

12 Essential KPIs of the Revenue Lifecycle:

The secret to achieving greater revenue and success
from your customer base

The 12 Essential KPIs of the Revenue Lifecycle

The secret to achieving greater revenue and success from your customer base

How strong are your **customer success, renewals and recurring revenue growth** programs? What's your **rate of customer churn**—and is it getting better or worse? How do you ensure your **customers are using and getting value** from your solutions? How effective have you been at **growing revenue from your installed base** of customers?

Since Bain & Co research shows that it's 6-7 times more expensive to acquire a new customer than it is to retain an existing one, and that a 10% increase in customer retention results in a 30% increase in company valuation, **these are the questions that B2B companies like yours must be asking**—the questions of your **Revenue Lifecycle**.

Many sales and service executives think they know the answers to these questions—based only on a few statistics and some anecdotes from their field teams. However, the measurements these executives use are inconsistent and rarely instructive on how to actually improve recurring revenue. ServiceSource® believes that the real yardstick of renewals performance lies in a comprehensive set of key performance indicators (KPIs) that tell a much broader, and ultimately more actionable, story. These include performance over time and across teams, product lines, and geographies; trends and information about customer buying behaviors; and key levers for driving future performance.

By creating a comprehensive Revenue Lifecycle dashboard that includes these KPIs, executives will gain clarity on the state of their recurring revenue programs and gain insights into how to drive improvements—and greater revenue. ServiceSource leads the industry in consistently tracking and measuring the critical metrics required to drive customer success and recurring revenue growth. In our own customer engagements we leverage a dashboard that includes these 12 best-practice KPIs:

Category	Key Questions That Are Answered	Performance Metrics
Renewal Opportunity	<ul style="list-style-type: none"> • What is the true value of the renewal opportunity? • Have we captured our starting point accurately? 	<ol style="list-style-type: none"> 1. Total Opportunity Amount 2. Adds Ratio
Renewal Results	<ul style="list-style-type: none"> • How did we perform against the true opportunity? • How can we consistently compare performance across geographies, partners and sales teams? 	<ol style="list-style-type: none"> 3. In-Quarter Renewal Rate 4. Final Renewal Rate
Sales Process	<ul style="list-style-type: none"> • Did we manage the renewal sales process in a timely fashion? • Are sales teams doing the right things to maximize performance? 	<ol style="list-style-type: none"> 5. Contact Days in Advance 6. Sales Cycle Length 7. Contract Renewed Before Expiration
Performance Drivers	<ul style="list-style-type: none"> • How can we drive improvements in future performance? 	<ol style="list-style-type: none"> 8. Resolution Rate 9. Close Rate 10. Conversion Rate
Customer Feedback	<ul style="list-style-type: none"> • What am I learning from customers? • What do my renewal and cancel rates indicate about the business as a whole? 	<ol style="list-style-type: none"> 11. Conversion Reason Analysis 12. Cancellation Reason Analysis

FIGURE 1

Customer Renewal Opportunity Metrics

What these metrics tell you: The true baseline opportunity to renew



Total Opportunity Amount

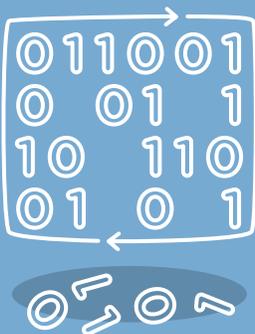
Total opportunity amount is defined as the total potential contract value that can be renewed in a period. While this sounds elementary, the only way to accurately assess performance is to capture the true baseline value of your opportunity. The biggest obstacles to a reliable total opportunity value are preset exclusions. Companies often systematically exclude a set of contracts from their opportunity base. For example, one ServiceSource customer previously excluded customers who hadn't used the support desk in the last year. These auto-exclusions are highly subjective and potentially arbitrary. By excluding any part of the total opportunity, renewal results can be inflated and unreliable in trending analysis. As a result, teams will not have all of the information they need to maximize performance.



Adds Ratio

The adds ratio is defined as the proportion of renewals from unexpected sources. These “bluebird” transactions, some companies will argue, are impossible to predict. A customer may mistakenly think they have a support contract and then need to purchase one; another may initially refuse the support contract and decide to purchase it later. A recent analysis of the ServiceSource portfolio showed adds ratios for our customers as low as 2 percent and as high as 48 percent. This large swing is dependent on the quality of the renewal data and how accurately total opportunity is measured. If tracked rigorously, the adds ratio becomes more predictable over time and can be included in the original opportunity base. It is also a critical component of your sales team's forecast.

Simply using last year's recurring revenue as the baseline is the traditional approach to calculating total opportunity. But this may underestimate your opportunity and therefore overestimate true renewal performance. Have you factored in pricing increases to the opportunity base? New purchases? Add-on services? An accurate starting point ensures that renewal rates will be truly reflective of your teams' performance and therefore provide a better benchmark over time.



By underestimating your opportunity base, you overestimate your renewal rate and can't track reliable benchmarks over time.

Customer Renewal Results Metrics

What these metrics tell you: Performance against the true opportunity

Historically, the industry has relied on the "Bookings Renewal Rate" (defined as the total amount booked divided by the total amount expiring in a period) as the standard measure for renewal performance because it is easy to calculate and often paints renewal rates in a favorable light. However, this metric is often misleading because it includes closed deals from a variety of sources, including expired business, future contracts and other projects. ServiceSource believes that the two most accurate measures of renewal rate are:



In-Quarter Renewal Rate

This metric is defined as the percentage of opportunity expiring in the current quarter that is actually closed before the end of the current quarter. For example, if a company has \$100 worth of contracts expiring in the quarter and books \$90 by quarter's end, its renewal rate appears to be 90 percent. However, when \$5 of those bookings represent contracts expiring next quarter and \$3 worth of contracts are from the previous quarter, the true in-quarter renewal rate is actually 82 percent. Companies often hesitate to measure renewal rates in this pure state because results can be lower. However, it is the most accurate measurement of what contracts were successfully renewed on time in an identified "batch" of business, and it is extremely useful when examining historical trends.



Final Renewal Rate

This metric indicates the percentage of the opportunity expiring in that quarter that is closed at all. This renewal rate suspends the time element and allows you to evaluate how much of a quarter's business was ultimately closed. This can be important because large transactions can run beyond expiration in order to maximize a user's negotiating leverage. Your success in closing those transactions will be captured in the final renewal rate and is critical to analyzing performance.

Using the above metrics, ServiceSource standardizes our renewal rates across the customer portfolio so that we can appropriately benchmark performance across teams, channel partners and geographies. This also allows us to conduct more insightful long-term trending analysis.



ServiceSource standardizes on an in-quarter renewal rate so that we can appropriately benchmark performance across teams, channel partners and geographies.

Sales Process Effectiveness Metrics

What these metrics tell you: Timeline and quality of the customer experience

A key driver of a successful renewal program is giving customers sufficient time to have a thoughtful and deliberate conversation about your value proposition. The earlier that contact is initiated, the more likely the customer is to renew. Calling early also gives the sales team adequate time to overcome any customer objections. Driving efficiencies in your sales approach and improving your customers' experience with your sales team can only be achieved through measuring:



Contact Days in Advance

This metric measures the average number of days in advance of contract expiration that your sales team is contacting end users. The earlier you contact a customer to renew, the greater the probability of a successful renewal. Based on our portfolio analysis, ServiceSource has learned that at 120 days before expiration, every additional week that passes before you contact customers **reduces your renewal rate by 2.5 percent**. The Contact Days in Advance metric allows you to continuously improve your customers' experience and drive improvements in overall renewal rates.



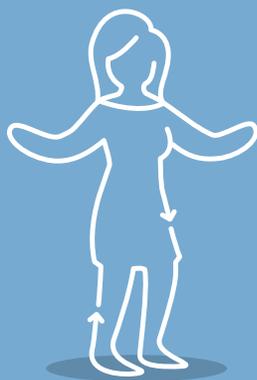
Sales Cycle Length

Sales Cycle Length is defined by how many days, on average, it takes for customers to renew their contract. If you know a customer typically requires 75 days to successfully run a renewal through their internal channels, you can optimize the process you set with your sales teams. Insufficient planning against a long sales cycle time can lead to expired agreements, which ultimately impacts support revenue and significantly reduces customer retention.



Contracts Renewed Before Expiration

This metric is defined as the percentage of contracts being renewed on or before expiration. This number should be as high as possible and consistently improved. Once a customer's contract lapses, each day without an incident helps "prove" they don't need maintenance and support from you. From our analysis, once the contract hits the backlog (defined as 30 days past expiration), **renewal rates are typically cut in half**. Even if the company renews later, it means you've lost revenue for every month that the company did not have coverage.



Sales process metrics allow you to measure whether your sales teams are doing the right things to maximize support revenue.

Revenue Lifecycle Performance Driver Metrics

What these metrics tell you: Where to drive future performance improvement

ServiceSource analyzes three critical subcomponents of customer retention rates to determine which levers to pull to increase future revenue. These metrics are:



Resolution Rate

The resolution rate is defined as the percentage of opportunity where the sales cycle has been definitively completed, either by closing out the transaction successfully or canceling the contract. By tracking the resolution rate, companies focus on contacting every customer and bringing all available opportunities to closure prior to expiration.



Close Rate

The close rate assesses the percentage of customers who accept the value proposition and agree to renew. Companies can optimize their close rates by educating end users and selling the value of their contracts.



Conversion Rate

The conversion rate reflects the difference between the booked value of closed contracts and their original estimated value. Companies maximize their conversion rate by selling value of upgrades, outlining multiyear options and ensuring that all assets are covered under the contract.

Additionally, the **net renewal rate** is equal to the resolution rate times the close rate times the conversion rate. By analyzing these three renewal components, ServiceSource can move from results reporting to scenario planning. Companies can then use “what if?” questions to identify the areas that hold the greatest potential for improvement.

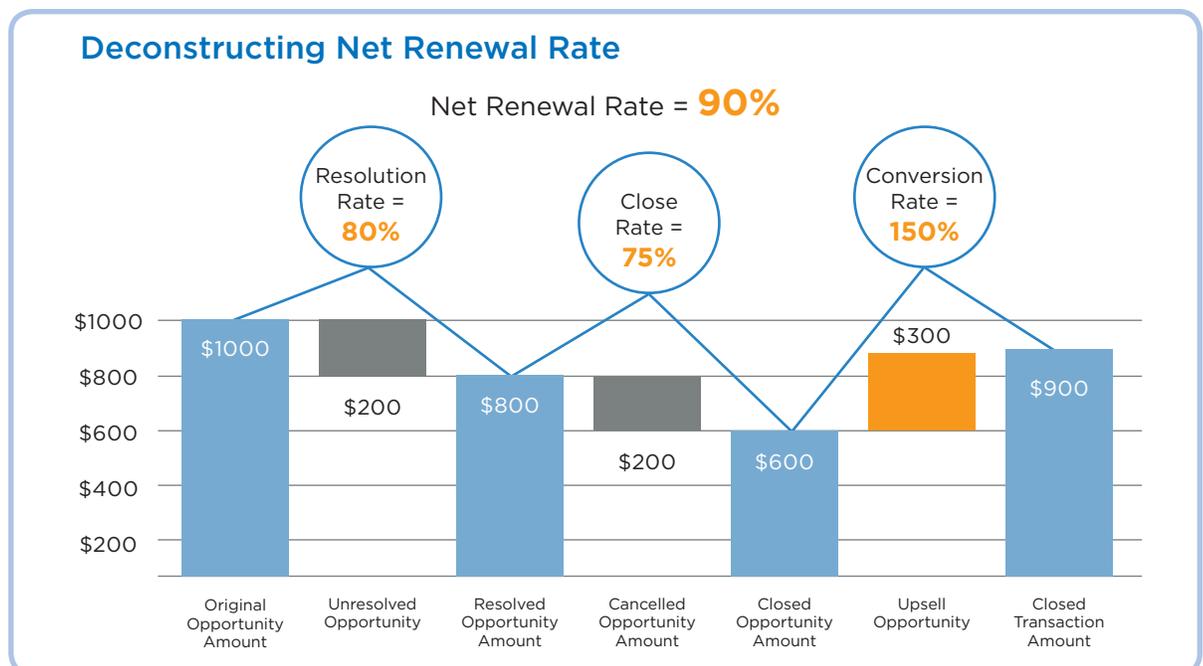


FIGURE 2

Customer Success Feedback Metrics

What these metrics tell you: Key lessons about your customers' revenue history

Knowing your renewal rates and cancellation rates is valuable, but future improvements in performance come from gleaming valuable business intelligence about why contacts have renewed or cancelled. The only way to do this is to establish and track a standard set of reason codes that reflect why customers are making the decisions they do. This customer insight comes from tracking and analyzing:



Conversion Reason Codes

Conversion codes are defined as a set of driving forces in the transaction value of a successful renewal. ServiceSource tracks a specific set of reason codes to evaluate how the final renewed value compares with the original opportunity value of every closed contract. Did they upgrade to a premium product level, buy a multiyear agreement or push for a discount? By tracking this information, you can evaluate how effectively your sales team is selling the value and better understand customer buying habits. A company can then use this data to make informed decisions about how to structure, market and sell their offerings.

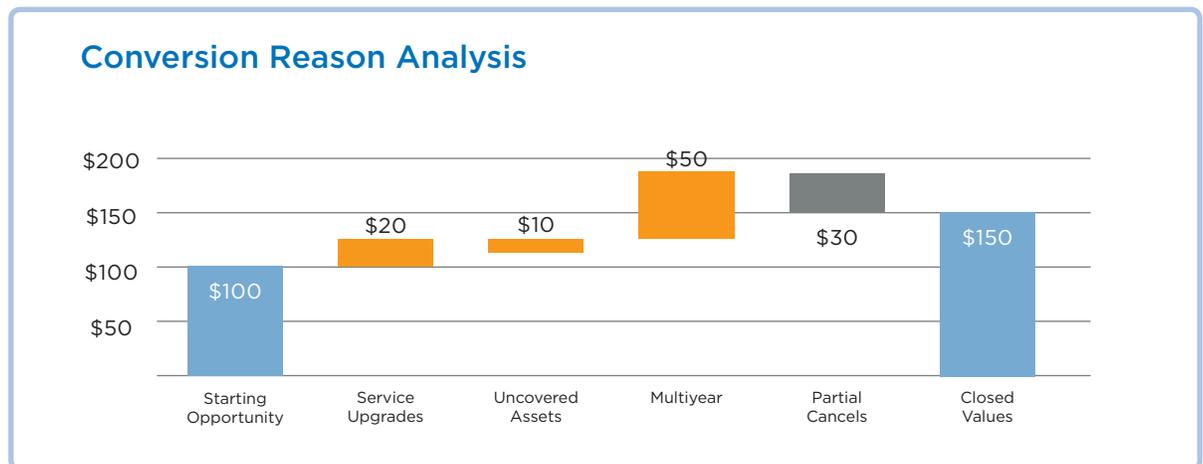


FIGURE 3



Cancellation Reason Codes

Cancellation codes are defined as a set of reasons why customers decided not to renew their contracts agreement. At ServiceSource, we tailor cancellation codes to track such things as competitors, deployment issues and budget constraints. This information can then be analyzed to understand where competitors are making inroads, why customers are leaving and, ultimately, how such insight can be factored back into a company's long-term product strategy.

The above metrics allow an executive to think more strategically, to focus on how to refine the company's offerings, and to help shape its overall product strategy.



Driving Future Performance

Many companies have a good track record at defining and tracking metrics around renewal opportunity, renewal rate and sales process. These metrics are critical to building a renewal dashboard that provides an accurate, consistent assessment of historical performance. It enables thoughtful analysis of trends and allows you to compare performance across products, geographies and channel partners.

But, ultimately, the value of an executive dashboard lies in the ability to leverage this historical data to drive insight and to enhance future performance. A world-class renewals dashboard also applies performance driver and customer feedback metrics to help executives set strategies for the future. These metrics provide indicators on buying habits, the competitive landscape and the customer experience. By tracking these 12 essential KPIs, service executives can think more strategically about their business and institute creative practices for driving future performance.

For More Information:

To learn more about this topic and how we have helped companies drive improved financial performance and increased visibility and insight within their existing customer base, call 855-619-8101 to speak with a sales professional, or find us at www.servicesource.com.

About ServiceSource:

ServiceSource (NASDAQ:SREV) provides the world's leading B2B companies with expert managed services, cloud software and best-practice processes proven to increase customer success, drive revenue growth and decrease churn from existing customers. ServiceSource's solutions help companies with onboarding and adoption, upsell and cross-sell, retention and renewals—the entire revenue lifecycle. Only ServiceSource brings to market more than 15 years of exclusive focus on customer success and revenue growth, global deployments across 40 languages and 150 countries, and a powerful, purpose-built recurring revenue technology platform. Thanks to ServiceSource, another customer is retained every 47 seconds. For more information, go to www.servicesource.com.

ServiceSource and any ServiceSource product or service names or logos above are trademarks of ServiceSource International, Inc. All other trademarks used herein belong to their respective owners.

All contents are © 2015 ServiceSource International, Inc. All rights reserved.