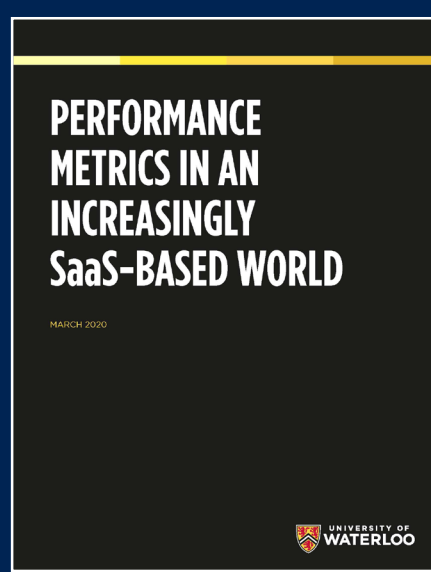


CPAs NEED NEW METRICS TO UNDERSTAND DIGITAL BUSINESS MODELS

Researchers from the CPA Ontario Centre for Performance Management Research and Education at the University of Waterloo quizzed executives from software as a service (SaaS) firms about how they measure and manage company performance.

The authors found that outside of tax filing, generally approved accounting principles are seen as largely irrelevant in the SaaS world.

Authors: Howard M. Armitage, Gary Pooley and Soren Campos
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KEY TAKEAWAYS



The accounting discipline needs to master SaaS to stay relevant

Traditional accounting has lost touch with today's business models and the performance metrics that are derived from these models. To stay relevant and competitive in a global economy, the profession needs to understand these increasingly important business models.



There is a disconnect between the needs of SaaS firms for guidance and the ability of CPAs to provide it

Executives and investors in SaaS firms find contemporary accounting necessary for compliance but less useful in supporting decision-making for managers and investors.



Accounting education should teach SaaS models and metrics

CFOs could add more value to businesses if they encountered SaaS metrics early in their education. Educators and the CPA Competency map could take this onboard to help future CPAs give relevant performance-management information to businesses using new models.



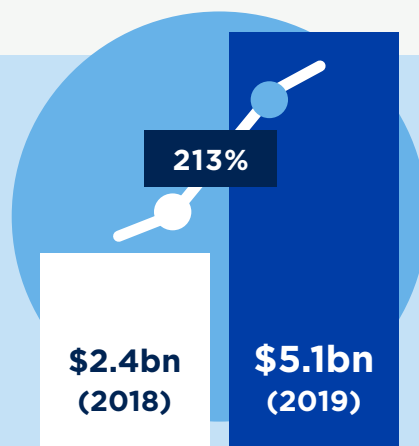
Maintaining data integrity is crucial for SaaS businesses

High-quality data is necessary to ensure that the metrics SaaS-based companies report on and analyze are accurate and comprehensive. SaaS companies should minimize manual entry, ensure the data is complete, and keep data consolidated.

CONTEXT

SaaS is among today's fastest-growing business models. Featuring blockbuster brands like **Salesforce**, **Dropbox**, **Shopify** and **Zoom**, SaaS businesses have been growing revenue at five times the rate of the S&P 500 index.

In 2019, Canadian SaaS companies took in **\$5.13bn** in capital investments, **up 213% from 2018** (see graphic on the right).



Canadian SaaS companies and capital investments

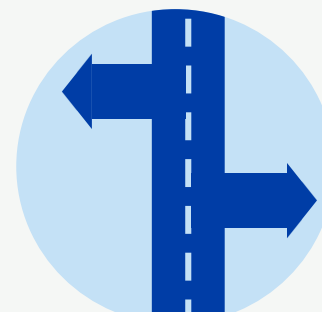
THE DISCONNECT BETWEEN TRADITIONAL ACCOUNTING AND SaaS METRICS

In the survey, traditional metrics like profit margin, ROI and EBITDA were rarely mentioned.

Executives and investors in SaaS firms find contemporary accounting necessary for compliance but **less useful in supporting decision-making** for managers and investors.

Understanding these models will be **crucial to the accounting discipline** in staying relevant, and to the Canadian economy in maintaining its competitiveness.

Educators need to rethink their approach on how to teach students and professionals to understand a business model and how to design relevant metrics to report its performance.



“Traditional accounting has lost touch with today's business models and the performance metrics that are derived from these models.”

Accounting and finance professionals can add significant value to a SaaS firm's operations by:



Balancing a board's preference for exponential growth with a sense of what is realistic given the firm's resources



Overseeing budgets to inform marketing and hiring decisions



Helping optimise funnels



Improving sales team efficiency

5 LEADING METRICS FOR SaaS BUSINESSES

The researchers found that these are the five leading metrics used by SaaS businesses executives:

How many executives track these metrics?

ARR, MRR or DRR

Annual, monthly, or daily recurring revenue, **the most important metrics**



Customer churn

The percentage of customers that stop using a company's product or service within a time frame



Sales funnel traction

Detailed information about how many leads pass from each stage in a sales funnels to the next



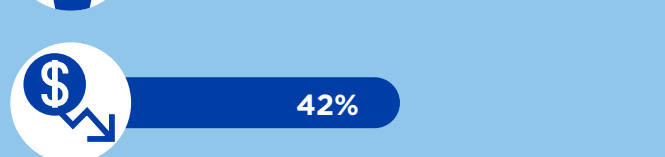
CAC

Cost of acquiring customers



Cash burn

The rate at which a business spends capital, usually per month, as it works towards generating positive cash flow



RECOMMENDATIONS MOVING FORWARD

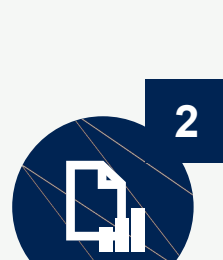
To stay relevant and competitive in the global economy, the accounting profession will need to understand these increasingly important business models.

These three recommendations for CPAs, educators and SaaS businesses aim to bring more alignment between the profession and what is needed in practice.



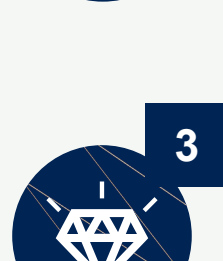
1 CPAs need to improve their knowledge of SaaS metrics to be able to provide better guidance for SaaS firms

There is a disconnect between the needs of SaaS firms for guidance and the ability of CPAs to provide it. Executives and investors in SaaS firms find contemporary accounting necessary for compliance but less useful in supporting decision-making for managers and investors.



2 Accounting education should teach SaaS models and metrics

CFOs could add more value to businesses if they encountered SaaS metrics early in their education. Educators and the CPA Competency map could take this on board to help future CPAs give relevant performance-management information to businesses using new models.



3 SaaS businesses should prioritize maintaining data integrity

High-quality data is necessary to ensure that the metrics SaaS-based companies report on and analyze are accurate and comprehensive. SaaS companies should aim to minimize manual entry, ensure data is complete, and keep it consolidated.