2019 SaaS Industry Report

Research compiled by

RIVER SaaS CAPITAL | NGAGE CONTENT

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EXECUTIVE SUMMARY

In this report, we asked SaaS companies to provide information on the circumstances and goals that led them to consider and eventually secure different types of funding for their respective companies, how that funding was used, and what the impact of that funding was across multiple aspects of their companies. We also sought to learn how companies utilized different marketing tactics for customer acquisition, retention, and upselling opportunities, as well as how funding contributed to any shifts to those tactics.

We surveyed a number of SaaS companies throughout the United States that serve a variety of industries, from manufacturing to healthcare. The results we received both confirmed some industry norms and expectations, but also provided meaningful insights that speak to both SaaS companies seeking funding and even some lessons for funding providers.

- Just as much as the funding itself, the level of service and communication SaaS companies expect and receive — both immediately and in the long-term — contributes heavily toward the decision to work with one provider over another. The due diligence process is equivalent to service and communication in decision-making, presenting an opportunity for funding providers to close more deals by focusing on the interpersonal aspects of the partner–client relationship.

- With interest in and consideration of venture capital reigning over many other forms of funding, there is a greater need to provide SaaS companies with education on the advantages and disadvantages of other avenues of funding.

- Marketing and sales continue to be drivers of success for companies who raise working capital, even if those two areas were not the initial focus for it. Companies who raised funding for internal financial stability and runway extension still reported high levels of impact and value in their marketing and sales post-investment.

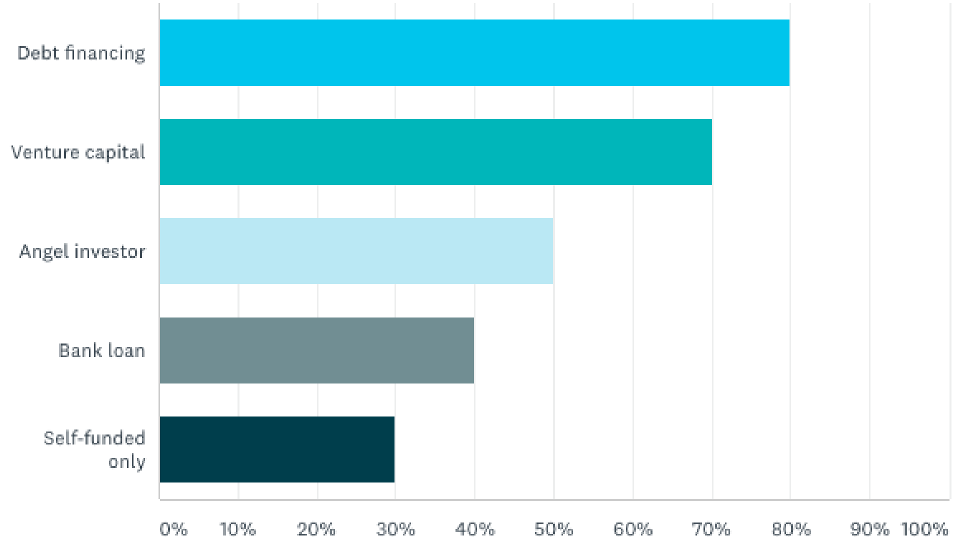
- A greater focus on the customer has both assisted SaaS growth and become a greater focus of retention efforts, specifically in communications that are automated and not automated. Customer success teams should continue to be a priority. Educational content, special offers, and subscriber feedback have gained more attention.

[1] THE FUNDING PROCESS AND EXPERIENCE

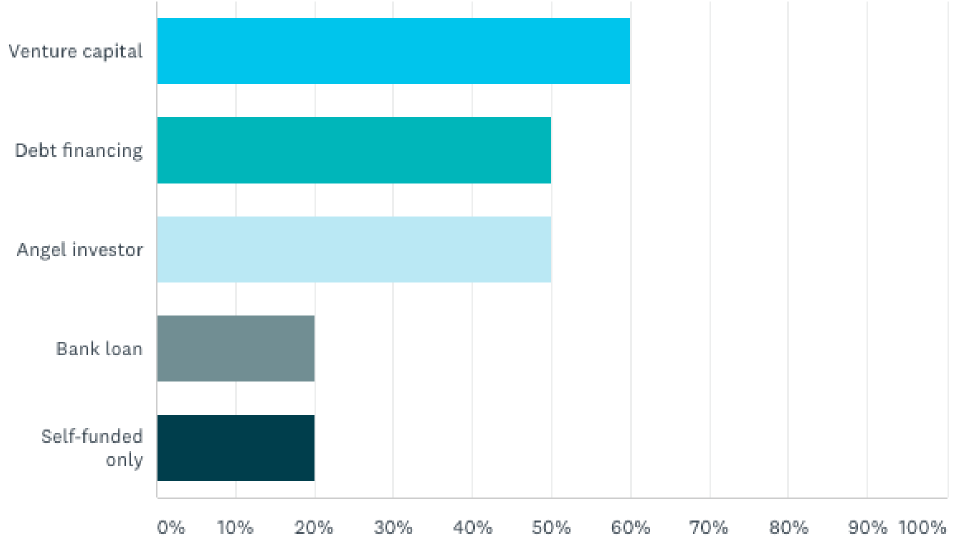
[1.1] FUNDING AVENUES CONSIDERED AND SELECTED

Participants considered a number of financing avenues to supplement their growth but ultimately chose avenues that were more conducive to the SaaS business model, primarily venture capital and venture debt financing but also strong angel investor utilization. Venture capital was chosen by almost all participants who considered it along with angel investors, though fewer moved forward with venture debt than originally considered it.

CONSIDERATION



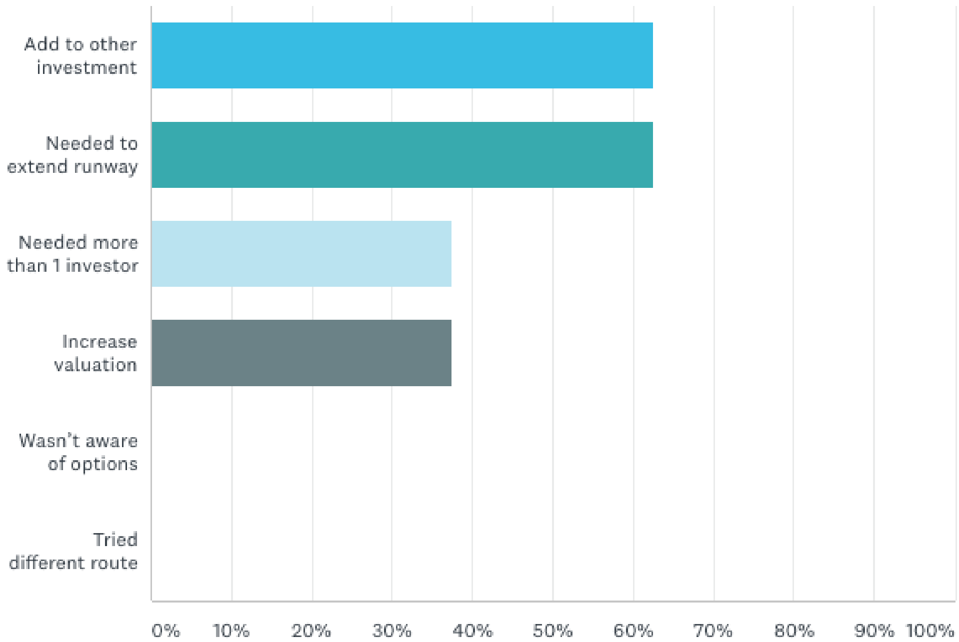
SELECTION



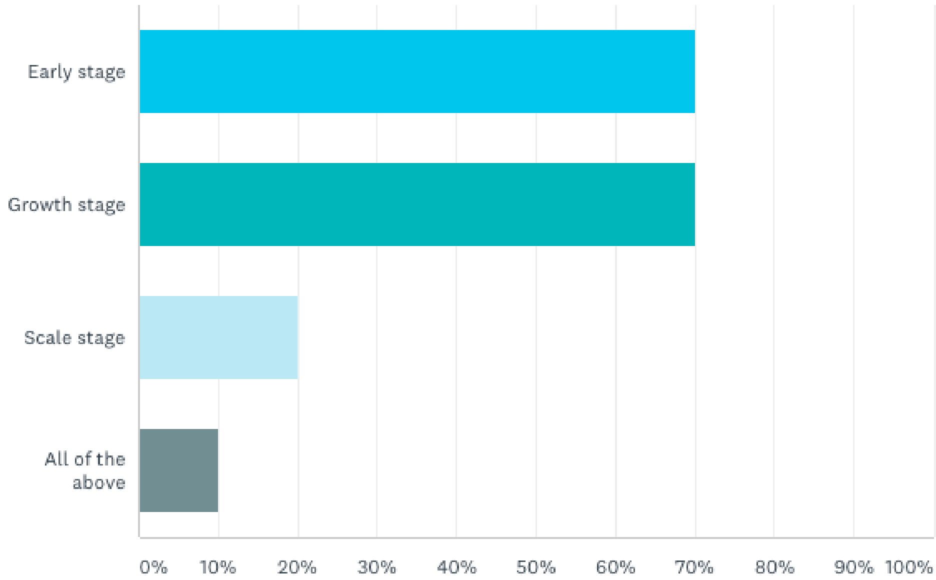
[1.2] ADDITIONAL FUNDING PURPOSES & COMPANY STAGE

Eighty percent of participants supported their chosen funding avenues with other forms of financing for strategic reasons, such as extending cash runways, complementing existing funding, or obtaining higher valuations. As SaaS providers build revenues over time and must run lean to maintain margins, it followed that most funding occurred in the Early and Growth stages with minimal funding occurring at later stages based on needs and goals.

REASON FOR ADDITIONAL FUNDING

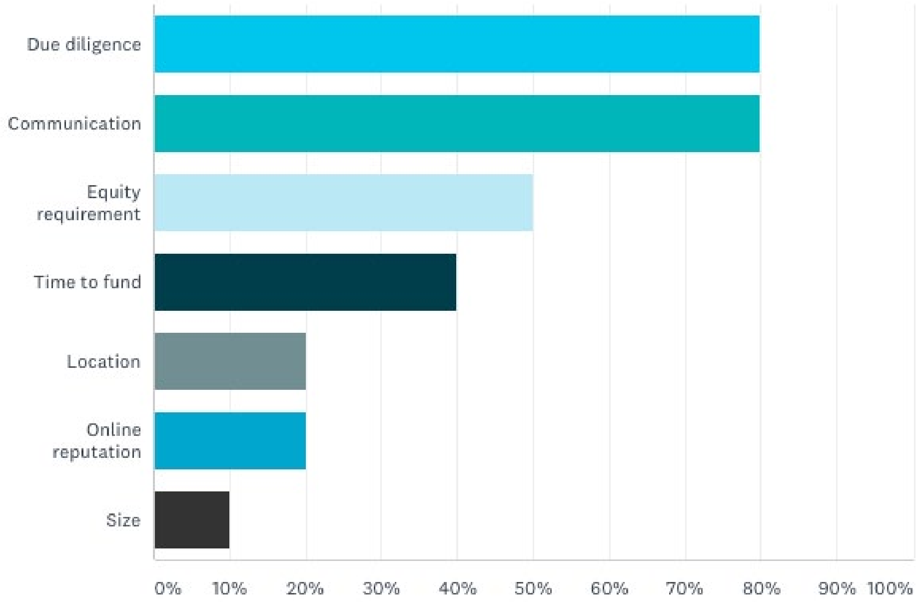


STAGE OF COMPANY



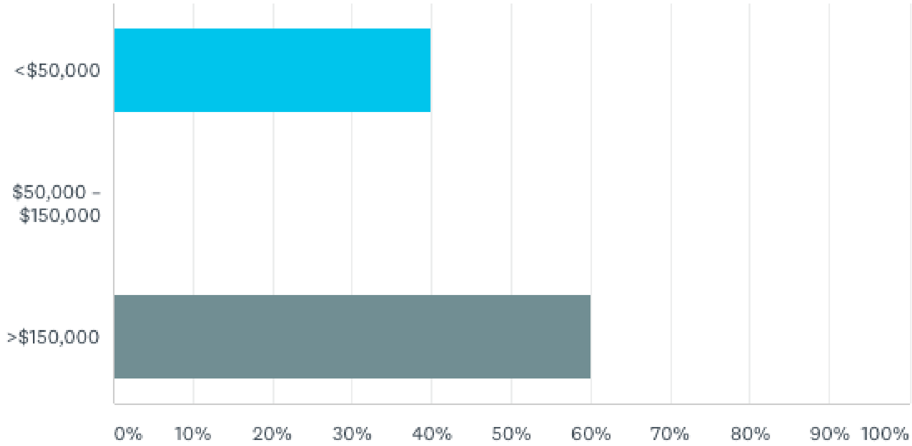
[1.3] CRITERIA FOR CHOOSING A FUNDING PARTNER

Participants' reasons for choosing one funding provider over others revealed that their experiences with due diligence as well as communication with key contacts were significant motivators in their final selections. These were followed closely by whether equity was required to secure funding and the overall funding time needed. Reputation and location mattered, but were not significant drivers, nor was the size of the funding partner company.



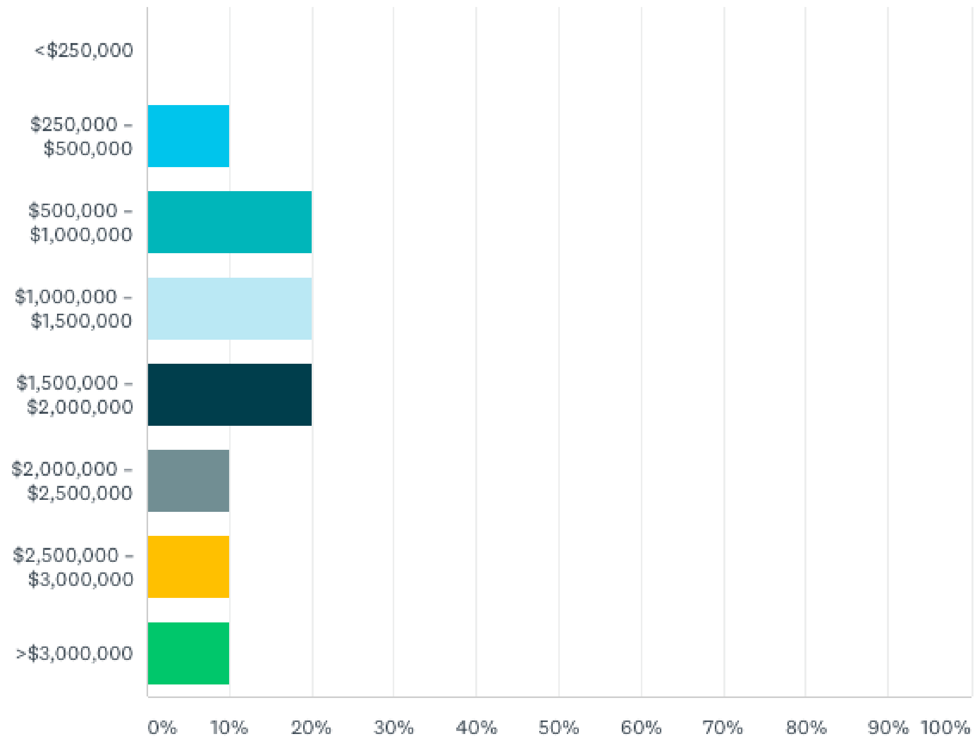
[1.4] PRE-INVESTMENT MRR

The survey revealed an understandable gap between participants' monthly recurring revenue (MRR), demonstrating the need for working capital early on to support operations as well as the need for funding in later stages and at higher levels of MRR to accelerate the growth participants had already achieved.



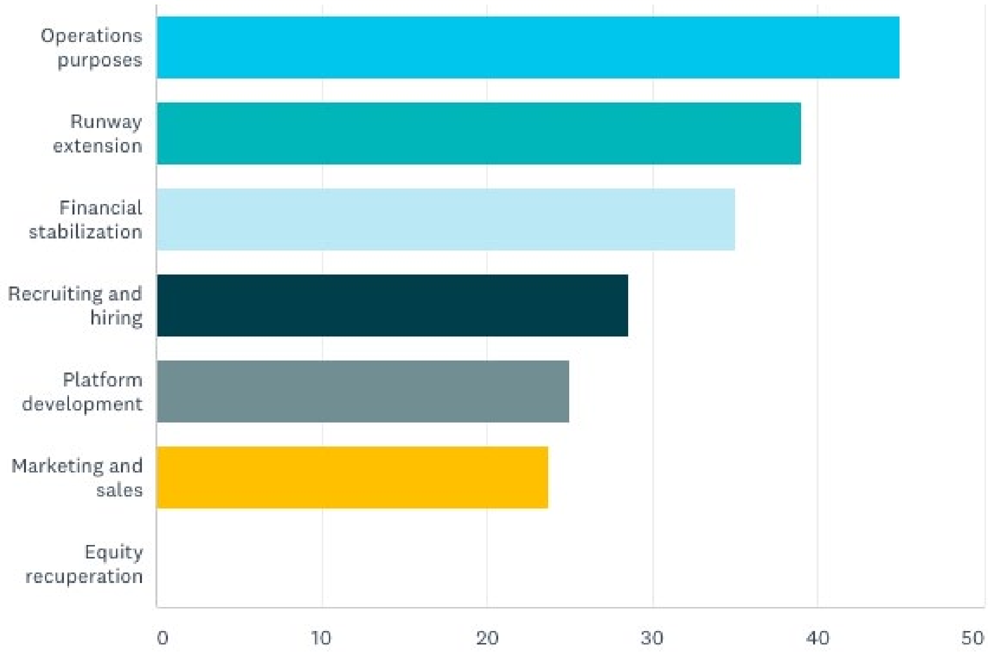
[1.5] AMOUNT OF CAPITAL SOUGHT

Sixty percent of participants sought working capital in the range of $500,000 on the low end to an upper end of $2 million, with 30 percent of participants seeking capital above $2 million. These figures correspond with participants' purposes for seeking one more or sources of funding and the stages at which funding was sought.



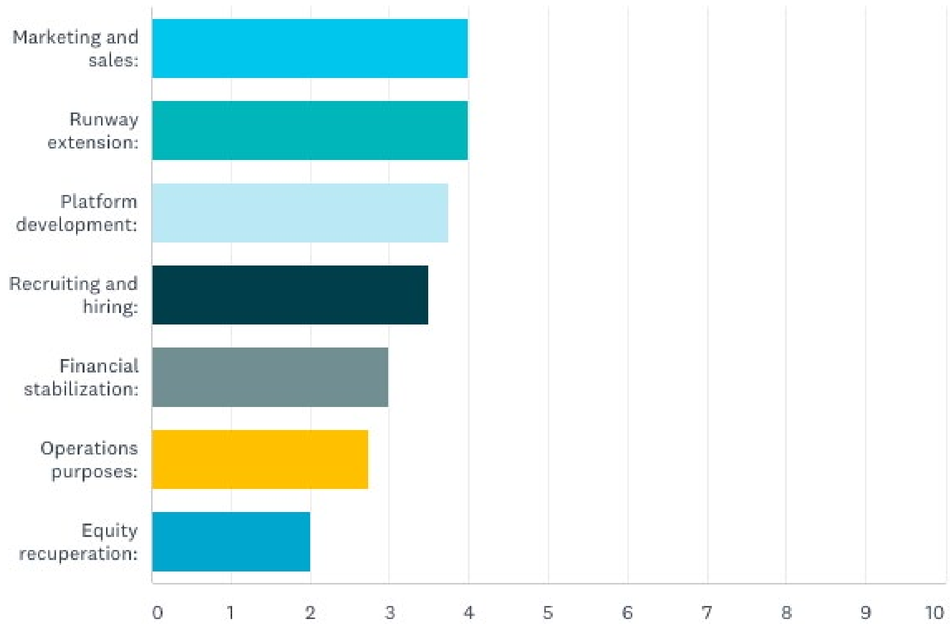
[1.6] HOW CAPITAL WAS USED

Participants utilized the capital they raised for a variety of purposes with two overall groupings emerging. The first group was more internally focused, consisting of runway extension, operational usage, and financial stabilization — meaning that most capital was used to sustain participants until a future state could be achieved. The second focus was more forward facing, with hiring and recruiting, marketing and sales efforts, and SaaS platform development following not far behind.



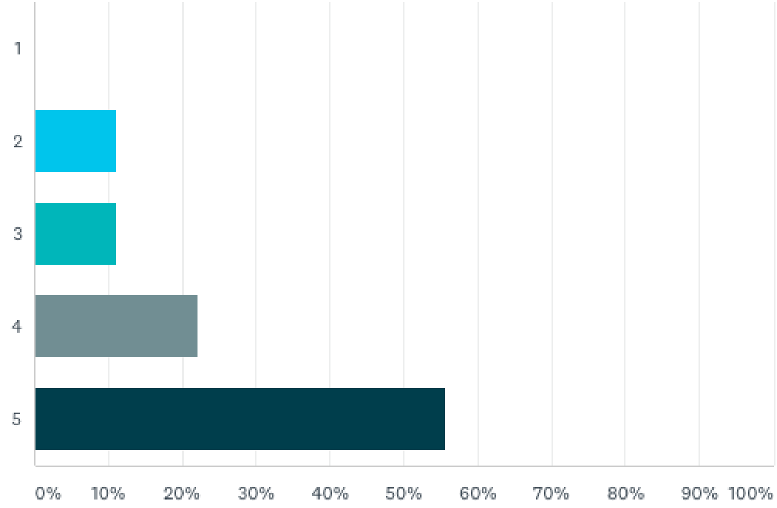
[1.7] THE IMPACT OF CAPITAL RAISED

While participants sought funding for more internal focuses, the capital they received ultimately made a greater and more positive impact in more forward-facing areas such as marketing and sales and platform development. Those that sought funding for runway extension also reported a positive result. Financial stabilization and operational usage also made a decent impact on participants, though not as great as participants may have intended.



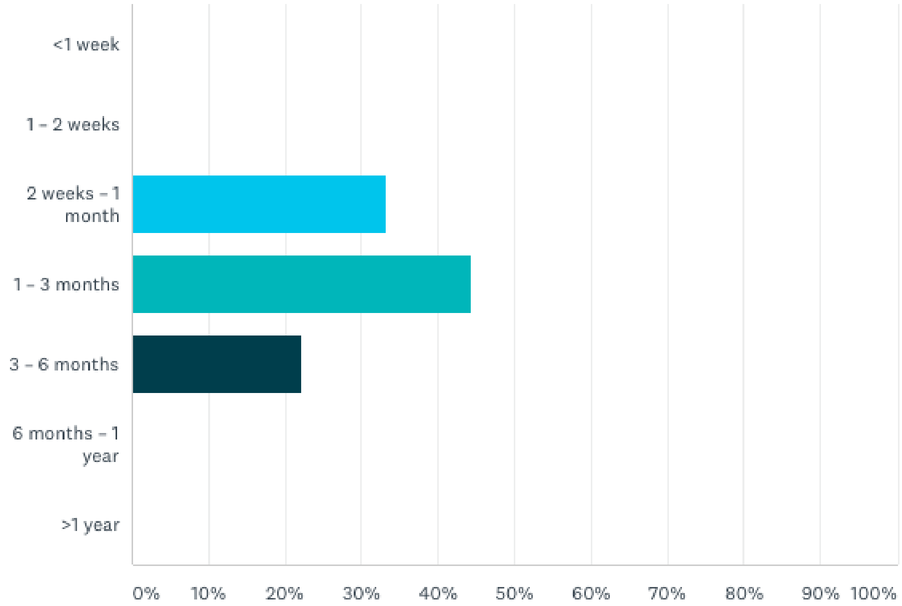
[1.8] THE DUE DILIGENCE EXPERIENCE

Nearly 80 percent of participants reported having a positive experience with their investment partner's due diligence experience. Only 20 percent rated their experience with the due diligence process average or below average. Along with communication, due diligence was one of the top-ranked reasons why participants chose one funding provider over another.



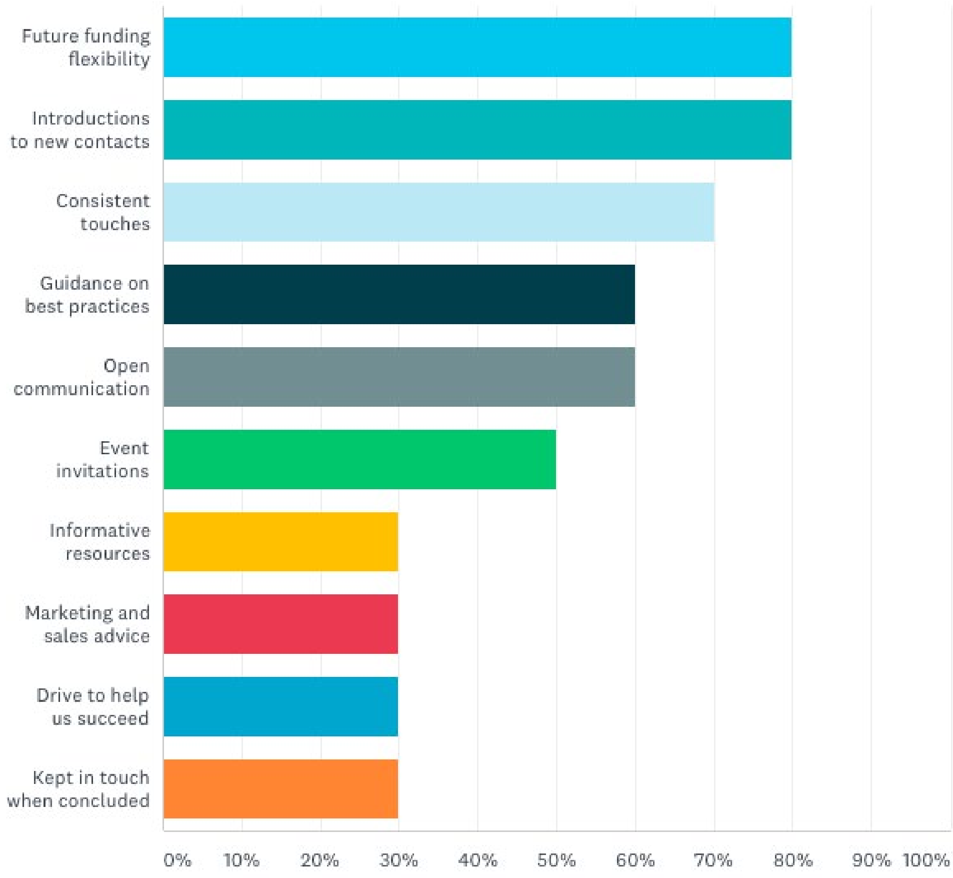
[1.9] TIME TO FUNDING

Across the board, participants reported a fairly expedient funding process. One-third of participants received capital in less than one month, with the majority completing within one to three months, which is still an efficient closing time frame considering participants' heavy usage of venture capital, which can often take more than three months to fund. These shorter cycles offer both an opportunity for SaaS companies in need of funding as well as heavier competition for capital providers.



[1.10] INVESTMENT PARTNER VALUE

Participants reported a number of aspects about their investment partners in which they perceived added value beyond funding itself. Of note are the top three reported value-adds that correspond with previous findings. Future funding flexibility corresponds with participants' high ranking of the additional need for funding beyond previous investments or in addition to them (see 1.2). Introductions to new contacts and consistent touch-bases correspond with "communication" being a primary reason why participants chose one provider over another. Guidance on best practices and overall open communication further support the value of dialogue and expertise in a funding partner.

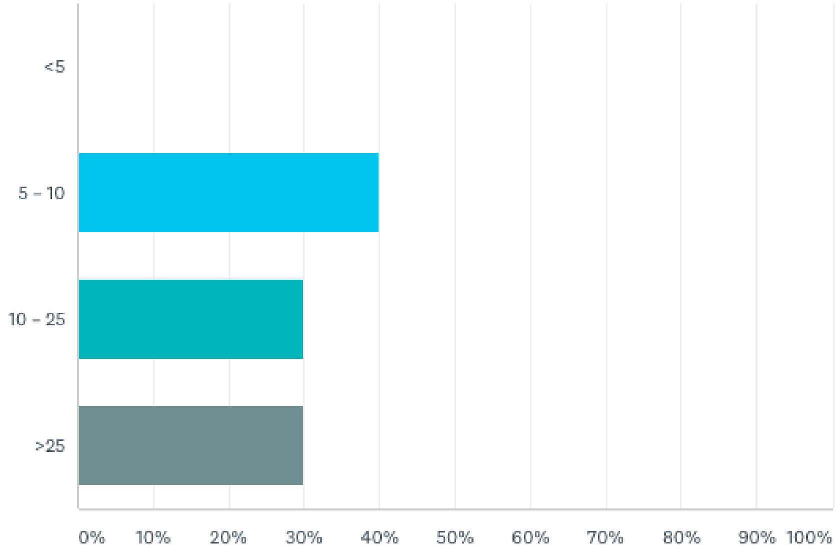


[2] THE RESULTS OF FUNDING

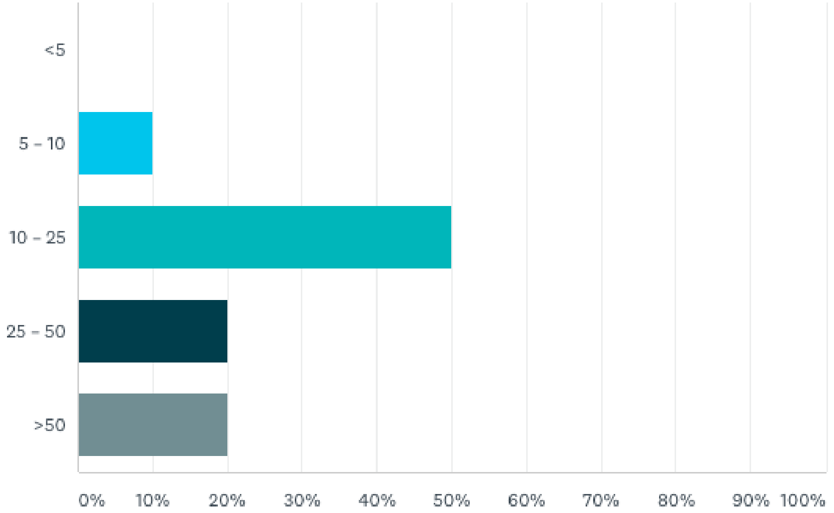
[2.1] TEAM GROWTH

Despite hiring and recruitment being a middle-tier goal for raising capital, participants nevertheless saw a dramatic increase in team growth. The number of companies maintaining 5–10 employees dropped 75 percent, while the number of companies with 10–25 employees increased by 66 percent. Companies with more than 25 employees increased by 33 percent. These increases correspond with the results of 1.7, in which capital made a greater impact on hiring and recruitment than originally intended.

PRE-INVESTMENT TEAM SIZE



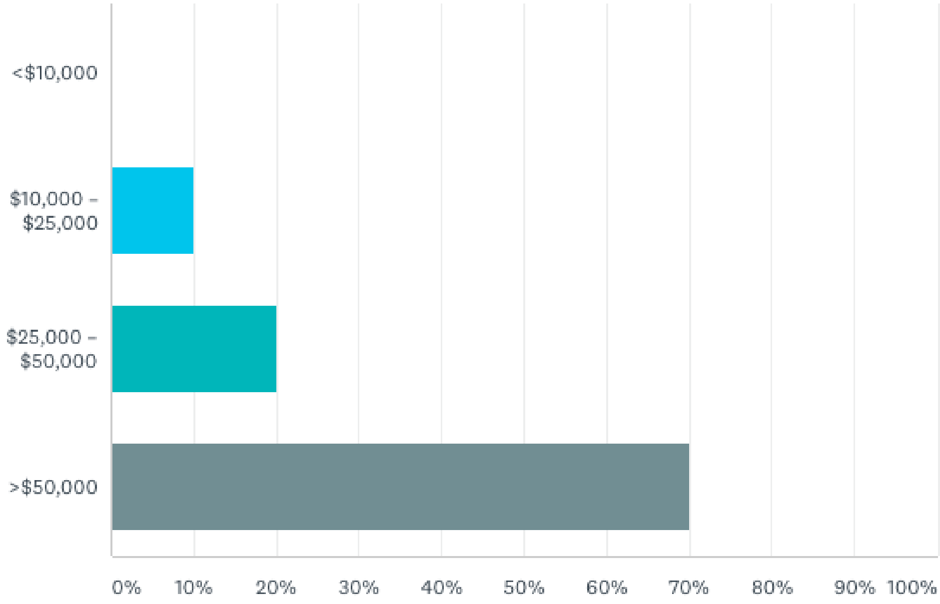
POST-INVESTMENT TEAM SIZE



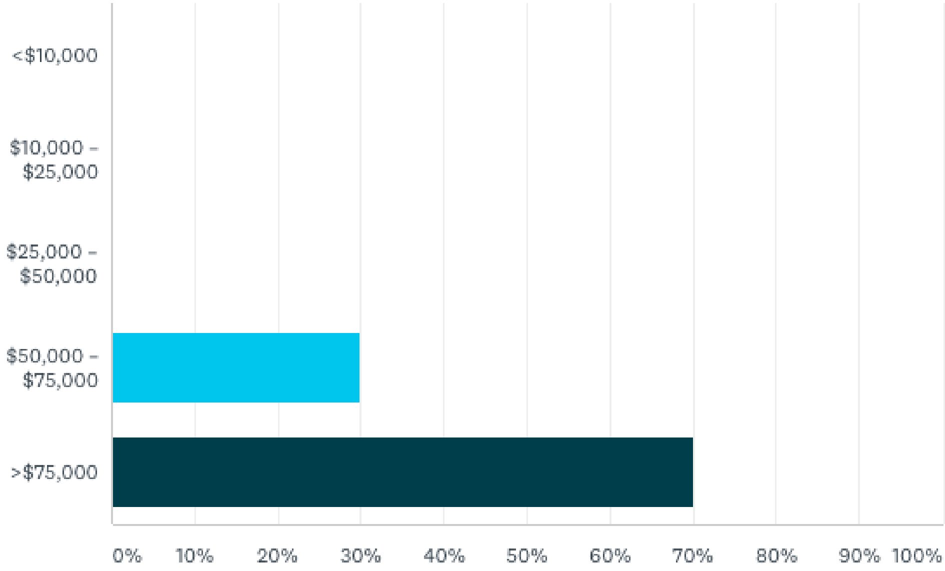
[2.2] MONTHLY EXPENSES

Participants reported higher monthly expenses post-investment, understandably as a result of additional hiring, investment in marketing and sales, and in maintaining financial obligations.

PRE-INVESTMENT EXPENSES



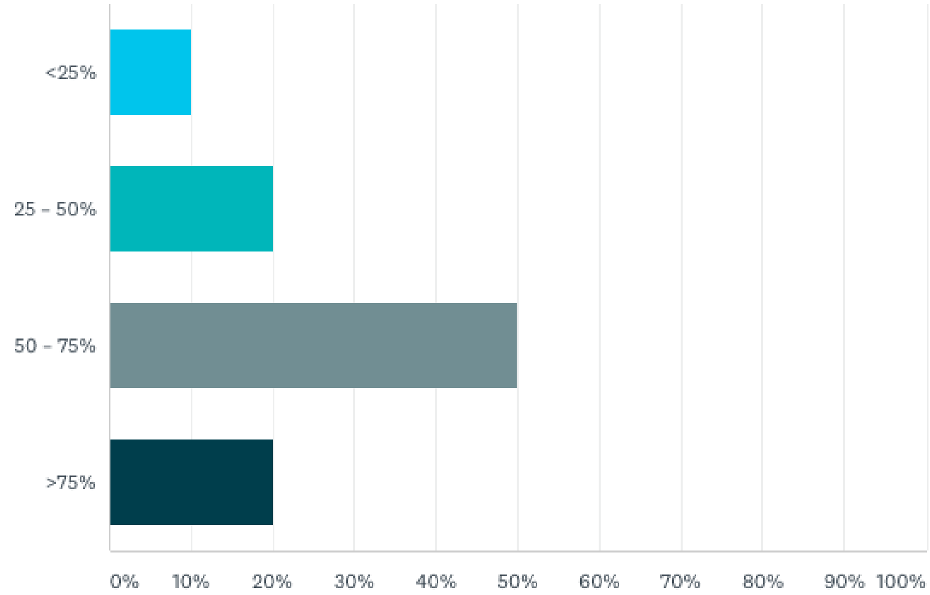
POST-INVESTMENT EXPENSES



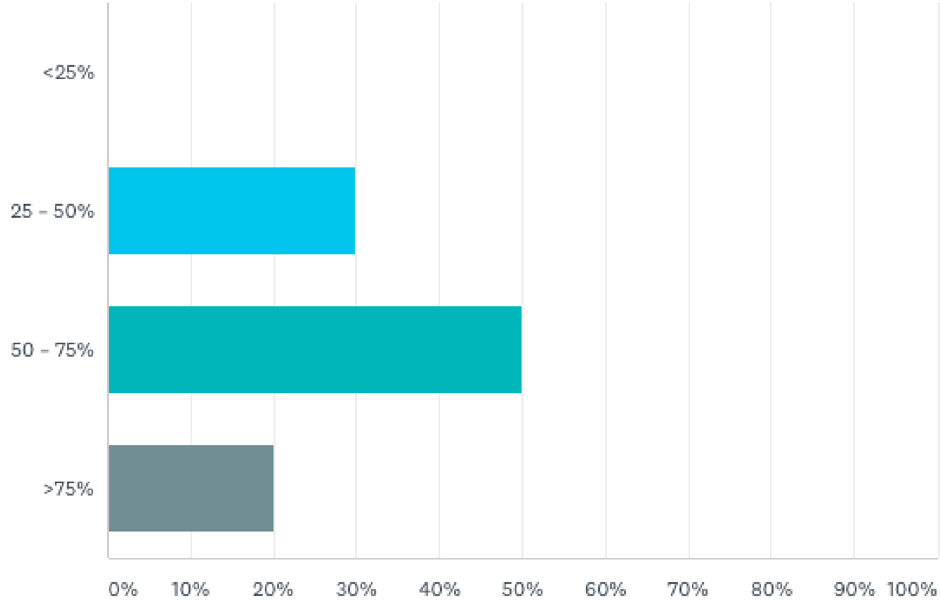
[2.3] GROSS MARGINS

Participants reported generally similar margins as a result of obtaining capital, though one participant transitioned into the 25–50 percent tier.

PRE-INVESTMENT MARGINS



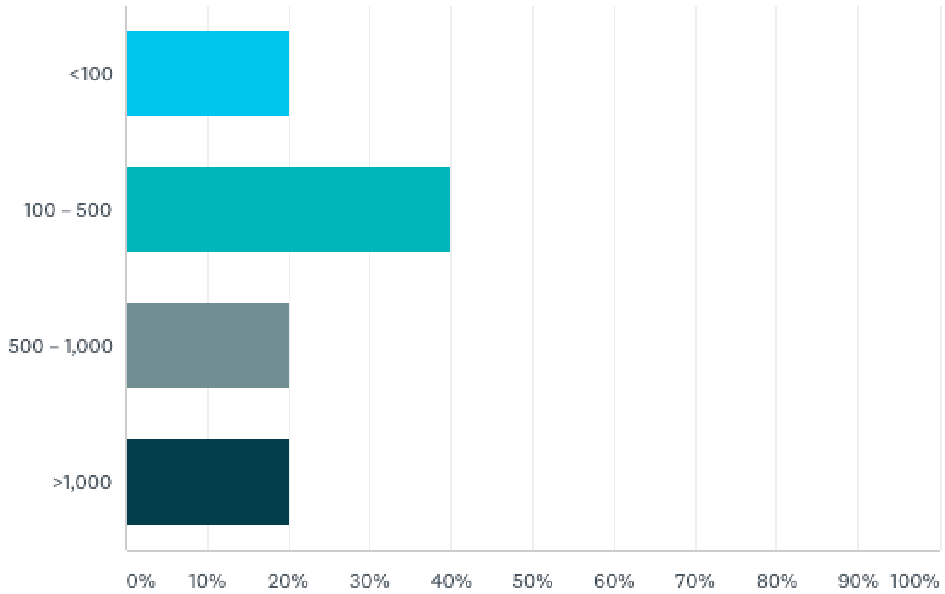
POST-INVESTMENT MARGINS



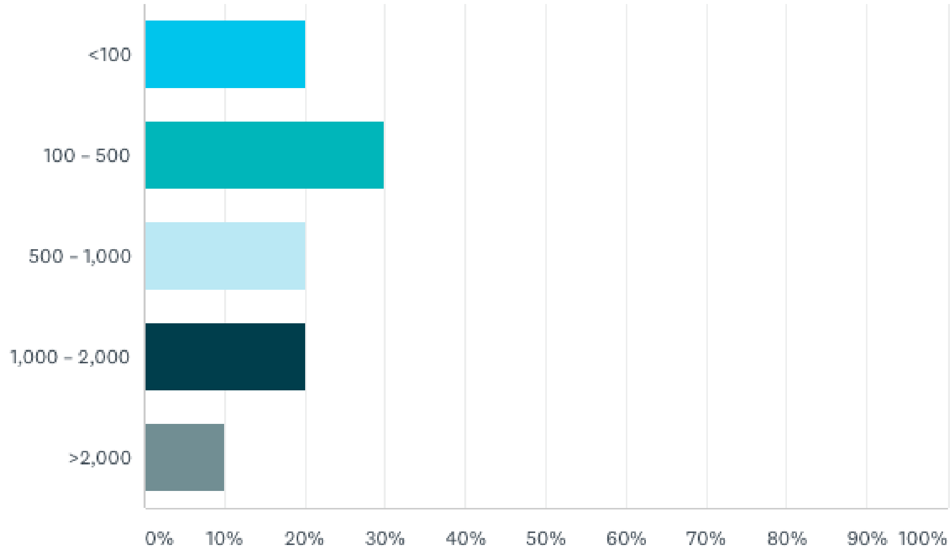
[2.4] SUBSCRIBER BASE

Participants reported similar subscriber base figures both pre-investment and post-investment, though some participants were successful in leaving the 100–500 tier to higher levels, with one participant successfully reaching the >2,000 subscriber tier.

PRE-INVESTMENT SUBSCRIBERS



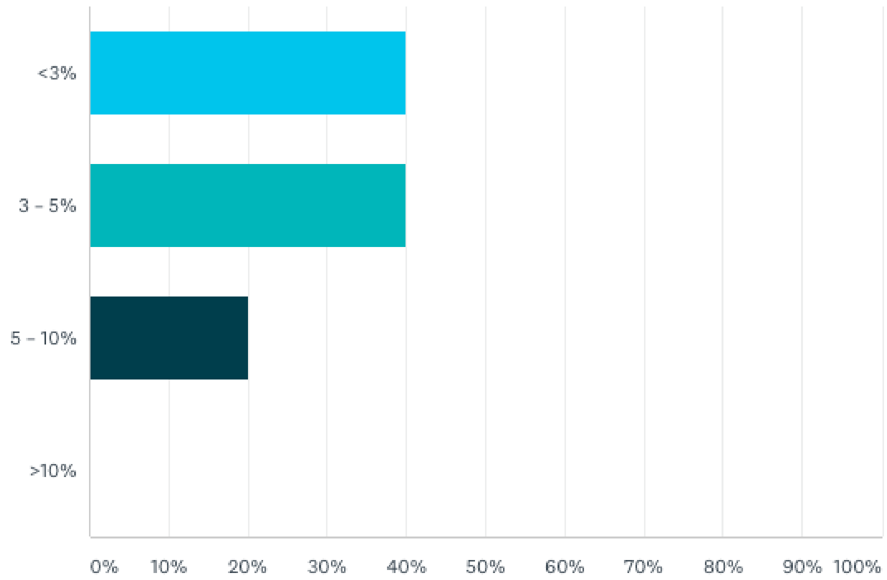
POST-INVESTMENT SUBSCRIBERS



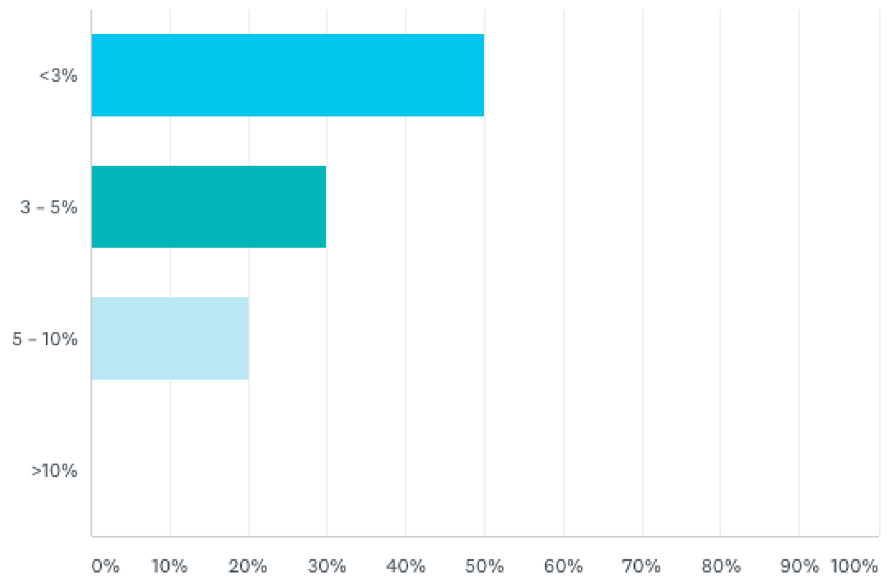
[2.5] CHURN RATE

Participants reported success maintaining or reducing customer churn rates, with 10% transitioning from the 3–5 percent tier to the <3 percent tier. While participants utilized capital for a variety of purposes, it is evident from the impact made by using capital for marketing and sales efforts — specifically a greater focus on customer success, personalized communications, and customer feedback (see 3.2) — resulted in more sticky subscribers.

PRE-INVESTMENT CHURN



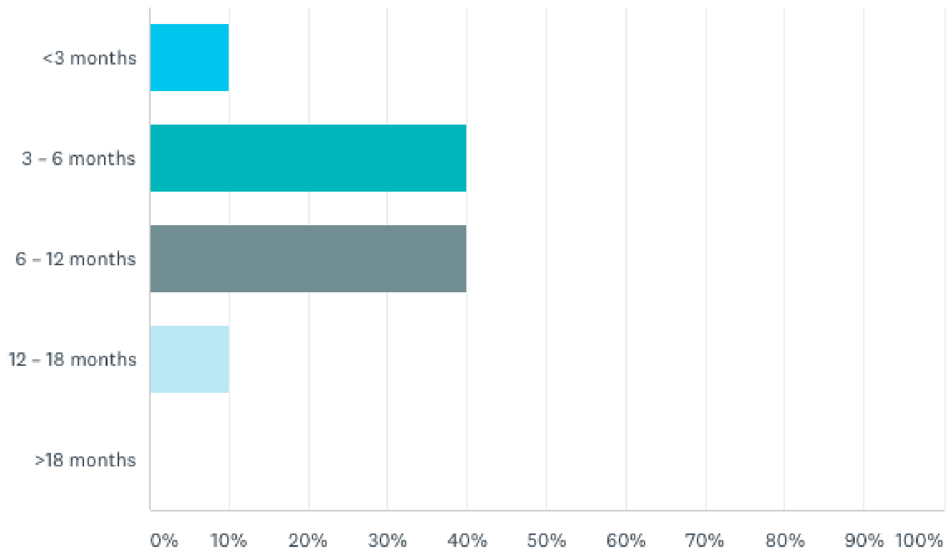
POST-INVESTMENT CHURN



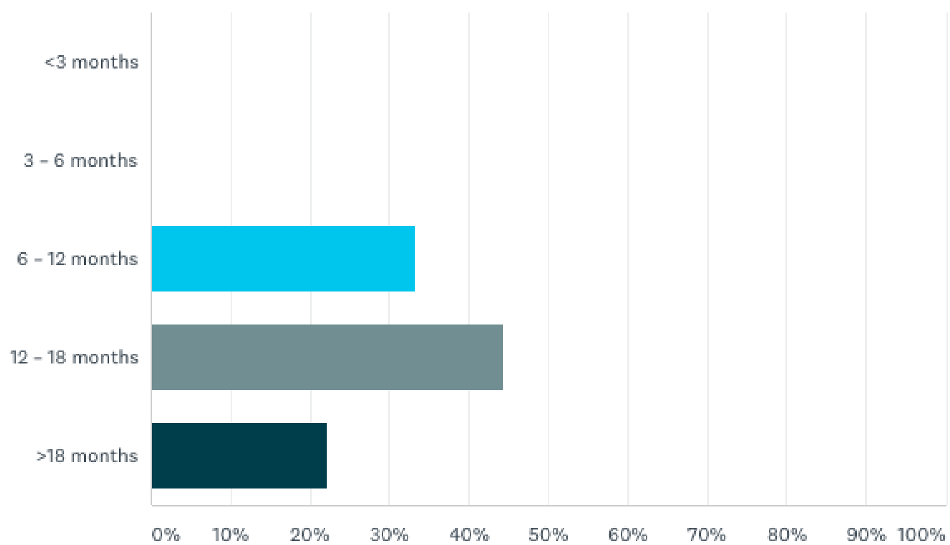
[2.6] RUNWAY DURATION

Cited as a primary reason for obtaining working capital, participants reported a marked increase in overall runway extension, despite their funding leading to increased monthly expenses (see 2.2). Fifty percent of participants transitioned out of having a runway of six months or less, followed by a roughly 25 percent decrease in the 6–12-month runway tier and a 350 percent increase in the 12–18-month tier. Twenty percent of participants were able to extend their runways to more than 18 months.

PRE-INVESTMENT RUNWAY



POST-INVESTMENT RUNWAY

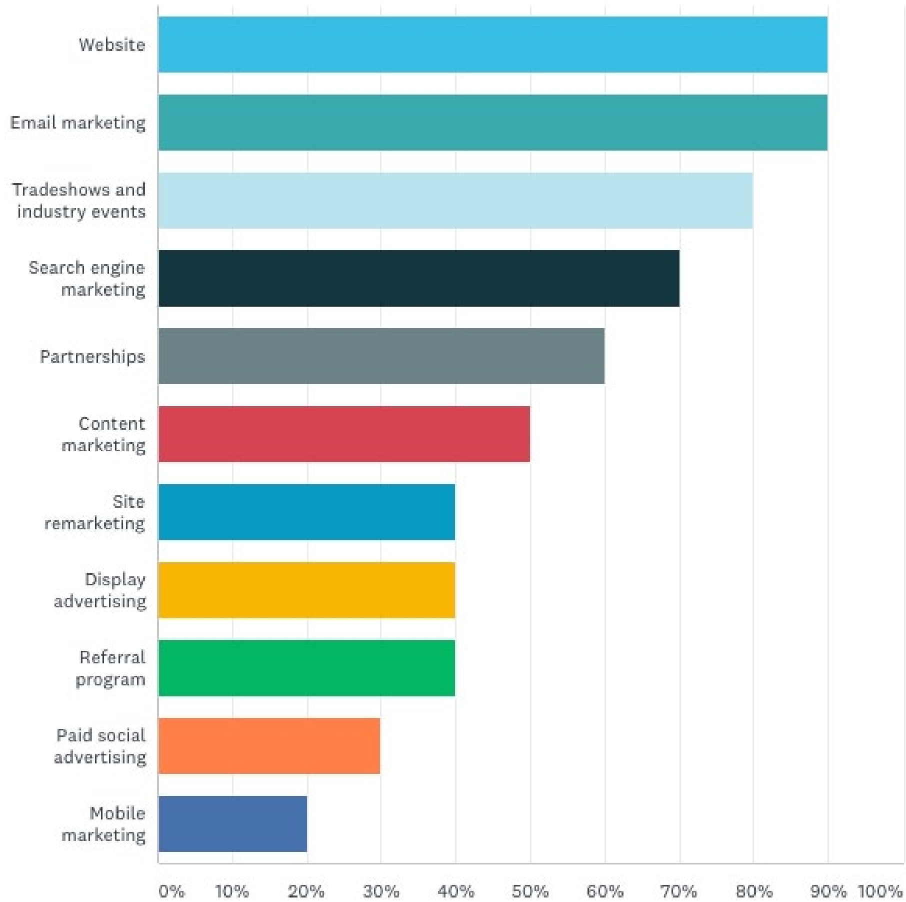


[3] MARKETING APPROACH AND STRATEGY

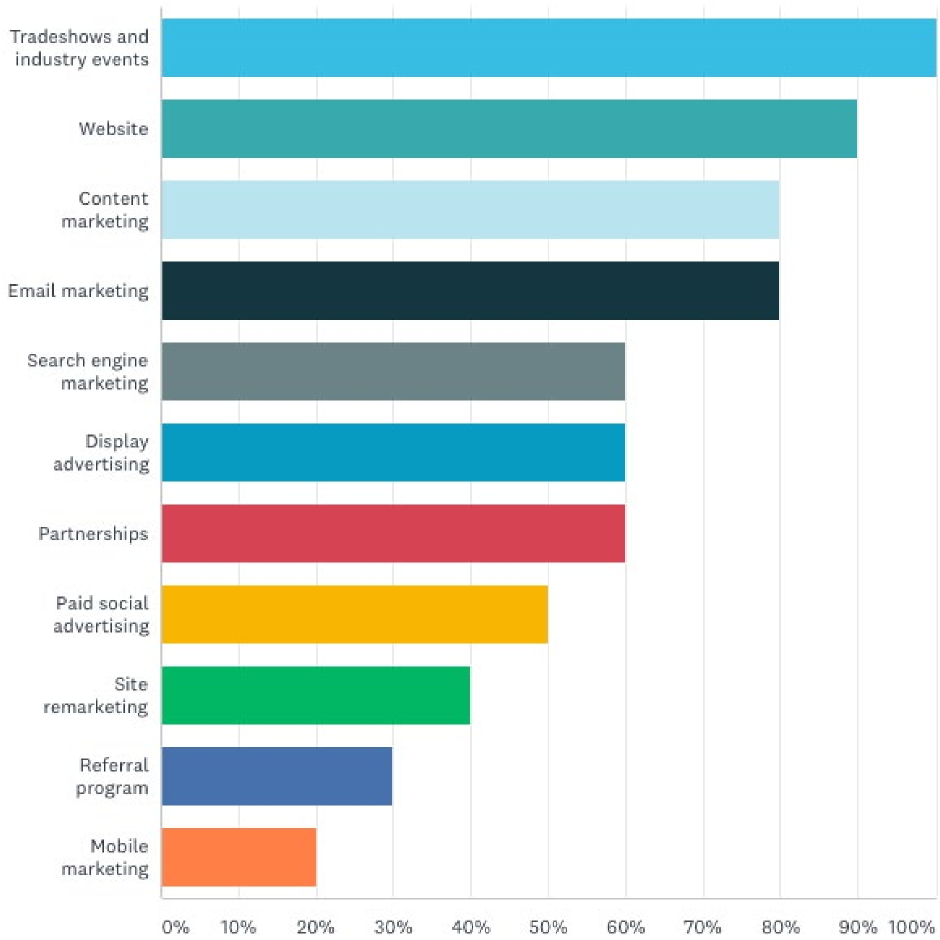
[3.1] CUSTOMER ACQUISITION

Both pre- and post-investment, SaaS companies utilized a vast number of marketing tactics to acquire new customers, ranging from various search and social advertising methods and email marketing to industry trade shows and partnerships. Post-investment, participants invested more heavily in various inbound marketing channels, such as search advertising, paid social advertising, and content marketing. Trade shows and industry events continue to be a customer acquisition channel for SaaS companies post-investment, as does search engine marketing and email marketing.

PRE-INVESTMENT ACQUISITION TACTICS



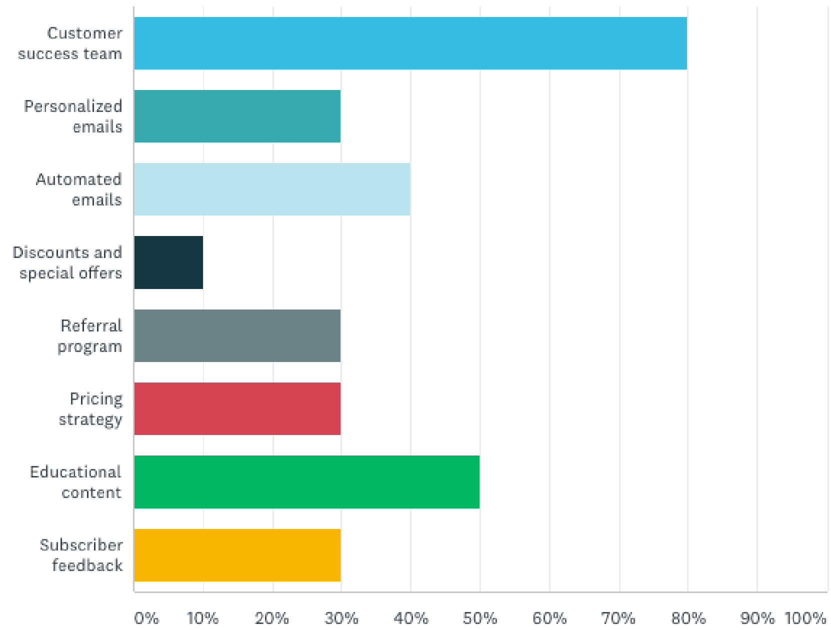
POST-INVESTMENT ACQUISITION TACTICS



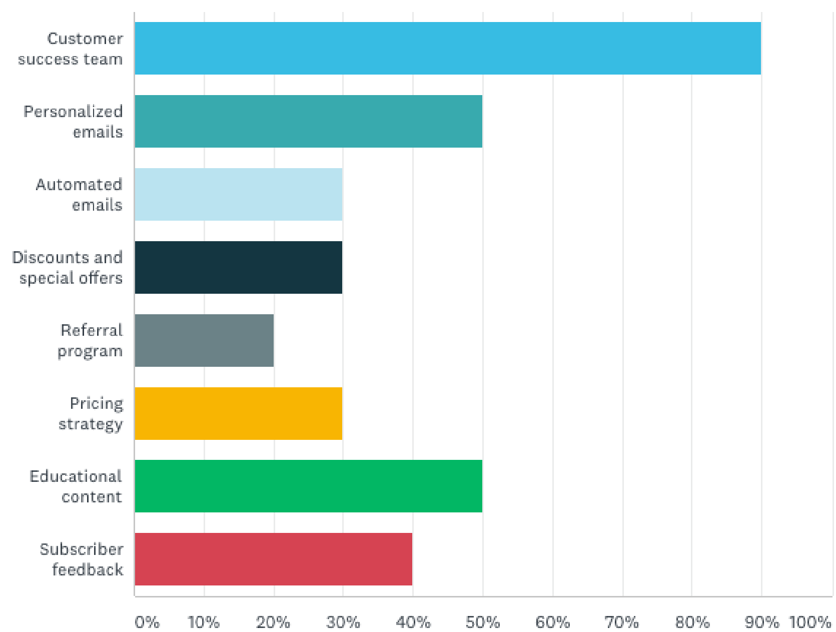
[3.2] CUSTOMER RETENTION

Both pre-investment and post-investment, participants already understood the importance of a customer success team, but obtaining additional capital enabled them to further build out that team. Participants continued using many of the same methods for retention but made greater use post-investment of personalized emails, discounts and special offers, and subscriber feedback.

PRE-INVESTMENT RETENTION



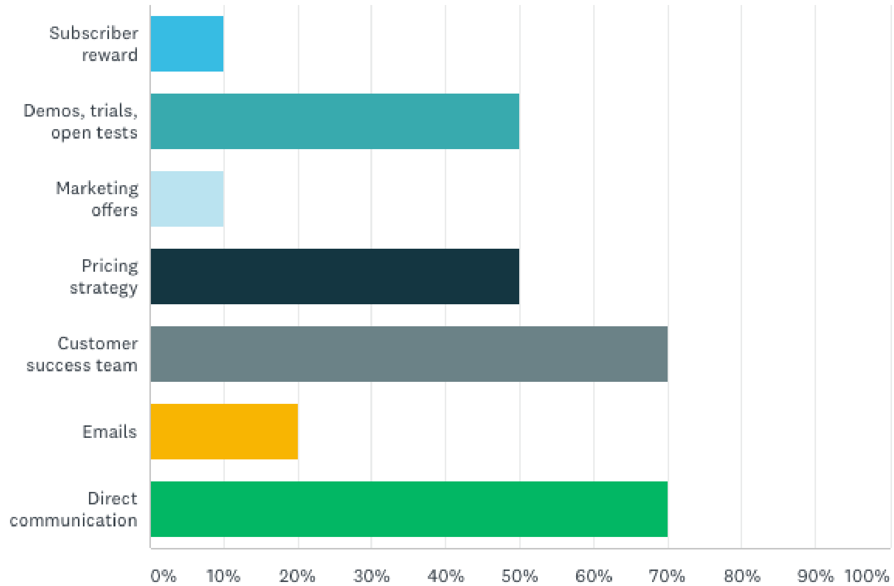
POST-INVESTMENT RETENTION



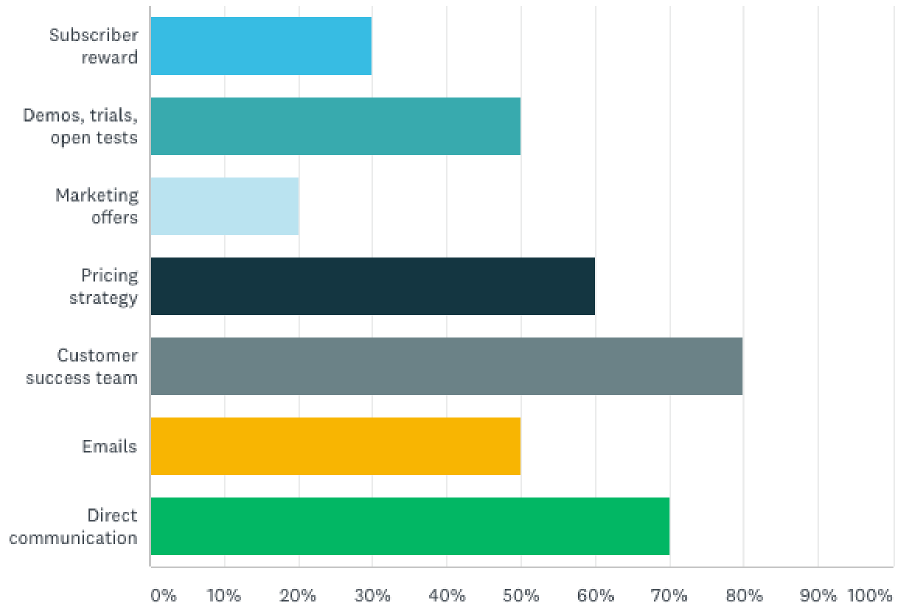
[3.3] UPSELLING STRATEGY

Participants utilized numerous avenues for upselling to existing subscribers, and not one of them decreased between pre-investment and post-investment. While participants maintained or increased their use of these tactics by 10–20 percent, usage of automated and personalized email communications increased by 150 percent, and 20 percent of participants added early/long-term subscriber rewards to their repertoire of upselling strategies.

PRE-INVESTMENT UPSELLING



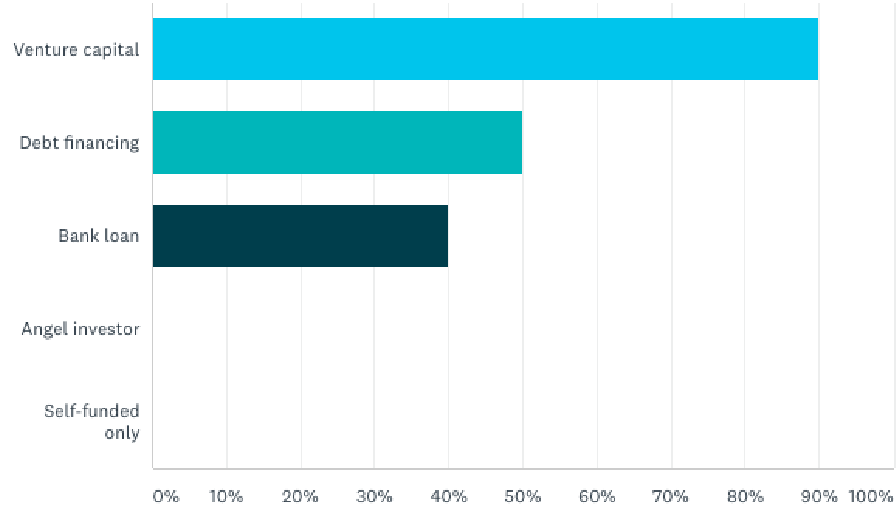
POST-INVESTMENT UPSELLING



[4] FUTURE FUNDING CONSIDERATIONS

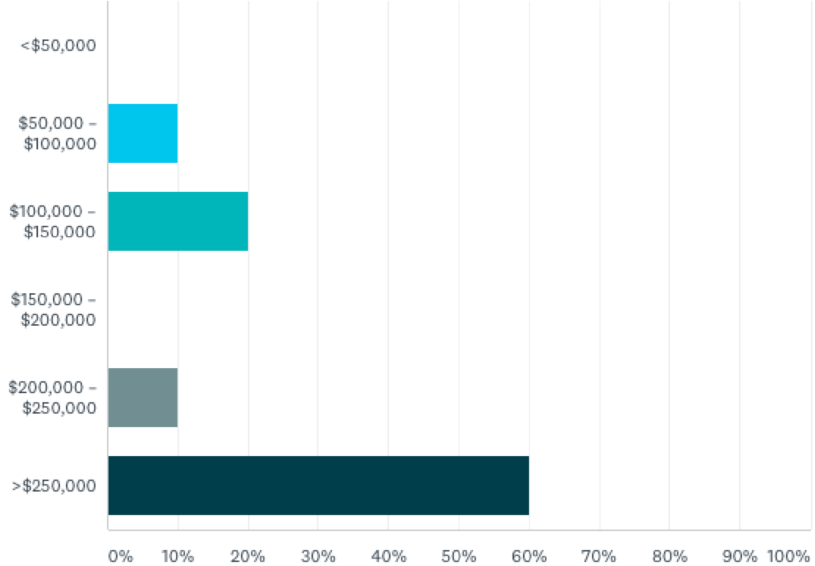
[4.1] POTENTIAL FUNDING AVENUES

For their future funding plans, participants reported a higher consideration for venture capital than when they first considered their funding options. Also of note was that there was a decreased interest in venture debt financing — a contrast to its initial consideration prior to receiving capital. Interest in bank loans, despite the difficulty SaaS companies can experience in obtaining them, remained steady.



[4.2] FUNDING AT FUTURE MRR

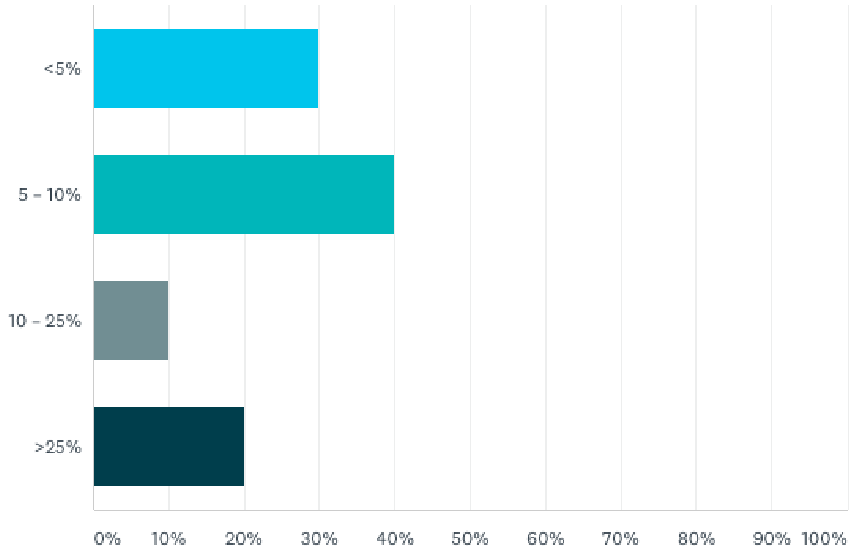
Keeping in mind their pre-investment MRR, participants were asked to consider at what level of MRR they would next consider obtaining additional capital. Seventy percent of participants indicated a much higher MRR than their pre-investment MRR (see 1.2).



[5] ADDITIONAL FINDINGS

[5.1] CUSTOMER CONCENTRATION

Participants reported strong customer concentration percentages, with 70 percent of participants having concentration figures at or below 10 percent, and only 20 percent with concentration percentages above 25 percent. This demonstrates a good mix of customers for participants, which is further strengthened by low churn rates (see 2.5).



CHANGE IS CHALLENGING...

BUT IT'S ALSO A GROWTH VEHICLE

The SaaS industry is in a state of seemingly ever-constant change. While there has been much growth in the industry over the past few years, both in terms of the number of SaaS platforms available and their revenues, that growth has come with cautious optimism.

Technology continues to advance at a rapid pace, necessitating greater outside investment, innovation, and marketing savviness to maintain a competitive advantage. Businesses seek newer, more secure, and more cost-efficient solutions for older technological institutions. And ongoing shifts and trends in the industries that SaaS companies serve leave not a moment of rest for SaaS business owners and development teams who must shift gears quickly to accommodate everything from shift business preferences to new privacy laws.

More than ever, SaaS companies must weigh the funding being utilized to both sustain and grow their companies. Venture capital has long been the foundation of many SaaS growth strategies — but at a cost. Ownership dilution, reduction in decision-making authority, and more can quickly put a SaaS company in a completely different position despite it gaining the financial resources needed to pursue its goals.

SaaS companies must emphasize funding solutions that keep them in complete control over their growth trajectory and allow them to make the decisions that they feel will best lead them to success. I encourage SaaS owners and leaders to give greater consideration to the benefits of venture debt. The notion of going into debt may seem at first counterintuitive, particularly for a growing company that does not have significant resources.

But again, the prize is not only in the short-term but also in the long-term. Venture debt often leads to greater (and more flexible) exit options and results for owners, while equity dilution of 20, 30, or 40 percent will yield vastly fewer rewards for all the hard work put into a SaaS platform. For SaaS companies with immediate needs and goals, debt financing from River SaaS Capital helps you retain ownership, receive capital faster than most other forms of financing thanks to an expedient (and less extensive) due diligence process, and enjoy the flexibility to structure your loan and repayment preferences.

And through it all, we strive not only to be your funding partner, but also to be your trusted advisor for years to come. Your organization already has enough challenges to face in your day-to-day operations. Obtaining, using, and benefiting from the capital you raise to help your company grow and achieve your goals should not be another.

If you would like to learn more about venture debt financing or discuss your overall growth strategy with a like-minded investment team, I invite you to contact us. We would enjoy the opportunity to learn more about your company, immediate funding needs, and long-term capital strategy — and show you how River SaaS Capital may be able to assist.

Wendy Jarchow
Chief Investment Officer | River SaaS Capital
440-348-9695 | wjarchow@rivercapital.com

THE ONGOING BATTLE FOR CUSTOMER ATTENTION

FUTURE GROWTH WILL REQUIRE EVERYONE TO BE IN CUSTOMER SUCCESS

It doesn't seem that long ago that customer acquisition was fairly simple. Put out educational content to draw inbound attention. Convert that attention into form submissions, and then let sales do its thing. Add the MRR and move on.

As software has truly eaten the world, however, things have become tricky. Today, investment in your SaaS sales and marketing efforts needs to be viewed as a cross-department attempt to saturate your prospect all the way through their transition into a customer. There is a great war for all of our attention every day, and there is no longer a way to win the war with a single channel approach. Instead, we all must be in customer success, even before we have a customer. We must be where our prospect is, across channels, to help paint the vision of why our SaaS product will benefit their business and, for certain stakeholders, them personally.

Since we started NgageContent a little more than five years ago, we've helped more than 20 SaaS companies put together strategies ranging from their friends and family round pitch deck to the marketing budget for their run to $10 million ARR. The road to your second tier of SaaS sales is often slow as you move upstream and outside of your personal rolodex, so you have to invest in marketing channels that put you in front of your audience physically and digitally with a consistent, benefits-first approach.

A long way back, I heard a speaker name this concept, and I've stolen the idea: Turkey Dinner Content. The concept is similar to Thanksgiving dinner. You go big on one meal, then you feed off the leftovers. Your job is to work with customer success to figure out where your SaaS product hits the deepest and create your Turkey Dinner Content out of that. As you figure that out, you surround your prospects and existing customers with this content through multiple channels. A message that works plus consistency across channels will grab attention. Thinking this way helps you invest your capital wisely. With a focus on one message at a time, you can pick and test each channel. As your product and market matures, loop customer success back in and put out new messages. Make sure you continue to use these messages in your upsell and renewal conversations to build brand ambassadors.

If you want to talk about a holistic growth strategy built around driving adoption and renewals, please feel free to reach out to me. Our company was started out of the SaaS world, and driving down customer acquisition costs is what gets us out of bed in the morning.

Mike Cottrill

Co-Founder and CEO | NgageContent

Mike@ngagecontent.com

GROW YOUR OWN WAY

River SaaS Capital is a venture debt financing provider specifically for SaaS companies offering 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, debt financing can serve as the strategic solution 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. If you exit, your options are better.

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.

COMPLEMENTARY
Already have equity investment? Debt can help you extend operations.

READY TO LEARN MORE OR APPLY?

Apply: riversaascapital.com

Call: 440-348-9695 | **Email:** info@riversaascapital.com

NGAGECONTENT

BORN TO HELP SAAS GROW

NgageContent is an inbound marketing firm specializing in helping SaaS companies reach more prospects and turn them into long-term customers. From building engaging websites that capture and convert visitors to developing strategic inbound marketing campaigns that put the right message in front of the right people, everything we do is designed to help SaaS companies establish, maintain and expand a positive growth trend.

HOW WE CAN HELP YOU

BRAND DEVELOPMENT
Establish an engaging story that resonates with your target audiences.

CONTENT MARKETING
Educate and delight your audience at all stages of the customer journey.

WEB DESIGN
We'll build the foundation — and growth engine — of your digital presence.

HUBSPOT ONBOARDING
We'll help you take advantage of the world's most powerful CRM.

LEAD GEN & NURTURING
Attract, convert and close more leads to achieve your SaaS growth goals.

HUBSPOT STRATEGY
Assess the performance and ROI of your marketing and sales initiatives.

MARKETING AUTOMATION
We create intuitive workflows that keep your inbound machine moving.

SOCIAL ADVERTISING
Your audience is already there. We'll help you target them across key platforms.

ONLINE ADVERTISING
Be front and center where people are already looking for what you have to offer.

EMAIL MARKETING
Email remains one of the best ways to nurture and convert your audience.

TRADE SHOW SUPPORT
Trade shows can be lead-gen machines for SaaS. We'll help you stand out.

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