

EXPANSION SAAS BENCHMARKING STUDY

Kyle Poyar – September 2017

OPENVIEW

INTRODUCTION

BACKGROUND

- Enterprise software has seen explosive growth in 2017, led by successful exits of MuleSoft, Okta and AppDynamics, just to name a few. To help emerging startups set themselves up for similar long term success, we launched the 2017 Expansion SaaS Benchmarking Study.
- The survey was live from May-July 2017 and included questions about size, funding, growth, talent, go-to-market strategy, diversity and other important KPI's to operating a startup.

PARTICIPANTS

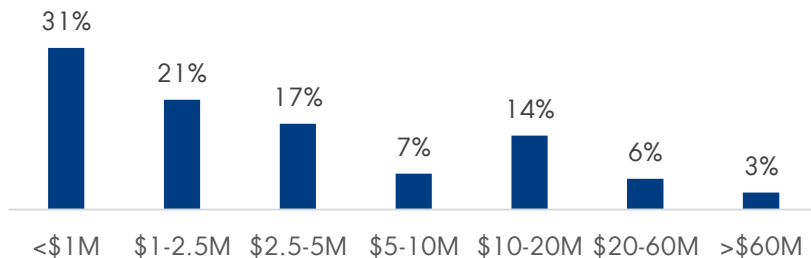
- 300 enterprise software companies participated in the survey, including a mix by company size (<\$1M ARR to \$60M+ ARR) and software category (infrastructure, application, etc.).
- >70% of participants were CEOs, CFOs or VPs of Finance at their company.

PARTNERS

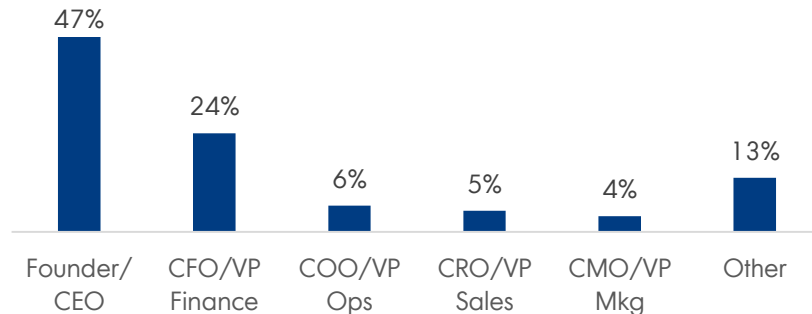


SURVEY PARTICIPANTS

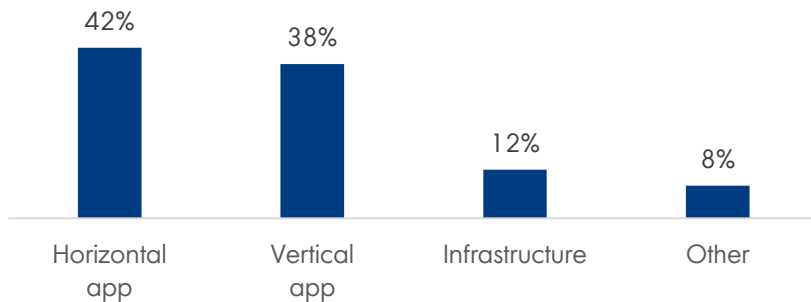
DISTRIBUTION BY ARR



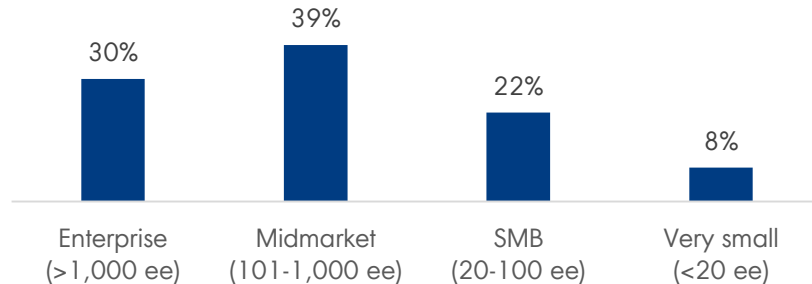
DISTRIBUTION BY JOB FUNCTION



DISTRIBUTION BY SOFTWARE CATEGORY



DISTRIBUTION BY CUSTOMER SIZE



Source: 2017 OpenView SaaS Metrics Survey, N=300

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**EXECUTIVE SUMMARY:
KEY METRICS AT EACH
STAGE OF GROWTH**

WE BENCHMARKED COMPANY PERFORMANCE ACROSS A NUMBER OF KPI'S

SIZE AND GROWTH

Employees	Number of full-time equivalent employees at the end of 2016.
Funding	Amount of equity capital raised to date.
YoY growth	Change in annual recurring revenue at the end of 2016 vs. the end of 2015.

FINANCIAL

Sales & Marketing spend	Spending on Sales & Marketing, including headcount, as a % of year-end 2016 ARR.
R&D spend	Spending on R&D, including headcount, as a % of year-end 2016 ARR.
Monthly burn	Net burn rate on a monthly basis at the end of 2016 (i.e. total amount of \$ lost each month).

SAAS METRICS

CAC payback	Months of subscription gross margin to recover the fully loaded cost of acquiring a customer.
Sales efficiency	Incremental revenue contribution returned by Sales & Marketing spend.
Logo retention	Annual logo retention seen in cohorts.
Net dollar retention	Annual net dollar retention (after upsells & expansion) seen in cohorts.

DIVERSITY

Women in leadership	% of female representation among employees Director-level and above.
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HOW TO READ THE FOLLOWING SLIDES

	COMPANY ARR						
	<\$1M	\$1-2.5M	\$2.5-5M	\$5-10M	\$10-20M	\$20-60M	>\$60M
SIZE AND GROWTH							
Employees							
Funding							
YoY growth							
Sales & Mktg. spend							
R&D spend							
Monthly burn							
CAC payback							
Sales efficiency							
Logo retention							
Net dollar retention							
Women in leadership							

Columns represent responses from companies at varying levels of ARR, from <\$1M to >\$60M.

Rows represent common KPI's, such as size, funding, growth, retention and burn.

Each cell represents the **median performance** for a given metric (p7) or performance that would put a company in the **top quartile** (p8) for that metric within their ARR level.*

*Very few companies are top quartile in all metrics. For instance, the fastest growing companies rarely have the low monthly burn.

METRICS BY COMPANY ARR (MEDIAN)

	COMPANY ARR						
	<\$1M	\$1-2.5M	\$2.5-5M	\$5-10M	\$10-20M	\$20-60M	>\$60M
SIZE AND GROWTH							
Employees	10	27	32	55	100	182	467
Funding	\$2.5M	\$2.5M	\$2.5M	\$15M	\$20M	\$37.5M	>\$50M
YoY growth	200%	100%	68%	40%	45%	38%	22%
FINANCIAL							
Sales & Marketing spend	30%	35%	50%	40%	40%	49%	30%
R&D spend	70%	50%	40%	49%	32%	22%	22%
Monthly burn	\$15,000	\$50,000	\$30,000	\$75,000	\$550	\$0	\$0
SAAS METRICS							
CAC payback	-	8 months	9 months	9 months	13 months	10 months	12 months
Sales efficiency	-	1.0	0.7	0.6	0.5	0.3	0.3
Logo retention	90%	90%	88%	87%	84%	85%	90%
Net dollar retention	100%	104%	103%	90%	93%	99%	96%
DIVERSITY							
Women in leadership	10%	20%	20%	25%	21%	27%	20%

Source: 2017 OpenView SaaS Metrics Survey, N=300

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METRICS BY COMPANY ARR (1ST QUARTILE*)

	COMPANY ARR						
	<\$1M	\$1-2.5M	\$2.5-5M	\$5-10M	\$10-20M	\$20-60M	>\$60M
SIZE AND GROWTH							
Employees	16	35	54	65	155	295	550
Funding	\$2.5M	\$10M	\$10M	\$25M	\$37.5M	>\$50M	>\$50M
YoY growth	405%	209%	188%	58%	80%	71%	40%
FINANCIAL							
Sales & Marketing spend	20%	25%	30%	30%	25%	13%	11%
R&D spend	40%	33%	25%	35%	20%	19%	11%
Monthly burn	\$0	\$0	\$0	\$0	-\$15,000	-\$25,000	-\$50,000
SAAS METRICS							
CAC payback	-	4 months	6 months	6 months	4 months	3 months	9 months
Sales efficiency	-	1.4	1.1	0.8	1.1	0.9	0.4
Logo retention	100%	96%	95%	90%	93%	90%	92%
Net dollar retention	110%	110%	110%	101%	105%	115%	99%
DIVERSITY							
Women in leadership	25%	29%	28%	45%	30%	37%	29%

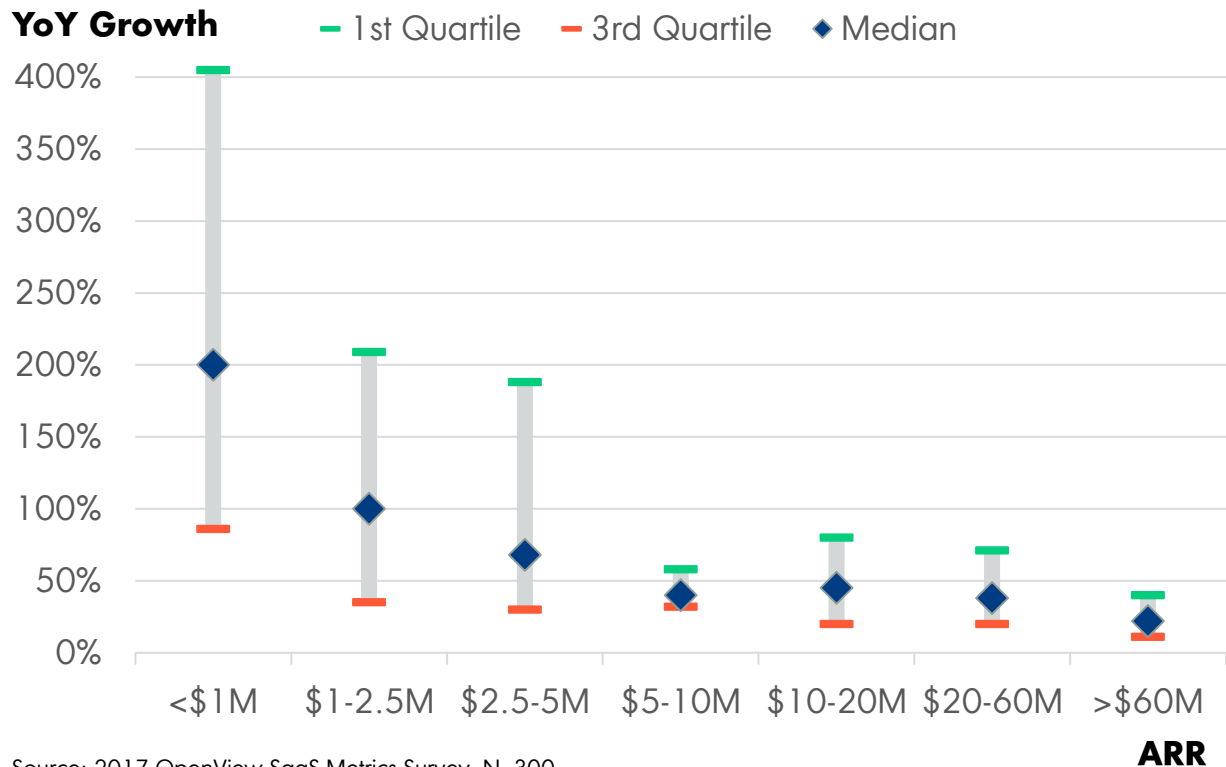
Source: 2017 OpenView SaaS Metrics Survey, N=300

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*Very few companies are top quartile in all metrics. For instance, the fastest growing companies rarely have the low monthly burn.

IN-DEPTH INSIGHTS: GO-TO-MARKET

GROWTH RATE BY COMPANY ARR



INSIGHTS

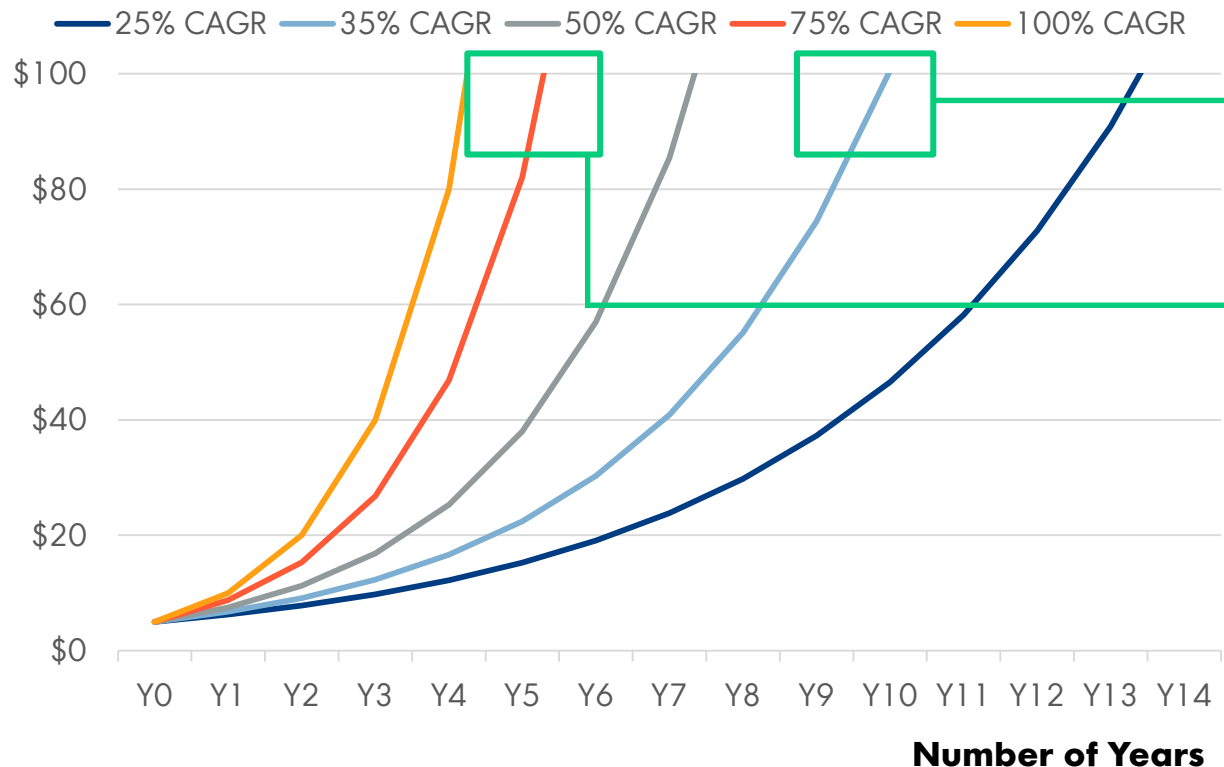
- It's common for startups to grow rapidly, doubling or tripling in size year over year, until they hit \$5M in ARR.
- After \$5M in ARR, the median growth rate slows to 50%.

Source: 2017 OpenView SaaS Metrics Survey, N=300

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HOW GROWTH ADDS UP

ARR (in \$ millions)



At a common 35% CAGR, it would take 10 years for a SaaS company to grow from \$5 to \$100M in ARR.

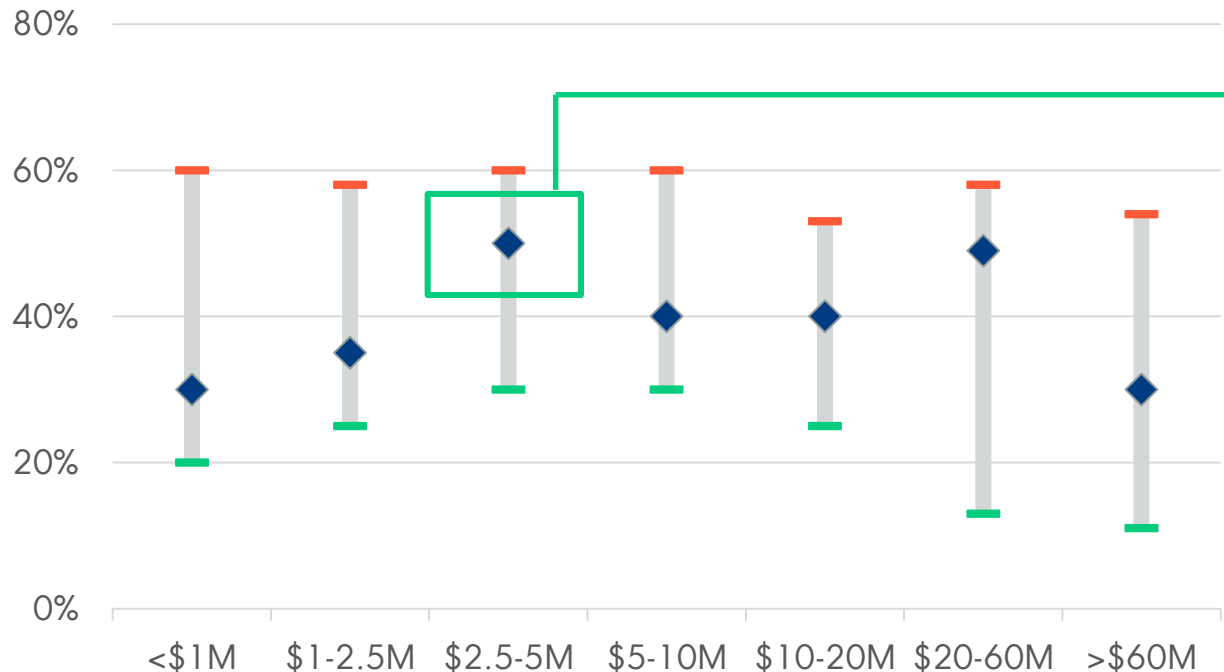
If a company were to maintain an aggressive 75% CAGR, it would take just over 5 years to hit that coveted milestone. Slack, the fastest growing SaaS company to our knowledge, reached \$100M in ARR in only 2.5 years.

MEDIAN SALES & MKTG. SPEND

Sales & Mktg. Spend

(% of ARR)

— 1st Quartile — 3rd Quartile ◆ Median



Spend peaks during the expansion stage when companies rapidly build out their sales & lead gen teams.

Source: 2017 OpenView SaaS Metrics Survey, N=300

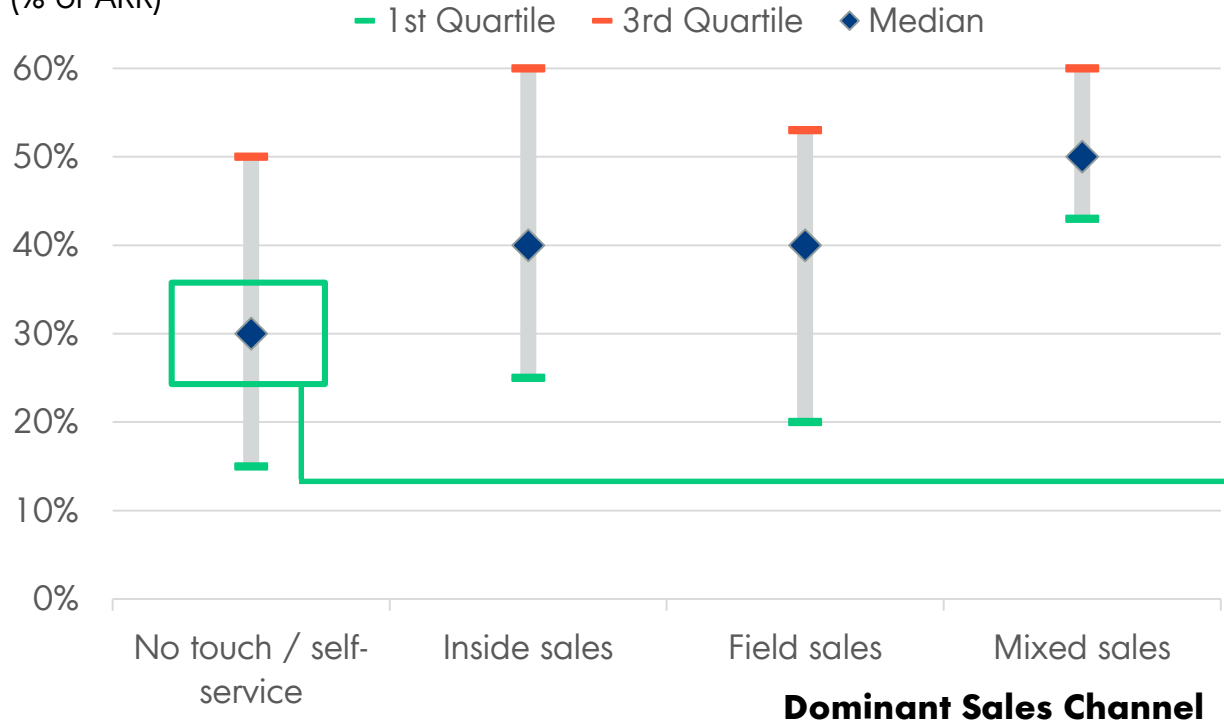
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ARR

SALES & MKTG. SPEND BY SALES CHANNEL

Sales & Mktg. Spend

(% of ARR)



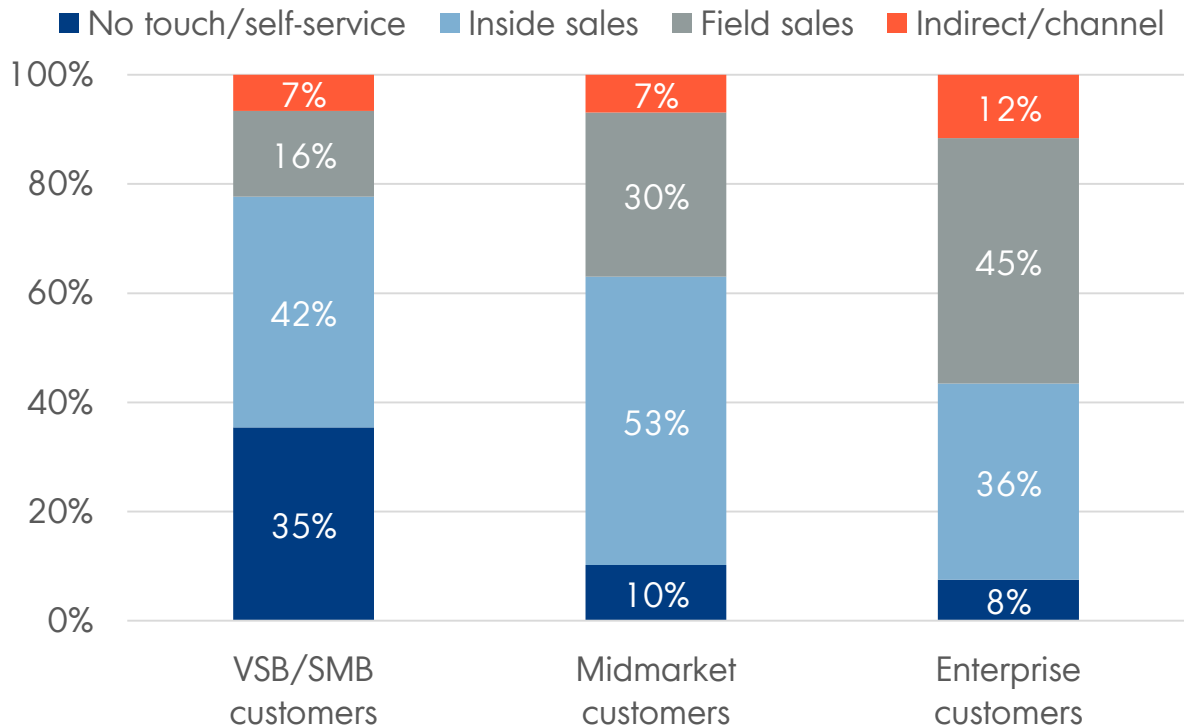
Companies selling through self-service, such as Expensify and Slack, have the potential to grow far more efficiently than others.

Source: 2017 OpenView SaaS Metrics Survey, N=300

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SALES CHANNEL MIX VS. CUSTOMER SIZE

Sales Channel Mix



Target Customer Size

INSIGHTS

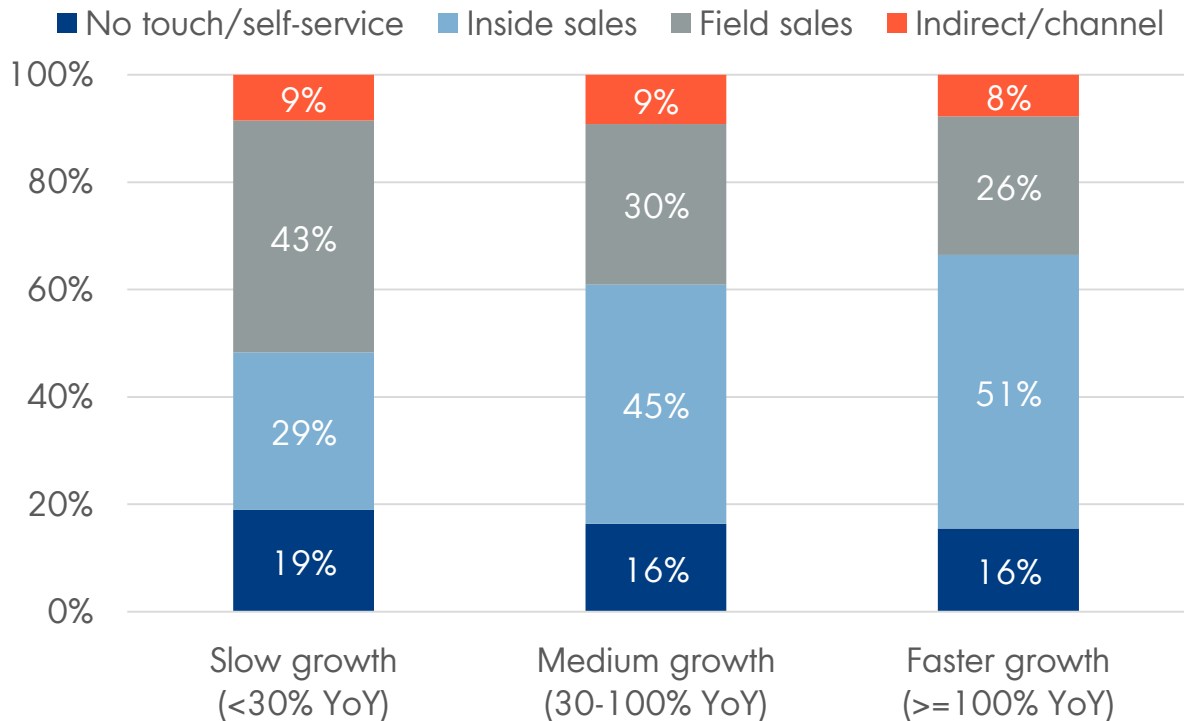
- Those selling to small businesses rely more on lower cost sales channels like self-service and inside sales.
- Those selling into the Enterprise generate most of their ARR through field sales, with some inside and channel sales.

Source: 2017 OpenView SaaS Metrics Survey, N=300

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SALES CHANNEL MIX VS. GROWTH

Avg. Sales Channel Mix (Distribution of ARR by Channel)



Growth Relative to ARR

INSIGHTS

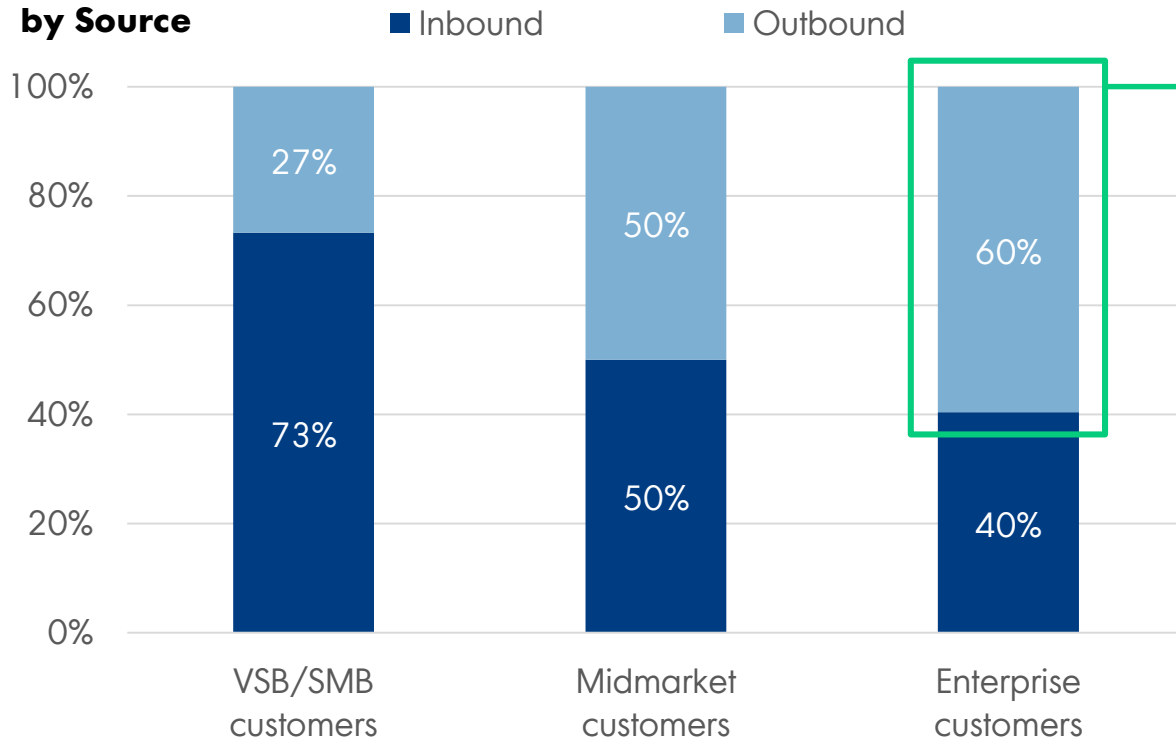
- Fast growers are far more likely to leverage inside sales, which offers a compelling balance on attractive deal sizes and high deal velocity.
- While Slack's touchless sales model generates a lot of buzz, few companies have been able to replicate their success.

Source: 2017 OpenView SaaS Metrics Survey, N=300

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ARR FROM INBOUND VS. OUTBOUND MKTG.

ARR Contribution by Source



When selling into the Enterprise, companies shift to more expensive marketing tactics like BDR/SDR teams and conferences.

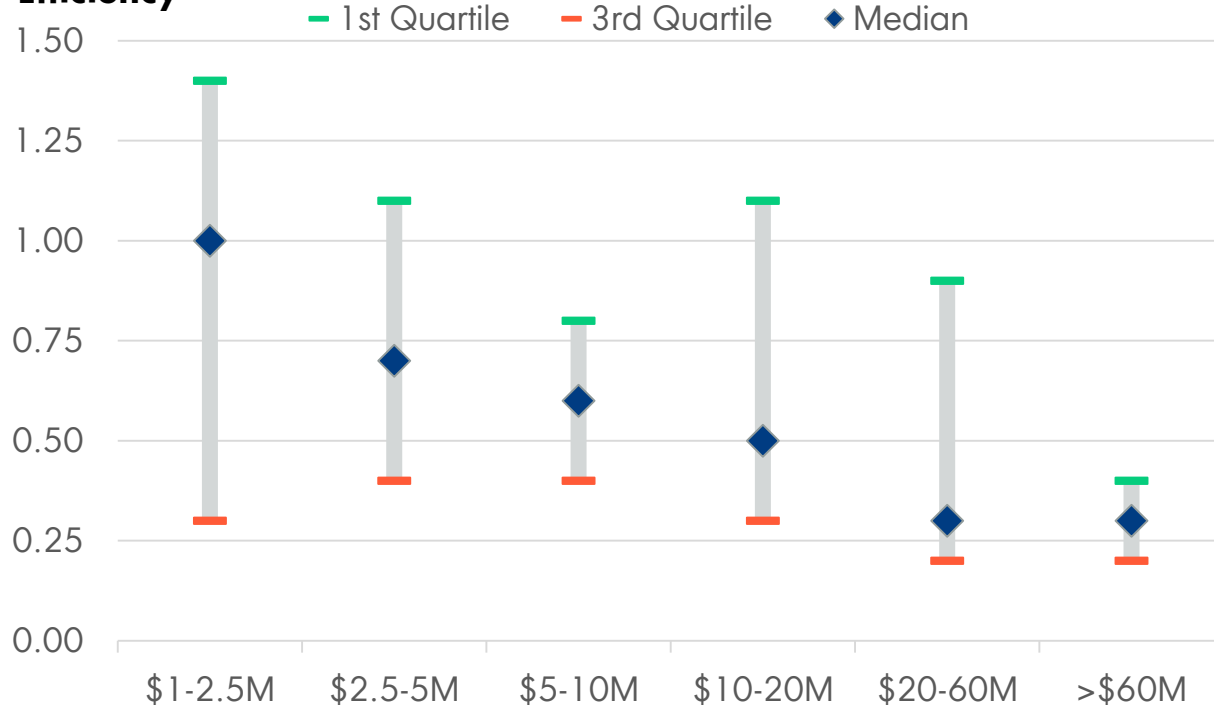
Source: 2017 OpenView SaaS Metrics Survey, N=300

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Target Customer Size

SALES EFFICIENCY (“MAGIC NUMBER”)

Sales Efficiency*



INSIGHTS

- Sales efficiency – the ‘magic number’ – shows the revenue contribution from every dollar spent on sales & marketing.
- On average, sales efficiency is about 0.7.
- Companies grow far more efficiently in their early years, and sales efficiency drops dramatically as companies hit saturation.

*Excluded companies <\$1M ARR because they don't have enough data for predictable sales efficiency

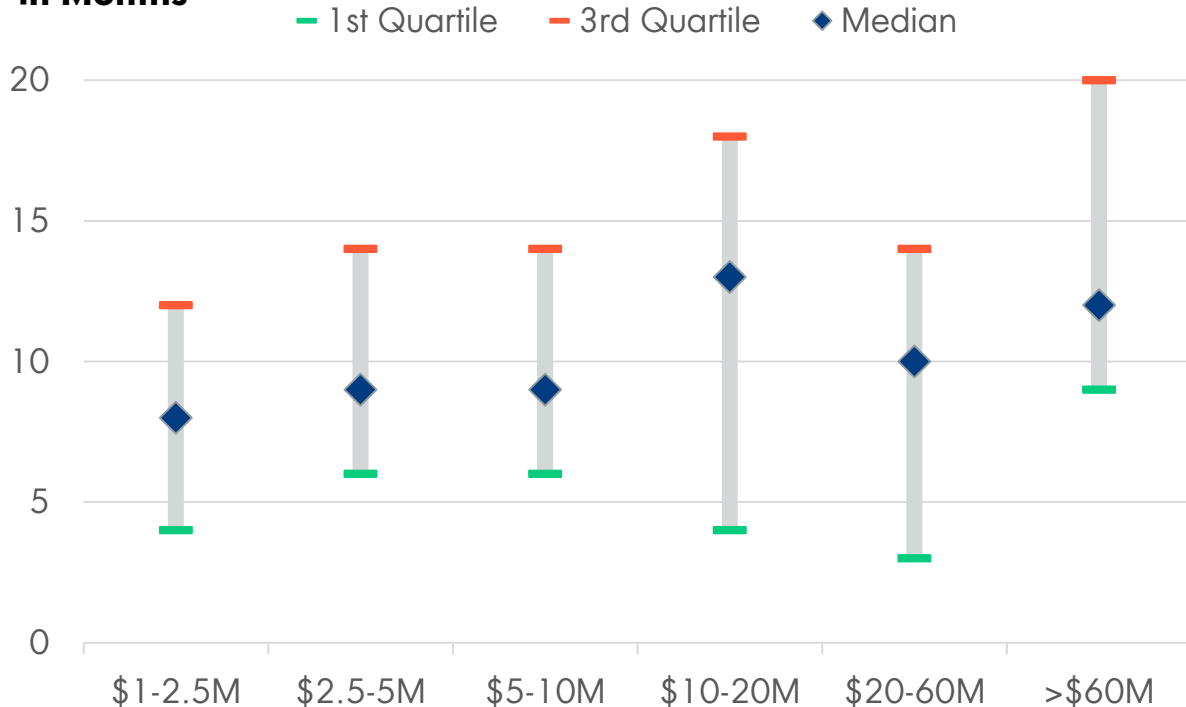
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MONTHS TO RECOVER CAC (CAC PAYBACK)

CAC Payback in Months*



INSIGHTS

- Startups report a CAC payback of 9-12 months on average; however, this is overly optimistic – 12-18 months is more common in our experience when factoring in gross margins and fully loaded acquisition costs.
- Best-in-class companies have a CAC payback of 6-12 months with rare exceptions of <6 months.

*Excluded companies <\$1M ARR because they don't have enough data for predictable CAC payback

Source: 2017 OpenView SaaS Metrics Survey, N=300

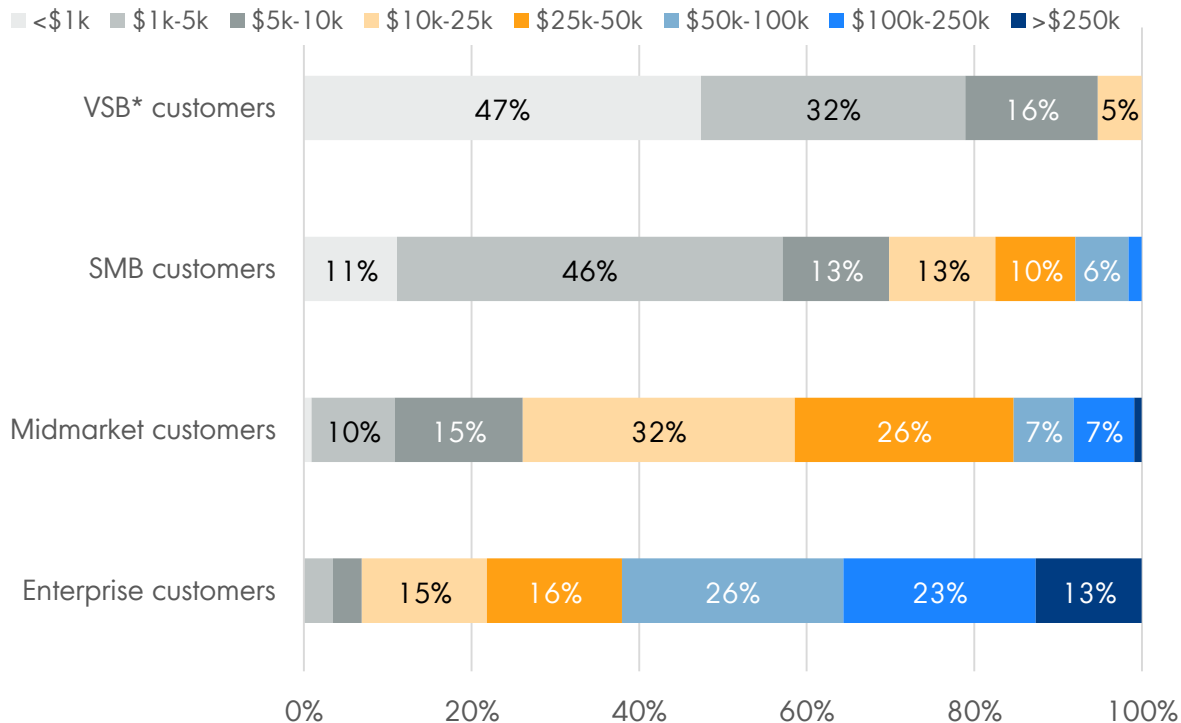
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IN-DEPTH INSIGHTS: PRICING

ACV BY TARGET CUSTOMER SIZE

Target Customer Size



INSIGHTS

- There's a strong correlation between target customer size and ACV.
- Take a close look at your ACV and target market, and see whether you're on track to build a large and enduring business (pro tip: stop selling Enterprise deals for <\$25k).

*VSB = very small business

Source: 2017 OpenView SaaS Metrics Survey, N=300

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ACV Distribution

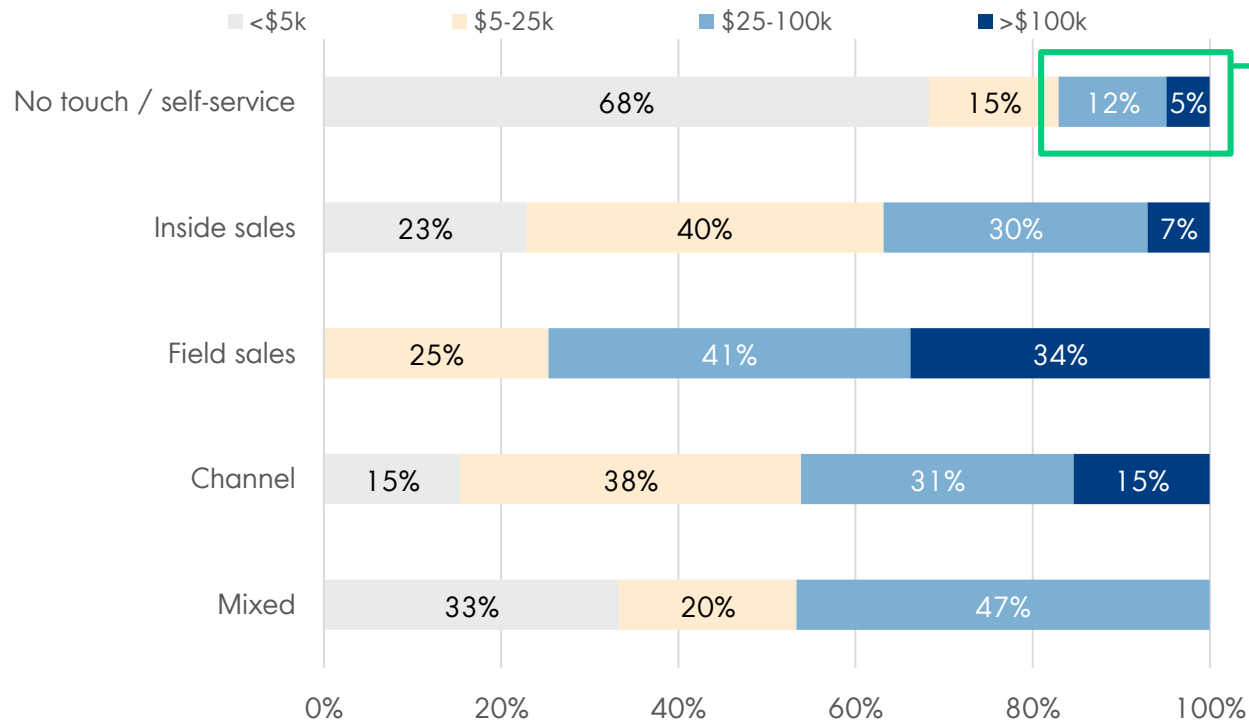
WAYS TO GROW A \$100M ARR BUSINESS

Target customer size	Addressable companies (US)	Potential share	ACV required to hit \$100M
Very small businesses	4M companies	10% share	\$250/year
SMB	1M companies	10% share	\$1,000/year
Midmarket	100k companies	10% share	\$10,000/year
Enterprise	40k companies	10% share	\$25,000/year

If you're targeting the Midmarket or Enterprise, you'll find it nearly impossible to reach \$100M+ in ARR with a low ACV.

ACV BY DOMINANT SALES CHANNEL

Dominant Sales Channel



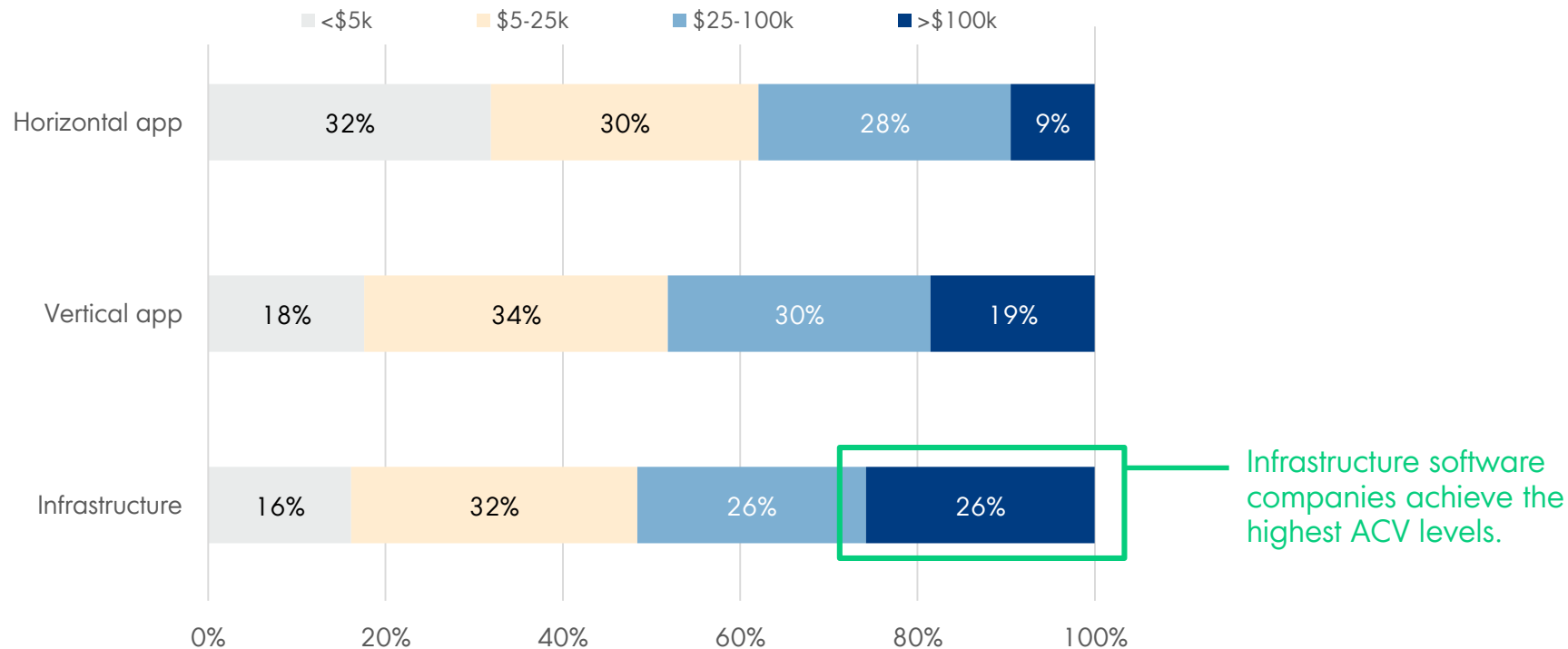
These companies employ a bottoms-up sales model to efficiently sell larger deals.

*Dominant sales channel accounts for >50% of ARR
Source: 2017 OpenView SaaS Metrics Survey, N=300
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ACV Distribution

ACV BY TYPE OF SOFTWARE

Software Category



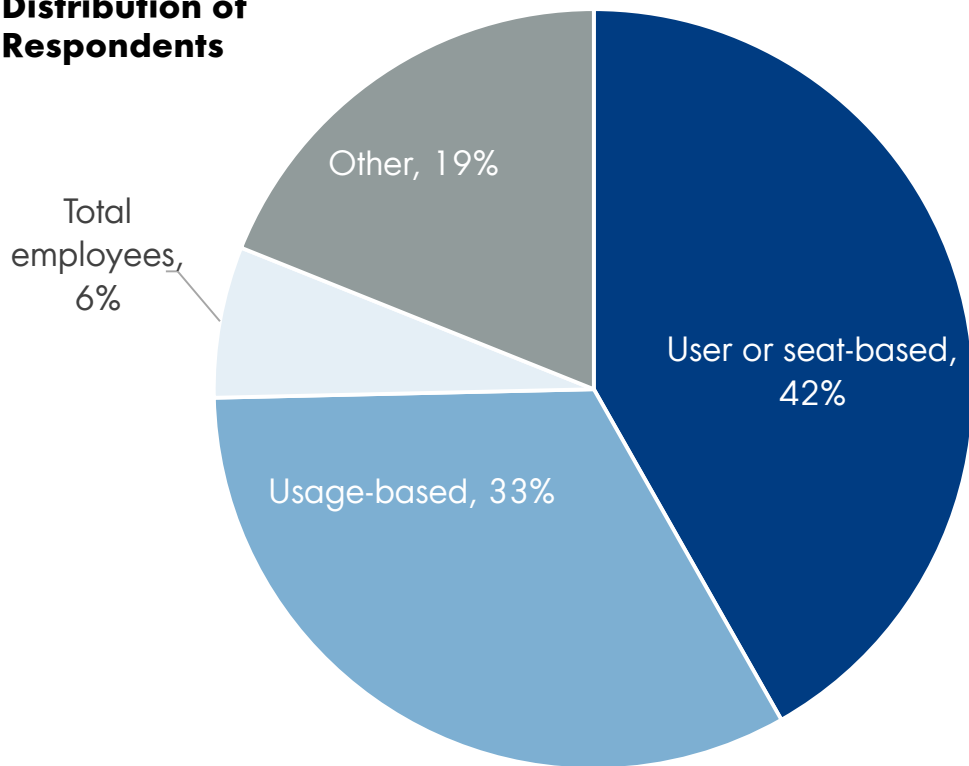
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ACV Distribution

MAIN PRICING METRIC

Distribution of Respondents

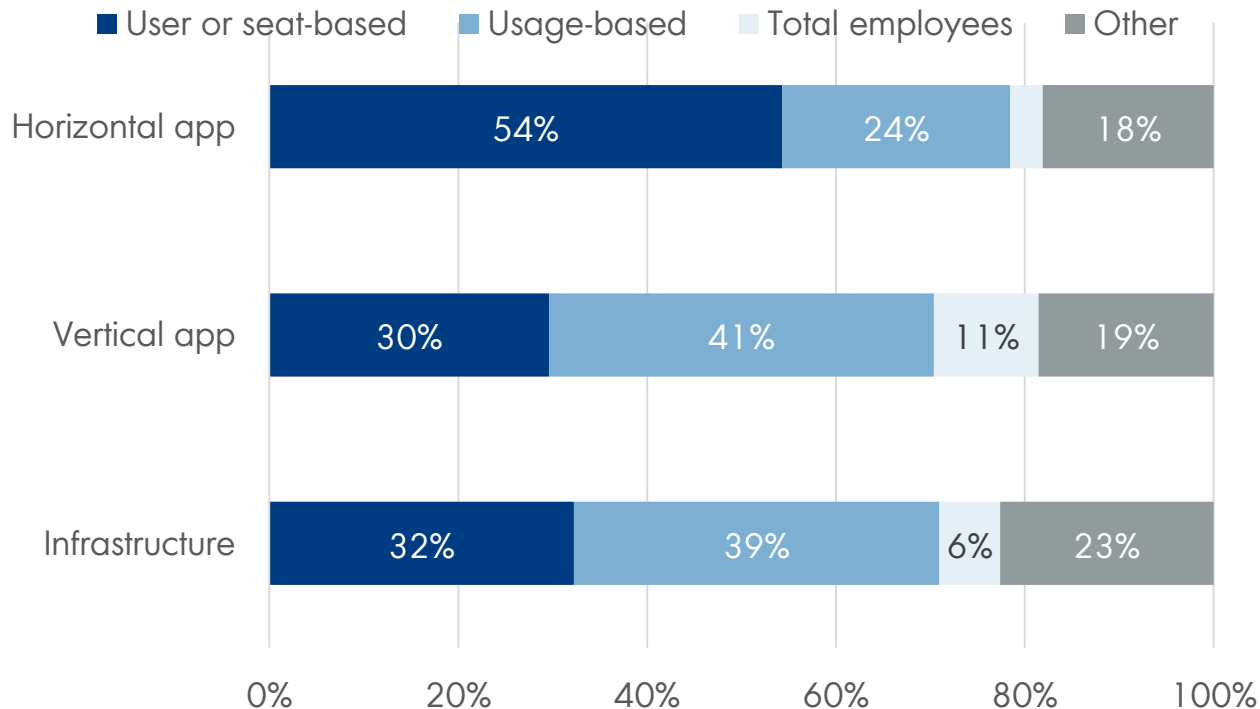


INSIGHTS

- User or seat-based pricing is still the most common pricing metric.
- If you haven't already, it's worth evaluating whether usage-based pricing will help grow faster. It has a better shot of reflecting the value delivered and enables a land-and-expand business model.

MAIN PRICING METRIC BY TYPE OF SOFTWARE

Software Category



INSIGHTS

- Horizontal applications still keep to the course of user-based pricing paved by Salesforce and Slack.
- There's far more openness to newer pricing models within vertical applications and infrastructure, led by the success of AWS and Twilio.

*Other includes e.g. feature-based pricing, flat fees

Source: 2017 OpenView SaaS Metrics Survey, N=300

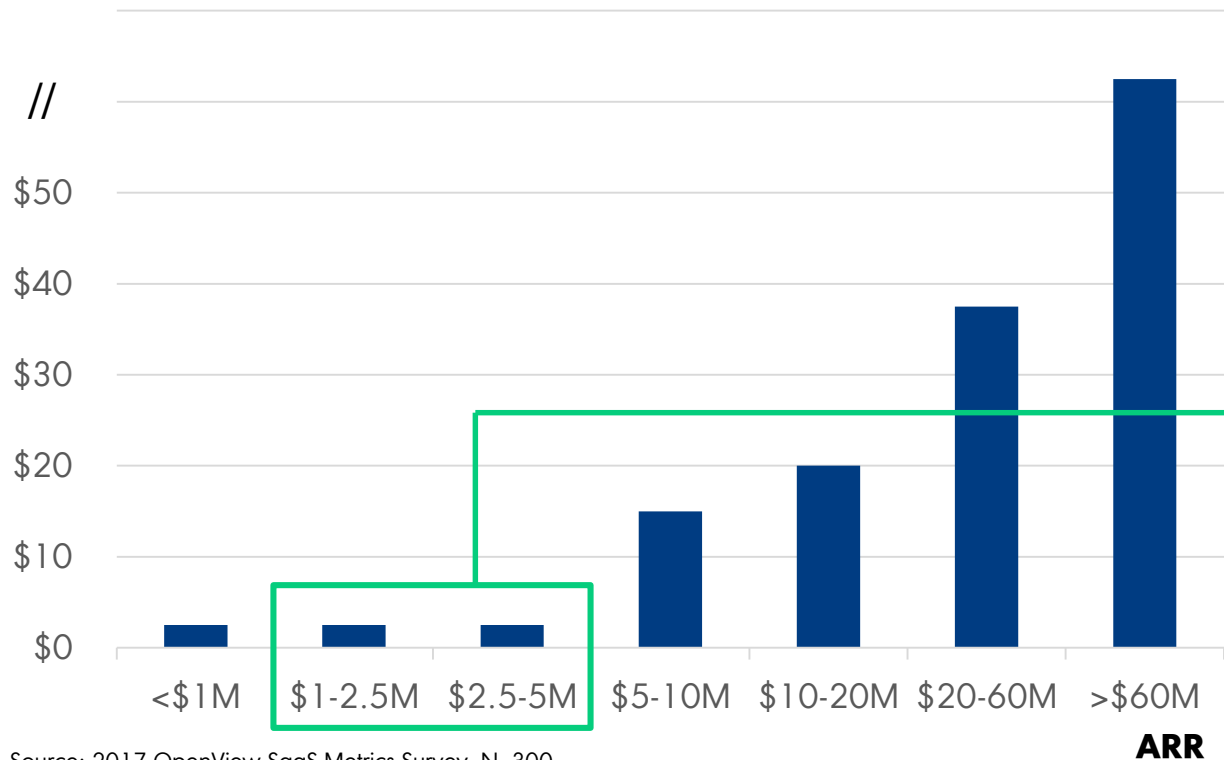
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Pricing Metric

IN-DEPTH INSIGHTS: FINANCIAL

MEDIAN EQUITY CAPITAL RAISED (\$M)

Median Equity Capital Raised (\$M)



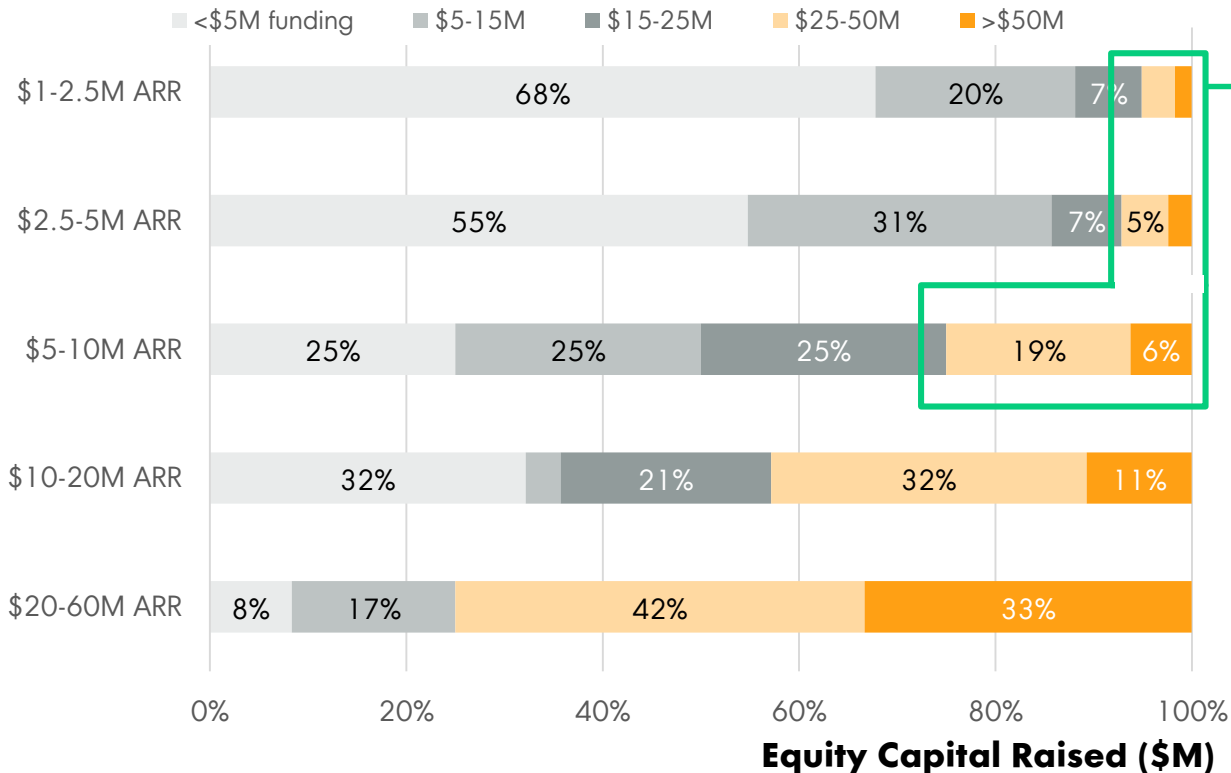
While the median capital is the same from \$1-5M ARR, there's a wide gap between top performers (\$10M+ in funding) compared to average ones.

Source: 2017 OpenView SaaS Metrics Survey, N=300

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CAPITAL RAISED BY ARR

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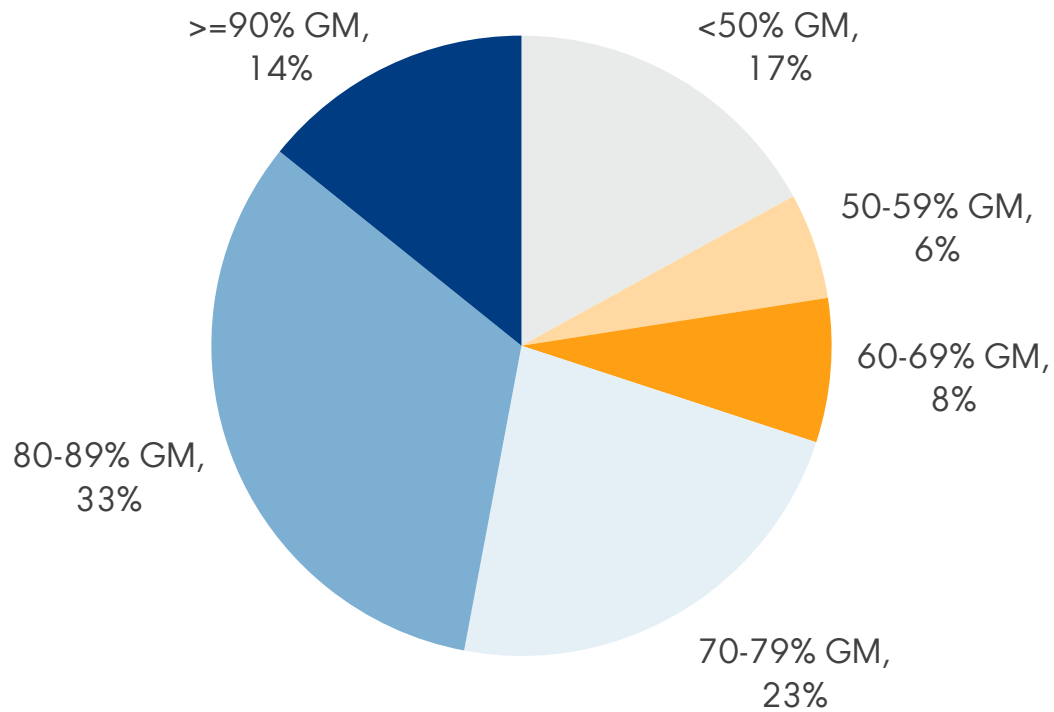


Here's what your peers have raised... how do you stack up?

The hottest startups are still achieving substantial funding given their revenue, although these are limited to a select few companies.

GROSS PROFIT MARGIN ON SUBSCRIPTIONS

Gross Margin (GM) on Subscription Revenue

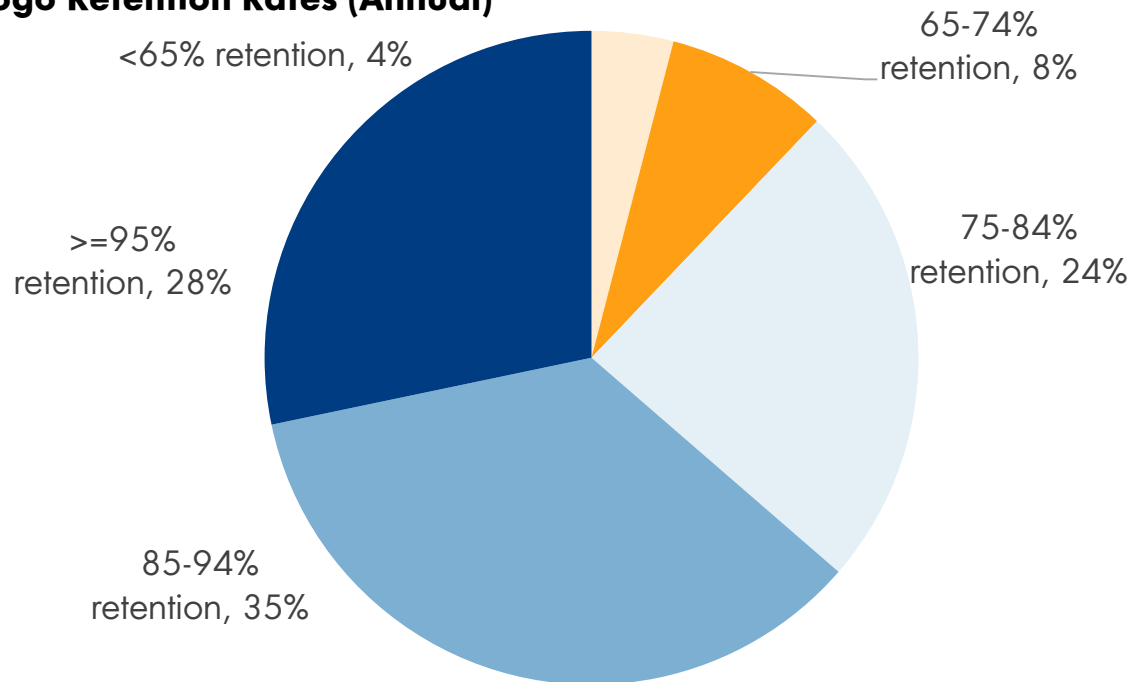


INSIGHTS

- Best-in-class software companies have subscription gross margins above 80%.
- Infrastructure software companies see slightly lower gross margins, on average, compared to application software.
- Gross margin % remains consistent regardless of company ARR.

LOGO RETENTION RATES (ANNUAL)

Logo Retention Rates (Annual)

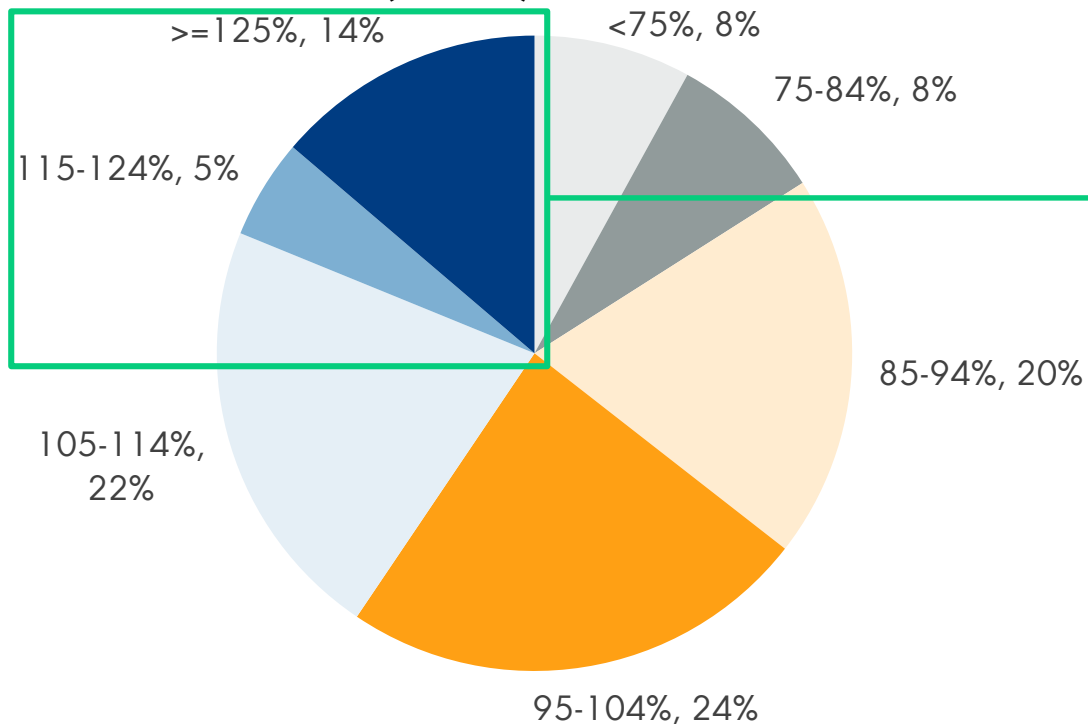


INSIGHTS

- Top tier companies see logo retention rates of at least 85%.
- Benchmark retention should differ depending on the target customer and ACV, with much lower retention among companies selling deals <\$5k per year.

NET DOLLAR RETENTION RATES

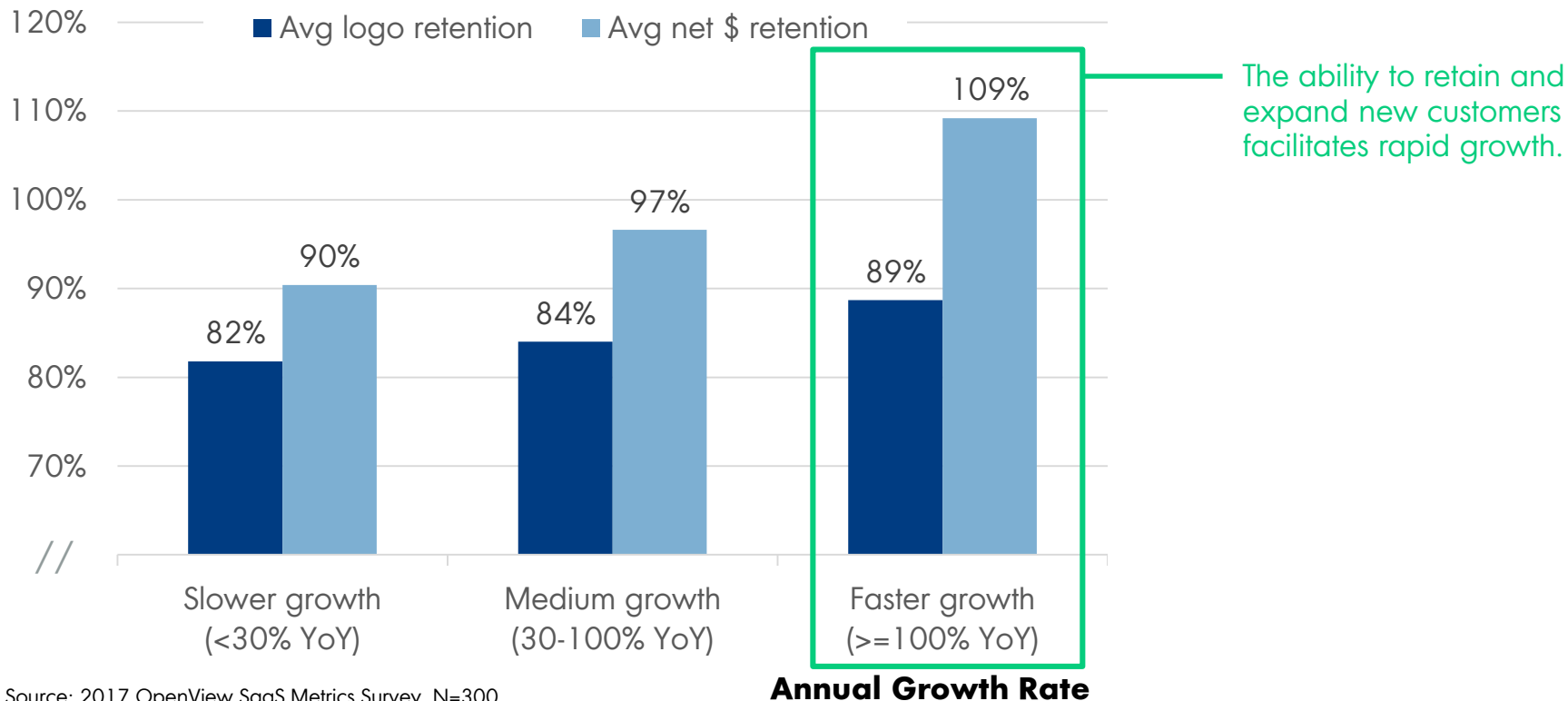
Net Dollar Retention Rates (Annual)



Infrastructure software companies and those with usage-based pricing are the most likely to see net retention rates of 115% and higher.

RETENTION RATES VS. GROWTH

Retention Rates

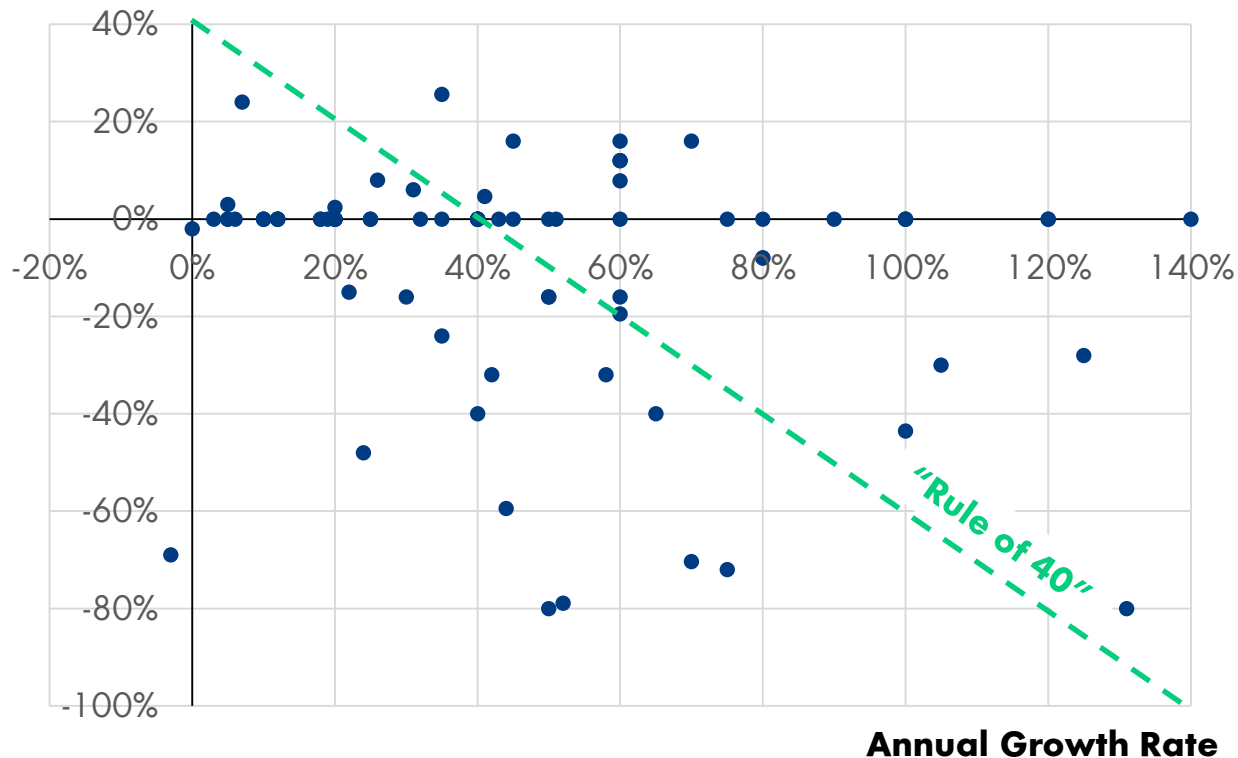


Source: 2017 OpenView SaaS Metrics Survey, N=300

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"THE RULE OF 40%"

FCF Margin (Loss)



INSIGHTS

- Companies that perform best in public markets balance growth and profitability. KeyBanc Capital Markets data shows that 79% of the market cap of public SaaS was above the 40% threshold.
- Most private companies still trend below the "Rule of 40" and must improve to make attractive IPO candidates.

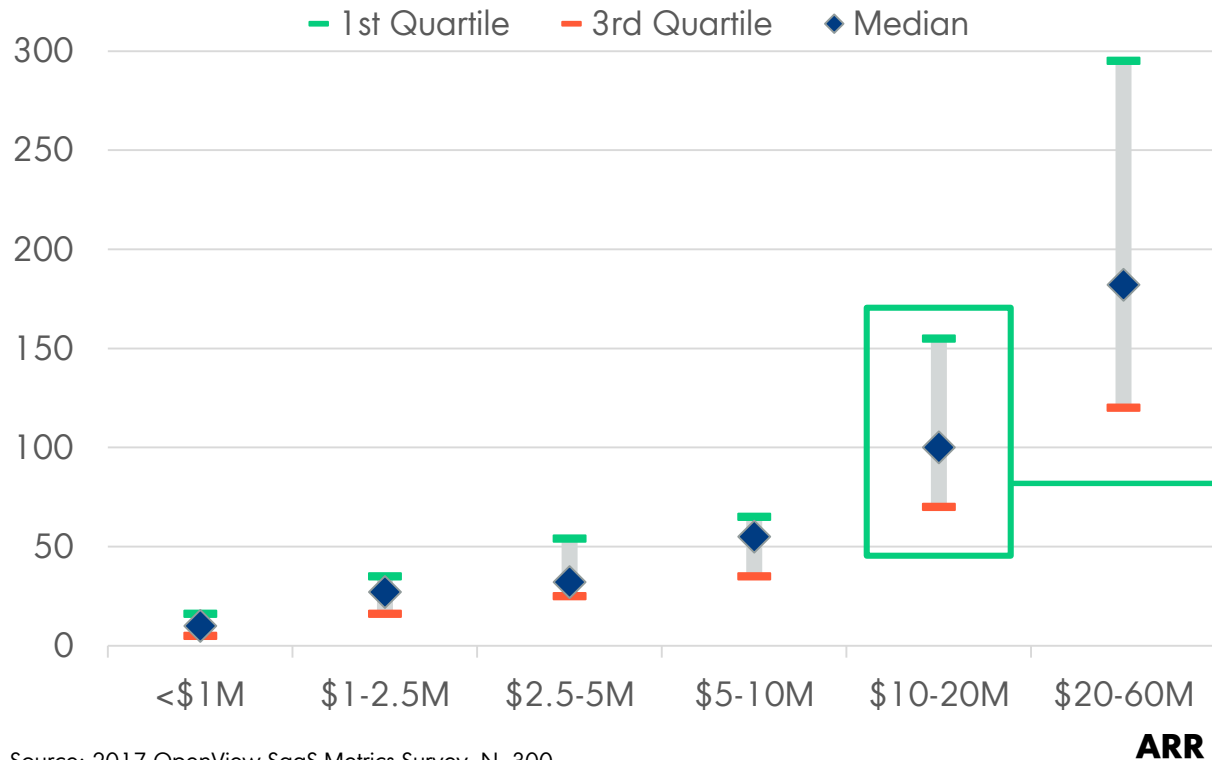
Source: 2017 OpenView SaaS Metrics Survey, N=300; Excluded companies <\$5M in ARR

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IN-DEPTH INSIGHTS: TALENT

NUMBER OF EMPLOYEES (FTE'S)

Number of FTE's



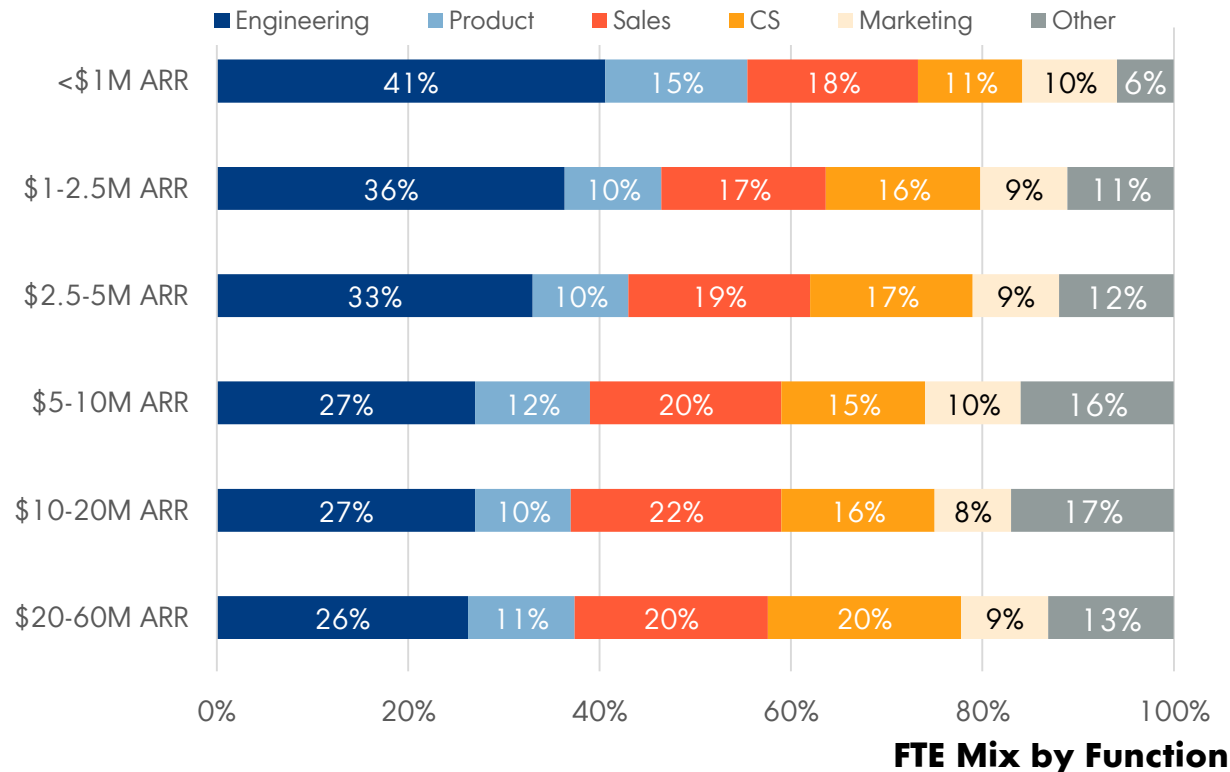
There's an especially wide variation in employee count once companies hit \$10M in ARR.

Source: 2017 OpenView SaaS Metrics Survey, N=300

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FTE MIX BY FUNCTION

ARR

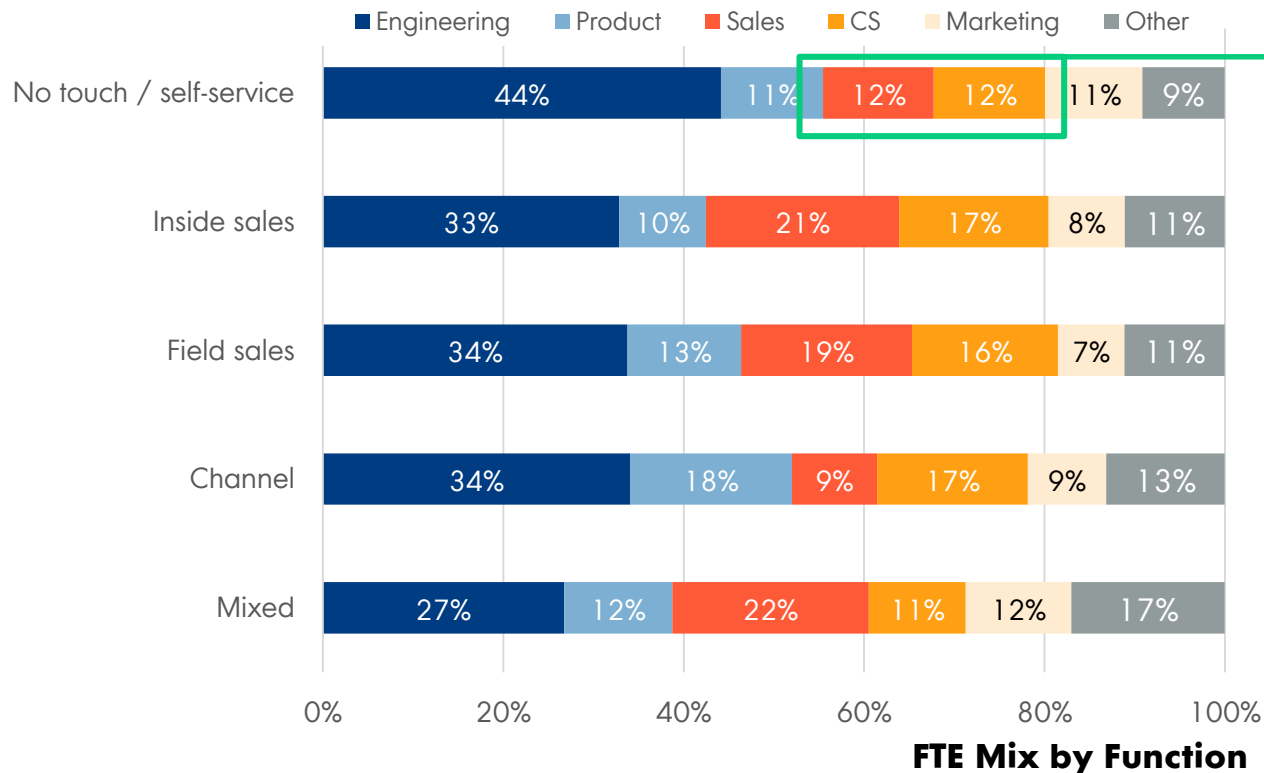


INSIGHTS

- At the early stages, most startup employees are in Product & Engineering roles.
- As companies expand, they need to rapidly grow Customer Success and specialized functions, such as Recruiting and Finance.

FTE MIX BY DOMINANT SALES CHANNEL

Dominant Sales Channel

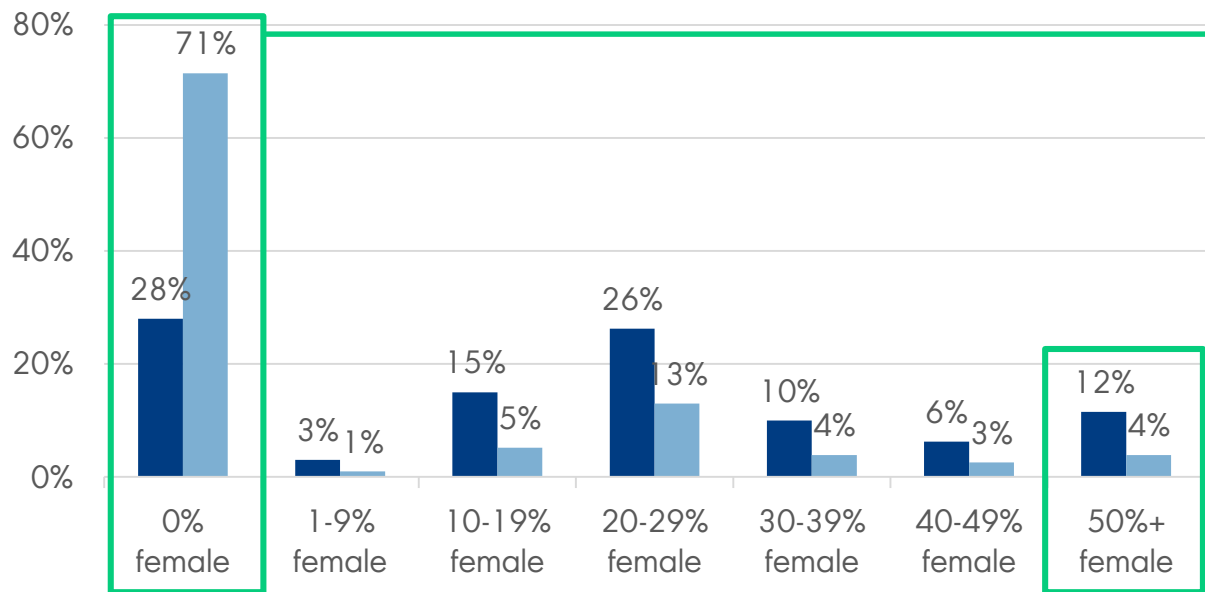


Companies with self-service sales models require far fewer Sales & Customer Success resources to grow, enabling them to scale very efficiently.

GENDER EQUALITY

Percent of Respondents

100% — ■ Company leadership (Director & above) ■ Board of Directors



A whopping 71% of SaaS startups have no female Board members. How is this acceptable?

Only 12% have full parity between men and women within their leadership teams.

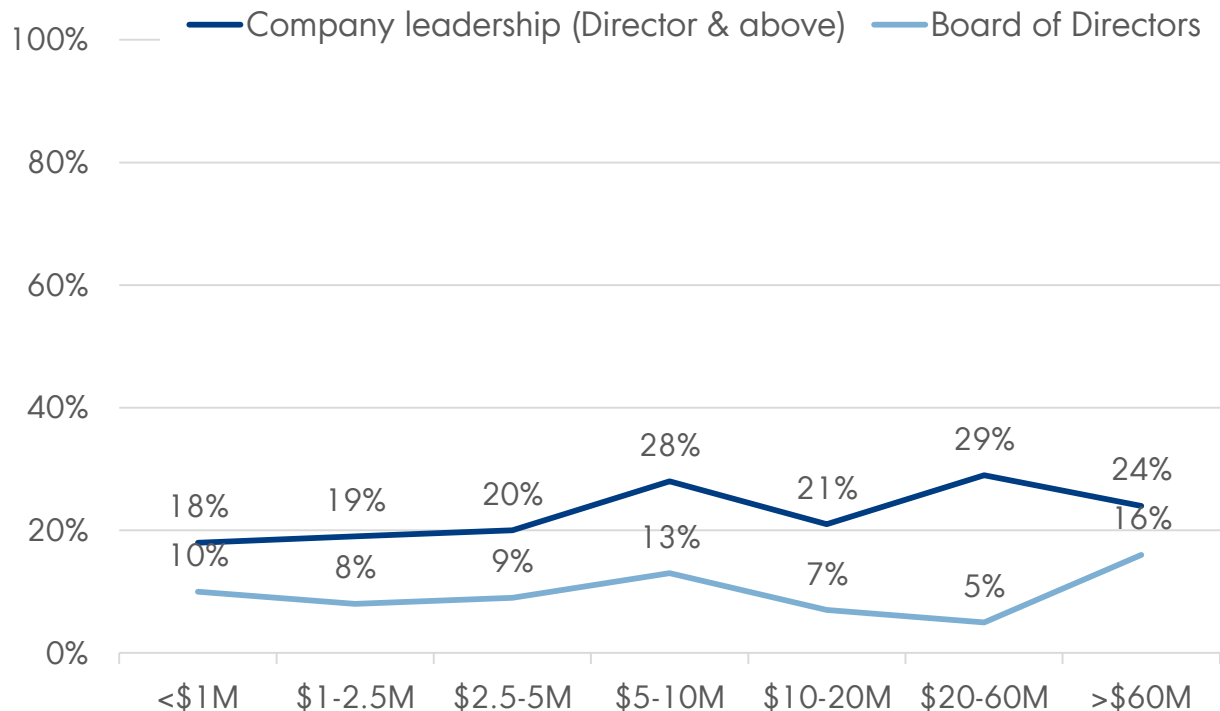
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Female Representation

GENDER EQUALITY BY COMPANY ARR

Mean Percent Female



INSIGHTS

- Larger companies tend to fare slightly better when it comes to gender diversity.
- Even so, the software industry as a whole still has a ways to go to get to true parity.

Source: 2017 OpenView SaaS Metrics Survey, N=300

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**QUESTIONS OR
COMMENTS?**



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Director of Market Strategy

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Kyle helps OpenView's portfolio companies accelerate top-line growth through deep insights into their market landscape and customers. He leads segmentation, positioning, channel/partner strategy, new market entry and packaging/pricing initiatives, partnering closely with portfolio leadership teams. He also covers OpenView's SaaS metrics and benchmarking research.

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