

Survey of 116 revenue generating Finnish B2B SaaS companies

Vendep Capital

Vendep Capital is the only pure SaaS investor in Finland, investing from its €36M pre-A venture fund (2017 vintage). The firm was founded by three partners who have complementary backgrounds as entrepreneurs, investors and general managers and who have invested together since 2011.

Vendep invests in the best SaaS teams in Finland (marketplaces and b2b software) when early metrics show market validation abroad and the team has a solid plan for scaling further. Typically, the initial investment goes into marketing and sales and establishing operations in the European HUBs (London, Berlin, Amsterdam) or in the US.

VENDEP CAPITAL

Business Finland

Business Finland is the most important public innovation funding and internationalization partner in Finland for the global software industry. Business Finland has decades of experience in accelerating the Finnish software industry in tight cooperation with companies, research organizations and interest groups. Business Finland provides software companies registered in Finland e.g. funding for market surveys and R&D, organizes international fair visits and offers data from target markets, attracts private investments and builds global software ecosystems in Finland.

BUSINESS FINLAND

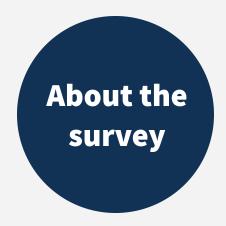


Tesi (Finnish Industry Investment Ltd) is a stateowned investment company that wants to raise Finland to the front ranks of renewing economic growth by investing in funds and directly in companies.

Tesi invests profitably and responsibly, together with co-investors, to create the world's new success stories. The investments under management total 1.2 billion euros.

Ambition for ownership and success





This report analyses the results of a survey of Finnish SaaS companies conducted in June-July 2019. It represents responses from 116 executives of revenue generating businesses using 2018 figures. This report is an annual series of studies on the state of the Finnish SaaS businesses.

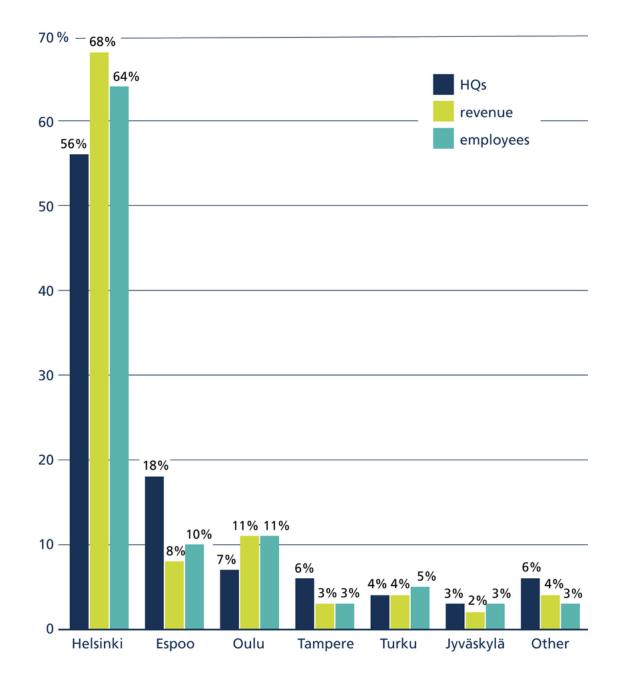
For a discussion of the results and to sign up for future surveys, please visit www.stateofsaas.fi





Most survey respondents (74%) reside in the capital region, primarily in Helsinki and Espoo. This is 2% more than last year.

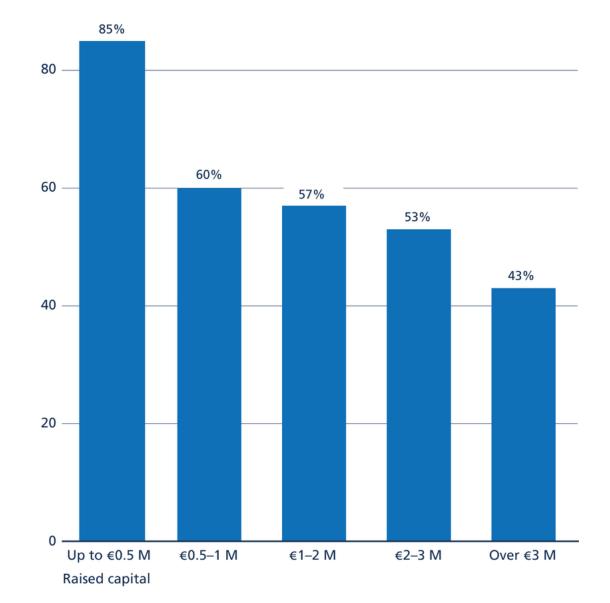
Finnish SaaS startups by HQ location





Unsurprisingly, as companies raise capital, the median ownership of the operative team decreases.

Median ownership of the operative team vs. capital raised

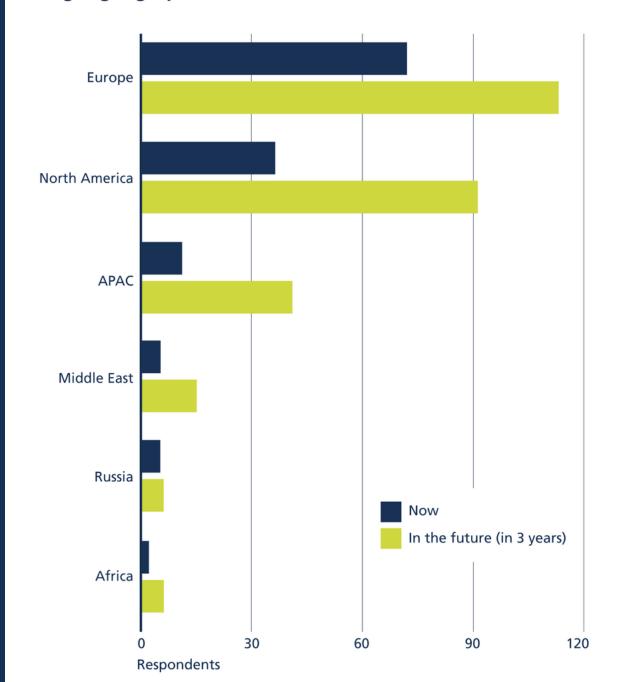




Most companies consider Europe and North America to be their target markets.

Compared to last year, there is noticeably more interest towards the Asia-Pacific region – a third see APAC as a future market as opposed to 14% from last year. The same applies to the Middle East.

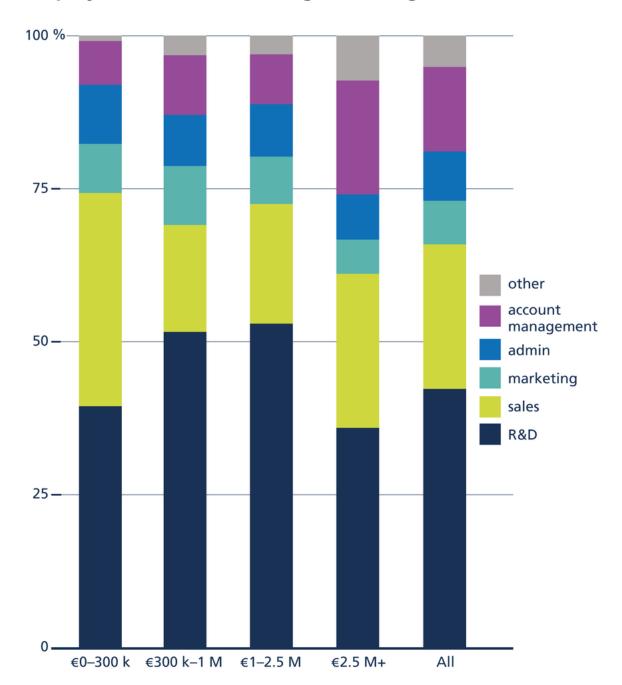
Target geographic markets





The 116 respondents employ 1600 people in Finland and 350 abroad. In total, 44% work in R&D and 32% in sales & marketing.

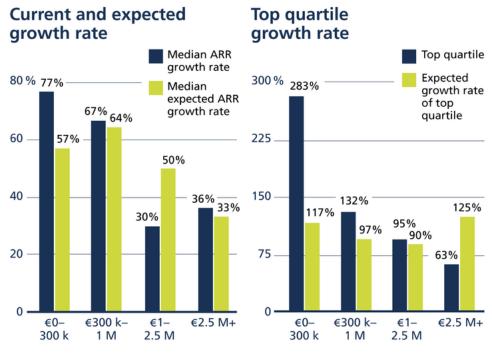
Employee distribution among ARR categories



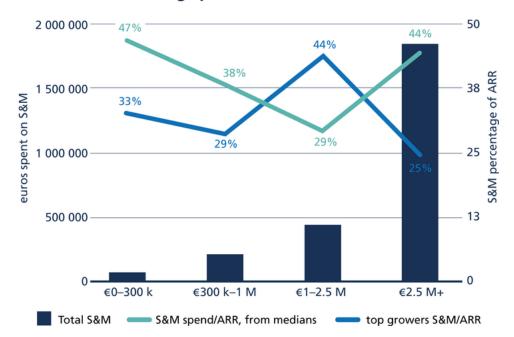


Companies in the top quartile grow more than twice as fast as the median company. They also have a more positive outlook on future growth.

Top growers seem to be generally more productive with their sales and marketing spend.



Sales and marketing spend

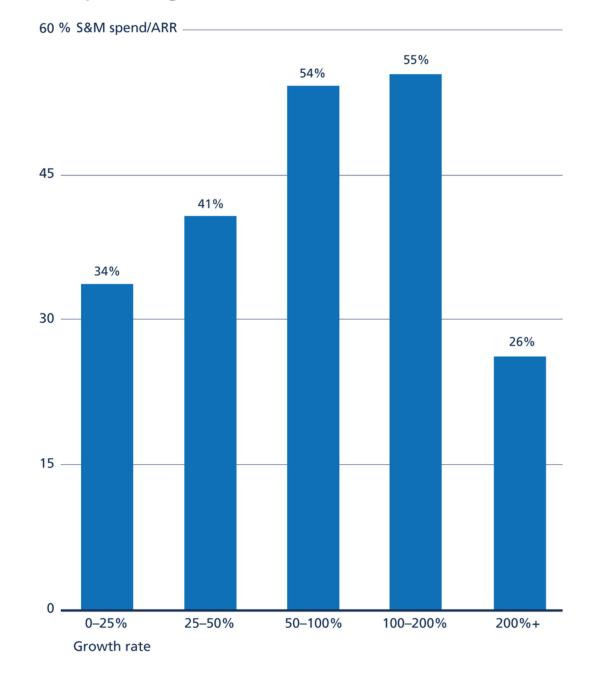




Unsurprisingly, the growth rate correlates with sales and marketing spend.

The fastest growing group (200%+) were internet companies with lower customer acquisition costs and consisting mostly of respondents with a median ARR of €305 k.

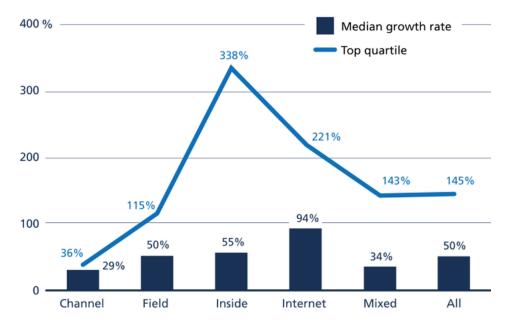
S&M spend vs. growth rate



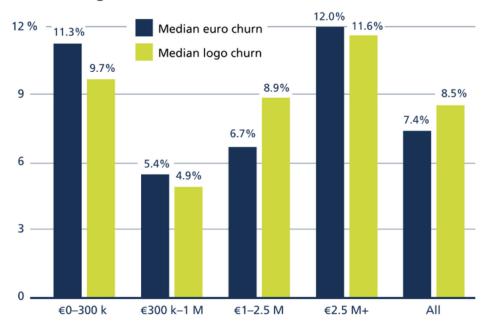
Sales Model and Churn

Companies in the top quartile grow over 100% in most of the sales models (the channel sales sample rate is low).

Median growth rate vs. sales strategy



Euro and logo churn

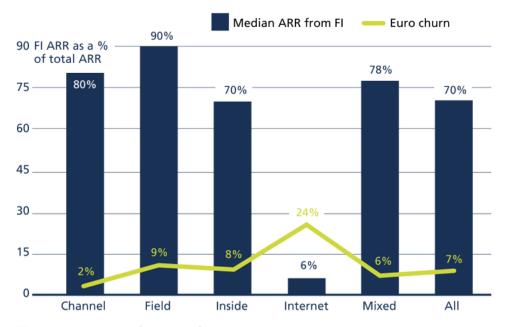




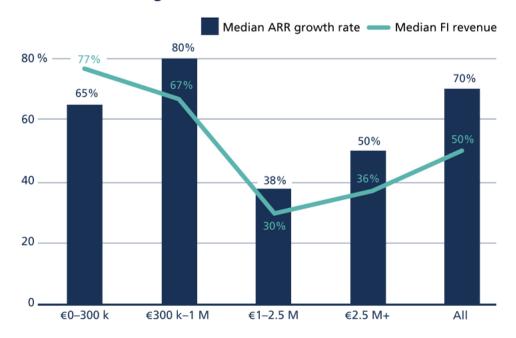
Unsurprisingly, the internet sales model has the highest median growth and churn. They also have the most revenue from outside Finland (94%).

The amount of revenue from Finnish customers was quite similar across ARR categories. However, companies with a majority of customers from Finland have lower churn.

ARR from Finland and churn vs. sales model



FI revenues and growth rate



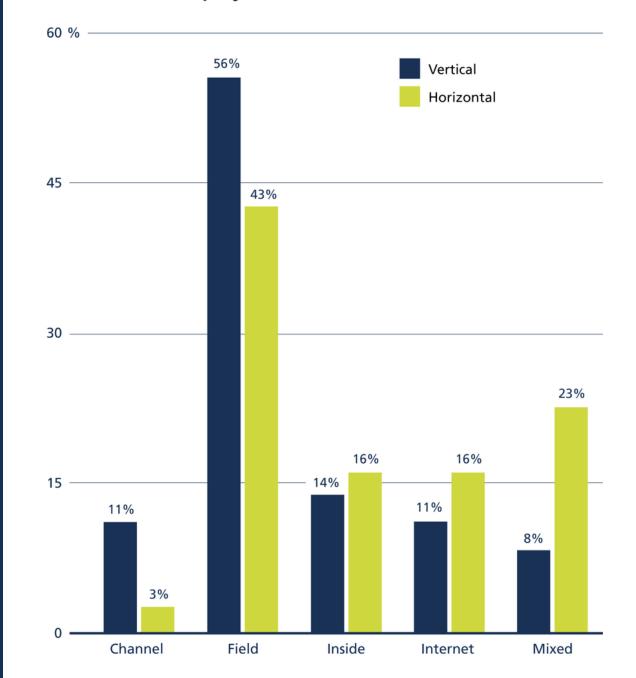


Two-thirds of SaaS products are horizontal applications.

Vertical applications are easier to sell through channels, while a horizontal SaaS more often requires a mixed sales model.

The main difference comes in marketing spend, which is 2:1 for horizontal vs. vertical application companies.

Sales models employed

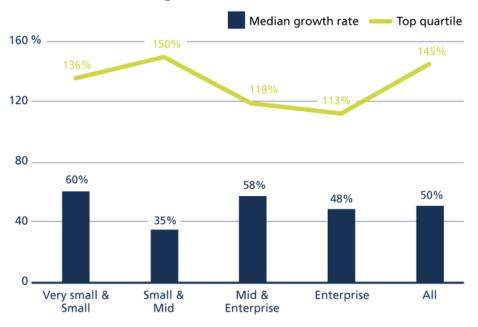




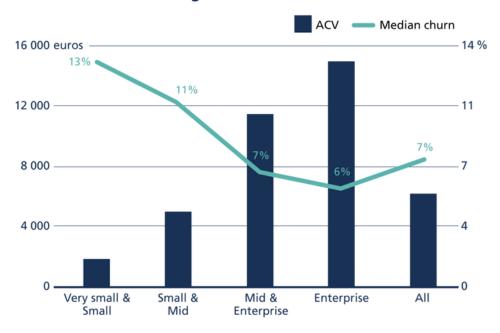
Companies in the top quartile grow 100% or more irrespective of the customer segment.

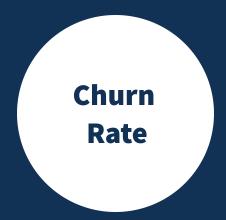
42% of revenues come from the enterprise customer segment and 34% from the mid. Churn is naturally lower with larger customers.

Growth rate vs. target customers



ACV and churn vs. target customers





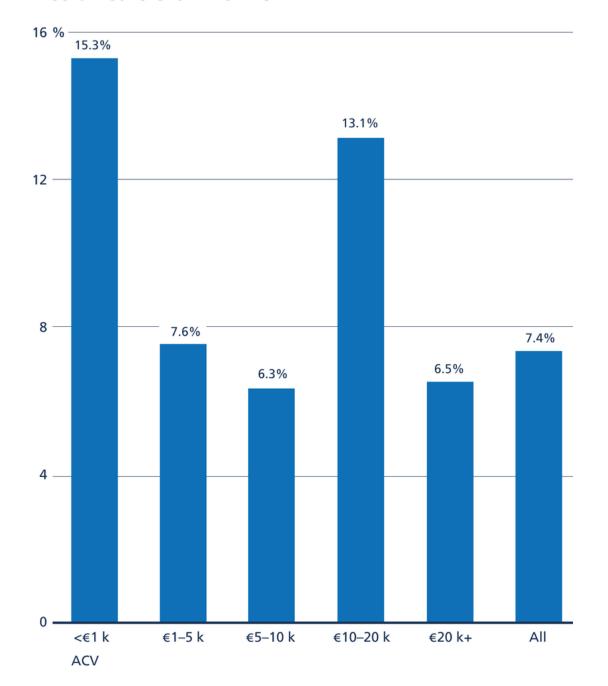
Churn rates vary significantly.

Smaller contracts have naturally higher churn rates. In this survey, €10-20 k contracts have unusually high churn rates.

Long-term, and for larger companies, a good target euro churn rate is 5-7% annually.

Key Bank's 2017 SaaS Survey of >\$5 M ARR compa- nies showed a median dollar churn of 8% annually. Finnish B2B SaaS companies appear to be slightly below that at 7.4%.

Median euro churn vs. ACV



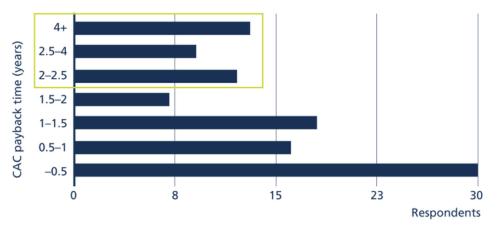


As highlighted, 32% of respondents spend over 2 euros to get 1 euro in ARR.

Less than 12 months is a good payback time for customer aquisition costs (CAC)*, as achieved by 44% of respondents. They spend less than 1 euro to get 1 euro in ARR.

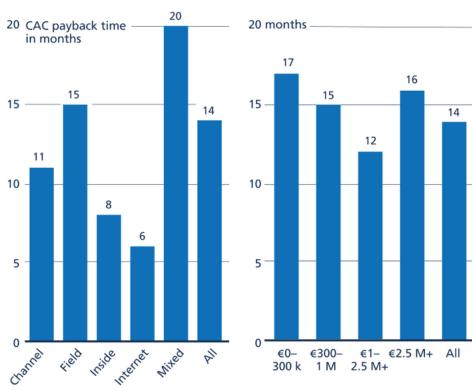
The CAC payback time varies greatly among the different ARR categories, and the data does not indicate any trends.

CAC payback time



CAC payback time by primary sales model

CAC payback time by ARR category



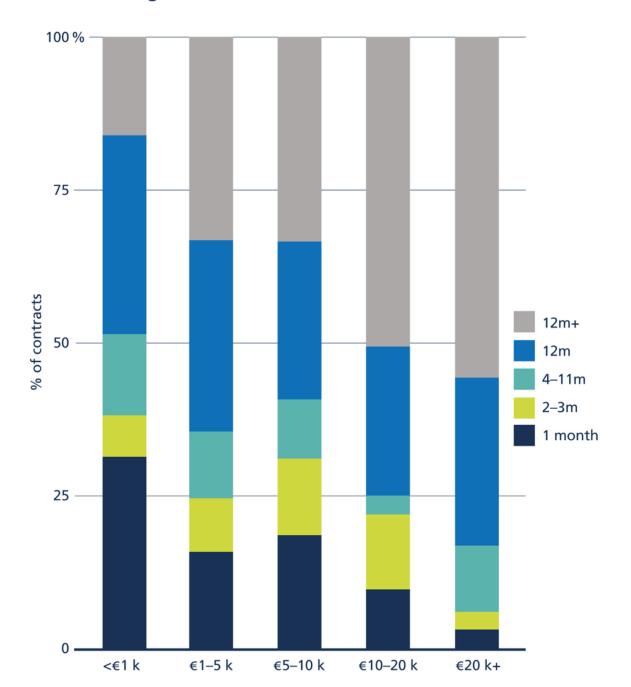
^{*} forentrepreneurs.com/saas-metrics



Contract length increases with contract size.

Over 80% of the deals in the €20 k+ contract size category are 12 months or longer. Out of these, only a third invoice the customer 1 year in advance.

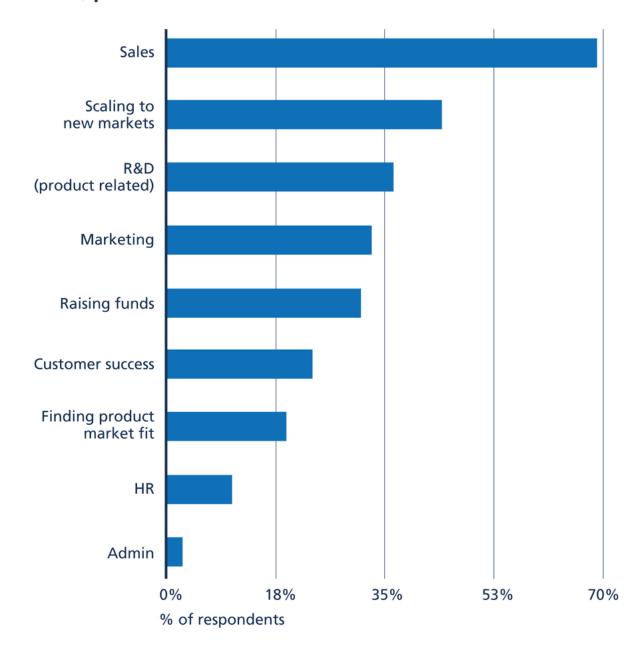
Contract length vs. contract size





As was the case last year, sales and scaling to new markets are the biggest issues.

Issues, predefined answers

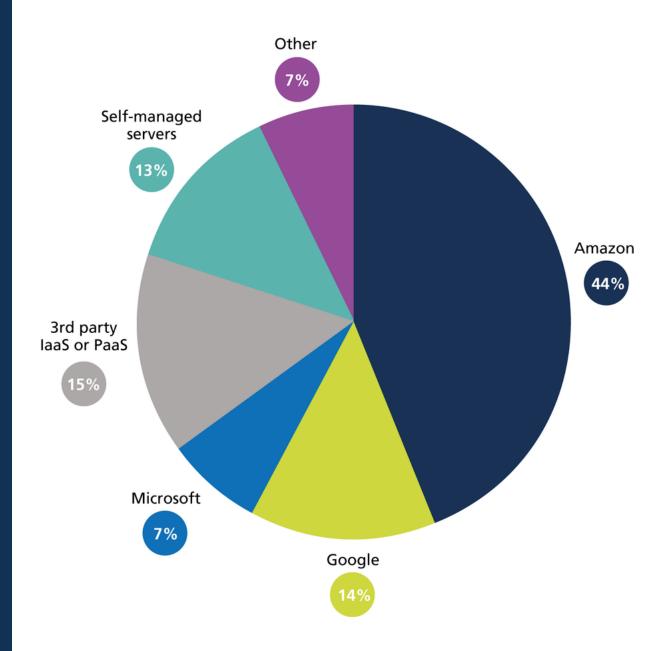




AWS has solidified its market leadership among Finnish SaaS companies as the main cloud service provider.

Only 13% use self-managed servers as opposed to 18% last year.

Cloud hosting



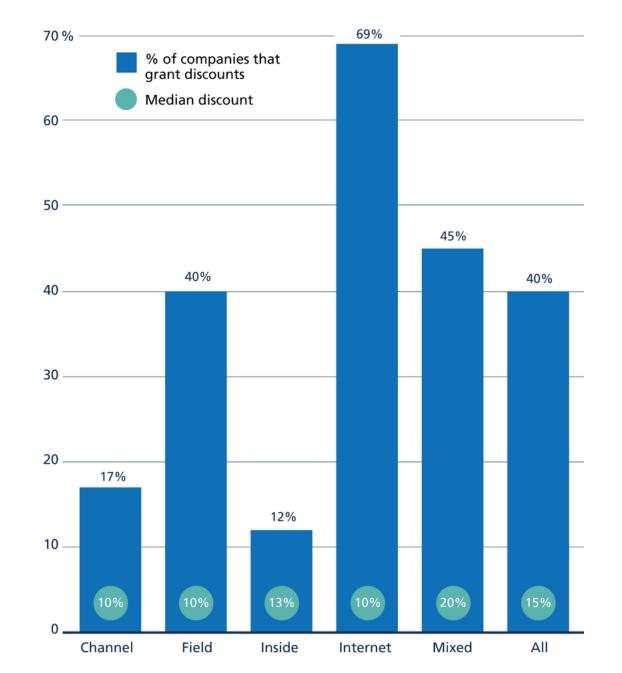


40% of companies give discounts for multi-term contracts (median discount 15%).

Companies with inbound/internet sales models have short contracts and give discounts.

From those that had mostly 1-year contracts, only a third offered discounts for multi-term deals (the median discount was again 15%).

Discounts for multi-term contracts by sales model

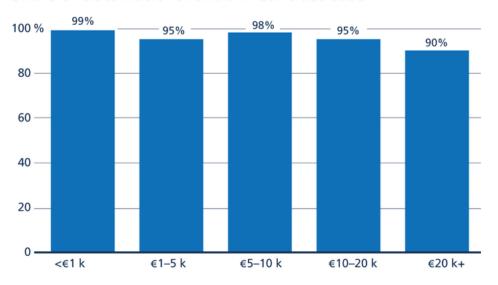


Automated Renewals and Free Trials

Most of the agreements renew automatically with minor differences between different contract sizes.

Time-limited trials are by far the most popular trial across all contract sizes. The amount of free trials used decreases naturally with increasing ACV.

Share of automatic renevals in contract base



Free trials vs. contract size

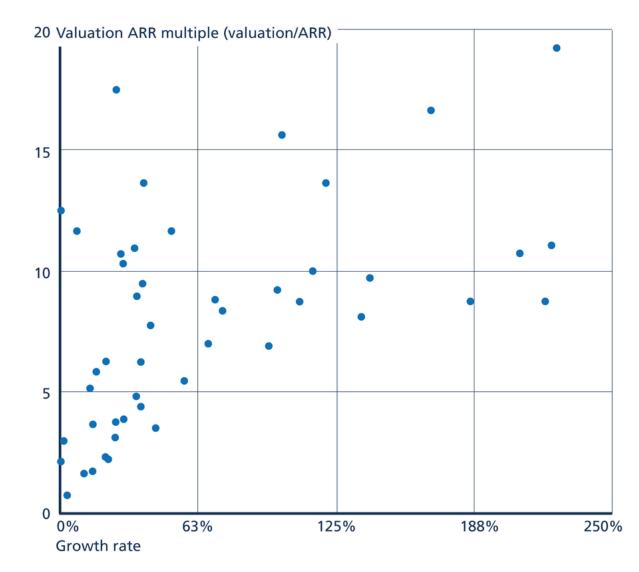




Respondents were asked for an opinion on their current valuation.

Growth rates are a major determinant of valuation, as can be seen from the graph.

Valuation ARR multiple vs. growth rate





ARR – annual recurring revenue

The annualised value of current recurring subscriptions at a point in time

CAC – customer acquisition cost

Total sales and marketing costs divided by the number of new customers over a period of time

ACV – average contract value

Calculated as ARR divided by the number of customers

Euro churn

The amount of revenue forfeited with lost customers over a period of time (this survey uses annual figures)

Logo churn

The amount of customers lost over a period of time

Sales models:

Direct

Face-to-face meetings with customers in the field

Inside

Sales that originate from the company's outbound digital or other sales activity

Internet

Sales that originate from an inbound customer interaction

Channel

Sales originated by 3rd parties (VAR, OEMs etc)

Mixed

Where no sales model is used twice as much as any other one

Category Profile: €0—300 k ARR

A SaaS company with early traction has already raised over €300 k since incorporation. The median growth rate is 77% with a 10% euro churn. The field sales model dominates with 4 people involved in sales and marketing out of 9 total.

40% list sales as their biggest challenge. 60% of the revenue comes from Finland with services making up 18% of the total revenue. The median ownership by the operative team is 60%.



A SaaS company with early traction has raised almost €500 k within 6 years since incorporation. The median growth rate is 67% with low churn. Direct sales dominate with 4 people involved in sales and marketing out of 15 total.

Over 40% of the revenue comes from non-domestic customers with only 7% of revenue coming from services. The median ownership by the operative team is 61%. A third of the workforce is located outside of Finland. The biggest challenges revolve around marketing, sales and scaling.

Category Profile: €1—2.5 M ARR

50% of the revenue to these companies comes from domestic customers. The median euro churn rate is low (7% annually) but so is growth (30% annually). The median capital raised is €755 k but 25% have raised nothing. Ownership by the opera- tive team is 78%, which is surprisingly higher than for smaller companies. Services account for 5% of revenues.

40% list HR as their biggest challenge. 76% of the 21 employees are located in Finland.

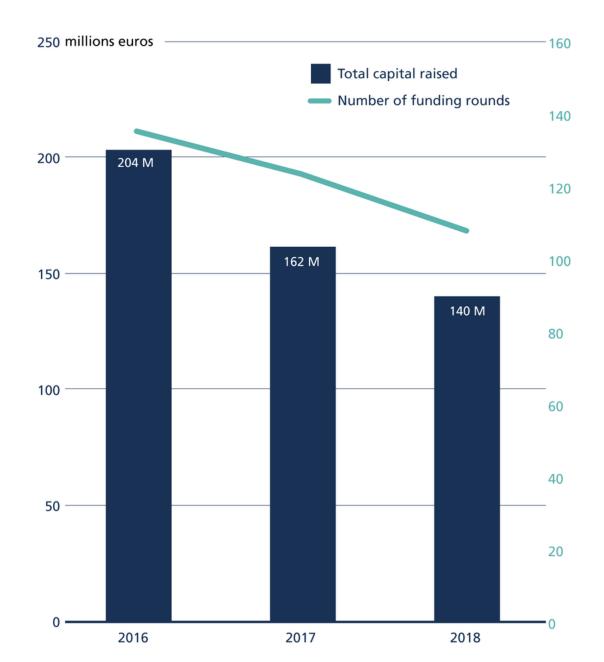
Category Profile: €2.5 M+ ARR

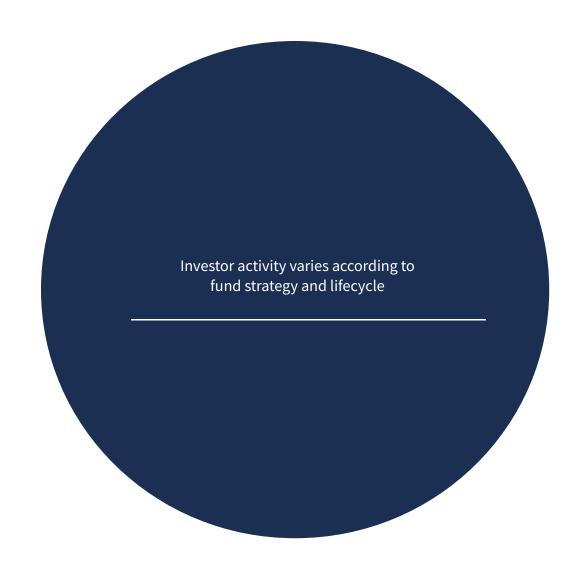
The largest companies surveyed follow the trend set by smaller companies: The annual euro churn rate is around 12% with 56% of revenue coming from Finnish customers. 50% target enterprise customers using the field sales model. Median growth is slow at 36% and the same is expected to continue next year.

30% of the median 67 employees are in sales and marketing with 86% of the workforce residing in Finland. These companies have raised almost €3 M in financing in their 5 years in the market.

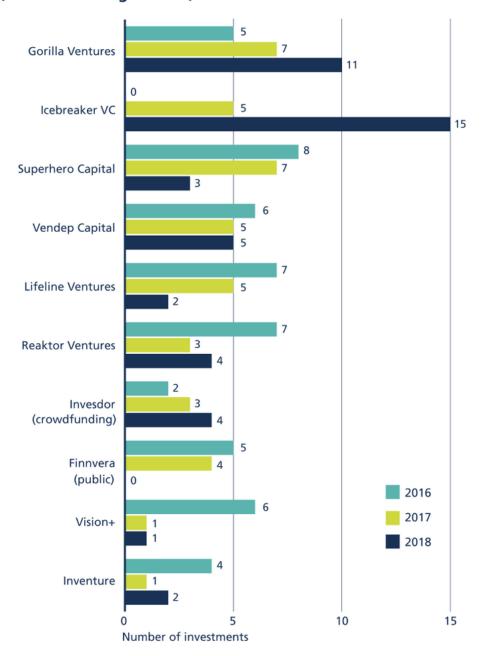
SaaS Funding in Finland 2016-2018 Total funding raised by SaaS companies during 2016–2018 was €506 M over 365 rounds

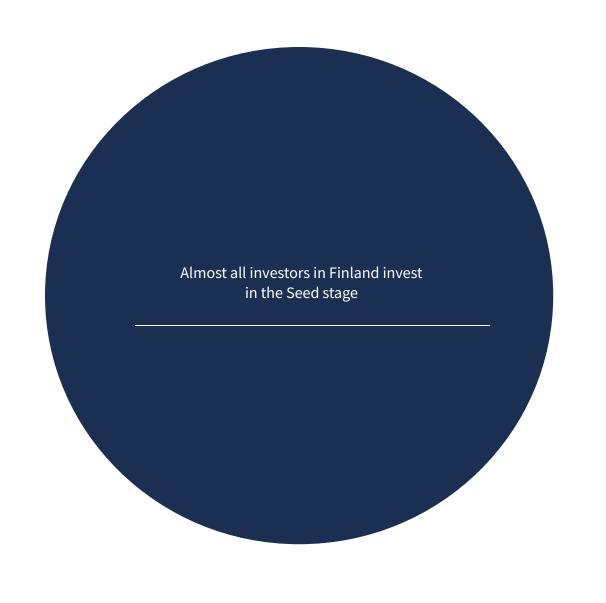
Total raised capital and funding rounds 2016–2018



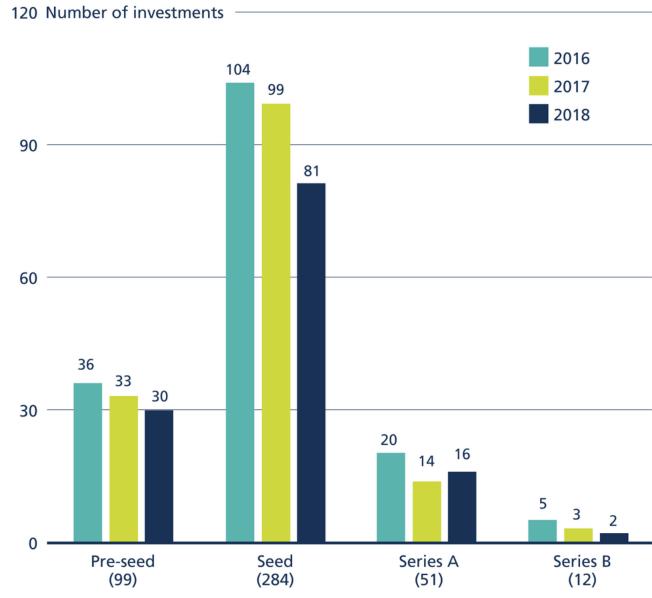


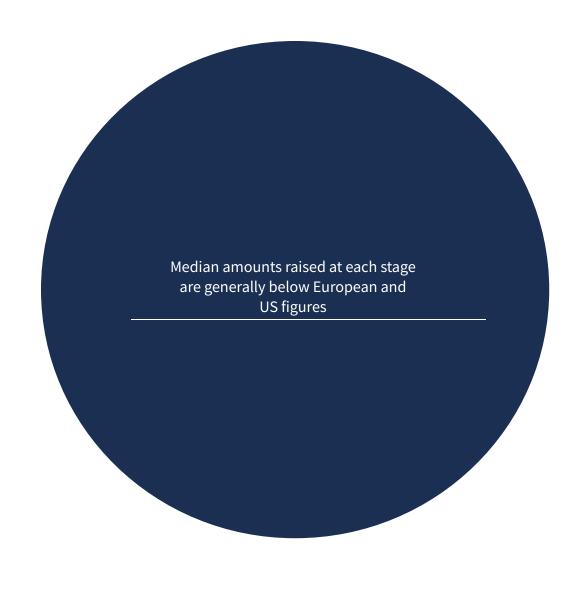
The most active SaaS investors in 2016–2018 (annual funding rounds)



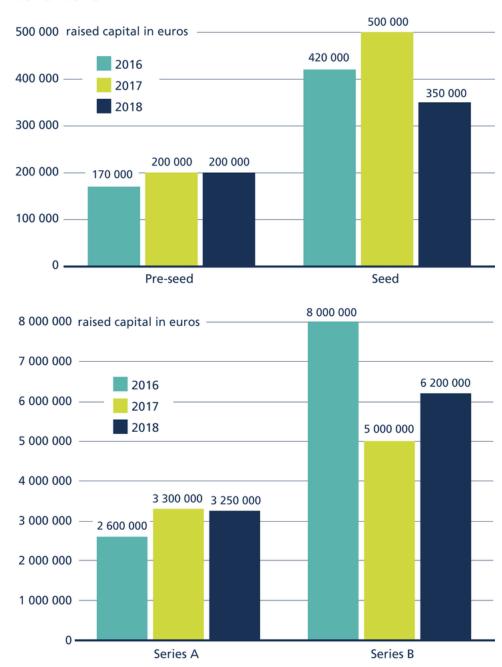


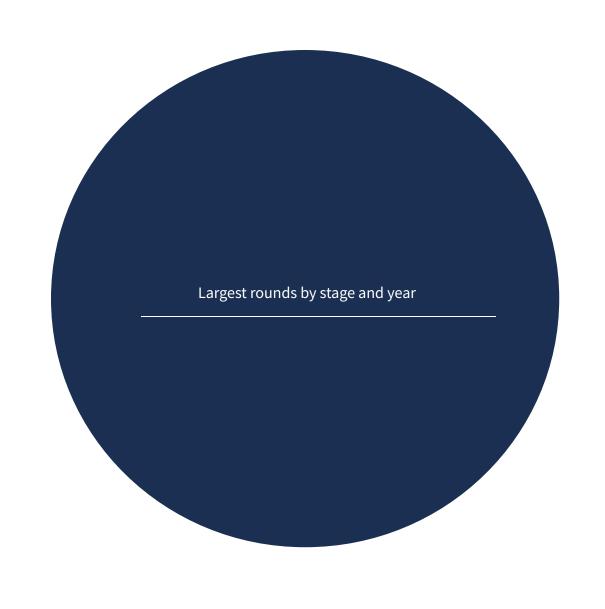
Distribution of investments into SaaS companies per stage 2016–2018 (totals)

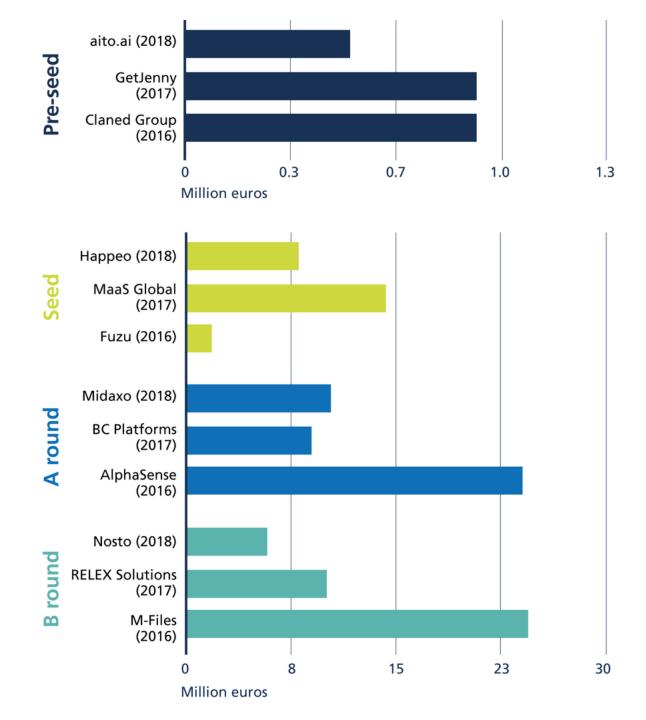




Median amount raised in SaaS investment rounds 2016–2018











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Any surprises?

Come join the discussion on the results!









