User Guide: Key Metrics for SaaS and B2C Businesses

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When evaluating a business for investment, private equity firms and investors rely on key financial and operational **metrics** to assess growth potential, sustainability, and profitability.

This guide breaks down the most critical **SaaS (Software as a Service) and B2C (Business-to-Consumer) business metrics** and why they matter.

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1. Key Metrics for SaaS Businesses

Since SaaS businesses operate on a **subscription model**, investors focus on **recurring revenue, customer retention, and cost efficiency**.

📌 **Annual Recurring Revenue (ARR) & Monthly Recurring Revenue (MRR)**
What it is: The annualized value of recurring revenue from subscriptions.
💡 **Why it matters**: These provide a clear picture of predictable revenue streams stability and trajectory

📌 **Net Revenue Retention (NRR)**
What it is: The percentage of revenue retained from existing customers after accounting for churn, downgrades, and expansions.
💡 **Why it matters**: NRR shows how well the company retains and grows revenue from its existing customer base. A high NRR (>100%) indicates strong customer loyalty and upselling potential.

📌 **Customer Acquisition Cost (CAC) & Lifetime Value (LTV)**
What it is: The cost of acquiring a new customer, including marketing and sales expenses.
💡 **Why it matters**: CAC helps investors understand how efficiently the company is spending to acquire customers. A business with an LTV significantly higher than CAC is on a sustainable path.

📌 **Churn Rate**
What it is: The percentage of customers who cancel their subscriptions over a given period.
💡 **Why it matters**: High churn signals poor product-market fit or customer dissatisfaction, which can negatively impact revenue growth.

📌 **Burn Multiple**
What it is: The ratio of net burn (cash spent) to net new ARR (revenue growth).
💡 **Why it matters**: This ratio shows how much capital is burned for each dollar of new ARR—key for assessing efficiency. A low Burn Multiple indicates sustainable growth.

📌 **Gross Margin**
What it is: The percentage of revenue remaining after deducting the cost of goods sold (COGS).
💡 **Why it matters**: SaaS businesses typically have high gross margins (70-90%). Investors look for strong gross margins as they indicate scalability and profitability potential.

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2. Key Metrics for B2C Businesses

BTC businesses sell directly to consumers, so investors focus on metrics that reflect customer acquisition, retention, and profitability to gauge success.

📌 **Customer Acquisition Cost (CAC) & Lifetime Value (LTV)**
What it is:
CAC=The cost of acquiring a new customer, including marketing and sales expenses.
LTV=The total revenue a company expects to earn from a customer over their lifetime.
💡 **Why it matters**: CAC helps investors understand how much the company is spending to acquire customers. High CAC can erode profitability if not balanced with customer lifetime value. LTV helps investors assess the long-term profitability of customers. A high LTV relative to CAC is a sign of a healthy business signalling sustainable customer relationships.

📌 **Average Order Value (AOV) & Repeat Purchase Rate**
What it is: The average amount spent by a customer per transaction
💡 **Why it matters**: AOV helps investors understand purchasing behaviour and the effectiveness of upselling or cross-selling strategies. Investors look for companies that maximize revenue per customer.

📌 **Conversion Rate**
What it is: The percentage of website visitors or leads who make a purchase.
💡 **Why it matters**: Measures the efficiency of turning visitors into buyers. It indicates the effectiveness of the company's marketing and sales funnel.

📌 **Net Promoter Score (NPS)**
What it is: A measure of customer satisfaction and loyalty, based on how likely customers are to recommend the product or service.
💡 **Why it matters**: High NPS = strong customer advocacy and organic growth or viral potential.

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Why These Metrics Matter to Investors

🔷 **Predictability** – Metrics like ARR and NRR provide insights into the predictability of revenue.
🔷 **Scalability** – Gross margins and CAC-to-LTV ratios determine whether growth is cost-effective and whether the business can scale efficiently.
🔷 **Profitability** – Metrics like churn rate, repeat purchase rate, and AOV help investors understand the company's ability to retain customers and generate long-term profits potential.
🔷 **Efficiency** – Burn multiple and conversion rates highlight how well resources are used to grow.

Conclusion
By analysing these metrics, investors can make informed decisions about a company's **financial health, growth potential, and investment viability**.
Need expert guidance? Contact us to discuss how your business can optimize these key metrics for investment success.