Microsoft Dynamics 365

Six recurring revenue KPIs that every finance pro should know

Many businesses are rethinking how they deliver value to customers as they shift to recurring revenue models. These new models can link customer value propositions and pricing much more closely to customer usage and outcomes.

When recurring revenue models work, the results are great. Customers get better value, increased convenience and more innovative experiences. Businesses get more predictable revenue, increased flexibility and more kinds of selling opportunities.

How do you measure recurring revenue success?

The following metrics can help you analyse how your recurring revenue model is performing.

Customer acquisition cost (CAC)

Measures the financial resources needed to add a customer or subscriber.

$$\text{CACs/SACs} = \frac{\text{S\&ME}}{\text{TAC}}$$

S&ME: Sales and marketing expenses
TAC: Total acquired customers

Tip: Make sure that 'S&ME' includes all relevant costs, from salaries to events to website maintenance.

Average revenue per account (ARPA)

Measures the revenue generated per account and provides insights into which offerings sell best.

$$\text{ARPA} = \frac{\text{MRR}}{\text{TNC}}$$

Tip: Separate existing subscribers from new subscribers to get deeper insight into upselling and cross-selling.

MRR: Monthly recurring revenue
TNC: Total number of customers

Customer lifetime value (LTV)

Determines average profit from one subscriber or a group of subscribers.

$$\text{LTV} = \frac{(\text{ARPA} * \text{GM})}{\text{CC}}$$

ARPA: Average revenue per account
GM: Gross margin
CC: Customer churn

Tip: LTV can highlight the value of different subscriber groups and help you guide targeting and spending.

Monthly recurring revenue (MRR)

Measures predictable and recurring revenue components, usually excluding one-time and variable revenues.

$$\text{MRR} = \text{ARPA} \times \text{TNC}$$

Tip: Consider tracking variations on MRR, such as churn MRR and net-new MRR.

ARPA: Average revenue per account
TNC: Total number of customers

Customer churn (CC)

Shows you the rate of customer loss over a given time period.

$$\text{CC} = \frac{\text{TDC}}{\text{TNC}} \times 100$$

TDC: Total number of discontinued customers
TNC: Total number of customers

Tip: Many SaaS businesses consider between 5% and 7% an acceptable churn rate.

Long-term customer value to customer acquisition costs (LTV to CAC)

Measures the lifetime value of a subscriber compared to the cost of acquiring them.

$$\text{LTV to CAC} = \frac{\frac{(\text{ARPA - SCPC})}{\text{CC}}}{\frac{\text{S\&ME}}{\text{TAC}}}$$

Tip: The LTV to CAC ratio should be >3 for most healthy subscription businesses.

ARPA: Average revenue per account
SCPC: Sales cost per customer
CC: Customer churn
S&ME: Sales and marketing expenses
TAC: Total acquired customers

Want to learn more?

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