SOFTWARE AND APPS

A playbook for software companies, including SaaS (software sold by subscription): building, pricing, growth metrics and raising money.

TYPE: PLAYBOOK REVIEWED: NOVEMBER 2026 TIME: 14 MINUTES LEVEL: INTERMEDIATE

AT A GLANCE

- Software can grow fast because each new customer often costs little to serve, so **gross margins are usually high**.
- The challenge is **finding customers efficiently and keeping them**. Churn quietly undoes growth.
- Investors focus on **recurring revenue, growth rate, retention and efficiency**. See **G-03 Growth Numbers Investors Watch**.

Business models

Model	How it works	Examples
SaaS (software as a service)	Customers pay monthly or yearly	Scheduling, bookkeeping, marketing tools
Usage-based	Customers pay by how much they use	Messaging, data or AI tools
Freemium	Free basic version, paid upgrades	Many consumer and small-business apps
One-time license	Pay once to own a version	Some desktop and specialized tools
Consumer apps	Subscriptions, in-app purchases or ads	Fitness, education, games

How the money works (illustrative SaaS)

Line	Share of revenue
Revenue	100%
Hosting, support and other costs to serve	15% to 30%
Gross margin	**Often 70% to 85%**
Sales and marketing	20% to 50% while growing
Product and engineering	20% to 40% while growing
General and administrative	10% to 20%
Profit	**Often negative while growing fast; can be strong at scale**

Many early software companies spend more than they earn to grow, using investment. Others grow more slowly from customer revenue. See **S-03 Tech Startup or Main-Street Business? Choosing Your Path**.

Example: Sofia's numbers

> EXAMPLE
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> Sofia's clinic-scheduling app charges **$149 a month** per clinic and has **300 clinics**: about **$44,700 MRR** (monthly recurring revenue), or about **$536,000 ARR**. Gross margin is **82%**. Monthly revenue churn is **2%**, offset by upgrades. Her cost to win a clinic is about **$600**, which she earns back in about **5 months** from the clinic's gross profit ($149 × 82% ≈ $122 a month).

Numbers to track

KPI	What it tells you
MRR / ARR	Size of recurring revenue
Monthly growth rate	Speed
Churn (customer and revenue)	Retention
Net revenue retention	Whether existing customers grow over time
CAC and payback	Efficiency of growth. See **M-09 Unit Economics: What Each Customer Is Worth**.
Activation	Whether new users reach the key action
Burn rate and runway	How long cash lasts

Building it

- Start with the **smallest product that solves the core problem**. See **I-07 Building Your First Version (Tech)**.
- **No-code and AI building tools** can get you to first customers faster.
- Make sure **the company owns all code and IP**. See **B-08 Trademarks, Copyrights and Patents in Plain Language**.
- Take **security and privacy** seriously from the start, especially with personal, health or payment data.

Funding

- Bootstrapping from early customers. See **R-02 Bootstrapping: Growing With Your Own Sales**.
- Angel investors and SAFEs. See **R-10 Angel Investors** and **R-14 SAFEs and Convertible Notes Explained**.
- Venture capital for companies aiming for very fast growth. See **R-11 Venture Capital: How It Works and Whether It Fits**.
- Grants for research-based innovation, like SBIR. See **R-04 Grants and Pitch Competitions**.
- Revenue-based financing once revenue is steady. See **R-08 Revenue-Based Financing**.

Common mistakes

- **Building for a year before talking to customers**

- **Ignoring churn while celebrating new sign-ups**
- **Pricing too low** for business customers
- **Not owning your code** when contractors build it
- **Raising money before finding product-market fit**

Launch checklist

- ☐ Interview 20 potential customers. See I-03.
- ☐ Build the smallest working version
- ☐ Get 10 paying customers before scaling
- ☐ Set up tracking for activation, retention and MRR
- ☐ Form a corporation if you plan to raise from investors. See B-01.
- ☐ Get IP assignments from everyone who builds it

Where to go next

- **I-07 Building Your First Version (Tech)**
- **L-09 Launching an App or Online Product (Tech)**
- **G-03 Growth Numbers Investors Watch**
- **P-12 Marketplaces and Platforms**

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