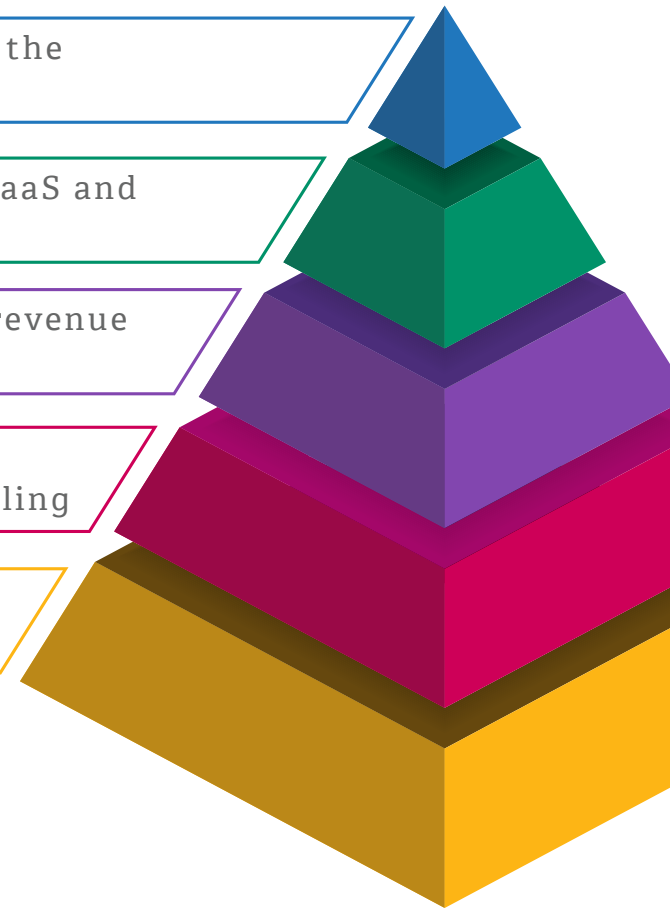04 Create real-time SaaS and GAAP dashboards

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LET'S TALK

Sage Intacct has enabled companies like yours to achieve their next round of funding.

We'd like to help yours.

Read stories of companies like yours

See the product in action

Attend a coffee break demo

Contact us
877-437-7765 (toll free)

sage Intacct

For more information, visit