THE BALDERTON B2B SALES PLAYBOOK.

Everything a founder needs to know about how to build an efficient B2B sales team.

SPRING 2020

INTRODUCTION.

A complete Playbook for building an efficient B2B sales team.

Over the last two decades, the team at Balderton has had the remarkable privilege of playing a role in the growth journey of a number of highly successful enterprise Software as a Service (SaaS) companies.

We, and those teams, would not have been successful were it not for the advice and counsel from those who had done it before. In turn, we believe we too must pay this advice forward.

While there are many short articles and comment pieces on enterprise sales, we have been unable to find a complete Playbook that the founders and executive teams of early stage companies can use as a core guide to setting up the right foundation for efficient, rapidly growing sales teams.

We want to set that right with this document – the Balderton B2B Sales Playbook.

We hope this Playbook will serve as a comprehensive guide to everything a founder needs to understand about their enterprise sales function. As well as hundreds of board decks and dashboard reports we are eternally grateful to the interviews and input we have received from our founders, their executive teams and, of course, many of our companies' excellent marketing, sales and customer success representatives.

We salute you for your great work and for your willingness to share what you have learned with those who follow!

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What you should think about when it comes to building a sales machine.

PART ONE:

THE BASICS.

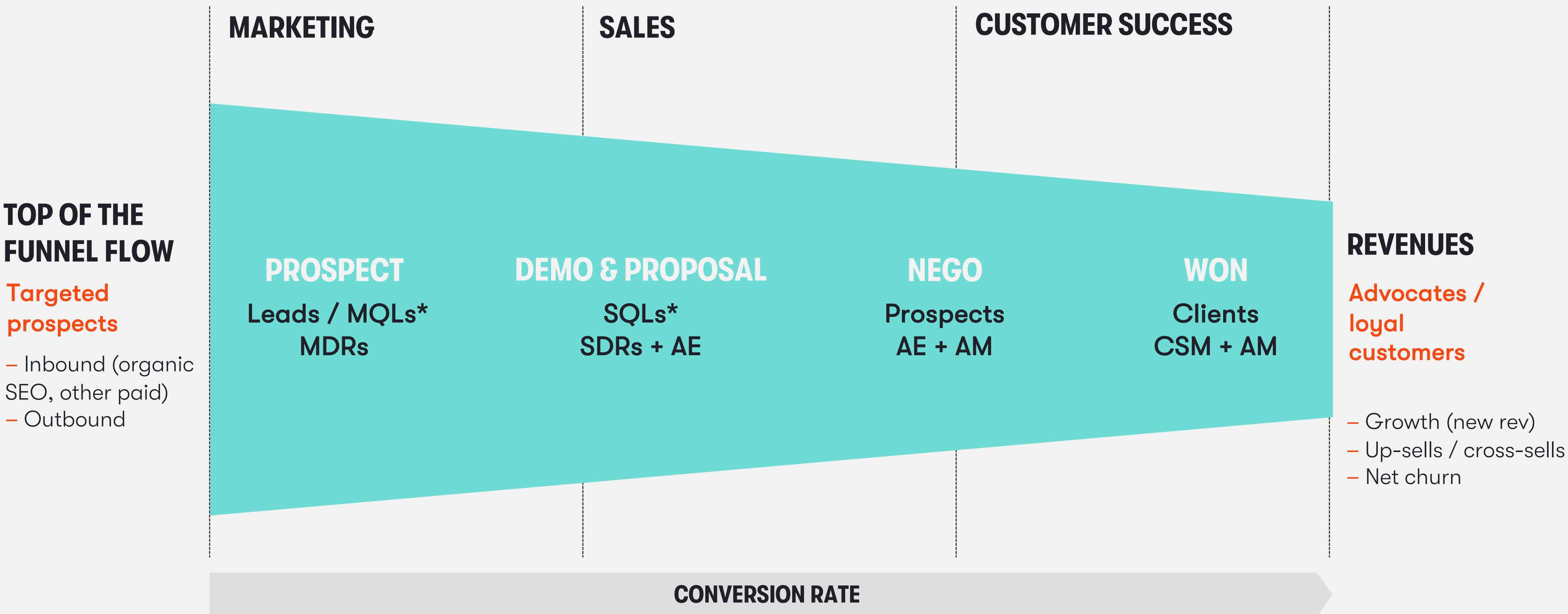
SALES TEAM STRUCTURE.

Who's who?

- **Market Development Reps (MDR)** focus on market research and responding to inbound leads. The marketing team might also have reps to focus on marketing lead generation and lead development
- **Sales Development Reps (SDR)** generate leads for outbound sales
- **Sales Engineers** (for technical products) answer all technical questions, often run Proof of Concepts (POCs), and provide support to AEs in the field
- **Account Executives (AE)** are responsible for getting the customer commitment and closing the sale
- **Onboarders (ONB)** integrate clients and achieve first use
- **Customer Success Managers (CSM)** orchestrate the customer experience and ensure satisfaction; they often focus on potential cross-sell and up-sell opportunities together with the account manager
- **Account Managers (AM)** help the customer grow their use of the product internally, primarily for the purposes of cross- and up-sell as well as for engagement reasons
- **Head or VP of Sales** leads the sales team and works with other cross-functions to establish target quotas, compensation, and the optimal team structure

PROCESS FUNNEL.

From inbound marketing to customer success.



*MQL stands for Marketing Qualified Lead; SQL refers to Sales Qualified Lead

PIPELINE GENERATION. TIME AND CONVERSION ARE KEY.

Monitoring pipeline evolution (time and conversion rate) is key to control revenue generation.

- Prospect clients might come from:
  - — Inbound (they reach out to you) or
  - — Outbound (your sales team reaches out to them)
- **Inbound** is the result of:
  - — Word of mouth (organic growth) or
  - — Marketing strategies such as content generation, SEO, SEA, display, account-based marketing or other paid acquisition channels
- Salespeople usually have some type of **lead qualification** or scoring, and they often use BANT qualification, i.e. does the prospect have Budget, Authority, Need, and Timeframe to make the purchase. This means that an SDR will not pass an opportunity into the AE until the prospect is qualified. BANT is especially helpful for an inbound strategy
- For **outbound**, another helpful framework is PACTT (Pain, Authority, Consequence, Target Profile and Timing). You can read more here
- MQL/SQL stages should ensure the fit is right to spark enough **interest** to get the buyer into an 'intent' stage
- Then (post SQL) think of the **movement from interest to intent.** Focus on optimising conversion rates on buyers who have intent and heavily scrutinise reasons for lost deals. You should monitor Sales Accepted Opportunities (SAO) conversion
- A way to think about this is as follow: first, “Enquire” (MQL), then “Desire” (SQL), and finally “Require” (SAO and beyond)

PIPELINE GENERATION — WHAT TO KEEP IN MIND.

Key points to always think of.

- Monitor the size of your pipeline vs target revenues and account for historical conversion
- Control velocity to the different stages of the pipeline
- Monitor conversion rates and how they compare with your plan to reach your target revenues
- Simplify this process as much as possible while keeping team focused on their core expertise
- Investigate and understand the reasons for won and lost deals
- Provide your sales team with the best tools to boost efficiency (CRM, automation, etc.)

- **MONITOR PIPELINE SIZE**
- **CONTROL VELOCITY**
- **MONITOR CONVERSION RATES**
- **SIMPLIFY THE PROCESS**
- **INVESTIGATE WON & LOST**
- **USE TOOLS TO BOOST EFFICIENCY**

OPTIMAL SALES STRUCTURE.

Your optimal sales structure depends on your type of business model.

- High velocity **vs** long sales cycles
- Low touch **vs** several interactions and touch points
- SMBs **vs** Enterprise
- Small deals **vs** big contracts
- See the section 'The Details' in the slides following, for more on how organisational structure, compensation mechanisms, choice of indirect channels and other key decisions vary depending on your business type

COMPENSATION MECHANISMS.

Build a compensation plan to drive the behaviours and results the business wants to see.

Sales compensation is different from regular team compensation.

Sales is more quantifiable than any other activity in your company, and sales compensation should reflect that direct, measurable nature of the job.

Sales is more short-term than everything else you do – a sales teams need to be incentivized to deliver results today, this week, this month or this quarter; not make slow progress strategically.

SalesHacker's Sales Compensation Blueprint offers a good overview and details of steps to consider for compensation.

1. Start with **team structure and target earnings** for the different seniority levels and roles
2. Determine **base vs variable** (commissions) – variable should be between 50% and 100% of base
3. Define the variable **compensation system** and the targets (quotas)
4. Think of the different tools to drive behaviours and **ensure fairness**
5. Think of the **results** the business wants to see, e.g. if you want upfront billings, make sure commission is rewarding for this
6. Ensure it is **simple**. Take your average type deal and see if the reps can work out their comp on a calculator for the deals

PART TWO:

THE DETAILS.

SALES TEAM STRUCTURE: THE SALES POD.

Different team members (roles) can be grouped to create a sales POD that is focused on a particular area (market or region, type of customer/segment, etc.).

- This can be done for the entire time or for some segments (called sprints)
- For example, in a 2×2 POD an MDR/SDR is partnered with 2 AEs. The MDR/SDR combo can set up 40-60 meetings for the AEs each month, and for these, the AEs close c.6-8 deals
- PODs can be structured in different ways depending on needs (as shown in the chart on the right)

PODS

STANDARD	INBOUND	OUTBOUND	TARGET
MDR, SDR	MDR	SDR, SDR	SDR
AE, AE	AE, AE	AE	AE
ONB	ONB	ONB	ONB
Used for a regional approach or large vertical market. One for the West Coast and one for the East.	Used with an inbound biz where lots of inbound leads are generated often with a low ACV.	Used with an outbound approach often with a high ACV due to the high cost of the ACV.	Used to go after a few hand picked large accounts with a dedicated SDR identifying people in a targeted account.

See page 5 for a reminder of 'who's who' on the sales team. Infographic courtesy of Saleshacker's *'How to structure your sales organization for maximum efficiency'*. Link.

SALES TEAM STRUCTURE. HOW TO PLAN. (1/2)

We recommend you work backwards from your goals and past experience and plan for your sales organisation structure at least one year in advance.

- Start with your next twelve months goal: **what do you want to hit next year?**
- Then split that into what will come from **expansion** and what will come from **new sales**
- Net expansion includes churn (lost customers) and current customers growth. You can use prior year number as the base and tweak it in light of possible improvements
- The difference between your goal and expansion revenue is the new ARR $ you need this year
- Then look at historical **conversion rates** to know how much pipeline you need, how many reps you should have, etc.
  - c.30% of inbound leads tend to qualify and c.15-20% of these will close. c.5-10% of your outbound prospects will end up becoming your clients. Note that these are averages and will vary depending on your business model and sales structure
  - Outbound conversion rate (from prospects to won clients) tends to be 2-3x lower vs inbound qualified leads. However, the overall conversion (from top of the funnel to closed) should be fairly similar for both channels

SALES TEAM STRUCTURE. HOW TO PLAN. (2/2)

We recommend you work backwards from your goals and past experience and plan for your sales organisation structure at least one year in advance.

- **Split into quarters** if sales cycles are long (enterprise) **or months** if they are short (SMBs)
- This will help you answer key questions to plan for your sales organisation and structure
  - How many reps will you need by Q3? When do you need to hire them in order for them to be fully ramped up?
  - What volume of pipeline will they need to have access to from SDRs or Marketing in order to have enough opportunities to close?
  - Do not forget to plan for a certain level of salespeople attrition

Read more about planning and demand generation on **Dave Kellogg's blog** *'Why every startup needs an inverted demand generation funnel'*. Link.

TEAM STRUCTURE BENCHMARKS.

Team structure will vary depending on type of business (velocity of sales, complexity of product, etc.). Below we show an estimated range of FTEs per function.

ROLE	SEED	SERIES A	SERIES B+
VP Sales / CSO	0	0	1
Sales Managers	0	0-1	3
AEs	0-3	2-10	18-24
Pre-sales / Sales engineers	0	1-2	4-5
SDRs	1	1-4	9-12

Source: Microsoft's Research. Link.

VARIABLE COMPENSATION. (1/2)

Variable compensation should be designed to drive specific behaviours. Attention to details is very important, although simplicity is key.

- **Metrics to be targeted on (ARR, New, Upsell, TCV, etc.)**
  - Usually new ARR; upsell and expansion / churn usually for customer success
  - You want sales to focus on getting more logos in but be incentivised to help grow accounts too, so pay on expansion but make sure the rates on new ARR are higher
  - Consider multi-year contracts and how you want to drive behavior to foster these
- **Monthly vs Quarterly**
  - Quotas are often distributed quarterly but evenly spread across every quarter to recognize seasonality
  - Monthly incentives are quite common
  - You want people to close deals now and focus on those opportunities, not be rewarded for chasing big deals that may never happen, so pay quarterly but have monthly incentives or even weekly for SDRs

VARIABLE COMPENSATION. (2/2)

- **Linear commissions vs accelerated**
  - Low commission to start, then increasing with level of performance
- **Cap vs uncapped**
  - Commissions are usually capped at 200% or 300% of target
- **Cash flow related incentives**
  - Tilt the variable comp to encourage upfront payments, multi-year deals, etc. This should help you manage better your cash flow and finance part of your growth with your own revenue generation paid upfront
- **Ramp up time**
  - Quota in initial periods (AEs should ramp in under 6 months)
- **Levels of commissions will have a substantial impact on the profitability of the model.**
  - Try to target <15% (10%-12% ideally) for the whole 'food chain' (sales, sales management, etc.)

VARIABLE COMPENSATION: AN EXAMPLE.

Depending on percentage of quota attained and commission accelerators, variable compensation can change a lot.

- Let's take a very simplified example — in real life plans will have quarterly goals and all other considerations described earlier
- Imagine a scenario where fixed comp is $80,000, variable comp is $80,000 (i.e. OTE equals $160k) and quota is $800,000

Sales Closed Deals	350,000	500,000	600,000	700,000	800,000	900,000	1,000,000	1,100,000
Sales Closed As % Quota	43.8%	62.5%	75.0%	87.5%	100.0%	112.5%	125.0%	137.5%
% Commission (as % of Quota)	0.0%	2.0%	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%
Achieved Variable Comp	0	16,000	40,000	60,000	80,000	100,000	120,000	140,000
Achieved Total Comp	**80,000**	**96,000**	**120,000**	**140,000**	**160,000**	**180,000**	**200,000**	**220,000**

COMPENSATION BENCHMARKS.

Compensation will vary depending on location and size of the company; below we show an estimated range of what is common in Europe (UK, GE, FR) and the US.

EUROPE

ROLE	OTE	% OTE IN VARIABLE
VP Sales	€130-200k+	30% - 50%
Sales Manager	€80-120k	30% - 50%
AE	€70-125k	40% - 50%
Pre-sales / Sales engineer	€40-90k	NM
SDR	€30-45k	10% - 30%

US

ROLE	OTE	% OTE IN VARIABLE
VP Sales	$250-450k	40% - 50%
Sales Manager	$250-300k	40% - 50%
AE	$80-$150k	c.50%
Pre-sales / Sales engineer	$70-150k	c.20%
SDR	$40-70k	c.20%

RAMP UP TIME.

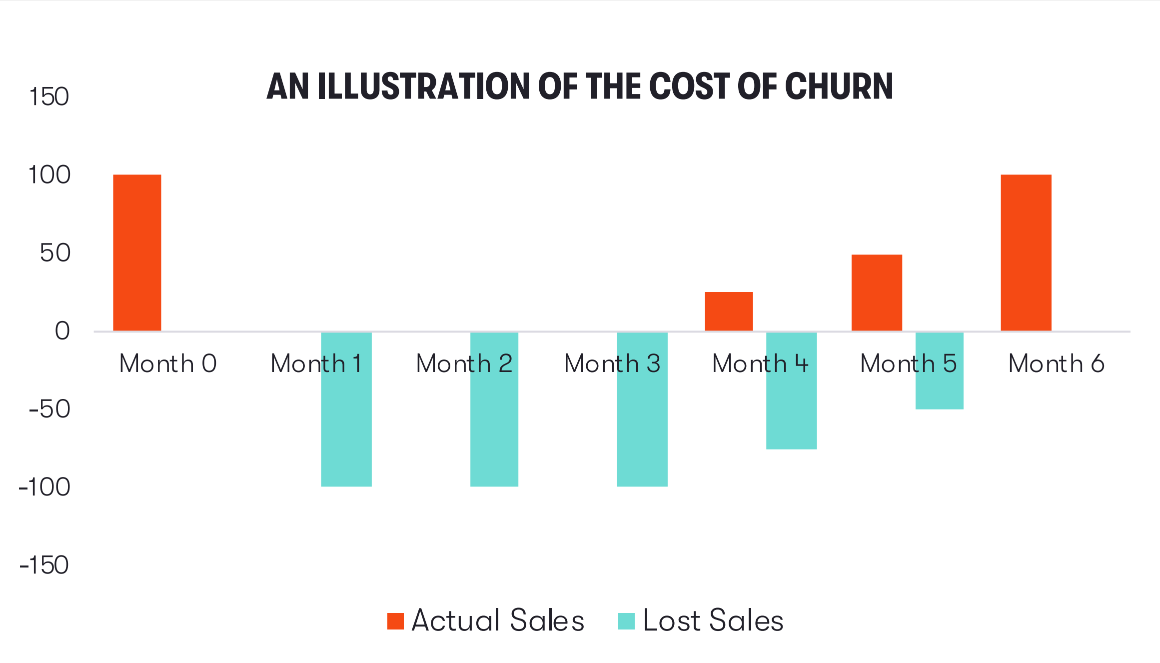
Shortening ramp up time is important, but more so accounting for it when building your team.

- New sales will take time to ramp up until they are at their **"full" potential**
- For enterprise SaaS ramp up time can be around **6 months** on average; for SMBs SaaS that time is reduced to **c.3 months**
- Ramping up time is an important factor to consider as it is a **"hidden" cost** for your business – base salaries are paid fully and resources are allocated to the sales person
- **Investing in training** is a great way to reduce ramp up time -- while it might look like an even higher upfront cost, it is more of an investment, as a good initial training program can considerably reduce ramp up time
- Therefore, thinking of a **sales academy** for your sales team, especially for new hires, is a good idea
- You cannot help people leaving your sales organisation, but you should try to **hold on to your best people** as it can have a much larger effect on the cost of churn
- **Integrate recruiting with growth strategy** and expected churn – your talent and sales teams should always have a **pipeline of potential good candidates** to move forward fast
- Offering a good **career progression** is another way to keep and attract talent (as well as the company's culture and compensation mechanisms described earlier on)

COST OF SALES FORCE CHURN.

The cost of churn is the "invisible" cost associated with the churn of your salespeople and ramp up time.

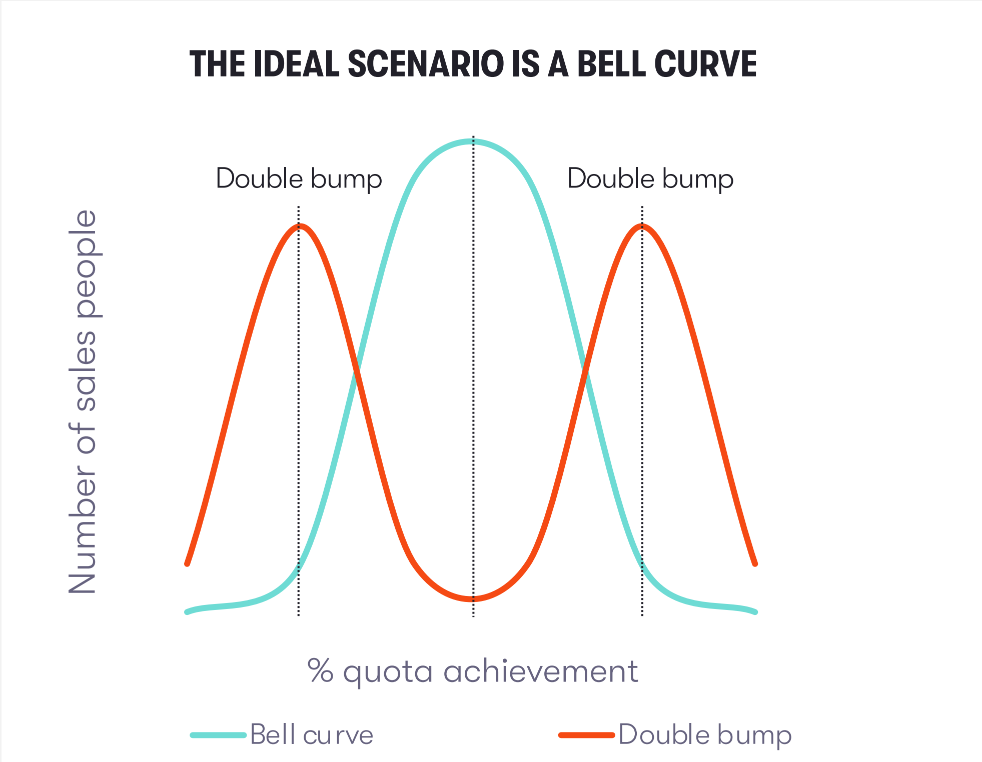
- Imagine one of your sales leaves the team in month 1. That person was doing 100 sales / month (in line with target) the previous month (Month 0)
- For about 3 months, you might end up not making these 100 / month considering the time necessary to hire a new sale an onboard him or her
- Then, the ramp up time will also penalise your sales, as the new hire will take some time to hit the target and will only start selling say 25 / month, then 50 / month, and if you are lucky he will hit the target by month 6



SALESFORCE EFFICIENCY. (1/2)

Carefully monitoring salesforce efficiency is essential.

- **Watch distribution of sales achieved**
- **Look for a bell curve**, that is your ideal scenario: most of your sales are around target, with some overperformers and a few below target
- **Avoid the double hump**
  - — Many underperformers
  - — Many overachievers
- **Think what might be driving the double hump**
  - — Unevenness of territory allocations?
  - — Poor sales training or best practice sharing?
- **Consider hiring a Sales Ops** to manage all data and ensure data entry is excellent always
- Consistent over or underperformance may be a sign of **unrealistic quotas**



INDIRECT CHANNELS: WHY.

Why you should consider using indirect channels.

- **Multiply your reach**
  - Extend your salesforce and reach verticals and / or geographies you cannot yourself reach efficiently. They can boost your brand and product awareness very efficiently
- **Lower your initial investment**
  - Reduce direct hiring costs, ramp up time, and all costs associated with building a team indirect channels are a fully variable cost rather than a semi-variable cost (think of it almost like opex vs capex)
- **Fully align incentives**
  - Ideally, you will compensate your indirect partners only on success, making it very cost efficient

INDIRECT CHANNELS: WHEN AND HOW MUCH.

When to sell through indirect channels.

- Most companies should have a **component of their sales coming through indirect** channels
- Some people believe indirect channels should only be used after reaching a certain scale, but we encourage you to think about these sales channels early on as it can have a phenomenal **power to boost growth and awareness**
- Often indirect channels can help you **get to a new country much faster** than by using your own sales force and be first to market without investing a lot upfront. Some geographies strategically need partners, especially in Asia
- However, for **strategic geographies** we recommend you **build your own sales force and potentially complement** it with partners sales
- How much to sell through indirect channels and when to start using them **depends on:**
  - Size and maturity of your business
  - Type of company, customers, and complexity of sales cycle
  - Need of services associated to the product(s) sold
- The **choice of type of indirect channel** will also depend on the above

INDIRECT CHANNELS: WHO.

Who are your best partners.

- **Right choice of partners depends on your business model and sector**
  - Options vary, including OEMs, VARs, consulting firms, system integrators and others
  - For example, if your product has a strong service component, your best partner might be a company that is precisely good at providing the ongoing service post sale. Those partners make their revenues in the servicing so they are often willing to take a smaller commission to promote your software so they can sell their service as an add-on
  - You might be able to tap-in into their own customer base that is not currently reachable to you directly

- **Indirect sales channel is a professional sport:** hire an experienced leader who has done it before
  - Watch out for 'Big Deals' that end up delivering nothing
  - An investment might be needed to enable a channel partner -- they can sell products of many companies, so you need to make sure yours is the one their reps want to sell and can do so with as little friction as possible. This effort (and cost) should be considered in the decision making

INDIRECT CHANNELS: TYPE OF CHANNELS.

There are 5 main types of channels.

1. **Resellers**
    - They act mostly as a marketing channel but do not provide added-value services
    - They get a commission on the product sales (usually in the 10-20% range)
2. **Value-added resellers (VARs)**
    - Usually provide additional services wrapped around product to deliver a more complete solution
    - Their revenues are mostly driven by the services delivered rather than margin provided from reselling
    - VARs tend to think of the customers as their own
    - They are often great partners as commissions tend to be lower given that product selling is their way to get into new customers and sell their own services
3. **System integrators:**
    - Partners who develop more complete solutions by integrating product with others
    - These partners make most of their revenue through services and little through product resale
4. **Independent Software Vendors (ISVs)**
    - ISVs sell their product directly but integrate your technology in their application
    - In exchange, they pay a royalty fee
    - This is an interesting channel as requires no selling effort and provides an ongoing revenue stream
5. **OEMs**
    - Partners that sell their own product but are looking to expand their offering with other products (like yours) not developed in-house
    - Living exclusively through OEM licenses is unlikely for most big software companies but it can be a significant part of the revenue
    - In OEM distribution sometimes the supplier (you) is not visible to the end customer, as the solution is white-labelled, which is not ideal for brand awareness

CASE STUDY: LOW TOUCH, HIGH VELOCITY SAAS COMPANY (1/3)

Every company is different, but we want to provide you with one example of a successful sales organisation for a low touch, high velocity sales business.

- **Context:** SaaS business selling mostly to SMBs (20-200 FTEs); ARR of c.25-30m; ACV of c. $10k/year and contract length of 1 year on average (c.20% paid upfront); sales cycle varies from c.2 weeks or less (for ACV <300/month) to up to 2 months (for accounts paying up to >3k/month)
- **Sales team structure**
  — 10-15 CIT (Customer Intelligence who find deals for SDRs checking the right prospect and who to target within the organisation)
  — 20-30 SDRs (hunting based on CIT information)
  — 20-30 AEs (demos, closing, and inbound with help from 1 inbound SDR)
  — 1 country manager per key geo (4 total) + 2 US managers
  — 1 VP Sales in the US + Head of Sales in Europe
- **Customer success** is a separate team, in charge of onboarding and ongoing support, as well as upsell and cross-sell. Compensation in this team is based on net churn (expansion), with a junior team member in Europe making c.€40k in fixed salary and c.20% in variable comp
- Everyone in this sales team has **monthly quotas**
  — CITs have more qualitative quotas
  — SDRs' quotas are based on number of demos done
  — AEs' quotas are based on new MRR generation
  — Country Managers' quotas depend on AEs results
- Target quotas of c.5x OTE. e.g rep on €50k base and €50k Comp (€100k all-in) should have a €500k quota minimum
- When starting a **new geography**, this company kept the sales team lean: 1 AE, and afterwards 1 AE + 2 SDRs; as the market matured, the ratio AE:SDR got close to 1:1

CASE STUDY: LOW TOUCH, HIGH VELOCITY SAAS COMPANY (2/3)

Quotas and commissions for European sales.

	QUOTAS	COMMISSIONS
SDRs	Based on number of demos generated 100% quotas = 10 points = x1 commission If 20 points are reach, sales gets x3 commission **For each demo generated, points follow as:** — <500 ARR generation / demo -- 0.5 points — 500 - 2k ARR generation / demo -- 1 point — >2k ARR generation / demo -- 2 points	€500/month for most junior team members €1k/month for more senior team members + 4% commission on ARR closed by AE that came from their leads
AEs	Target of €7k/monthly + accelerator	€1k/month when on target **Accelerator based on bell curve x2 gap:** — <75% target: 0 — @ 75% target: 50% of €1k — @ 80% target: 60% of €1k — @125% target: 150% of €1k

CASE STUDY: LOW TOUCH, HIGH VELOCITY SAAS COMPANY (3/3)

From marketing to sales and timing.

- **Inbound target** at c.70%
- Strong focus on having a predictable **pipeline** and controlling conversion rates
- Moved inbound interest forward selectively to avoid wasting time
- Common **marketing strategies** include webinars, partnerships (with integration partners, resellers, other SaaS companies complementary in terms of offering to similar customers, etc.), add words, and events
- The first SDR email is personalised, but based on a template to boost efficiency
- Two first contacts are often done by email, then goes the phone call. Having c.5-10 touch points with SDR is normal to properly understand the prospect's needs before passing to the AE phase
- The AE does the demo, offers a trial (1 week on average) and encourages usage
- To reduce **ramping up time**, a **sales academy** was implemented. SDRs used to take 6 months to ramp up and that time has been reduced since the sales academy was put in place
- During the first 2 weeks to 1 month, productivity from SDRs was low
- The company in this example has seen **0 churn in their sales team**, the only people leaving the team were fired
- **Average quota achievement** is at c.85%-90% with a distribution as follows:
  - <75% -- c.5% of sales
  - 75%-100% -- c.40% of sales
  - 100%-150% -- c.45% of sales
  - >150% -- c.10% of sales

CASE STUDY: HIGH TOUCH, LOW VELOCITY SAAS COMPANY (1/3)

Similarly, here is another example of a successful sales organisation for a high touch, low velocity sales business.

Context

- SaaS business selling mostly to large enterprise (Fortune 500, expanded thereafter to Fortune 2000);
- ARR of c.$30m (today having grown to c.$100m); ACV of c.$175k/year (later on, as they moved towards mid-market too, ACV closer to $100k) and contract length of 1 year on average (all paid upfront); sales cycle of c.4 months, varying from <c.3 months (especially when selling to high tech companies) to up to 12 months (for customers more exposed to regulation). One rule kept in mind was “$100k in 100 days”
- This business focused on the US market since day one, with Europe remaining opportunistic. It sells a highly technical product, so the role of the ‘sales engineers’ is key
- POC process was key — nailing it was a big driver for growth

Sales team structure

- Big changes when company went from $10m to $30m ARR
- Originally only 1 VP Sales, c.4 AEs, and 1 sales engineer
- Then VP Sales had c. 10 direct reporters, mostly AEs (all US but 1 for Europe) + a small team of BDRs (3 BDRs + manager)
- When the company hit the c.$30M mark, VP Sales had only 4 direct reports (managers: lead presale, Director EU, 2 Directors for North America, East and West Coast), c.15-20 AEs reporting to Directors, and 5 sales engineers
- Location was viewed as an important factor for team size (direct supervisor). When in the same location, a manager helped develop c.8-12 people; that number dropped to c.6-8 if the team was spread geographically

CASE STUDY: HIGH TOUCH, LOW VELOCITY SAAS COMPANY (2/3)

Compensation structure.

- Quota of c.5x OTE (e.g. if OTE is $200k, quota should be $1M)
- More senior sales OTE of c.$150k-250k; 50% fixed, 50% variable (performance)
- Internal rule for commissions: "salespeople should get paid when the company gets money; and they should not get paid if they do not make money for the company"
- Commissions paid on a monthly basis when deal closes for AEs and BDRs, quarterly for management and sales engineers
- Accelerators and super accelerators for top performers, often 1.5x-2x when quota between 100% and 110%, and 2x-3x when above 110%
- Fully loaded commission (including all food chain) kept around c.10%
- **Quota achievement split:**
  - <75% c.30% of sales
  - 75%-100% c.35% of sales
  - 100% or more c.35% of sales
- The above is the reflection of a very ambitious **culture**, where making the impossible possible is a motto
- To compensate for these challenges, shorter term wins and contests were put in place to keep motivation high. Also people <75% were not laid off (only bad performers) as management was aware of high ambition setting quotas
- This team never accepted **draws** (i.e. guaranteed commissions for the first months / quarters as pipeline gets built). Instead they would reduce quota if needed, but would not agree on a guaranteed comp

CASE STUDY: HIGH TOUCH, LOW VELOCITY SAAS COMPANY (3/3)

Indirect channels and sales culture.

Indirect channels

- This team only started working on indirect channels when the company reached c.$30M ARR
- For this team, having indirect channels up and running was a c.3 years process. The first year was about getting it all up and running (getting low to no return on all efforts). The second year was when it all started working, and they saw the proper growth acceleration in year 3
- According their experience, indirect channels were a fantastic growth lever but not always yielded high ROI
- In this case, using specialised software resellers was the best option, given the company sells a technical product (therefore generalist resellers are less helpful)

Sales culture

- Excellence always: bottom 10% performers likely to be let go
- “Make the impossible possible”, with the support of the team and a collaborative environment. This is reflected by ambitious quotas while keeping motivation and incentives top of mind (sales president club, quarterly recognitions, etc.)
- A sales culture where ethics is key: only sell if we can solve the customer’s problem
- They also built a culture where sales people should be “humble, hungry, and smart; and also self-aware” -- ask for help when needed, be aware of weaknesses, be entrepreneurial, and always willing to go the extra mile

CASE STUDY: METRICS TO TRACK.

Some key metrics to track*.

From a sales team performance perspective, the most relevant **metrics to track** include:

- Number of demos done for low touch, high velocity, while PoC data (technical wins vs sales wins, length of POC, and learnings) is key for low velocity high touch SaaS businesses
- Win / loss ratio
- Conversion rate
- Average Sales Cycle and Average Deal Size (for pipeline risk measurement and focus of efforts)
- MRR (new, growth); for low velocity high touch businesses stronger focus on ARR
- Churn (1%-2% monthly is acceptable for low touch businesses; 10% annual is great for high touch companies, and should remain < 15%) and net churn
- Ramp-up time and cost
- CAC and payback
- **Growth is key**, and keeping in mind the T2D3 rule*
- The rule of 40*, quick ratio*, and magic number* are **financial metrics** that are more often top of mind of the CFO than the sales team per se. As the company scales, the VP Sales gets more involved in the tracking of these metrics too
- Some additional benchmarking data focused on the US market here

* See the section 'Key Metrics' for definition of metrics.

B.

PART THREE:

CREATING A STRONG SALES CULTURE.

BUILDING A STRONG SALES CULTURE.

A strong sales culture is essential to become a successful SaaS company.

- Put a **high-performance model** in place to manage salespeople:
  - — High performers are highly rewarded
  - — Low performers need to improve fast or leave
- This model usually relies on **two main levers**:
  - — Compensation scheme; salespeople's behaviour will heavily depend on it
  - — Other motivation initiatives for the sales organisation
- Your company's **culture** is key: a strong sales culture implies building an overarching culture with a high focus on performance

- To enhance **salesforce motivation** you should think about:
  - — The company's vision communication
  - — Training
  - — Holistic understanding of competition
  - — Key decisions that define your sales culture
  - — Quotas: how hard they are to achieve
  - — Variable compensation as % of base
  - — How long you keep a salesperson when underperforming

AND A WINNING MENTALITY.

Everyone has ups and downs, so building a team that believes the impossible is possible is critical to execution.

- This includes **weekly, monthly, quarterly and annual incentives**
- You can use **trophies** for top performers, **SPIFs** (sales performance incentive fund) for driving specific campaigns, and **Premier Club** dinners or trips
- Additional **recognition programs** are also helpful, including:
  - — Win reports (via slack, email, others)
  - — Big gong hit when closing a deal
  - — Best Practice Fridays with other execs joining to elevate a few reps having delivered great meetings, superb proposal, won a deal etc.
  - — Competitor Kills (shout outs for switch-outs of competition)
- Promote a **good understanding of the "SaaS Trinity"**, i.e. Product, Sales, and Marketing. Having a sales team that works well with the product, customer success, and marketing team is crucial
- Set clear and transparent expectations on **Performance and Values.** This allows performance management to be much easier as everyone knows the rules

REWARDS AND HIGH-PERFORMANCE CLUBS.

Think of additional motivation initiatives for your sales organisation.

- Think of rewards that can be appreciated by your sales organisation and resonate with your overall company's culture, like quotas club (a reward trip for all the salespeople who have achieved quota)
- Being part of the quota club for several years is often seen as a big differentiator among salespeople
- Other more informal awards are also helpful (smaller team basis, monthly frequency, etc.)

- **Our recommendations:**
  - Focus on positive incentives
  - Attainable quotas
  - Celebrate and reward aggressively
  - Be fair but do not keep underperformers
  - Focus on great hiring
  - Focus on onboarding

PART FOUR:

GOING GLOBAL.

HOW TO START A NEW COUNTRY.

There are three main ways to start a new country.

START SELLING FROM HQ

- Keeping the sales team centralised in the HQ and adding people to cover other geographies from the HQ
- We recommend hiring native people who can speak the language, and understand the culture and how to sell in the new market
- Consider how easy it is to get people to the new region and at what cost
- Often this is a good option for high velocity low touch sales models to enter a new geography

PUT IN PLACE LOCAL INFRASTRUCTURE

- Starting with one sales POD based in the new country
- Often best for low velocity high touch sales businesses where local presence (in-person meetings) to sell and close deals can be key

USE INDIRECT CHANNELS TO START

- Setting up focus partners in new countries to represent your company
- Often a good option to start a new country with minimal investment and for ‘second-tier’ geographies where best to have partners than not being present at all

STARTING FROM THE HEADQUARTERS.

Selling from the HQ is often a good strategy when starting a new European market, especially where resources are limited, and for high velocity low touch sales businesses.

- Start creating a POD locally (in the HQ) that is dedicated to selling into the new market
- Understanding the local culture and ways to best sell in the new market is key, so we recommend hiring local people; language can also be a barrier when it comes to selling
- Think about the entire funnel, from leads generation to customer success; the way to generate leads might be very different in each country (PR, events, marketing)
- At a certain size, (3-4 PODs dedicated to a particular market) you might want to build a local team based in the new country
- Any country will be a big investment for the management. You can start several markets in parallel but do not try too many. Put your sales management in a position to succeed

BUILDING A LOCAL TEAM.

There are three main things to think about when building a local team.

1. Structuring and managing the team

   — Look for people who are truly independent and who you can trust

   — This way you can start a country with a very small local team (1-2 POD) at least

   — The team should be supervised by a local sales manager based in the country

   — Think about how to onboard the new hires and whether it is worth for the local team to spend time in the HQ for knowledge sharing

2. Doing lead generation

   — You need to have a local lead gen quickly; it is hard to generate leads from a different country

   — Once again, think about the entire funnel, from leads generation to customer success; the way to generate leads might be very different in each country

3. Keeping motivation high

   — Sometimes the local (and small) team feels isolated and not connected to the rest of the team (devs, businesspeople, office) as remote offices often have less access to the HQ-based teams. This can lead to a failure in your new sales organisation

   — An extensive onboarding program and some time spent in the HQ beforehand help facilitate future interactions, teambuilding, and share the company's culture

USING INDIRECT CHANNELS.

A great way to build local presence at a minimal initial investment.

- When going global, indirect channels are especially relevant for low velocity high touch sales models where having local presence and in-person interactions are more important
- Rather than building a local team (often too challenging given capital required), setting up focus partners in the new country to represent your business in the new geography is a great option -- it is best than not being present at all
- Partners are also great in 'second-tier' geographies -- similarly, it is best to sell through partners than not selling at all
- Build a small team in the HQ to manage partners; this structure will help set up and coordinate distribution partners, and provide the necessary training and support
- Partners can allow you to start selling in 4-5 different countries in parallel with only a small group of c.3 people and a very small direct investment
- The main trade-offs are not being physically present in the market with your own team and the commission you will have to pay that often ranges between 30% to 50%
- Very few companies leverage the full potential of using indirect channels to go international at early stage -- we encourage you to look into this option early on

GOING TO THE US. DO IT EARLY.

Think about going to the US early – here is why.

- The US continues to be the **driving market for tech** and it is a **large homogeneous market**
- The **world keeps on getting smaller:** new products and services can be found and used globally, at an extraordinary speed, regardless of where they come from
- Entering the US early enables you to have **first mover advantage** in this key region and to compare your business to the best products, avoiding a "false" sense of leadership
- The **country by country conquest of Europe is hard and slow;** each country is different -- winning Germany might not be easier than winning the US (and the former is a much smaller market)
- Success in the US is seen as the landmark of global success and is **key to attract global Tier 1 VC investors and top talent**

GOING TO THE US. THE OPPORTUNITIES & CHALLENGES.

The potential opportunities will likely outweigh the challenges.

The opportunities

- US customers make decision faster and are used and ready to buy from start-ups; they take more risks than European companies
- Deals can be a lot bigger
- You can build a brand faster (most influencers are there)
- Responding to US' expectations will make your product and services globally better

The challenges

- Customers are very demanding. The product must be flawless but also the service needs to be on par with the best companies (speed of delivery, response time on the phone, resolution time for bugs, etc.)
- Competitors are everywhere. There is virtually no uncontested deal. But battling these competitors and finding ways to win will make your company better

GOING TO THE US. EAST OR WEST?

What to consider when thinking of West vs East coast.

Go East because...

- It is closer (and the perception of distance is disproportionate much lower vs the West Coast)
- It is easier to communicate with the HQ (time difference)
- It is easier to relocate Europeans there
- Costs are lower: talent and cost of living are cheaper vs the West Coast

Go West because...

- It is still the center of the tech world
- The talent pool is top quality
- You can have access to all key partners
- You will be closer to top tier investors

Distributed teams are also an option

- Especially as the organisation grows. You can imagine having support team in Kansas or Austin, the Head of Sales based in Colorado, and core sales team in SF or NY
- Keep close to customers, especially for low velocity high touch businesses
- Having distributed PODs in key cities is the best strategy (for example, if you are selling to tech companies, you would likely want to start with PODs in SF and Boston)

GOING TO THE US — SET YOURSELF UP FOR SUCCESS.

To set yourself up for success going to the US, the following are must do's.

- Adapt to the US landscape and culture
  - — Europeans often tend to believe that they have a superior technology that will win against their US counterparts
  - — Unfortunately, Sales, Marketing and Customer Service will often defeat best in class products
- Upgrade your business to higher standards, and transform it back home at the headquarters
  - — The level of service needs to be upgraded — response time to issues, delivery times, bug fixes, quality levels, all needs to operate at a higher level and faster
  - — The product team needs to look to the US and listen to the US customers
- Organise your company to be closer to the US
  - — The CEO or a co-founder may have to move to feel the market, bring back to HQ the market requirements, and take the company's core DNA to the US
  - — It is critical to send the right person there, someone who has a sales management skill set, and an understanding of the US
- Be ready for fundraising
  - — You will need to raise more funds as growing in the US is a worthwhile but expensive investment

GOING TO THE US — SALES TEAM STRUCTURE (1/2).

Our top recommendations to start building your US sales team.

- Going to the US **needs a local presence**, it cannot be done from the HQ
- **Think about the whole sales funnel, from market to customer success, and adapt it to the US market** — your marketing strategy and leads generation may need to change, similarly your support service may have to be adapted
- **Do some PR**. We recommend you get someone locally to help you
- Recruiting is hard as competition is high. **Hire a search firm to help you find the top key hires**
- **Your first sales manager / leader is your most important hire** as he or she will be the one building the rest of the team — **hiring the wrong person is setting the organisation for failure as you may need to rebuild the team from scratch**
- Having one of the co-founders locally will help **notice potential mistakes much quicker, be reactive, and take control if necessary**. You can even start selling yourself if needed, while looking for the next sales manager

GOING TO THE US — SALES TEAM STRUCTURE (2/2).

Our top recommendations to start building your US sales team.

- **Start with a sales manager, a couple of PODs, and a person focused on lead generation.** Then you will grow the team to 3-4 PODs. If a high touch sales model, divide PODs by geographies
- **Do not create management layers**, you will burn too much cash and de-focus the organisation from its **main goal: sell, sell, sell**
- **A good sales leader (VP or Manager) is more important than a US GM early on.** Hiring someone too senior too quickly is often a mistake as those profiles tend to want to build the perfect organisation, hire different VPs for different teams, who also want to hire their own team, and so on... -- that means $10M burnt and no sales yet...
- **You want people who want to sell and do not need much support,** who are entrepreneurial, driven, and very ambitious, and who come **knowing already who to sell to**. Having done software sales before is a must, and if possible, in a related field
- After c.1 year, you will start thinking of hiring your **VP of marketing and US GM**
- Once you have 4-5 PODs and 2 key leaders onboard, coming back to Europe may be OK if that is what you want to do. **Make sure the organisation runs without you** physically there and your Head of the US has the ability to run everything and be the person all local teams report to. This can often take up to 3 years

GOING TO THE US: EUROPEAN EXAMPLES.

Some of the companies we have worked with before have successfully expanded to the US — some examples on the following slides.

Business Objects

- Business Objects was founded in Paris in 1990
- A year later, it started an office in Menlo Park (California, US), and an office in London (UK). At that point, the CEO moved to the US to help grow the business and hire the first sales teams in NY, Chicago, Dallas and San Francisco
- Two years later, in 1992, Business Objects had 30% of its revenues coming from the US, 25% from the UK, and 45% from France, the home market
- In 1994 the company went public on the NASDAQ and became the global leader in business intelligence

GOING TO THE US: EUROPEAN EXAMPLES.

Talend

- Talend followed a similar path to Business Objects
- Bertrand, the CEO, moved to California very early in the history of the company
- Fabrice the co-founder and CTO stayed in Paris to manage product and R&D
- The company is now the global leader of open source big data management software and is now publicly traded on the NASDAQ

GOING TO THE US: EUROPEAN EXAMPLES.

Aircall

- Aircall also understood the importance of the US market very early on
- With barely $25k of MRR, the team hired the first employee in the US. This was in 2015
- As early as Dec-2016, following its series A, Olivier, co-founder and CEO, moved to NY
- Today, more than one third of their revenue comes from US and more than 10% from other geographies outside of Europe

GOING TO THE US: EUROPEAN EXAMPLES.

Workable

- Workable started in Athens 2013, and in the first year 50% of business was from the US before having any operation in North America
- Nikos (CEO) moved to Boston in 2014 to build commercial HQ, while Spyros (CTO) stayed in Athens to manage R&D
- In 2018, Workable opened satellite office in SF due to increasing business in the West Coast
- In 2019, the US is home to one third of the company's headcount, half of the executive team, and 60% of the revenues

GOING TO THE US. EUROPEAN EXAMPLES.

Contentful

- Contentful's team launched globally on day one as their first product was freemium and users could just sign up for on their site
- Then they hired AEs who upsold those users but they did that globally from desks/phones in Germany — they hired native English speakers, did calls in the evening, etc.
- As a result, by the time the company reached the $3M ARR mark, it had already 70%+ of revenues coming from the US despite not having salespeople on the ground there
- After raising more capital, they built out a sales team by first hiring an experienced VP of Sales in the US who built a more traditional sales motion for enterprise sales out of the US

AND HOW ABOUT ASIA?

Do not wait too long and find the right partners to get started.

- European companies and VCs have been looking essentially at the US as the big market to conquer, but Asia is also an amazing opportunity for international scaling
- Unlike the US, Asia is not a single market — China, India, Japan, South East Asia… each of the different regions operate very differently, with distinct codes, languages, and regulations
- Local competition is now very strong, and local companies often like to buy from local suppliers
- Do not wait too long before establishing a presence in Asia
- Having a small team located there who can start reviewing the market and establishing partnerships in various geos is a good way to start
- Asian partners are key to succeed as a B2B SaaS player

TIMING.

Only go global when you are ready to, but make sure you are ready early on.

- Often SaaS businesses time execution of their internationalisation plan when approaching $200k MRR. But first you need to have the cash to enter the market so plan for this when fundraising
- Then you need some support, especially from your board and investors — surround yourself with people who share your ambition and can empower you to think big
- Your product should be ready (although it will keep on evolving and improving) and the headquarters should be prepared for the change (devs, support, etc.)
- Do not underestimate cultural differences and ensure the terms of use for your product fit the market (legal costs can catch you out especially given data privacy)
- A SWOT analysis can help to maximise strengths and opportunities and better caveat weaknesses and threats. This will also help set up tactics and budget correctly to launch a new market successfully
- Be aware of potential quick wins (existing live opportunities, analytics on traffic, customers having a network in new market for referrals, etc.)
- For European companies, considering whether to go to the US or another big European country (UK, Germany, or France, for instance) first is often a question
- We recommend going to both markets in parallel whenever possible, this can become your greatest decision. But if it feels it is too much, going to the US early is very important to establish your presence there as soon as possible. So go for it!

GOING GLOBAL IS A MINDSET.

It starts by setting a clear ambition: to be number 1 globally.

- **International expansion is a big strategic task**, one that can make or break a company
- Wanting to be a global business from day 1 is a mindset
- It starts by setting a clear ambition: **to be number 1 globally** — not number 1 in one country, or in Europe, but to be number 1 in the world

Read the six-part series on Balderton's site: The Balderton Playbook for Internationalisation. Link.

- Put in place all the elements to succeed, **searching for excellence in everything you do:**
  - — Hiring the best executives
  - — Raising from the best investors
  - — Building the best possible board
  - — And continuing to build the best product and service
- **Setting the highest bar** may not be a guarantee for success, but it will for sure enhance your chance to reach that elusive number 1 position

PART FIVE:

KEY METRICS.

WHAT TO MONITOR.

Different focus at every stage.

- At early stage your focus should mainly be on growing your pipeline and revenues – growth, growth, growth
- But make sure you are not losing your customers: monitor your churn closely and do not let it control you
- Measuring sales team efficiency based on quotas' achievement is essential
- Avoiding team related costs is also important at early stage (excessive ramp up times driven by high turnover of sales team, inefficient salespeople constantly below quotas, etc.)
- While not overspending is important, we do not think you should be looking at metrics like the rule of 40 too early on
- Also bear in mind that the most relevant metrics for your sales team on an on-going basis might differ from what investors / finance people will look at most closely

FOR SALES TEAM LEADERS.

Think of the different operational metrics you need to monitor to evaluate the performance of the different teams and individuals in more granularity.

- Examples of metrics to evaluate **SDRs performance**
  - Number of demos/months, % of pipeline created and pipeline closed, pipeline created won, email open rate, number of phone calls, reply email rate
- Examples of metrics to evaluate **AEs performance**
  - Won deals value, upfront payments, win/loss ratios in value and in volume, pipeline creation, live pipeline, deal size

Use this tool on Chorus.AI's site to review the efficiency of your sales process. Link.

- Examples of metrics to evaluate **Sales Team Leaders performance**
  - Revenue generation, churn, ramp up time and cost

REVENUES: ARR, MRR, GROWTH.

Top line is king.

- **Strong ARR growth** is the first thing you should focus on
- You need to monitor separately the **new ARR** (ARR in new customers), the **upsell ARR** (expansion ARR in existing customers) and the **churn ARR** (lost ARR in existing customers)
- The aggregate is your Additional ARR for the period
- When building plans and assessing performance, focus on the **growth of Additional ARR** (vs. the growth of ARR - see next slide) and the **Net Retention Rate** (i.e. the net additional ARR per customer on a yearly basis - more on net retention later on)
- Jump at the opportunity to lock in longer subscriptions (consider potential discounts for longer-term contracts, paid upfront, etc.). If you think of **discount vs potential churn**, you might end up mathematically ahead offering discounts to lock in some longer-term additional revenue
- As per Bessemer's benchmark, best companies take 2 years to reach $10m ARR and 5 to get to $100m, better companies take 3 and 7 years respectively, while good companies need 4 and 10 years

REVENUES: ADDITIONAL ARR.

Simplified example of the importance of additional ARR growth vs ARR growth only.

	YEAR 1	YEAR 2
BoP ARR (A)	$2M	$8M
New ARR (B)	5M	6M
Upsell ARR (C)	2M	3M
Churn ARR (D)	(1M)	(1M)
= ADDITIONAL ARR (B+C+D)	**$6M**	**$8M**
Additional ARR Growth (%)	-	**33%**
EoP ARR (A+B+C+D)	**$8M**	**$16M**
Total ARR Growth (%)	**300%**	**100%**
Sales & Marketing (S&M) Costs	**$6M**	**$12M**
S&M Costs Growth (%)	100%	100%
S&M Costs / Additional ARR	**1.0x**	**1.5x**

- A company growing ARR from $2m (Year 0) to $8m (Year 2) to $16m (Year 3) has an ARR growth of 100% in Year 2, but in fact, in this example, only 33% of Additional ARR
- The **Additional ARR should grow as fast, if not faster, than the Sales and Marketing expense**
- Here, the additional ARR growth is very expensive, as Sales & Marketing costs have increased by 100% in Year 2 vs an additional ARR growth of only 33%

PIPELINE AND CONVERSION.

As well as building a good pipeline and executing well.

- As important as revenues is building a good pipeline and keeping a healthy conversion rate
- The optimal pipeline size depends on your business model, sales cycle length, and conversion velocity (3-4x target new and upsell ARR is on average a good benchmark)
- Remember that your pipeline is your first step towards revenue conversion
- It is important to also consider your sales team ramp up time when building the pipeline as it will affect the conversion velocity
- Conversion rates also vary depending on business model, but on average you should target north of 5-10% from free trials to paid customers. The higher the quality of inbound leads and lead generation through outbound, the higher the conversion should be
- This is different than the sign-up rate, which tends to be lower (closer to > 3%-5%) and represents the website visitors converting into sign-ups

GROSS MARGIN.

Healthy gross margins at 75%+ are expected.

- It is important to understand what is driving your COGS
- Some costs can be semi-variable and seem high early on, but at scale margins can improve considerably
- High infrastructure costs (e.g. data centers) can drive lower gross margins, and that is fine as long as cash flow generation is healthy
- It is also important to understand how other ‘temporary’ costs that might be increasing the COGS can be reduced over time (e.g. some manual-like processes, like printing)

CHURN.

Keeping churn low will always help unit economics, with negative net churn and net expansion rate at 125% as target.

- The churn rate is the percentage at which customers are lost and is calculated dividing the revenue lost from customers (churned users and contraction in existing accounts) by the revenue at the beginning of the period. It is also helpful to divide this calculation into 'pure churn' (lost customers) and 'contraction churn'
- Churn is a key indicator of customers' satisfaction and product stickiness
- Make sure your very high growth efforts are not taken away by high churn (or you will likely be burning a lot of cash inefficiently)
- Negative churn is ideal as it indicates that the expansion revenue (up-sells and cross-sells) is higher than the revenue lost from churn (churned customers or contraction)
- Monthly gross churn of 2-3% for SaaS companies targeting SMBs as customers, 1-2% for mid-market sized users, and 0.5-1% for enterprise clients are reasonable targets
- When it comes to renewals, differentiate voluntary renewal vs payment of a 'contractual commitment' (multi-year contract where there is no actual renewal). This is important to calculate real retention on an available-to-renew (ATR) basis vs ARR-based

QUICK RATIO.

To check how churn might affect growth.

- The quick ratio is a simple metric to monitor how churn might affect growth and anticipate potential product issues that are driving high churn
- It is calculated as follows: (New Revenue + Expansion Revenue) / (Cancelled Revenue + Contraction Revenue)
- The target should be above 4x, and of course the higher, the better

CAC.

Make sure you calculate it right.

- Make sure your CAC is consistent with the way you are selling
- Consider how long it takes between your marketing /sales touch points and when someone becomes a customer
- For example, if your sales cycle is 3 months, your CAC in Quarter n (Qn) would be: Sales & Marketing (S&M) Expenses Q(n-1) / New Customers Q(n)
- This means that you should allocate your S&M expenditure to the new customers coming from that S&M effort
- Expenses should include the cost of promotions and free trials as well as the costs and support allocated to those non-paying customers
- Think of what expenses you should include; fully loaded CAC includes S&M salaries, related overhead costs, and tools required to operate the sales machine

LTV.

A tricky one… and here is why.

- LTV or lifetime value of a customer is the metric that shows how much a customer will generate while he is a customer to your company
- Sounds like a great metric to consider, but a difficult one to compare and have a very high degree of confidence is correct
- The way to calculate LTV varies a lot
  - — The basic formula is very simple: ARPA * % Gross Margin / Churn Rate
  - — As it considers time, the first big question is how long will they customer be a customer of yours – is it 7 years? 5 years to be conservative? Maybe 3?
  - — You should consider margin expansion over time and how churn might also evolve
- That is why at Balderton we believe that, while LTV is a metric to keep an eye on, it may not be the one to focus on
- For benchmark purposes, CAC:LTV should be above 3x and 5x+ is ideal

PAYBACK PERIOD.

We believe payback time is a more accurate metric to look at across the board.

- Payback period can be calculated in slightly different ways but the underlying objective is the same: how long does it take to pay back the CAC costs considering the customer's revenue generation and the current gross margin
- CAC on Period(n-x) / New MRR Period(n) * GM% or S&M Expenses on Period(n-x) / New CMRR Period(n-x) * GM%
- Period n refers to month or quarter (or even year), depending on the sales cycle; similarly x could be 1 but could also be anything that accounts for the reality of the company's sales process (e.g. period could be quarter with x=2 if it takes about 2 quarters to convert the customer into a generating revenue customer)
- The lower the payback period the better; on average for SMBs it is around 6-18 months and 24-36 months for enterprise clients. Best-in-class companies will always be in the low end of the range and might even be shorter than that

MAGIC NUMBER.

To understand your sales efficiency.

- One of the best metrics to understand your sales efficiency
- It basically tells you how much ARR is generated for every $ spent in S&M
- To calculate it, take the additional ARR in the quarter (ARR end of quarter minus ARR beginning of quarter) and divide it by Sales and Marketing of the prior quarter: (Qn Revenue – Qn-1 Revenue) / Qn-1 S&M
- For example, if at the start of the period your ARR is $5M and it increases to $8M at the end of that period, and you have spent $2M in S&M, the magic number is 1.5 (you have spent $2M to generate $3M of additional ARR)
- Usually, if above 0.75, it means you can spend more in S&M to foster growth
- A more purist way to calculate the magic number is to base it off the additional gross margin (instead of ARR)
- Taking the same example above, and at 80% gross margin, the magic number would be 1.2

RULE OF 40.

Making sure growth is sustainable.

- The rule of 40 states that revenue growth (in %) + profit margin (in %) should be equal or above 40 for growth to be sustainable
- Lots of people argue the rule of 40 shouldn't be considered at early stage, given the focus should be on growth and customer acquisitions and initial costs might be very high and not a reflection of the real unit economics of the business further down the line
- Others think that keeping the rule of 40 in mind since early days is a good discipline exercise and its evolution an indicator of quality of decision making

Read this post on Dave Kellogg's blog '*Rule of 40 Glideslope Planning*' to learn more. Link.

- For us, rather than asking when your company should be Rule of 40 compliant, you should wonder what the Rule of 40's glide path should look like -- remember that several successful SaaS IPO-ed companies were not even Rule of 40 'compliant'

CASH CONVERSION SCORE.

An indicator of a company's returns.

- Calculated as: Current ARR / Total Capital Raised to Date - Cash (Equity + Debt - Cash)
- Best companies have a CCS of 1.0x+ (best-in-class) and investing in these companies at early stage yield c.120% internal rate of return (IRR); better companies usually have a CCS of 0.5-1.0x and yield an approximate IRR of 80%. Good companies' CCS is 0.25-0.5x (yielding IRR of c.40%)

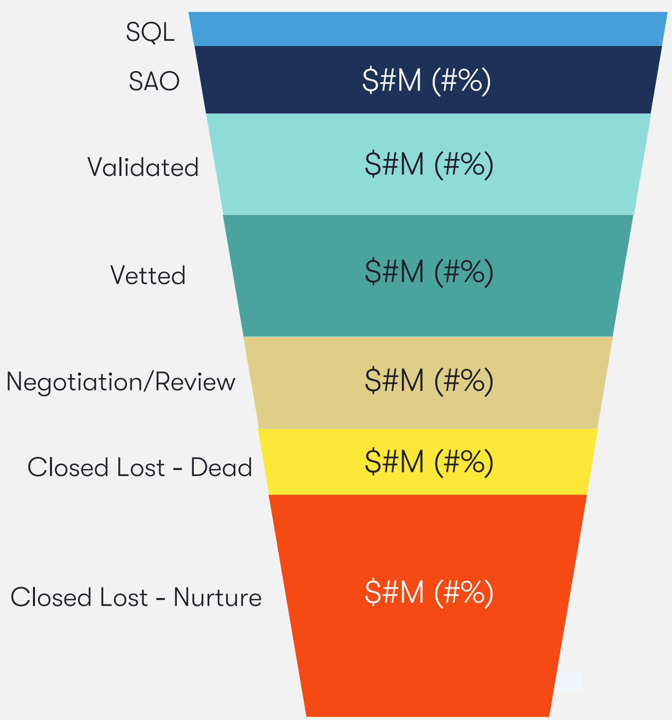
Read this post '*Cash Conversion Score for Cloud Companies*' to learn more. Link.

APPENDIX

DASHBOARD EXAMPLE (1/2).

An example of what to track in your sales dashboard.

Sum of Reporting Amount: $#M



Forecast This Month

Forecast Categ...	Sum of Reporting Amount (conv...	Sum of Expected Value (con...	Sum of Weighted Pipeline (conv...
Pipeline	EUR ##.##K	EUR ##.##K	EUR ##.##K
Best Case	EUR ##.##K	EUR ##.##K	EUR ##.##K
Commit	EUR ##.##K	EUR ##.##K	EUR ##.##K
Closed	EUR ##.##K	EUR ##.##K	EUR ##.##K
Total	EUR ##.##M	EUR ##.##M	EUR ##.##M

View Report (New AE+Add-on Forecast (Open+Closed Won))

NB + Add-On + Uplift - This Month

Account Name ↓	*fx* Additional ARR
ACCOUNT NAME	EUR ##.###
ACCOUNT NAME	EUR ##.###
ACCOUNT NAME	EUR ##.###
ACCOUNT NAME	EUR ##.###
ACCOUNT NAME	EUR ##.###
ACCOUNT NAME	EUR ##.###
ACCOUNT NAME	EUR ##.###

View Report (Total Closed ARR (New + Add-On + Uplift))

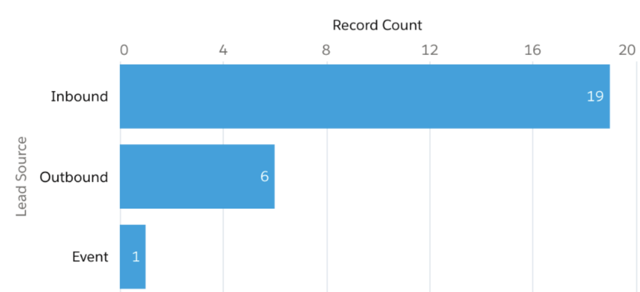
Forecast This Quarter

Forecast Categ...	Sum of Reporting Amount (conv...	Sum of Expected Value (con...	Sum of Weighted Pipeline (conv...
Pipeline	EUR ##.##K	EUR ##.##K	EUR ##.##K
Best Case	EUR ##.##K	EUR ##.##K	EUR ##.##K
Commit	EUR ##.##K	EUR ##.##K	EUR ##.##K
Closed	EUR ##.##K	EUR ##.##K	EUR ##.##K
Total	EUR ##.##M	EUR ##.##M	EUR ##.##M

Closed Renewal ARR - This Month

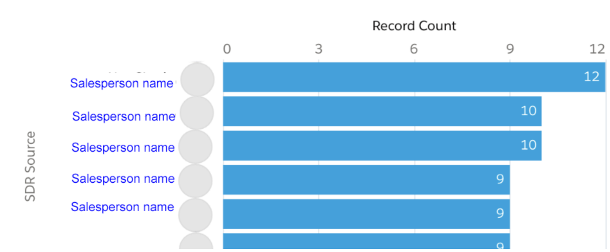
Opportunity Owner ↓	Sum of Flat ARR (converted)
Salesperson name	EUR ##K
Salesperson name	EUR ##K
Salesperson name	EUR ##K
Salesperson name	EUR ##K

SDR - Meetings Booked this Month



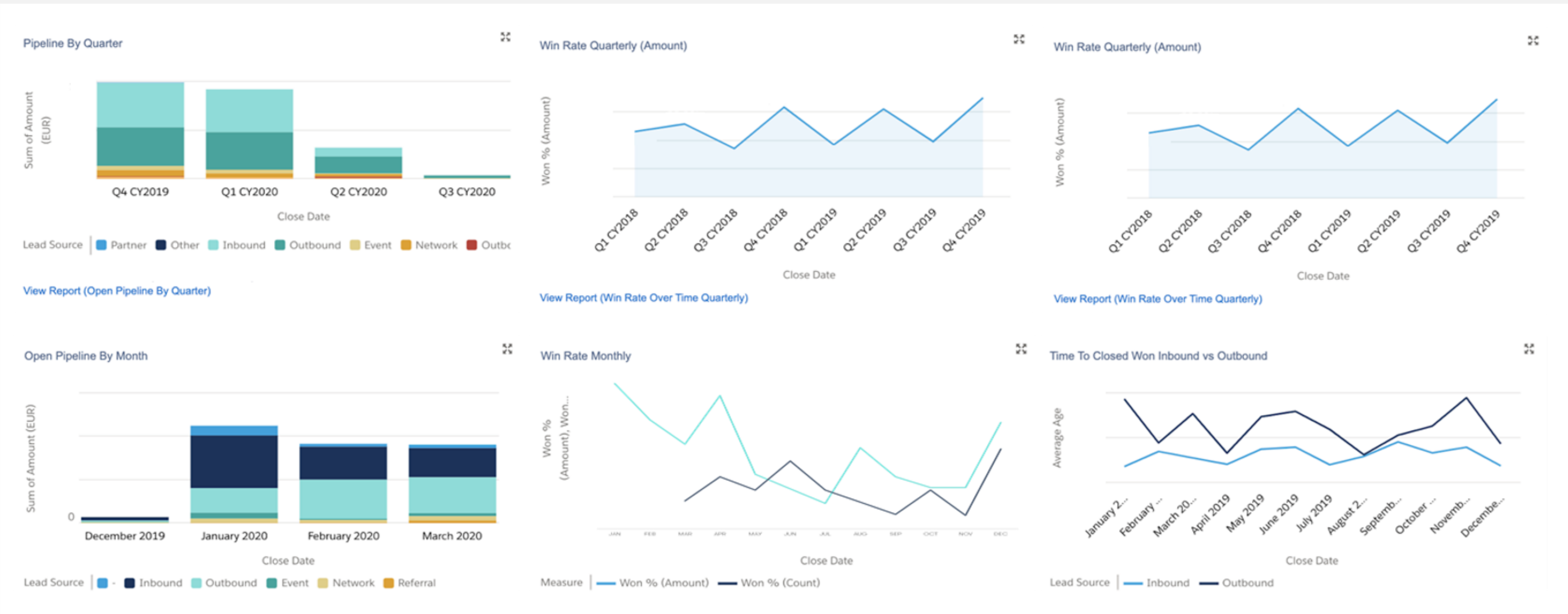
View Report (SDR - Meetings Booked this Month)

SDR - SAOs Created this Month



DASHBOARD EXAMPLE 2/2.

An example of what to track in your sales dashboard.



OUR FAVOURITE BLOGS.

There are lots of great posts and books to help you think through building a sales team. We have listed our short collection of favourites below.

- Kellblog — Dave Kellogg covers topics related to starting, managing, leading, and scaling enterprise software startups. His favorite topics include strategy, marketing, sales, SaaS metrics, and management. He also provide commentary on Silicon Valley, venture capital, and the business of software.
- Christoph Janz — Partner at Point Nine Capital, Christopher shares regular posts on SaaS on his blog.
- SalesHacker — the community site for sales professionals.
- The SaaS CFO —Ben Murray's blog on his favourite topics: numbers, SaaS/subscription metrics, and forecasting.
- For Entrepreneurs - SaaS Section — David Skok, serial entrepreneur and VC, gathers a wealth of information about SaaS.
- The Sales Leader — resources from sales leader Colleen Francis.
- HubSpot Blog— sales resources from Hubspot. Hubspot also offers a plethora of resources on marketing too. And also from Hubspot, the top sales blogs and websites they advise every sales pro should bookmark.
- Make it Happen — blog from John Barrows, which includes podcasts and interviews on sales topics.

B.

THANK YOU

For any questions, please reach out to Caye Hurtado.

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