

OPEXEngine

News from the Operating Front

September '07

Welcome to Budget Season!

Most of our clients are currently working on their '08 budgets process and interested in seeing comparables from other companies. We are finalizing our detailed, confidential benchmarking report on mid-sized, business-to-business software companies. The data tells a very interesting story, when the benchmarks are broken out by key cohorts:

- by public versus private companies;
- by revenue size (\$20M-\$80M revenues and \$81M-\$120M revenues);
- by business model (SaaS, mixed on-premise/on-demand revenues, or 100% perpetual license model);
- by the profit leaders.

Clearly, the profit leaders are focused on profits with controlled revenue growth in the neighborhood of 20% year-over-year, whereas the SaaS model companies are achieving up to 70+% revenue growth, at the expense of profits. We show how each group allocates expenses in pursuit of their objectives in our Industry Report. We will be sending the reports to the participants by the beginning of October.

R&D Metrics

Meanwhile, we will focus the next several OPEXEngine newsletters on specific operating departments. This month we examine **R&D metrics for mid-sized, public software companies**. In the linked report, you can see:

- R&D expense as a percent of revenue;
- R&D expense as a percent of **recognized revenue PLUS deferred revenue** (always important to consider when a significant portion of revenues comes from subscriptions);
- R&D employees as a percent of total employees;
- R&D expense per person in the company.

Click here <http://www.opexengine.com/services/softwarereports.html> for the data report. This 2006 R&D data covers the public data for the following companies:

- Salesforce.com
- RedHat Software
- Websense
- RightNow Technologies
- Concur
- Taleo
- Omniture

- Netsuite
- Phase Forward
- ATG
- Unica
- Actuate

To get some **R&D operating perspective on the budget process**, OPEXEngine interviewed several R&D heads to get their input on '08 planning. "Targeting R&D expense for the next year should take into account the fact that you can't change course for R&D mid-year as easily as some other departments," says one experienced CTO and former VP Engineering. "If we need to cut or add expense mid-year, we can't just hire or fire employees; we may need to change long-term technology partnerships that are the basis of our platform, and those things can't be changed that quickly."

Other R&D executives commented that the SaaS model typically saves significant R&D dollars because all customers can be upgraded at the same time, instead of the old days when you had to continue supporting any number of old versions and platforms when putting out a new release, often times at a loss to the company. At the same time, the on-demand model requires much greater investment in customer service and customer self-help systems, easy-to-use software and documentation for non-technical users, and intuitive interfaces.

In addition, most executives state that the **on-demand model works best when engineers and developers have greater direct contact with customers**. This means spending a bit more on travel in R&D, including engineers at user conferences, and most importantly, hiring engineers who are comfortable and effective with customers, something that didn't use to be part of the typical software engineering hiring criteria.

About OPEXEngine

OPEXEngine works with high technology companies to develop comprehensive operating benchmarks that enable them to manage and plan their businesses more efficiently. Our mission is to deliver useful operating information to help drive profitability and revenue growth. We work closely with our clients to ensure that data and reporting are relevant to their individual needs. OPEXEngine was founded by operating executives with decades of experience in finance, sales, marketing, and general management of technology companies.

Contact us today for information about:

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