2015 State of B2B Mobile Growth Metrics

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Introduction

During the initial development and widespread adoption of the SaaS business model, management teams and investors soon realized they needed new metrics to help them evaluate the health of SaaS companies, set realistic goals, and measure performance against those objectives. With that need came the evolution of today's widely accepted SaaS metrics, such as LTV, CAC, and net retention.

An argument can be made that access to those metrics has played a major role in the industry's dramatic growth. With them, SaaS entrepreneurs have been better able to understand what to measure, where to invest, and when to pull certain levers to drive more effective, sustainable growth in their companies.

Today, we're experiencing another exciting turning point with the emergence of a new offshoot of the traditional SaaS model — mobile B2B SaaS.

Thanks in part to the proliferation of smartphones, virtually everyone in the workforce now has access to the Internet and is increasingly empowered to leverage those mobile devices for work. In just the past three years, the growth in mobile business software applications has been tremendous.

The trouble is that mobile SaaS businesses are fundamentally different from their non-mobile counterparts. In fact, due to the bring-your-own-device movement and different economic models, current users and user growth can often matter as much, if not more, than current recurring revenue. Other factors that measure the health of a mobile SaaS business also differ considerably based on business strategy — such as expense breakdowns and product release time — but we'll get into those a bit later.

> "Mobile apps are the next big wave in B2B SaaS. But as was the case with the initial adoption of SaaS, we're discovering a need for new metrics that can serve as more appropriate and accurate indicators of mobile performance."
>
> — Tien Anh Nguyen, Director of Market Insights, OpenView

Analyzing and Classifying Mobile B2B SaaS Companies

At OpenView, we've had several recent conversations with founders and investors in the mobile B2B SaaS space who unanimously agree that mobile B2B SaaS needs a distinct set of metrics to measure performance and growth.

First, to clarify, a company's mobile application offering isn't black and white. Companies don't simply have a native mobile presence or a lack thereof. Their product strategies depend on the relative importance they place on mobile, which can be grouped into the four following areas:

primary web focus with supplementary mobile app

equal emphasis between mobile and web

mobile application as primary focus

mobile-only

(Note: Mobile-friendly products — as opposed to native mobile applications — fall into a different category we didn't include in our analysis.)

With that understanding in mind we decided to survey a select group of B2B SaaS companies with a native mobile presence. The survey's respondents included over 60 senior executives who graciously, but anonymously, shared their company's data in several key categories, helping us to better understand the elements that best reflect a B2B SaaS company's mobile health.

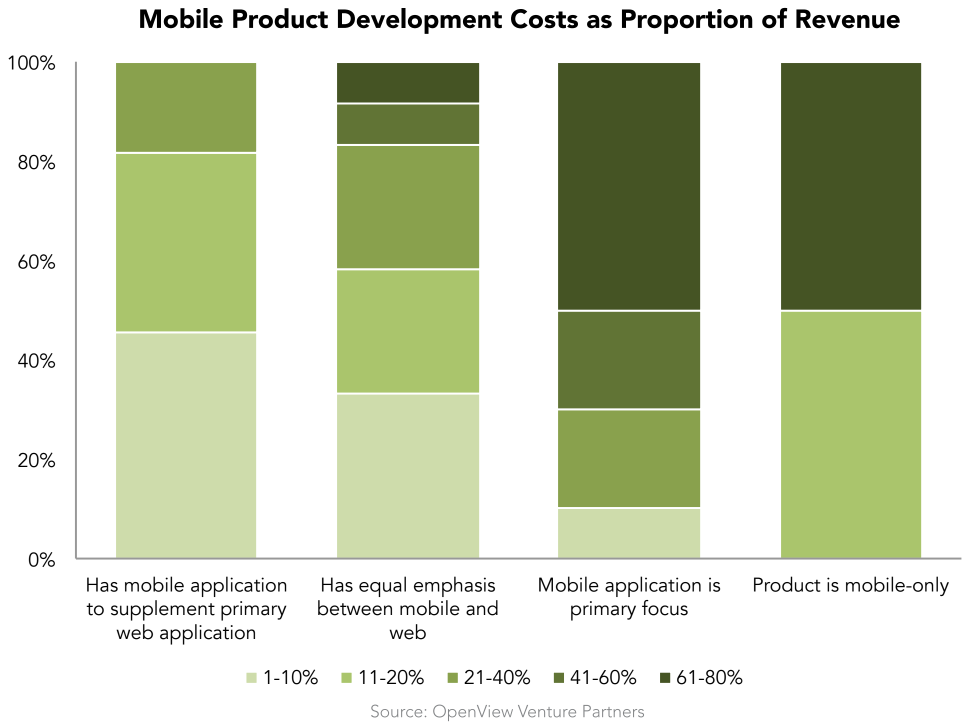
The remainder of this report will feature an analysis of the survey data we gathered, including some opinions we've developed from the analysis. Our perspective derives from a strategy level and aims to help management teams decide where and when to invest in web versus mobile.

We also feature operational input from Adam Marchick, CEO and Founder of Kahuna, a first-of-its-kind platform for mobile marketing automation. Adam offers a first-hand perspective based off his experiences with hundreds of companies with mobile applications. We hope that founders and management teams will come away with an understanding of how their peers go about building mobile applications and how mobile B2B SaaS companies differ from the traditional SaaS model.

The first phase of our analysis uncovers metrics for the time and resources B2B SaaS companies allocate towards building their mobile products.

Nearly half of companies with supplementary mobile apps spend less than 10% of expenses on mobile product development.

Metrics for Mobile Product Strategy



If mobile isn't a significant part of your company's strategy, then it would be contradictory to spend a majority of your revenue on mobile development. The data from our survey is in line with that train of thought, with nearly half of companies with supplementary mobile applications spending less than 10% of expenses on mobile product development.

However, it is surprising that some companies with an equal emphasis between mobile and web are spending more than 40% — and sometimes above 60% — of total revenue on mobile development. These figures indicate that mobile is quite expensive compared to developing products on the web.

Founder's Perspective: Adam Marchick, CEO & Co-founder, mobile marketing automation software company Kahuna

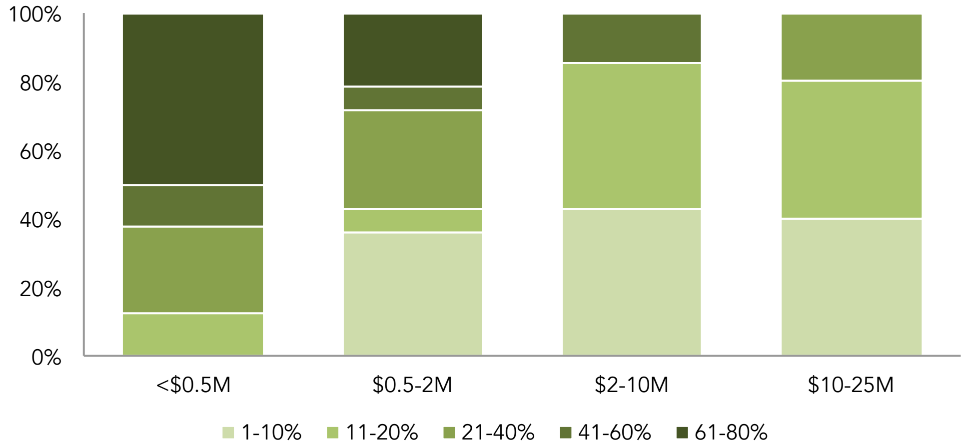
It could also be concluded that businesses have in-house web talent built up over the past 10 years, but are just starting to think about mobile talent. Hence, they have to outsource and/or hire expensive consultants to ramp up.

Simply editing the existing web stack is much cheaper than building a new stack (mobile) from scratch. Also, while hiring web talent has stabilized, mobile talent is still a hot commodity.

A takeaway is that companies who want to invest in mobile moving forward need to think of a long-term solution for in-house talent and/or a cost effective (but high quality) outsourcing option.

In addition to product strategy, it's useful for operators to compare themselves against peers with similar revenue figures:

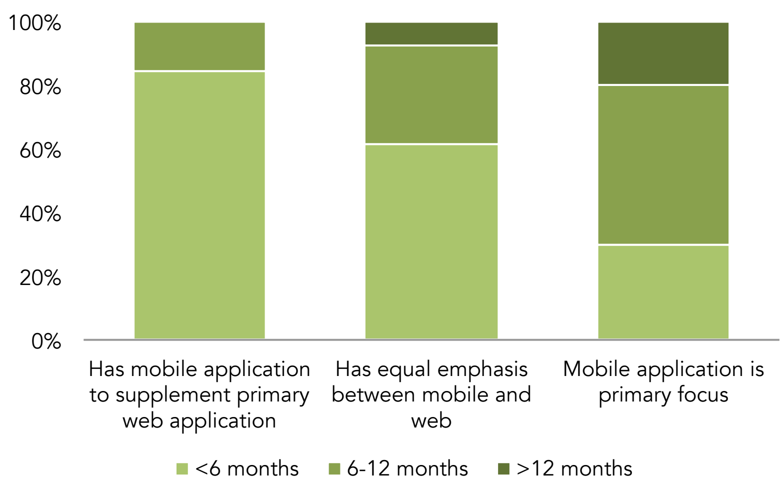
Mobile Product Development Expenses as Proportion of Revenue by Revenue Range



Source: OpenView Venture Partners

The chart shows that development is typically the main focus in the earlier stages of a company before it ultimately goes to market. This chart indicates that companies tend to scale up sales and marketing initiatives and decrease product development costs as a proportion of revenue while they maintain product and expand distribution.

Mobile Development Time by Strategy



Source: OpenView Venture Partners

Ultimately, companies whose mobile strategy is secondary appear to push out their applications much quicker than their mobile-focused counterparts. At first glance, one might infer that companies with a blend of mobile and web presence (i.e. the first two bars) offer the best balance because their applications cost the least and go to market the quickest.

Cheap and quick mobile development runs the risk of being ineffective.

The data indicates that companies with mobile supplements are quickly deploying their apps while companies whose strategies depend more on mobile spend the needed time and resources to ensure their products are well received. Mobile-focused and mobile-only companies spend additional time on product development, because all the components of their products need to be fully functional and useful in a simplified, mobile interface.

Meanwhile, companies with a substantial web focus can release nascent applications while users slowly adopt the notion of utilizing a mobile alternative for the work they have traditionally completed on their computers. However, companies that allocate insufficient time and resources into mobile risk building ineffective or hard-to-use applications. In this case, one might argue those resources could be better spent elsewhere.

Founder's Perspective: Adam Marchick, CEO & Co-founder, Kahuna

This data points towards companies with existing web focus having a tendency to potentially "short change" the mobile experience — i.e. building a basic, quick and dirty mobile web experience.

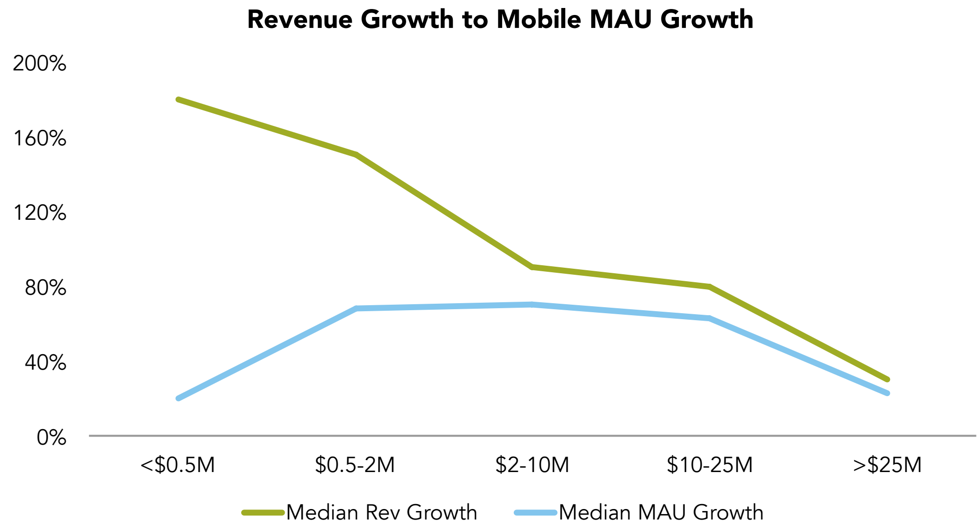
While that might be cheap and quick to deploy, you run the risk that it won't be effective. Companies really need to think about the ROI of their mobile strategy, not just their 'I.' Building a high quality portal to your product and supporting multiple experiences takes effort, time, and elegance.

Companies developing a mobile application in less than six months may have a good web experience but poor mobile web and native app experiences. And while we have seen some market leaders be strong in all three and get to market in nine months, they are the exception, not the rule.

The best companies in the space are those that have an awesome web experience, and have built a very stripped down mobile app that gives users what they want "on the go" as quickly as possible. It takes money and time, but the result is MAU growth (and rev growth) on both platforms, while getting to market on mobile quicker.

Next, we consider different growth metrics that operators of mobile business platforms should consider.

Measuring Mobile Product Growth



Source: OpenView Venture Partners

Interestingly, revenue growth doesn't appear to be correlated with growth in monthly active users (MAU). While typically slow to start, MAU growth picks up during the expansion stage, and then settles down when the company becomes larger and breaches the $25M threshold.

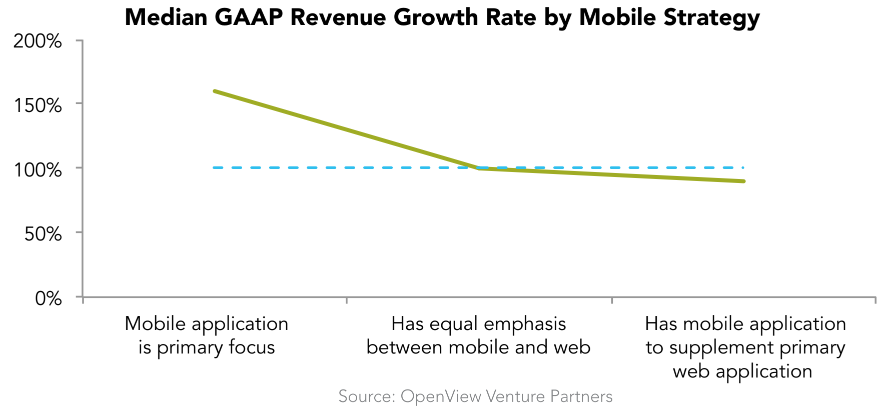
There are three feasible explanations for this correlation:

1. Customers (businesses) subscribing for a software doesn't necessarily translate to workers using the application. There is likely some lag time between the period that a business signs up for a product and when users adopt the application.

2. On the other hand, since workers themselves usually supply their own smartphones at the office, B2B SaaS companies initially offer a free version of their application until there is enough demand to start charging a business for use of the application.

3. A company either doesn't immediately offer a mobile application in addition to their web product, or won't start out charging for it (partially due to reason #2).

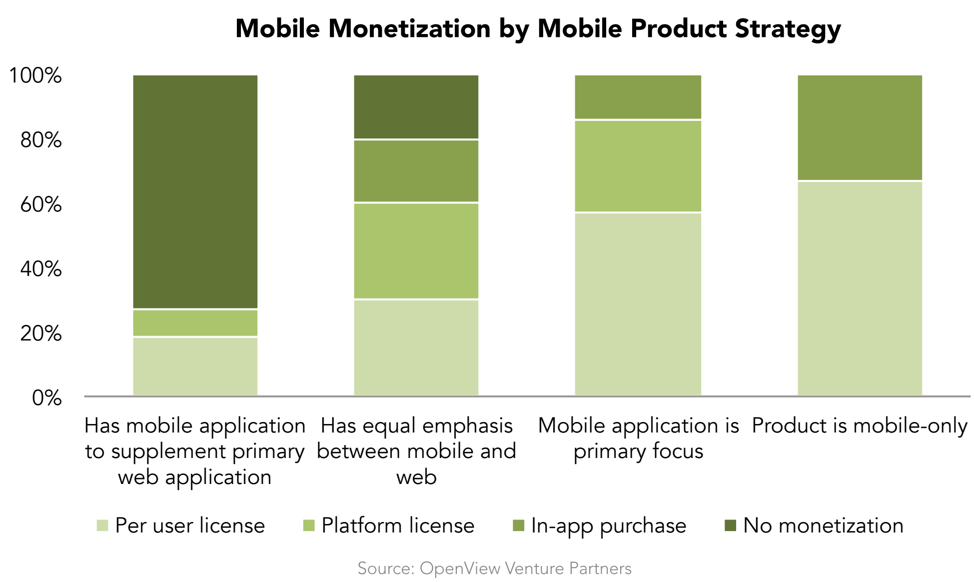
Whatever the reason is, one cannot dismiss the fact MAU growth does not appear to positively affect revenue growth in the early stages of a company. Does it suggest then that a company does not need a mobile app in the early stages of its lifecycle? Perhaps a company should focus on the product(s) that are generating revenue growth until they grow to a certain stage.



In this case, we've disregarded the mobile-only category due to a lack of conclusive data. When analyzing the other three categories, companies with mobile at the forefront of their strategy have a median revenue growth rate of 160% while companies with mobile as a supplementary focus have a 90% growth rate.

Mobile Monetization

Mobile monetization is one of the most challenging questions when building and releasing mobile business apps. Go-to-market strategies, user adoption, and buying processes differ from those of traditional SaaS businesses, and the optimal monetization scheme has not yet been mastered. The final part of our report provides an analysis of how companies in the market are charging for use of their applications.



This chart shows that the majority of companies that offer mobile apps as a secondary focus don't currently (and may not intend to) monetize the application. As expected, the sample group of companies with an equal focus between web and mobile is quite varied. Meanwhile, those with a mobile emphasis rely largely on per-user licenses for their mobile platform.

57% of mobile-focused companies monetize via per user license.

What is the Future of Mobile B2B SaaS?

It's clear that the mobile B2B SaaS business model is very early in its development. We were, however, able to identify trends that are unique to mobile software applications. Here are the biggest takeaways from our research:

1. **Best-in-class mobile B2B SaaS companies are the ones that offer a functional but simplified mobile application in addition to a traditional web-based presence.** Even native mobile SaaS businesses use an accompanying website to provide support for customer retention (employees still rely on their computers at work). Moreover, given that MAU growth doesn't point to increases in revenue, a website de-risks the threat of failing to grow revenue.

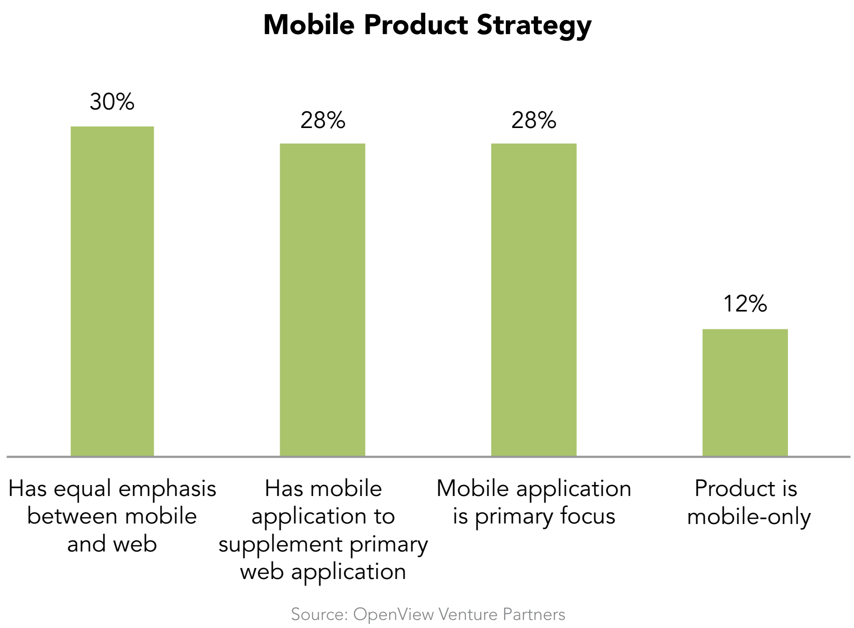
2. **Do not release a half-baked mobile app.** If cost-savings and a quick product turnaround time come at the expense of a lackluster mobile application, then companies risk sabotaging the initial purpose of building a mobile application. Your time and money can be better spent elsewhere.

3. **Mobile-focused companies rely heavily on per-user licenses for monetization, while mobile supplement companies are by and large not receiving additional revenue from their mobile apps.** This may indicate that mobile supplement companies are not motivated to produce great apps because they don't realize any direct benefits to their top line. Even if a company is earning revenue from their application, the dilemma of uncorrelated revenue growth and MAU growth doesn't inspire management teams to allocate additional resources to mobile app development.

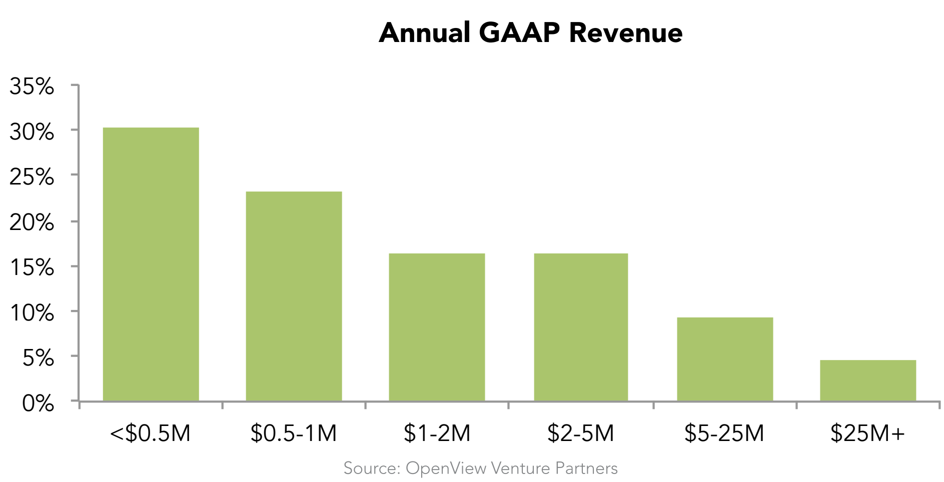
The transition to a more mobile-focused B2B SaaS model is still in its very early stages. We hope these analyses provide the mobile strategist with some baseline benchmarks as they think about investments, strategy, and monetization. By this time next year, when the mobile business applications have matured and additional companies find their places in the market, we'll be able to provide additional insights and metrics companies can use to measure and monitor their performance.

We hope you will provide your feedback on the report. Sign up here if you'd like to be included in next year's report.

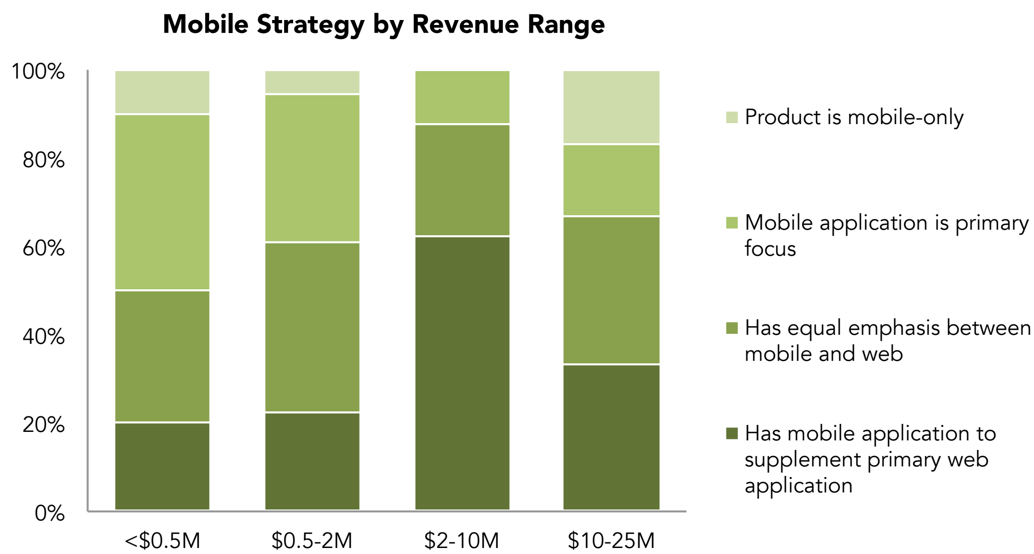
Appendix



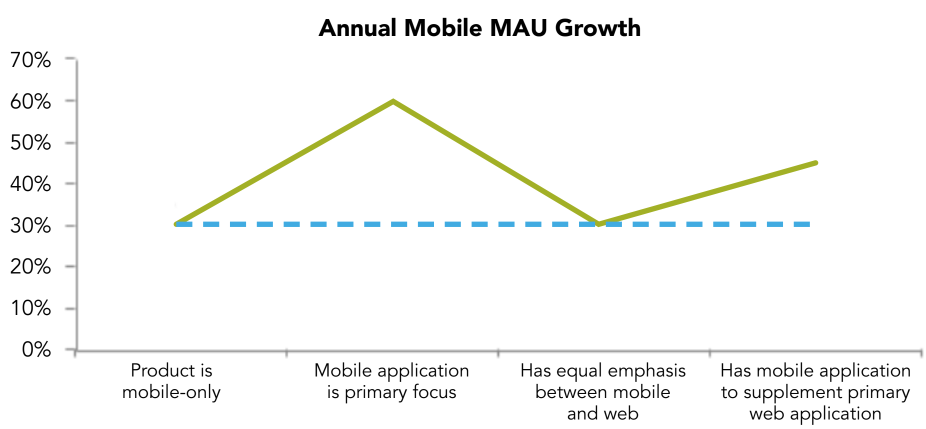
All of our respondents had at least some type of a mobile presence, ranging from applications that are secondary to the company's web presence to mobile applications being the sole focus of a company's product and strategy.



Revenue distribution, as expected, is skewed to the right. Given the fairly new concept of mobile B2B SaaS, it's no surprise that most the companies with a mobile focus are so early.

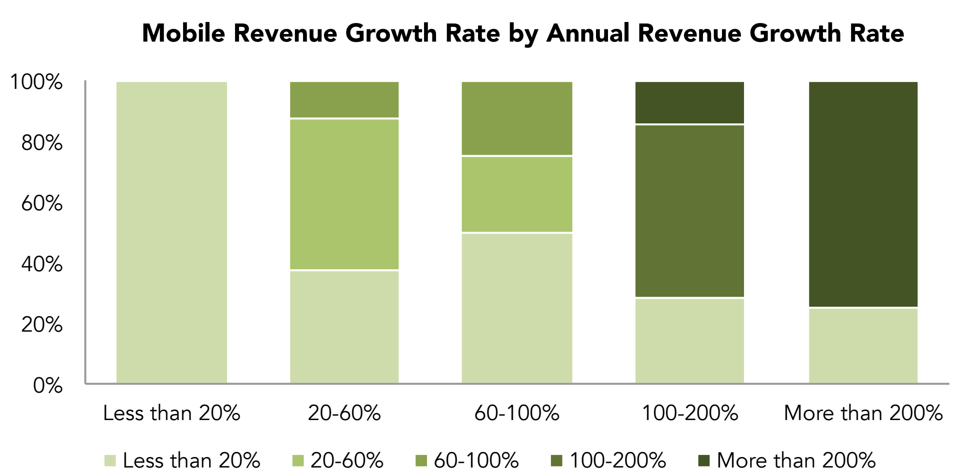


Source: OpenView Venture Partners



Source: OpenView Venture Partners

Variance in MAU growth is surprising given that businesses with a secondary mobile application have the second highest median MAU growth, despite putting the least amount of resources towards their mobile efforts.



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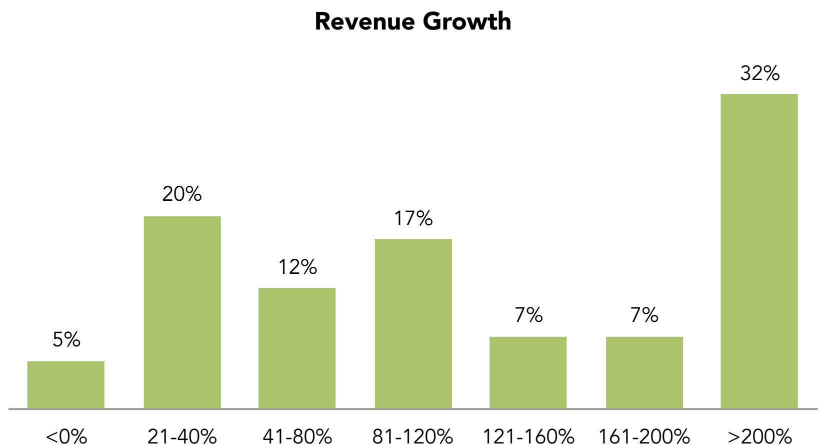
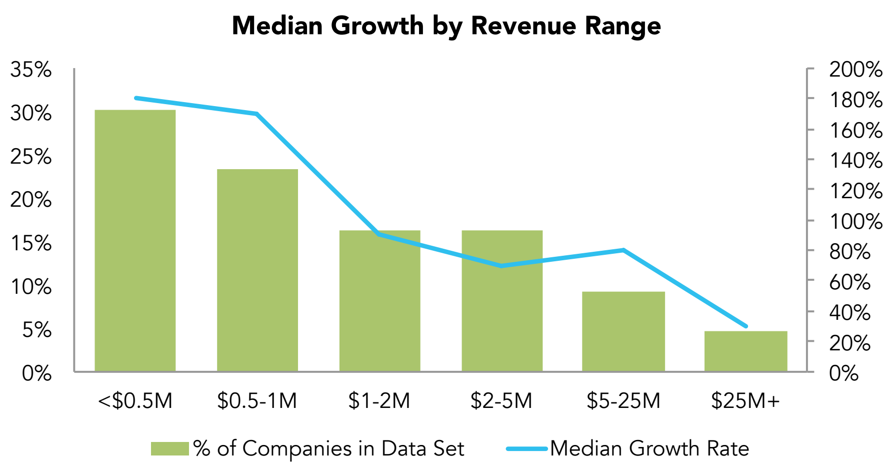


Source: OpenView Venture Partners

Revenue growth varied greatly, but a large proportion of these companies experienced growth greater than 200% in the past year.



Source: OpenView Venture Partners

Revenue growth and revenue size for mobile software businesses is strongly inversely correlated. Companies with less than $0.5M in revenue have by far the highest growth rate while companies with more than $25M in revenue have the lowest growth.

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