# 2020 SaaS Industry Report

Research Compiled By

RIVER SaaS CAPITAL

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# EXECUTIVE SUMMARY

The 2020 version of the SaaS industry report focuses on how SaaS companies utilized the funding they received in 2019 and how both the funding and those efforts impacted their organizations. We surveyed SaaS companies from around the country whose platforms serve a variety of industries, ranging from education and healthcare to talent management and content marketing and many more.

Results for this year's report confirmed some assumptions pertaining to funding types and uses while also revealing some interesting trends, specifically on how SaaS companies are approaching their prospect and customer relationships as well as what their funding strategies could look like in the future. Here are a few of the highlights:

- Understandably, growth was a leading use for all funding regardless of type. However, SaaS companies were simultaneously focused on strengthening their infrastructure, operations, and finances so those growth efforts would have a solid foundation on which to proceed.
- While most survey respondents cited only achieving some of their goals for 2019, the survey shows positive gains in MRR, number of customers, churn reduction, and employee growth.
- Companies used a number of avenues for new customer acquisition, customer retention, and driving up-sell opportunities. Email campaigns, content marketing, automation, SEO efforts, and certain digital advertising led the charge here.
- Ultimately, SaaS companies were able to achieve a great deal throughout 2019 using their funding, ranging from team growth to financial stabilization and sales and marketing acceleration.
- While companies stated that some funding avenues weren't as beneficial, many are considering using the same avenues again in their future plans. Companies that didn't use certain funding avenues are now considering them for the future as well.

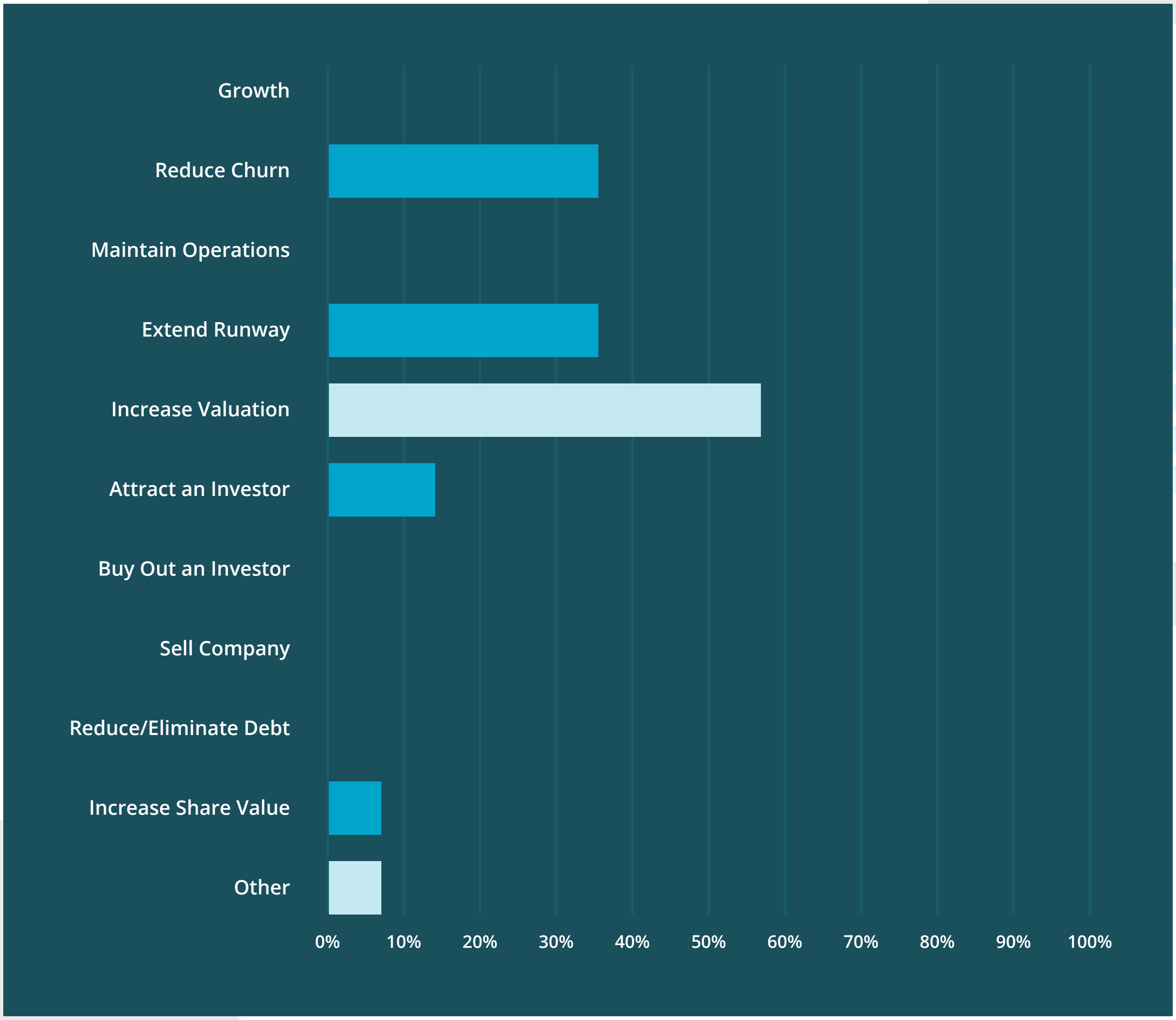
This year's report paints a compelling picture of SaaS companies focusing on becoming stronger — in customer relationships and opportunities as well as their internal structure and systems. We are grateful to our respondents for their participation and willingness to share their stories with us.

## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What were your financial goals for 2019?

Last year, participants were understandably focused on growth above all else with 85% of respondents citing growth among their goals. However, more than half were also focused on the next evolution of that growth, with 57% citing increased valuations among their strategic focuses for the year. One third of respondents were also focused on specific financial and operational goals as well, including churn reduction and runway extension.

**Key takeaway:** *While SaaS companies had their eyes on the future, ensuring they were in a financially sound position to do so was also a focus.*

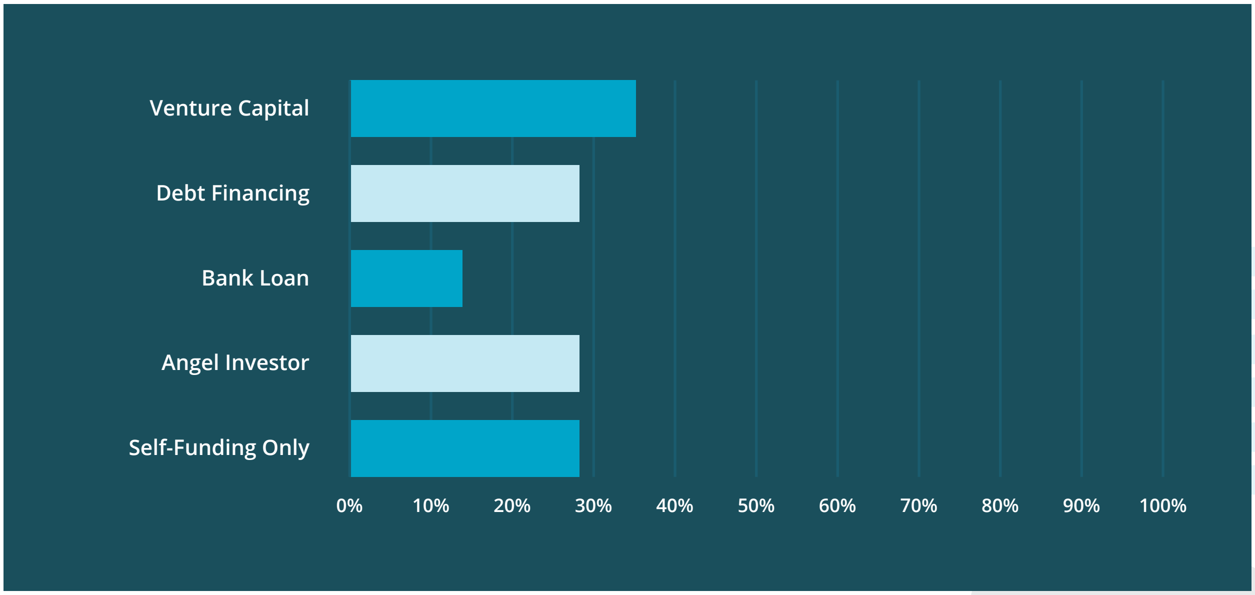


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What funding avenues did you engage in 2019?

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 explored new — and multiple — funding channels to help them achieve their financial and operational goals.*

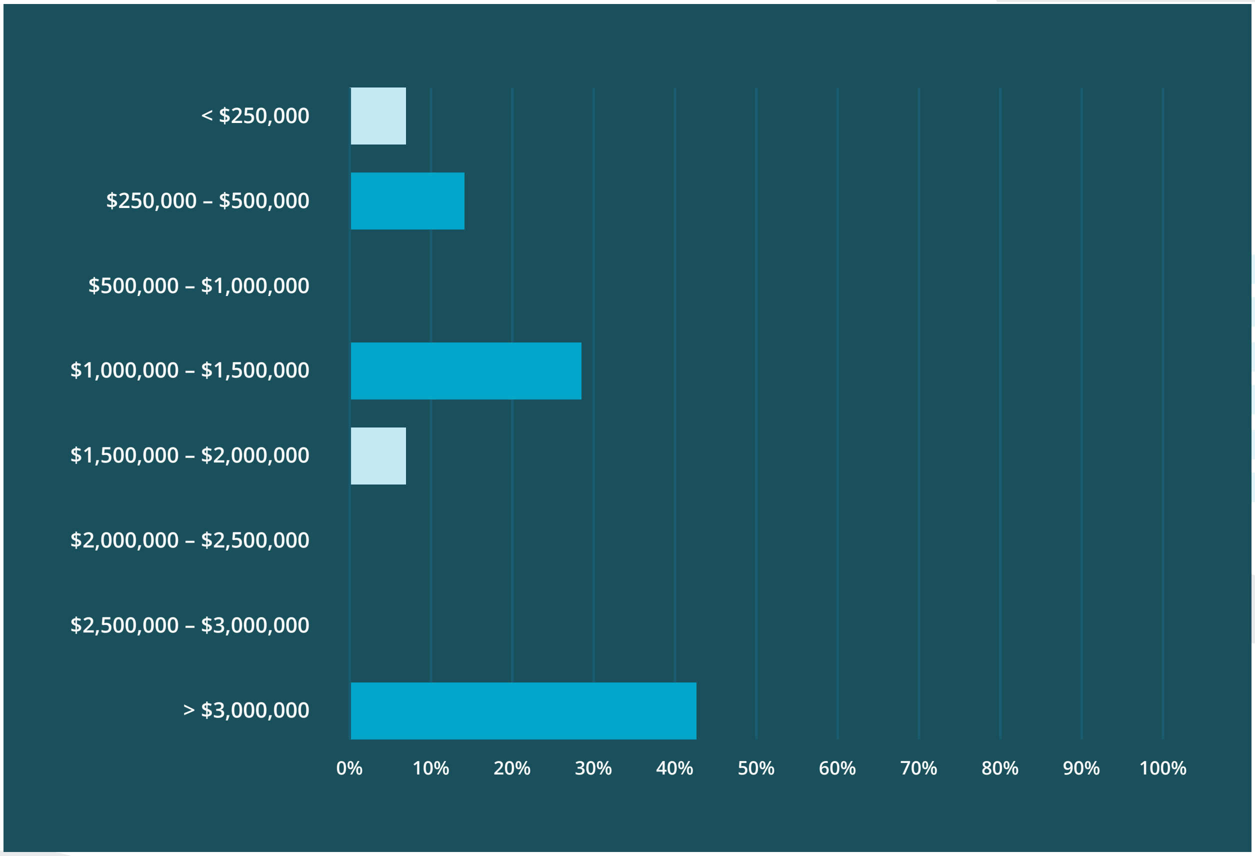


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What amount of capital were you looking to receive?

While survey participants explored a variety of funding channels for growth capital in 2019, growth was indeed the primary objective. This is supported by the amount of capital that respondents were looking to receive from partners. Nearly 50% of all respondents sought more than $3 million in capital, with nearly 30% aiming for $1–1.5 million. The remaining respondents sought different funding brackets ranging from <$500,000 to $1.5-2 million.

**Key takeaway:** *The amount of capital respondents sought is in line with the leading explored funding source of venture capital, yet as future pages will prove, other avenues may have helped them meet this objective better.*

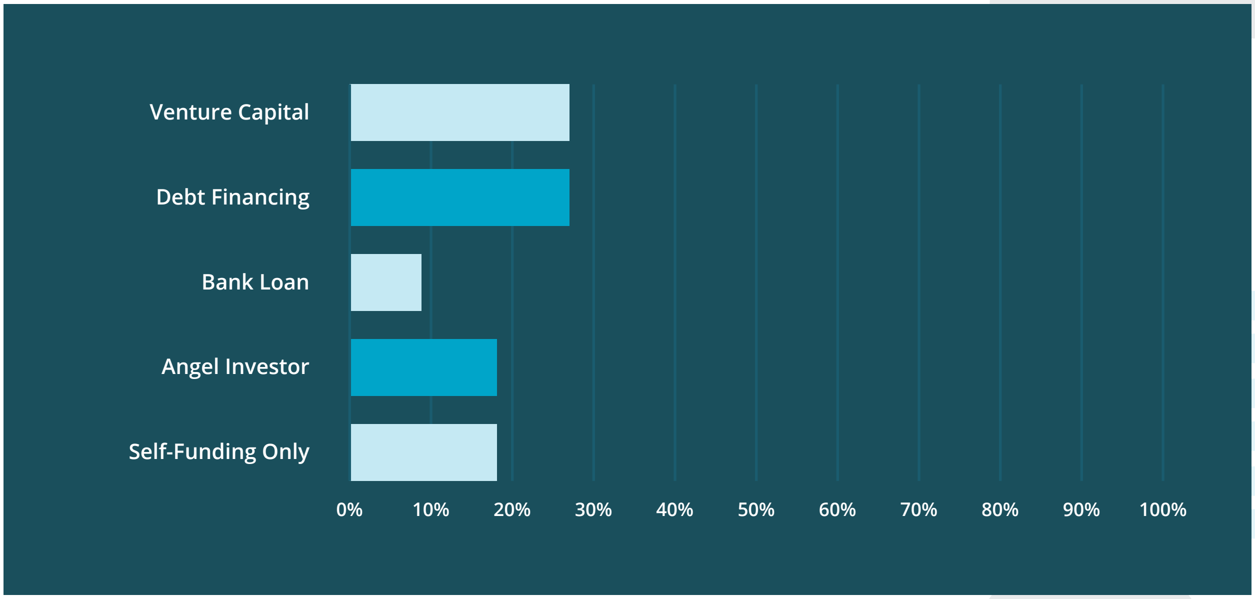


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

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

While venture capital led by a margin in the types of funding avenues explored in 2019, it fell back to tie with debt financing in terms of its usefulness to the respondents. Clearly, venture debt and venture capital continue to be leading sources and results generators for companies that explored them. Angel investors and self-funding, while equally explored in 2019, dropped in terms of their benefit to SaaS companies in favor of venture debt and venture capital.

**Key takeaway:** *While companies may still be determining long-term benefits, debt financing and venture capital continue to be leading funding sources for the SaaS industry.*

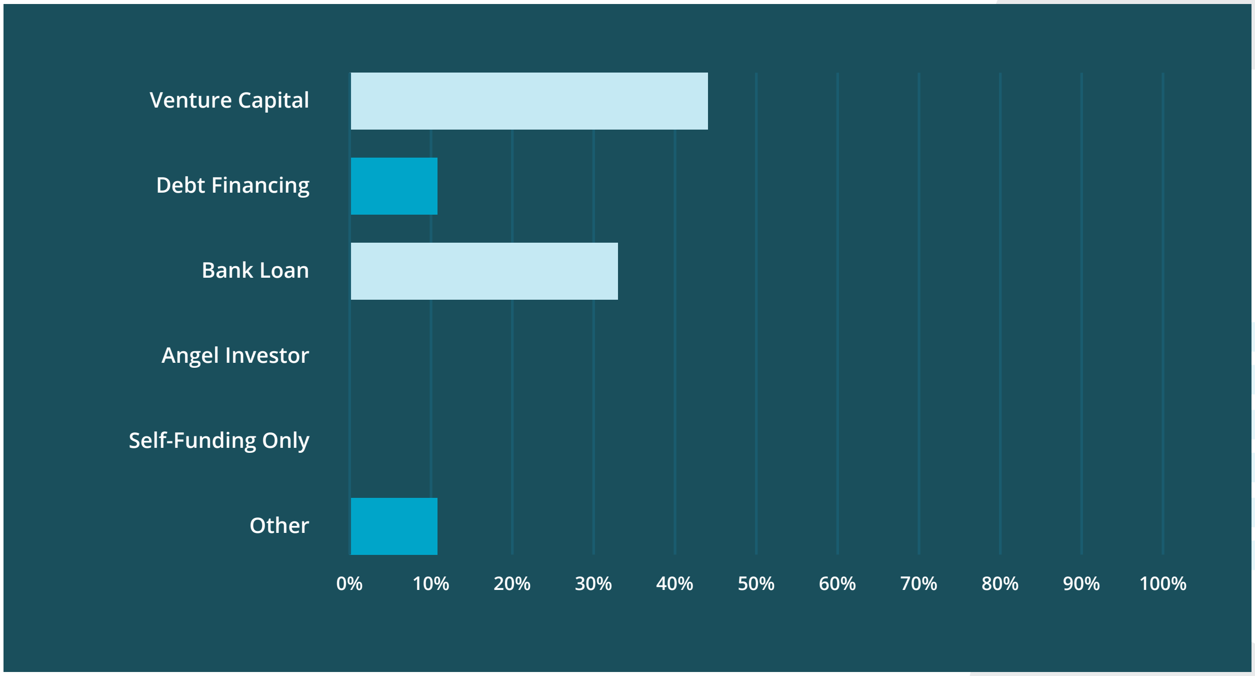


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

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

While venture capital led the way in terms of avenues that respondents explored in 2019, it interestingly served as the least beneficial for SaaS companies. Nearly 50% of respondents cited venture capital as being the least beneficial, with bank loans following closely behind at 33%. Only 11% of respondents cited debt financing as being the least beneficial.

**Key takeaway:** *While all funding can take time to make a full impact, each source can make an immediate difference in certain areas. It is important to consider this when evaluating options.*

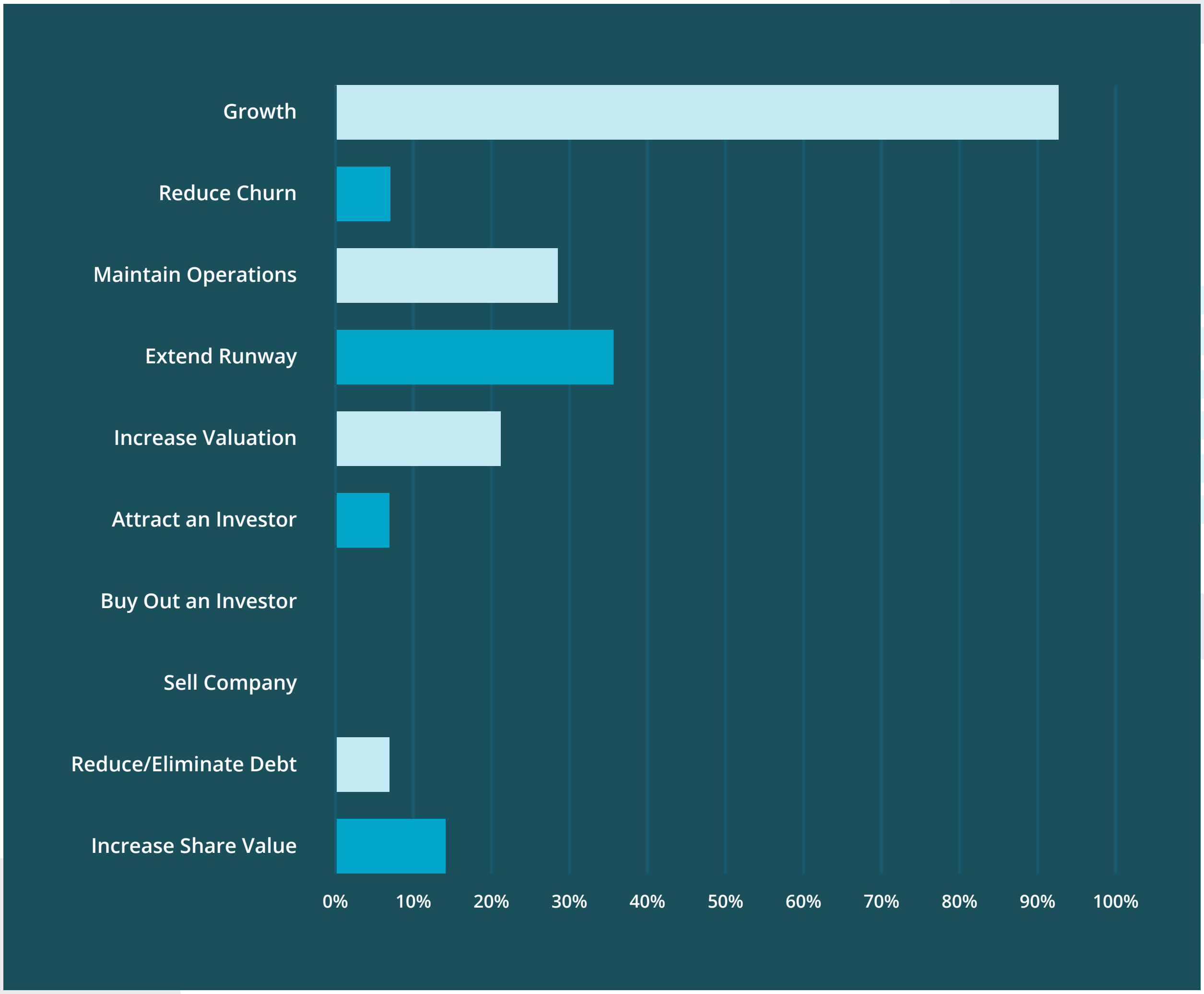


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What goals did you apply your funding toward once received?

In keeping with respondents' overall goals for their 2019 fund raising, the application of those funds followed a similar path. Growth led the charge with 93% of respondents applying those funds toward new team members and sales and marketing activity. In addition to applying funds toward growth, respondents also applied funds to runway extension (36%), maintaining operations (29%), and increasing valuations (21%).

**Key takeaway:** *Respondents focused on activities in alignment with their overall funding goals, yet applied more funding toward growth than they initially intended when considering options.*

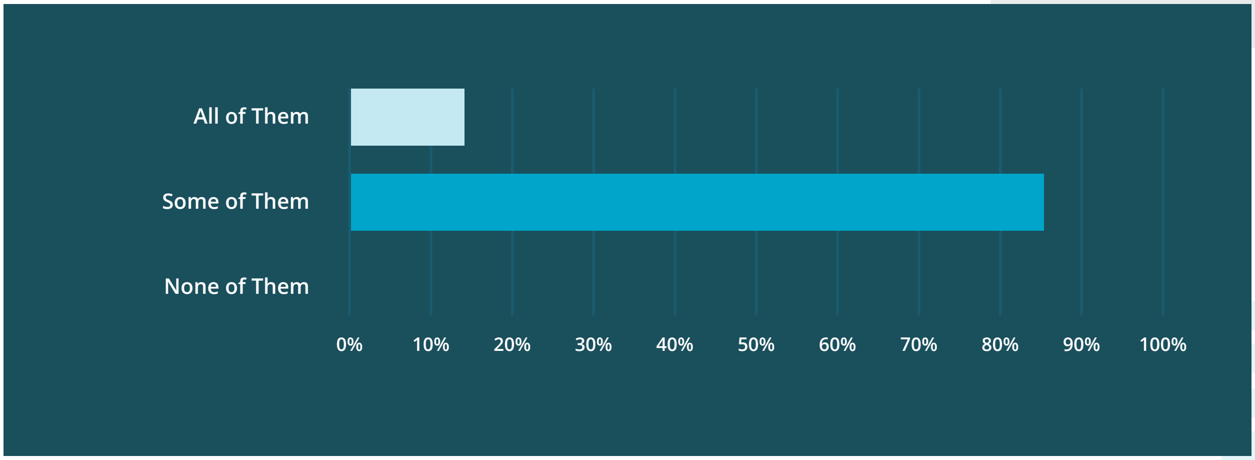


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### Did you achieve your financial goals in 2019?

Depending on an organization's goals, it understandably may take more than one year to achieve them. This is demonstrated in that 86% of respondents stated that they achieved only some of their goals for 2019, with the remaining 14% achieving all of their objectives. Despite this, companies certainly made progress on their most-identified and shared goal: growth. As future data will show, efforts made there produced positive financial results.

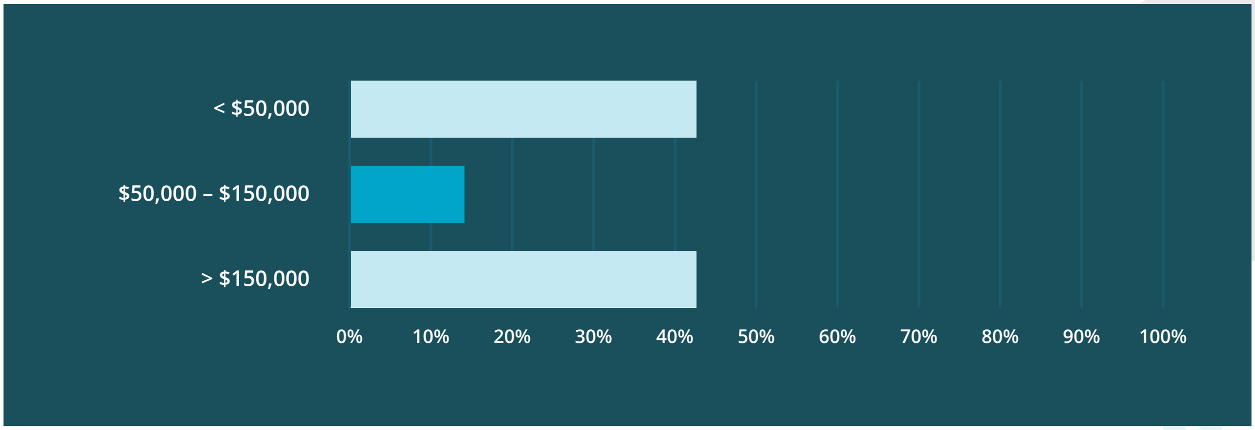
**Key takeaway:** *While not every respondent achieved their goals in 2019, respondents applied funds toward efforts that got them closer to achieving their higher-priority goals.*



## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What was your MRR BEFORE obtaining funding?

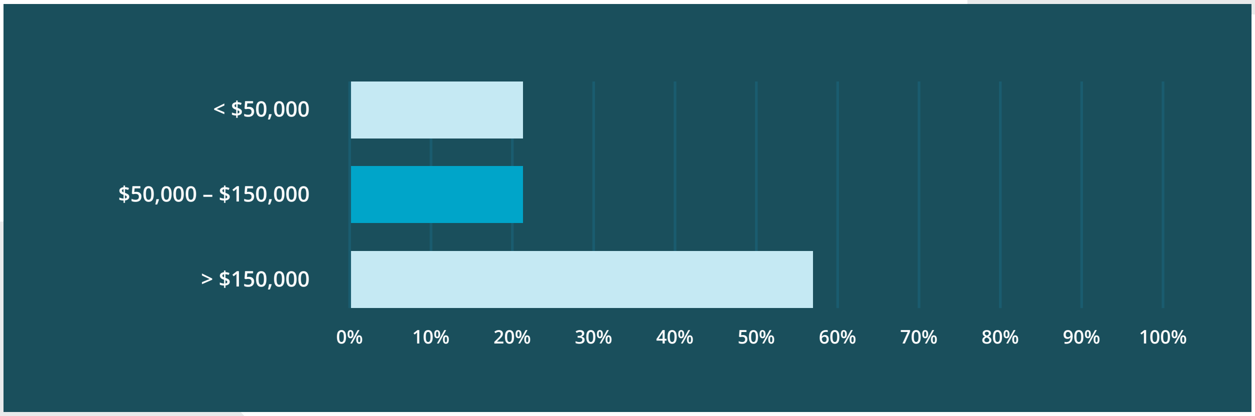
Survey respondents featured a broad range of monthly recurring revenues (MRR), with 43% having an MRR of less than $50,000, 14% having an MRR of $50,000 to $150,000, and 43% having an MRR greater than $150,000.




### What was your MRR AFTER obtaining funding?

Over the course of 2019 and as respondents applied their funding toward their goals, significant progress was made in increasing monthly recurring revenue. The <$50,000 bracket decreased by 50%, the $50,000 to $100,000 bracket increased by 50%, and the >$150,000 bracket increased by 33%.

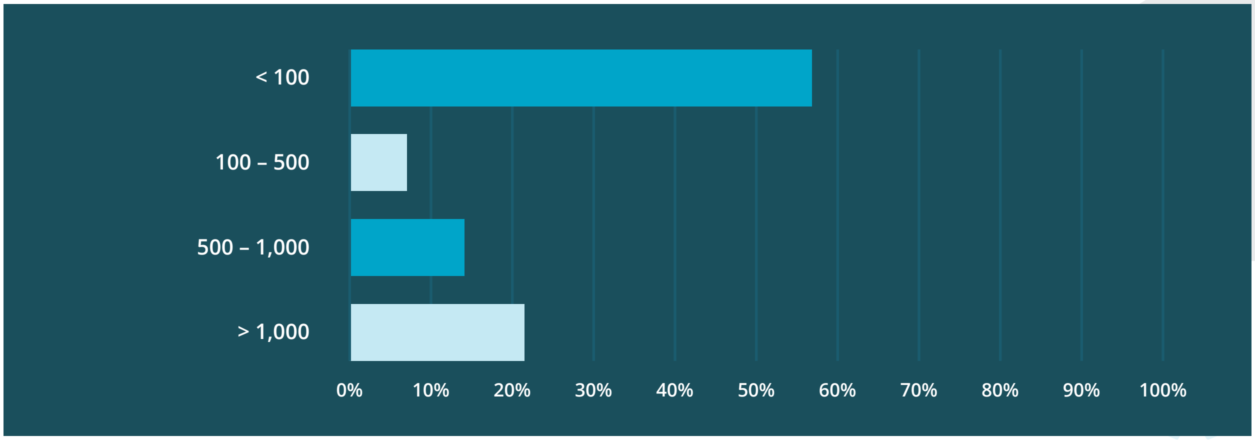
**Key takeaway:** *While not every company achieved its full roster of 2019 goals, respondents certainly utilized their funding to increase their MRR to greater levels.*



## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### How many customers did you have BEFORE obtaining capital?

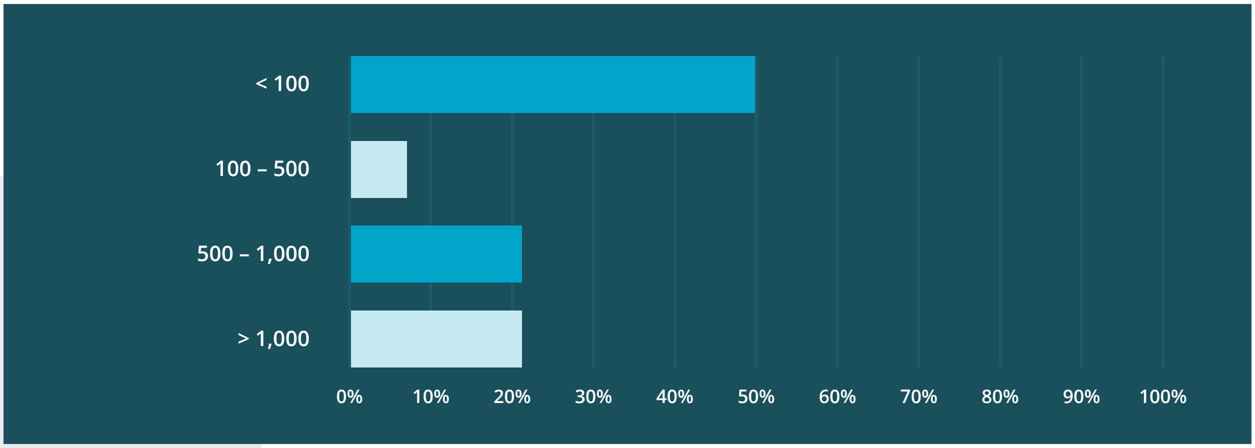
In 2019, 57%% of respondents began with less than 100 customers prior to obtaining growth capital. Around 7% had 100–500 customers, 14% had between 500 and 1,000 customers, and 22% had more than 1,000 customers.




### How many customers did you have AFTER obtaining capital?

As the year progressed and growth capital was applied to respondents' strategic goals, these figures showed promising increases in the right areas. The <100 bracket decreased from 57% to 50%, the 100–500 bracket remained steady at 7%, the 500–1,000 bracket increased from 14% to 21%, and the >1,000 bracket remained at 21%. The greatest gains were felt in the mid-level brackets as respondents ramped up their efforts using capital for growth to increase the size of their customer bases.

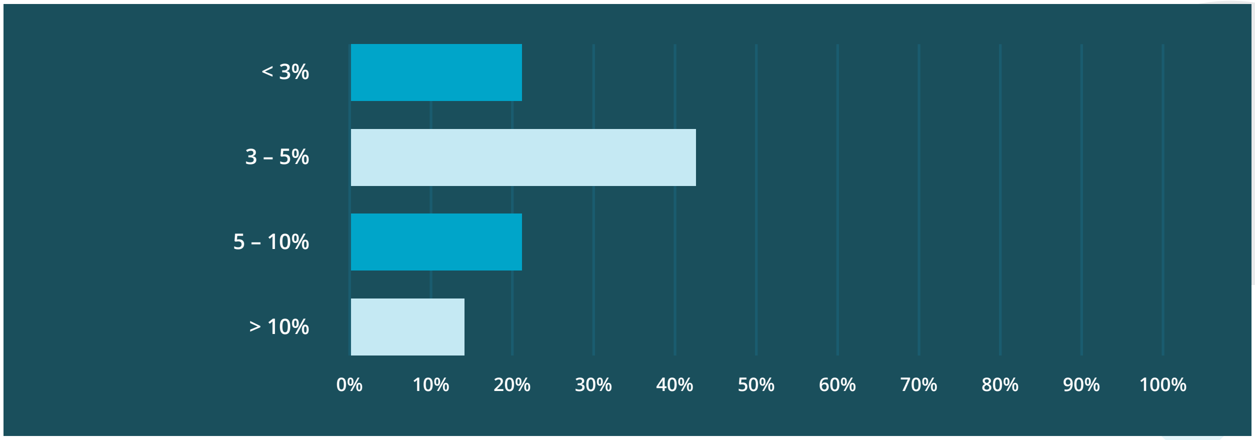
**Key takeaway:** *Respondents gained much ground in MRR throughout 2019, which, depending on pricing models, could be reflected in the growth in middle customer brackets.*



## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What was your churn rate BEFORE obtaining funding?

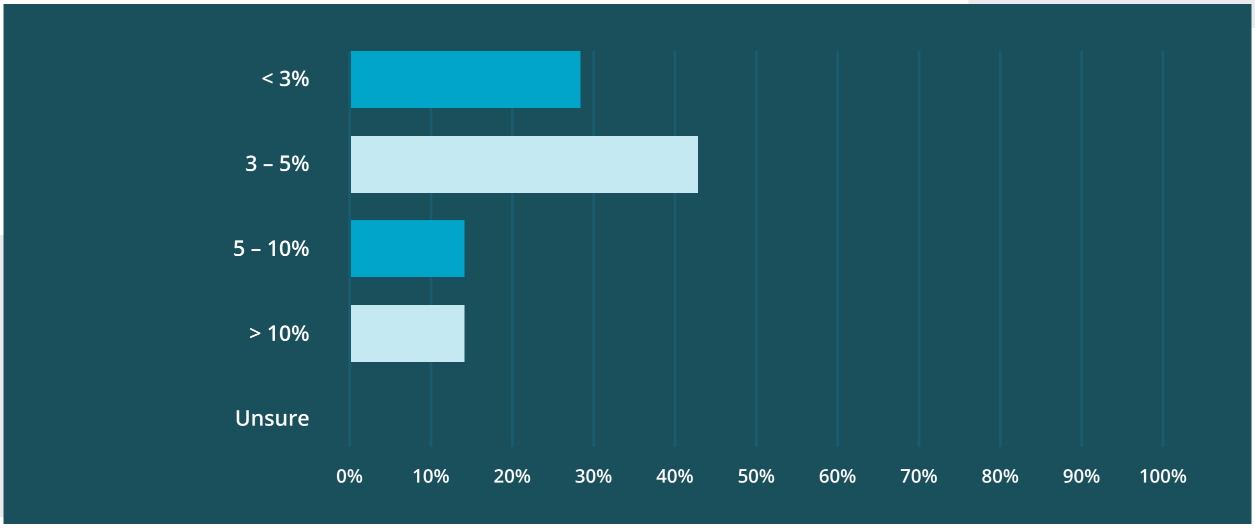
Prior to obtaining funding, the majority of respondents had a churn rate between 3% and 5%, with less than 3% being tied with the 5% to 10% brackets. Just shy of 15% of respondents had a churn rate greater than 10%.




### What was your churn rate AFTER obtaining funding?

While respondents made great headway in increasing their customer bases and overall MRR, customer churn rates remained largely the same. The only change between pre-funding and post-funding churn rates was a 30% reduction in the 5% to 10% bracket and a corresponding increase in the <3% bracket. This is a good sign, however, as respondents were able to move in the right direction to keep more of their customers subscribed while acquiring new customers and increasing their MRR.

**Key takeaway:** *Respondents leveraged the power of their existing customer bases for growth, and while not as significant as other areas, churn did reduce across the board.*

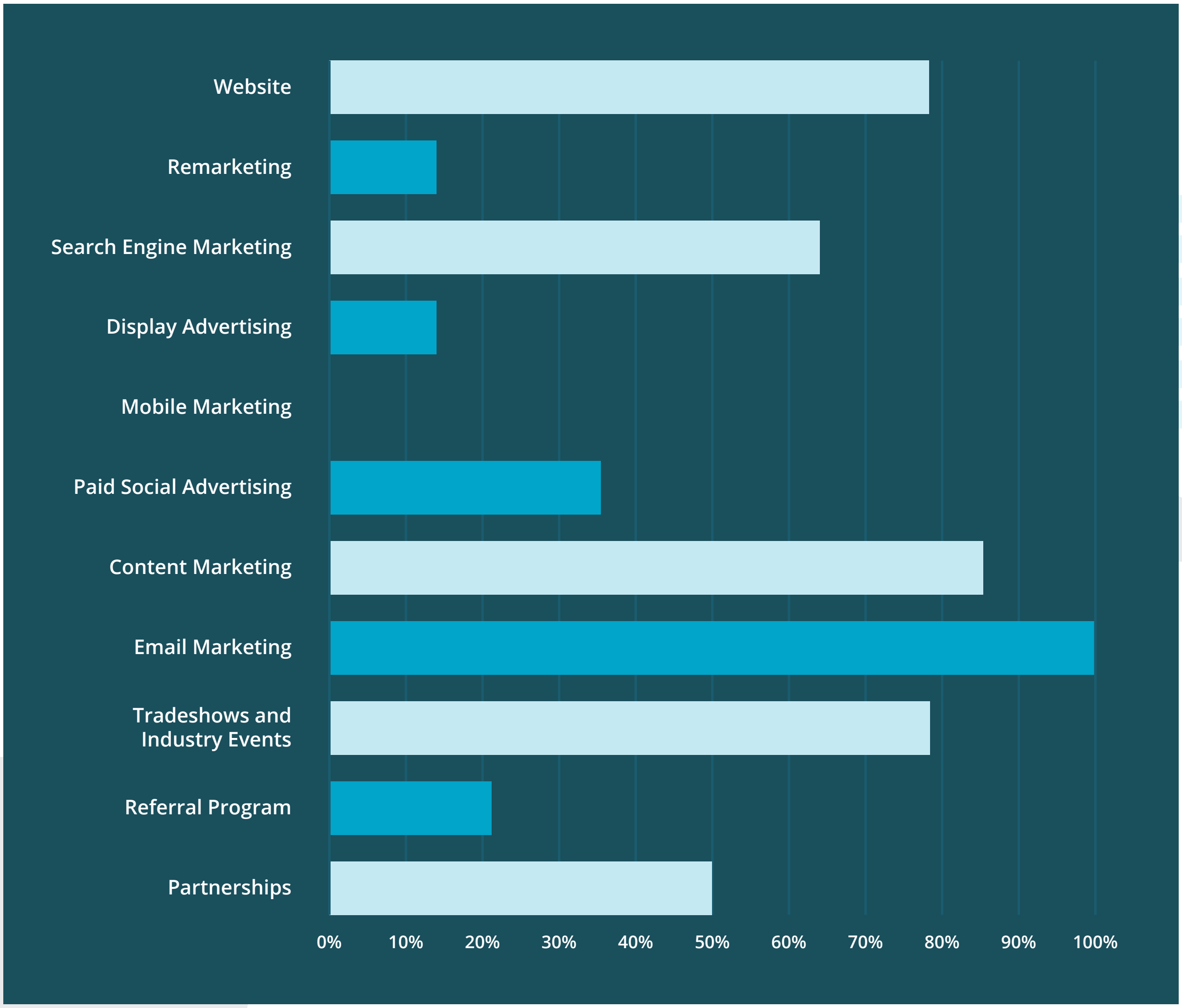


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What avenues did you use in 2019 to ACQUIRE customers?

Throughout 2019, respondents put the power of content marketing and other related marketing strategies to work for their growth. All respondents utilized email marketing, followed closely by content marketing at 86% of respondents. Marketing through their websites as well as industry trade shows and events followed closely after at 79% of respondents respectively. Paid efforts such as remarketing, display advertising, and paid social advertising were utilized much less, likely due to the increasing costs associated with such channels. More traditional avenues like referral programs and partnerships were still utilized, but not as significantly as online efforts.

**Key takeaway:** *Respondents understood the value and impact that SEO and other inbound-focused efforts could deliver in terms of customer acquisition and dedicated resources toward them heavily as opposed to other more heavily congested and traditional methods.*

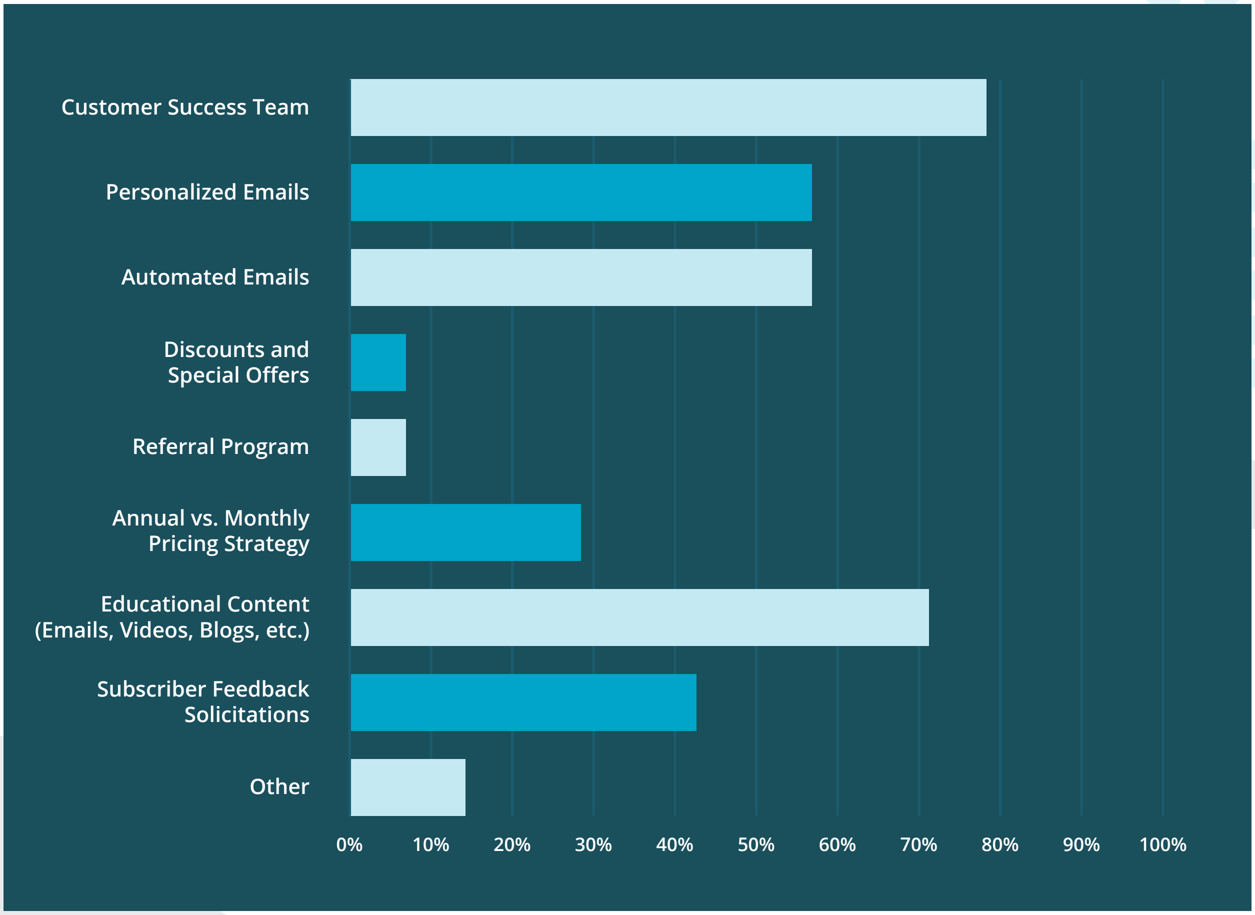


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What avenues did you use in 2019 to RETAIN customers?

In 2019, respondents married the power of a strong customer success team with the power of education content such as videos, blogs, emails, and so on. Nearly 80% of respondents used a customer success team to keep customers subscribed to their platforms, followed closely by 71% of respondents creating educational content to inform and delight their subscribers. Personalized email communications and automated emails (both at 57%) were also utilized to keep lines of communication open with subscribers. Moderately used avenues included subscriber feedback solicitations at 43% and annual vs. monthly pricing strategy adoption at 29%. Less used were discounts and special offers, referral programs, and other respondent-specific solutions.

**Key takeaway:** *Respondents put people front and center through their customer success teams, then backed those efforts up with educational content marketing and ongoing, tailored email communications that maintained frequent touchpoints with subscribers.*

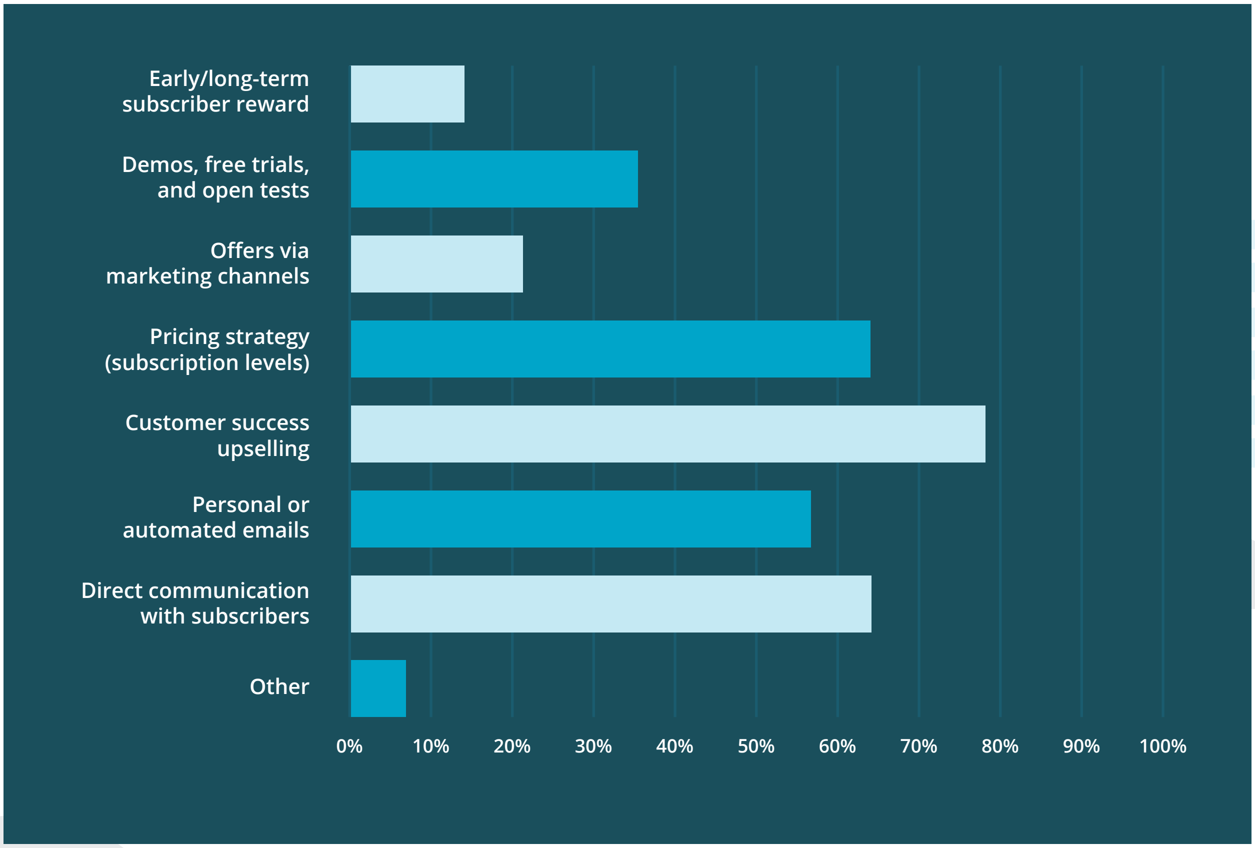


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What avenues did you use to drive up-sell opportunities?

While customer acquisition was certainly a focus for respondents, building existing subscriber relationships was also a priority. As with customer retention, customer success teams were also utilized in sales efforts for 79% of respondents. This was followed by leveraging different pricing strategies and engaging in direct communications with subscribers, both at 64% of respondents. Just behind these two strategies came personalized and automated email communications at 57% of respondents. Less-used options included early adopter rewards (14%), demos/trials/open tests (36%), and specific marketing offers (21%).

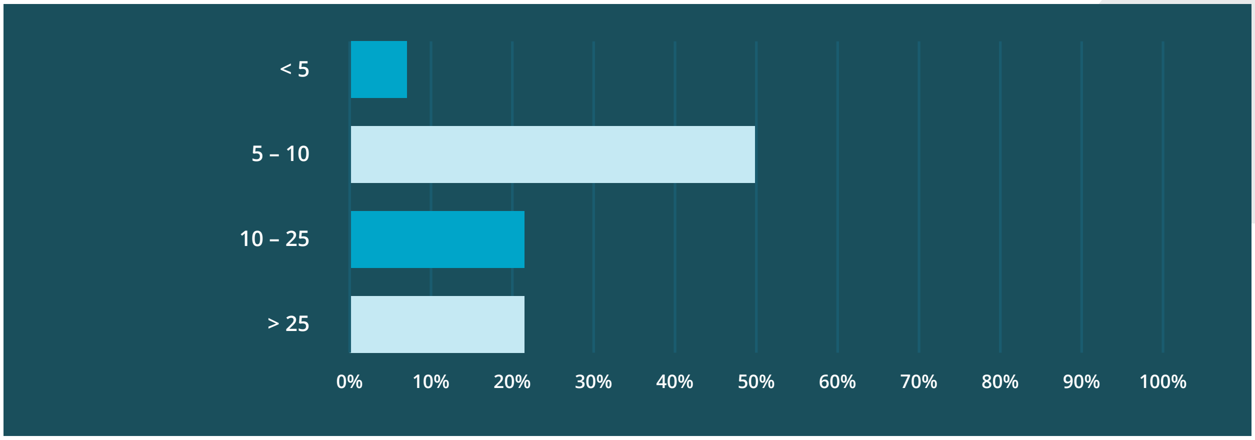
**Key takeaway:** *As with retention efforts, respondents utilized customer success as well as direct and email communications to share and drive up-sell opportunities.*



## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What was the size of your team BEFORE obtaining capital?

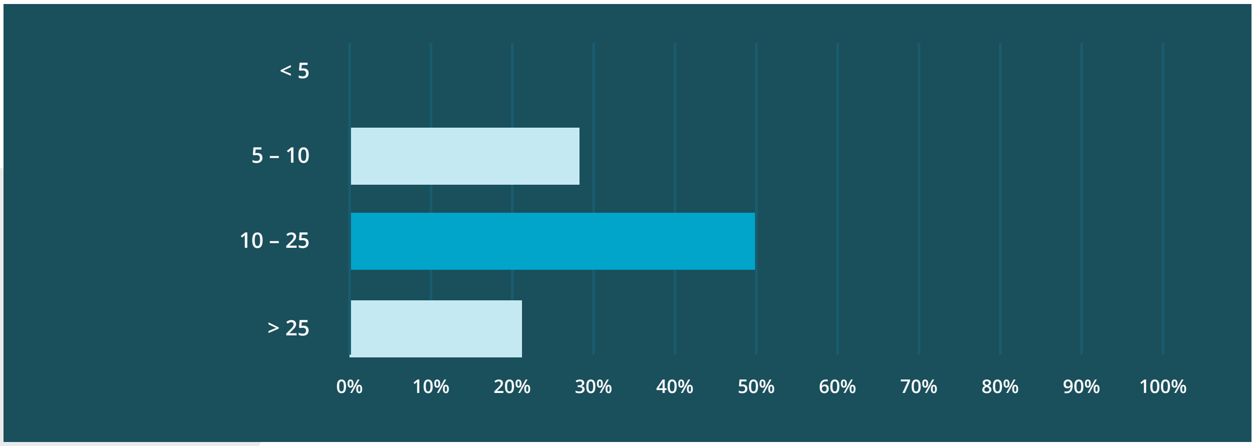
Prior to seeking funding, respondent companies varied greatly in terms of their employee count. Some were still in early stages with only the founders or small teams in place. Others had scaled up into the 5–10 bracket (50%) with the remaining third falling into the 10–25 bracket and the >25 bracket (both at 21%).




### What was the size of your team AFTER obtaining capital?

However, once respondents had received their growth capital, their commitments to growth beyond customer acquisition and existing customer up-selling became evident. Respondents with <5 employees scaled up, as did many of the respondents with 5–10 employees, which dropped from 50% of respondents to 29%. The greatest growth occurred in the 10–25 bracket, which grew from 21% pre-investment to 50% post-investment.

**Key takeaway:** *Increasing staff was a key component of growth for respondents during 2019, in addition to adding more customers to their roster and building existing relationships.*

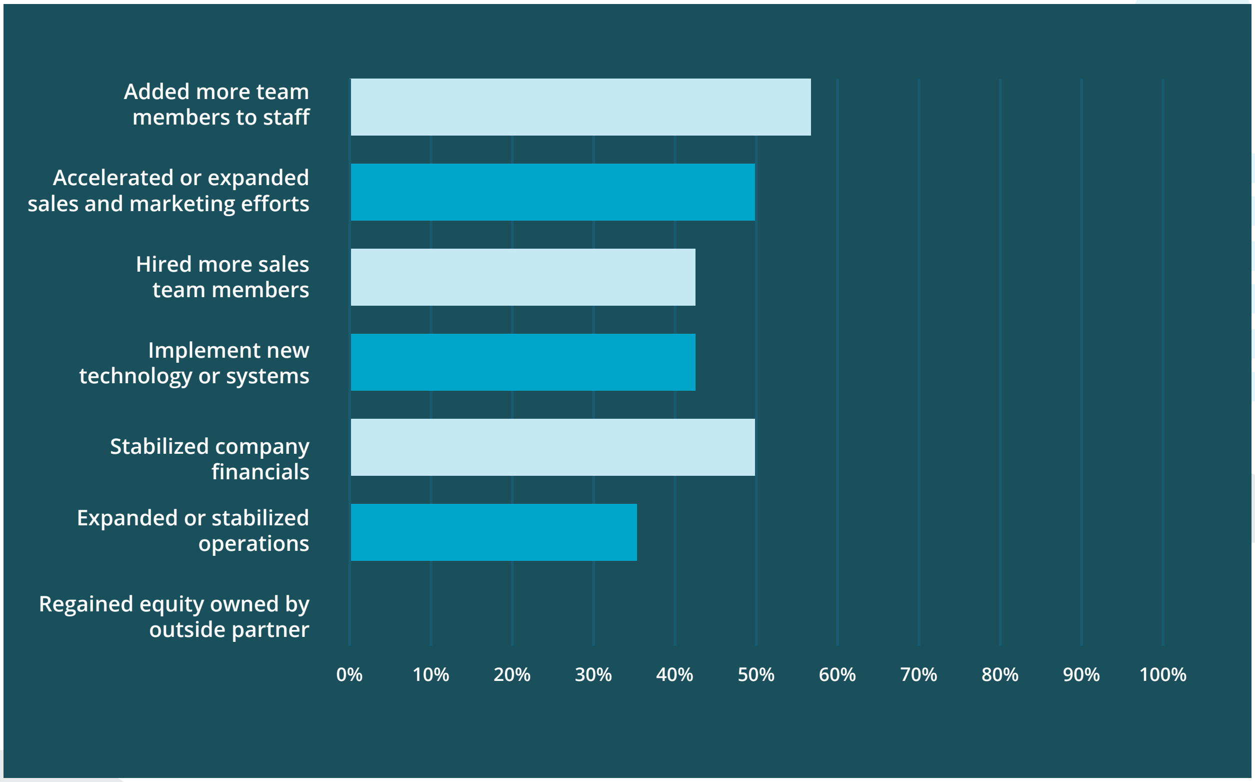


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What did the funding you obtained help you to achieve?

Throughout 2019, respondents put their funding to work for a variety of efforts, all of which ultimately contribute to their primary identified goal of growth. Leading all other achievements enabled by funding was increasing team size, with 57% of respondents stating this was something they succeeded in last year. Tied for second were sales and marketing acceleration and company financial stabilization, both at 50% of respondents. Close thirds were hiring more sales team members and implementing new technologies and ideas, both at 43%. While the least-cited achievement from funding, expanding or stabilizing operations followed the pack closely at 36% of respondents.

**Key takeaway:** *Last year, respondents were able to achieve a number of goals. While not all represent each company's respective goals, respondents were able to put their growth capital to specific and meaningful uses throughout their organizations.*

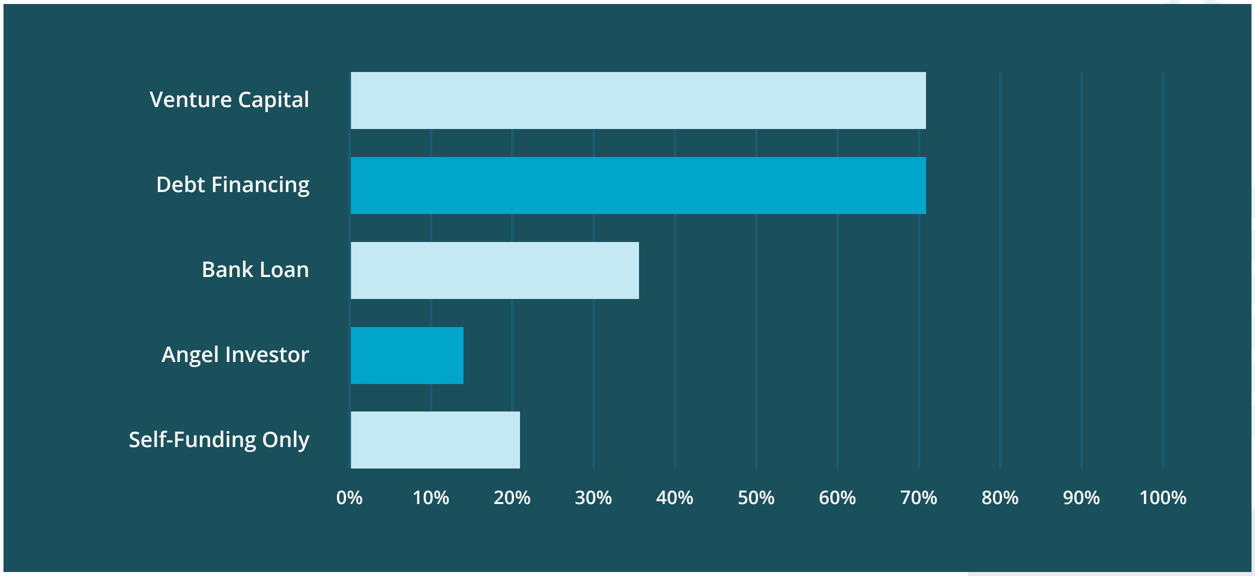


## 2020 SAAS INDUSTRY RESEARCH FINDINGS

### What future avenues are you most likely to consider?

With 2019 in the rearview mirror, what are respondents looking to achieve in 2020 and the future? Tied in first place for future funding avenues are venture capital and debt financing, both at 71% of respondents. This is a significant increase over 2019 funding source considerations, which placed venture capital at 36% and debt financing at 29%. Interestingly, more respondents are considering bank loans (36%) — even above angel investors (14%) and self-funding only (21%). This is a stark contrast to 2019, in which angel investors (29%) and self-funding (also 29%) beat out bank loans, which stood at (14%).

**Key takeaway:** *Despite achieving a fair amount with the funding they received in 2019, respondents are giving more consideration to other options. Additionally, more respondents are looking to funding staples such as debt financing and venture capital as vehicles for growth in the future.*



## 2019 BROUGHT TREMENDOUS FOCUS, BUT...

To say 2019 was a year of change would be an understatement. For River SaaS Capital, we launched our equity fund, welcomed several new and highly experienced professionals to our team, and helped our portfolio companies use their funding to achieve strategic objectives. However, our efforts almost pale in comparison to what respondents achieved.

The data, captured from a number of SaaS companies throughout January and February of 2020, painted a compelling picture of companies leveraging funding solutions to achieve amazing accomplishments. Team sizes were rapidly expanded (and we all know hiring is no easy feat). Monthly recurring revenue increased (from new and existing relationships). Efforts to make meaningful connections with prospects and current customers abounded.

Yet the data also tells another story: one of companies considering one path, experiencing it (sometimes positively, sometimes negatively), then considering it again for the future. Certain funding strategies, despite their challenges, can make sense later after one solution has been exhausted or explored. This is where flexibility and partnership come into play when considering future funding sources.

As you look toward using your funding for this year and your efforts to raise additional resources for the future, consider how your partners are set up to support you. The relationship should extend beyond the funding itself. For SaaS companies, it's critical to work with partners that understand your growth strategy, business model, and your goals as an owner or business leader. They should stand by you as your story unfolds and be willing to work with you to help you achieve your goals.

Remember, if your partners did not measure up to your standards last year, change is worth the time and effort. Your business is far too important to place in just anyone's hands. If you'd like to experience the River SaaS Capital difference, for venture debt financing or equity financing, we are here to help. Simply contact me below.

Best of luck to your organization as you move forward in 2020 and the years to come.

**Wendy Jarchow**
Chief Investment Officer
WJarchow@rivercapital.com

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 can 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 $4 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.

### READY TO LEARN MORE OR APPLY?

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