

# OPEXEngine

## News from the Operating Front

May '08

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[2007 Public SaaS Sales & Marketing Ratios](#)

[2008 Confidential Software Operating Benchmarking](#)

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### 2008 Software Operating Metrics Benchmarking

- Participate in May and June to receive confidential reports in July 2008
- For companies with 2007 revenues between \$5M-\$300M

See in-depth operating benchmarks for:

- Revenues

### S&M Key Driver of Growth for SaaS Companies

Looking at S&M expenses for a core group of publicly traded SaaS vendors, there appears to be a strong correlation between S&M spending and revenue growth. On average, the publicly traded SaaS companies are spending 40-50% of their revenues on S&M expenses.

- Salesforce.com, the market leader, spent \$376 million on S&M in Fiscal 2008, or 50% of revenues, and generated 51% growth in recognized revenue.
- Ultimate Software, another leader in the SaaS market, spent only 24% of revenues on S&M, but also reported proportionately lower Y/Y revenue growth of only 32%.
- Success Factors, a performance and talent management company that entered the public markets in November spends more than 100% of its revenues on S&M. This is translating into one of the highest growth rates in the sector at 95% Y/Y growth.

We have tracked S&M results for 9 publicly traded SaaS vendors and the data is at the following link: [2007 Public SaaS S&M Ratios](#).

Based on this sample, high revenue growth appears to be correlated to high S&M ratios. Looking at S&M expenses from just about any metric, it remains the highest operating ratio for the SaaS market and doesn't show any sign of slowing in the near future.

### Does the Growth Rate Justify the Spending Rate?

SaaS companies are in investment mode, spending from a range of 40% to more than 100% of revenues on S&M to fuel their growth. Is the payoff going to justify the spending? Over the past several years, large investments in S&M have been the convention to launch SaaS companies as well as for newly public SaaS companies. Many subscribe to the theory that they must strike while the iron is hot to lock in as much market share as possible. Huge investments in S&M appear to be based both on the goal of gaining market share fast, as well as the imperative to rapidly bring down the cost per subscriber. It will be interesting to watch an outlier such as Ultimate Software, which is approaching the market in a more

- Profit margins
- Sales expense and compensation expense
- Marketing expense
- Services expense
- G&A expense
- R&D expense
- Travel expense
- IT and communications expense
- Headcounts for major job categories
- Employee productivity
- North American, EMEA and Asia Pac revenues and expenses
- Customer numbers
- Renewal rates by dollar and customer renewals
- Average sales quotas
- Net new customer growth per month
- over 100 budgetary and strategic software operating ratios

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

OPEXEngine's confidential benchmarking is a pay-to-participate service. For more information contact [lauren@opexengine.com](mailto:lauren@opexengine.com)

fiscally responsible manner. They are still generating in excess of 30% Y/Y growth, but their spending patterns should bring them to profitability sooner.

At OPEXEngine, we work with a number of profitable, private SaaS companies that are not spending nearly as much on S&M as their public brethren. In our confidential operating benchmarking report last year for mid-sized software companies, we found that average spending for S&M at SaaS companies with revenues ranging from \$20-\$50M was closer to 25% of recognized revenue. This did, however, generate correspondingly lower revenue growth rates ranging from 20% to less than 50%.

In addition, we believe S&M as a % of recognized revenues PLUS change in deferred revenues is a more appropriate metric to monitor the sector, given how revenues are recorded. Using this "normalized" metric, S&M ratios, even the high profile public SaaS companies are closer to a maturing run rate, ranging from 24-70% and lower for the smaller, private SaaS companies.

As the sector is maturing, we are seeing many small, private SaaS companies prove that it is possible to achieve profitability with smaller revenues (less than \$50M). Their revenue growth may be less than 50%, but profitability has its own rewards.

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

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Telephone: **781-891-4149**

Email: [lauren@opexengine.com](mailto:lauren@opexengine.com)

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