

OPEXEngine

News from the Operating Front

April '08

Looking Back on 2007: It was a very good year for SaaS

2007 was an interesting year for the technology market. As in other years, it had its winners and its losers. However, many mid-sized SaaS vendors reached some impressive milestones and in general had a very good year.

- Salesforce.com, the market leader, reported in excess of 50% Y/Y revenue growth, off a base of \$500 million and surpassed one million paying customers. Salesforce.com projects \$1B in 2008 revenues.
- Netsuite, a major rival to Salesforce.com, finally had its long awaited IPO. It entered the public markets with \$1 billion market cap which it has managed to maintain despite losses in a volatile market.
- Omniture, a darling of Wall Street, achieved almost 80% Y/Y revenue growth and generated 2007 non-GAAP operating profit margin of 5.2%.
- As a larger number of SaaS vendors surpass \$100 million in revenues and fundamentals continue to improve, profitability seems tangible for the segment.

We have tracked 2007 financial results for 9 publicly traded SaaS vendors and were more than a little impressed with their overall performance. With the exception of one company, Y/Y revenue growth was strong, ranging from 30-95% growth.

http://www.opexengine.com/images/2007_SaaS_Financials.xls)

Looking Ahead in 2008

Gartner analysts predict by 2011, 25 percent of new business software will be delivered as SaaS while a 2007 McKinsey & Co. survey found that 61% of North American CIOs at companies with sales over \$1 billion plan to adopt one or more SaaS applications over the next year, compared with 38% in 2005. In addition, the adoption rate could potentially benefit from the looming recession. SaaS does not require large up front hardware or software costs which will be key factors affecting purchasing decisions during difficult times. Most of the SaaS vendors are still focused on attaining market share, evidenced by their high revenue growth and low, to non-existent operating profits. Our sample of mid-sized SaaS companies had an average S&M expense of 50% of revenues. Continuing on this trend of large investments in sales and marketing in 2008, we expect to yield similar growth rates despite more difficult economic times ahead.

For more information about SaaS operating benchmarks or metrics, feel free to contact OPEXEngine at: **781-891-4149** or lauren@opexengine.com

2008 Operating Benchmarking Survey

- **Participate in April and May to receive confidential reports in July 2008**
- **For companies with 2007 revenues between \$10M-\$200M**

Whether you are seeing the effects of a slowing economy today or want to be prepared for a changing business environment, having the latest the data on comparable software companies' expense and business models will help you structure your models for growth and profitability. Based on decades of operating experience in the software industry, OPEXEngine has developed its detailed benchmarks and reports by custom grouping of comparable software companies, including SaaS, and mixed hosted/on premise models, with revenues between \$10M and \$200M in 2007.

Participants in the 2008 OPEXEngine software benchmarking receive a detailed confidential Company Performance Report comparing their company's operating metrics against benchmarks for comparable companies as well as a comprehensive (75 page) Industry Report with in-depth analysis of the data, graphical presentations and benchmarking data. Mid-sized, business-to-business software companies are grouped by revenues, public versus private companies, companies with SaaS revenues versus companies with perpetual license revenues, and by most profitable companies versus high growth companies. Participating companies input their company data through OPEXEngine's secure web-based system. All individual data is secure and protected in our audited system. OPEXEngine's confidential benchmarking is a pay-to-participate service.

For more information contact lauren@opexengine.com

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:

- Confidential Operating Metric Benchmarking
- Software industry reports
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