RevOps² Industry Benchmarking and Key Performance Indicator Survey and Research Report (Glossary)

Annual Recurring Revenue (ARR): Annual Recurring Revenue, or ARR, is a subscription economy metric that shows the money that comes in every year for the life of a subscription (or contract). More specifically, ARR is the value of the recurring revenue of a business's term subscriptions normalized for a single calendar year.

For example, if your subscriber purchases a two-year subscription for $120,000, the ARR would be $60,000 for each year. ARR is predictable revenue that can be counted on every year

Annual Contact Value (ACV): Annual Contract Value is the average annualized revenue per customer contract. It excludes any one-time fees.
For example, if you had one customer who signed a 3 year contract for $36,000

ACV = $36,000/3 = **$12,000**

Total Contract Value (TCV): Total Contract Value is the total value of a contract including fees and recurring revenue for the period defined by the contract.
For example, let's say you've closed a deal with a $10,00 professional services plus 24 months of a recurring subscription at $10,000 per month.

TCV = $10,000 + ($10,000 x 24) = **$250,000**

Cross-Sell: Additional Products purchased by existing customers above and beyond products purchased in initial agreement

Up-Sell: Adding New Users, New Divisions, New Departments, etc. that result in additional charges at existing customers without adding new products

Expansion: Combination of Up-Sell and Cross-Sell to existing customers. Primarily used if Cross-Sells and/or Up-Sells are not captured separately.

Customer Acquisition Cost - New Customer (CAC): The average expense to capture a new customer. Typically, this expense includes the cost of marketing and sales required to close a new name (new logo) customer. A nuance here is that this is for New Name Customers and any marketing and/or sales costs that are being used to market to *existing customers* should not be included in this calculation.

CAC = Sales and Marketing Expenses/# of New Customers

- *Sales and Marketing Expenses can be from previous period (quarter) or current period (quarter or year)*

Customer Acquisition Cost – Existing Customer (CAC): The average expense to close a new deal to an existing customer. Typically captures the cost of marketing, customer success and sales required to expand business with an existing customer. A nuance here is that this is for Existing Customer CAC, only the percentage (%) of a Customer Success or other resource that are *directly allocated to identifying and closing an up-sell and/or cross-sell* should be factored in. If a Customer Success person also is responsible for renewals, training and/or support, the % of time allocated to these non-revenue generating activities should be excluded from this calculation.

CAC = Customer Success and Sales and Marketing Expenses/# of New Customers

- *Customer Success, Sales and Marketing Expenses can be from previous period (quarter) or current period (quarter or year)*

Customer Acquisition Cost Ratio (CAC Ratio): This is the ratio of how much it costs to close a new name customer compared to the average annual contract value. This ratio is calculated at the summary level across all new customers by dividing total amount of new ARR by the number of new customers.

CAC Ratio = New ARR Closed this Period/$ of ARR from New Customers

Customer Lifetime Value (LTV or CLV): Customer lifetime value is the metric that measures the total revenue a business can reasonably expect from a single customer. Customer Lifetime Value factors not only the average revenue per account, but also the Gross Margin of the software and the ARR Churn rate.

LTV = (Avg Revenue Per Account * % Gross Margin) / % ARR Churn Rate

Customer Lifetime Value to Customer Acquisition Cost Ratio (LTV:CAC Ratio): This shows the total expected Customer Lifetime value of a new customer divided by the costs to acquire each customer.

LTV:CAC Ratio = Customer LifeTime Value / Customer Acquisition Cost

Average Revenue Per Customer (ARPA): Average Revenue per Account, usually abbreviated to ARPA, is a measure of the revenue generated per account, typically per year.

ARPA = ARR/Total # of Customers

Customer/Logo Retention Rate: This metrics does not factor in down-sells, up-sells or cross-sells in existing customers. It simply looks at the number of total customers at the beginning of the period and compares that to the number of total customers at the end of the period, not including new customers closed during that period of time.

Customer/Logo Retention Rate = # of Customers end of period / # of Customers beginning of period

Gross Dollar Retention Rate: Gross Dollar Retention only considers the starting ARR or revenue minus any ARR/revenue lost through downsell or churn divided by ARR at end of period.

Gross Dollar Retention Rate = Starting ARR – DownSells - ARR Churn/End of Period ARR

Net Dollar Retention Rate: Net Dollar retention also factors in up-sells and cross-sells in addition to down-sells or customer churn of existing customers.

Net Dollar Retention Rate = Starting ARR+ Expansion – Down Sells - ARR Chur/End of Period ARR