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SaaStr ANNUAL 2022

SAAS NORTH

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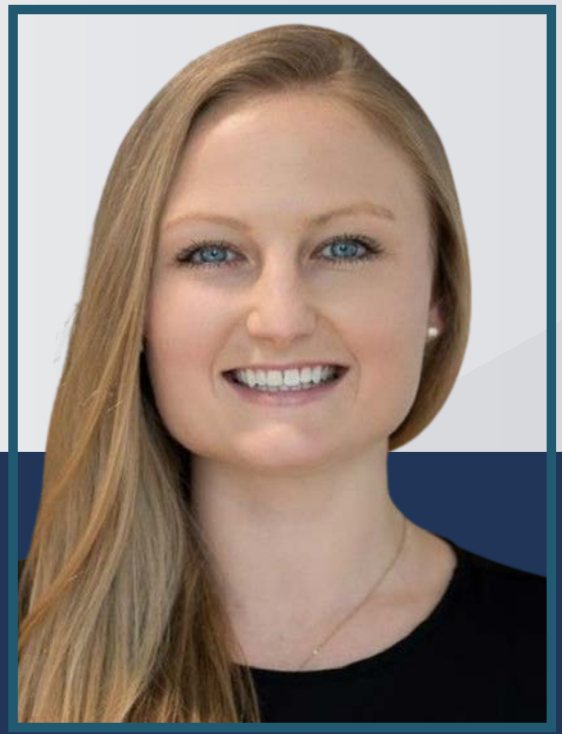

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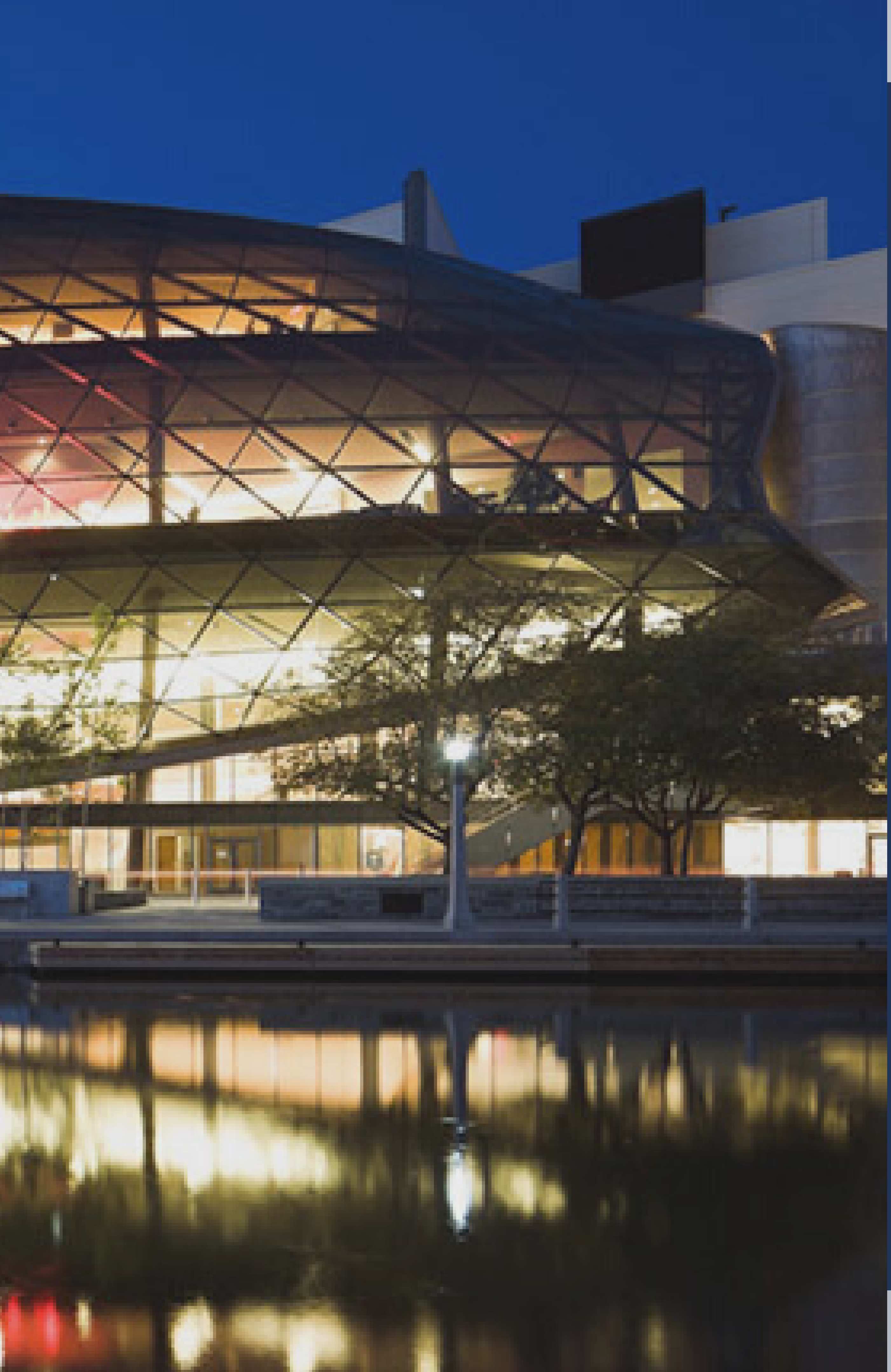
Our team has been very busy this quarter attending Dreamforce and SaaStr in San Francisco, and most recently, SAAS NORTH in Ottawa.



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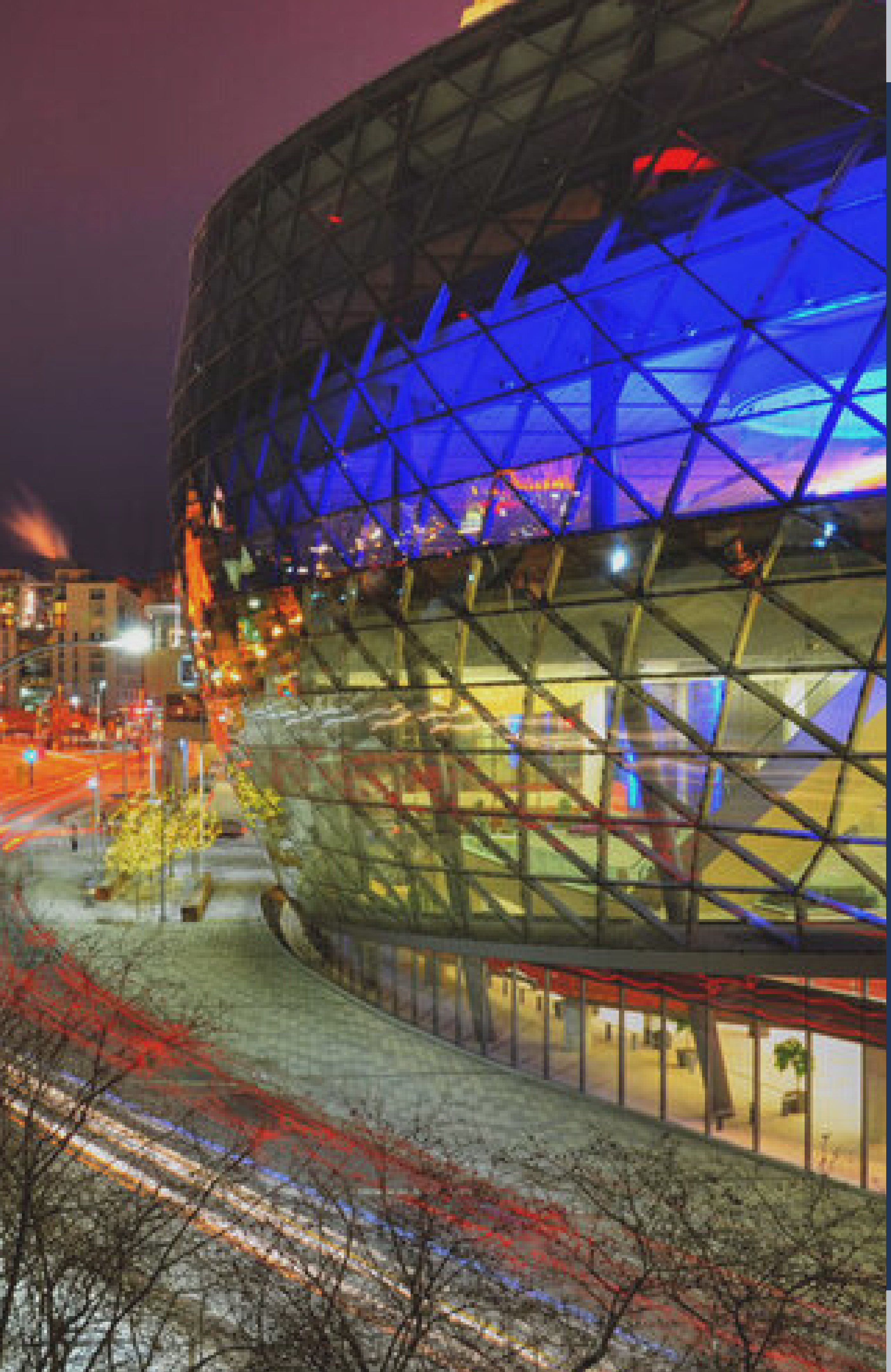
SAAS NORTH had many great sessions and of those we attended, there were a few common themes being discussed.

Strong SaaS companies will continue to drive competitive M&A and investor markets

Investors agreed that strong SaaS companies will continue to see competitive investment and M&A environments as a combined result of fewer A+ companies exploring transactions and pressure from the huge stockpiles of funds still actively seeking the right opportunities. Additionally, Private equity firms will continue to build out platform investments to prove their investment thesis; we'll see a lot of add-on acquisitions.



A tighter funding environment will cause some SaaS companies to work on improvements

SaaS companies whose metrics are sub-par might want to take this time to focus on fixing a few key areas. Pick a couple of key metrics and determine what is good / better / best. Focus on pushing to get to best.

Profitability has a renewed focus

Profitability is now a lot more important than it was a year ago. SaaS companies are now moving away from growth-at-all-costs to an approach that puts a premium on profitable growth, and companies need to see a path to profitability if they aren't yet there. The best SaaS companies will find a sweet spot between profitability and growth.

Cash management is more important now

There is a renewed focus on cash management and conservancy, with PE firms recommending their portfolio companies now aim for 18 months of runway vs. the 12 months most previously recommended. Funding environments are tougher and the exuberance we saw in 2021 has dried up.

Expansion revenue and retention of existing customers has renewed focus

Expansion revenue is generated at a lower cost and increases LTV by 18-54%. One way to create expansion revenue is through multiple products and / or add-on features. In one example, a company found one of their product’s features was only used by 40% of their customers so they stripped it out of the main product and offered it as an add-on.

With capital becoming more costly and less available, SaaS companies are now more cost-conscious. Benchmarks show that retaining customers is at least 5x less expensive than acquiring new ones and a 5% increase in customer retention can increase company revenue by 25% to 95%. It makes sense to focus on retaining your existing customers even more so in today's environment.

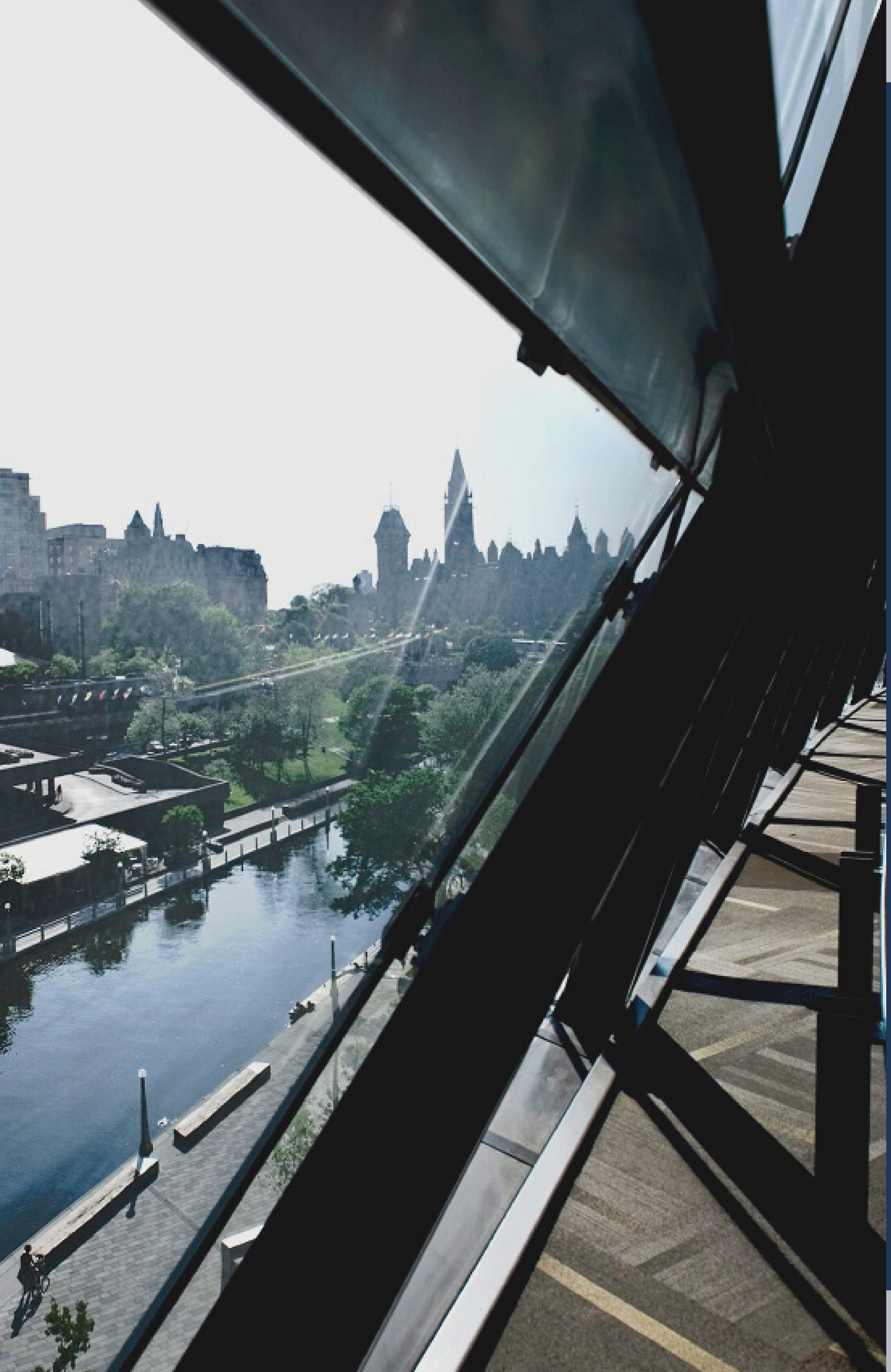
As part of an overall retention strategy, look at implementing improved cancellation streams. Make personalized offers based on cancellation reasons. Additionally, find out not only what a customer didn't like, but what they did like – knowing what your customers like about your solution can help you fine-tune product-market fit and many companies aren't capturing this important information.

Track the right metrics

Ensure you are tracking the most important metrics, including net and gross revenue retention, customer acquisition cost (CAC), and customer lifetime value (LTV). Investors are also tracking cash conversion score and growth relative to burn. The worst metrics people mentioned seeing were things like total user sign-ups, as any cumulative metrics are largely meaningless.

Retention of your team

Like customers, it's less costly to retain employees than to replace them. Fostering a strong culture boosts morale and helps to increase productivity. You may need to look at repricing stock options as part of your overall retention strategy. If you say you have a “people first” culture, make sure there isn’t a disconnect between what you are saying and what you are doing.



Don’t talk to one buyer

Companies are going to continue to receive unsolicited approaches by potential buyers. In one of the sessions, a founder shared his experience going through an acquisition by a large strategic acquirer. As part of the process, he spoke with several buyers, and he underscored how important it is to do this if you want to vastly improve your odds for a better outcome, as well as find the right buyer. He also emphasized the time it takes to get a transaction done, even when you have been approached, can still be lengthy. In his case, it was still a 6-month journey to get to the finish line.

Wrapping up, no one was sure what we are going to see in 2023, but the overall message was: conserve cash, grow efficiently, focus on retention, reduce friction at every point of customer contact, and track the right metrics.

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