

# OPEXEngine

## News from the Operating Front

November '07

We have just completed and released the findings to participants of the **2006 Confidential Operating Metrics Benchmarking for Mid-Sized, Business-to-Business Software Companies**. "This is an incredibly valuable set of current and comparable operating benchmarks for software companies - there is nothing else out there like it," said one experienced software CFO after seeing the report. For more information and how to participate in the 2007 survey, please contact us at: **781-891-4149** . An overview of the report is available at [www.opexengine.com](http://www.opexengine.com)

## Sales and Marketing Metrics

Just in time to celebrate the Red Sox' victory and, of course, budget and planning season, OPEXEngine is focusing this newsletter on Sales and Marketing metrics for mid-sized, public software companies. We compiled 1st half 2007 S&M data for 11 public companies with SaaS and perpetual license revenue models. If you would like to review the data, go to: <http://www.opexengine.com/services/softwarereports.html>

We reviewed S&M spending as a percent of total operating expense for H1 2007. This metric varied among the companies, from a low of 37.2% at Phase Forward, which focuses on the pharma market, to a high of 68.3% for Salesforce.com, a fast growing SaaS company. There were a few companies that report S&M headcount for the full year, and generally, 1/3 of total employees reside in the sales and marketing departments.

We also interviewed a random sample of software VPs and Marketing VPs to get their perspective on the budgeting process. It does not appear that much has changed from 5 years ago, when I ran a \$150M+ public company sales organization. Here are some common themes.

## Sales and Marketing Working Together...or Not

The biggest driver for successful marketing budgeting is an effective working relationship between sales and marketing. It sounds obvious, but it is critical for sales and marketing to jointly identify the programs that ultimately deliver revenue and establish the company's market presence. The key is to invest resources in programs that deliver on their objectives and cut ineffective programs. Unfortunately, this often is not the case - despite the fact that the combined sales and marketing budget is typically the largest expense in mid-sized software companies.

## Lead Generation Spend

One specific area of potential conflict or cooperation is lead generation spend, which can be up to 30-40% of the total marketing budget. Too many companies still have a difficult time identifying effective and credible lead generation programs. Despite all the advances in integrated CRM

processes and systems, it is still challenging to manage a marketing-developed lead through the sales funnel and turn it into revenue. After a month of anecdotal stories with Sales and Marketing executives and 20 years personal experience, companies still find this among the most critical areas to building and maintaining revenue growth.

To ensure effective lead generation spend, a company must have good control over the *ratio of leads to deals generated*. Each lead generation activity, whether it is buying a list or participating in a trade show, should be measured by the percentage of leads that turn into deals rather than simply the number of leads generated. If the ratio is not strong, then analysis should be done as to whether the lead generation program itself is at fault or if the process of turning good leads into deals needs improvement.

## Sales Compensation

With 80-90% of sales expense spent on total sales compensation, determining the best compensation plan is essential. Today, many companies are focused on how to handle subscription based sales compensation, especially if revenue is mixed between perpetual licenses and subscription sales. However, a larger issue is keeping sales personnel incented to go after new business so the company's revenue grows rapidly, while simultaneously working to retain existing customers. The best plans I have encountered have a multiple tier component, with a higher commission for new business and a lower commission for repeat business. Another tier is additional, lower cost people either in inside sales or customer support that receive a small commission as well on repeat business.

Further, sales management has to make sure that travel expense is managed tightly so that it is a tool for completing the job - and not an unintended part of the comp plan. In 2006, 8-9% of sales expense was spent on average on travel expenses in mid-sized software companies.

## Crack Cocaine and Perpetual Licenses

One great quote from a senior software executive points to the difficulty in transitioning from a perpetual to a subscription-based revenue stream: "Even though we are try to focus the sales organization on selling our hosted offering, its like crack -- it is really hard to turn down one more big license to make the quarter's numbers and they always say just this one last time..." Something to think about as we head into the last months of 2007.

## 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.

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