

Financial Metrics Every Startup Should Track

Module 2

"You Can't Improve
What You Don't
Measure."

Financial metrics are the mirror of your startup's health. Here's what you should be tracking from Day

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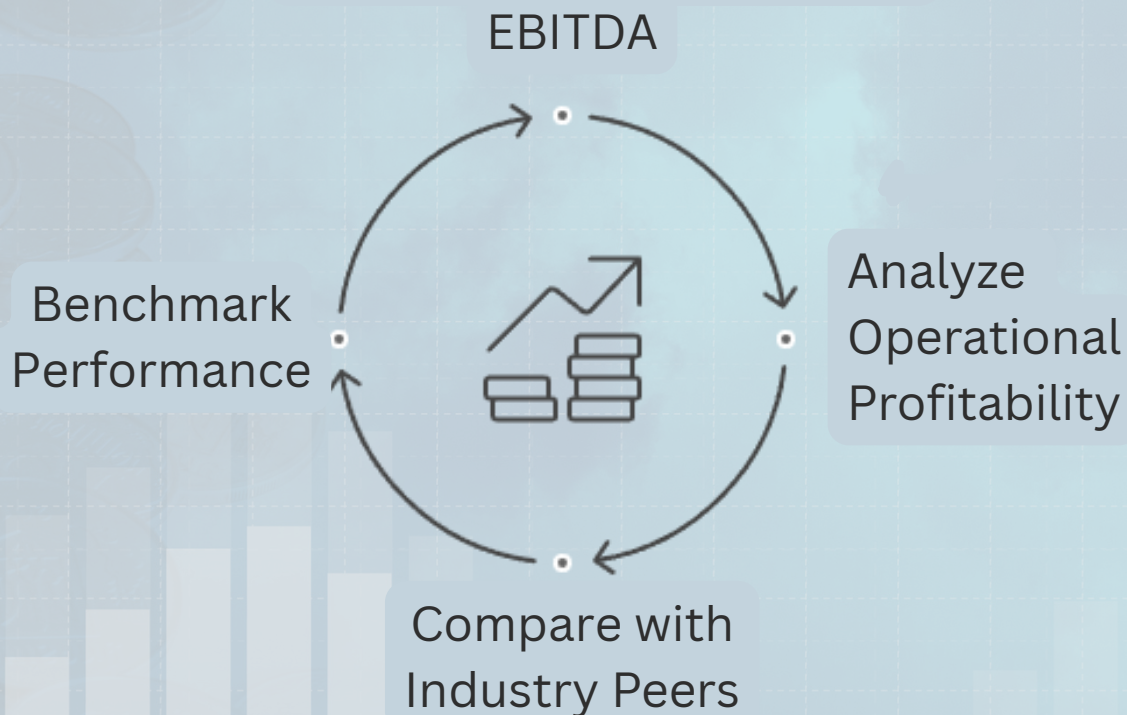
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EBITDA

(Earnings Before Interest, Taxes, Depreciation, & Amortization)

EBITDA Analysis Cycle



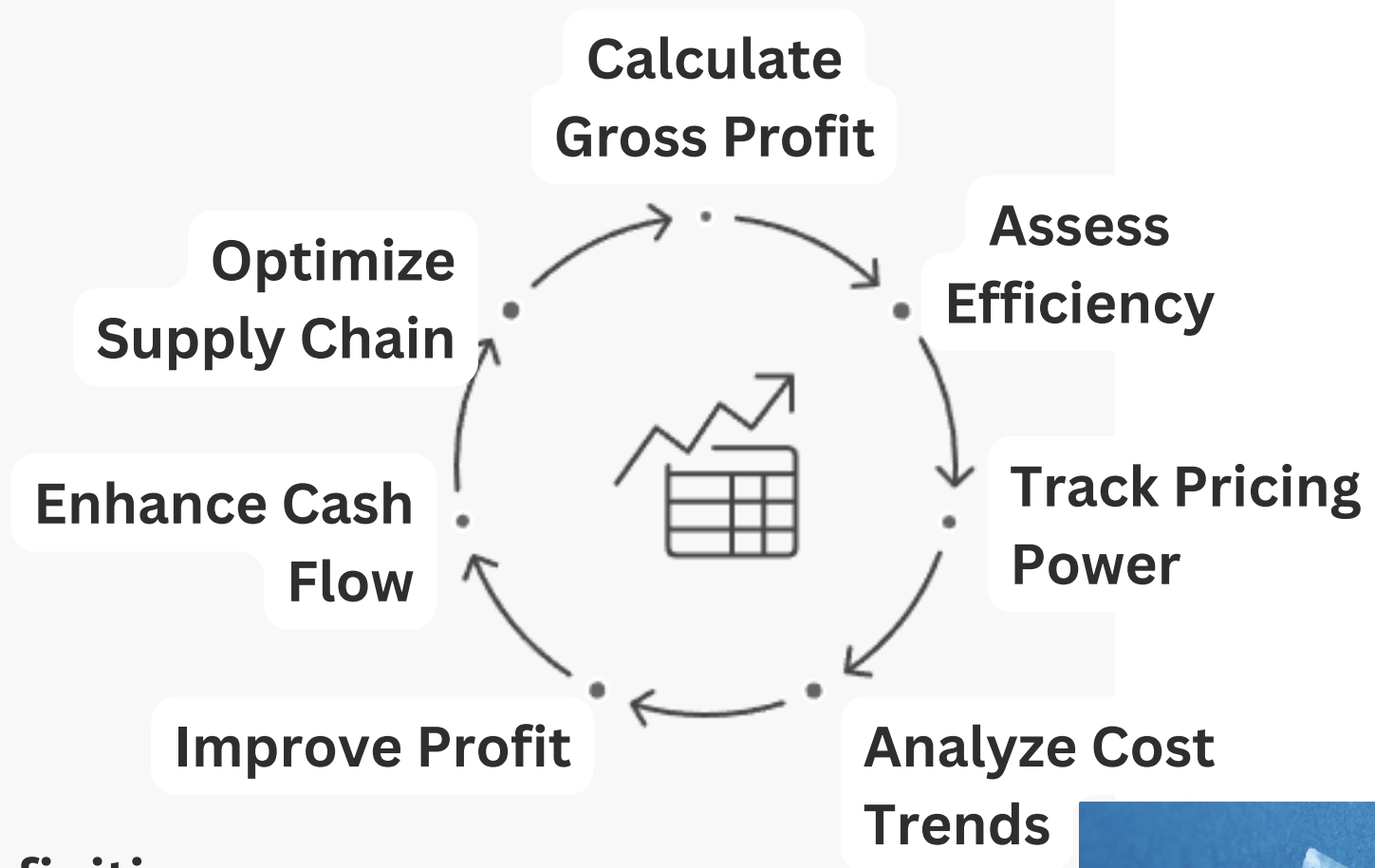
Definition: Measures operational profitability by excluding expenses unrelated to core business operations.

Why Track: Shows true business earnings and allows for comparison with industry peers.

Tip: Use EBITDA to benchmark against similar startups and spot operational improvements.

Gross Profit & Gross Margin

Cycle of Gross Profit Optimization



Definition:

Revenue minus direct costs (COGS).

Why It Matters:

Shows product efficiency and profitability.

Key Points:

- Tracks cost and price trends
- Drives profit growth
- Impacts cash flow

Tip:

Improve margin by optimizing costs.



Contribution Margin

Contribution margin is the revenue left after subtracting variable costs tied to producing a product or service. This amount helps cover fixed costs like rent and salaries, and whatever remains contributes to profit. It shows how much each sale contributes to the business's profitability.



A higher margin means more money to cover fixed expenses and grow the business. Improving it involves reducing variable costs or adjusting prices. This metric is key for financial health and growth decisions.

Difference between Contribution Margin and Gross Margin

Characteristic	Contribution Margin	Gross Margin
Definition	Revenue-Variable Costs	Revenue-All Production Costs
Purpose	Cover Fixed costs & profits	Overall Product Profitability
Cost Included	Only Variable Costs	Variable and Fixed costs
Users	Internal Decisions	Investors and reporting
Value	Higher	Lower
Focus	Product/unit profitability	Company operational efficiency

Average Revenue Per User (ARPU)

ARPU Cycle for Business Growth

Calculate ARPU



- Key to pricing strategy
- Reveals production cost trends
- Critical for profit improvement
- Affects cash flow health
- Helps optimize supply chain

Churn Rate

Definition:

Percentage of customers who stop using your product or service over a specific period.

Why It Matters:

High churn slows growth and reduces recurring revenue, signaling issues with product fit or customer satisfaction.

Key Insights:

- Directly impacts monthly recurring revenue (MRR)
- Essential metric for subscription and SaaS businesses
- Helps detect product or service weaknesses early
- Indicates effectiveness of customer support and engagement efforts
- A lower churn rate usually means stronger customer loyalty and lifetime value

Churn Rate Impact and Analysis

