

OPEXEngine

News from the Operating Front

November '08

Quick Links

[Public SaaS Vendors' 1H '08 and 1H '07 R&D Ratios](#)

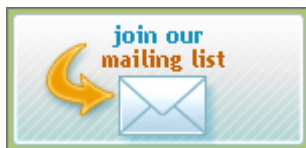
[2008 Software Operating Benchmarks Industry Report](#)

[More About Us](#)



OPEXEngine Announces Two New Major Products coming in 2009:

- **CFO Forum** - A secure, confidential, on-line community for technology CFOs, VPs Finance and Controllers that will enable peer communication, benchmarking, industry analysis and much more...
- **On-Demand Dashboards**: A subscription-based service that will offer streamlined access to comprehensive financial and operating data for any US-based public company. Users will be able to download excel ready files that detail complete financials, expenditures for R&D, Sales & Marketing and G&A as well as S-1 data.



If you would like to be an early participant and beta tester of either the Confidential CFO Forum or the On-Demand Dashboards, please contact Lauren Kelley at lauren@opexengine.com before December 15, 2008.

2008 Software Operating Metrics Benchmarking

Available NOW for purchase

See in-depth operating benchmarks for:

- Revenues
- Profit margins
- Sales expense and compensation expense
- Headcounts for major job categories
- Employee

R&D Benchmarks for SaaS Vendors

In this issue of *News from the Operating Front*, we take a look at H1'08 Research and Development spending for 10 publicly traded SaaS vendors. SaaS vendors typically make a significant investments in R&D during the early stages of growth to fund the development of a highly scalable, multi-tenant platform that enables ease of use. Once ramped, SaaS companies should be able to bring R&D expenses down to half of what a traditional software company is spending on R&D, typically between 15-18%. SaaS companies are able to operate at much lower levels of on-going R&D investment due to the efficiencies of the SaaS development model and the fact that SaaS products do not have to support multiple versions of the same applications. That is the theory, at least.

R&D expenses consist primarily of salaries and related expenses, including stock-based expenses, the cost of development and testing, and allocated overhead. In our control group of public SaaS companies, results varied:

- R&D expense as a percent of revenues ranges broadly from a

- productivity
- North American, EMEA and Asia Pac revenues and expenses
- Renewal rates by dollar and customer renewals
- Average sales quotas
- Net new customer growth per month
- over 100 budgetary and strategic software operating ratios
- ...and much more...

Benchmarks grouped by comparable revenues and for SaaS model companies, as well as for perpetual license models and mixed (perpetual + subscription revenues)

For more information contact lauren@opexengine.com

low of 4.9% at DealerTrak Holdings, to a high of 23.3% at SuccessFactors. DealerTrak's revenues are more than twice that of SuccessFactors at \$127M compared to \$49M for the first half of the year, which explains some of the disparity. Also, SuccessFactors is a newly public company ramping strongly for high revenue growth.

- Average R&D spending for the 10 companies was 13.47% as a percent of revenue. This appears to be high; SaaS companies should be targeting R&D spending closer to 10% or less as they surpass the \$100M revenue milestone.
- Exceptions that will drive R&D spending may be one time events relating to excess R&D salaries and stock related charges in a particular year. This is the case when a company incorporates the R&D department of an acquisition or when investing heavily in the development of a new product.
- We like to watch the quarterly trends in R&D spending to judge whether the investment is worthwhile. Ideally when R&D is ramped up for a new product it should drive significant revenue growth in the following year and thereby reduce the R&D spending ratio.

Another interesting perspective on R&D is to analyze how much is spent per employee.

- While the poster child for the SaaS business model, Salesforce.com spends 8.6% of revenue on R&D, a reasonable ratio, its R&D spending per employee is somewhat higher than the average at almost \$17,000 per employee.
- The lowest R&D spending per employee in the group was DealerTrak at \$6,200 followed by Vocus at \$7,500 per employee.
- Highest R&D spending per employee in the group was Omniture at \$26,200.
- Average R&D spending in the first half of 2008 was \$14,500 per employee.

Headcount numbers were taken from the total at the end of the previous year, so may be undercounted. See our report at [1H 2008 SaaS Company R&D Benchmarks](#).

Given the current economic slow-down, as well as the tightening of capital markets, it is expected that vendors will clamp down on R&D expenses going forward into 2009. In our discussions with clients at OPEXEngine, most are planning to keep R&D spending levels flat or lower in 2009 budgets, unless already committed to product development efforts. It is expected that R&D salaries and benefits will not increase, outside of tightly controlled variable compensation tied to revenue growth and profit targets and may even slightly decline.

Given the softening economy, software companies over the next year will have to balance a focus on selling what they have already developed and eliminating R&D "wishlists" to keep R&D budgets under control. At the same time companies need to invest enough in strategic R&D to maintain product leadership and ensure high

levels of customer satisfaction. In order to navigate the turbulent economic climate, we believe that benchmarking is critical for software companies to see what peer companies are accomplishing with similar resources.

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

Custom financial research and reporting

Telephone: 781-891-4149

Email: lauren@opexengine.com

[Forward email](#)

SafeUnsubscribe®

This email was sent to lauren@opexengine.com by lauren@opexengine.com.
[Update Profile/Email Address](#) | Instant removal with [SafeUnsubscribe™](#) | [Privacy Policy](#).

Email Marketing by



OpexEngine.com | 15 Hancock Road | Weston | MA | 02493