

Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS



Vertical Applications receives our "Rubber Chicken" award for its outsized G&A costs this year. See pages 4 & 5.

The Softletter SaaS Escrow Survey, Part IV of IV

The Softletter SaaS Escrow Surveys for Providers and Subscribers were launched in March, 2010 and closed at the end of May, 2010. The Allegiance online system (www.allegiance.com) was used to generate and manage these surveys. The purpose of these surveys was to develop a comprehensive analysis of current use and practices among SaaS application providers and subscribers. This survey had respondents answer between 15 to 30 detailed questions to give us an accurate snapshot of their SaaS application usage and SaaS escrow practices, results and measurements.

The results from both these surveys are contained in these summaries. Throughout this report numbers of particular interest have been **bolded**. Decimals have been rounded off to one degree of precision for summary results and percentages may not equal 100%. Results cross tabulated by company revenue size have been rounded off to whole numbers and may not equal 100%.

SaaS Provider Escrow Profiles, (cont)

Does your company provide performance bonds to your customers?	%
Yes	6%
No	79%
No, but we are considering it	15%

How is your escrow option/agreement prepared?	%
Via internal legal resources provided by our company	6%
Via a third party	79%
Other, please specify (Answers included "We originally crafted the language for inclusion in our contracts based on the language our escrow agent had," and " internal non-legal resources working off customer boilerplate")	15%

Please tell us the name of your escrow agent, if applicable	%
Answers were "Iron Mountain, (5)," "NCC Group (1)," "Escrow Associates, (1)," Lincoln-Parry, (1)," and "not decided (2)."	

Publisher & Managing Editor
Merrill R. Chapman
rickchapman@softletter.com
860/663-0552

Editor
Randy Hujar
randy.hujar@softletter.com
860/657-2838

Editorial office
Soft•letter
34 Sugar Hill Rd.
Killingworth, Conn.
06419
Voice: 860/663-0552

Subscription office
Aegis Resources
34 Sugar Hill Rd.
Killingworth, Conn.
06419
Voice: 860/663-0552
Fax: 860/663-0553

continued on page two

(This question was voluntary, with 11 respondents choosing to answer.)

How is your failover provision delivered?	%
Via internal resources provided by our company	25%
Via provisioning provided by a third party	75%
Other	0%

Please tell us the name of your failover provisioning agent, if applicable	%
Answers were "Iron Mountain, (1)," "Kodiak (1)," and "NCC Group"	

(This question was voluntary, with only three respondents choosing to answer.)

What percentage of your customers, or potential customers, require you to provide an escrow or failover service as a condition of conducting business?	%
None require an escrow or failover service	26%
1% to 15%	41%
16% to 20%	9%
21% to 30%	3%
31% to 40%	6%
41% to 50%	0%
51% to 75%	6%
76% to 90%	0%
91% to 99%	0%
All customers require an escrow or failover service	6%
Other, please specify	3%

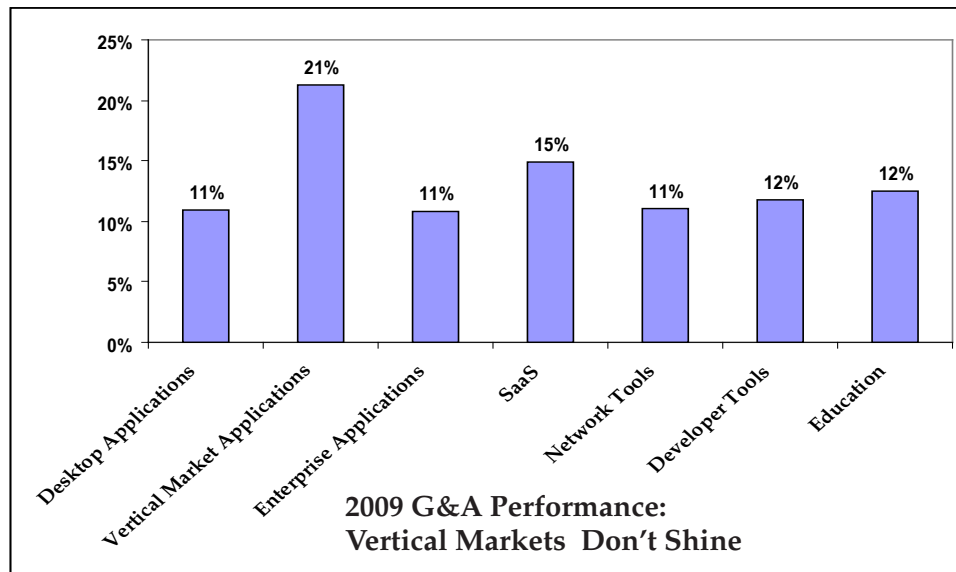
Is your company also a subscriber (user) of SaaS applications?	%
Yes	85%
Via provisioning provided by a third party	15%

How many SaaS applications does your company use today?	%
1	14%
2 to 5	55%
6 to 10	24%
10+	7%

As the responses indicate, SaaS firms in the aggregate are heavy consumers of SaaS. You'd expect them to be, but it's good to have the perception backed up by hard numbers.

What types of SaaS applications does your company use today?	%
Accounting/Financial	52%
Asset Management	0%
Business Intelligence	21%
Business Process Management	3%
Call Center	24%
Channel Management	0%
Collaboration	17%
Community Site Services	7%
Compliance and Risk Management	3%
Content Management	21%
Customer Relationship Management (CRM)	45%
Dispatch Management	0%
Document Management	21%
E-Commerce	10%
E-Learning	7%
Electronic Design Automation (EDA)	0%
Enterprise Resource Planning (ERP)	0%
Expense Management	17%
Help Desk Management	17%
Human Resource Management (HRM)	17%
IT/Application Management	10%
Manufacturing Solutions	0%
Marketing	21%
Messaging	17%
Portfolio Management	0%
Procurement	3%
Professional Services Automation (PSA)	14%
Project Management	24%
Salesforce Automation (SFA)	72%
Sales Compensation Management	0%
Supply Chain Management (SCM)	0%
Survey Solutions	21%
Talent Management	3%
Vendor Management	0%
Web Analytics	31%
Work Order Management	0%

continued on page four



Benchmarks: General and Administrative, 2009

G&A expenses normally includes the salaries and staffs of the upper management, rent, connectivity costs, etc. These costs tend to grow in good times and during a company's startup phase and tend to be stable over time. Rapidly rising or high G&A during economic good times or periods of stability are often a sign of internal turbulence; during a recession, they can reflect internal inefficiency if a company can't keep expenses under control. G&A expenditures can be difficult to shrink because the price of power, office space, supplies, and related items tend to invariably rise over time, but during bad times, it's a poor negotiator who can't drive some costs, such as rent, down. Some costs may be beyond company control because legal and accounting fees fall into this category; external events (such as changes in regulations) can have a major effect on G&A.

The best way to shrink G&A ratios is to be big, as our 2009 numbers for Microsoft (6%) and Google (7%) illustrate. (However, part of the improvement in Microsoft's G&A numbers comes from the 5k+ layoffs the company instituted last year, another bit of Vista catastrophe fallout.) Note that the G&A leaders this year are in the main large companies, Symantec (6%), Adobe (10%), Intuit (9%), and Autodesk (9%). One G&A standout that's not a "big" firm is Magic Software, founded in 1983. A pioneer in rapid application development, the company has undergone many transformations and reorganizations and has had to learn how to adapt to "interesting times" (last year was interesting).

Our latest category, SaaS, saw an uptick in its numbers from 13% to 15%, an increase typically associated with a growing market segment. Vertical Market Applications now has the very dubious honor of registering the highest numbers (21%), with a three year average of 22%. One reason for this poor collective performance is that companies in this category can't as easily slash support and head count; their customer bases are accustomed to high levels of support and services and react strongly when these begin to deteriorate.

The Benchmark 50: General and Administrative, 2009

Revenues (000)				Gen. and Admin.			Avg.
	2007	2008	2009	2007	2008	2009	'07-'09
Microsoft	\$51,122,000	\$60,420,000	\$58,437,000	7%	8%	6%	7%
Google	\$16,593,986	\$21,795,550	\$23,650,563	8%	8%	7%	8%
Desktop Applications				11%	11%	11%	11%
Adobe	\$3,157,881	\$3,579,889	\$2,945,853	9%	9%	10%	9%
Corel	\$250,480	\$268,230	*	14%	12%		13%
Intuit	\$2,672,947	\$3,070,974	\$3,182,537	11%	10%	9%	10%
Smith Micro	\$73,377	\$98,424	\$107,279	21%	20%	18%	20%
Symantec	\$5,199,366	\$5,874,419	\$6,150,000	6%	6%	6%	6%
Bitstream	\$23,610	\$24,008	\$21,489	11%	11%	14%	12%
Nuance	\$602,000	\$868,500	\$950,400	13%	12%	12%	12%
Vertical Market Applications				23%	22%	21%	22%
Ansys	\$385,340	\$478,339	\$516,885	30%	28%	27%	28%
Autodesk	\$1,839,800	\$2,171,900	\$2,315,200	9%	8%	9%	9%
Unica	\$102,243	\$121,131	\$100,618	16%	16%	16%	16%
Allscripts	\$281,908	\$383,771	\$548,439	43%	31%	36%	37%
Advent	\$215,303	\$264,832	\$259,508	15%	14%	14%	14%
Micros	\$785,727	\$954,184	\$911,847	32%	32%	31%	32%
Enterprise Applications				12%	11%	11%	11%
Sapient	\$565,989	\$687,488	\$666,678	21%	18%	18%	19%
SPSS	\$291,000	\$302,913	*	12%	11%		11%
Manhattan Associates	\$337,401	\$337,201	\$246,667	10%	11%	12%	11%
Concur Technologies	\$115,996	\$215,491	\$247,596	16%	15%	11%	14%
Pegasystems	\$161,949	\$211,647	\$264,013	10%	10%	7%	9%
Lawson	\$750,388	\$851,926	\$757,328	13%	12%	11%	12%
Open Text	\$595,664	\$725,532	\$785,665	10%	10%	9%	10%
SaaS				14%	13%	15%	14%
Blackbaud	\$257,038	\$302,495	\$309,338	4%	7%	9%	7%
Callidus	\$101,657	\$107,181	\$81,058	14%	13%	15%	14%
Omniure	\$143,127	\$295,613	*	17%	16%		16%
salesforce.com	\$497,098	\$748,700	\$1,076,769	17%	16%	15%	16%
RightNow Technologies	\$112,077	\$140,435	\$152,687	10%	10%	10%	10%
Savvis	\$793,833	\$857,041	\$874,414	28%	25%	26%	26%
Vocus	\$58,076	\$79,383	\$84,579	25%	26%	25%	25%
Network Tools				14%	12%	11%	12%
Novell	\$932,499	\$956,513	\$862,185	14%	12%	12%	13%
Citrix Systems	\$1,391,942	\$1,583,354	\$1,614,088	16%	16%	15%	16%
McAfee	\$1,308,220	\$1,600,065	\$1,927,332	16%	12%	10%	13%
iPass	\$191,732	\$191,368	\$171,377	12%	12%	17%	14%
VMWare	\$1,325,811	\$1,881,027	\$2,023,937	10%	10%	10%	10%
NetScout	\$102,472	\$168,956	\$267,604	26%	15%	8%	16%
Quest Software	\$630,981	\$735,377	\$695,236	13%	12%	11%	12%
Developer Tools				13%	12%	12%	12%
Magic Software	\$580,400	\$620,000	\$550,400	5%	4%	5%	5%
Red Hat	\$400,624	\$523,016	\$652,572	21%	18%	16%	18%
Sybase	\$1,025,530	\$1,131,930	\$1,170,569	13%	12%	11%	12%
Progress Software	\$493,500	\$515,560	\$494,137	13%	12%	12%	12%
Pervasive Software	\$40,783	\$42,467	\$47,218	14%	12%	11%	12%
TigerLogic Corp.	\$18,744	\$19,772	\$16,252	26%	26%	25%	26%
MicroFocus	\$268,781	\$172,027	*				
Education				15%	14%	12%	14%
Apollo Group	\$2,723,793	\$3,140,931	\$3,974,202	7%	7%	7%	7%
Renaissance Learning	\$107,932	\$115,223	\$121,513	14%	13%	11%	13%
Scientific Learning	\$46,053	\$47,754	\$55,288	17%	17%	15%	16%
Skillssoft	\$225,172	\$281,228	\$328,494	12%	12%	11%	12%
Saba Software	\$99,867	\$107,777	\$102,821	15%	14%	14%	14%
SumTotalSystems	\$121,924	\$126,646	*	16%	15%		15%
Plato Learning	\$69,632	\$68,401	\$65,183	17%	15%	14%	15%
All companies (median)	\$314,201	\$360,486	\$548,439	14%	12%	12%	13%

Note: "Years" may not correspond to company fiscal years. Individual firms are averages; segments are medians. * 2009 filings not yet available.

What types of SaaS applications does your company anticipate adding in the next 12 to 18 months?	
Workforce/Field Service Management	0%
Other (Answers included "engineering change order management," and "security")	10%

How many additional SaaS applications does your company anticipate adding in the next 12 to 18 months?	%
0	24%
1	28%
2 to 5	45%
6 to 10	3%
10+	0%

What types of SaaS applications does your company anticipate adding in the next 12 to 18 months?	%
Accounting/Financial	23%
Asset Management	0%
Business Intelligence	14%
Business Process Management	9%
Call Center	18%
Channel Management	9%
Collaboration	0%
Community Site Services	5%
Compliance and Risk Management	0%
Content Management	9%
Customer Relationship Management (CRM)	5%
Dispatch Management	0%
Document Management	14%
E-Commerce	9%
E-Learning	14%
Electronic Design Automation (EDA)	0%
Enterprise Resource Planning (ERP)	5%
Expense Management	5%
Help Desk Management	9%
Human Resource Management (HRM)	14%
IT/Application Management	5%
Manufacturing Solutions	0%
Marketing	14%
Messaging	5%

Portfolio Management	0%
Procurement	5%
Professional Services Automation (PSA)	0%
Project Management	0%
Salesforce Automation (SFA)	6%
Sales Compensation Management	9%
Supply Chain Management (SCM)	9%
Survey Solutions	9%
Talent Management	14%
Vendor Management	14%
Web Analytics	9%
Work Order Management	0%
Workforce/Field Service Management	0%
Other	0%

Does your company use SaaS for any mission-critical applications?	%
Yes	59%
No	41%
I don't know	0%

Does your company currently make use of SaaS-related escrow services as a Subscriber?	%
Yes	14%
No	76%
I don't know	10%

Please tell us which of the following companies you recognize as providing third-party SaaS Escrow and Failover services.	%
Iron Mountain	65%
Microsoft	3%
NCC Group	9%
OpSource	12%
Innovasafe	9%
Escrow Associates	24%
Bluelock	3%
Other, please specify (Answers included "Lincoln Parry (2)")	26%

continued on page eight

Please tell us which of the following companies you have evaluated for third-party SaaS Escrow and Failover services.	%
Bluelock	3%
Escrow Associates	12%
Iron Mountain	47%
Innovasafe	3%
Microsoft	6%
NCC Group	9%
OpSource	6%
N/A - Have not evaluated any companies	35%
Other, please specify (Answer's included "Kodiak")	9%

Please provide more detail on questions or concerns you may have on this topic.
How does SAAS escrow work to ensure the client has access to the application and their data without downtime. All the vendors we looked at only provided software escrow and some stale data escrow.
We are planning to offer an unlimited-use subscription for our SaaS products. If a customer fully adopts the offering, they will be completely dependent on our company. We are learning that a number of prospects will not consider the unlimited-use subscription until we have provided acceptable confidence that our bankruptcy or disappearance will not terminate their access to our services.
We want to know about cost, who pays, how does it work in a practical sense for a SaaS solution. How could we failover to a 3rd party to run our solution (who does that)?
How often do SAAS vendors provide updates to source and object code held in escrow - what's considered reasonable? Who pays for these updates - do customers typically pay? Beyond source and object code, what is normally expected to be held in escrow (eg. documentation - what kind of documentation?)

Colleagues made off with your last issue? Go to www.softletter.com. Click Subscriber Login in the upper right of the home page. To view the current issue and to search archives of hundreds of articles by keyword, topic, or issue date, log in and enjoy!

Soft•letter is published 24 times per year; entire contents copyright © 2010 by Soft•letter.

All rights reserved. Reproduction by any means, without permission of the publisher, is prohibited. ISSN: 0882-3499.

Subscription rates: \$395 worldwide.
 Subscription office: Aegis Resources
 34 Sugar Hill Rd.
 Killingworth, Conn. 06419
 Voice: 860/663-0552
 Fax: 860/663-0553
info@softletter.com

SETH GRODIN ON PRICING: "It turns out that if an agent offers a hot book to multiple publishers at the same time, the advance offered goes up, often dramatically. Obviously, the publisher was capable of offering the higher advance without the auction, but it was the risk of losing the book that got them to pony up more money.

This trains agents and authors to be disloyal, to shop around and to create an artificial game to raise the price." Quoted on http://sethgodin.typepad.com/seths_blog/2010/08/the-right-price-the-first-time.html?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+typepad%2Fsethsmain_blog+%28Seth%27s+Blog%29,08/14/2010