THE 3RD ANNUAL

STATE OF APPEXCHANGE PARTNERS REPORT

it's
prime
time

2020

CODE:SCIENCE

A Note to Our Readers:

Thank you for downloading our 3rd Annual State of AppExchange Partners Report, originally released at Dreamforce in November 2019. With the unexpected outbreak of COVID-19 and its impacts on businesses around the globe, some areas of the report no longer make sense based on the current state of affairs.

Specifically, we believe that the Growth section is no longer an accurate representation of 2020. However, we are keeping the original report intact for historical purposes. The other areas: Product & Company, Technology & Platform, Salesforce as a Channel, and Investments each have valuable and relevant insights into the ecosystem and approaches.

Prime Time in a Pandemic

We still fundamentally believe the AppExchange is in the Prime stage and is very applicable for ISVs. The maturity of the ecosystem and Salesforce's program is the foundation for the rapid adoption of business to our new reality.

Across every industry, we are already seeing Salesforce and ISV partners rise to the challenges we face. From Geneia's COVID-19-focused version of their Theon platform (based on Health Cloud) to nCino's SBA Paycheck Protection Program version (100% based on Salesforce), Partners are moving quickly to provide solutions.

We believe that the ability to pivot so quickly is because the program and ecosystem entered the crisis in Adize's definition of the Prime stage. Well defined values, processes, relationships, and technology that align Salesforce and Partners to provide customers success.

Parting Thoughts

For many, this pandemic represents uncertainty and has fundamentally disrupted our perception of what is normal. Our hearts go out to everyone impacted by COVID-19, and we especially give our thanks to those who are on the frontlines meeting the needs of the world at large.

Brian Walsh
CEO, CodeScience

Table of Contents

Prologue

Executive Summary

Background

For the third year in a row, we are bringing you our State of AppExchange Partners Report. We pioneered this report to bring you an objective look at the Salesforce AppExchange and to share how partners use the platform to drive their business forward. This year, we've revamped our survey and are bringing you information and insights on partner strategies, platform investments, and industry performance.

Methodology

Just like previous years, we surveyed around 100 senior-level executives, with 60% being C-Suite or VPs at companies ranging from high-growth SaaS startups to the Fortune 5. Our respondents continue to make up a solid representation of the ecosystem.

YEARS A PARTNER
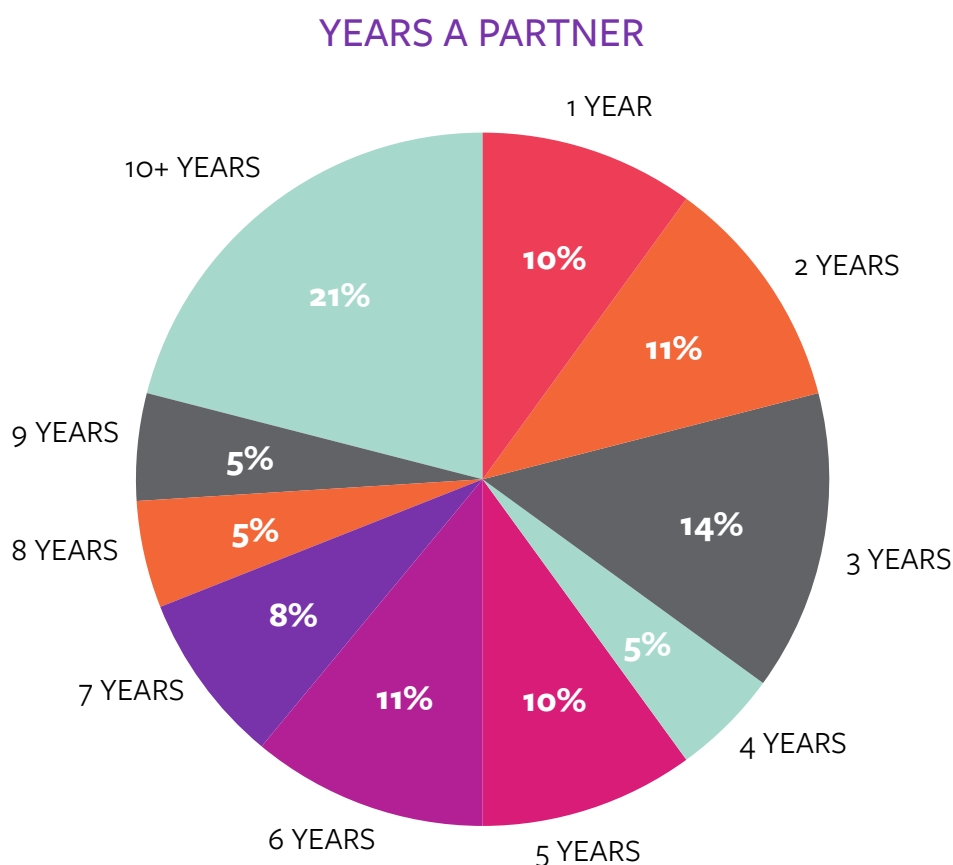
As a special feature this year, we partnered with Crunchbase to bring a deep exploration of investments and funding in the last section of our report. In conjunction with their analysis, we see the Salesforce AppExchange has continued to mature and is reaching the Prime stage.

crunchbase

Crunchbase is the leading platform for professionals to discover innovative companies, connect with the people behind them, and pursue new opportunities. Over 50 million professionals—including entrepreneurs, investors, market researchers, and salespeople—trust Crunchbase to inform their business decisions. And, companies all over the world rely on Crunchbase to power their applications, making over a billion calls to our API each year.

Executive Summary

Two years ago, our research showed that the ecosystem was growing and there were incredible opportunities for independent software providers (ISVs) and customers alike. Last year's report supported the theme with evidence that the network effects of the AppExchange had fully kicked in, with over 160,000 business accounts on one side and over 4,000 products on the other side. Salesforce's AppExchange Partner keynote at last year's Dreamforce further backed our report, with their research showing the same effects.

This year's theme of Prime Time is based upon Ichak Adizes' Corporate Lifecycle Model, which enables the diagnosis of organizational systems and challenges, including normal and abnormal problems that the organization faces. By all measures, the AppExchange ecosystem is squarely in the Prime stage, with the business enjoying consistent, above-average growth, goals being set and exceeded, and intra- and inter-organizational integration and alignment.

The survey and research this year continue to highlight accelerated growth, and goals are being set and achieved, if not exceeded. Over 95% of respondents forecast that revenue growth will increase, with 39% stating growth will significantly increase.

Since the launch of Health Cloud and Financial Services Cloud three years ago, Salesforce began transforming from horizontal platforms like Sales and Service Cloud to industry-specific platforms. The go-to-market strategy includes data models and functionality that specifically support individual industries with strategic ISVs filling whitespace and providing sales assistance. This year's survey verifies that the focus on industries has a causal effect on ISV recruitment: 27% of respondents sell to only a single sector. The ecosystem has begun the transformation from general-purpose business applications like document generation, workflow, and electronic signature to industry-specific applications like banking, healthcare providers, and pharmaceuticals. Unsurprisingly, Financial Services, and Healthcare and Life Sciences are the two leading industries given the time they have been in market.
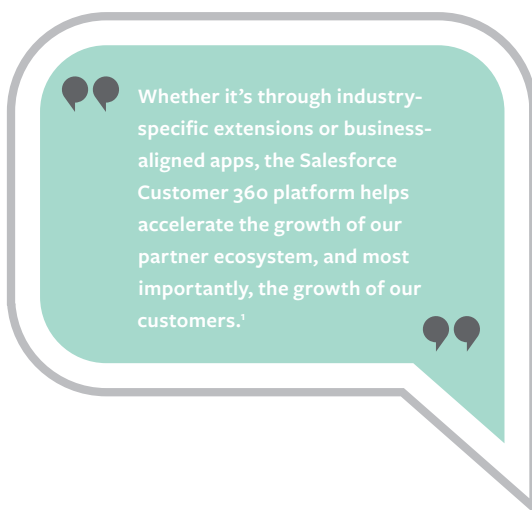
The alignment across customers, systems integrators (SIs), and ISVs is apparent in the expansion of SIs that ISVs work with to deploy their products. The investments Salesforce is making to grow the SI program for their own implementations are providing benefits across the entire ecosystem. Partners partnering is a consistent theme this year and forecasted for next.

The core thesis in the lifecycle framework is that the organization must continue to invest and innovate to remain in Prime stage. Salesforce is unrelenting in investing in innovation for the AppExchange, with:

- New clouds and market segments
- New license types (Connector made up 27% of respondents this year)
- New partner benefits to be launched at Dreamforce 2019
- New technologies like Lightning Web Components (LWC) and App Analytics

While the AppExchange ecosystem is in the Prime stage, the U.S. and global economies are showing signs of weakness. The most significant impact for 2020 may be fewer exit opportunities for ISVs, if capital becomes tighter and if the IPO window closes. 29% of respondents forecast their company will raise capital in the next 12 months, which would bolster the case that our ecosystem is building a runway to last through the year.

Even so, we forecast sustained growth and expansion throughout CY2020. Customer Relationship Management is a core system of record for a business, and it should withstand withdrawals in investment. As the AppExchange ecosystem fills significant whitespace for the system of record, there should be considerable defensibility during the turbulent times ahead. 2020 may prove to be an incredibly interesting year, indeed.

> Whether it's through industry-specific extensions or business-aligned apps, the Salesforce Customer 360 platform helps accelerate the growth of our partner ecosystem, and most importantly, the growth of our customers.[1]

TYLER PRINCE
EVP, Industries & Partners | Salesforce

> When Marc [Benioff] and Keith [Block] say we're going to double the business over the next couple years, what we're thinking is we need an ecosystem that's helping propel us by innovating on our platform.[2]

J.C. COLLINS
SVP & COO of Industries & Partners | Salesforce

1 - *PR NEWSWIRE*

2 - *CRN*

Trends and Impacts

We created our State of AppExchange Partners Report to provide independent research for companies focused on building their business on the AppExchange. We're discussing what it means for partners once an organization has reached the **Prime stage** and how it is paying off.

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. **Investments**

This year, like the last, we see the top reasons partners choose to leverage the AppExchange are:

1. Faster Time to Market
2. Access to the Install Base
3. Gateway into the Enterprise

For any organization that has reached the Prime stage, the motivating factors to join transition away from specific platform benefits to business-focused goals and objectives. We see this reflected in the Salesforce AppExchange. Platform concerns (e.g., Security and Scalability) are now seen as table stakes due to Salesforce's proven track record. Companies betting on the AppExchange are winning and growing.

65% OF RESPONDENTS STATED THEIR PARTICIPATION IN THE SALESFORCE ISV PROGRAM INCREASED THEIR COMPANY'S REVENUE.

When looking at the largest challenges respondents reported, we see for the third year in a row, **acquiring new customers** reigns supreme (40%), but **hiring both engineering and sales** headcount is front and center for the secondary reasons (15% each). When we look at the third most prevalent challenge, **increasing customer lifetime value** (**LTV**), we start to understand customer acquisition cost (CAC) is rising (which is supported by the need for a more robust sales team), and it forces executive leadership to zero in on the overall value of an account.

1. Product & Company

KEY FINDINGS:

The trend of building additional products for the AppExchange is continuing to increase—up 4% from our initial survey in 2017.
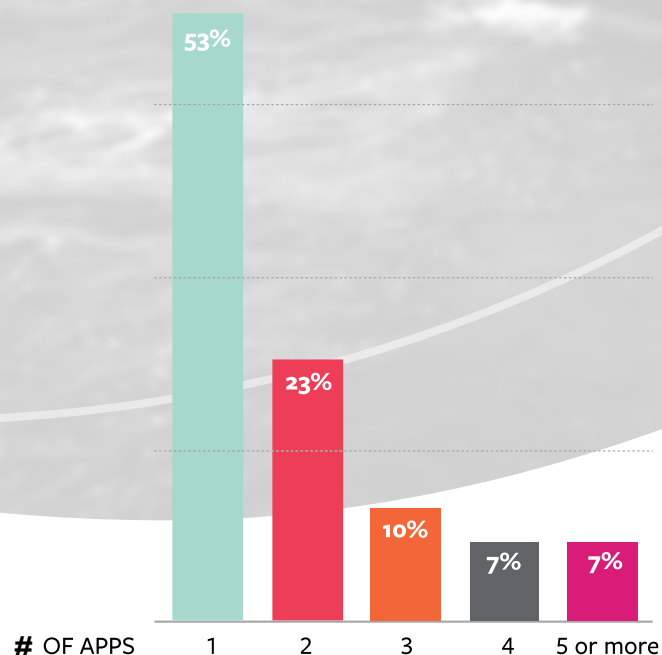
More than one app on the AppExchange (YOY)

2017: 43%   2018: 45%   2019: 47%

NUMBER OF APPS ON THE APPEXCHANGE (2019)

# OF APPS	1	2	3	4	5 or more
	53%	23%	10%	7%	7%

With strong growth numbers comes the need to implement products to end-customers. As we posited last year, the growth of SIs for Salesforce has a positive correlation to SIs for ISVs. The number of respondents reporting they do not work with SI partners dropped almost **50% from 36% to 19**%. Salesforce's investments in the SI program are paying off. With Salesforce's footprint growing in the enterprise, we expect SI partners will play a pivotal role in AppExchange success for customer deployments and customizations.

ISVforce and OEM partnership agreements continue to dominate the landscape. As we called out in the executive summary, there is interesting movement with the Connector program. Participation in the Connector program has risen from 14% to 27% this year.

What is even more interesting is 40% of that same cohort (those participating in the Connector program) leverage another type of distribution agreement (likely ISVforce or OEM). To achieve the goals of faster time to market, **partners are testing different distribution strategies to bring their products onto the Salesforce platform.**

From our book of business, we see companies who are successful with their Connector application often move into an ISVforce or OEM partnership agreement for subsequent builds or additional products.

HOW MANY SI PARTNERS DOES YOUR COMPANY LEVERAGE?

- NONE
- 1-10
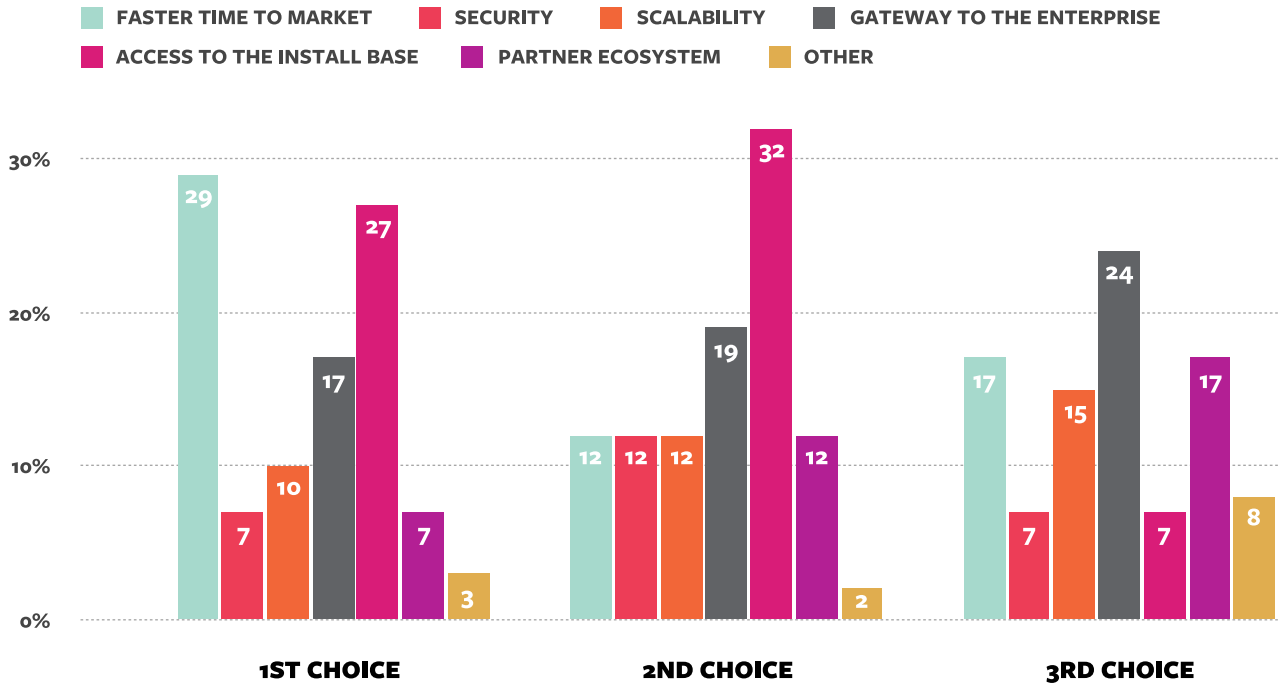- 11-20
- 21-30
- 30+

19%
58%
11%
1%
11%
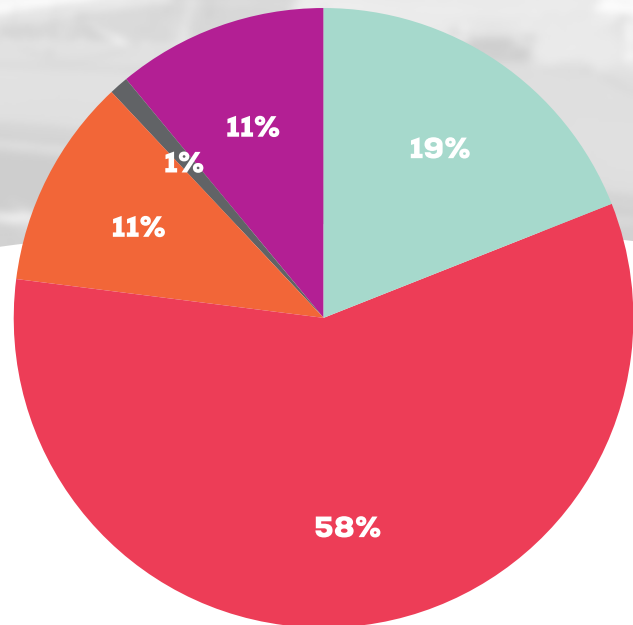
> Our largest lessons of 2019 were around how to structure our relationships with System Integrators for deployments as we scale. Setting up the correct incentives and priorities is key for customers, partners, and Geneia.

HEATHER LAVOIE
President | Geneia

> Since day one, our vision has been to be the worldwide leader in cloud banking with a mission focused on transforming financial services through innovation, reputation and speed. Our accomplishments in 2019 helped us move that vision forward as we continued to build-out a single platform solution for fulfilling onboarding, lending and deposit needs across all lines of business in a compliant fashion to help ensure our financial institution customers' long-term success.

TRISHA PRICE
Chief Product Officer | nCino

WHY DID YOU JOIN THE APPEXCHANGE?

Legend:
- ■ FASTER TIME TO MARKET
- ■ SECURITY
- ■ SCALABILITY
- ■ GATEWAY TO THE ENTERPRISE
- ■ ACCESS TO THE INSTALL BASE
- ■ PARTNER ECOSYSTEM
- ■ OTHER

1ST CHOICE
- Faster time to market: 29
- Security: 7
- Scalability: 10
- Gateway to the enterprise: 17
- Access to the install base: 27
- Partner ecosystem: 7
- Other: 3

2ND CHOICE
- Faster time to market: 12
- Security: 12
- Scalability: 12
- Gateway to the enterprise: 19
- Access to the install base: 32
- Partner ecosystem: 12
- Other: 2

3RD CHOICE
- Faster time to market: 17
- Security: 7
- Scalability: 15
- Gateway to the enterprise: 24
- Access to the install base: 7
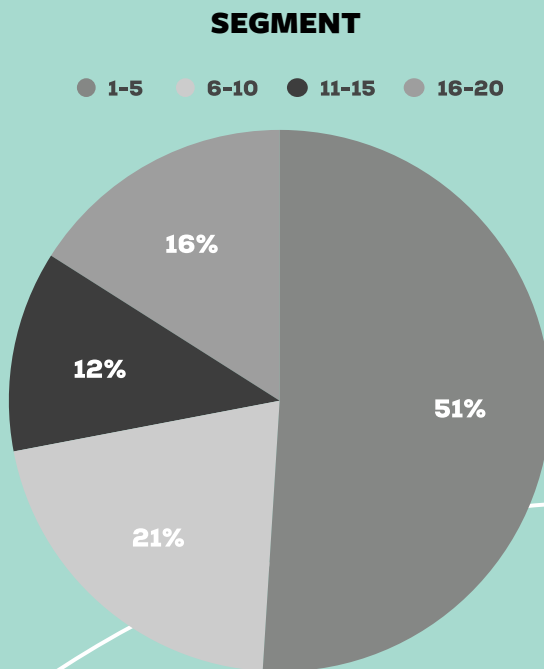- Partner ecosystem: 17
- Other: 8

Security and scalability have continued to fall away as motivating factors for joining the ecosystem. As a platform reaches the Prime stage, platform-specific benefits like security and scalability are assumed to be foundational due to Salesforce's proven experience. With Salesforce's large footprint in the enterprise, partners are hungry for access to these accounts. We expect business-focused concerns (faster time to market, access to install base, and gateway to the enterprise) will continue to dominate. Faster time to market has led for the third year in a row, but access to the install base is quickly rising to the same level as the primary motivating factor. As a result, the PDO ecosystem continues to grow to support partners' needs.
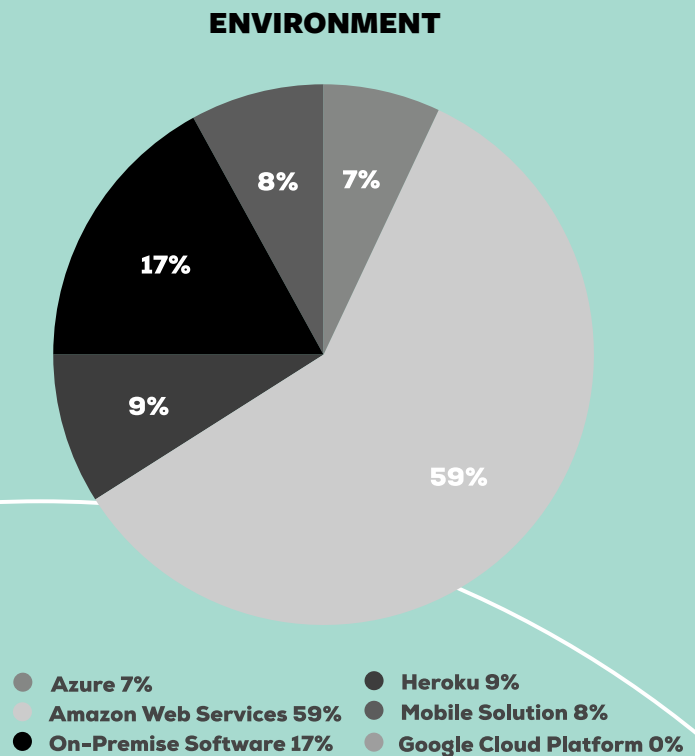
> **[THERE ARE] ONLY TWO WAYS TO MAKE MONEY IN BUSINESS: ONE IS TO BUNDLE; THE OTHER IS UNBUNDLE.**

To truly understand where the AppExchange is on the maturity curve, we took a deeper exploration into industries and segments. ISV recruitment is a reflection of Salesforce's business focus. Salesforce's plan for industries to meet their top-line revenue goal was supported by strategic ISVs filling key whitespace in the platforms. With this, the words of Jim Barksdale, former Netscape CEO and founder of the Barksdale Group, start to ring true: "*[There are] only two ways to make money in business: One is to bundle; the other is unbundle.*"

NUMBER OF INDUSTRIES YOUR APPLICATION SERVES

SEGMENT

- 1-5
- 6-10
- 11-15
- 16-20

51%

16%

12%

21%

ENVIRONMENTS FOR COMPOSITE APPLICATIONS

ENVIRONMENT

8% 7%

17%

9%

59%

- Azure 7%
- Amazon Web Services 59%
- On-Premise Software 17%
- Heroku 9%
- Mobile Solution 8%
- Google Cloud Platform 0%

With Salesforce's investment into industries, we see ISVs are stepping up and meeting that need— over a quarter of respondents (27%) focus on a single industry. Salesforce's strategy of bundling solutions together with industry-specific clouds is showing signs of success for both Salesforce and the ISVs.

General business applications remain strong as well, with 32% of respondents noting they serve 10+ industries. The network effects from Salesforce's continued growth is driving ISV growth. Salesforce's investment in industries is not a zero-sum game: both industry-specific and general business applications are seeing accelerated growth.

Additionally, ISVs are partnering together to solve the needs of end-customers. Leading ISVs like nCino and DocuSign are prime examples of partners partnering for success. The ecosystem is beginning to solve each other's needs, not just the needs of Salesforce and end-customers.
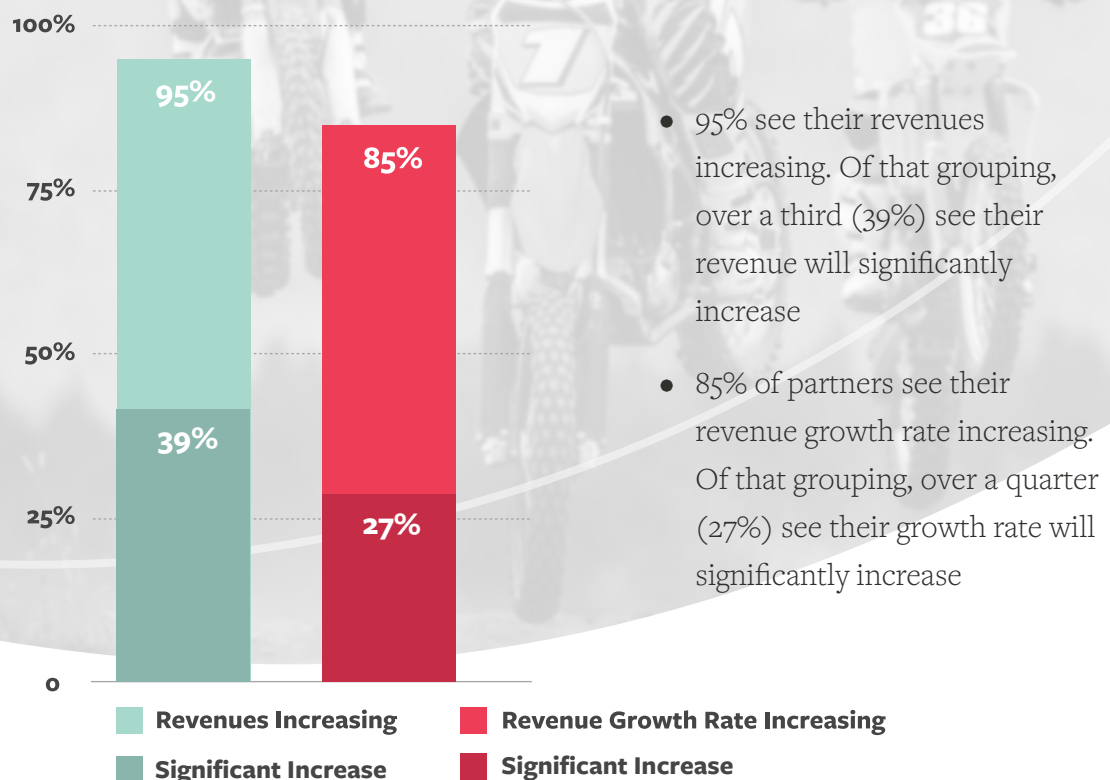
New this year was a look at the business segments (Enterprise, Midmarket, and SMB) into which our respondents sell. Over half of our respondents report they sell into all three segments, which indicates network effects continue to amplify business reach and outcomes.

2. Growth

KEY FINDINGS:

With Salesforce repeatedly crushing their growth numbers, it should come as no surprise partners in the ecosystem are also experiencing growth. **65% of our respondents state participation in the ISV program increased their revenue.**

When we ask them to look to 2020, partners are confident in their growth as well.

- 95% see their revenues increasing. Of that grouping, over a third (39%) see their revenue will significantly increase

- 85% of partners see their revenue growth rate increasing. Of that grouping, over a quarter (27%) see their growth rate will significantly increase

Legend:
- Revenues Increasing
- Significant Increase
- Revenue Growth Rate Increasing
- Significant Increase

Companies aren't just holding onto this additional revenue. They are planning on reinvesting this revenue into R&D (both internal and external) to enhance their product offerings.

- 70% of respondents are increasing internal R&D with 31% increasing external R&D through PDOs

With the acute focus on customer acquisition, for the first time in our survey we see the need for sales personnel overtake the need for developer personnel. Coincidentally, this resulted in a tie for the second-most business challenge for respondents—hiring developers and hiring salespersons.
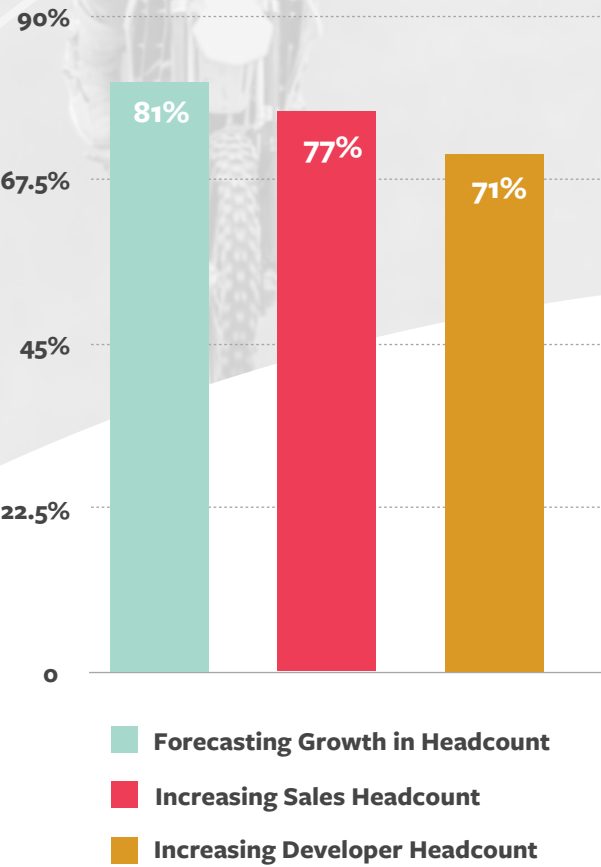
- 81% of respondents said their companies are forecasting growth in headcount

- 77% report increasing Sales headcount—a 50% increase from last year's survey (27%)

- 71% report increasing Developer headcount—which is a 12% increase from last year's needs

This shows us again—those who are betting big on the ecosystem are seeing significant payoff.

TOP 3 CHALLENGES

2017	**2018**	**2019**
Acquiring New Customers	Acquiring New Customers	Acquiring New Customers
Hiring Engineers	Hiring Engineers	Hiring Engineers (Tie) with Hiring Sales
Reducing Implementation Costs and Time	Moving Upmarket	Increasing Customer Lifetime Value (LTV)

Our research into the reported business challenges partners face tells us much about the health of the ecosystem. Successful businesses will always zero in on acquiring new customers, but with the rise of hiring sales personnel and increasing customer LTV, we examined why this shift occurred.

We first looked at Salesforce's business strategy. As an entity, Salesforce has managed to secure a major stake of enterprise businesses (our survey echoes this with partners reporting their desire to reach the enterprise accounts). To win business in the enterprise requires a robust sales team and processes. The beauty of SaaS is the power of compounding, recurring revenue—as long as churn is minimized. As SaaS businesses move upmarket, not only does annual contract value (ACV) increase, but the average order value (AOV)* increases as well.

AOV increases as long as attrition remains consistent or drops. If attrition increases, AOV goes down or stays flat.

To understand what this scaling looks like in practice, we'll refer to publicly-released stats from Salesforce and reported by Chetan Puttagunta, General Partner at Benchmark Capital.
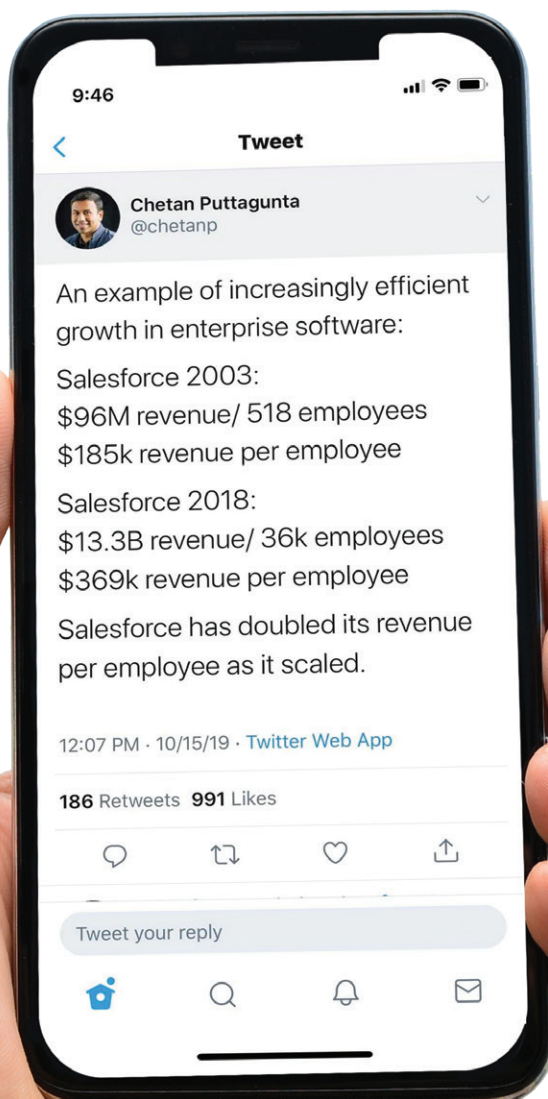
It is mutually beneficial from both a partner and enterprise customer point of view to leverage the Salesforce platform. Enterprise customers have complicated business processes and unique needs within their industry, which requires a strong SI presence to customize as well as a strong ISV presence to fill whitespace.

For Salesforce, they leverage their enterprise sales and account teams to work directly with SIs and ISVs to fill gaps and customization needs for accounts. This creates a unique business model for the AppExchange because there is go-to-market alignment between ISVs and Salesforce. And we see this strategy is paying off for ISVs—48% of respondents noted leads come in through the various Salesforce channels.

The challenge for ISVs targeting enterprise accounts becomes ensuring their products are scaling to the same enterprise level of the Lightning Platform (force.com). Selling into the enterprise requires changes in the sales process, support mechanisms, and product enhancements to meet enterprise-scale requirements. The data in the survey shows that those organizations that are investing heavily into sales are also investing in both internal and external R&D.

50%
OF RESPONDENTS IN HIGH-GROWTH COMPANIES (THOSE WHO SAID THEIR REVENUES ARE SIGNIFICANTLY INCREASING) PREDICT A SIGNIFICANT INCREASE IN ALL THREE AREAS: SALES PERSONNEL, DEVELOPER PERSONNEL, AND R&D INVESTMENTS (BOTH INTERNAL AND EXTERNAL).

As partners see more large enterprise opportunities in their pipeline, CAC increases. There is a positive correlation with the cost of sales as we move up market. Business leaders must see an equivalent rise in the value of these deals and are focusing in on LTV to ensure that the investments into building out their teams are paying off. Executives have listed increasing LTV as their third greatest challenge for the coming year.

There are common strategies for increasing LTV, such as reducing churn and creating upsell/cross-sell opportunities. 47% of respondents report that they are now listing multiple products on the AppExchange. This has been a growing trend over the last three years, and we see this continuing for both new and existing partners.

47% of companies have more than one product on the AppExchange. Our book of business reflects the same trend, demanding that we bring services around strategies and roadmaps for product suites across multiple clouds and selling to different segments. Cross-selling is the strategy du jour!

BRIAN WALSH
CEO | CodeScience

3. Technology & Platform

As we look to the clouds on which partners build, Sales Cloud dominates (58% of respondents). This is a drop from last year's increase, but is not entirely unexpected with the rise of other industry clouds. We see this as well in the responses of partners adopting a multi-cloud strategy with a slight decrease from 65% to 56%. The multi-cloud approach will continue to prove valuable to both ISVs and customers, even with the focus on industries. Industry specific ISVs are leveraging not only industry specific clouds like Health Cloud, but also Marketing, Integration, Service, and Sales clouds.

NUMBER OF CLOUDS BUILT UPON

1	44%
2	18%
3	15%
4	6%
5+	14%

For this year's report, we're breaking out the importance of those clouds on the Lightning Platform (force.com) and those that are not.
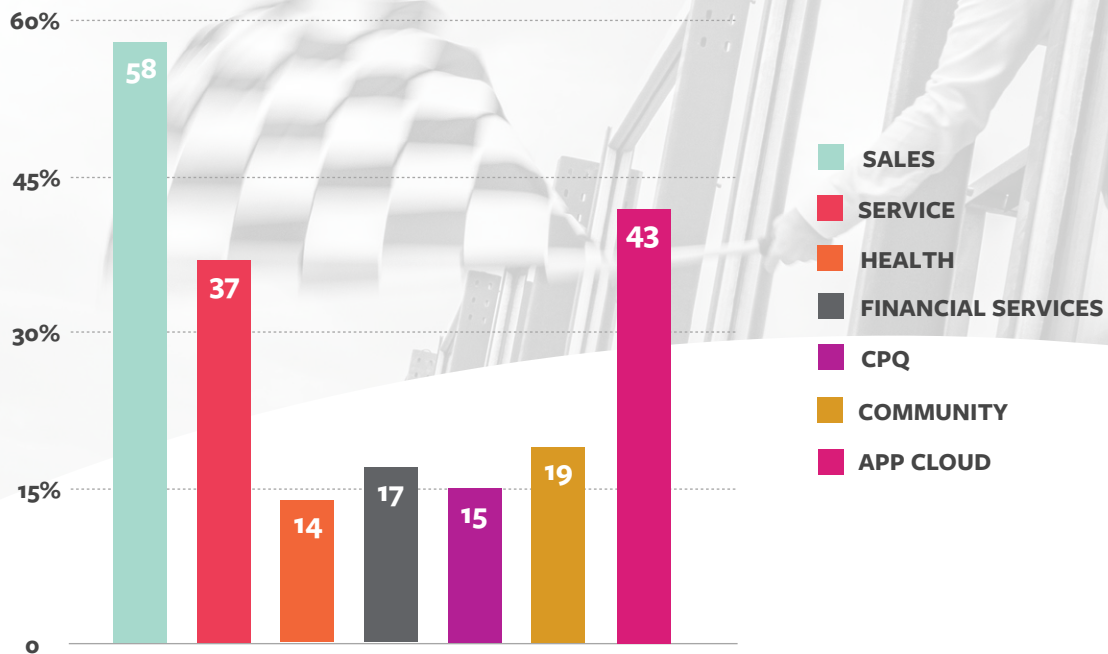
The data shows the Lightning Platform (force.com) clouds are leveraged more often than other platforms. Through Salesforce's aggressive M&A strategies, ISVs are beginning to build integrations and IP across non-Lightning platforms, as Salesforce enables them for ISVs. Not all new acquisitions are ready for ISVs and the survey supports the slower adoption of non-Lightning based platforms.
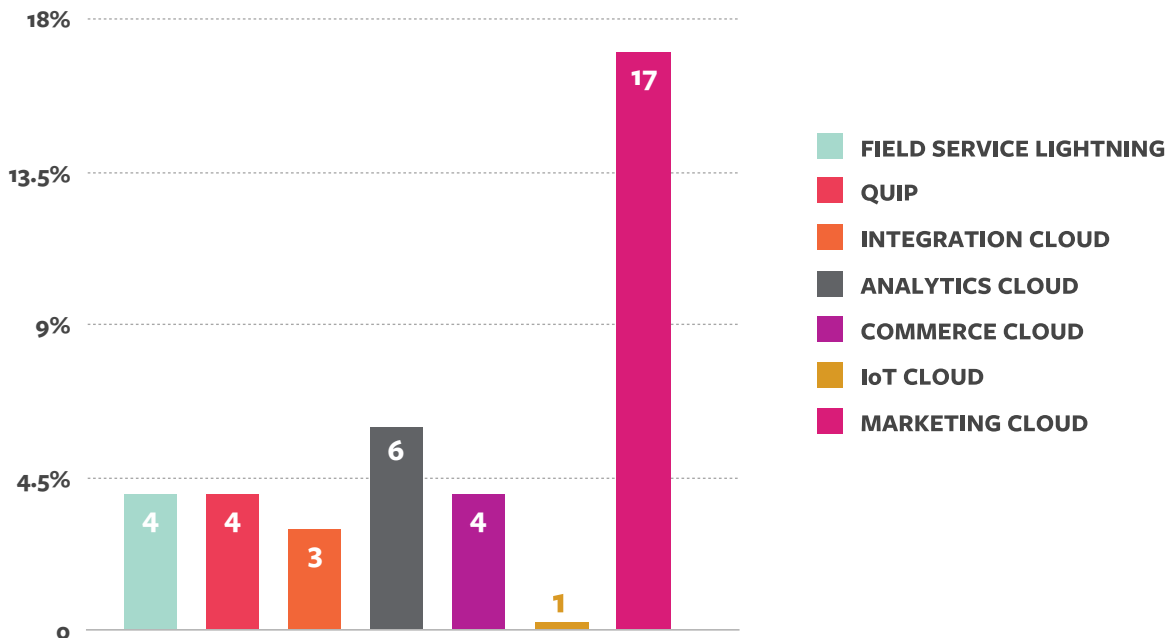
WHICH OF THE FOLLOWING SALESFORCE CLOUDS IS YOUR PRODUCT(S) BUILT ON?

LIGHTNING PLATFORM CLOUDS

Legend:
- SALES
- SERVICE
- HEALTH
- FINANCIAL SERVICES
- CPQ
- COMMUNITY
- APP CLOUD

Values: 58, 37, 14, 17, 15, 19, 43

NON-LIGHTNING PLATFORM CLOUDS

Legend:
- FIELD SERVICE LIGHTNING
- QUIP
- INTEGRATION CLOUD
- ANALYTICS CLOUD
- COMMERCE CLOUD
- IoT CLOUD
- MARKETING CLOUD

Values: 4, 4, 3, 6, 4, 1, 17

CODE SCIENCE

HOW IMPORTANT ARE THE FOLLOWING TO YOUR COMPANY?

THIS YEAR

Legend: IRRELEVANT, NOT IMPORTANT, AVERAGE, IMPORTANT, VERY IMPORTANT, I DON'T KNOW

Lightning: 1, 7, 19, 21, 52, 0
Einstein: 7, 23, 25, 22, 16, 7
Mobile: 11, 27, 15, 21, 18, 8
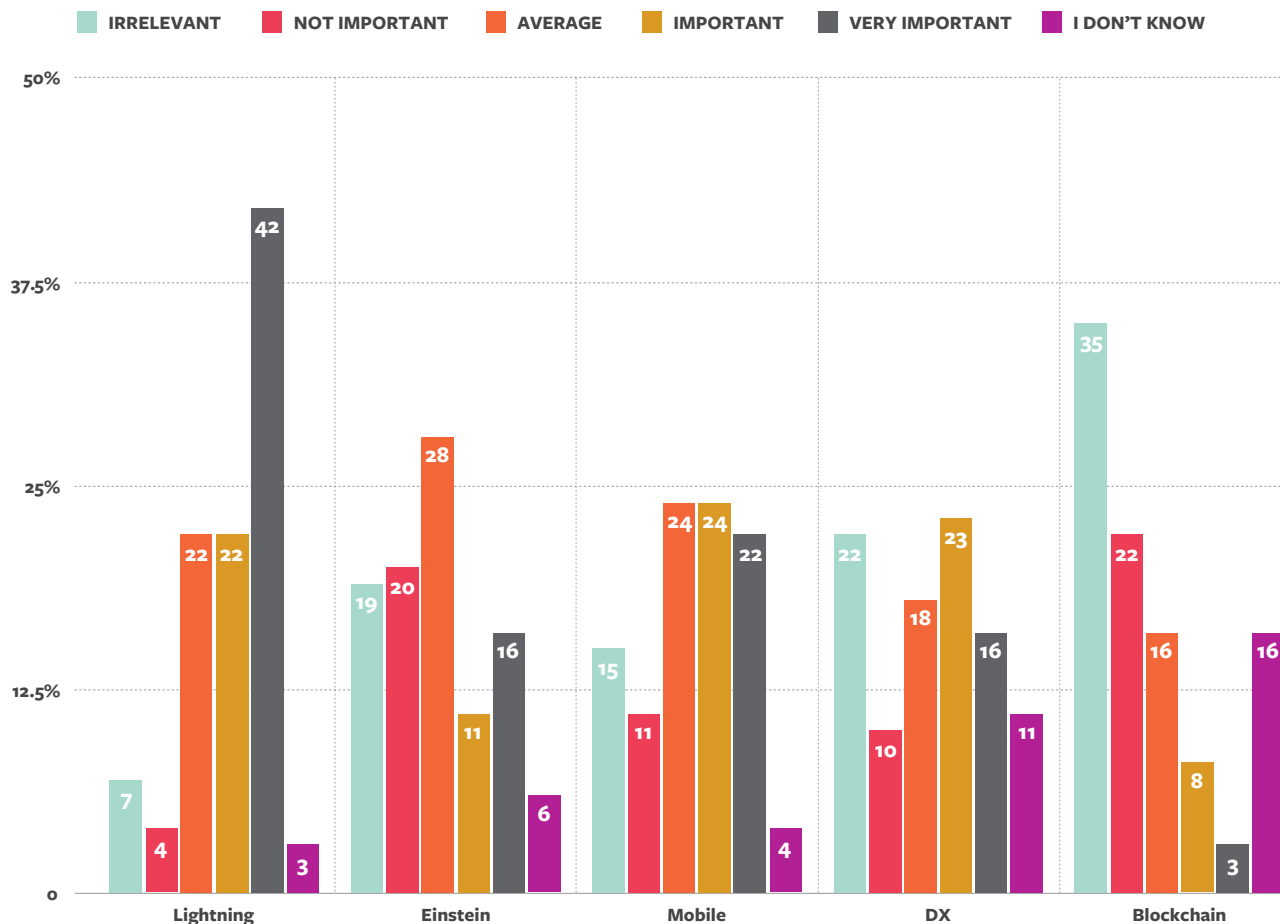DX: 14, 21, 23, 19, 11, 12
Blockchain: 27, 32, 18, 6, 3, 14
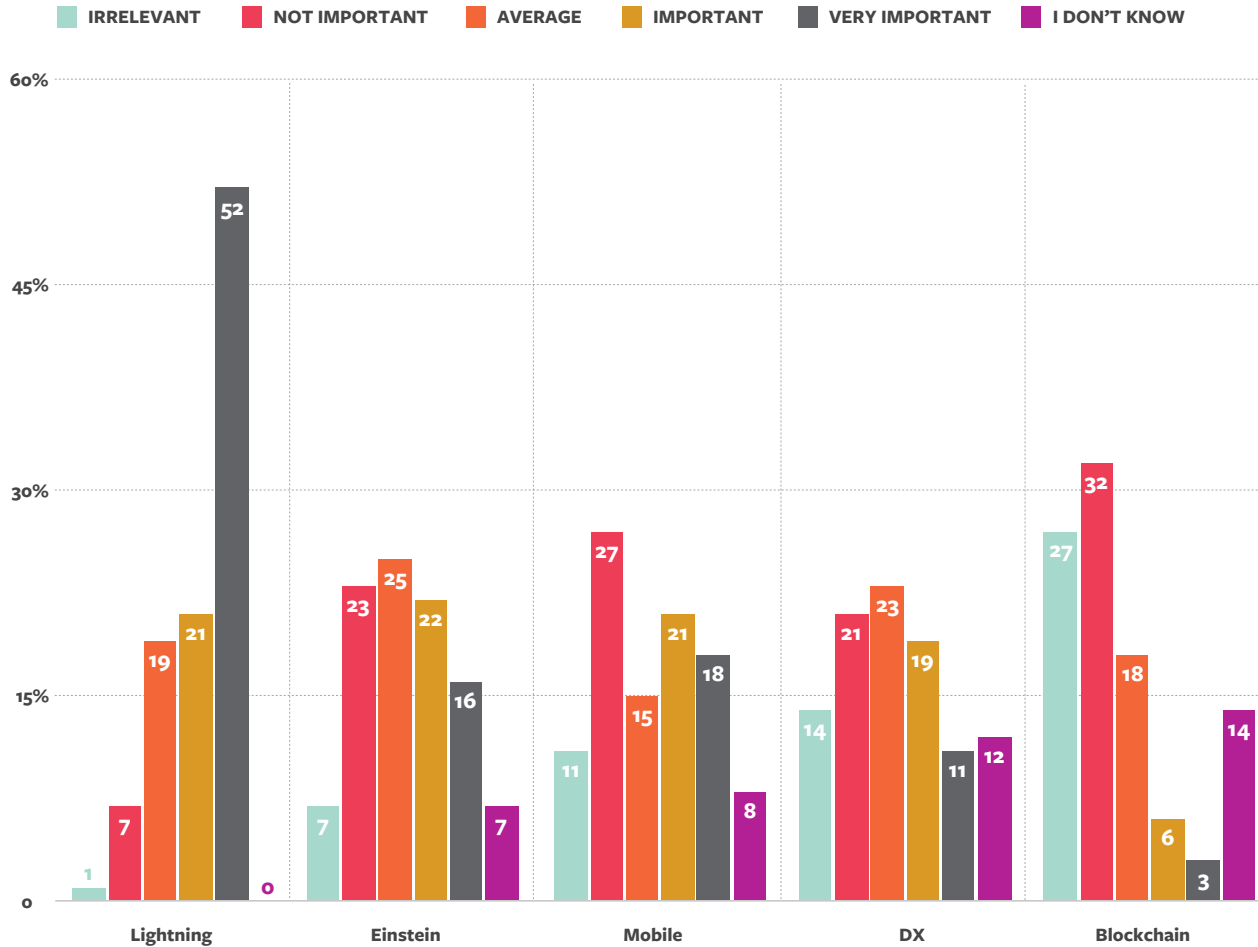
We are starting to see the trend of ISV-ready emerging in our technology data. As we discussed last year, the longer a feature is in-market, the more important it becomes to ISVs. But it is not a linear path to adoption and importance. The concept of ISV-ready means every feature launched at Salesforce isn't always mature enough for broad ecosystem adoption. However, as Salesforce invests further into the feature and the infrastructure becomes more reliable, ISVs begin to adopt the technology into their products. In looking at the trends of the data, we see the adoption of new technologies follows the Forrester Adoption Curve.

- For some technologies, there is an initial spark of interest and excitement once a new feature is announced—yet, as it has time in market and ISVs test and evaluate, interest cools as we see with Mobile and DX

Legend: IRRELEVANT · NOT IMPORTANT · AVERAGE · IMPORTANT · VERY IMPORTANT · I DON'T KNOW

Category	Irrelevant	Not Important	Average	Important	Very Important	I Don't Know
Lightning	7	4	22	22	42	3
Einstein	19	20	28	11	16	6
Mobile	15	11	24	24	22	4
DX	22	10	18	23	16	11
Blockchain	35	22	16	8	3	16

- However, just because interest cools, it does not mean the feature becomes irrelevant. Across every technology, we saw an overall increase in importance (from irrelevant to not important)

- This shows us Salesforce's own investments have an impact on feature adoption as well. Lightning continues to grow in importance, and with the focus on Einstein this year, we see ISVs implementing it in their products

> The Salesforce Lightning Platform expands the possibilities of CRM for customers and accelerates product development for partners. The deep integration points allowed Optimizely to release a powerful AppExchange application that empowers enterprises to optimize the customer journey, track and attribute online experiments to down-funnel metrics, and improve conversion rates like never before.

CLAIRE VO
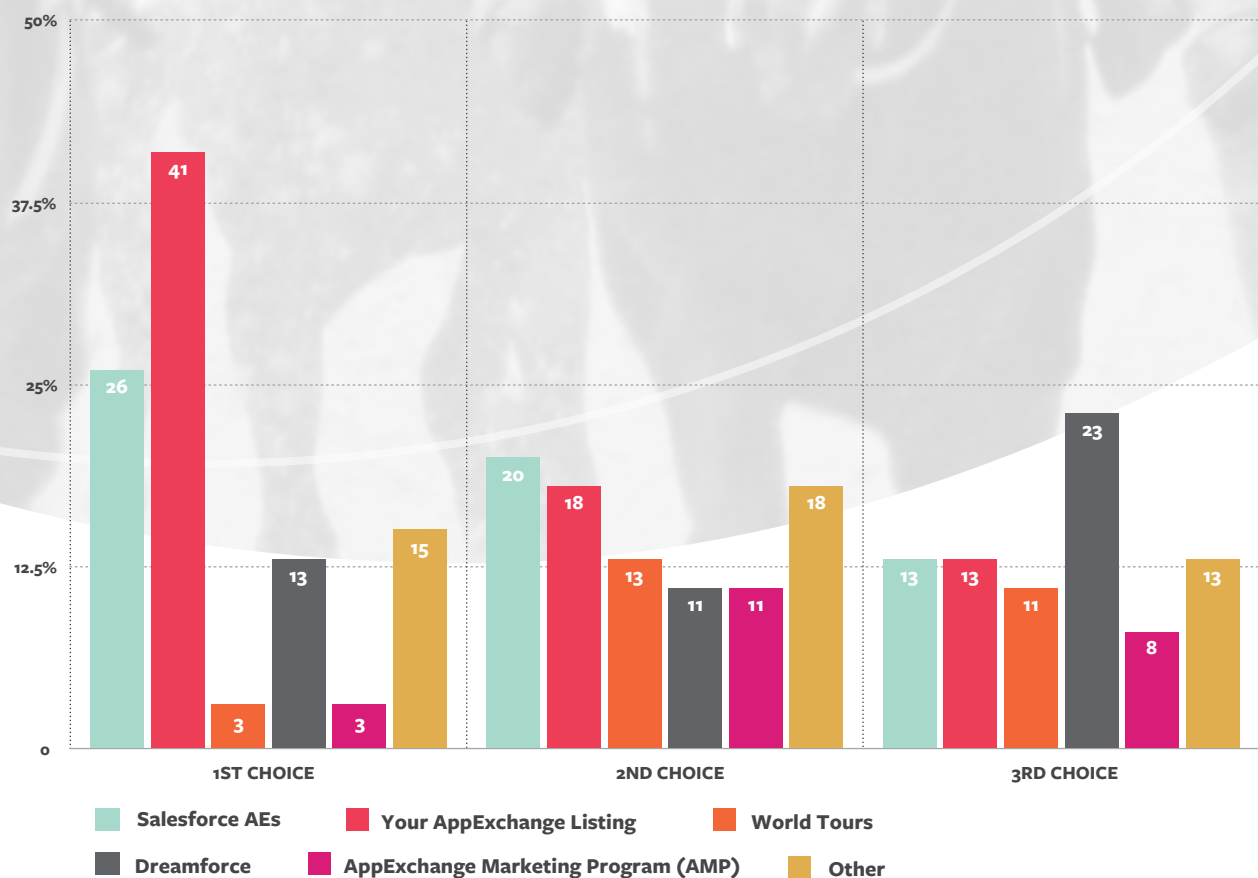Chief Product Officer | Optimizely

4. Salesforce as a Channel

KEY FINDINGS:

The Salesforce channel continues to support partner growth. Like last year, 48% of leads are coming from the Salesforce channel, which is up 10% from two years ago.

When looking at the leads coming in from Salesforce, we reframed our analysis this year and asked partners to rank their top three lead sources from Salesforce.

TOP THREE LEAD SOURCES FROM SALESFORCE

Legend:
- Salesforce AEs
- Your AppExchange Listing
- World Tours
- Dreamforce
- AppExchange Marketing Program (AMP)
- Other

Nearly half (41%) of respondents said their number one lead driver was their AppExchange listing. Salesforce is aware of this and continues to make investments into the AppExchange marketplace. This year marked the evolution of new AppExchange analytics and search tools.

Key features included personalized app recommendations and improved analytics for partners. As these tools are relatively new, we are interested in seeing how partners will adopt and leverage these analytics to drive additional business.

Salesforce AEs took the second spot, with 26% of respondents noting it as their number one lead source and 20% as number two. Dreamforce was clearly noted as the third, with nearly a quarter of responses (23%) stating as such.

Most partners are again increasing or maintaining their Dreamforce investment (56%), though markedly lower than the response of 72% last year. It is apparent that Salesforce is listening to the feedback of ISVs regarding outcomes of the Dreamforce investments, and has significantly reworked the tradeshow costs and benefits for 2019. It will be interesting to track the results of Dreamforce this year.

CHANNEL SENTIMENT AND CONFLICTS

After listening to ISV feedback on our survey, we invited participants to leave open, anonymous comments. 92% of our participants provided their answers to the questions: *"What would you say is the most beneficial thing about the AppExchange for partners?"* and *"If Salesforce could improve one area for partners, what would it be?"*
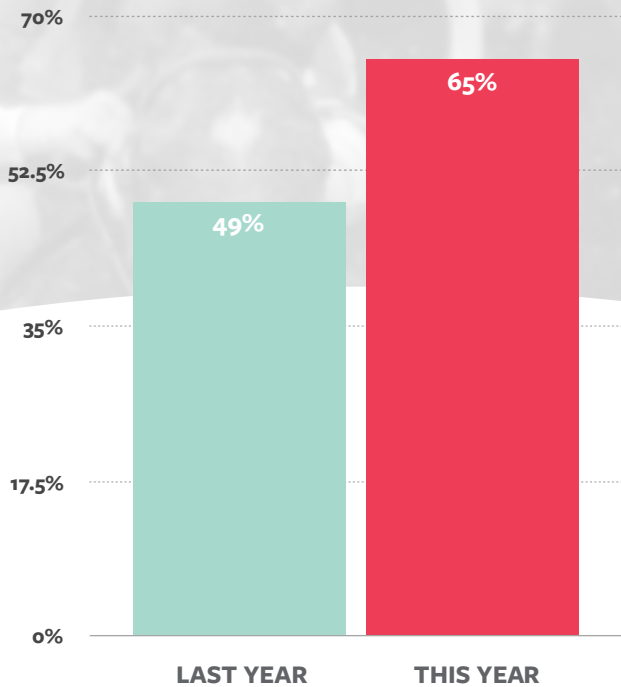
65% OF RESPONDENTS CLAIMED THEIR PARTICIPATION IN THE ISV PROGRAM INCREASED THEIR REVENUE. THIS IS UP BY 16% FROM THE PREVIOUS YEAR.

> The potential for misalignment between Twilio and Salesforce is real as our relationship spans customer, vendor, and partner roles. Regardless, navigating the complex dynamics has enabled both of us to focus on customer success and rapid growth. The AppExchange is a win for Twilio, Salesforce, and most importantly, our joint customers.
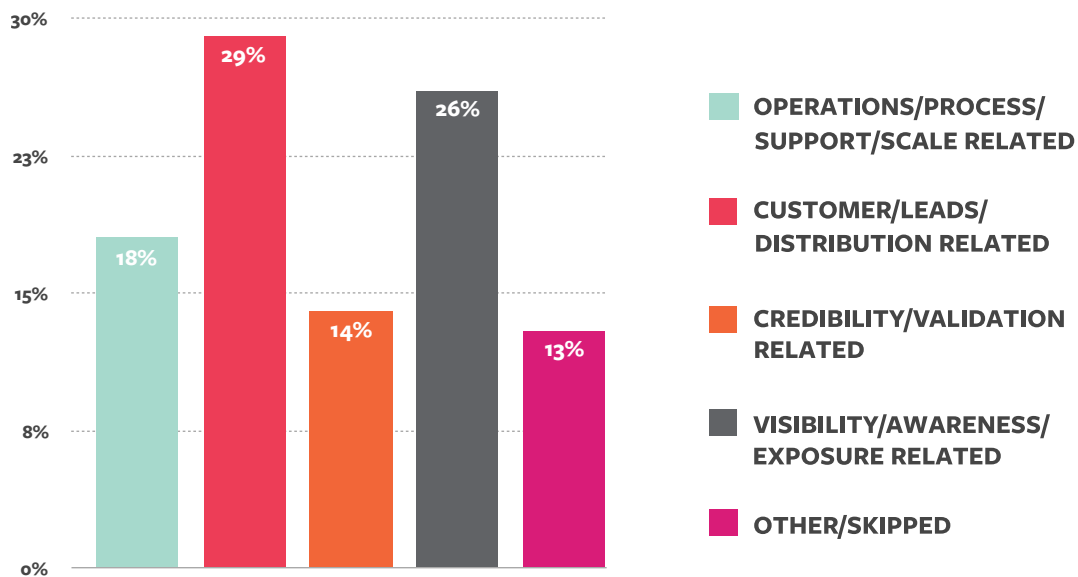
MEGHAN NESBIT
Director, Nonprofit Market Development | Twilio

We saw four themes emerge for each question:

"What would you say is the most beneficial thing about the AppExchange for partners?"

- *"Visibility across the Salesforce ecosystem and throughout the Salesforce Distribution Channel."*
- *"Access to customers across the globe. Reliable platform. Great ecosystem."*
- *"Leveraging the Salesforce platform to connect with other areas in our customers' businesses."*

When we look at the size/revenue of the companies and their responses, we see the beneficial aspects of being a partner for smaller companies focused in on leads and visibility. Larger organizations focused on operations and scale. Regardless of company size, in looking at the categorization of responses, partners focus in on the business benefits rather than platform benefits, which, as mentioned earlier, is a dynamic we see in the motivating factors for joining Salesforce.
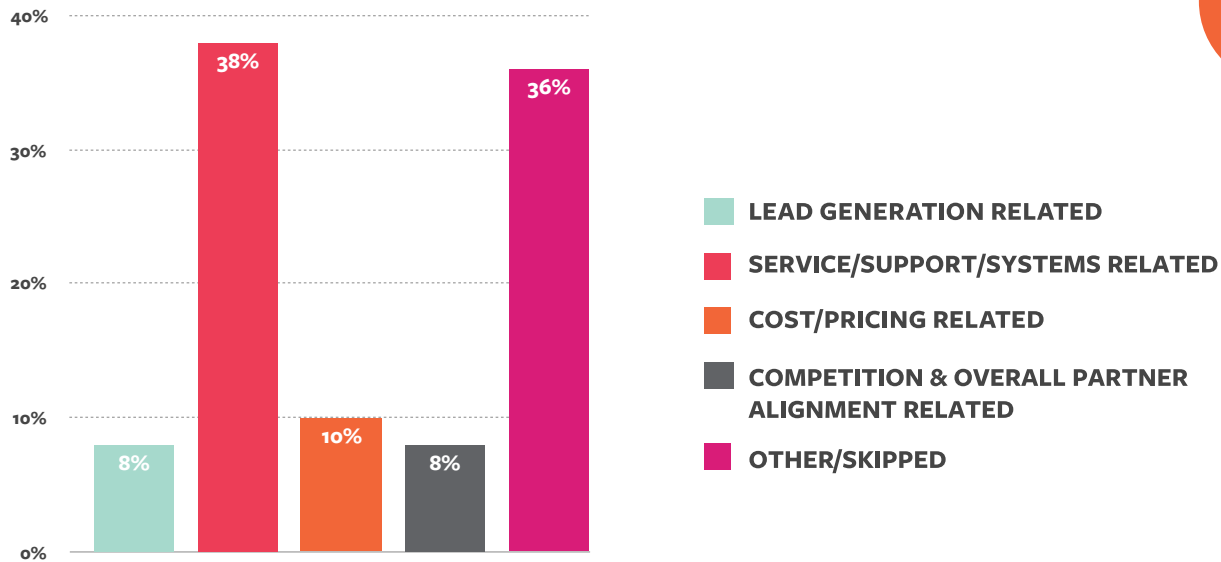

Bar chart:
- OPERATIONS/PROCESS/SUPPORT/SCALE RELATED — 18%
- CUSTOMER/LEADS/DISTRIBUTION RELATED — 29%
- CREDIBILITY/VALIDATION RELATED — 14%
- VISIBILITY/AWARENESS/EXPOSURE RELATED — 26%
- OTHER/SKIPPED — 13%

"If Salesforce could improve one area for partners, what would it be?"

With the wide variety of responses across these areas, we're summarizing the thoughts respondents shared in each of the themes.

LEAD GENERATION

Respondents shared challenges they faced with getting introductions to accounts or alignment with the direct team to generate leads within their ideal customer profiles. Distribution is always a key component of a marketplace, and it is never surprising to find a focus on lead generation.

LEAD GENERATION RELATED

SERVICE/SUPPORT/SYSTEMS RELATED

COST/PRICING RELATED

COMPETITION & OVERALL PARTNER ALIGNMENT RELATED

OTHER/SKIPPED

SERVICE, SUPPORT, SYSTEMS ISSUES

A consistent theme in this area for improvement is a need for additional contact and go-to-market support from Partner Account Managers (PAMs) on the ISV team. We saw concerns around how many PAMs are available with which to consult, as well as provide coaching on strategies for successful ISVs. This feedback is consistent with Adizes' framework around the Prime stage, where a "normal problem" companies face in this stage are depth of managerial support and coverage.

COST AND PRICING RELATED

Concerns around the price structure of different technologies and platforms is spread across all of the different responses. Salesforce has been focused on growing the AppExchange ecosystem beyond the Lightning Platform based clouds and has been inconsistent in their approach to pricing for partners. While the Connector model has introduced licensing structure that is not purely percentage net

revenue (PNR), there are continued requests for both usage-based or freemium models.

CHANNEL CONFLICT AND PARTNER ALIGNMENT

Each year, we consistently receive feedback around aligning with the direct sales team at Salesforce and channel conflict. Beyond the channel conflict that arises from Salesforce's M&A activity, there are concerns about direct AEs having knowledge of the breadth of AppExchange solutions that can limit the number and amount of SI implementations and customizations.

A very interesting suggestion revolves around Salesforce having presence within non-Salesforce events and inviting ISVs to share the space. Industry-specific ISVs make significant spends at events like HIMSS and Mobile World Congress. As these ISVs are incorporated into the Salesforce ecosystem, it would appear they desire to broaden the reach.

5. Investments
(*powered by* crunchbase)

As a special feature in this year's report, we partnered with Crunchbase to leverage their platform, data, and insights to uncover investment trends for partners on the AppExchange as well as broader trends in the industry.

KEY FINDINGS:

Companies in the AppExchange ecosystem have raised $2.5 billion in 2019 through October 20, 2019. This is on a path to match or slightly exceed 2018, which ended the year at $2.84 billion and 2017 at $2.85 billion. So far, 17% of venture-backed companies in the AppExchange have raised funding in 2019.

AppExchange companies are based predominantly in North America at 70%. This is followed by Europe at 19%, and Asia with 8% of companies.

LOCATION OF APPEXCHANGE COMPANIES

- 3%
- 8%
- 19%
- 70%

- NORTH AMERICA
- EUROPE
- ASIA
- OTHERS
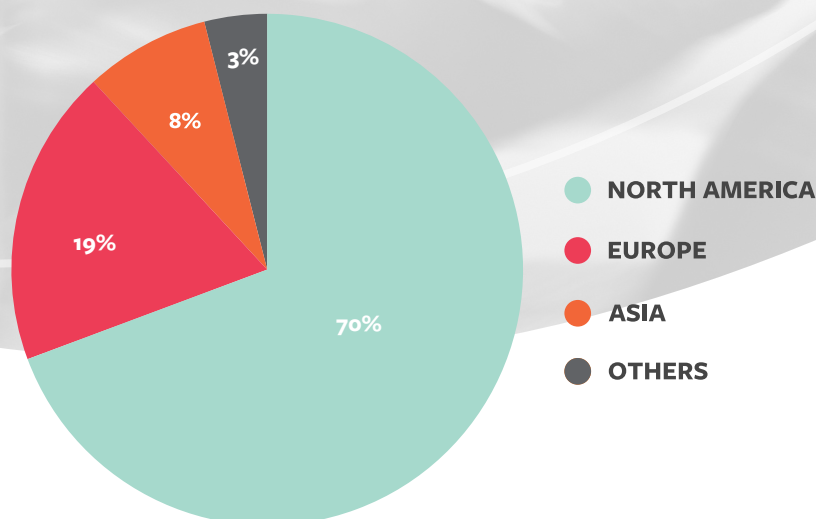
COMPANIES ACQUIRED IN 2019

The mega acquisition of 2019 is Tableau, a data visualization company, acquired by Salesforce for $15.7 billion. Other significant acquisitions for companies in the AppExchange in 2019 include iPipeline, a provider of cloud-based software for the insurance and financial services industry, acquired for $1.6 billion by Roper Technologies. The next largest acquisition was in the hundreds of millions for HelloSign, an eSignature company, acquired by Dropbox for $230 million.

APPEXCHANGE COMPANIES ACQUIRED PRICE BY YEAR

Year	Price
2014	$5.4B
2015	$6.9B
2016	$38.1B
2017	$6.3B
2018	$25.1B
2019	$18B
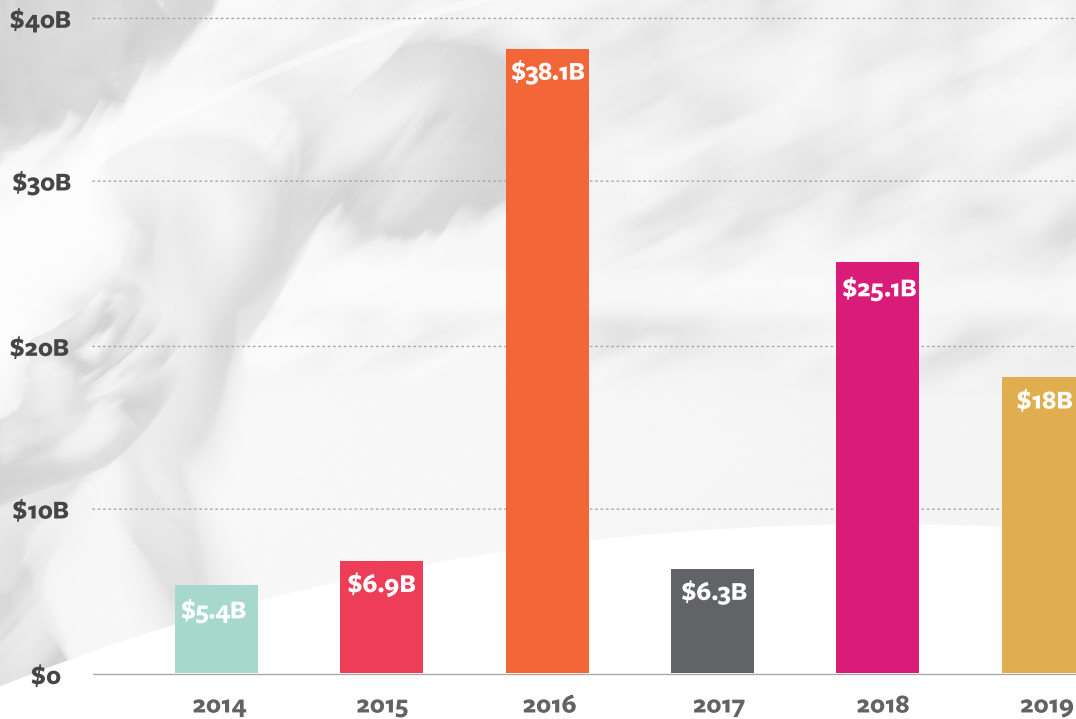
2018 ACQUISITIONS

In contrast, 2018 included five acquisitions over $1 billion. The largest acquisition in 2018 was for Qualtrics, a cloud company for managing customer data, was acquired by SAP for $8 billion. MuleSoft, a platform for building application networks, was acquired for $6.5 billion by Salesforce, and Marketo, a marketing automation software company, was acquired for $4.75 billion by Adobe Systems. In the most recent period, 2016 was the year with the highest sum in acquired companies.

ACTIVE INVESTORS

The most active investors in this ecosystem in 2019, outside of Salesforce Ventures, include Insight Partners, a growth-stage firm based out of New York, Shasta Ventures, an early-stage firm investing in enterprise and consumer, and M12, the venture capital arm of Microsoft.

ACTIVE INVESTORS 2017 THROUGH Q3 2019

INVESTOR	COMPANY PORTFOLIO COUNT
Salesforce Ventures	43
Insight Partners	14
Accel	12
Emergence	8
Battery Ventures	8
Kleiner Perkins	7
Shasta Ventures	7
Goldman Sachs	7
ICONIQ Capital	6
M12	6
Lighter Capital	6
Norwest Venture Partners	5
Greycroft	5
Andreessen Horowitz	5
Sequoia Capital	5
Scale Venture Partners	5
GV	5

UNICORN COMPANIES

Four AppExchange companies joined the unicorn list in 2019. These private companies valued over $1 billion in a 2019 funding round include Vlocity, Druva, Icertis, and nCino. In 2018 four AppExchange companies joined the unicorn ranks namely, UiPath, WalkMe, Talkdesk, and Netskope.

Emerging unicorn companies valued above $500 million but less than $1 billion include People.ai, Hootsuite, Blend, Mixpanel, G2, Tealium, and Highspot.

CRUNCHBASE DATA METHODOLOGY

1. The analysis is based on ISV partners matched to the Crunchbase dataset.
2. We include all seed, early and late-stage venture financing, and corporate venture for this data. We exclude private equity financing rounds from this analysis.

GLOBAL FUNDING AND THE APPEXCHANGE

AppExchange ISVs represent roughly 7% of global SaaS companies. However, in looking at the global funding for SaaS companies ($13.2 billion), AppExchange companies received roughly 19% ($2.5 billion). AppExchange ISVs represent a greater share of investment dollars proportionately.

From the State of AppExchange Partner survey, 29% of respondents forecasted a new financing round in the next 12 months. As the market and IPO window for the year start to close, it will be interesting to see which ISV partners will IPO in 2020.

When looking at Crunchbase's data and following up from last year's report, we saw 2018 close out with $2.5 billion raised from 8 companies. At the time of writing, so far, three ISV partners have had IPOs raising $1.3 billion. Interesting to note that Slack (one of the three who had their IPO this year) chose to leverage a direct listing. In short, a direct listing has no amount raised as no shares are created.

We will see in 2020, if the IPO window opens again for our ISVs or if companies choose to pursue late-stage financing to continue growth in the private markets.