

VERTICALS

Nine “verticals” based on common business models, not industry...

ENTERPRISE

SAAS

USAGE-BASED

SUBSCRIPTION

TRANSACTIONAL

MARKETPLACE

E-COMMERCE

ADVERTISING

HARDWARE

*An **enterprise** company sells services or software to other businesses on a single-license basis. These contracts have fixed terms, designated contract values, and come up for renewal at the end of the term.*

Examples: Docker, Cloudera, FireEye

ENTERPRISE (cont'd)

METRIC	DEFINITION
BOOKINGS	<i>Sum of value of all customer contracts (note: letters of intent and verbal agreements ≠ bookings)</i>
TOTAL CUSTOMERS	<i>Total number of unique contracted customers today</i>
REVENUE	<i>Revenue is recognized when the service is actually provided or ratably over the life of the agreement</i>

ENTERPRISE (cont'd)

Common mistakes

- *Don't use Bookings and Revenue, or Bookings and ACV (Annual Contract Value), interchangeably*
- *Don't include letters of intent (LOIs) and verbal agreements in bookings → they are NOT yet bookings!*

A **SaaS** (software-as-a-service) company sells subscription-based licenses for a cloud-hosted software solution.

Examples: Segment, Ironclad, Sendbird

SAAS (cont'd)

METRIC	DEFINITION
MRR (<u>M</u> onthly <u>R</u> ecurring <u>R</u> evenue)	<i>Revenue recognized for recurring services rendered in a given month (does not include one-time, or non-recurring, revenue such as fees and professional services revenue)</i>
ARR (<u>A</u> nnual <u>R</u> ecurring <u>R</u> evenue)	<i>Measure of revenue components that are recurring in nature on an annual basis (ARR = MRR * 12)</i>
GROSS MRR CHURN	<i>Monthly recurring revenue lost in a given month / monthly recurring revenue at the beginning of the month</i>
PAID CAC	<i>Cost per customer acquired through paid marketing channels (total sales and marketing spend in a given month / total customers acquired via paid channels, including via sales, in a given month)</i>

SAAS (cont'd)

Common mistakes

- *Don't use Annual Recurring Revenue (ARR) and Annual Revenue Run-Rate interchangeably*
 - *Multiplying one month's all-in revenue by 12 = Annual Run-Rate, not Annual Recurring Revenue*
- *Don't include one-time or non-recurring revenue such as fees and professional services revenue in your monthly recurring revenue (MRR) calculation → only include recurring revenue*

SUBSCRIPTION

A **subscription** company sells a product or service, usually to a consumer, on a recurring basis.

Examples: The Athletic, Dollar Shave Club, Blue Apron

SUBSCRIPTION (cont'd)

METRIC	DEFINITION
MRR (<u>M</u> onthly <u>R</u> ecurring <u>R</u> evue)	<i>Revenue recognized for recurring services rendered in a given month (does not include one-time, or non-recurring, revenue such as fees and professional services revenue)</i>
MRR CMGR (<u>C</u> ompound <u>M</u> onthly <u>G</u> rowth <u>R</u> ate)	<i>Implied compounded monthly MRR growth rate between two disparate months [CMGR = (latest month MRR / first month MRR) ^ (1 / # of months) -1]</i>
GROSS USER CHURN	<i>Total lost customers (cancelled subscriptions) in a given period / prior period total customers</i>
PAID CAC	<i>Cost per customer acquired through paid marketing channels (total sales and marketing spend in a given month / total customers acquired via paid channels, including via sales, in a given month)</i>

SUBSCRIPTION (cont'd)

Common mistakes

- *Don't measure CMGR as a simple average of discrete monthly growth rates → use right CMGR formula!*

TRANSACTIONAL

A **transactional** company enables a financial transaction on behalf of a customer and collects a fee (usually a percent of the underlying transaction).

Examples: Stripe, PayPal, Coinbase, Brex

TRANSACTIONAL (cont'd)

METRIC	DEFINITION
GROSS TRANSACTION VOLUME	<i>Total sales or payment dollar volume transacted in a given period</i>
NET REVENUE	<i>The portion of GTV that the company recognizes as revenue for services rendered</i>
USER RETENTION	<i>Percent of customers who go on to make at least one purchase in month 2 (note: this is a cohort metric)</i>
PAID CAC	<i>Cost per customer acquired through paid marketing channels (total sales and marketing spend in a given month / total customers acquired via paid channels, including via sales, in a given month)</i>

TRANSACTIONAL (cont'd)

Common mistakes

- *Gross Transaction Volume and Revenue are NOT the same thing → revenue = the \$'s you keep!*
- *User retention is a cohort* metric, meaning it is re-calculated to include each new cohort acquired*
 - *Cohort = a group of customers acquired within a given period (usually a 28-day “month”)*
 - *Retention can be calculated on a month 2, month 6, or month 12 basis (depending on your business model)*

MARKETPLACE

*A **marketplace** company acts as an intermediary in the sale of a good or service between sellers and buyers, generally collecting a percent of the total transaction value.*

Examples: Airbnb, eBay

MARKETPLACE (cont'd)

METRIC	DEFINITION
GMV (<u>G</u> ross <u>M</u> erchandise <u>V</u> alue)	<i>Total sales dollar volume of merchandise transacted in a given period</i>
NET REVENUE	<i>The portion of GMV that the company recognizes as revenue for services rendered</i>
NET REVENUE CMGR (<u>C</u> ompound <u>M</u> onthly <u>G</u> rowth <u>R</u> ate)	<i>Implied compounded monthly net revenue growth rate between two disparate months [CMGR = (latest month net revenue / first month net revenue) ^ (1 / # of months) -1]</i>
USER RETENTION	<i>Percent of customers who go on to make at least one purchase in month 2 (note: this is a cohort metric)</i>
PAID CAC	<i>Cost per customer acquired through paid marketing channels (total sales and marketing spend in a given month / total customers acquired via paid channels, including via sales, in a given month)</i>

MARKETPLACE (cont'd)

Common mistakes

- *Paid CAC: failing to include all costs associated w/ user acquisition such as referral incentives, discounts, credits, etc.*

*An **e-commerce** company sells physical goods online. Generally, e-commerce companies manufacture and inventory those goods.*

Examples: Warby Parker, Bonobos, Memebox

E-COMMERCE (cont'd)

METRIC	DEFINITION
MONTHLY REVENUE	<i>Total revenue in a given month</i>
REVENUE CMGR (Compound <u>M</u> onthly <u>G</u> rowth <u>R</u> ate)	<i>Implied compounded monthly revenue growth rate between two disparate months [CMGR = (latest month revenue / first month revenue) ^ (1 / # of months) -1]</i>
GROSS MARGIN	<i>Gross profit in a given month / total revenue in the same month (gross profit equals total revenue less cost of sales and goods sold)</i>
PAID CAC	<i>Cost per customer acquired through paid marketing channels (total sales and marketing spend in a given month / total customers acquired via paid channels, including via sales, in a given month)</i>

E-COMMERCE (cont'd)

Common mistake

- *Gross profit: not breaking down all costs included and those excluded in gross profit calculations*

*An **advertising** company offers a free service to consumers and derives revenue entirely, or predominantly, from advertisers. Common advertising companies include social networks and content sites.*

Examples: Snapchat, Twitter, Reddit

ADVERTISING (cont'd)

METRIC	DEFINITION
DAILY ACTIVE USERS (DAU)	<i>Total number of unique users active in a 24-hour day, averaged over a given period of time</i>
MONTHLY ACTIVE USERS (MAU)	<i>Total number of unique users active at least once in last 28-days</i>
PERCENT LOGGED-IN	<i>Total monthly active users with a registered account (“logged-in”) divided by the total unique visitors (inclusive of both “logged-in” and “logged-out”) during the same 28-day window</i>

ADVERTISING (cont'd)

Common mistake

- *Not defining what “active” means in the context of your business*

A **hardware** company sells physical devices to consumers or businesses

Examples: Fitbit, GoPro, Xiaomi

HARDWARE (cont'd)

METRIC	DEFINITION
MONTHLY REVENUE	<i>Total revenue in a given month</i>
REVENUE CMGR (Compound <u>M</u> onthly <u>G</u> rowth <u>R</u> ate)	<i>Implied compounded monthly revenue growth rate between two disparate months [CMGR = (latest month revenue / first month revenue) ^ (1 / # of months) -1]</i>
GROSS MARGIN	<i>Gross profit in a given month / total revenue in the same month (gross profit equals total revenue less cost of sales and goods sold)</i>
PAID CAC	<i>Cost per customer acquired through paid marketing channels (total sales & marketing spend in a given month / total customers acquired via paid channels, including via sales, in a given month)</i>

PRESENTING METRICS

Common mistakes

- Cumulative charts
- Not labeling Y-axis
- Changing Y-axis scale
- Showing only % gains

Solutions

- Monthly data
- Label with the right detail
- X and Y axes intersect at zero
- Show absolute number and %