2021 SaaS Industry Report

Research Compiled By

RIVER SaaS CAPITAL

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EXECUTIVE SUMMARY

This year's SaaS industry report continues the exploration of how companies pursued, obtained, used, and saw the results of a variety of growth funding avenues. However, as 2020 saw the rapid rise and spread of COVID-19, we also took the opportunity to learn how the pandemic impacted SaaS companies — in their selection of funding avenues, the use of different acquisition and upsell opportunities, in comparison with their competitors, and other factors. We surveyed a number of companies across the country and appreciate each response.

Results from this year's survey matched what we previously reported in our 2020 outlook report, released last summer. Many companies saw strong growth while others saw a decline in subscribers. Nevertheless, SaaS companies took action to maintain their operations and continue pursuing their goals for the year. Here are a few highlights from the data:

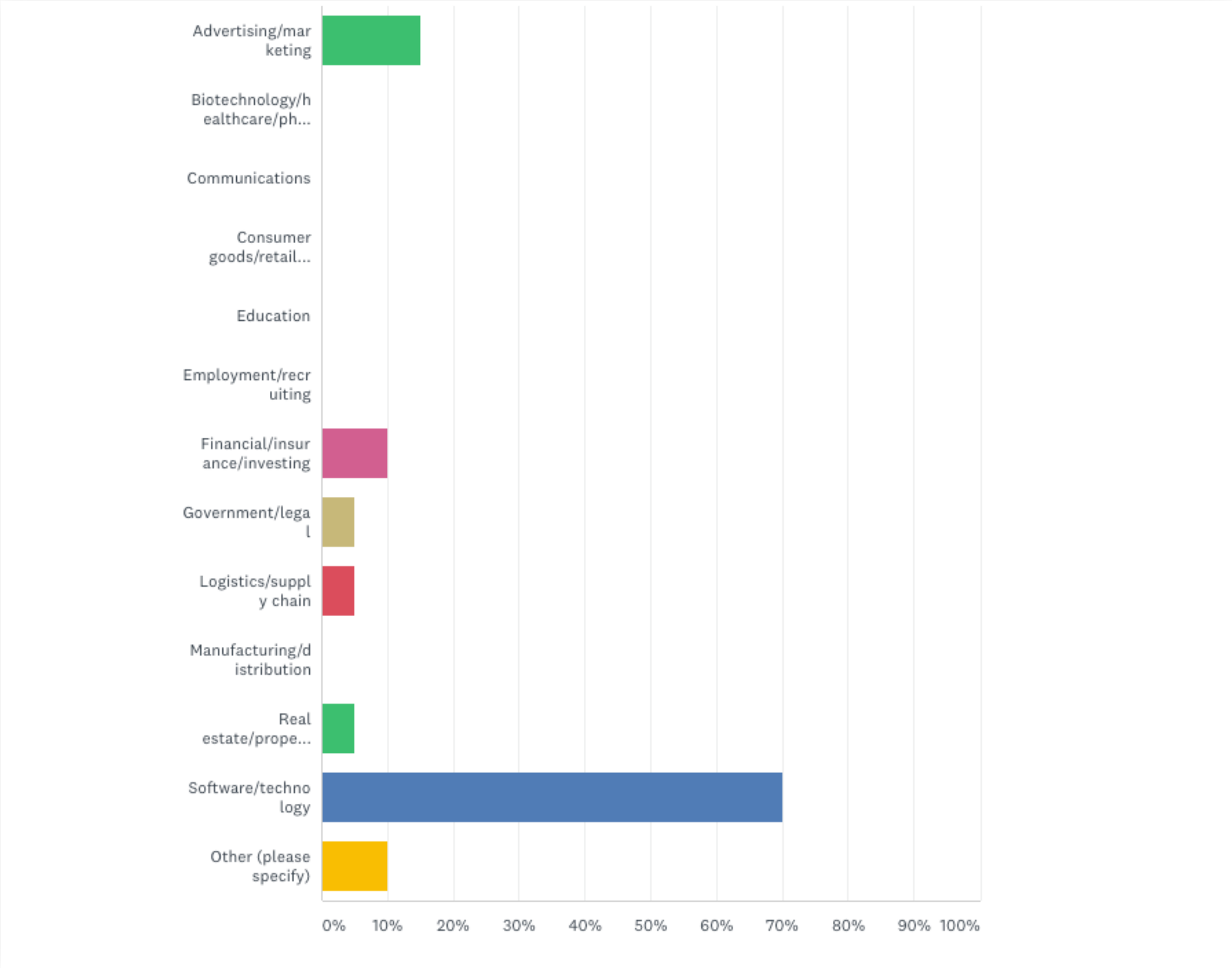
- Growth once again was the driving factor in why companies sought growth capital, but as the data reveals, many were forced to switch gears to maintain their operations. In the end, however, many respondents did see growth in their businesses.
- Companies reported heavier use of angel investors for obtaining growth capital, with that category being reported as the most beneficial and one that they are considering pursuing more in the future.
- Companies sought a more balanced approach to how they used growth capital and how much they pursued. In previous years, companies sought higher amounts of growth capital. Companies applied their funding to multiple areas as opposed to pure growth.
- About a third of respondents leaned on government programs like PPP and EIDL to navigate the challenges of the pandemic, and as a result, were more focused on maintenance of operations as opposed to specific growth goals.
- Respondents reported that the pandemic caused a temporary delay in achieving their goals, and in the end, almost all reported achieving all or some of their financial goals.

While the pandemic was difficult for many industries, this year's report showcases the SaaS industry's resiliency, flexibility and willingness to adapt to change, and ability to pursue its goals despite many challenges. Again, thank you to all those who participated in this year's survey and enabled us to compile this report. We hope you find it informative and useful.

SURVEY FINDINGS

1. Please select the option that best describes your SaaS company.

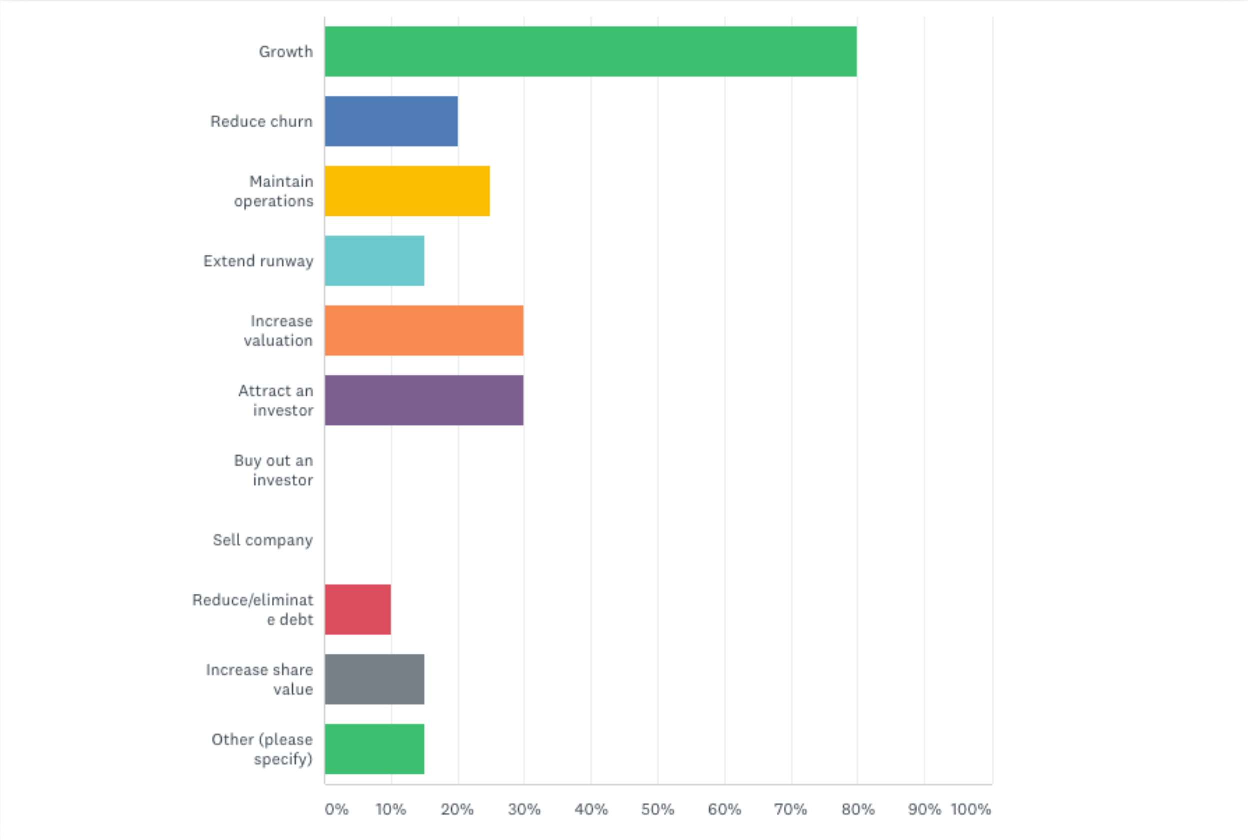
While we saw a heavy concentration of SaaS companies supporting the software and technology industry, various other markets were represented in the survey, including security- and hospitality-related SaaS companies.



2. What were your financial goals for 2020?

SaaS companies explored a variety of avenues for growth capital in 2019, ranging from venture capital to self-funding. Only 14% of respondents explored bank loans, which of the options provided require collateral that SaaS companies often do not have available. Of the remaining options, venture capital is the leader with 35% of respondents exploring this avenue. Yet debt financing, angel investors, and self-funding follow closely behind, each with nearly 30% of respondents citing these as avenues considered as well.

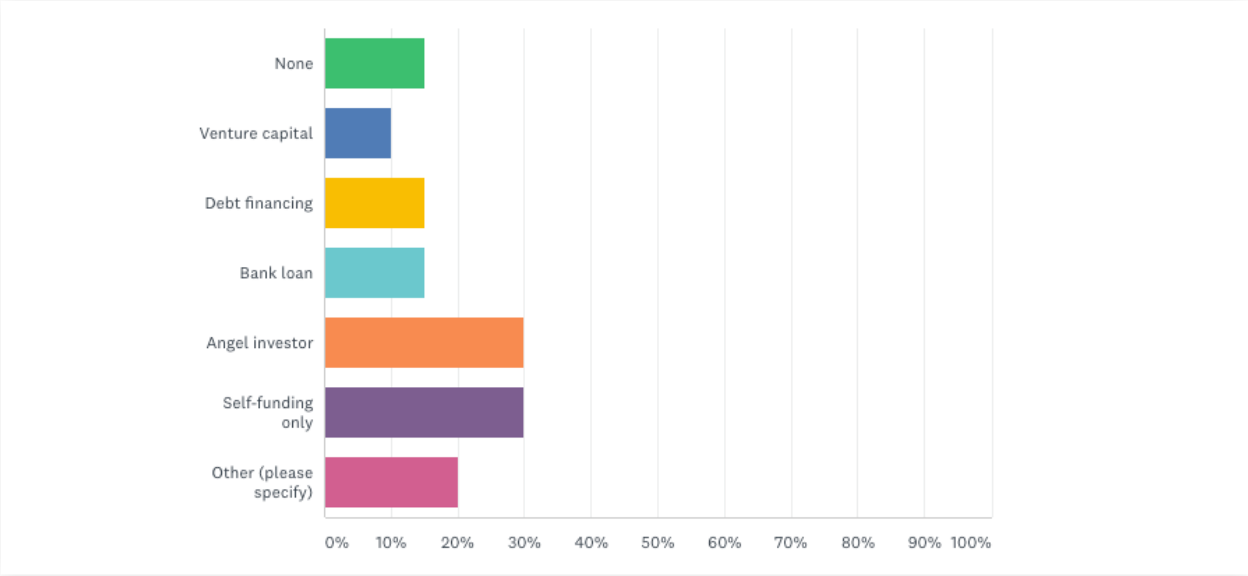
Key takeaway: *SaaS companies pressed forward despite the pandemic, but focusing on financial performance for internal and external purposes was prevalent.*



3. What funding avenues did you utilize in 2020?

Similar to 2019, SaaS companies pursued a variety of avenues for obtaining growth capital. Venture capital and debt financing dropped in utilization YOY, while angel investor funding, bank loans, and self-funding remained nearly the same YOY. Of all participants, 15% did not pursue any growth funding, and 20% utilized Paycheck Protection Program (PPP) loans and Economic Injury Disaster Loans (EIDL).

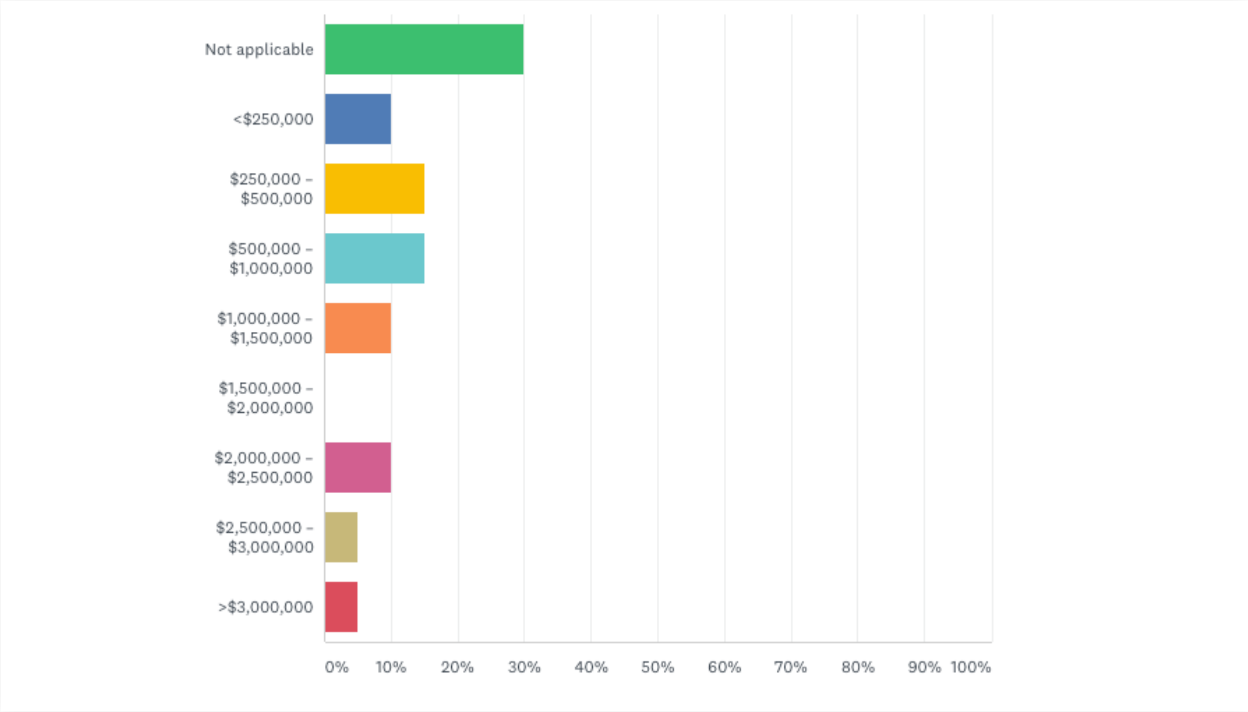
Key takeaway: *SaaS companies relied less on the usual growth capital avenues or maintained previous avenues while also leaning on government programs as a response to the pandemic.*



4. What amount of capital were you looking to receive?

In 2020, companies that sought growth capital pursued a wider range of different investment amounts than in 2019. In last year's report, nearly 30% sought $1–1.5 million (vs. 15% in 2020), and more than 40% sought investments greater than $3 million (as opposed to 5% in 2020). This reflects SaaS companies' more diverse financial goals for 2020 versus the much more significant focus on sheer growth in 2019 as well as the various funding avenues SaaS companies sought in 2020 vs. 2019.

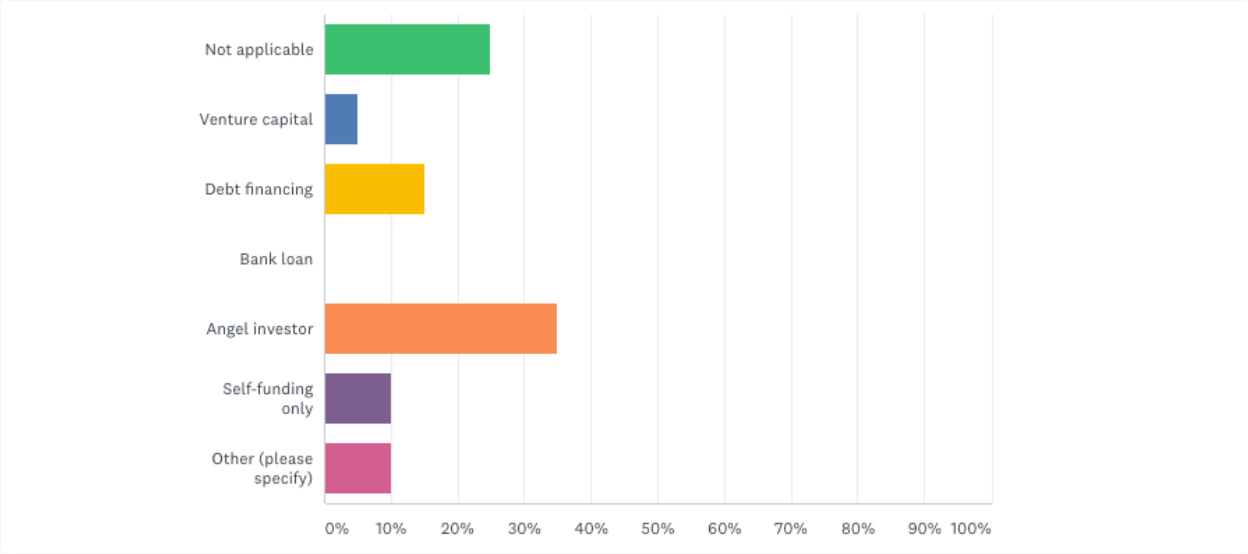
Key takeaway: *SaaS companies sought investment amounts that supported their specific needs and goals throughout 2020.*



5. If you used more than one, which proved the MOST beneficial?

Of the SaaS companies that utilized more than one avenue for funding, one-third reported that angel investors proved the most beneficial to their goals (35%), followed by debt financing (15%). Compared with the 2019 report, venture capital saw a significant reduction in value to SaaS founders (nearly 30% in 2019 vs. 5% in 2020). SaaS companies that sought PPP or EIDL loans understandably reported those sources as the most advantageous for their goals (5%).

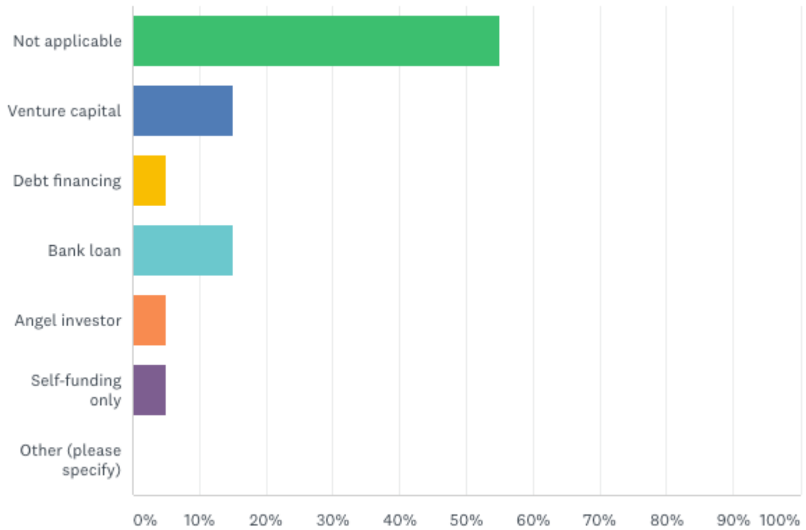
Key takeaway: *SaaS companies relied less on established firms for growth capital in 2020 vs. 2019, instead choosing to engage private investors and other programs based on their needs.*



6. If you used more than one, which proved the LEAST beneficial?

Of the SaaS companies that used multiple funding avenues, 30% reported venture capital and bank loans (15% respectively) as the least beneficial to their financial goals. This coincides with 2019 findings, with nearly 80% of respondents reporting similarly. Understandably, many companies reported Not Applicable given the uncertainty of 2020, as they may still be waiting to discover the long-term effects of their chosen funding avenues.

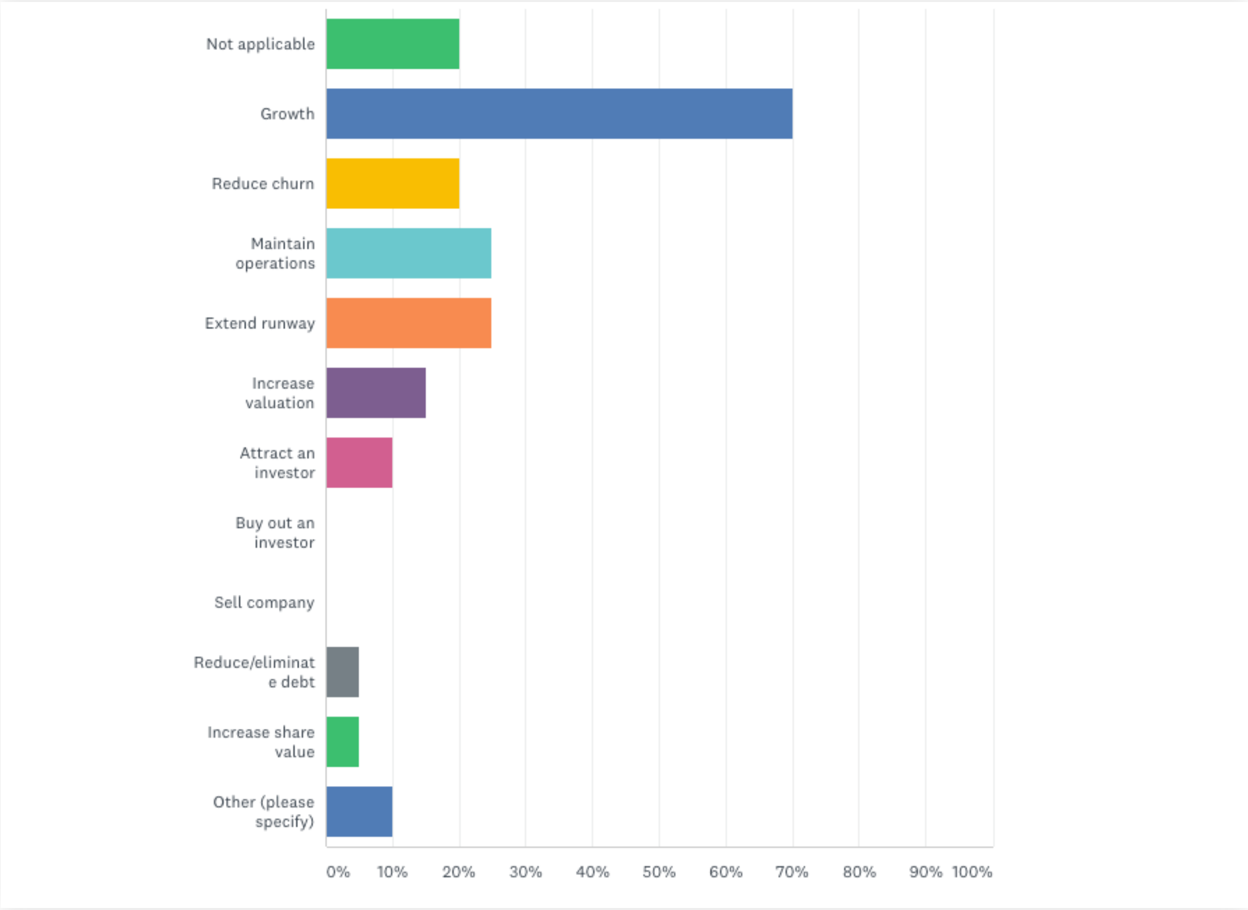
Key takeaway: *While we may not yet see the full impact of 2020 funding, venture capital and traditional bank loans maintained their positions as the least beneficial sources of funding.*



7. What goals did you apply your funding toward once received?

SaaS companies mostly held true to their original intent for obtaining growth capital. Growth (70%) and maintaining operations (25%) remained consistent, but runway extension increased by 10%, and the initial focus on increasing valuation, attracting an investor, eliminating debt, and increasing share value all decreased.

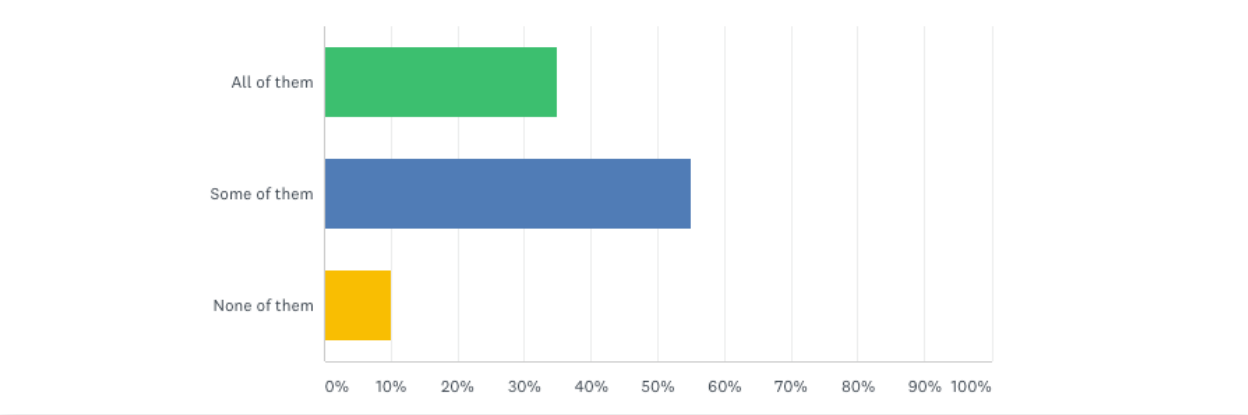
Key takeaway: *While more SaaS companies wanted to focus on growth and the financial appeal of their organizations, operations and runway extension took priority.*



8. Did you achieve your financial goals in 2020?

In 2019, most respondents reported achieving only some of their financial goals (86%). Despite a slightly greater focus on maintaining operations in 2020, it is pleasing to see far more SaaS companies reporting that they achieved all of their financial goals (35% in 2020 vs. 14% in 2019).

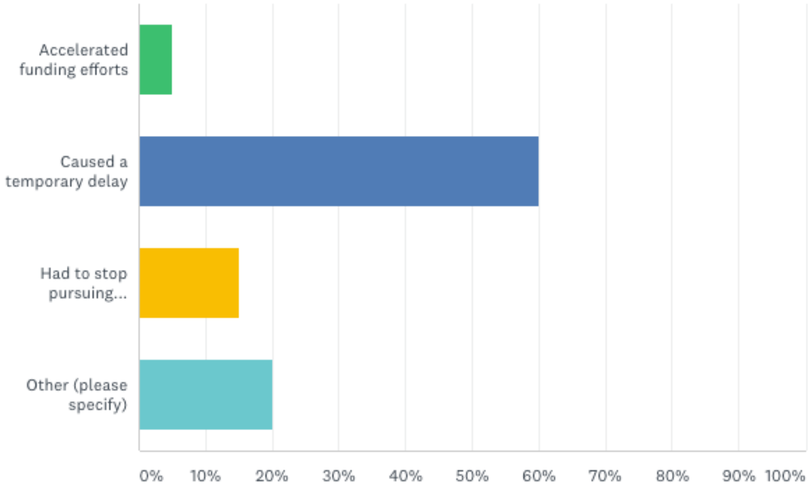
Key takeaway: *While 55% of respondents still reported achieving some goals, it appears that SaaS companies achieved most of what they set out to accomplish.*



9. How did the pandemic impact your funding decisions?

The pandemic affected every industry in some way, and SaaS was certainly no exception. Of all respondents, 60% reported that the pandemic caused a temporary delay in their decision to pursue funding. And while 15% reported that they had to stop pursuing funding altogether, 20% reported that there was no impact or it affected the business in some other way.

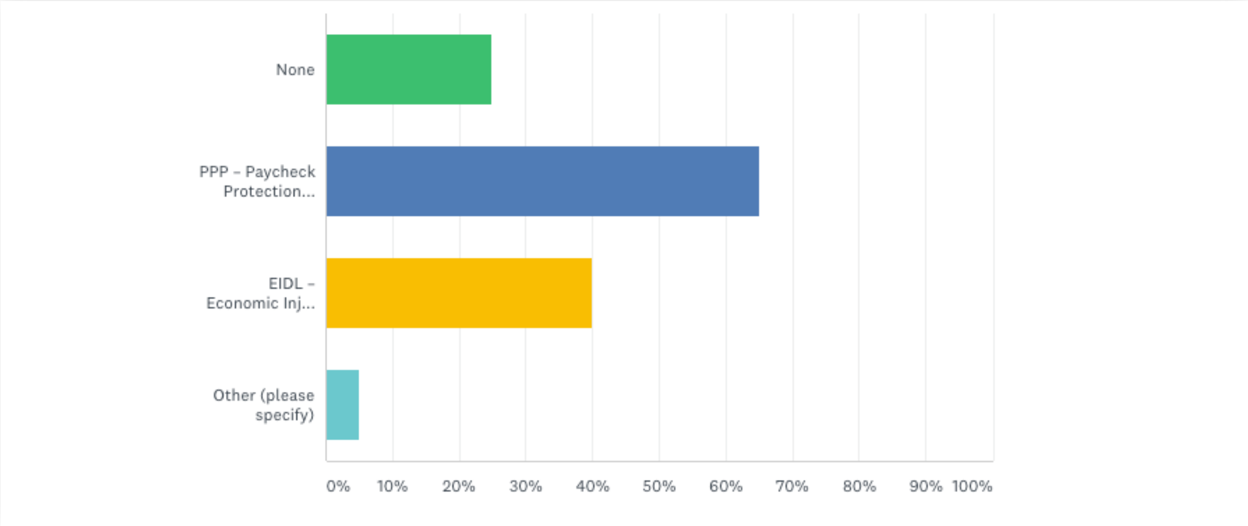
Key takeaway: *SaaS businesses certainly felt the effects of the pandemic, but fortunately, most were able to continue making progress toward achieving their funding goals.*



10. If applicable, what assistance programs did your business choose to pursue?

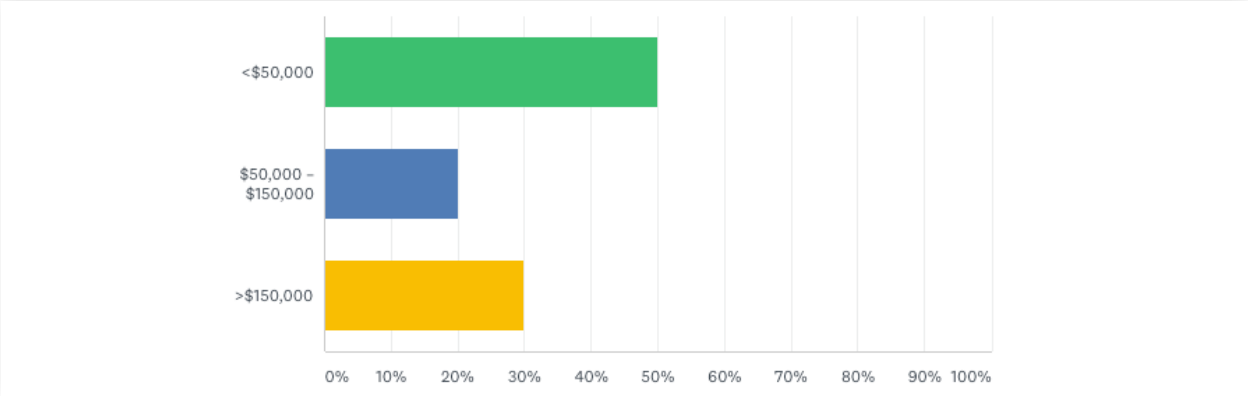
SaaS companies took advantage of the Paycheck Protection Program (PPP) and Economic Injury Development Loan (EIDL) throughout 2020 to maintain their employee rosters. In section 3, we reported that 20% of respondents chose to pursue these programs, and as a result, companies were able to maintain their operations. The post-PPP and EIDL funding world is likely to look different for SaaS companies that had previously considered venture capital. Yet, for those with strong revenues and the desire to retain complete ownership of their business, venture debt remains a strong option for future consideration.

Key takeaway: *SaaS companies were able to take advantage of government programs to withstand the effects of the pandemic, enabling them to maintain operations and more.*



11. What was your monthly recurring revenue BEFORE obtaining funding?

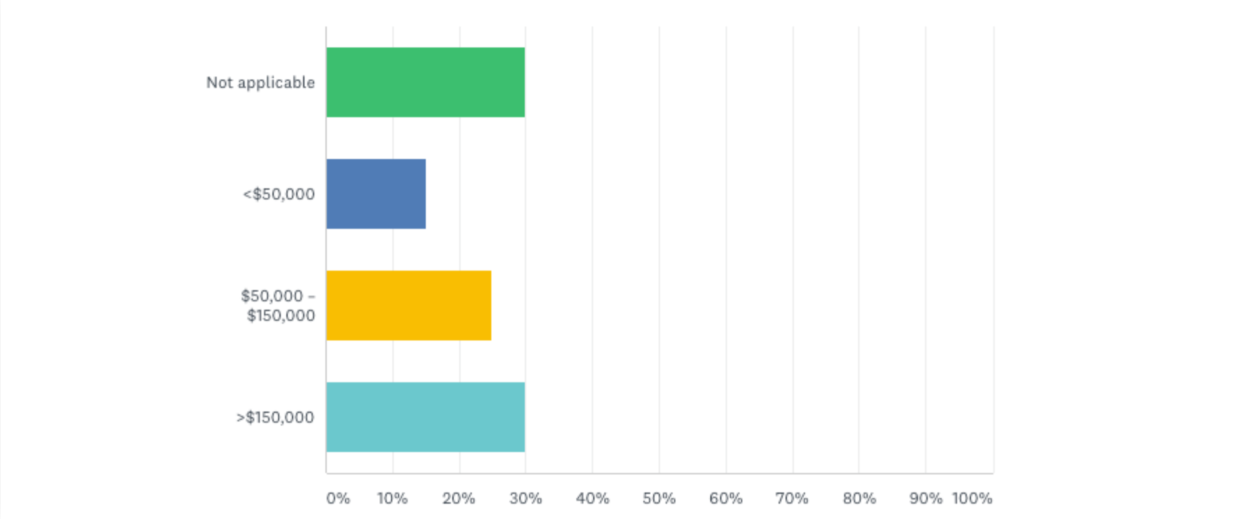
Half of the survey respondents reported having an MRR of $50K or less prior to obtaining funding in 2020, with 20% having MRR between $50–100K and the remaining 30% having a higher MRR at or greater than $150K.



12. What was your monthly recurring revenue AFTER obtaining funding?

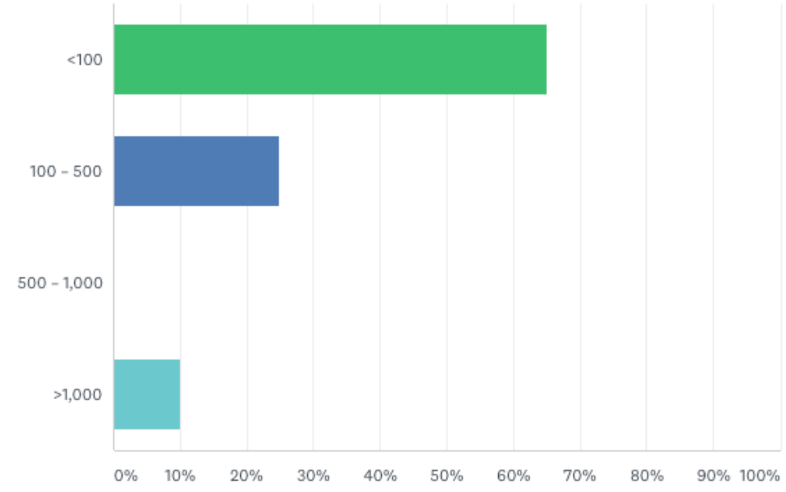
Of those respondents who pursued growth funding in 2020, the most growth occurred between the <$50K and $50–100K tiers. This is, understandably, a stark contrast to the growth achieved in last year's report. With close to a third of respondents utilizing funding solutions designed for maintenance instead of growth, it is also understandable that post-funding MRR change was not applicable.

Key takeaway: *Growth was tricky in 2020, with many companies focused on maintenance. While significant growth was not achieved, some companies were able to move the needle.*



13. How many customers did you have BEFORE obtaining capital?

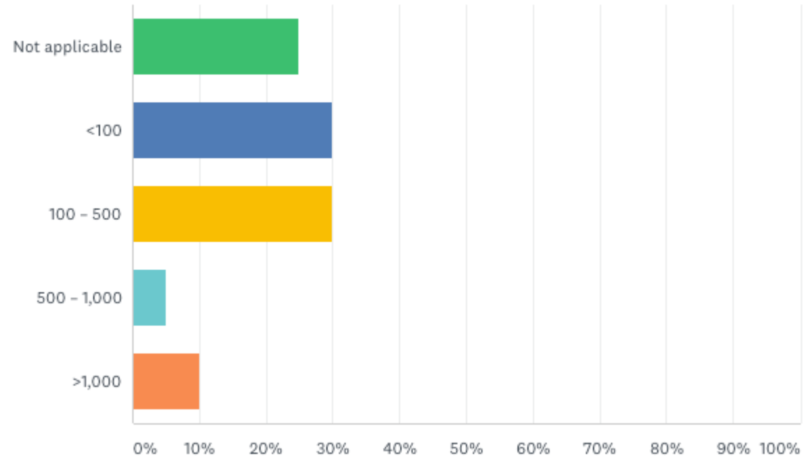
A large percentage of respondents had less than 100 customers before pursuing growth capital, with 25% having between 100 and 500 customers and 5% having more than 1,000 customers.



14. How many customers did you have AFTER obtaining capital?

Because nearly one-third of respondents were focusing on withstanding the pandemic's impact and using funds from government programs to do so, it is understandable that the effect of funding on customer bases was not applicable. Of those that pursued growth funding, growth in the number of customers was reported in the 100–500 and 500–1,000 categories.

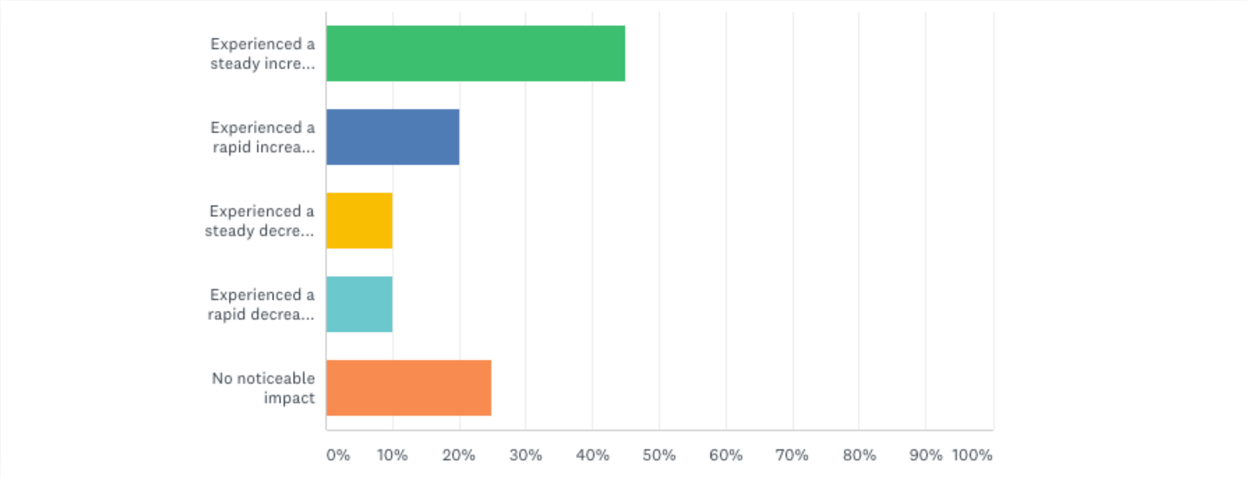
Key takeaway: *Similar to MRR growth, the focus for many companies was maintaining current subscriber bases. However, some companies were able to add new customers to their rosters.*



15. How did the pandemic affect your customer base in 2020?

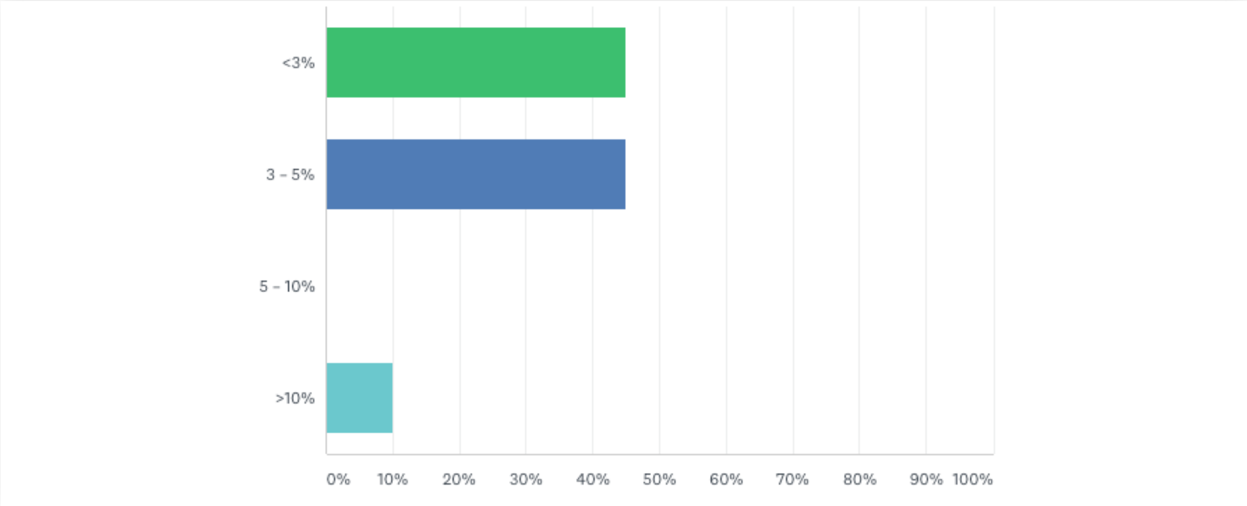
The pandemic did one of two things for SaaS companies: it either created a surge in demand for their platforms, or it led to a decline in subscribers who sought to eliminate any non-business-critical expenses. Of all survey respondents, it is pleasing to see that nearly 70% experienced a steady increase in subscribers (50% steadily, 20% rapidly) as opposed to the 10% that saw a decrease (5% steadily and rapidly, respectively).

Key takeaway: *Despite companies' more extensive focus on maintenance in 2020, many nevertheless saw an increase in subscribers, reflecting their stability and steady growth in MRR.*



16. What was your churn rate BEFORE obtaining funding?

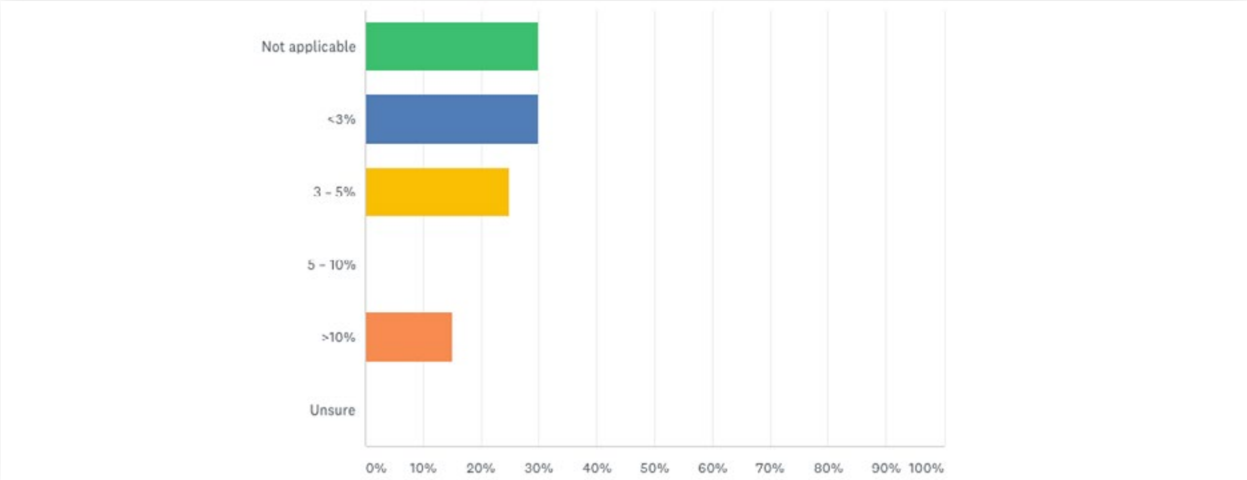
Prior to obtaining growth funding or any sort of government assistance, SaaS respondents reported low churn rates of 3% (45%) and 3–5% (45%). A small percentage of respondents reported having a churn rate above 10%.



17. What was your churn rate AFTER obtaining funding?

Despite a third of respondents reporting “not applicable” to their post-investment or post-loan churn, rates remained steady and even decreased in some categories. A small increase in churn rates above 10% was reported. This is relatively comparable to last year’s report, with many respondents seeing minor decreases in churn, yet most figures remaining fairly steady.

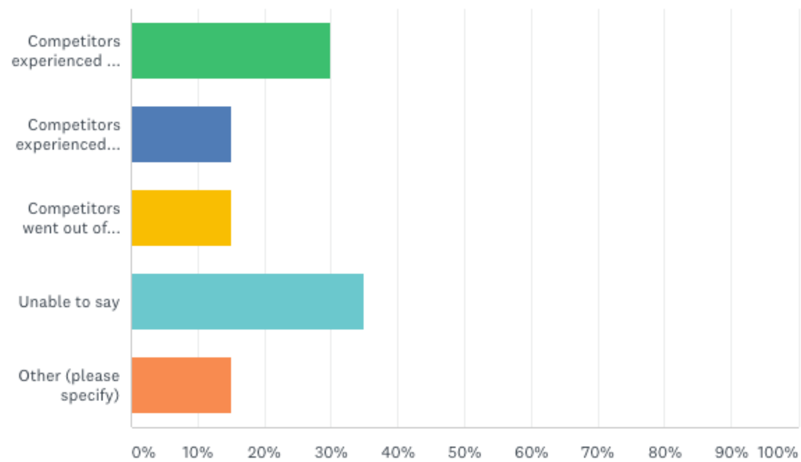
Key takeaway: *SaaS companies largely held their ground or saw minor reductions in 2020, which is reflected in the small uptick in subscribers reported earlier.*



18. What impact did the pandemic have on your competition?

The effect of the pandemic on respondents' competitors was diverse, with 30% reporting that their competitors experienced no growth or decline when compared with their company. Some reported that their competitors experienced significant growth versus them (15%), while others saw their competitors go out of business (15%). More than one-third were unable to say or see a difference. In the Other category, a small percentage reported that they had no marketplace competition.

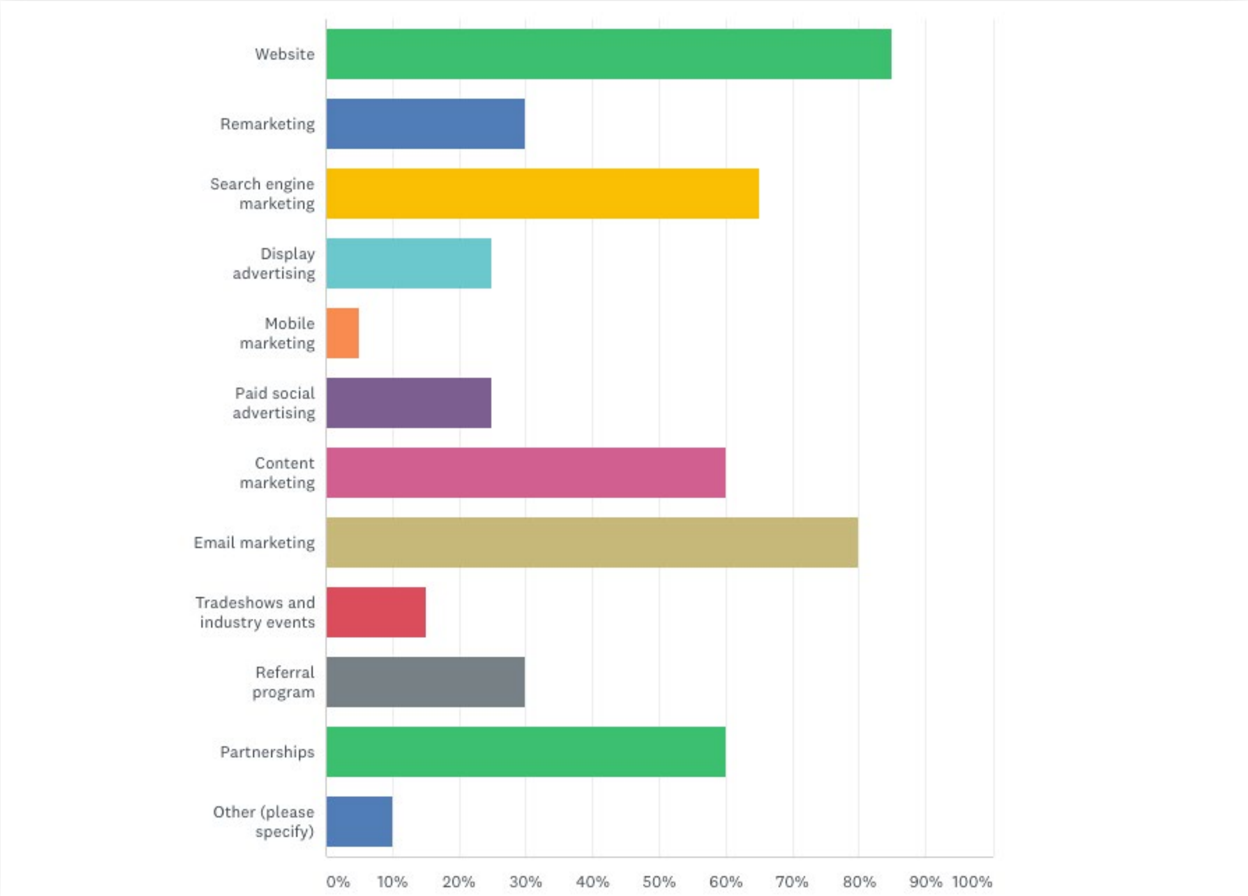
Key takeaway: *While some saw growth and others saw decline, the true impact of the pandemic was different for each SaaS company and its competitors.*



19. What avenues did you use in 2020 to ACQUIRE customers?

Similar to previous industry reports, SaaS companies leveraged the power of their websites, online advertising efforts, content marketing, email marketing, and partnerships in 2020 to acquire new customers. Remarketing, SEM, and display advertising saw small upticks, while referral programs and partnerships saw larger increases. Unsurprisingly, reliance on industry events plummeted. And while content marketing and email marketing were still mainstays in acquiring customers, they saw notable decreases from 2019, likely due to companies cutting back on marketing programs and engagements to conserve resources.

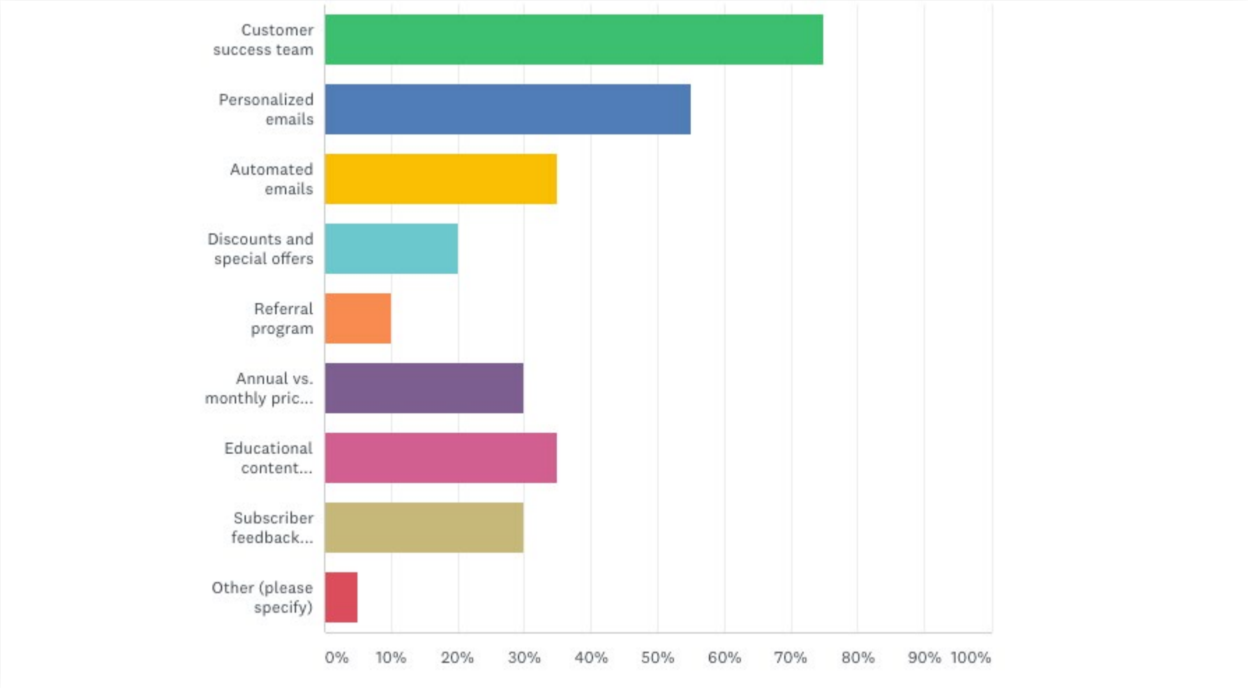
Key takeaway: *The fundamentals remained in place for 2020, with companies looking to take a more targeted approach through greater use of paid online advertising efforts.*



20. What avenues did you use in 2020 to RETAIN customers?

In 2020, SaaS companies leaned heavily on their customer success teams to maintain relationships with existing subscribers. While this is on par with data from previous years, virtually every other avenue to retain customers decreased save "discounts and special offers," which grew from 7% in 2019 to 20% in 2020. The use of personalized and automated emails remained strong despite seeing small decreases, but other avenues such as educational content and seeking subscriber feedback decreased.

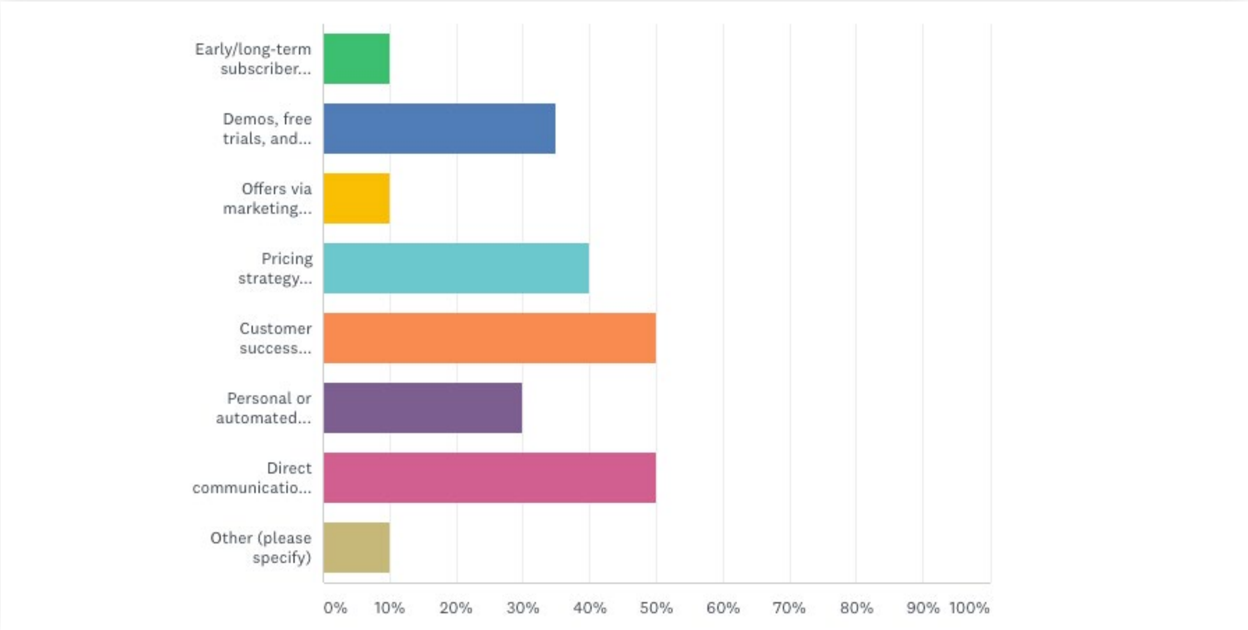
Key takeaway: *The tried-and-true methods of keeping customers engaged with platforms and companies remained in use in 2020, but customer success teams led the way.*



21. What avenues did you use in 2020 to UPSELL customers?

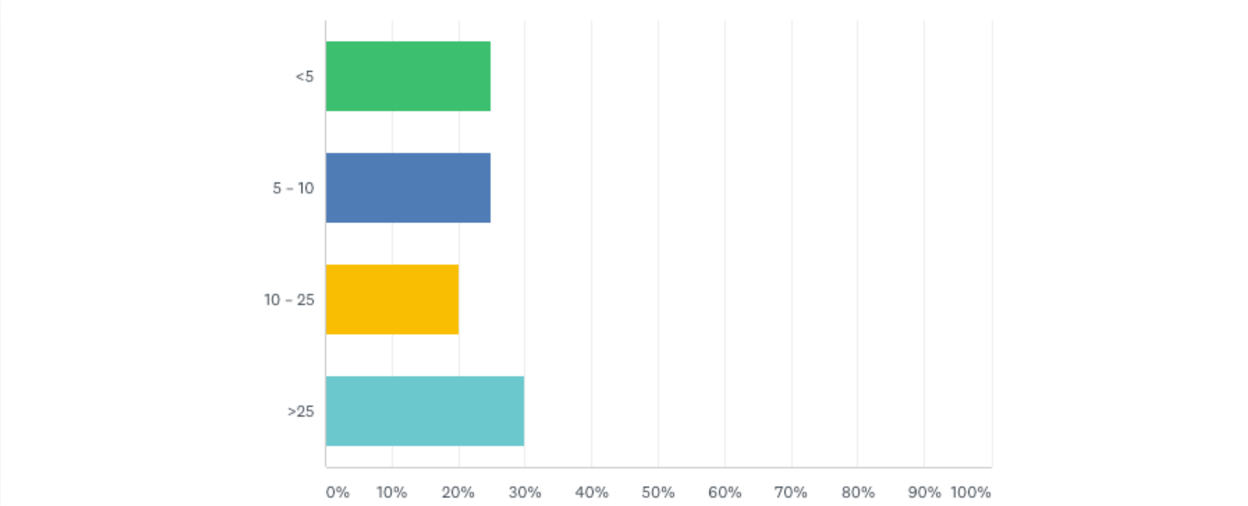
Similar to acquisition efforts, respondents used many of the same avenues for upselling as they did in 2019. Also like customer acquisition, each avenue saw less utilization. The only avenue that remained steady from 2019 was demos, free trials, and open tests at 35%. Pricing strategy, customer success teams, personal/automated emails, and direct communication remained strong but anywhere from 10–20% lower than 2019 levels. This reflects SaaS companies' focus on navigating the pandemic and using fewer resources.

Key takeaway: *The same avenues that have worked historically were once again put to use in 2020 to drive upsell opportunities, albeit at a smaller scale.*



22. What was the size of your team BEFORE obtaining capital?

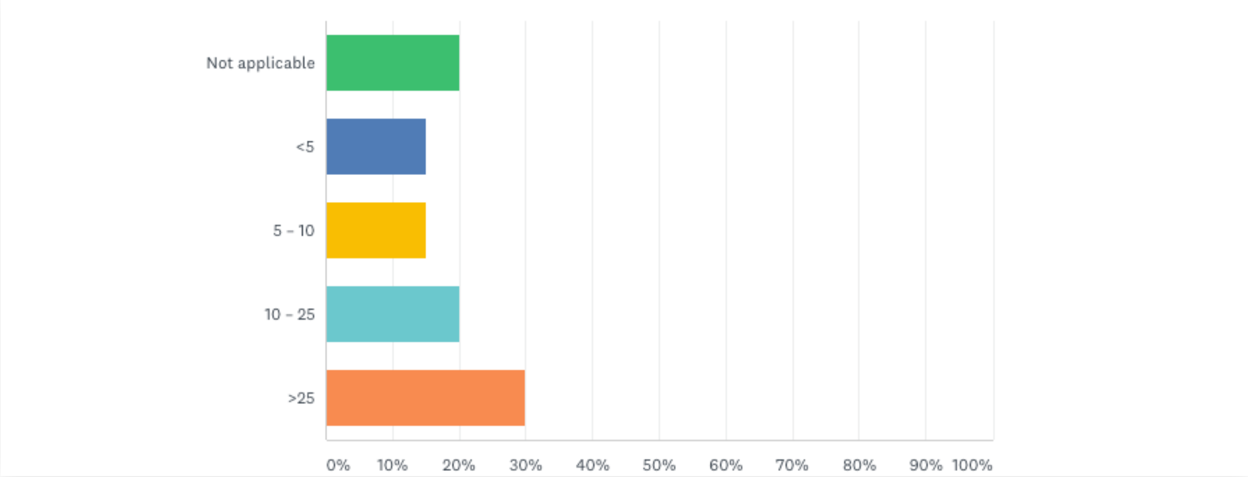
This year's survey saw a broad mix of SaaS company sizes, with 25% having less than 5 employees, 25% having 5–10 employees, 20% having 10–25 employees, and 30% having more than 25 employees.



23. What was the size of your team AFTER obtaining capital?

While 20% of SaaS companies reported "not applicable" for team size change post-investment or after obtaining government assistance, the only changes were in the <5 and 5–10 categories, which each dropped 10%.

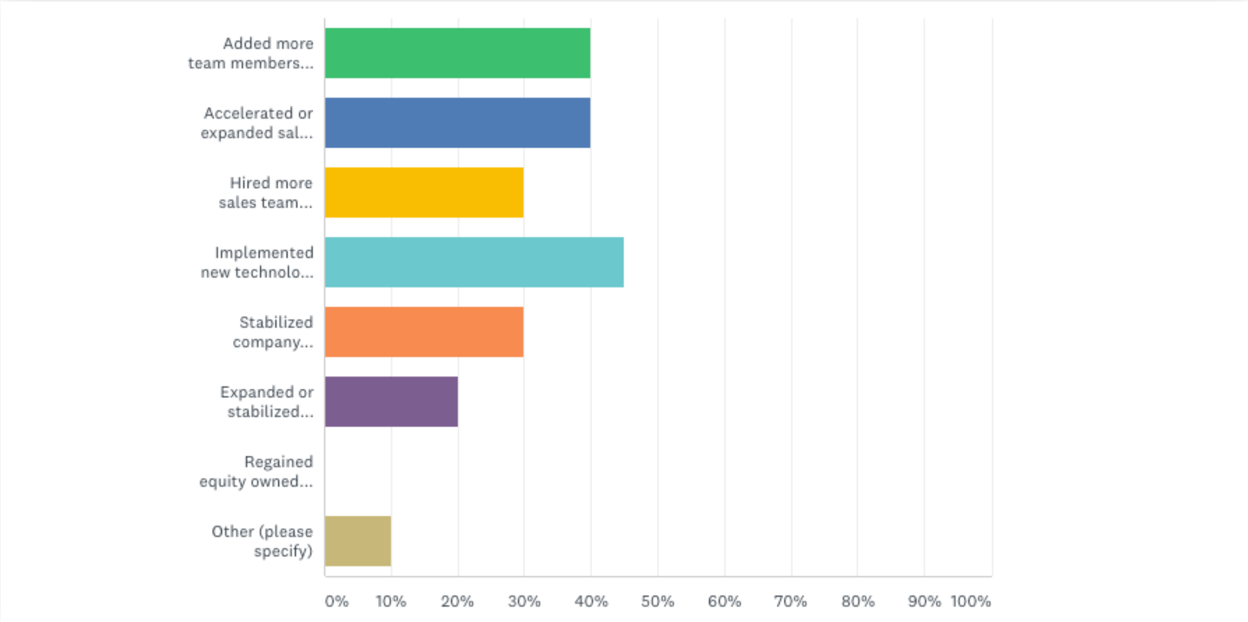
Key takeaway: *Many respondents sought to use the PPP and EIDL programs, which were focused on maintenance rather than growth. Team sizes stayed reasonably consistent.*



24. What did you achieve with the funding you obtained in 2020?

SaaS companies that pursued growth funding in 2020 reported relatively similar goals and accomplishments to 2019 respondents, albeit in smaller percentages. Team member growth reduced by almost 20%, sales acceleration reduced by 10%, new sales team members reduced by more than 10%, company stabilization reduced by 20%, and operations stabilization reduced by 15%. Implementing new technologies or systems stayed the same. A portion of respondents reported success in launching one or more products.

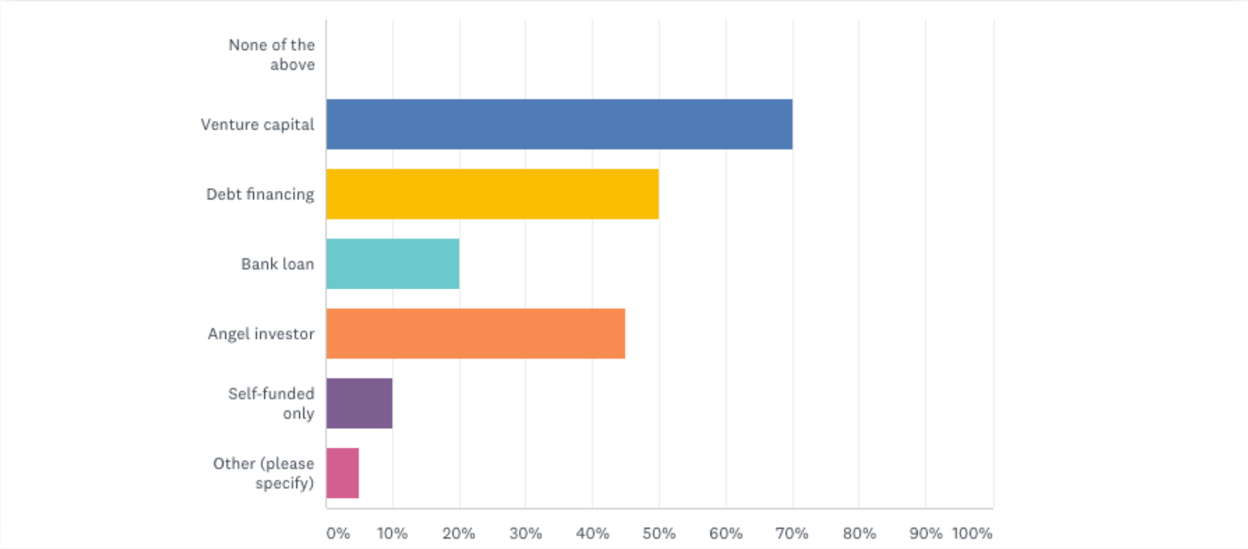
Key takeaway: *SaaS companies were still able to make headway on their goals in 2020, but given the challenges of the year, there was a lower degree of reported success.*



25. What future funding avenues are you most likely to consider if any?

Reflecting respondents' earlier-reported use and benefit from angel investors, nearly 50% reported that they would consider using an angel investor in the future. This is up sharply from 2019, in which only 13% reported considering that avenue. Venture capital remains on par with 2019 findings, though debt financing reduced 20% from 2019 results. Fewer companies reported considering bank loans over 2019 (20% in 2020 vs. 35% in 2019), and self-funding saw a 10% decrease in 2020 over 2019.

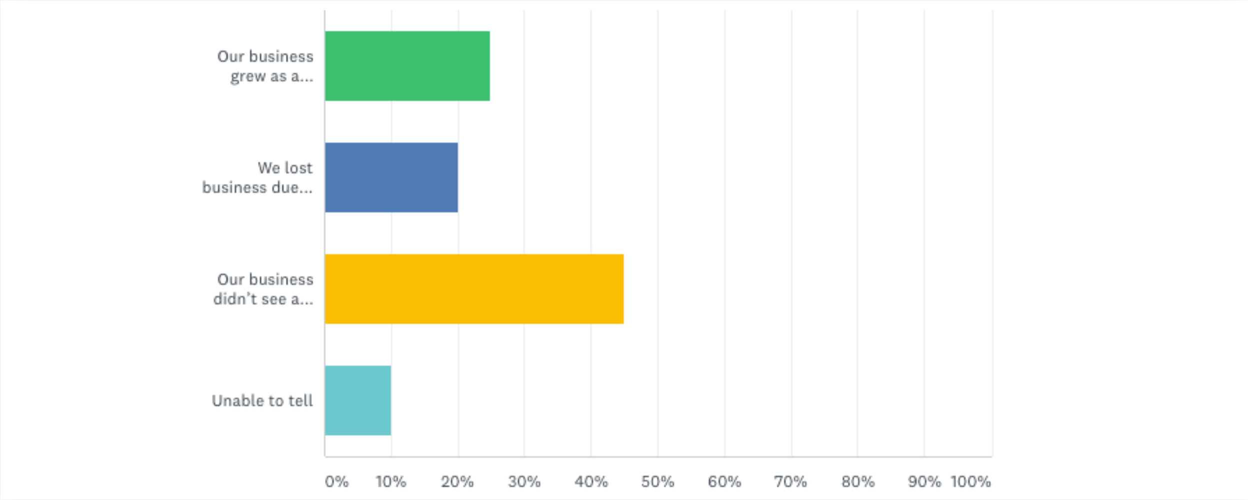
Key takeaway: *SaaS companies appear to be seeking the individual partnerships and support that come with angel investors. Interest in venture capital and debt financing remains high year-over-year, but companies have a greater interest in equity solutions for the road ahead.*



26. Looking back, how would you say the pandemic affected your business?

Despite the challenges that 2020 brought to companies worldwide, we end on a fairly positive note in that 25% of companies saw their businesses grow as a result of the pandemic, while 45% didn't see a significant change. Those who lost business came in at 20%, while those unable to tell came in at 10%.

Key takeaway: *SaaS companies maintained their resilience during the pandemic, relying on their chosen avenues of growth funding as well as government programs to sustain operations and continue their growth goals.*



2020 CREATED A VISION FOR THE ROAD AHEAD

As a venture debt lending firm focused on serving the SaaS industry, we at River SaaS Capital had a front-row seat to witnessing how the pandemic impacted our customers, prospects, and the market as a whole.

As many of the companies in this report noted, the pandemic presented the industry with a growth opportunity. While not all SaaS companies grew as a result of the pandemic, many saw increases in their subscriber bases as companies made rapid shifts to accommodate remote work teams, use SaaS platforms to fill gaps in productivity when other tools were no longer available, and maintain communication between customers and employees.

As the pandemic pressed onward, we continued to lend to our clients and advise them on strategy — a commitment to their success reflected in companies' ranking of venture debt as one of the most beneficial sources of growth capital. Throughout 2020 and still now in 2021, we believe that the pandemic presented the SaaS industry with an opportunity — regardless of whether companies saw growth or decline, and we remain committed to helping the industry move forward with confidence.

If your organization has been considering its financial path forward this year and beyond, we invite you to learn more about the advantages that venture debt offers. Venture capital, angel investors, and other equity solutions continue to have a place in the industry's growth portfolio, but there is no vehicle for sales and marketing acceleration quite like venture debt. And in today's world, that's precisely where the focus should be: accelerating your efforts to help you build your customer base, gain further ground in your respective market segment, and achieve stronger financial performance.

But above all, venture debt enables its users to do all this and more on their own terms. As a founder or owner, you know your business better than anyone else, and you should be the one choosing its direction. And along the way, our team will always be here to advise you. Please reach out if we can be of assistance to your organization in 2021.

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Chief Investment Officer
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RIVER SaaS CAPITAL

GROW YOUR OWN WAY

River SaaS Capital is a venture debt and equity financing provider specifically for SaaS companies. We offer convenient terms, scalable funding and repayment options, and a long-term partnership approach. Whether you're looking to secure your first investment, supplement a previous investment, extend your runway, or secure a higher valuation, we serve as the strategic partner your SaaS company needs to achieve its goals.

Advantages of Working with Our Team:

NO OWNERSHIP
We don't take an ownership stake in your company or a board seat — ever.

RELAXED MRR
If you're not yet within our MRR range, we'll keep in touch until you are.

FLEXIBILITY
Previous investment and even profitability aren't required to qualify.

LOAN OPTIONS
Borrow anywhere from $500k to $5 million based on your funding goals.

FUNDING SPEED
Our application process concludes faster than other available funding options.

LIMITED RISK
Our repayment terms scale to the financial growth of your company.

TRANCHES
Borrow only a portion of the loan amount to avoid paying more interest.

NO WARRANTS
Most debt lenders require warrants, but River SaaS Capital doesn't.

EXIT EASE
An exit strategy isn't required to qualify for our venture debt financing.

BORROW AGAIN
You can re-borrow any principal paid, extending the life of your capital.

PARTNERSHIP
We'll be here to help your company grow from the very beginning.

EQUITY
Our equity financing serves as a strategic complement to venture debt financing.

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