

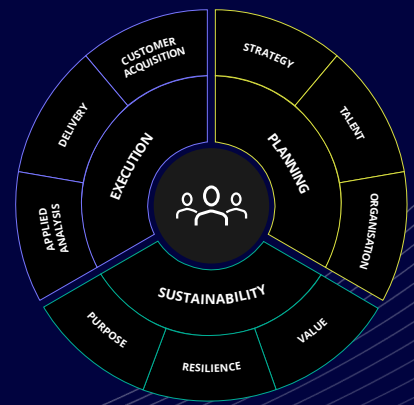


Unit Economics

This toolkit includes:

- Insights into the fundamental changes in B2B sales catalysed by the advent of SaaS.
- A framework for strategic sales planning.
- Our recommendation for a forecasting data model.
- The key characteristics of a successful sales leader.
- Templates for opportunity qualification and review.
- A sales metrics checklist.
- Customer success systemisation tools.
- Industry led advice on contingency planning and value creation.

01 Introduction



Unit economics, i.e. the profitability of a typical customer, are an important indicator both as to whether to invest in more growth and to assess the potential future profitability of your company. To achieve long-term profitability, a company also must be able to grow revenue significantly faster than its indirect cost base, but strong unit economics are simply indispensable for sustainable profits. Crucially, as a scale up you should have all the required data to determine your unit economics.

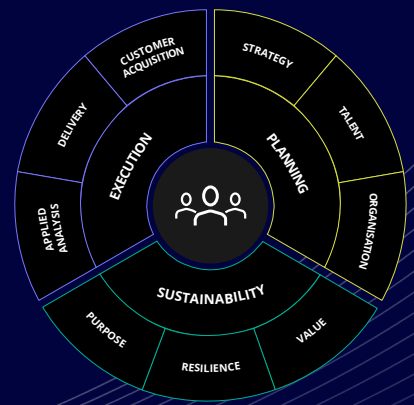
There are several ways to do so and we will discuss these in turn:

The **Magic Number** estimates the immediate efficiency of your sales & marketing efforts.

The **Payback Time** takes a closer look at how long it takes to make enough profit from a customer to break even with the costs spent to acquire her.

The ratio of the **Customer Lifetime Value (CLV)** (sometimes referred to as LifeTime Value (LTV)) to the **Customer acquisition costs (CAC)** puts the lifetime profitability of a typical customer into context with the money spent to acquire her.

The Magic Number



The **Magic Number** is perhaps the easiest to compute of these three metrics.

In its simplest form you look at the growth in revenue in

the last quarter and compare it with the total sales and marketing expenses in the preceding quarter.

More specifically, by multiplying the additional

revenue in a given quarter by 4, you can estimate how much revenue one quarter's sales & marketing effort might generate over the course of a year.

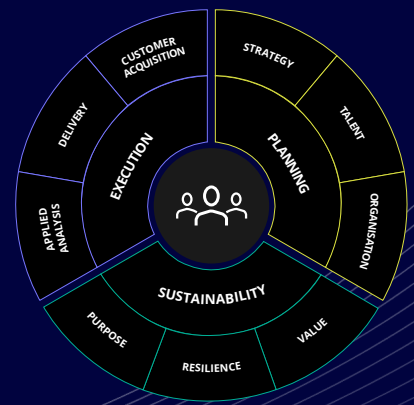
$$\text{Magic Number} = \frac{(\text{Revenue}_{\text{Last quarter}} - \text{Revenue}_{\text{Preceding quarter}}) \times 4}{\text{Sales \& Marketing Expense}_{\text{Preceding quarter}}}$$

Generally, if this ratio exceeds a value of 1.0, it is probably a good time to invest in more growth. But beware: this view assumes that your direct costs are small compared to your revenue. For most software companies that will be a reasonable assumption, as long as gross profit margins exceed 90%. If direct costs, however, constitute a higher fraction of your revenue, it is advisable to look at gross profit growth instead of revenue growth.

Note that ideally you would look at your contribution margin, taking into account all costs directly linked to serving your customer, not just your Costs of Goods Sold (COGS). One example of costs that might be directly linked to your revenue, but are typically not included in your COGS, are customer service cost. In this tool kit, we will use gross profit as an acceptable approximation of contribution profit.

If your Magic Number lies between 0.75 and 1.0, it might still be worthwhile to increase your sales & marketing expenses, for instance if you are onboarding several salespeople who are becoming more efficient over time (which you should be seeing in your Magic Number improving).

The Payback Time



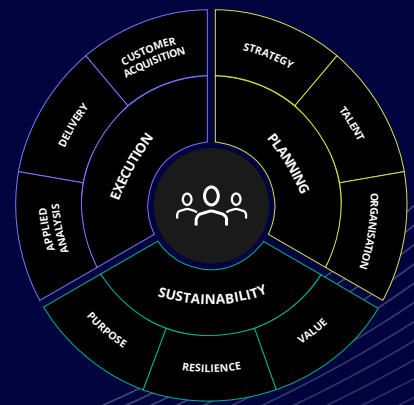
Closely related to the Magic Number is the **Payback Time**. Essentially, this analyses how long it took or takes to earn back the money invested in acquiring customers.

As a starting point this should be based on historic data. And it should always be based on the profits you earn on a customer, meaning that costs such as server costs and customer service costs need to be deducted from your revenue.

This data should be contained in your monthly report and thus allow you to easily analyse each month how long it has taken a cohort of customers acquired in a specific month or quarter to earn back the sales & marketing expense related to acquiring these customers (the CACs). This will make trends readily recognisable and thus enable a timely recognition whether your sales efficiency is pointing in the right direction.

As a rule of thumb, a Payback Time of under twelve months is a strong sign for an efficient sales & marketing effort. Even a Payback Time of fifteen to eighteen months can still be acceptable provided that your customers stay sufficiently long to earn an attractive profit beyond the time it has taken to earn back the CACs.

CLV & CAC



The way to assess this is to compare the profit earned over the lifetime of a customer (the **Customer Lifetime Value** or **CLV**) with the related **CACs**.

This analysis requires you to estimate the lifetime of your customers. To do so, you need to look at what rate the customers

acquired in a specific month or quarter cease to be a customer, your churn rate, because the profit you make from this cohort of customers declines over time, as some customers churn away.

Below we are looking at an hypothetical example of how to calculate your CLV in praxis. The only data points required to perform this analysis are: your revenue

growth in a given month or quarter, the sales & marketing expenses in the quarter, your gross margin, the number of customers acquired in the relevant period of time and average revenue churn.

This simple model is included as a template on the below so that you can populate it with your company's data.

Hypothetical Example:

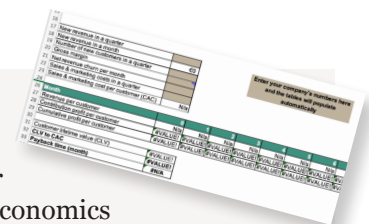
New revenue in a quarter	€60,000
New revenue in a month	€20,000
Number of new customers in a quarter	15
Gross margin	90.0%
Net revenue churn per month	1.0%
Sales & marketing costs in a quarter	€250,000
Sales & marketing cost per customer (CAC)	€16,667

Month	0	1	2	3	4	5	6	7	8	9	10	11
Revenue per customer	€1,333	€1,320	€1,307	€1,294	€1,281	€1,268	€1,255	€1,243	€1,230	€1,218	€1,206	€1,194
Contribution profit per customer	€1,200	€1,188	€1,176	€1,164	€1,153	€1,141	€1,130	€1,118	€1,107	€1,096	€1,085	€1,074
Cumulative profit per customer	€1,200	€2,388	€3,564	€4,728	€5,881	€7,022	€8,152	€9,271	€10,378	€11,474	€12,559	€13,633

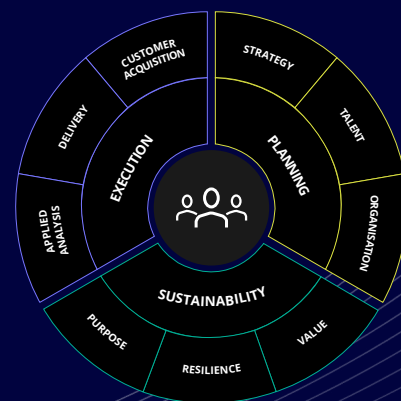
Customer lifetime value (CLV)	€54,998
CLV to CAC	3.3x
Payback time (month)	14

Download a working template of Your Business' Unit Economics

[DOWNLOAD](#)



05 Your Business' Unit Economics



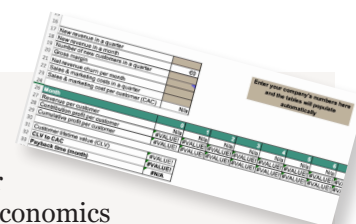
New revenue in a quarter	
New revenue in a month	€0
Number of new customers in a quarter	
Gross margin	
Net revenue churn per month	
Sales & marketing costs in a quarter	
Sales & marketing cost per customer (CAC)	N/a

Month	0	1	2	3	4	5	6
Revenue per customer	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Contribution profit per customer	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Cumulative profit per customer	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

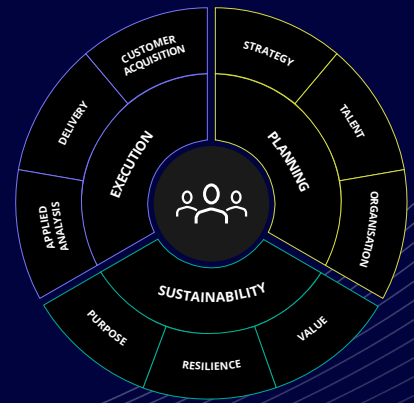
Customer lifetime value (CLV)	#VALUE!
CLV to CAC	#VALUE!
Payback time (month)	#N/A

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Further reading



This tool kit provides a mere overview of the topic of unit economics. We are more than happy to dive deeper into the topic with you on a one-to-one basis. In the meantime, we are also linking some literature that sheds further light on the topic below.

How to Calculate the SaaS Magic Number

[Click here to read](#)

SaaS Metrics 2.0 – A Guide to Measuring and Improving what Matters

[Click here to read](#)

Visit our website for more Scale-Up Insights





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