

SOFTWARE ORGANIZATION BENCHMARKS

Lead Indicators of Value Creation

Labor-related costs dominate software company P&Ls, yet actionable benchmarks to guide organizational decisions are often lacking. This article explores six essential metrics that HR and business leaders must leverage to drive value creation and scalability.

Traditional HR metrics such as employee engagement, attrition, promotion rates, etc. – while being extremely important – don't provide a specific pathway to increasing company profitability. Software company¹ leaders who want to drive the value creation agenda need to focus on six key organizational metrics that act as lead indicators of profitability – and hence – of value creation. These six metrics are:

1. Revenue per Employee
2. SG&A Ratio
3. Headcount by Level
4. Employee Distribution in Low- vs High-Cost Locations
5. Spans & Layers
6. Staffing Ratios

Managing these within appropriate ranges not only creates an immediate and measurable impact on operational efficiency but also has a very direct impact on product innovation velocity, customer responsiveness, and attracting and retaining high performers.

We discuss each metric below.

1. Revenue per Employee: The Simplest Way to Track Productivity

Revenue per Employee (RPE) is straightforward – it is simply the annual revenue divided by the number of FTEs. In mid-sized software companies (ARR or revenue between \$50M - \$500M) RPE is typically between \$250k and \$450k. Larger platform companies and AI-native companies may have higher RPEs, often over \$600-700k.

HR has a direct influence on this metric through agile workforce planning, headcount management, performance management, talent development, and

¹ While the majority are SaaS companies, the concepts and benchmarks are applicable to other types of software companies as well.

incentive design. Additionally, HR has an indirect influence on other factors that drive RPE – including business models and business mix.

2. SG&A Ratio: Managing the Growth–Overhead Tradeoff

Selling, General, and Administrative (SG&A) ratio is SG&A expense divided by revenue. Mid-sized software companies will typically see this ratio in the 40% to 60% range. Larger companies that have a well-established niche or moat – and have a large revenue base – may have SG&A Ratios in the 12-20% range.

Unlike Revenue per Employee where a higher number is always better – a high (or low) SG&A ratio isn't inherently good or bad. A high ratio may indicate excess overhead that comes at the expense of product investments – or it may be a sign of aggressive investment in sales capacity for a period of time. A low ratio may indicate low growth – or a lean corporate core and a well-protected market niche that doesn't require marginal sales investments.

SG&A is a very broad metric. At a minimum, it needs to be broken down into sales, marketing, finance, IT, and HR cost. That enables function-level benchmarking and accountability.

HR leaders would be remiss to assume that they only own the HR function cost, and all others are the responsibility of the CRO/ CSO, CMO, CFO, and CIO, respectively. While programmatic, vendor, and technology spend may be entirely the domain of those leaders, HR needs to have a direct or indirect influence on anything related to staffing and productivity in each of those functions.

3. Headcount by Level: The Shape of Work

There are at least 4 different ways to look at headcount distribution by level².

1. Where is the modal value – i.e., at what level do you have the highest headcount?
2. What is the shape of the distribution – e.g., what you plot the number of employees at each level, does it resemble a triangle, a diamond, inverted triangle, or other shape?
3. What is the total number of levels?
4. What is the average leverage ratio – i.e., the ratio of headcount at a lower level divided by a headcount at the next higher level?

² “Level” is a broad concept that defines the scope and impact of a job. In the software industry, a common schema is Levels P1-P6 for Professional jobs, M1-M5 for Managers, E1-E5 for Executives.

The first two don't have a universally right answer – it really depends on the organization's size, stage of evolution, talent availability, and other factors. For the next two, though, there is a right answer. Flatter (i.e., fewer levels) and leaner (i.e. high leverage) organizations tend to not only have lower structural cost but also have faster innovation cycles and higher customer centricity.

Leverage ratios are not as well-studied as number of levels or spans of control, but they provide great insight into organizational effectiveness. Insightory research shows that the average unweighted leverage ratio is generally between 2.5 to 3.5. This means that each level has (on average) 3 times as many employees as they level above it. In start-up mode, the ratio may even be less than 1.0, but it increases as the organization becomes larger and needs more execution resources than leaders.

A related concept is the ratio of executives and managers to total employees. We typically see values in the 12% to 18% range – with larger companies having lower ratios. It is not uncommon for some of the largest software companies (over \$1 – 2B revenues, often publicly traded companies) to have leverage ratios greater than 3.0, and for their managers and executives to be less than 12% of the total employees.

4. Low-Cost Location Utilization: From Cost Savings to Capability Building

There is a wide variation on this metric. There are many smaller software companies that employ a US-only workforce, especially in early stages when innovation and speed to market matters more than margins and scale.

When they cross a certain threshold (e.g., around 200-300 employees or ~\$50M ARR) it is not uncommon to start looking for global talent – whether it is to improve margins, gain access to specialized skills, or provide additional capacity to their stretched teams. For companies that go down this path, we often see the percentage of employees in low-cost regions ramp up rapidly to ~30% to 50% within a few years.

The rise of low-friction global workforce management platforms (e.g., Globalization Partners, Deel, Rippling, etc.) has made it easier for smaller companies to hire and manage a global workforce. There is an increasing number of startups that started hiring globally even before they hit \$5M ARR and sometimes even in their pre-revenue phase.

It is too early to fully assess the impact of Gen AI on lower-cost global talent pools. There is already evidence that the latest AI platforms and agents can perform certain high-volume functions – e.g., basic customer support, test script generation, code suggestions, refactoring, etc. – better than humans. Functions that require nuance, judgement, exceptions, and collaboration – e.g., complex support needs, project management, integrations, etc. – are better done by employees, whether offshore or onshore. As the technology evolves, the “offshore versus AI” mix will change in ways that are difficult to predict at this stage.

5. Spans & Layers: Designing for Speed and Efficiency

Span of control is the average number of direct reports per manager. It varies by function but tends to average between 5.5 to 6.5, with core functions like engineering or customer support in the 6.0 to 7.0 range, and G&A functions in the 4.0 to 5.0 range. The mythical “perfect span” of 8 is only achieved by very large organizations – typically those with over 5,000 employees and large operational teams.

Increasing spans can reduce organizational cost while speeding up decision-making and reducing process fragmentation. Fewer layers between the CEO and frontline teams foster a stronger culture and faster adoption of new technologies. But the context matters, and it is possible to have spans that are too high. Under-managed organizations (i.e., those that have average spans much higher than 8-10) may have lower performance, lower engagement, and more frequent manager burnout.

Some of the typical manager functions are better done by AI tools (e.g., code quality reviews, simple communications, status reporting, etc.), which means that we can expect spans of control to increase over time.

6. Staffing Ratio: Reflects Prioritization and Stage of Evolution

Staffing ratio is the percent of total employees in each functional area. The “purest” form of a software company is a startup with one engineer and hence 100% of the staffing is in engineering. As it grows, it adds more engineers (and more specialized engineers) and then adds sales and support to drive scale and G&A functions to provide governance and controls.

Getting these staffing and growth decisions right is key to executing the vision and the strategy. It is hard to execute on a Product Excellence vision if majority of incremental staffing is in “defensive” functions like support or billing. Similarly,

it is hard to execute a Customer-Intimate strategy if the majority of headcount goes to BDRs vs customer success.

A mid-sized SaaS company (~\$50M–\$500M ARR) may have ~35% of its employees in Engineering, ~25% in Sales, ~15% in Customer Support & Customer Success, ~15% in Product & Marketing (combined), and the remaining ~10% in various G&A functions. If they have 45% of their team in Engineering, it is not “wrong” as such, but the leaders should dig into why they need so many engineers at a relatively mature stage, and more product managers and sellers may drive more growth than adding more engineers.

Summary of the 6 Metrics

Metric	Representative Range	Trend (driven by AI & other factors)
Revenue per Employee	\$250k – \$450k	↑ Increasing
SG&A Ratio	40% – 60%	↓ Decreasing
Headcount by Level	Leverage ratio of 2.5 – 3.5	↓ Overall downshift
Low-Cost Location Utilization	30% – 50%	~ Increasing, but may change
Spans of Control	6–7 for core functions, 4–5 for G&A	↑ Increasing
Staffing Ratios	Eng. 35%; Sales 25%; CS 15%; Product & Mktg 15%; G&A 10%	~ Overall counts decreasing, but relative ratios are TBD

Role of HR

Optimizing any part of the organization requires changes in roles, responsibilities, processes, team sizes, and leader behaviors. None of this is easy – especially if the organization is profitable and growing. And yet the benefits are so significant that executives do need to pay attention to these benchmarks and make sure they aren’t leaving incremental enterprise value on the table.

For example, a relatively modest span improvement from 5.0 to 5.1 in a 1,000-employee company could drive incremental EBITDA by \$800k, which can translate to ~\$10M in incremental enterprise value. Similarly with the other metrics – small improvements drive outsize impact on enterprise value.

Too often, these metrics are either not tracked or seen as the domain of finance, operations or “the business”. But HR leaders are uniquely positioned to drive awareness and improvement in all these areas —and, in doing so, they can become strong agents of enterprise value creation.



- > Transformation
- > Rewards
- > M&A
- > Talent