

SaaSCan™ Insights

Research Findings: April 2020¹



CONTEXT

While there are a number of excellent studies and benchmarks on SaaS retention and churn, in the immediate aftermath of Covid-19, two gaps became clear. First, given the economic downturn that Covid-19 triggered, prior SaaS retention and churn benchmarks were no longer directly applicable, at least not in the short term. Second, despite multiple studies and benchmarks, we could not find an exclusively Canadian source of this data, with statistically significant sample sizes. As a result, SaaSCan™ was born². Our mission is to build the biggest and best source of Canadian SaaS company³ churn and retention data and insight, based on research. Priority #1 was to understand the impact Canadian SaaS companies anticipated Covid-19 would have on their retention and churn numbers in the short term, and how they planned to react.

METHOD

SaaSCan™ surveyed Canadian SaaS companies from April 8 – 15, 2020 on their expectations for revenue retention and churn in the 2 quarters following March 11, 2020, the day the World Health Organization declared Covid-19 a global pandemic.

Respondents were sourced in collaboration with start-up and scale-up incubators, SaaS Meetup communities, and the Canadian Council for Innovation. A total of 50 Canadian SaaS companies responded, all B2B, and the vast majority private. They were evenly distributed across company size by revenue, age, and Annual Contract Value (ACV)⁴. The top industry verticals

represented were high tech, professional services, health care/health tech, retail, supply chain, and manufacturing.

The survey focused on expected behaviour of two key retention metrics that are critical to SaaS company success. As SaaS Capital points out, “based on its compounding effect on growth, revenue retention is now well established as the most important metric for ensuring medium-to long-term business health. New sale bookings versus revenue retention is the SaaS version of offence wins games, defense wins championships”⁵.

FINDINGS

Gross Revenue Retention (GRR)

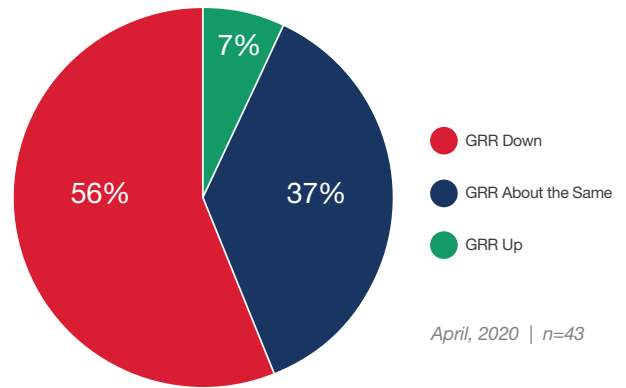
GRR is often considered the purest retention metric, because it excludes upsell and cross-sell revenue. To calculate GRR, take the revenue from a set of customers at the start of a given time period, for example a year, and subtract the lost revenue from those same customers at the end of the time period, either because they didn’t renew, or because they renewed at a lower dollar value. Note that because of the nature of this metric, GRR cannot exceed 100%.

Of Canadian SaaS companies surveyed, 56% anticipated GRR to fall in the quarter or two after March 11, 2020, compared to prior year actuals, 37% expected it to be flat, and 7% anticipated it would increase.

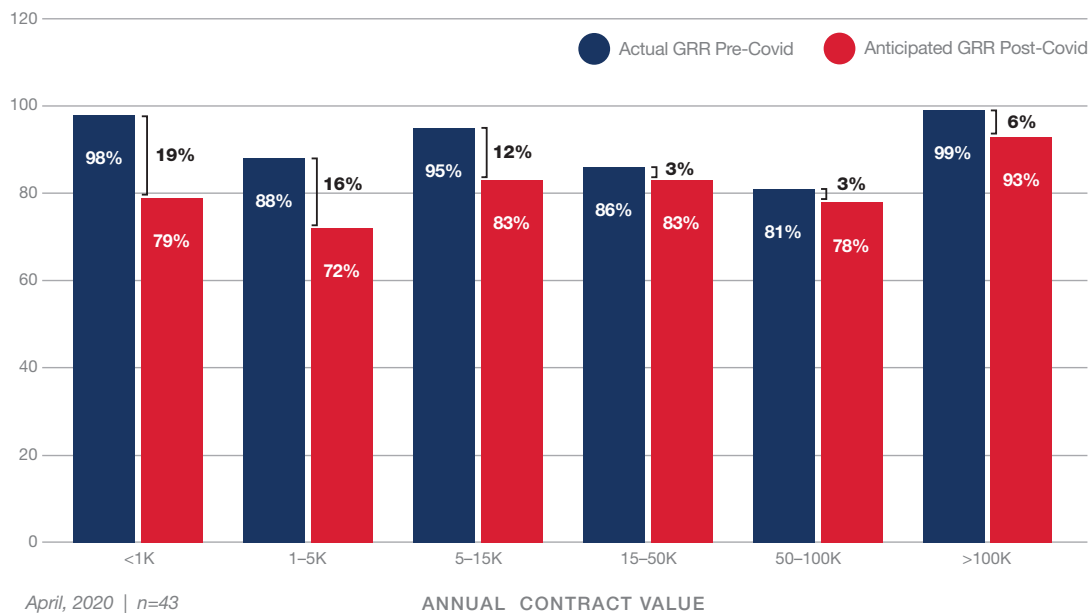
SaaSCan™ discovered no correlation between overall company revenue or company age with anticipated GRR behaviour. Instead, industry vertical and ACV were the two biggest drivers of anticipated GRR behaviour. Canadian SaaS companies serving industry verticals with immediate or urgent needs, such as health care/health tech, high tech, media/entertainment, supply chain, higher education and professional services, were more likely to anticipate higher gross retention and lower gross churn.

Across ACV bands, anticipated GRR declines ranged from 19% to 3%. The lower a SaaS company's ACV, the higher their anticipated gross churn post Covid-19. Why is this? A lower ACV often indicates sales to small and mid-size businesses, who are generally more vulnerable themselves in an economic downturn, and therefore more likely to downgrade or cancel their SaaS subscriptions. These SaaSCan™ findings reflect similar trends shown in a US study, done at about the same time⁶.

Anticipated Gross Revenue Retention (GRR) Behaviour



Anticipated GRR Decrease by ACV Band

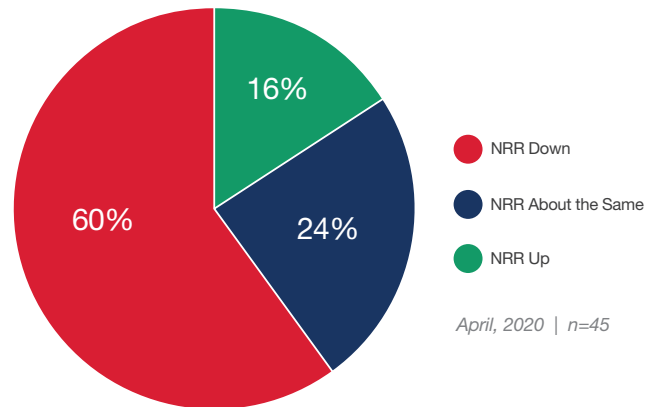


Net Revenue Retention (NRR)

NRR is widely considered the best indicator of how well a SaaS company expands revenue after they have landed an initial sale. To calculate NRR, take the revenue from a set of customers at the start of a given time period, for example a year, and subtract the lost revenue from those same customers at the end of the time period (same as GRR above). Then, add in any upsell and cross-sell revenue for that same set of customers in the same time period. NRR can be well over 100%, especially if mature customer success/customer experience practices are in place.

Interestingly, Canadian SaaS companies were more optimistic on anticipated NRR behaviour than they were on GRR. 60% anticipated NRR would fall in the quarter or two after March 11, 2020, 24% expected it to be flat, and 16% anticipated it would increase, just over double the percentage that expected GRR to rise.

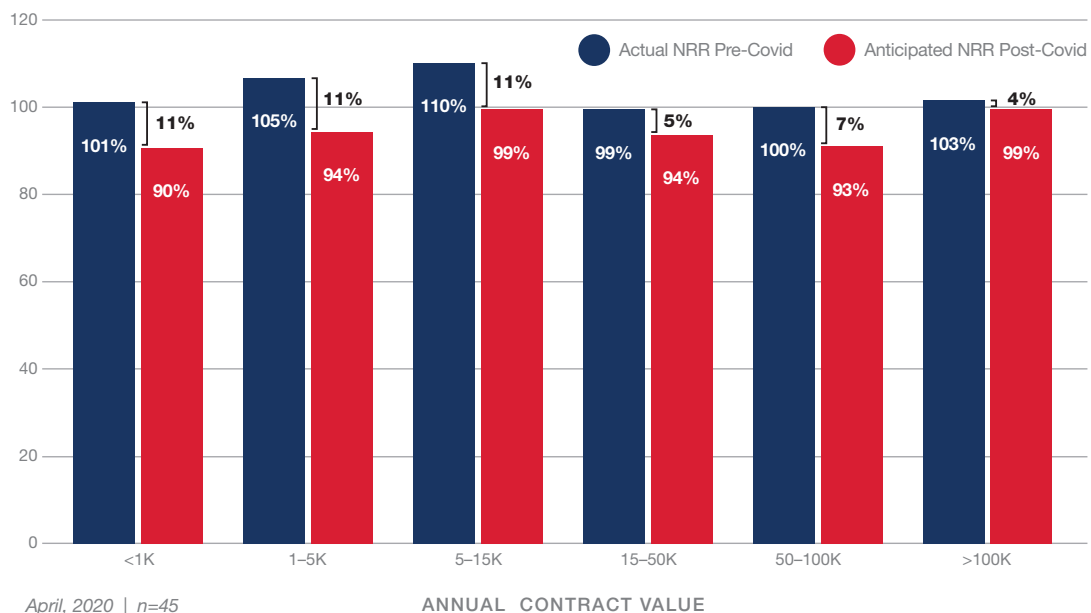
Anticipated Net Revenue Retention (NRR) Behaviour



Similar to GRR, anticipated NRR was more closely correlated to industry vertical and ACV, than it was to overall company revenue or company age.

SaaSCan™ found that anticipated NRR decreases by ACV band showed the same trend as GRR, in that companies with lower ACVs generally anticipated larger NRR decreases than companies with higher ACVs. Interestingly though, the range of expected NRR decreases was smaller than GRR, going from 11% on the low ACV end, to 4% on the high ACV end. Canadian SaaS companies were also more optimistic here than their US counterparts, where anticipated NRR declines ranged from 15.8% to 7.3%⁷.

Anticipated NRR Decrease by ACV Band



So why are Canadian SaaS companies more bullish on NRR than GRR, and than their US counterparts? We don't know for sure, but one possible explanation is that on average, the Canadian companies in this survey may be smaller and potentially able to pivot more quickly to expand revenue from existing customers. Another possible explanation is that the Canadian survey includes a higher percentage of companies in verticals more able to serve immediate Covid-19 demands ie: health care/health tech, supply chain, media.

REACTION

Given these expectations, how were Canadian SaaS companies reacting? Survey results indicate they were taking a pro-active approach that prioritized client relationships, and looked at pivoting in areas of most value and importance to clients. The top three pivot areas were:

Product

- Reprioritizing product roadmaps to deliver more highly relevant features that drive engagement, stickiness, and ease of adoption.
- Dramatically altering product functionality to address new, urgent customer use cases sparked by Covid-19.

Services

- Offering complimentary services in the short term to enable customers to gain more value from SaaS solutions they already own.

Customer Success Practices

- 72% – Pro-actively reaching out to customers with renewal dates in the near term.
- 59% – Preparing a set list of options to present to customers who are struggling financially.
- 52% – Pro-actively reaching out to customers with high usage/adoption.
- 50% – Stack ranking customers on key criteria to determine where to focus more/less effort.

Anecdotally, some companies also reported shifting to favour annual up-front payment models versus monthly ones, as annual plans can be less prone to short term shocks. Note, however, that SaaS Capital's 2020 B2B SaaS Retention Study found no statistical difference in long-term retention rates here at scale⁸.

KEY CONCLUSIONS

1. As a direct result of Covid-19, 56% of Canadian SaaS companies anticipated Gross Revenue Retention (GRR) would fall in the quarter or two immediately following March 11, 2020, 37% expected it to be flat, and 7% anticipated it would increase.
2. Somewhat more optimistically, 60% of Canadian SaaS companies anticipated Net Revenue Retention (NRR) to decline in the quarter or two post-March 11, 2020, 24% expected it to remain flat, and 16% expected it to increase.
3. The most significant factors driving anticipated Canadian SaaS company retention and churn post Covid-19 were Annual Contract Value (ACV) and industry vertical.
4. The lower a Canadian SaaS company's ACV, the higher their anticipated gross and net churn post Covid-19.
5. Canadian SaaS companies serving industry verticals with immediate or urgent needs (ie: healthcare/health tech, media, high tech, higher education, supply chain) had lower anticipated churn, as well as higher anticipated revenue retention and growth post Covid-19.
6. Canadian SaaS companies anticipate GRR declines similar in size to US companies by percentage, but were more optimistic than their US counterparts about declines in NRR.
7. Canadian SaaS companies were adopting a pro-active approach, pivoting in 3 key areas: product roadmap, professional services, and customer success practices.

Notes

¹ You're welcome and encouraged to share and quote results from this survey. Please reference "SaaSCan™, April 2020" when you do. #SaaSCan

² A heartfelt thank you to Allan Wille, Klipfolio; Pablo Srugo, Mistral Venture Partners; Paul Vallée, Tehama; and Darryl Duncan, RBC, for their early and enthusiastic support of this initiative.

³ By 'Canadian SaaS company', we are referring to SaaS companies headquartered in Canada. They may or may not have global operations, and significant sources of international revenue.

⁴ <https://www.klipfolio.com/metrics/finance/average-contract-value>

^{5,8} <https://www.saas-capital.com/research/2020-saas-retention-benchmarks-for-b2b-companies/>

^{6,7} <https://www.gainsight.com/blog/churn-is-coming-12-learnings-from-survey-of-saas-cxos/>

ABOUT SAASCAN™



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SaaSCan™ is a Canada-wide research collaboration, formed in the immediate wake of Covid-19.

It was started because of Covid's disruptive impact on previous SaaS churn and retention benchmarks, and because of the lack of a truly Canadian source of this data.

Our mission is to build the biggest and best source of Canadian SaaS company churn and retention data and insight, based on research.



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