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The Revenue Engine

Beyond the Bid: Using Quality of Revenue (QoR) to Drive Growth from Day One

A Senior Deal Lead at a private equity firm specializing in SaaS knew he had a good opportunity on his hands. He had been speaking with management at a promising target company for months, and he had the inside track.

The Investment Committee was interested, but they had a few outstanding questions before finalizing the deal. Customer attrition rates at the Target had increased over the previous two years, and it was not clear if this higher churn had been driven by recent price increases. Moreover, new logo growth at the Target had slowed in recent years, potentially also driven by price increases.

Although the IC wanted to better understand the impact of pricing, the Senior Deal Lead expected that the deal would move ahead, and his thoughts were already turning towards the Value Creation Plan. He wanted to start as soon as possible on identifying opportunities to accelerate revenue growth after acquisition, increasing the likelihood of an early exit and boosting DPI.

Blue Ridge Partners' Quality of Revenue (QoR) diligence offered this very solution. QoR diligence assesses the target company's GTM model and identifies key downside risks and upside opportunities related to the commercial organization and pricing. It supports greater conviction in bidding through an independent, three-year revenue forecast. Finally, QoR provides a clear roadmap of prioritized post-close commercial improvements by identifying and measuring the levers that would make the biggest contributions to revenue growth over the hold period.

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QoR's insights were able to answer the IC's outstanding questions about the impact of pricing on the customer base and help the Principal get his deal over the line; Perhaps even more importantly, the levers laid out by QoR gave the PE firm alignment with the management team on the most important first steps of the hold period to accelerate profitable revenue growth.

Answering the Investment Committee's Questions

Blue Ridge started by investigating retention and churn performance among renewals in the quarters following recent price increases. Across all customer segments, churn was flat in the quarters following price increases, indicating price increases were not driving churn. In fact, the team's analyses revealed the opposite: churn was lower among customers who had a price increase. The most important indicator of churn was actually platform usage; churn rates had a strong inverse correlation with platform usage, even when controlling for price increases.

Were price increases negatively affecting churn and new logo acquisition?

The relationships between price increases and new logo acquisition were more complex. In the "Basic" segment, new logo acquisition increased by 25% after a price increase in October; in the "Pro" segment, it fell by 30% after a price increase in April of the following year. However, Basic's new logo acquisition also fell after April without a price increase, suggesting the fall in the Pro segment may have been caused by a different factor influencing both segments.

Further investigation revealed this common factor: the sales team had previously directed more energy towards prospects who had used free trials of the software, but they had since turned their attention to higher value targets. As they became more selective in pursuing opportunities, the number and total value of customer opportunities decreased and the average deal size increased. These free trial users were formerly a strong source of new logo generation, which were now being lost. By increasing conversion rates of free trials to just half the rate of a few years earlier, incremental ARR would increase by 17%.

Blue Ridge could therefore answer the IC's question: pricing was not responsible for the drop in new logo or for the increase in churn. Moreover, the analysis had already identified a first opportunity to capture upside ARR through improving free trial conversions.

Roadmap for Post-Close Value Creation

Improving free trial conversions was an important first step towards accelerating new logo generation through a low-touch, high-volume commercial strategy. Implementing introductory discount pricing would further facilitate conversions from free trials to paying customers, buttressing new logo growth.

The Target's commercial organization was relatively immature, so small changes and investments could have outsized impact. Blue Ridge identified three key opportunities for post-close action:

1. **Hunter / Farmer Segmentation:** The handful of sales reps at the Target only responded to inbound leads, which were distributed sequentially without attention to segmentation or rep skill. A skill / will assessment to align key reps against new logo targets and allow others to focus on account management would be an ideal way to improve win rates and identify additional referral opportunities.

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2. **Sales Development Representatives (SDRs):** Enlarging the Target's SDR team represented an attractive investment; Blue Ridge calculated an ROI of 4:1. In comparison to other SaaS SDR teams, this team appeared relatively under-resourced, suggesting potential for even greater ROI if the Target added tools for data-driven prospect targeting or key ideal customer profile (ICP) characteristics.

3. **Marketing:** The company had a low share of web traffic and market awareness, and it was competing against aggressive investment from competitors. Its positioning in a crowded marketplace was relatively undifferentiated. Blue Ridge prioritized upgraded messaging and data enrichment. After messaging architecture and operational pillars were in place, the Target could benefit from account-based management techniques to improve access to its ICP.

Ready to Generate Impact from Day 1

QoR's insights did more than help get the deal over the line. QoR gave the management team, deal team, and operating partners a set of goals, metrics, and initiatives to agree on, aligning them on the same page from the very start of the hold period. "We printed out the final deliverable now. This is our bible. We carry it around everywhere we go," said one Board member.

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With this fact-based roadmap in hand, the team had both the conviction to move forward with the investment and the playbook to maximize its potential. Blue Ridge Partners' QoR diligence not only resolved the IC's outstanding questions but also provided a data-driven strategy to unlock an additional 22% in ARR over the hold period. With alignment across the management team and investors, execution could begin immediately, turning diligence insights into impact from day one.

Why Quality of Revenue (QoR)?

Blue Ridge Partners offers Quality of Revenue diligence: a fact-based forecast of a company's revenue performance. QoR diligence provides:

- Greater conviction in bidding
- Faster start to organic growth acceleration
- Mitigation of downside surprises
- Earlier successful exits

The most proactive and exit-focused PE firms prioritize growth early. They evaluate a target's QoR alongside its QoE and market context.

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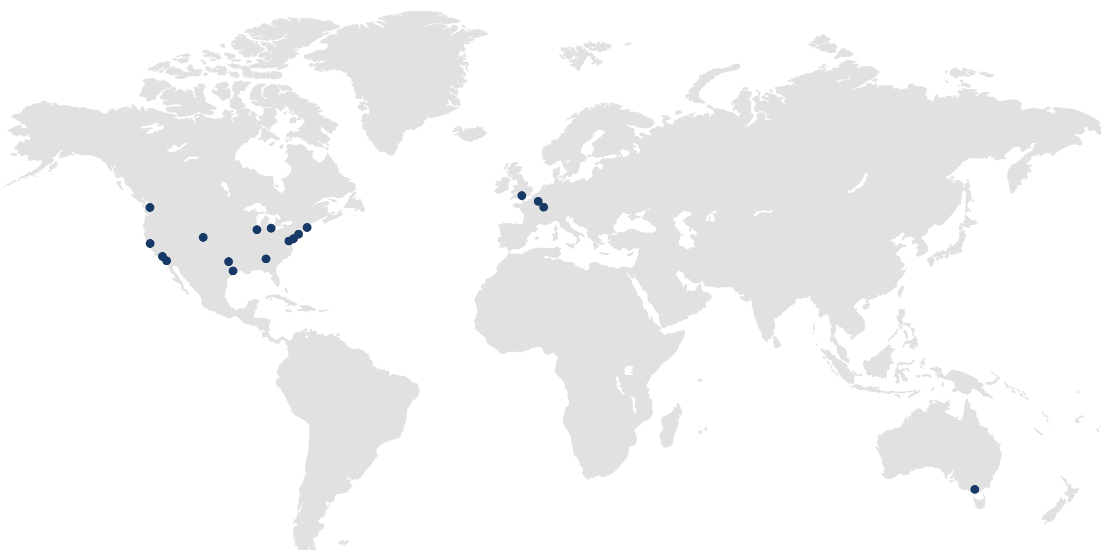
Why Blue Ridge Partners?

Blue Ridge Partners is recognized as the most experienced, impactful and respected firm that is exclusively focused on helping companies accelerate profitable revenue growth. We have worked with over 1,300 companies worldwide on commercial model transitions, strategic pricing engagements and due diligence assignments. We are known for rolling up our sleeves, being pragmatic in our analyses and delivering tangible results that focus on the "how" of execution. Based on our significant experience we have amassed extensive knowledge of the issues that affect revenue performance.

For further information please contact us at info@blueridgepartners.com or visit us at www.blueridgepartners.com.

Our Locations



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