



Strategic Operating Benchmarks for SaaS Companies

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SaaS Economics Conference

OPEXEngine

The VC Perspective

Will Price (HWVP, 2007)

“SaaS companies take:

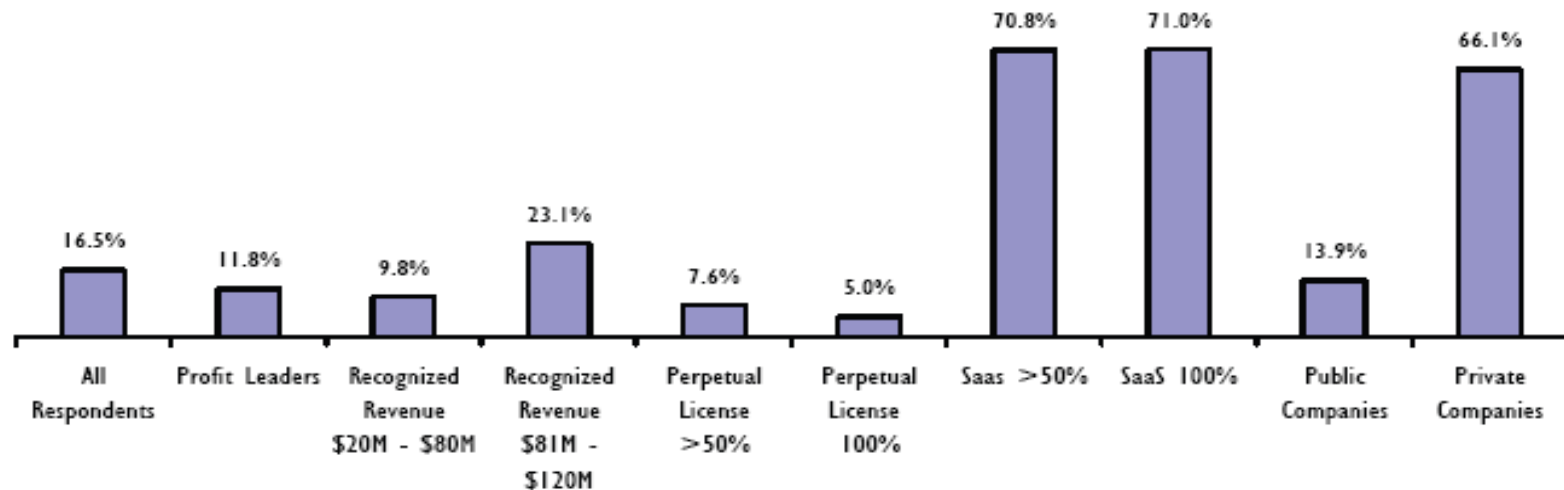
- 1.6x longer to get liquid
- 3.65x more capital
- 1.75x more revenue to hit profitability
(than '90s era c/s software companies)”

Source: Will Price blog

Its all about revenue growth

TOTAL RECOGNIZED REVENUE GROWTH (2006 vs. 2005)

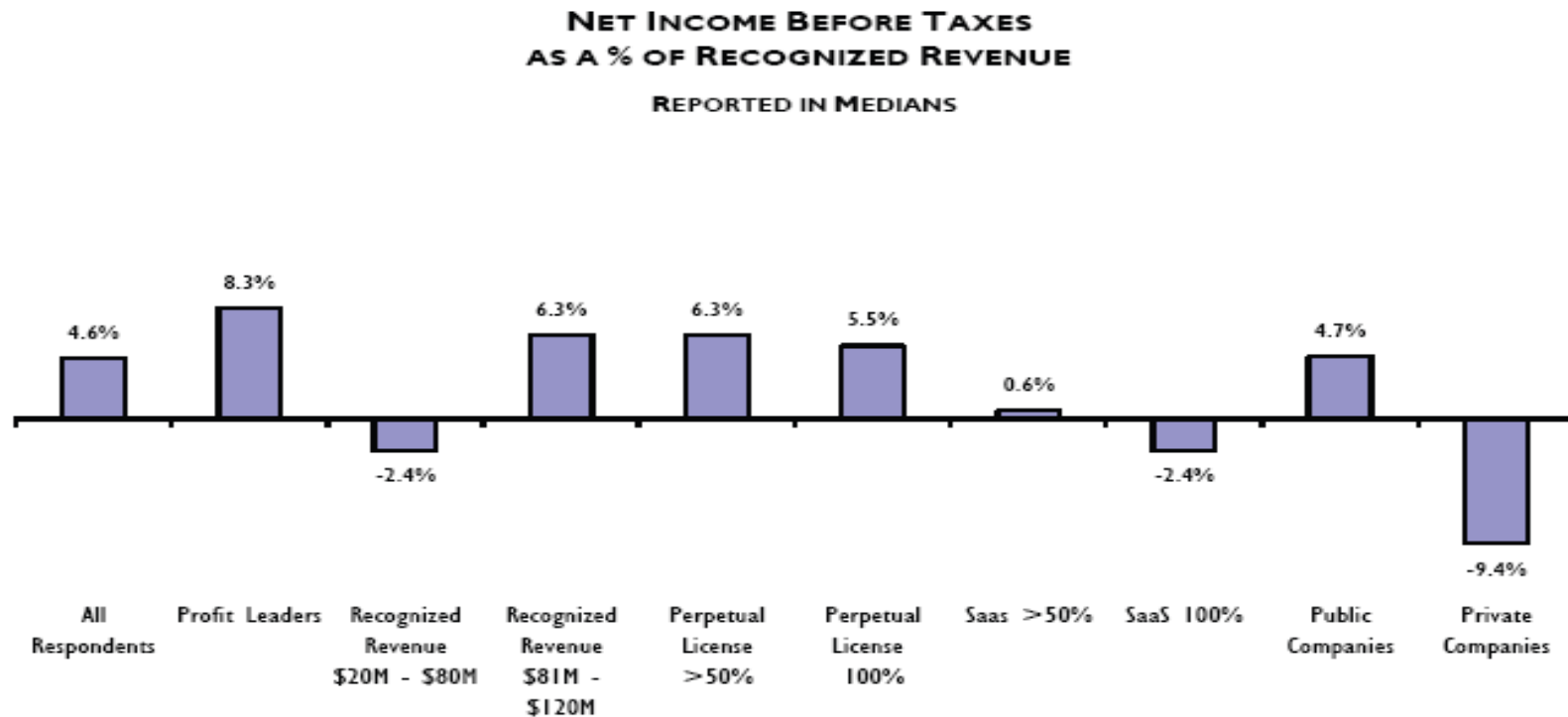
REPORTED IN MEDIANS



Source: OPEXEngine 2007

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But profitability is hard to find

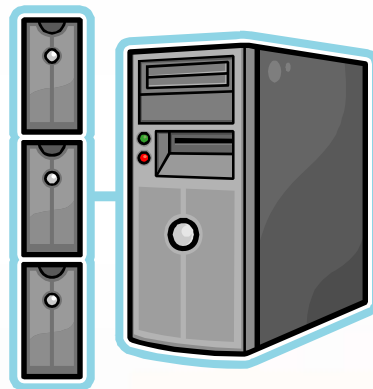


Source: OPEXEngine 2007

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SaaS Overhead Translates to High Cost of Service per Subscriber

Normal software development cost + cost of testing for all variables at customer site + hosting + 99.99% reliability/always available + overcapacity



Cost of Revenue

2007	Salesforce.com	OMTR	Success Factors	Taleo
Cost of revenue as a % of rev rec	15.9%	37.3%	41.6%	31.8%
Cost of revenue as a % of total revenue	12.7%	32.7%	24.9%	27.8%

Source: Company 10ks, OPEXEngine

Which drives an enterprise software sales model

- Direct sales: 97.3% of revenues
- Highly leveraged comp:
 - 35% fixed comp
 - 47.5% variable
- Sales expense as a percent of revenue:
 - 19.7%
- \$250-\$400k average deal sizes
- 5-6 month sales cycles

Source: OPEXEngine 2007

Why

- High volumes at a lower cost of sale
- Tendency towards Global 2000
 - Large accounts with large #s of seats
 - Cheaper to establish credibility with large accounts before going to mid-market
- Telesales

Add'l Go-to-Market expenses

- Marketing expense 8% of revenues at close to break-even
- Travel expense 4.5% of revenues (about the same as other categories of software, although the most profitable companies had travel of 3.8% of revenue) 2006 data – expected to be higher in 2007

Source: OPEXEngine 2007

Aggressive customer acquisition

- Heavy competition in typical SaaS application areas
 - CRM: Salesforce, RightNow, NetSuite
 - Talent and workforce management: Taleo, Successfactors, Kenexa, Workstream



US Centric

2006

- North America – 88.6% of revenues
- EMEA – 9.1%
- Asia Pacific – 2.1%

2007

- SaaS sales starting to take off 2H 2007 in EMEA and A/P



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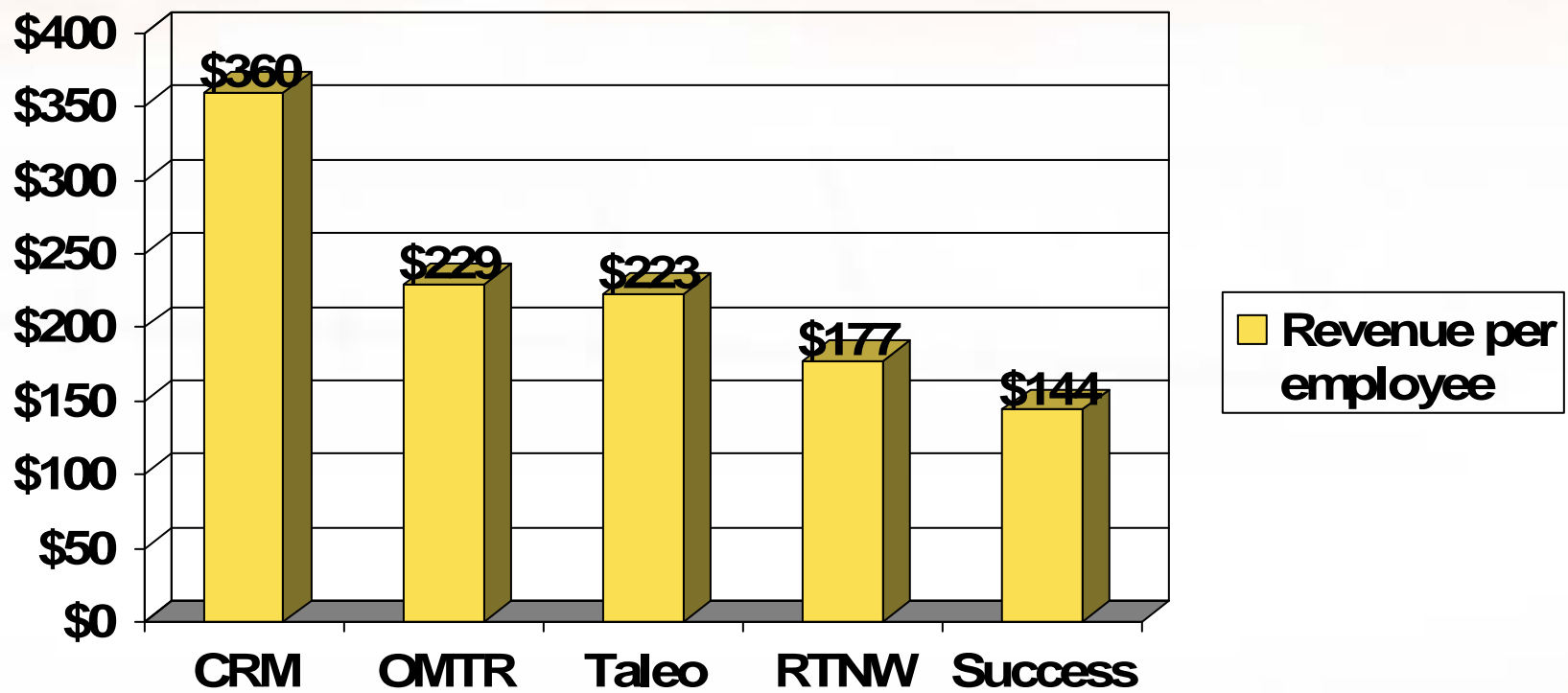
Who's Profitable

2007	CRM	Taleo	Concur	OMTR	Success Factors
Revenue	\$748.7M	\$127.9M	\$129.1M	\$143.1M	\$63.4M
Gaap Profit Margin	2.7%	2.9%	11%	-9.3%	- 110.1%
Non-GAAP Profit Margin	10.1%	8.1%	17%	5.2%	-103.2%

Source: Company 10ks
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2007 Employee Profitability



Source: Company 10ks
OPEXEngine

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2008 – Uncertain US Market

- **Cisco reins in costs, braces for downturn** Cisco Systems, one of the country's biggest technology companies, appears to be bracing for a downturn. The San Jose maker of Internet networking gear has told some managers to limit travel expenses and use up accumulated vacation days, according to sources close to the company. Both steps could be early signs that deeper cutbacks loom.
- **Even Oracle Isn't Immune to the Slowdown**
- **Google's Stock Falls as Its Click-Through Rate Flatlines**
- **Scholastic loss widens, outlook dims, shares fall**
- **Verizon CEO says sales momentum has not slowed**

From Generate Inc. daily tech news, March 28, 2008

What to expect

- Pressure to get to profitability sooner
 - Slower revenue growth translates to pressure to produce profits earlier
 - \$50M instead of \$70M-\$100M?
 - Some patience from VCs but little from Wall Street

2008

- Keep vigilance on customer churn and expense
- Apply web 2.0 or 3.0 techniques to achieve sales and marketing outcomes
- International expansion

Recession Resilient

“There is no such thing as recession proof, but I think you can have **recession resilient**. I think well run SaaS companies are recession resilient. You have a better idea of what your revenues are going to be, and if you are smart about your expenses, you are only going to spend what you can see. You have an opportunity to let your investors know where you are going to be on top line and manage the bottom line.”

Michael Gregoire, CEO, Taleo, Feb. 2008

from Sramana Mitra's blog

SaaS Quarterly Operating Metrics

- **Cash from operations**
- **Contracted monthly recurring revenues**
- **Net new customers**
- **Customer renewal rates by number of customers AND**
- **Customer renewal rates by \$ value**

Longer Term Benchmarks

- Customer lifetime value
- Cost of sales and maintaining customer over lifetime

Benchmarking

See what comparable SaaS companies are doing for:

- Profitability
- Employee productivity
- Sales and Marketing
- R&D expenditures
- G&A
- US, Europe and Asia Pac
- more

Participate in the 2008 Mid-sized,
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April-May 2008

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Thank you

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