

The background of the entire page is a complex network diagram. It consists of numerous nodes, represented by circles of varying sizes and shades of gray and white, interconnected by a dense web of thin, light gray lines. The nodes are distributed across the page, with some clusters and many isolated connections, creating a sense of a large, interconnected system.

The 2nd Annual State of AppExchange Partners Report:

AppExchange Network Effects in Full Effect

CODE:SCIENCE



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Prologue

Executive Summary

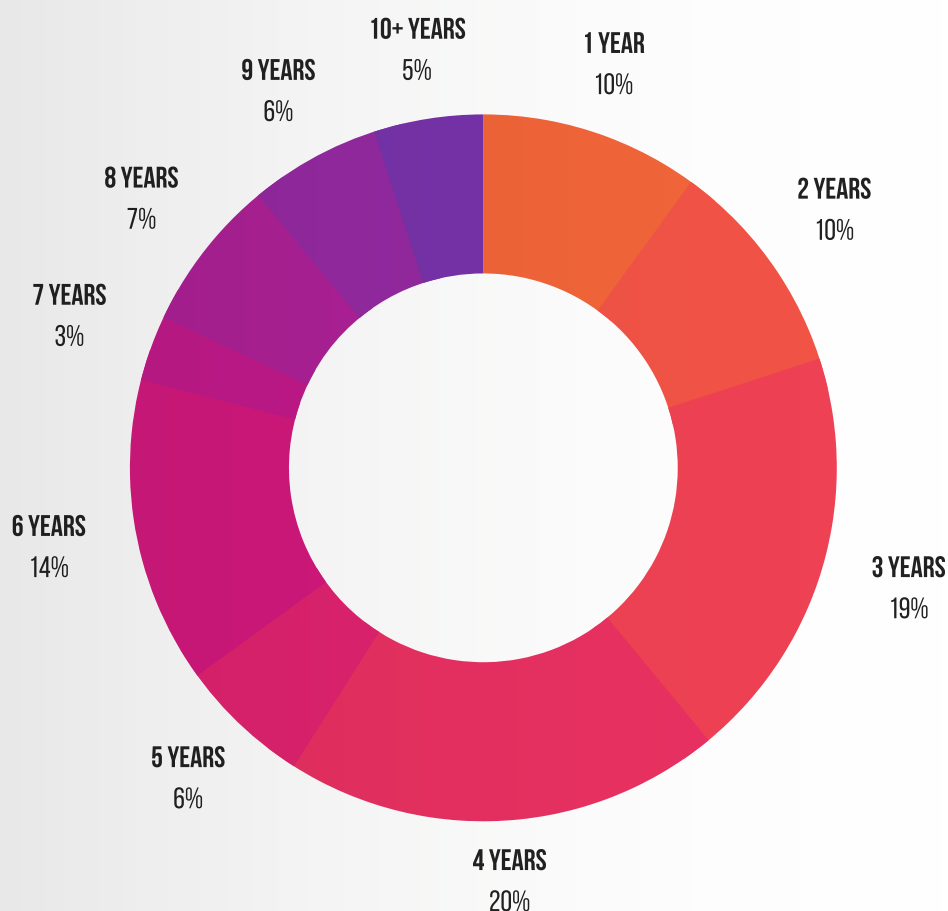
Background

Last year, at Dreamforce '17, we released our first ever State of AppExchange Partners Report to get an objective look at the Salesforce AppExchange and how its partners are using the platform to drive business forward. This year, we are following up on that report to understand the trends and showcase our data on partner strategies, platform investments, and industry performance.

Methodology

Like last year, we surveyed over 100 senior-level executives, of which 67% were either C-Suite or VP at companies ranging from high-growth SaaS start-ups to the Fortune 5. This year, we looked at how long our respondents have been a partner of the AppExchange. Based on our findings, we have a fairly even distribution between new and old partners in a proportion that is representative of the demographics of the ecosystem.

Percent vs. Years a Partner



Our survey results revealed that the network effects of the AppExchange are taking effect and delivering value to Salesforce, customers, and partners alike.

NETWORK EFFECTS: A phenomenon wherein increased numbers of people or participants improve the value of a good or service.

As defined by Investopedia

Executive Summary

Our findings from 2018 highlight that network effects of the AppExchange are taking effect, and it can be demonstrably seen from multiple angles including growth, investments, and liquidity events. It is safe to assume that Salesforce's historic growth is driving one side of the network effects of the AppExchange ecosystem. With over 150,000 customers, 88% of which have installed 1+ AppExchange app, Salesforce is increasing distribution opportunities for ISVs. At the time of the report release, Salesforce crested 6 million AppExchange installs.

The growth that was reported in 2017 continues and, in some cases, actually shows an acceleration. 82% of respondents are seeing an increase in both top line revenue and revenue growth rate. In fact, 31% of respondents that are growing > 50% YoY are also increasing their growth rate > 50%. Both of these stats increased from responses in 2017.

Investors are increasingly funding the ecosystem. Salesforce Ventures, which launched a \$100M fund in 2017, has been rapidly deploying those funds. Even more impressive is that in 2018, the broader investment community is following suit: over \$500M in investments have been made in those companies that Salesforce Ventures has invested in.

Insight Venture Partners, a significant player in B2B companies with over \$20B of assets under management, has invested heavily in over 28 AppExchange ISVs in the ecosystem.

What drives these investments? Liquidity events are certainly drivers of additional investment and the ecosystem has delivered. In the first 8 months of the year, there have already been 6 IPOs and 18 acquisitions. Our responders have forecasted more liquidity events in the coming year that will continue to drive interest from entrepreneurs and investors alike.

As we look forward, Salesforce is clear that partners are the center of their strategy to achieve \$20B in revenue. This will positively impact distribution for partners and likely attract further partners — only strengthening the moat that is the AppExchange.

“We’re the fastest [software company] to \$10 billion [in annual revenue], we’re the fastest to \$20 billion, and we’re a global company now. International expansion is one of three growth areas. The other two are continuing to develop and improve vertical solutions for particular industries ... and tighter work with the company’s partners, which include both systems integrators and software developers building products on top of Salesforce.”

KEITH BLOCK
Co-CEO | Salesforce



Source: <https://www.cnn.com/2018/08/08/salesforce-co-ceo-keith-block-interview.html>

Trends and Impacts

We originally created the State of AppExchange Partners Report because we had not found an independent study that focused on the specific drivers for companies building their business via the AppExchange. We'll discuss how companies are using the AppExchange to acquire new customers, reduce implementation costs, accelerate backlogs, and more. We hope this report will help you understand how you stack up against other SaaS companies.

You'll discover key insights from other AppExchange Partners and how they are leveraging Salesforce in the following categories:

- ① Product & Company
- ② Growth
- ③ Technology & Platform
- ④ Salesforce as a Channel
- ⑤ Investment

This year, we found that the time to market still reigns supreme as the reason partners choose to leverage the Salesforce platform and AppExchange. However, we see the secondary and tertiary reasons shifted from 'security' and 'the partner ecosystem' to 'access to the install base' and 'gateway to the enterprise'. We believe that ISVs looking to leverage Salesforce as the entry point to the enterprise follows along with Salesforce's success in selling into enterprise accounts. This further supports the hypothesis that the AppExchange network effects are taking hold.

While the number one challenge facing those companies who responded is still acquiring new customers, 48% of participants (up 3% from last year) said that participation increased their company's revenue by 20% to greater than 50%.

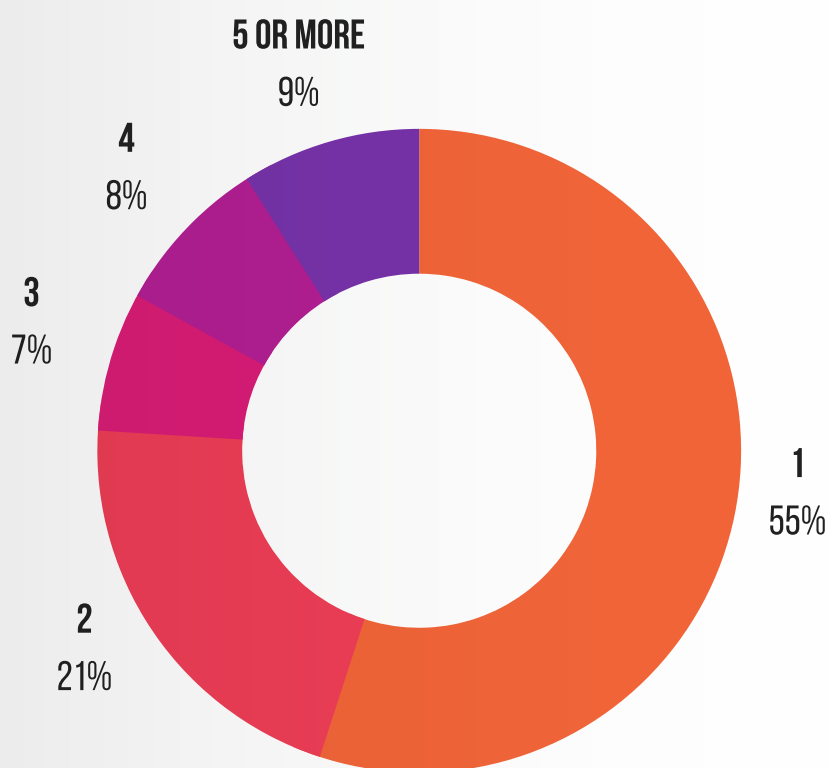
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Product & Company

KEY FINDINGS:

There is a continued trend to build additional products for the AppExchange, with over 45% of our respondents having launched more than one application. This is a slight up-tick for our respondents from 43% in 2017.

How many AppExchange apps does your company currently list?



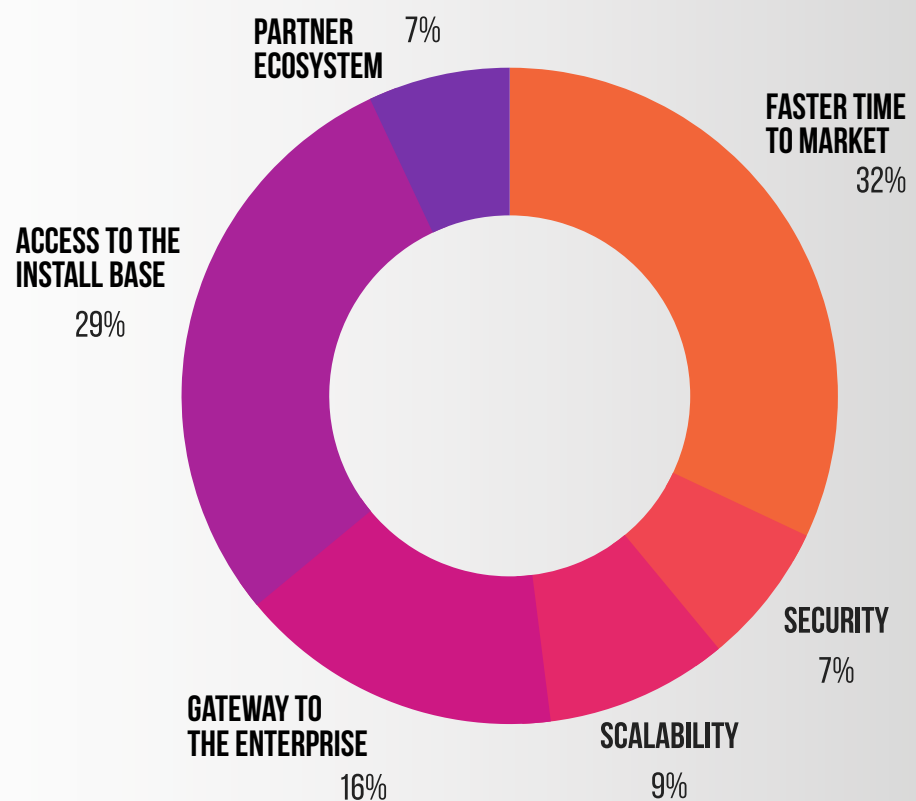
It remains clear that Systems Integrators (SIs) are a key ingredient in ensuring that products get implemented in order to recognize revenue. Salesforce's growth of SIs has a strong correlation to the growth of SIs for ISVs, and it logically makes sense that the same SIs implementing Sales, Service, and the other clouds would also implement the AppExchange products. Only 36% of our respondents reported that they do not work with SIs for implementation.

While the AppExchange is often associated with startups that have joined and powered the ecosystem, the distribution strength of the network effects are attracting public companies at an incredible clip. In the first 8 months of 2018, additional partnerships and product announcements were made by the following public companies:

- Cerner
- Geneia
- Optum
- Korn Ferry
- Twilio
- Accenture
- Deloitte
- IQVIA
- IBM
- Google
- Dropbox
- DocuSign

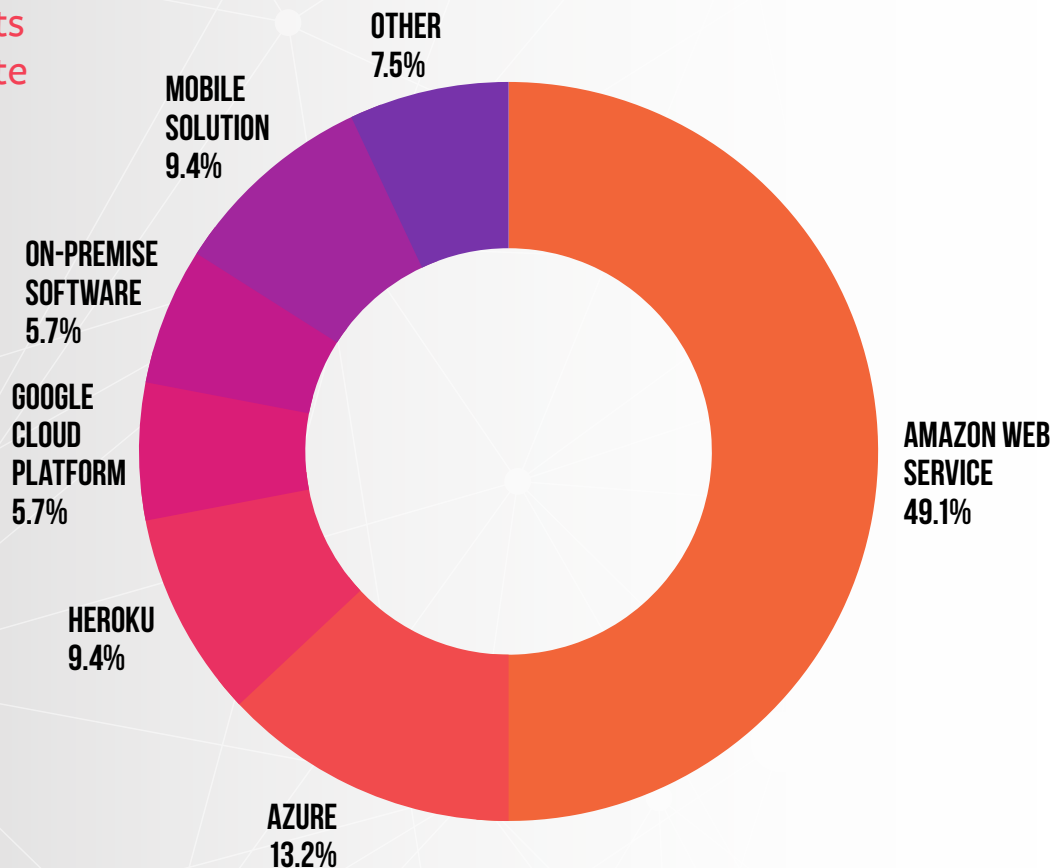
While broad plays like Google (with Google Analytics) and Twilio (powering telecommunications) are included, the majority highlight Salesforce's focus on industries like Financial Services, Healthcare, Life Sciences, and Consumer Goods.

Why did you join the AppExchange?



It is interesting to note that the tertiary reason that our respondents reported as why they joined the AppExchange is Gateway to the Enterprise, which is a similar organizational challenge as “moving upmarket.”

Environments for composite applications



Stripe and Harris Poll just reported that 61% of C-Suite Executives believe access to developer talent is a threat to the success of their business. Just as surprising is that the threat was ranked even above capital constraints. We have seen that access to developer talent in the Salesforce ecosystem is proving to be a critical constraint.



BRIAN WALSH
CEO | CodeScience

As Korn Ferry looked to bring an innovative talent management product to market, Salesforce was the perfect partner for three reasons: customer alignment, rapid platform development, and a well-defined ISV program to work together.

ANGELA CARTER
Senior Client Partner | Korn Ferry



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Growth

KEY FINDINGS:

The ecosystem continues to experience unprecedented growth. For the second year in a row, 99% of partners are forecasting year-over-year top line revenue growth. This sentiment is echoed by the fact that 6% of respondents believe they'll IPO in the coming year, which is up 2% from last year.

- 82% of respondents see an increase in both top line revenue and revenue growth rate. In fact, 31% of respondents are growing > 50% YoY and increasing their growth rate > 50%
- Last year showed 4% of respondents believed they would IPO, and there have already been strong IPOs with Zuora, Smartsheet, DocuSign, Domo, Dropbox, and Avalara. This year, 6% of respondents predict they will IPO in the coming year and both Anaplan and Survey Monkey have already filed their S1s
- 53% of respondents predict growing their engineering headcount at least 20% next year, with 12% reporting over 50% growth. This is inline with the recent Harris Poll and Stripe survey that showed the strategic importance engineering is for technology companies

In the recently published Forbes Cloud 100 List, which features the top 100 private companies in cloud computing, AppExchange partners made up over 20% of the list, including the #1 (Stripe), #2 (Slack), and #3 (Zoom) companies. Top OEM performers such as FinancialForce, nCino, and Gainsight were also featured in the list.



Top 3 Challenges

LAST YEAR

Acquiring New Customers

Hiring Engineers

Reducing Implementation Costs and Time

THIS YEAR

Acquiring New Customers

Hiring Engineers

Moving Upmarket

The challenge of acquiring new customers and hiring engineers remains consistent as the primary and secondary challenges for our ISVs. However, **moving upmarket** has elevated to the tertiary position, which makes sense as Salesforce continues to move into the Enterprise. Selling and supporting enterprise clients requires significant investment and generally increases sales cycles. Additionally, different pricing models and price breaks may be required for full enterprise rollouts.

Throughout our 8 year journey on the AppExchange, Glance has experienced tremendous growth. Much like Salesforce, our ideal clients have grown to be enterprise companies like Intuit, MINDBODY, and Constant Contact. Salesforce has become an increasingly important sales channel partner for our business.



TOM MARTIN
CEO | Glance Networks

AHM's solutions, and our Salesforce based CentrisDirect™ product, have become the standard for top pharmaceutical companies that manage more than 150k annual HCP engagements worldwide. The platform and ISV program provided us strong growth, helping us expand into new markets and partnerships as well as our client base.

SUSAN HILL
Senior Vice President Global Products & Solutions | Advanced Health Media (AHM)



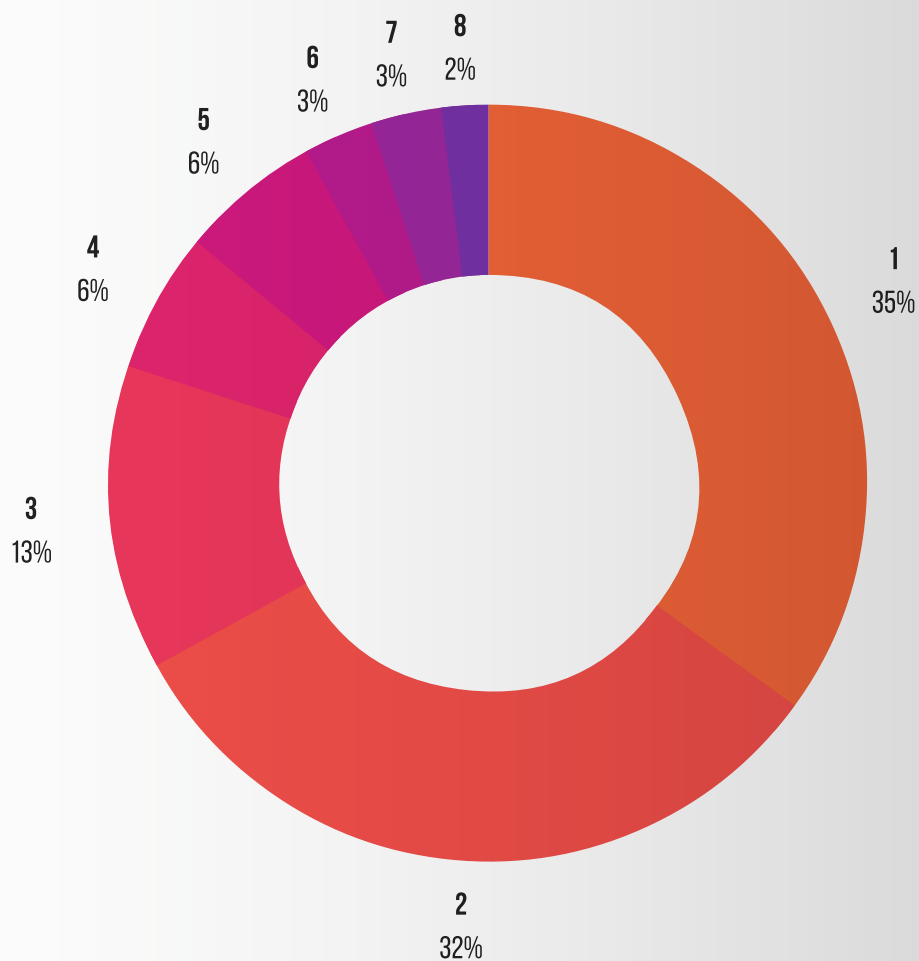
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Technology and Platform

KEY FINDINGS:

We continue to see that Sales Cloud is leading the way for partners to build on — from 69% last year to 74% this year. More than 65% of respondents report on building across more than one cloud, which bolsters last year's multi-cloud strategies that were seen to be effective for growing companies. To that end, product builds for Integration Cloud, IoT Cloud, Quip, and Field Service Lightning were reported and are reflective of Salesforce's M&A strategy providing additional opportunities for ISVs.

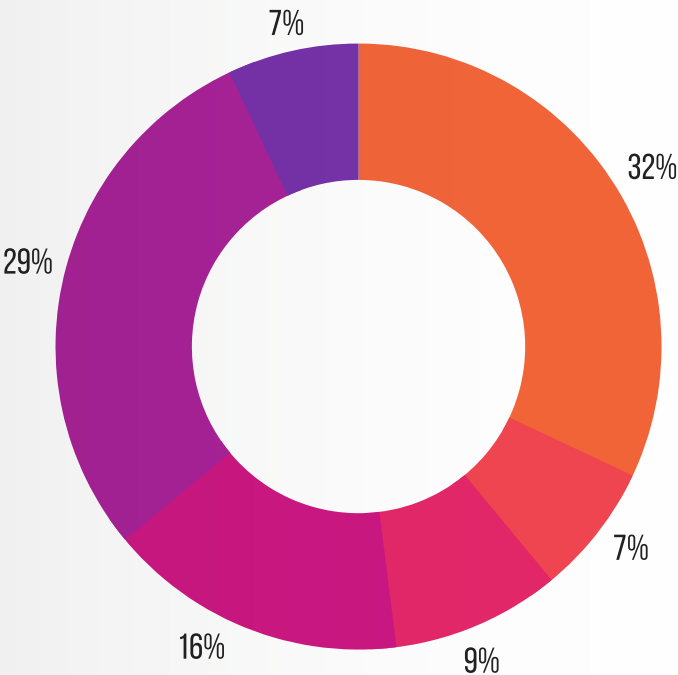
Number of Clouds Built Upon



When we look at the channel as a whole, we see that the top 3 reasons to build on Salesforce are: Faster Time to Market, Access to the Install Base, and Gateway to the Enterprise.

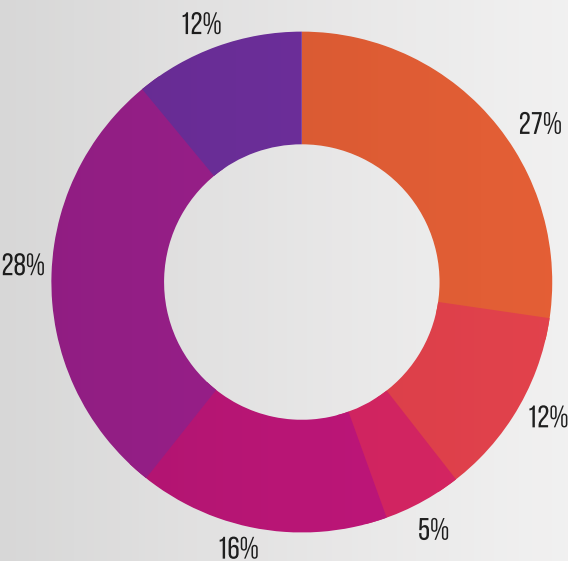
Why did you join the AppExchange?

- FASTER TIME TO MARKET
- SECURITY
- SCALABILITY
- GATEWAY TO THE ENTERPRISE
- ACCESS TO THE INSTALL BASE
- PARTNER ECOSYSTEM

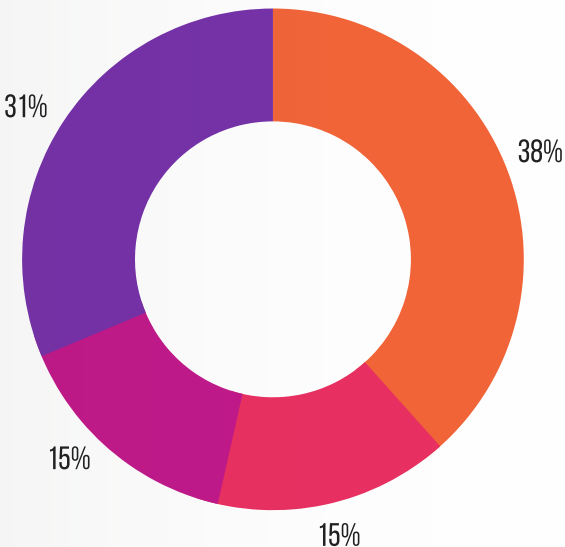


However, when we break the responses out from partners who have been part of the ecosystem for 1-5 years and compare it to those who have been partners for 6-10 years, we see some differences emerge.

1-5 Year Old Partners



6+ Year Old Partners



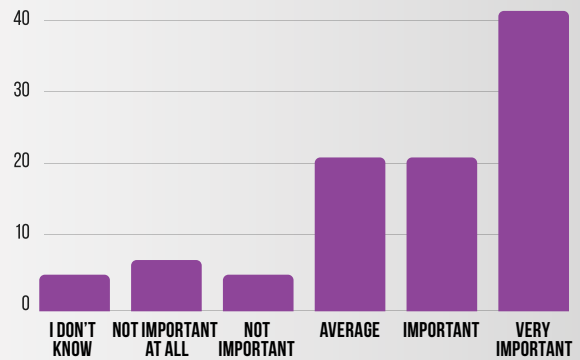
We see that for newer partners, Security and the Access to the Install Base are motivating factors for joining the ecosystem, whereas historically, these were lower priorities.

From a technology perspective, the longer that a feature has been in market, the more important that becomes to our ISVs. This makes sense for a variety of reasons:

- New platform features are not always available to our partners. Case in point, Einstein only became available to ISVs over the last 12 months, whereas Lightning has been available for over 2 years
- Customer adoption of new features, such as Lightning, will often drive the level of investment for ISVs as they consider adoption as well. Salesforce has pushed this issue with requirements of ISVs to be Lightning Ready in order to go through Security Review as well as requiring SEs to only demo in Lightning
- Salesforce's full vision for a new technology, like Blockchain, often takes a period of time to become clear and gain alignment from the ecosystem

PERCENTAGE OF RESPONDENTS

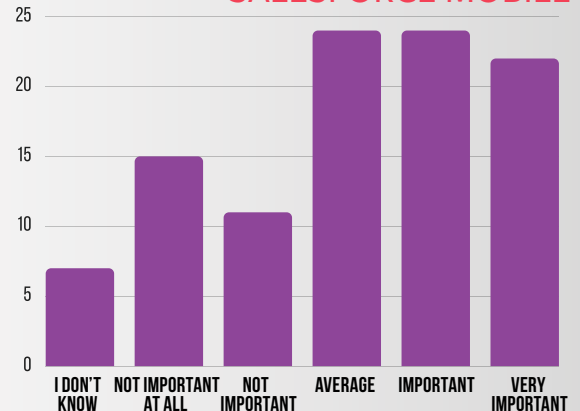
SALESFORCE LIGHTNING



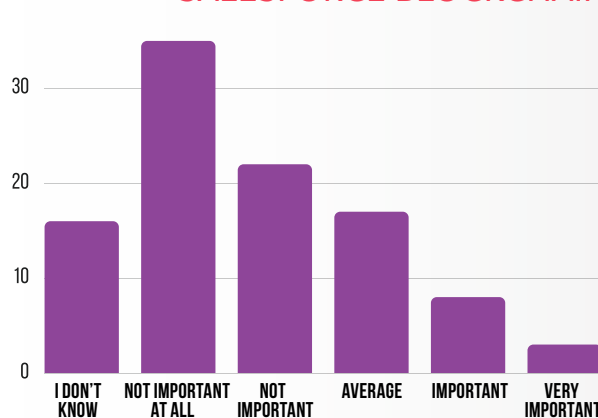
SALESFORCE EINSTEIN



SALESFORCE MOBILE



SALESFORCE BLOCKCHAIN



SALESFORCE DX



“Fenergo is thrilled to launch our first AppExchange product at Dreamforce this year and have already embarked upon building on more Salesforce clouds. Lightning and SalesforceDX have allowed us to move quickly and reuse as much work as possible.”



NIALL TWOMEY
CTO | Fenergo

FinancialForce unifies data across the enterprise in real-time, enabling companies to rapidly evolve their business models with customers at the center by maximizing the Salesforce Platform. We’re honored to be included on the Forbes 2018 Cloud 100 list, along with other Salesforce partners.

DANIEL BROWN
Chief Product Officer | FinancialForce



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Salesforce as a Channel

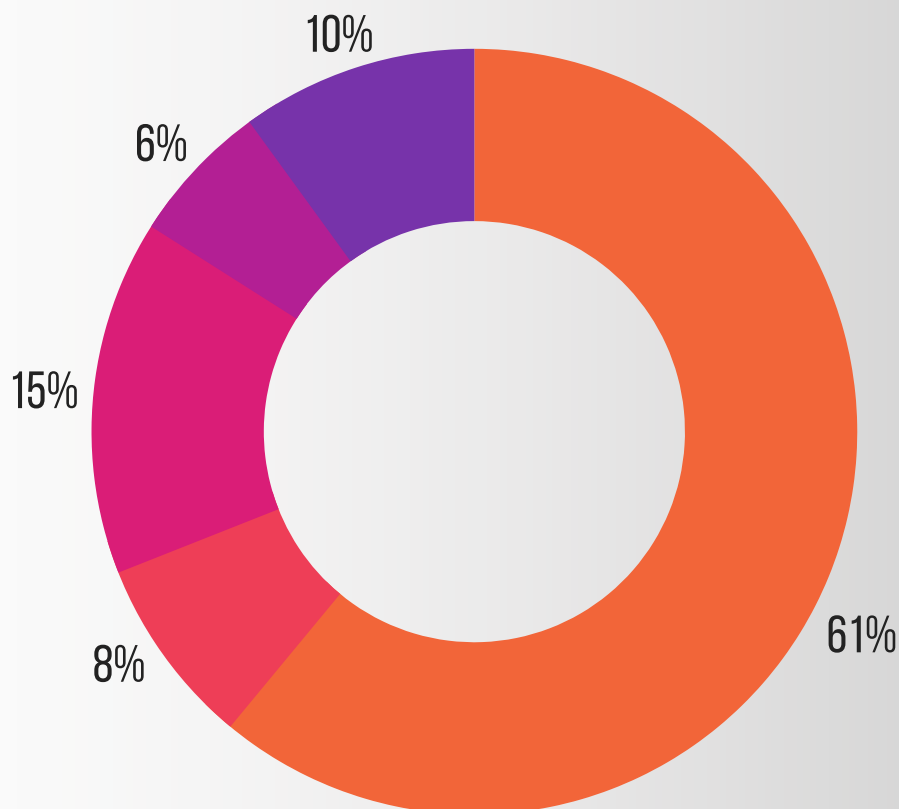
KEY FINDINGS:

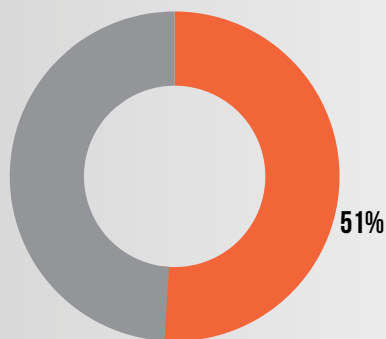
As a channel, Salesforce continues to support partners for growth. For companies on the AppExchange, 48% of leads are generated from the Salesforce channel (AppExchange listing, partner resources, Dreamforce, World Tours, etc.), which is up 10% from last year.

Of the leads that come from Salesforce, over 61% of the leads come directly from the AppExchange listing. This reflects the effort that ISVs have put in to cultivate great reviews, informative listings, as well as the technology improvements that Salesforce has made.

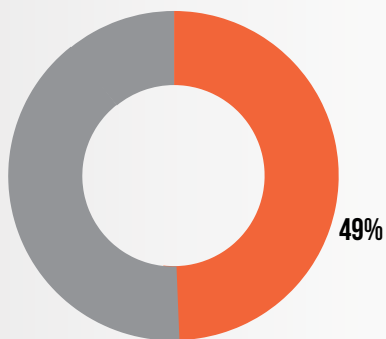
Salesforce Based Lead Sources

- YOUR APPEXCHANGE LISTING
- WORLD TOURS
- DREAMFORCE
- APPEXCHANGE MARKETING PROGRAMS
- SALESFORCE AES

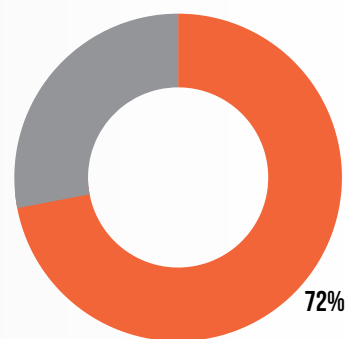




A significant 51% of respondents reported that the changes to the partner program have made a positive or very positive impact.



49% of respondents said that participation in the Salesforce AppExchange increased their company's revenue by at least 20% to greater than 50%. (This is up from 45% last year and continues the pattern of accelerating revenue growth for partners.)



Most partners (72%) are keeping their Dreamforce investment the same or are increasing their investment. (32% of respondents are increasing their World Tour spend up 7%.)

Respondents surfaced the need for more advanced technology within the AppExchange storefront, with comments like, “Easier to navigate to apps on AppExchange,” “Analytics on the AppExchange both internal and external,” and “Allow partner to integrate marketing tools into the AppExchange listing.” Salesforce just released a new version of the Salesforce Store that brings greater intelligence and navigability to the store, which begins to address some of these concerns. While the storefront is still not directly integrated with marketing automation tools, these are welcome enhancements.

Channel Conflicts

A concern raised in the survey comments is channel conflict between Salesforce and ISVs that are already on the AppExchange. Both through organic product development as well as M&A acquisitions like ExactTarget, Steelbrick and Mulesoft, Salesforce has products that compete with AppExchange products. Paradoxically, many of the partners that do compete with Salesforce have seen their revenues increase after the conflicts arise. The current hypothesis is that the additional sales and marketing that Salesforce does in the space provides a lift for everyone. However, this does not remove the challenge of competing with Salesforce directly.

DocuSign for Salesforce is the most successful eSignature app on AppExchange, making Salesforce an important channel for us. Our acquisition of another major Salesforce partner, SpringCM, only increases the importance of the AppExchange and our commitment to maximizing this opportunity.



GILLIAN MACMANNIS

Senior Director, Business Development - Salesforce Partnership | DocuSign

“Both of OpenText’s AppExchange products, Extended ECM and Exstream, have allowed customers to seamlessly connect their Enterprise Information Management solutions with Salesforce’s clouds. Salesforce is proving to be a fantastic channel to reach our customers and grow our presence in the cloud.”

PATRICIA NAGLE

Senior Vice President & Chief Marketing Officer | OpenText Corporation



You need to be on the AppExchange if you are serious about ramping sales. We sponsor and speak at User Groups, Dreamin’ events and World Tours, but what we love most is the 3 min DemoJams. We walk off stage and take orders for our app - Documentation Hub for Salesforce.



IAN GOTTS

Founder & CEO | Elements.cloud

Investment

KEY FINDINGS:

As discussed in our executive summary, the network effect of the AppExchange ecosystem is not only driving investments, but is also driving key liquidity events in the marketplace. While our respondents only reported a slight bump for those who are raising VC or bootstrapping (45% and 49% respectively), the marketplace floodgates have opened up. Not only were there 6 IPOs from the ecosystem, but there were 18 major acquisitions. In addition, 56% of venture backed companies in our survey have closed their latest round in the previous 12 months.

A number of respondents contributed concerns that the PNR (percentage of net revenue) for partners, revised to starting at 15% in the program changes last year, are still a concern at the board level for venture-backed startups. Respondents commented that additional funding rounds were difficult and were searching for new business models for ISVs. However, aggregate data challenges this feedback.

Per Crunchbase, over \$1.3B has been raised by companies in the ecosystem this year alone. Salesforce Ventures has taken an active role in this, with over \$500M in new funding to companies it has invested in. The venture community is very active in fueling high-growth ISVs.

Insight Venture Partners, a significant player in B2B companies with over \$20B of assets under management, has invested heavily in the ecosystem. They funded over 29 AppExchange ISVs, with incredible standouts like: DocuSign, Smartsheet, ExactTarget, CloudCraze, nCino, Conga, Fenargo, Gainsight, OwnBackup, Qualtrics, and Bullhorn.

Investments are driven by the opportunities for liquidity events and the multiples that they drive. So far, as predicted in last year's State of AppExchange Partner Report, 2018 has delivered 6 IPOs and 18 acquisitions:

- Avalara (IPO)
- DocuSign (IPO)
- DOMO (IPO)
- Dropbox (IPO)
- Smartsheet (IPO)
- Zuora (IPO)
- Redkix (acq Facebook)
- AHM (Acq IQVIA)
- Adaptive Insights (acq Workday)
- TalkIQ (acq Dialpad)
- ZenIQ (acq 6sense Insights)
- Kenandy (acq Rootstock)
- Practice Fusion (acq AllScripts)
- BrightFunnel (acq Terminus)
- JobScience (acq Bullhorn)
- TalentRover (acq Bullhorn)
- SpringCM (acq DocuSign)
- Marketo (acq Adobe)
- New Voice Media (acq Vonage)
- Chute (acq ESW Capital)
- Apttus (acq Thoma Bravo)
- Nintex (acq Thoma Bravo)
- Datorama (acq Salesforce)
- Mulesoft (acq Salesforce)

We expect to see this growth continue to trend upward as the network effect gains strength. Where we saw 4% of respondents expecting to IPO last year, this year we see a 2% increase to 6%. In fact, Anaplan and Survey Monkey, both significant players in the ecosystem, have already filed with the SEC to go public later this year.

49% Bootstrapping, 45% Venture Backed



Venture backed companies closed last round in previous 12 months



Venture backed companies looking to raise in the next 12 months



6% of respondents forecast they will IPO in the next 12 months

“We raised \$25 million in growth funding after going all in on our Salesforce partnership. App Cloud helped us bring a unique set of capabilities to a market that has historically lacked automation. In less than two years, we took a leadership position in Account Based Marketing and defined the new category of Tactile Marketing Automation.”

ANDREW FIELD
Founder & CEO | PFL



“SpringCM pioneered the Contract Lifecycle Management space on the AppExchange and leveraged our incredible growth to an acquisition by DocuSign this year. Launching our AppExchange product 9 years ago changed the trajectory of our company.”



GREG BUCHHOLZ
Founder/President/COO | SpringCM

The background of the entire slide is a light gray with a complex network of thin, light gray lines connecting various nodes. The nodes are represented by small circles in white, dark gray, and light gray, scattered across the page. The network is denser at the top and bottom edges, with lines radiating from central nodes towards the periphery.

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CODE:SCIENCE

CodeScience, one of the original certified Salesforce Product Development Organizations (PDO) and the first PDO Master, helps AppExchange partners thrive. Founded in 2008, CodeScience has brought over 200 commercial products to market on the AppExchange.

Headquartered in Chattanooga, TN, and supported by a largely remote, US-based staff, we are uniquely positioned to launch products for companies ranging from high-growth SaaS startups to the Fortune 5.

www.codescience.com