

Sunday, Sept. 30th, 2007
Vol. 23, No. 18

Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Softletter's Marketing and Selling SaaS Seminar, 2007 in Santa Clara, CA Sold Out! See you in Atlanta on February 26/27, 2008!



For SaaS firms, Christmas has come early. Our 2007 SaaS Survey is loaded with invaluable information on every aspect of this rapidly growing market segment. Because of the amount of information gathered, we are going to be posting a special "archive only" edition of Softletter with full summary results after next week. Further summary results will be featured in the Oct 15th issue of Softletter, with detailed analyses appearing in subsequent issues

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

Research Editor
Lilith R. Chapman
lilith@softletter.com
860/388-7547

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
info@softletter.com

www.softletter.com

The 2007 Softletter SaaS Survey: Summary Results

Introduction: Methods and Respondent Profiles

Our 2007 Softletter SaaS Survey, conducted in August and September 2007 was sent to approximately 23k companies over a period of six weeks. The survey, which consisted of 67 questions (including two tables) was conducted entirely via the web and results were processed with the Perseus Web Surveyor system. The survey received 114 valid responses, with the single largest group of respondents reporting that their title was CEO, president, or some variant of the aforementioned : 51 in total. Six respondents identified themselves with a "C" title, with three being CFOs and the others sales and marketing chiefs.

The second largest cohort identified themselves as having a VP title including sales, marketing, product management and business development: 17. The third largest cohort was participants with a director level title, including sales, product management, and marketing: 13. In addition, 19 participants identified themselves as having primary marketing responsibilities; titles given included product manager, SaaS marketing manager, and similar variants. Titles for the rest of the respondents ranged from architect to product manager. 13 respondents failed to provide a title.

Number of particular interest have been bolded. Decimals have been rounded off to one degree of precision and may not equal 100%.

Summary Results

The survey broke companies down into both development and revenue stages. The results were as follows:

Development Stage	Totals	%
No significant customer revenue	11	9.6%
Privately owned, venture funded	18	15.8%
Privately owned, privately funded	71	62.3%
Public	18	15.8%

The strength of the public cohort is mildly surprising, given the IPO drought that has only recently begun to abate in the software industry.

Results for "Revenue Stage," are given in the table on the following

page.

(continued on page two)

Current Revenues?	Totals	%
Under \$1 million	38	33.3%
\$1 to \$5 million	38	33.3%
\$5 to \$10 million	11	9.7%
\$10 to \$99 million	18	5.8%
\$100 million+	14	13%

The high number for the 100+ million cohort is deceptive; of these 14 companies, only two reported that they were receiving as high as 50% of their revenue from SaaS sales, with the rest reporting either up to 10% or 20%. However, in the \$10 to \$99 million segment, 12 companies reported that up to 75% or 100% of their revenues came from SaaS sales.

Years Selling SaaS Systems?	Totals	%
1 to 2 years	47	41.2%
2 to 4 years	26	29%
2 to 6 years	11	9.7%
6+ years	30	26.3%

These numbers indicate the dynamism of SaaS, which should come as no surprise to Softletter readers. Over the last three years VC and private venture money have flowed heavily into the SaaS/on demand markets and away from client/server.

% of your gross revenues sales from SaaS sales?	Totals	%
Up to 10%	32	28.7%
Up to 20%	13	11.4%
Up to 30%	2	1.7%
Up to 50%	16	14%
Up to 75%	16	14%
Up to 100%	35	30.7%

What is your primary market for your SaaS product?	Totals	%
Business	107	94%
Consumer	3	2.6%
Both	4	4%

What percentage of your SaaS sales come from international markets?	Totals	%
None	31	27.2%
1 to 5%	26	22.8%
6 to 10%	18	15.8%
11 to 20%	10	8.8%
21% to 30%	7	6.1%

(continued on page three)

	Totals	%
31 to 40%	4	3.5%
41 to 50%	3	2.6%
50%+	15	13.2%

Does your SaaS product offer more than one level of functionality?	Totals	%
Yes	56	49.1%
No	58	50.9%

If you answered yes to question 11, how many functionality levels do you offer?	Totals	%
Two	16	29.6%
Three		
More than three	13	24%
We offer increased functionality via a series of optional modules the user subscribes to	17	31.5%
Other	3	5.7%

One answer in "Other" included "free and paid."

How often do you push a "major update" of your SaaS product to your customers?	Totals	%
Less than once a year	19	16.7%
Once a year	41	36%
Twice a year	25	22%
Three or more times a year	29	25.4%

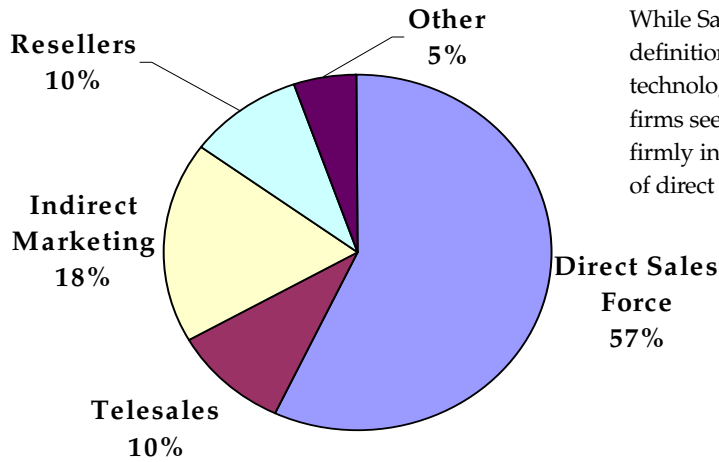
Do you charge for major new capabilities when they are introduced?	Totals	%
No	54	47.7%
Yes	9	7.9%
Yes, via optional modules the user subscribes to	42	36.8%
Yes, via new service levels the user subscribes to	4	3.5%
Other	5	4.4%

In the "Other" category, answers included "Sometimes, we continually add value at no cost and charge for totally new functionality in a new domain" and "it depends ... on the level of investment required for the change."

The answers to the above questions reflect uncertainty about how and if SaaS firms can replicate licensed software's process of capturing revenues via the decades old upgrade/maintenance cycle the software industry has come to rely on.

(continued on page four)

Primary Means of Selling Product



While SaaS is by definition a “remote” technology, SaaS firms seem to believe firmly in the virtues of direct contact

Do you price your SaaS software on the basis of (pick all that apply):

	Totals	%
Seats	32	29.6%
Concurrent Seats	20	18.5%
Named Users	28	26%
Projects	28	26%
Bandwidth used	5	4.6%
Other (Usage)	42	39.9%

The “Other” category included a wide variety of usage based models, including per transaction, per number of library books tracked, per vehicle, number of patients, number of documents, etc.

What is the average size of your typical initial sale in seats, users, or projects?

	Totals	%
1 to 5	37	32.4%
6 to 20	34	29.8%
21 to 50	14	12.3%
51 to 99	9	7.9%
100+	20	17.5%

How many additional seats, users, or projects do you typically sell to the customer during the twelve months after the initial sale?

	Totals	%
1 to 5	60	52.6%
6 to 20	23	22%
21 to 50	15	13.1%
51 to 99	4	3.5%
100+	12	10.5%

(continued on page five)

What type of payment options do you offer your SaaS customers?	Totals	%
Monthly, quarterly, yearly and multi-year	37	32.5%
Monthly, quarterly, yearly	37	32.5%
Yearly only	17	14.9%
Multi-year only	3	2.6%
Other	20	17.5%

Other choices included biannual (one respondent), quarterly and yearly only, and eight monthly only.

If you charge on a per seat or per user basis, approximately how much do you charge for your SaaS software per month?	Totals	%
\$10 to \$49 per month	35	43.2%
\$50 to \$99 per month	19	23.5%
\$100 to \$249 per month	15	18.5%
\$250+ per month	12	14.8%

If you charge on a per project basis, approximately how much do you charge per project on a monthly basis?	Totals	%
\$10 to \$49 per month	10	27%
\$50 to \$99 per month	5	13%
\$100 to \$249 per month	10	27%
\$250+ per month	12	2.4%

Does your SaaS architecture employ multi-tenancy or do you maintain separate databases for each customer?	Totals	%
Centralized data architecture	53	53.5%
Separate database for each customer	46	40.4%
Other	7	6.1%

The responses given represent, in our opinion, a welcome shift from the 2006 numbers for this question, where 62.4% stated they provided their customers with separate databases. In the "Other" category, every respondent stated they provided both options. Every software company we've spoken with has told us that once their business begins to grow, lack of multi-tenancy begins to seriously impede their ability to scale their business.

Is your SaaS product based on Open Source software?	Totals	%
Yes	32	28%
No	82	72%

This response represents a definite gain for Open Source. In 2006

(continued on page six)

only 15.4% of respondents said their SaaS products were based on Open Source.

Are you developing a SaaS product on top of a third-party platform such as AppExchange?	Totals	%
Yes	9	7.9%
No, but we are evaluating this option	21	18.4%
No	84	73.7%

These numbers indicate that advocates for SaaS platforms have a great deal of evangelical work ahead. Of the 21 evaluating this option, 12 mentioned AppExchange, three Microsoft, two Progress Open Edge and one Google.

What % of your overall company revenue is dedicated to research and development?	Median
R&D percentage (no percentage sign, please)	20%

Do you maintain your own hardware infrastructure or do you outsource this operation?	Totals	%
In-house	45	39.5%
Outsource	69	60.5%

% of gross SaaS revenues spent on in-house infrastructure hosting?	Totals	%
1% to 5%	7	14.3%
6% to 10%	13	26.3%
11% to 20%	9	18.38%
25% or more	4	8.7%
We don't know the percentage	16	32.6%

% gross SaaS revenues spent on outsourced hosting services?	Totals	%
1% to 5%	17	22.1%
6% to 10%	28	36.4%
11% to 20%	10	13%
25% or more	5	6.5%
We don't know the percentage	17	22.1%

The 32.6% and 22.1% “We don’t know the percentage” responses are somewhat shocking. Considering how infrastructure costs can potentially impact a SaaS firm’s bottom line, we predict companies will be forced to focus on this issue to a much greater degree than they presently do.

Has your firm undergone a SAS 70 audit?	Totals	%
Yes	13	11.4%
No	70	61.4%

(continued on page seven)

I don't know what a SAS 70 audit is	31	27.2%
-------------------------------------	----	-------

Does your company provide an escrow option for your customers?	Totals	%
Yes	44	39.6%
No	47	42.3%
No, but we are considering it.	20	18%

The high percentage of companies offering or considering offering a SaaS escrow option is a dramatic change from our 2006 numbers, where the totals for each “No” and “No but considering it” were half of 2007’s figures; this is an indicator of increased SaaS penetration into the enterprise, where SaaS escrow is becoming increasingly important.

Do you have resellers?	Totals	%
Yes	47	41.2%
No	54	47.4%
No, but we are planning to build a reseller channel	13	11.4%

How many resellers do you have?	Totals	%
1 to 5	25	52.9%
6 to 25	16	33.3%
26 to 50	2	4.2%
More than 50	5	10.4%

% of recurring revenue paid to resellers?	Totals	%
1% to 5%	7	14.9%
6% to 15%	7	14.9%
16% to 30%	9	19.2%
31% to 40%	0	0%
more than 40%	14	14.9%

% total gross revenues represented by your channel?	Totals	%
1 to 5%	14	27%
6 to 10%	5	9.6%
11 to 15%	4	7.7%
16 to 20%	5	9.6%
21 to 25%	6	11.5%
25%+	14	26.7%

In last year’s survey, we note that SaaS reseller channels seem to receive less margin than those awarded in the traditional desktop and enterprise markets; this year’s numbers seem to bear this assumption out, but the high number of companies reporting that they pay their channel more than 40% margins on a recurring basis is an interesting number we will be digging into further. *(continued on page eight)*

When and how do you compensate your SaaS sales representatives?

	Totals	%
We have no direct sales people	24	22%
We pay our sales people the entire commission upon the signing of a contract	28	24.6%
We pay our sales people on a pro rata basis over the life of the contract	18	15.8%
We pay our sales people a part of the commission upon the signing of a contract, and then pay the balance spread out over the life of the contract	25	22%
Other	20	17.5%

Do sales representatives receive additional compensation for incremental sales to existing SaaS customers?

	Totals	%
Customers are assigned to the sales representative who made the original sale, who is further compensated when the customer buys additional seats/services from us	46	55.4%
Existing accounts are assigned to an "account development" representative, who is compensated when the customer buys new seats from us	27	32.5%
Commissions earned from sales of new seats are split between an original sales representative and an account manager	10	12.1%

These answers reflect the new complexity the SaaS sales model introduces into the sales compensation equation.

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 © 2007 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

What do you believe is the primary reason your customers choose a SaaS system?

	Totals	%
SaaS applications are counted as an operating expense, not as a capital investment	18	15.8%
Customers can quickly gain access to new capabilities without extensive testing, prototyping, and heavy IT involvement	68	60%
Customers wish to replace existing client/server applications with SaaS applications	12	10.5%
Other	16	14%

These numbers are not substantially changed from our 2006 figures and substantiate our belief that the greatest opportunities for SaaS lies in pushing into new markets, not attempting to take companies such as Microsoft head on. Game changing is best left to mega firms such as Google, IBM, and Sun. "Other" reasons included "lower TCO," "only offering in the market," "best functional feature set" and "trend."