

## Strategies to Increase SaaS Monthly Recurring Revenue

The backbone of any SaaS (Software as a Service) business is its monthly recurring revenue. The MRR (as it is commonly referred to ) is what makes SaaS businesses unique from other business models as it is the driving force of the companies.

If the product you are offering is stable and you continuously keep your drive, you do not have to worry about one-off sales that may not reoccur -- the revenue will return routinely every month. This stability is one of the reasons why companies are opting for the SaaS model.

Even though MRR is an obvious metric, there are some challenges you need to consider based on your business model. In this article, we will discuss what the monthly recurring revenue is and the ways to grow it.

### What Exactly Is the Monthly Recurring Revenue?

The monthly recurring revenue is all of your recurring revenue regularized to an amount monthly. It is the measure of the expected and recurrent components of your SaaS subscription-based business. With MRR, you can track your billing periods and pricing plans over time.

MRR gives you a precise status update on your SaaS Company – with it, you can predict the future state of your business and design a plan accordingly.

### Calculating MRR

There are two ways to calculate your businesses monthly recurring revenue;

- Customer By Customer Method

This method involves adding up the monthly fee paid by each of your customers. So let's imagine you have Customer Y paying \$200 per month and Customer Z paying \$100 per month, your recurring revenue sums up to \$300. This method, however, is very monotonous and timewasting as most customers make use of different packages and pay different amounts.

In Excel format:

$MRR = \text{SUM (Monthly fees of Paying Customers)}$

- ARPA (Average Revenue Per Account)

Rather than using the customer by customer method, you can use the ARPA method which is more straightforward. In this method, you multiply the total number of customers paying by the average amount of paying customers each month (ARPA). So let's say you have five paying customers and the average amount is \$100 per month, your MRR would be \$500.

$MRR = ARPU * \text{Total No of Paying Customers}$

### Types of Monthly Recurring Revenue (MMR)

There are five types of monthly recurring revenue that you can get in your business, and they are highlighted below.

- New MRR

This MRR is the new revenue gotten from new customers. For example, if in May, you have acquired 30 new customers that pay \$100 monthly and ten new customers that will pay \$150 monthly. This means your New MRR for May would be \$4500.

- Churned MRR

This MRR merely is the recurring revenue lost as a result of package downgrades or canceled customers. Imagine that in May you had three cancellations of \$100 monthly plans and two plan downgrades of \$50 each. Your churned MRR for that month is \$400, and your MRR will decrease for the next month by \$400.

- Expansion MRR

It is common for customers to upgrade their packages or buy new features on their packages, Expansion MRR is the recurring revenue gotten from existing customers expanding or improving their packages. So let's say you have four customers upgrade their packages from \$100 to \$200 per month, Your Expansion MRR for that month would be \$400.

- Reactivation MRR

This is the recurring revenue gotten when previous customers reactivate their subscriptions. Let's say you have two old customers reactivate their subscription package of \$200 per month; your reactivation MRR is \$400.

### **Growing the MRR of your SaaS Business**

- Offer a High-Quality Product

It is essential that the product you are offering should be of high quality with a distinct USP (Unique Selling Proposition). You should study which classes of your product makes it stand out among your competitors and sell it to your customer. Don't just pitch technological jargon, instead inform your customers how your product will impact their business positively. This way, your customers will be assured that your product is offering them all they desire and more – which is a win-win.

- Increase your Prices

Product underpricing is a challenge that most companies face. Underpricing mostly occurs because most SaaS business founders are self-conscious. They would instead charge tiny people of their fear of rejection. But the fact is that if your product is of high quality and is solving real issues for your customers, charging very little isn't doing you or your business any favors.

If you are offering a value-based service, you will still have customers despite increasing your prices. The growth and conversion rate of your business will improve drastically if you raise your prices – this would have a very positive effect on your MRR.

- Have A Good Expansion Tactic (Upsells)

Growing revenue from your existing customers is very important which is why you should have a good expansion tactic. Upgrading your current product will increase the probability of customer retention, it

is also cheaper than getting new customers. This is because getting new customers is a more expensive strategy despite it being an essential strategy.

Match your pricing to the value your customers are getting from your product. This means that your product value and pricing should grow in a slightly parallel direction. You can do this in a couple of ways, the most common ones being per-user pricing, add-on pricing, and metered pricing.

- Get New Customers

I know this strategy is very obvious, but it still requires a mention. Generating more qualified leads increases the customer acquisition number permanently. An excellent approach to getting more customers is by identifying your target group and focusing your marketing tactic appropriately. The MRR of your business will grow exponentially if your customer acquisition number increases.

- Split your Features

If you are offering your customers all your features in one package, you are losing out of making more money. Most of the elements in the packages are not all utilized as customers pick what they need and leave the rest.

Splitting your features out into different batches and add-on services will inevitably bring more money. This way, you will also be able to offer an upgrade on your product packages in the future.

- Start a Yearly Pre-payment plan

Your customer retention will increase dramatically when you start an annual pre-payment plan. However, it is relatively hard to entice customers to opt for a yearly pre-payment plan, so you need to sweeten the deal by offering a discount.

- Customer Support Optimization

Optimizing your customer support by taking care of your customers, offering individual support, and keeping them up to date is a good way of growing your revenue. If your customers are content and happy, they can serve as a good advertisement medium.

- Remove Free trials

Almost all software companies offer free plans as a default strategy of enticing customers but to increase your MRR; you have to remove your free plans. Free plans give customers the opportunity to test out the software for free.

However, this doesn't help your business as there is no guarantee that the customers will remain after the free plan is over. When you offer too much for free, upgrade rates will reduce. The best way to increase upgrade rates is by lowering the free plan features or offering a time restricted free trial.

- Remove Unlimited Plans

Most software companies always make the mistake of offering unlimited plans. Unlimited plans are not a good strategy as you are most likely underpricing your products. It is important to note that if the product you are offering is of high quality, you shouldn't be cheapening your product. This is because the same customers who are enjoying your product at this minimum price will pay at a reasonable price.

- Add Complimentary Products (Add-ons)

As your SaaS Company evolves, your product catalog will most likely increase to a point where you will need to offer complementary products. Offering an add-on service or combining them in a premium plan is an excellent way of raising your revenue and customer acquisition. Offering these premium plans and complimentary add-ons at a discount will serve as a motivation for your customers to purchase the plans.

### **Tracking the MRR Growth of Your Business**

The MRR growth rate of a SaaS business is an essential feature to follow as it lets you know the rate at which your business is growing. To calculate the MRR growth of your business, you should consider the new MRR, expansion MRR, and churned MRR.

The formula for calculating MRR Growth;

$$\text{Net New MRR} = \text{New MRR} + \text{Expansion MRR} - \text{Churn MRR}$$

### **Wrapping Up**

These strategies show the different ways you can increase the monthly recurring revenue of your business. Understanding MRR is very important as it will give you insights into whether your company is growing or not. SaaS businesses are very advantageous and leveraging on these benefits will help improve the products and services offered to your customer.