



The Art & Science of Buying a (SaaS) Business

by Mark Daoust





WHAT IS A SOFTWARE-AS-A-SERVICE (SaaS) BUSINESS?

The Internet has given rise to a variety of new and exciting business models that were unthinkable even twenty years ago, and one of the most interesting is the Software-as-a-Service (SaaS) model. SaaS has generated a lot of buzz in recent years, especially as more and more businesses of all sizes seek to automate and delegate business tasks and processes that would have formerly taken up internal resources and staff.

At the core of a SaaS business is **software that's owned** (and usually developed by the original owner)

and hosted by a company, which then **provides access to the software to its clients over the Internet**. The industry is relatively young and success in this active and vibrant marketplace requires high-quality, targeted product and a deep understanding of metrics. Consider **churn rate**, **customer retention**, **committed monthly recurring revenue** and the cost of acquiring a customer (CAC) versus **total lifetime value of that customer** (LTV).

WHY BUY A SaaS BUSINESS?

Buying a SaaS business is appealing to owners who are looking for a growing business model supported by increased consumer interest in subscription-based software. The benefits of SaaS businesses include:

- Greater LTV (provided customers are retained) compared to traditional software models, with much longer relationships;
- Profitability that increases as growth increases;
- Lower overhead (virtual product, with no need for a traditional brick-and-mortar facility for inventory and staff);
- Established customer base, with built-in monthly recurring revenue via subscription fees;
- Flexibility and multiple paths to growth.

Some of the most visible, and successful, examples of this type of business include Salesforce



(customer resource management), HootSuite (social media management and strategy), Trello (project management and collaboration), and Zendesk (remote ticket-based support).

Are you in the market for a SaaS business? Then you're in luck! In this three-part guide, we'll be taking a look at how you can identify a SaaS business that's aligned with your business goals and achieve a smooth—and successful—transition of ownership.

We'll start out in Part One by identifying the factors you should be on the lookout for when shopping for a SaaS business. Part Two will cover the keys to a successful transition of ownership. And in Part Three, we'll share with you some wisdom and insight from business buyers who've already been "through the gauntlet," and review some tips they wish they'd known when they were starting the process.

PART ONE

WHAT TO LOOK FOR WHEN BUYING A SaaS BUSINESS

Properly executed, the SaaS business model has a lot of appeal for buyers who are looking for a solid investment with a strong return on investment (ROI). Like most virtual/online businesses, it provides an exciting opportunity to generate revenue without investing heavily in physical inventory, staff, or an office. Picking a strong performer that's aligned with your business goals can be extremely rewarding, and may even, on occasion, be easier than buying a more traditional business.

In the words of one QLB client:



“ Buying a SaaS business was easier because banks are mostly concerned about ROI, and SaaS promises that. It helped smooth the progress of the transaction. The business was strong, the buyer had a lot of experience in the field, and that helped boost the SBA [financing] process.

Within two months, we were running at 95% independence, without having to consult the former owner. The remaining 5% was tech-issue related.

”



But how do you know you're picking a winner? Clearly, a lot of factors are in play, but as with other virtual business models, the key lies in **how the business provides value to its customers**, as well as how much value. After all, without a building, staff, or physical product, the only thing truly generating value for the company is revenue from customers—both new and ongoing. That's why a firm understanding of the metrics involved in acquiring, and retaining, customers is so important.



MASTER THOSE METRICS!

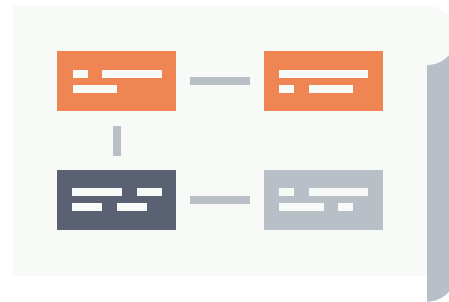
When you're shopping around for a business of any kind, one of the first things you're likely to examine is the overall health of the business. For a SaaS business, it means understanding the metrics that measure the business' past performance, its current approach to building and maintaining ROI by acquiring and retaining customers, and its potential for growth now and into the future.

METRICS THAT MATTER MOST

As with all business investments, ROI is king when evaluating a SaaS business. Most business owners are all too happy to provide a deluge of data when demonstrating the return their business will generate, but when you're shopping for a SaaS businesses, five metrics matter more than the rest.

CHURN RATE:

We're not talking about butter, but this metric is "dairy" important. Churn rate is the number of customers who leave your business in a given time period (usually monthly). Attracting 20,000 people might seem



impressive, but if you're losing 19,500 of them in the same period, your business is in trouble. A healthy and profitable SaaS business will generally have a churn rate expressed as a single-digit percentage.

CUSTOMER ACQUISITION COST (CAC):

SaaS is a "front-loaded" business model and requires folks to buy/subscribe to a product the business owner has already invested in creating and promoting at their expense. The CAC is the cost of convincing a customer to purchase your product or service. The lower the CAC, the happier you'll be as a buyer—and owner.

MONTHLY RECURRING REVENUE (MRR):

This metric is essential in establishing overall profitability and health. For buyers (and owners), record-setting months aren't nearly as important as knowing a regular, predictable revenue stream will be available each and every month.

AVERAGE REVENUE PER CUSTOMER (ARC):

Also known as Average Revenue per User (ARPU). Identifying how much you're making from each customer, as well as how this revenue is boosted by upsells and cross-selling, is critical to effective long-term planning and marketing.

CUSTOMER LIFETIME VALUE (LTV)

This metric is important because it helps you understand how much value a given customer gives over the entire course of their relationship with your business. It also provides insight on other metrics by:

- Helping you determine the maximum CAC required to stay profitable, with a positive cashflow;
- Giving you a big-picture look at retention rates (LTV is monetary shorthand for how long your customers stay, and how quickly they leave);
- Identifying potential customer experience problems. If your LTV is low or on the decline, it's time to look at potentially frustrating roadblocks your customers are encountering on your site.





RUNNING THE NUMBERS

Now that we've identified the key metrics in evaluating a SaaS business, it's time to take a closer look at how we actually calculate their values.

CHURN

This might seem like a fairly straightforward metric, and it is. You can find the churn rate of a business for a given period simply by comparing the number of purchases made during a given month (or year, depending on the product and customer behavior) to those made by the same customers in the following month (or year). Since many SaaS businesses are subscription-based, you can view each month of membership as a "purchase" by a given customer.

For example, if a business has **100 subscribers** at the beginning of a month, and during the month **seven of those subscribers cancel**, the business has a **churn rate of 7%**.

Remember, **a single-digit churn rate is ideal**. If a business has a churn rate in the double digits, either its product or its customer service needs serious work.

CUSTOMER ACQUISITION COST

Keeping a customer is (when things are working properly) far less expensive than acquiring a new one. But to keep customers, you first have to leverage your marketing and sales efforts to land them.

CALCULATING THE CAC OF A BUSINESS

Use the following formula:

Total cost of marketing for a given period / total customers acquired in that period = CAC

So, let's say a business has the following marketing costs for a given year:

Advertising / Content Marketing

\$150,000

+

SEO Services

\$50,000

+

Hardware Upgrades for Software

\$100,000

=

TOTAL

\$300,000

During the same period, the company acquires 150,000 customers. The CAC would be \$2 per customer (\$300,000/150,000).

As with churn rate, you want your CAC to be quite low, particularly when compared to LTV. A good rule of thumb for viability (and an indicator of potential growth) is that you should be able to recover your CAC in less than 12 months, and and your LTV should amount to at least three times your CAC.

MONTHLY RECURRING REVENUE

For an optimal and consistent ROI, you want to build ongoing relationships with customers, rather than settling for brief surges and corresponding lulls. A SaaS business generates MRR in a variety of ways, and this metric isn't so much a single value as it is the overall trends generated by:



Renewals



New sales / subscriptions



Upgrades to existing subscriptions / services



Losses due to churn rate

The MRR of a business is a component of calculating LTV, and also provides an opportunity to identify potential areas of improvement or expansion, both in acquiring new customers and retaining existing ones through improved service/upgrades/etc.



AVERAGE REVENUE PER CUSTOMER

This metric is tied directly to the ROI of a business, as the ARC provides the per-user revenue value from which per-user cost is deducted to establish profitability. Depending on the service and structure of the SaaS business in question, you can find ARC by dividing your total revenue by number of active customers in a given period.

Total Revenue / Number of Subscribers = ARC

ARC is a critical metric for SaaS businesses, since profitability hinges on maximizing revenue from each user over the short and long term.

CUSTOMER LIFETIME VALUE

A successful SaaS business is built around developing long-term, high-profitability relationships with customers. Ideally, you don't just want a lot of customers; you want a lot of customers who are with you for a long time. Low CAC and churn, combined with high ARC and MMR, make for an optimal LTV.

The LTV is used in almost every aspect of evaluating a SaaS business, as well as providing the basis for everything from marketing strategy to sales forecasts to total business value. In its most basic form, LTV is similar to ARC: you simply deduct the total cost of acquiring a customer from the revenue they generate for your business over the course of your relationship with them.

Naturally, LTV is a little more nuanced than that in practice, involving variables such as **product/service updates, intermittent vs. regularly recurring purchasers/subscribers, and modifications to customer experience and accounts** through **upselling** and **cross-promotion**.

The current glut of advice and marketing blogs on the Internet means it's not hard to find tips and tools for calculating LTV. Finding one that's easy to use and understand, however, is another matter. One of our favorites is the LTV calculation method outlined in this infographic from KissMetrics.



BUYING IS MORE THAN METRICS

Understanding the metrics used to measure the health of a SaaS business is the first step in deciding whether or not the business is a good investment for you. After all, there's little sense in buying and boarding a boat because you like the paint color if the boat itself is about to sink beneath the waves.

But beyond the metrics, you'll also need to consider other factors. Are you familiar with the tech involved? Are you looking for something hands-on, or hands-free? Are you ready to buy today, or will you need to secure financing?

And you'll also need to consider the human factor. Depending on the nature of the business, your own skill set (both as a buyer and a future owner), and the desires and goals of the seller, you may be in for a rough go without adequate planning and plenty of crystal-clear communication.

In the next section, we'll be looking at how the relationship between owner, buyer, and broker can make or break the purchase of a SaaS business, and explore the best ways to ensure a smooth transition that's beneficial to everyone involved.

TRACKING TIP

Don't be afraid to get granular! Averages are excellent "big picture" indicators, but by breaking down your metrics by customer type, source of traffic, plan (subscription) type, and other relevant segments can reveal hidden insights on how you can reach more people, more effectively, more often. And tracking individual customers, and their behaviors, can provide richer data for higher-level analysis down the road.

MORE METRICS TO MASTER

Customer Payback Time (aka CAC Recovery):

The time period required for a customer to generate enough revenue to recover the cost of acquiring them.

The Funnel:

Every business has a funnel to draw customers from tire-kicker or looky-loo to paying client. For a SaaS business, your funnel should begin with a visit to your site, then move on to a free trial or account creation/sign-up. After that comes activation (i.e., using your software for the first time), and finally signing up as a paying customer or subscriber.

Site Visit > Free Trial/Account Creation >

Activation > Paying Customer/Subscriber:

Tracking and analyzing customer behavior at each step in your sales funnel will help you identify your highest-quality leads, the places they come from, and how to pull them through your funnel with optimal efficiency.

Lead Sources:

Different lead sources (e.g. TV, radio, Google AdSense, etc.) have different price tags associated with them. Tracking and identifying which lead sources produce the highest-quality leads can help you make the most of your marketing spend.

Customer Engagement Score:

Who's using which parts of your software, and when? Not all of your customers will use your software in the same way, at the same times, or for the same purposes—and depending on your client structure, some may not be using it at all (e.g., a client who's purchased 10 licenses for their 10-person marketing department, only 7 of whom are using your software). Creating a CES can help you adjust your targeting, understand which features have the most powerful draw for customers, and improve on features that might need some tweaking to be appealing to current users—and attractive to new ones.



PART TWO

KEYS TO A SUCCESSFUL TRANSITION

In Part One, we talked about SaaS businesses and identifying one that might be the right choice for you as a buyer. In Part Two, we dive into the transition process that follows finding the right business and the decision to buy it.

PROFILE OF A BUYER

So what's it like to buy a SaaS business? No two buyers—or businesses—are the same, of course, but we can definitely identify some commonalities shared by SaaS buyers.

Let's take a look at a buyer who recently acquired an SaaS business with help from Quiet Light Brokerage.

The client in question was highly motivated, with a personal interest in the sector. They really liked the idea of a business that generated repeat business provided by a large pool of existing customers. They weren't opposed to other types of businesses, per se, but they definitely regarded SaaS as their top option.

In the months prior to approaching QLB, they'd been looking at acquiring some other businesses. These businesses weren't a perfect fit, being what the client described as "quasi-SaaS," and the deals eventually fell through due to issues with transactional structure.

The client came to QLB with a keen interest in acquiring a SaaS business, and had prioritized three key metrics:



Churn Rate



Monthly Recurring Revenue (MRR)



Customer Lifetime Value (LTV)



Their goal for churn rate was single-digits. The business they decided to acquire had a competitive churn rate, but **the combination** of the **attractive churn rate** with **very promising recurring revenues** is what sold the client on the business.

The seller, who'd founded the business, had built the value of the business **from zero to \$3 million**. The buyer, keen to build that value even further, has subsequently pursued, and achieved, growth by investing in development (software/features) and support staff for the business. The goal is to **far exceed** the purchase price when they eventually sell the business to someone else.

During the Transition Process, this buyer took **a consultative and collaborative approach** with the seller and their broker, and as a result, had a very successful transition that laid the foundation for their current growth and ongoing success.

“

A solid relationship between buyer, seller, and broker makes a positive difference, and having the right broker makes a huge difference. QLB helped me get a clear view of the business' performance, its potential, and its challenges.

”

THE TRANSITION PROCESS

You've chosen a business you'd like to buy. You've done your due diligence and secured financing. You've gone through closing, and now you're entering a critical period for your new business: the Transition Process.

Usually lasting between 30 and 90 days, the Transition Process is a time not only to ensure the smooth transfer of assets and accounts, but to get yourself up to speed on the particulars of managing your new acquisition and ensuring it maintains its profitability and performance as you take the helm.

This is your chance to secure the training and support you'll need as you evolve from buyer to owner/operator. You can make the most of this time by:

MAPPING OUT YOUR TRANSITION

Your plan for an effective transition should begin long before the deal is closed. Taking the time to invest in building goodwill with the seller, and taking their needs and priorities (which usually include moving onto their next project as quickly as possible) into account is essential to building the good faith that will carry everyone through the transition successfully, with all parties satisfied.

Plan ahead, focusing on the information and training you need as a new owner, the role of the seller in



your business during the transition period, and the relationships you'd like to maintain or change with staff, clients, and vendors.

LEARNING THE ROPES

Even if, like the buyer in our profile, you've got a keen interest in the industry of your new business, learning the particulars of day-to-day and long-term operations is critical, as you'll be phasing out the seller and taking on these challenges yourself (or need to train staff who will be handling them for you).

The two essentials involved here are materials (manuals, videos, FAQs, etc.) and training (either face-to-face or remotely via videoconferencing).



TRAINING MATERIALS

Until science finds a way to fire up humanity's repressed telepathic abilities, we need to rely on more traditional methods of transferring knowledge. The Transition Process is the time to get some key items from your seller, including:

MANUALS AND PROCEDURAL GUIDES

It might seem a bit like you're buying an appliance rather than a business, but getting everything important in writing, including a "training manual", during the Transition Process will make everything much easier for you (and anyone new to your business) down the road. Documenting the company's standard operating procedures (SOPs) and chasing down answers to common questions can save you headaches while keeping the business flowing smoothly.

Draw up a list of the questions you have about every aspect of the business—and then ask the seller to include the answers to questions you should've asked, but may have missed. Capturing the details on subjects such as account management, billing, promotions, site design, and marketing efforts gives you a head start on dealing with the ins and outs of the business.

Beyond training, you'll also want to make sure you've asked the seller for full contact information on your vendors, as well as user names and passwords for social media, financial, and other accounts, and any

specific "tricky tasks" or especially complex aspects of the business that require a little more time and attention than SOPs.

VIDEOS AND SCREENCASTS

One of the benefits of living in the digital age is the high affordability of video and screencasting technology. Videos can provide the same information as text, but enhanced with multimedia and clarifying explanations that might not translate well to the page, and for video-based informational training, it's easy to record directly from the webcam on your desktop or PC.

For detailed procedures requiring precise references, using a screencasting program allows you to record every step of the process and share it in an easy-to-use, flexible visual format. The paid versions of both Skype and Uberconference allow you robust options for recording and sharing your screen (with audio); you can also find free apps that allow you to record and share screencasts in several different formats.

TRAINING SERVICES

Having access to manuals and multimedia content is helpful, but sometimes there's simply no substitute for a good, old-fashioned face-to-face meeting. Scheduling some face time can give you information no amount of conference calls or emails possibly could, thanks to humanity's ongoing love affair with non-verbal communication.

By spending time with the seller, clients, and even vendors during the Transition Process, you can get a feel for the flow of the business, relationships within it, and the overall tone set by the seller. These insights will prove quite valuable in considering your own approach, and spending time in person helps you build positive relationships even before taking over officially.



SORTING STAFF AND CONTRACTING CONSULT TIME

As you move through the Transition Process, you'll likely encounter some unanticipated challenges related to operating the business and the staff you've acquired along with the business. Finding a way to retain staff and the assistance of the seller will go a long way toward alleviating these concerns.

SORTING OUT STAFF ISSUES

Not everyone can, or will want to, stay onboard after the transition. Employees have their own goals and desires, and may want to move on, either on their own or to a new project with the previous owner. However, since the time and knowledge these employees possess is invaluable to you as the new owner, **it's worth your time to investigate options for retaining the employees you can't afford to lose.**

The first part of the process is up to the seller, who may be open with their employees about the sale, or play things close to the vest and not reveal what's happening until the sale has closed. How they choose to approach this subject with their employees has a lot to do with how you can approach them after they've gotten the news.

No matter which method the former owner chooses, it's a smart idea to try and retain the most important/knowledgeable employees for at least 90 days after the sale closes. You'll be spending a few months learning how to run the business as it is, and in that time you can get to know the staff, their responsibilities and capabilities, and then use what you've learned to inform your own decisions about who to keep, who to add, and who to let go. Plus, with three months to watch and learn, you can **start to plan informed hiring and firing decisions after a few weeks**, and still have time to put them into action as the three months come to a close.

OPEN A THREE-MONTH WINDOW (and Give Yourself Some Breathing Room)

Work relationships, just like all relationships, vary wildly based on the people involved. Will you "click" with your new staff, or will you run into conflict? Will they be ready to embrace you and any suggestions/questions you have, or view the seller's exit as their own cue to hit the door?

You can't see the future, but even if things are a little bit rough at first, it's in your best interest to hang on tight to key members of staff for those magical ninety days. They can provide crucial support and insight at a time when you're still learning the ropes and free you from the daunting task of trying to train new folks in a business you haven't really had a chance to learn.

So how do you convince folks to stay with you while you get your equilibrium?

Sell It as a Two-Way Street

Make it clear that the 90-day trial period is just that: a trial. They can get to know you, you can get to know them, and if things don't work out after giving one another a fair shake, everyone can move on without regrets.

Incentivize Them

Money talks, as the saying goes, but you don't necessarily need to lay out cash to keep your key people. Find out what it'll take to get them to stay—more flexible hours, extra time off, Free Pizza Fridays, etc.—and give it to them (within reason).

Look to the Future—Together

If you've got really stellar folks on your team, it doesn't really make sense to let them hit the door, in three months or thirty. Let your employees know you're keen on developing a mutually successful, long-term relationship with them, and they'll be more likely to give you that trial period.





CONTRACTING THE SELLER AS A CONSULTANT

There are still questions that pop up every so often. I think that's one of the challenges inherent to SaaS versus [other business models]. There's a little more technical finesse inherent to the model, because it is software, and people are subscribing to it, buying a license for it, and it is proprietary. So, for a buyer, it can take a little longer to get fully up to speed.

Collecting videos, training manuals, and other resources from your seller is essential for long-term reference and successfully managing your business. But even armed with these resources, you'll most likely run into problems that are most effectively solved by consulting the seller directly.

Now, as we've pointed out, most sellers are motivated to move onto their next project as quickly as possible. With most purchase agreements specifying a mere 30 day window for transition, those buying an especially complex business may want to consider arranging an ongoing consulting agreement with the seller. This makes sure the seller is available as needed, but is also fairly compensated for their time.

Talk to your seller about drafting a separate consulting agreement for one, three, or six months beyond the period specified in the purchase agreement (e.g.,

30 days in the P.A., 180 days of consulting in the agreement). The agreement can always be updated if you find yourself up to speed sooner than expected, or the seller has other projects to pursue.

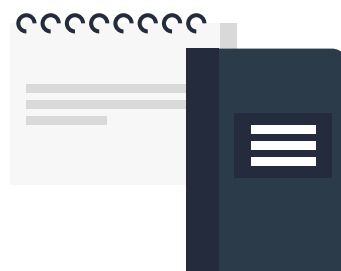
When creating your consulting agreement consider:

Payment and Scheduling Arrangements

Depending on your seller's other projects, plans, and availability, you'll want to specify whether they'll be held on retainer for a flat fee or simply available a la carte for brief consulting sessions as required. Since your timelines and calendars are likely different, offering multiple options not only helps ensure the seller will be available when you need them but helps maintain goodwill and a positive business relationship.

Roles and Responsibilities

Talk to your seller about the assistance you'll need. Will they be helping you work with vendors? Fine-tuning the site or the software? Providing staff training refreshes or answering questions? Laying out the duties you require is another key to maintaining a successful relationship with your seller, and making sure you get the help you need, when you need it.





Do You Need A Holdback?

During transition, a thousand issues come up—including whether or not you should ask for a modest financial holdback. Depending on your goals, the seller's goals, and the relationship you've established during the diligence and financing periods, asking for a holdback—an agreement between you and the seller to retain a modest portion of the closing funds in an escrow account for a specified period (usually 30 or 60 days)—could be in your best interest as you move forward.

Why ask for a holdback? Generally, buyers ask for one in order to:

Motivate sellers to provide full transition assistance.

The overwhelming majority of sellers are upstanding folks looking to complete a business transaction openly and honestly. But if a seller is tempted to shirk their duties a bit, a holdback can motivate them to finish what they've started, and fulfill their obligations to you, before they get their full payment.

Provide coverage for incidental expenses.

Expenses inherited from the previous owner's time at the helm, or refunds outstanding at the time of sale, can be covered by the holdback.

NOTE:

NEVER use a holdback as a way to squeeze more than the price you agreed to pay the buyer in your purchase agreement. If you use a holdback, the funds should be held in escrow so both buyer and seller use the funds with integrity and honesty.

Successfully navigating the Transition Process is your key to future success as you put your own stamp on your business. It may last only a few months, but in that time you've got a unique opportunity to master your responsibilities and roles, learn the essentials about your staff, vendors, clients (and the relationships they have with you and one another), and extract everything you can from the seller before the wheel of your new ship on the seas of commerce rests solely in your hands.

Now that we've taken a look at the components of a successful transition, we're going to get some insight and wisdom direct from someone who's been through the process themselves. In Part Three, we'll review feedback from an actual SaaS buyer who brokered their transaction through QLB.



PART THREE

LESSONS FROM A SaaS BUYER

The first two parts of this book were about finding the right SaaS business, and working with the seller to achieve a successful transition. In this final section, we're serving up some "podium wisdom" straight from the mind of the SaaS client we met in Part Two. We sat down with the client for a brief chat about what drew them to the business, why they chose SaaS, and any insights they have to offer other buyers who are looking to start something amazing with SaaS.



ON MAKING A GOOD DECISION YIELD GREAT RESULTS

As we mentioned in Part One, a big part of the appeal in a SaaS business is the built-in revenue stream and existing customer base, making you money from day one. There's nothing wrong with making a good thing even better, however, and the client has made some specific plans for encouraging growth and helping the business reach his intended goal of much higher value by the time he's ready to sell:

"One of the diligence points we noted was the conversion of free users to paid users of the product. That particular point was already strong for the business, so we were extremely pleased with its long term prospects."

Having identified a strength with room for additional growth, the client has "...continued to push growth by investing in development—improving our software, adding features—and adding support staff. Boosting quality [of the product and the customer experience] boosts conversion, so we're very focused on that."



ON THE IMPORTANCE OF ROCK-SOLID RELATIONSHIPS

While growth, positive trends, and strong metrics in the areas the client was looking for (**Churn Rate, Monthly Recurring Revenues, and Customer Lifetime Value**) were important to the client, "Positive relationships between buyer, broker, and seller, were essential [to this acquisition]. There was zero negativity. QLB helped facilitate every step of the way, from diligence on through close and transition."

ON THE CHALLENGES OF SaaS BUSINESSES

The client had clearly-defined goals and a passion for SaaS, but he had one caveat for prospective buyers:

"If I was a first-time buyer," the client told us, "a SaaS business might not be the first one I went after."

It's not that SaaS businesses necessarily have a crushing learning curve or needless complexity, but rather that the commitments associated with SaaS may outstrip client expectations—or their skill set. The knowledge and effort required in running a SaaS is a positive, in that it "adds exclusivity" and discourages

would-be competitors from firing up a carbon copy of the business, but it also means buyers need some software and engineering skills (or access to them), and the time, energy, and support staff necessary to make the transition happen effectively.

“They [buyers] should not underestimate the time and work necessary to run a SaaS business. Their own capabilities, skills, and time commitments will be a huge factor.”

“This isn’t necessarily a ‘drop ship’ or ‘plug-n-play’ business,” he added. “It has its own unique challenges, and buyers need to be prepared to add more time, effort, and staff [than they might originally estimate].”

TOP TIPS FOR OTHER BUYERS LOOKING AT SaaS BUSINESSES

As we concluded our interview, we asked our client to imagine they were “standing at a podium, speaking to 500 business owners eager to break into SaaS,” and offer up his wisdom and insight. He gave us six tips taken from his own experience:

Bring your skills—and your strategy.

“On the buyer’s end of things, definitely bring some skills relevant to the product and the market; either your own skills, or skills that you have access to. It’s important to have a development plan in place. Ask yourself, ‘Even if I don’t have a [plan/answer to an issue/etc.] on day one, will I have it on day 30? On day 100?’ Having a strategy as a buyer is very important. Once the deal closes, it’s up to the buyer to continue the hard work [your broker] put into arranging a successful deal, and the hard work the seller put into building the business over the course of the three, five, seven years before.”

Do your diligence!

As with any other business, you want to take a close look at every metric and indicator. You want to analyze trends. “Review the financial and customer metrics, which should go without saying. Growth is good. Positive trends, and a history of strong performance, are good. Do your diligence, and do it well.”

Find the right broker to build a three-legged stool.

“A solid relationship between buyer, seller, and broker makes a positive difference, and **the right broker makes a huge difference**. QLB helped me get a clear view of the business’ performance, its potential, and its challenges.”

Bring your passion.

“Don’t just focus on metrics and financials and the customer base. Put in time with the seller and customers and vendors. Make sure it’s a good fit for you—if you have a passion for the market [served by the business], it will help with future success.”

Strike a balance between churn, stability, & growth.

“For a SaaS business, something with a really low churn rate that’s stable may not be as attractive to a buyer from a revenue perspective as something with a slightly higher churn rate that’s got strong growth.”

A holdback can be a wonderful thing.

“For buyers and sellers, a holdback is a very good carrot. It’s a sign of confidence to the buyer, a sign that the seller’s willing to holdback some funds [in order to secure their services and support their vested interest in helping the new owner succeed]. It makes the banks, the buyer, everyone feel a little more satisfied. And I think it helps [the broker], when the seller has a realistic about what terms might be attractive and acceptable to potential buyers.”





ARE YOU READY TO GET SaaS-Y?

This eBook has given you an overview of SaaS businesses, the transition process, and first-hand insights from a SaaS buyer. We've talked about mastering metrics, building strong relationships, and understanding the differences that make ongoing support and a solid transition so important to SaaS success.

Now that you've had a glimpse of what it takes to buy and take ownership of a SaaS business, are you ready to join the countless other business owners who've taken the plunge? We can help! If you're interested in learning how Quiet Light Brokerage can help you find the perfect SaaS business to fit your goals and needs, just click the button below.

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