HOW TO ENGAGE THE CHANNEL FOR

SUCCESSFUL SAAS RENEWALS

A SUCCESS GUIDE FOR MANAGERS

PART THREE OF A THREE-PART SERIES:
MANAGING CHANNEL SAAS RENEWAL PERFORMANCE AND SUCCESS METRICS/KPI'S

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I. Introduction

In our first two whitepapers of this series, we identified the five major risks to successful SaaS renewals through partners and took our readers through a series of analytical frameworks, vendor experiences, best practices and team exercises to address the first four.

This whitepaper focuses on ways to manage the fifth and final risk – incomplete, untimely information – through a comprehensive *"digital workplace"* that captures, packages and distributes key performance metrics to all critical stakeholders.
Although much has been written about key SaaS metrics, we found that very little of what's available to vendors includes considerations of the specifics relating to partners and partnering. Yet this information is vital. Vendors need to know how their company's strategy impacts:

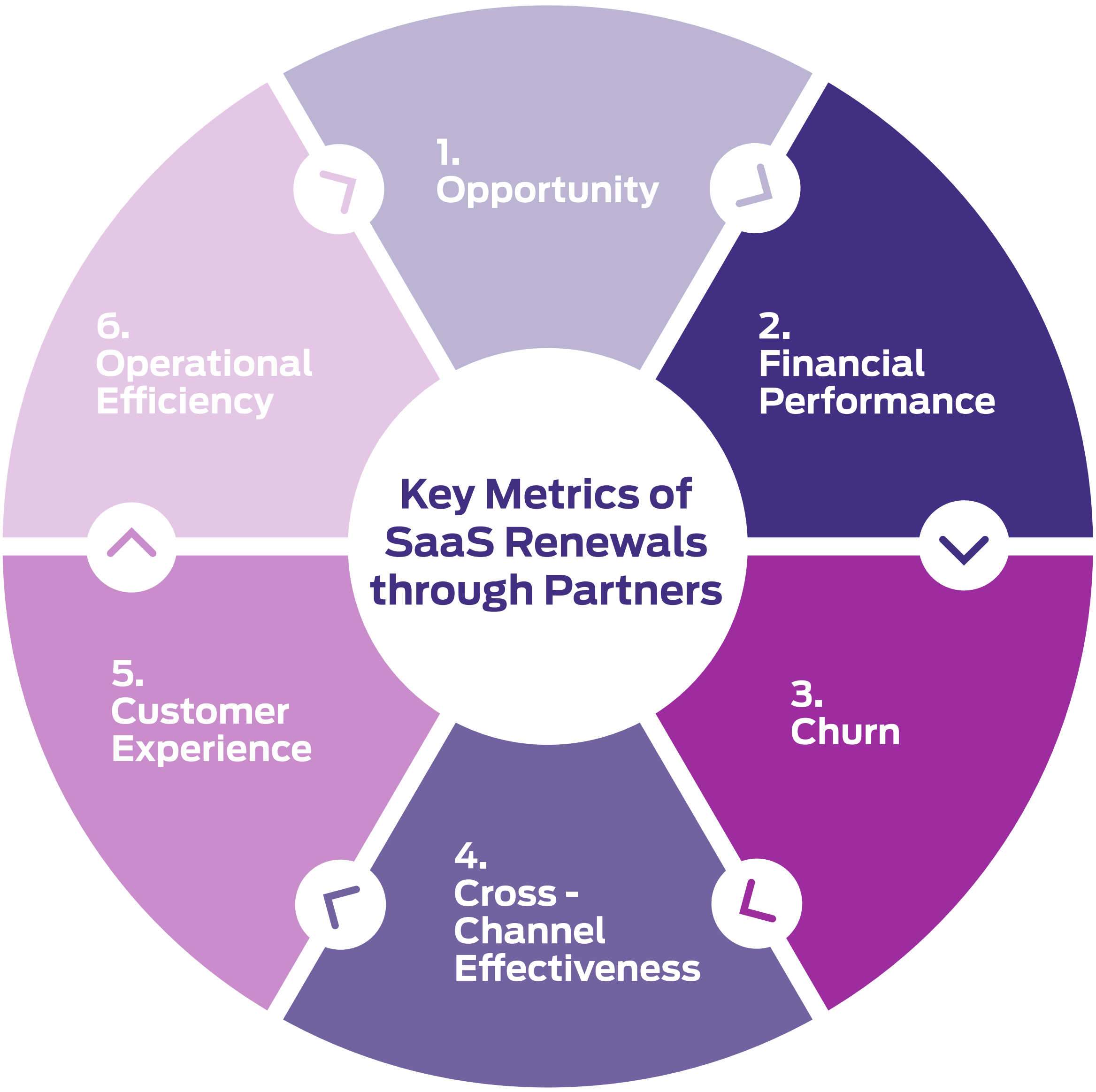
- **What** we need to know (relevant KPI's and data)
- **Who** needs to know and
- **Why** they need to know it (stakeholder management) and finally
- **When** they need to know (timing of data capture, review and reporting)

We believe it is important for vendors to step back and assess its SaaS renewals metrics – especially if SaaS is a new and growing component of the portfolio and/or partners are new to the business model. This paper provides a broad framework for SaaS renewals metrics that includes traditional performance indicators as well as those that are relevant for a well-run multi-channel organization.

As always, the information is based on industry best practices and the collective wisdom of our seasoned whitepaper team. We hope that you will find these tools useful for your own ongoing team discussions.

II. SPOTLIGHT ON METRICS: A Comprehensive Framework for Measurement and Management

The diagram below captures six key facets of the business of working with partners for SaaS renewals. Each has its own set of metrics which we will define and discuss in the following section. As you can see, the model implies a good deal of cross-functional coordination, cooperation and communication. All of which are essential for success SaaS renewals.



III. WRITING THE REVIEWS: The Metrics Defined

1. OPPORTUNITY

Why It's important: Quantification of SaaS renewal opportunity is important early in the offer development stage, helping to justify the organization's investment. Later, when expanding renewal sales to partners, *"opportunity"* becomes an important component of the value proposition to partners (whitepaper 2 offers a full discussion of value proposition).

Metrics:
CLTV (customer total lifetime value) – This is the primary opportunity metric used by most organizations, calculated in one of two ways:
(1) post launch, where the formula is average monthly recurring revenue divided by monthly churn.
(2) pre-launch, where it can be modeled forward by the offer team using expected benchmark values by customer size, vertical, etc. and can be refined over time based on actual renewal results.

2. FINANCIAL PERFORMANCE

Why it's important: Financial performance metrics reflect an offer's impact on the organization's top and bottom lines within a specified period. Beyond this basic function, these metrics are the *"workhorses"* and *"detectives"* of the business, helping to support the renewal team's change management and channel management roles.

These metrics:
- Educate the entire organization on the importance of renewals to the overall business.
- Identify and justify necessary investments to assure long-term success.
- Build and manage optimal cost models for optimal profitability.
- Capture performance variance, by offer, segment, partner, or region etc. to identify and resolve issues before they negatively impact the business.

Financial Performance Metrics:

The most typical financial performance metrics include:

- **Renewals Revenue as a % of Total Company Revenue** – globally and by region.

- **Annual Recurring Revenue (ARR):** This metric tracks:
  - the total dollar value of renewals and expansions
  - renewals vs. expansions – ARR can be further broken down to examine *"simple"* renewals vs. more complex ones and to capture expansion revenue if, for example, cross-selling and upselling functions are performed by a channel that is different from the *"pure"* renewals channel (for example, customer success).

- **Renewals Rate:** In whitepaper #1, we noted that high renewals rates of 93%+ are critical to the success of a SaaS renewals business. Renewal rates, therefore, need to be tracked by both revenue and number of contracts in order to understand exactly what is going on. If we only look at dollars, for example, we may not see a situation in which a company is successful at renewing large contracts but weak at renewals in mid-market and/or SMB segments. Ideally, both dollars and number of contracts renewed should be in the target range.

- **Renewals Rate Growth:** This is another metric that needs to be tracked by both the dollars and number of contracts. It is especially important to track if a company has fallen below its target rate in a particular geography, segment, or channel. You need it to make sure that the tactics you have deployed are actually improving performance.

- **Service Attach Rate:** If there is opportunity for your organization to *"attach"* a service to the renewal – or an opportunity for partners to sell additional value at the time of the renewal, you will want to capture and communicate this metric. It reinforces the value renewals bring to the broader business – beyond the specific SaaS offer being renewed.

- **Influenced Renewal Revenue:** In *"complex"* renewals situations or those that are highly strategic (for example a competitive bid or change in decision maker etc.), the partner who *"owns"* the customer may not be capable of closing the renewal alone. Sometimes a direct resource, such as customer success or an account executive (AE), needs to be involved. In these cases, the partner's role in preserving vendor presence in the account needs to be recognized and compensated in the special category *"influenced revenue."*

- **Cost of Acquisition (COA):** Although it is not technically a *"renewals"* metric, cost of acquisition is critical to reference, as it is one of the key factors in determining how long the renewal needs to last (a) for the vendor to break even on the initial sale and (b) to start becoming profitable. Best practice in calculating this metric is to use activities-based costing to measure the fully-loaded costs of all resources deployed over time in a typical SaaS sale. Or, if the portfolio has a lot of variance, multiple *"cost scenarios"* are built. An example might be:

	Step 1 in Sales Process		Step 2 in Sales Process		Step 3 in Sales Process		Total
	Time	Loaded Cost	Time	Loaded Cost	Time	Loaded Cost	
Resource "A"							$
Resource "B"							$
Resource "C"							$
							Total COA

In the example above, each resource's time (hours) is captured, as well as the fully loaded costs of each resource. Loaded cost is then broken down by cost per hour (using 2000 hours as a starting point – 40 hours per week x 50 weeks) and multiplied by the time spent on each activity. The total of all resources involved in the sale becomes the cost of acquisition. More sophisticated models also account for relevant, variable administrative costs.

Cost to serve: Cost to serve analysis allows the organization to identify the relative costs of renewing a SaaS subscription through various channels – both direct and indirect. The *"ideal"* channel for any given offer is the one that has both presence to the target end-user and the ability and willingness to sell the specific SaaS renewal at the lowest cost. If, for example, a *"simple"* renewal can be closed by an equally willing and able partner or a direct AE, the partner is usually the most cost-effective option. Again, activities-based costing is the method used to quantify and justify the channel decision.

The Importance of Capturing and Analyzing Variance in Financial Metrics

It's always necessary to have a solid top-level understanding of your SaaS renewal financial performance. But top-level numbers are not always sufficient to develop and deploy the tactics that will increase the probability of renewals success through partners. For this, the renewals team needs to examine the factors that contribute to variability.

These include:

- Offer – if the portfolio is broad with different target end-users and different segments, best practice is to assess financial performance by offer
- End-user segment – this can be by customer size and/or by vertical
- Channel
- Geographic region

This level of analysis is an extremely useful tool in detecting the *"why"* of a particular metric. The answers will help the renewals team develop specific partner interventions designed to address the root of the performance issue.
If, for example, ARR is falling quarter over quarter, the first question to ask should be *"why?"*. Has a key vertical been hit by the recent pandemic and companies have gone out of business? If so, perhaps partners can be steered to segments less impacted. Is a major competitor making inroads in a key region? If so, maybe it's time to roll out an aggressive incentive. Or are partners hitting their targets? If not, will better support and/or training improve overall performance?

3. CHURN

Why It's Important: Churn is typically expressed as a percent of accounts no longer subscribing in a given period of time and/or the dollar value these accounts represent. As with financial performance metrics, the deeper we go into the reasons for churn, the better we are equipped to manage it. For a more detailed discussion of churn, please refer to whitepaper #1.

Churn Metrics: Best practice churn metrics include:
- Percent *"natural"* churn vs. *"preventable"*
- Of *"natural"* churn, what percent can be attributed to:
    - End-user move to a different offer
    - Out of business
    - Severe cost-cutting
    - Acquisition

- Of *"preventable"* churn, what percent can be attributed to:
    - Under-deployment of the offer by the end-user
    - Pricing issues
    - Poor product support
    - Partner switch-outs

4. CROSS CHANNEL EFFECTIVENESS

Why It's Important: All partners performance metrics are great detectives, helping vendors identify the reasons behind one channel or partner's success or failure. Leveraged wisely, they provide a sound basis for identifying best practices and investing in necessary training and support. The typical metrics are captured in channel and individual partner financial performance. Beyond these, however, SaaS renewals metrics need to include a deeper look at partner growth and cross-channel cooperation.

Cross-Channel Effectiveness Metrics:
SaaS renewals through partners require the following cross-channel metrics:

- **Partner participation:** the percent of total partners participating in your renewals program or initiative. This can be further refined by capturing participation in individual incentives, etc.

- **Partner growth and self-sufficiency:** the percent of total renewals (dollars and contracts) closed exclusively by partners. This metric will allow you to see the degree to which your partners are gaining skill and expertise and, therefore, transferring cost out of your business – thereby improving profitability.

- **Cross-channel cooperation:** This metric tracks
  - Timeliness and financial success of follow-up on leads transferred from partner to vendor and from vendor to partner.
  - Timeliness and financial success of renewal closure when partner requests vendor support for a renewal more complex than the partner can handle.
  - Team win rates in competitive bid situations.
  - AE participation in renewals – Because most vendors want their high cost AE's to focus on new business, it's important to establish target parameters for AE time management and then capture the percent of an AE's time spent on renewals vs. new business.

5. CUSTOMER EXPERIENCE

Why It's Important: Customer experience metrics are *"predictive"* metrics that can help vendors identify opportunities and issues early on – before renewals revenue is impacted.

Customer Experience Metrics:
The two key metrics here are:

- **Customer satisfaction:** capturing satisfaction with the offer as well as with the channel – direct and/or partners.

- **Usage:** Here it is valuable to compare usage across companies in the same size and vertical segments in order to model a *"benchmark."* Those companies performing above the benchmark can be profiled for best practices in using your offer. Those falling below can be coached by the renewals and/or offer team.

6. OPERATIONAL EFFICIENCY

Why It's Important: Perhaps more than most types of sales, SaaS renewals require accurate, timely information to assure the *"gold standard"* close rate required for a successful renewals business.

Operational Efficiency Metrics:

- Installed base accuracy: the percent of the installed base the vendor has accurate information for
- Subscription contracts by customer
- Subscription expiration dates and values
- Timeliness of notices to customers

IV. WHEN THE REVIEWS ARE IN: Packaging the Metrics for Maximum Impact

With so many different facets of SaaS renewals performance to measure, vendors need to be very strategic about how they package and communicate them. Not everyone needs to know everything! In this process, the vendor should consider not only key stakeholders' *"need to know"* but also the renewals team *"need to tell".*

Why? One reason may be that the organization doesn't fully recognize the value of renewals to the business, or the important role that partners play. Another reason may be that the renewals team has identified specific resource requirements that need levels of investment beyond the team's sign-off ability.

In order to make sure you capture, review and report the right metrics to the right stakeholders at the right time, it's helpful to follow the best practice of creating a communications plan. Here's an example:

Step 1: Mapping key stakeholders to the specific metrics they need

	Key Metrics					
Key Stakeholders	Opportunity	Financial Performance	Churn	Customer Experience	Cross Channel Effectiveness	Operational Efficiency
Renewals Team						
Senior Management						
Customer Success						
Offer Team						
Channel Management						
Sales Management						
Regional Managers						
Operations						

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Individual key stakeholder communications plans

Step 2: For each stakeholder group, create a custom plan for frequency of data capture, review and report.

SaaS RENEWALS METRICS: PLAN FOR SENIOR MANAGEMENT				
Category	Metric	Capture	Review	Report
Opportunity				
Financial Performance				
Churn				
Customer Experience				
Cross Channel Effectiveness				
Operational Efficiency				

Implications and proposed action plan

V. SUMMARY AND CONCLUSION

Because SaaS renewals through partners spans across multiple functions and depends on complete, timely information, this business requires a structured, disciplined approach that is tailored to your current environment. When identifying the metrics you need and determining how, when and where to communicate them, it's important to assess your organization's:

(a) maturity as a SaaS provider
(b) experience and comfort with partners and
(c) ability to capture and communicate seamlessly across functional disciplines.

Hopefully, this paper has helped your team think through your approach to metrics and identify some ways to improve your capture, review and reporting processes.

VI. QUESTIONS FOR DISCUSSION

1. What performance metrics does the renewals team currently use for SaaS renewals through partners? Are they the same as those discussed here? What would you add to this list? What would you add to your list?

2. Who are the key stakeholders for these metrics? Do they believe they are getting the metrics they need to help drive a successful renewals business through partners?

3. Do you believe all key stakeholders have the information they need to support the renewals business through partners? If not, where are the major holes?

4. Do you believe the frequency of metrics capture, review and reporting is optimal? If not, how would you change it?

5. Do you believe that your current metrics capture important measures of variance (for example by offer, segment, channel, or geography)? Would you make any changes?

6. Do you believe that you have an optimal operational infrastructure for capturing, reviewing and reporting SaaS renewals through partners? If not, what do you need?

7. If applicable, what top 3 improvements would you make to your SaaS renewals metrics for partners?

VII. FURTHER READING

Whitepaper 1: How to Engage the Channel for Successful SaaS Renewals – Sales Renewals: A Primer

Whitepaper 2: How to Engage the Channel for Successful SaaS Renewals – Best Practices for Leveraging the Channel

By Sue Heintz, *Channel Mechanics* with industry contributions from:
- Stuart Campbell, *Renewals Manager at Nintex*
- Bryan Koyano, *Global Program Manager at Extreme Networks*
- Donna Walter, *Manager, Sales & Operations at Mitel*
- Tim Willey, *SVP Commercial Strategy and Operations at ForgeRock*

To learn more about our Renewals Management Software, please visit Channel Mechanics

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