The State of AppExchange Partners Report:

A Rapidly Expanding Ecosystem, Ripe With Opportunity

CODE SCIENCE

lighter capital

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Prologue

Executive Summary

In October 2017, CodeScience and Lighter Capital commissioned a survey of current Salesforce AppExchange Partners in order to get a better, more objective look at how they are using the platform to drive business. The State of AppExchange Partners Report is the best collection of data on partner strategies, learnings, and performance we've found anywhere.

Methodology

We surveyed over 100 senior level executives, of which 64% of respondents were either C-Suite or VPs of Product at companies ranging from up-and-coming SaaS start-ups to the Fortune 5. The survey results have revealed new insights into how partners are navigating the rapidly growing Salesforce ecosystem. For the purposes of this report, we are focused on commercial partners who are monetizing their AppExchange products via subscription revenue.

Identifying Revenue Opportunity in a Rapidly Expanding Ecosystem

From a broader industry perspective, the numbers certainly speak for themselves – there is no slowing the growth and adoption within the Salesforce ecosystem.

The success and scale of the AppExchange as a channel is a testament to the power of the ecosystem as a business differentiator. For example, Neeracha Taychakhoonavudh (Salesforce's SVP of Partner Programs) is quoted as claiming that Salesforce will boost AppExchange revenues 5X over the next 5 years.

* In a report released by IDC in October 2017, the firm estimates that between 2016 and 2022, the Salesforce economy's largest impact will be in the finance industry, with a forecast creation of $164 billion in new business revenue and 585,000 new jobs. Manufacturing is second, with $159 billion in new business revenue and 638,000 new jobs.

Finance

$164 Billion
New Business Revenue

585,000
New Jobs

Manufacturing

$159 Billion
New Business Revenue

638,000
New Jobs

Trends and Impact

We've all seen the data for Salesforce ecosystem trends and impact on the market overall, but to date we have not found an independent study pinpointing the specific drivers for individual companies building their business via the AppExchange. From acquiring new customers to reducing implementation costs to accelerating backlogs, this report will help you learn how you stack up to other SaaS companies.

Learn how AppExchange Partners like you are leveraging Salesforce and what to look for in the year ahead in the following categories:

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

Overall, the three main reasons that partners chose to leverage the Salesforce platform and the AppExchange are: (1) time to market, (2) security, and (3) the partner ecosystem. Roughly 80% of the respondents believe that there will be an increase in revenue and revenue growth rate in 2018. While the one consistent challenge facing those companies that responded to the survey is acquiring new customers, 45% of respondents said that participation in the AppExchange increased their company's revenue from 20% to greater than 50%.

I.

Product & Company

Key Findings: The more that is invested in the Salesforce channel, the better the outcome. OEM providers are growing faster year-over-year. The majority of companies with 50-500 employees are high growth companies. Moving to the AppExchange is a strategic move for both acquiring new customers and increasing lifetime value. Within ISVforce, partners are filling Salesforce feature gaps. A number of companies were building products that are competitive with Salesforce features and finding success.
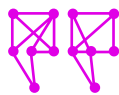
"nCino is a system built by bankers for bankers. We want to focus on building a banking application, not infrastructure. Banks have never had a critical process like lending run in the cloud, so the number one thing is building trust that our solution is infinitely scalable and secure. We get all of that by building on top of the Salesforce platform."
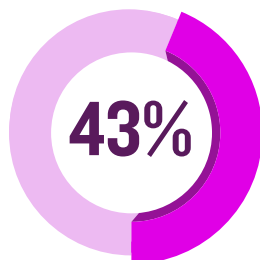
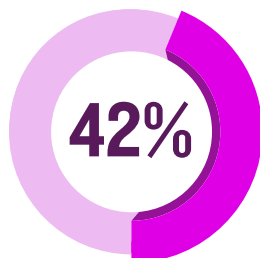**Trisha Price**
EVP Product Development & Engineering | nCino
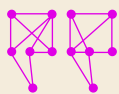
"Salesforce's commercial success has largely fueled the success of the AppExchange. Over the coming years, the AppExchange will largely fuel the success of Salesforce."
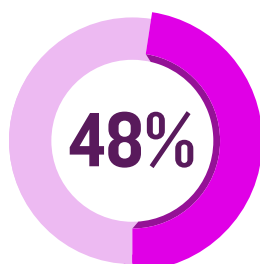
Brian Walsh
CEO | CodeScience

43%

Almost 43% of partners have more than one Salesforce AppExchange app.

42%

42% of partners have more than one partnership type (OEM, ISVforce, Connector, Checkout)

48%

48% of partner apps are considered native while 52% are considered composite Force.com apps. Of those 52% composite apps, the top 3 environments for their composite applications are AWS, Heroku and Azure.

72%
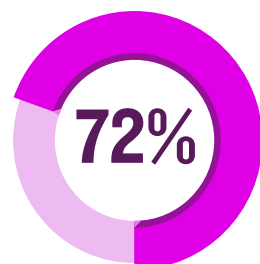
72% of respondents said they will increase employee headcount in 2018 at least 20%. 21% of respondents reported at least 50% headcount growth in 2018.

II.

Growth

Key Findings: The ecosystem is experiencing accelerating growth, irrespective of company size, funding, number of employees, or partner type. 99% of respondents are forecasting continued growth and rate of growth in 2018, with 4% expecting to IPO in 2018.

- Roughly 80% of the responses believe there will be an increase in revenue and revenue growth rate, and the rating was equal between native and composite partners.

- 4% of respondents are looking to IPO in the next 12 months, an indicator of high-growth companies.

- Of the 49% of customers looking to grow engineering staff by 50% or more, 21% cited their number one organizational challenge to be finding and hiring engineers.

- Salesforce is lowering the barriers to entry by reducing the Percent Net Revenue (PNR) share from 25% to 15% for ISVforce applications, as well as by introducing the Connector model this year at Dreamforce. Expect to see a greater volume of new AppExchange partners in 2018.
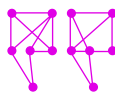
86%
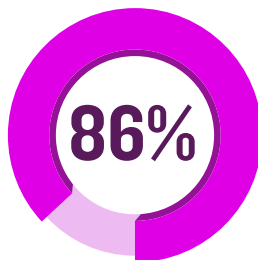
86% of respondents forecast they will grow revenue > 20% YoY next year.

36%
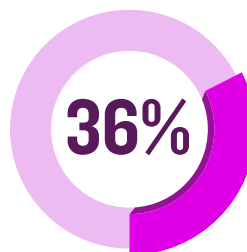
36% of respondents forecast they will grow revenue > 50% YoY next year.

The top 3 challenges irrespective of partner type, revenue, or number of employees (excluding sole proprietors) **are acquiring new customers, hiring engineers, and reducing implementation costs and time.**

"Finding qualified engineers is a struggle for most companies. We have been able to strike a balance between leveraging strong internal Salesforce talent and augmenting from consulting partners in the ecosystem."
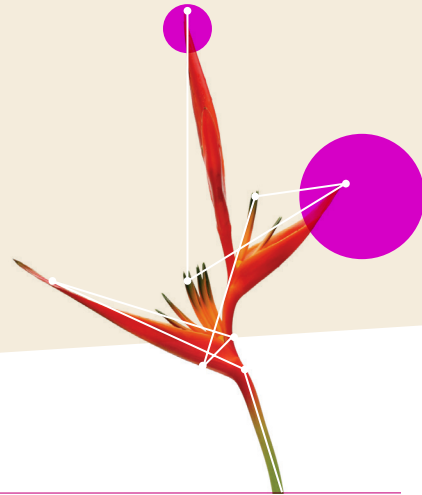
Melissa Laake
Director of Strategy & Design | Care Coordination, Optum Analytics

III.

Technology & Platform

Key Findings: Unsurprisingly, 69% of respondents are building on top of Sales Cloud, which is Salesforce's flagship offering and its longest running cloud service. However, 61% of respondents are building upon more than one cloud for their offering. High growth customers are those that extended their offers to include the high growth clouds for Salesforce like Marketing, Community, and CPQ.

- The #1 reason why all partners chose to build on Salesforce is time to market, with 36% of respondents indicating it as a primary factor.

- However, in the responses from just OEM partners, 53% identified time to market as the #1 reason for building on Salesforce.

- 50% of the respondents have 1-5 AppExchange developers on the team.

- ISVs have an average of 10 SI partners.

- Respondents indicated their Composite apps are built with the following: 29% AWS, 13% Heroku, 9% Azure, and 8% on premise.

- Outside of the AppExchange, AWS has a significantly larger market share for SaaS businesses. Heroku is a strong second choice for composite applications, showing that the combination of features (like Heroku Connect), discounted pricing, and increased security are differentiating Salesforce's Heroku as an attractive alternative.
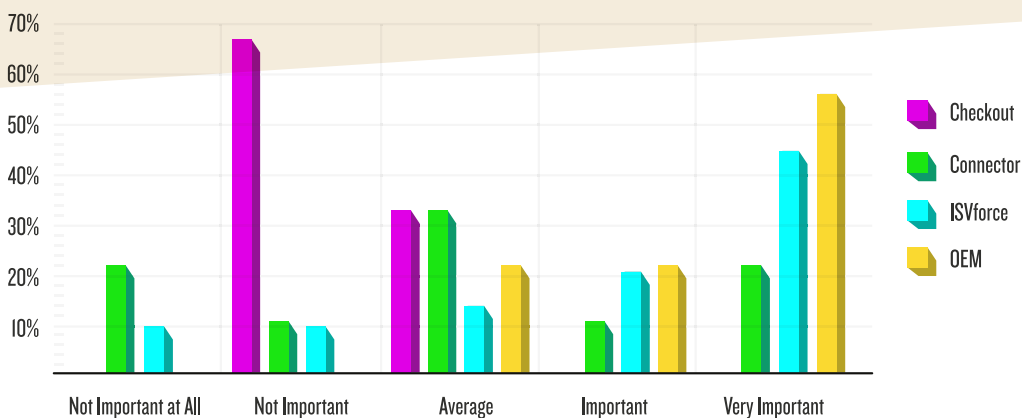
"Thinking of patients as consumers is fundamental in how we move forward: patients must be at the center of how we design products. Salesforce's Health Cloud data model and framework allows us to accelerate our roadmap, focus on our clients' business needs and integrate other AppExchange products and partners to generate a better, more coordinated experience for patients."
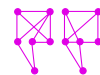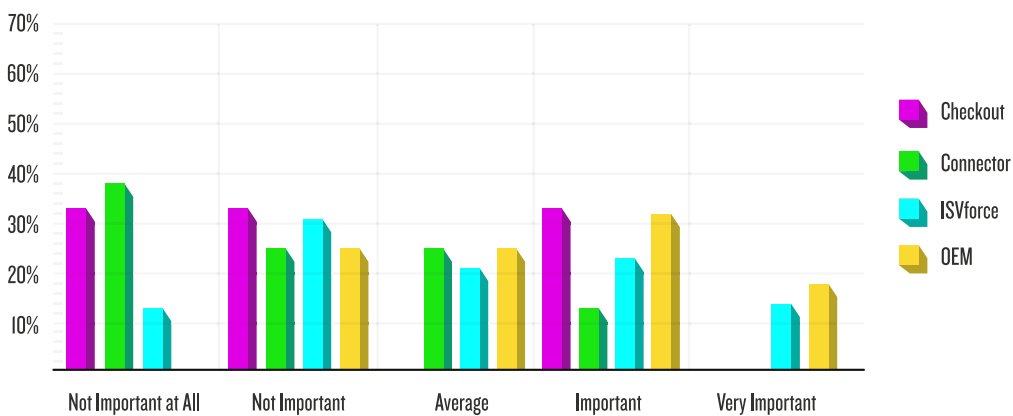
Sarah London
VP Product | Optum Analytics

Unsurprisingly, OEM partners responded with significantly more interest in new product features like Lighting, Einstein, and Salesforce1 Mobile. Those organizations are "all in" on the Salesforce stack and are generally the first to leverage new functionality. It should be noted that Einstein has just recently been made available to partners to incorporate into their products at Dreamforce this year.

Lightning

Legend:
- Checkout
- Connector
- ISVforce
- OEM

X-axis: Not Important at All, Not Important, Average, Important, Very Important

Einstein

Legend:
- Checkout
- Connector
- ISVforce
- OEM

X-axis: Not Important at All, Not Important, Average, Important, Very Important

Salesforce1 Mobile

Legend:
- Checkout
- Connector
- ISVforce
- OEM

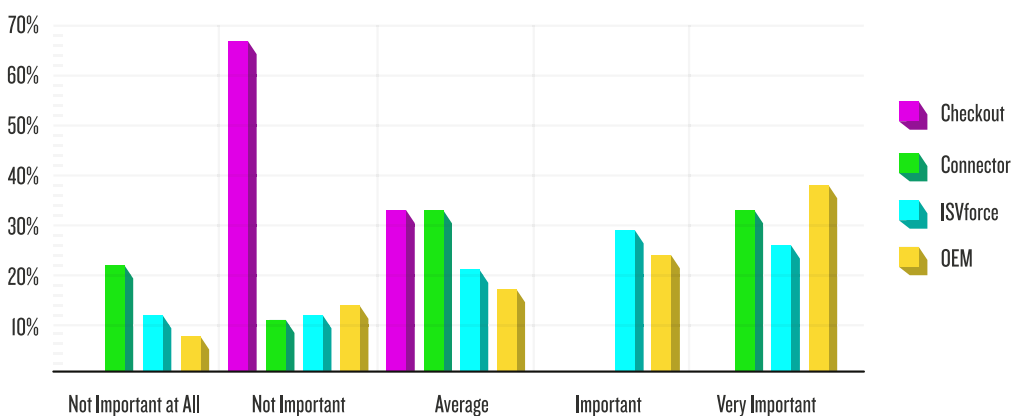X-axis: Not Important at All, Not Important, Average, Important, Very Important

"99% of Node's application is off-platform, so we are a Connector partner. We leverage Heroku for processing data, which our customers prefer as the data remains within the confines of Salesforce."
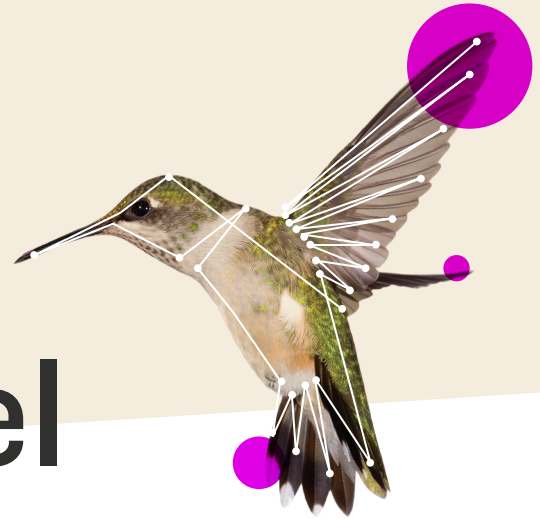
**Falon Fatemi**
CEO and Founder | Node

IV.

Salesforce as a Channel

Key Findings: Salesforce as a channel is ripe with opportunity. If you are a company on the AppExchange, 38% of leads on average are generated from the Salesforce channel (AppExchange listing, partner resources, Dreamforce, World Tours, etc.). 62% of leads for AppExchange partners come from channels outside of the Salesforce ecosystem.

45%
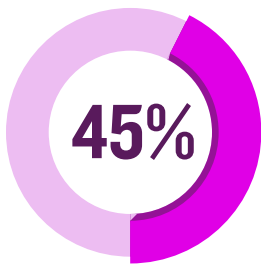
45% of respondents reported that the changes to the partner program had no effect on their relationship with Salesforce. This is not surprising as the majority of the changes will not affect existing partners until their contract is renewed. However, 36% of respondents already report a positive to very positive impact.

45%
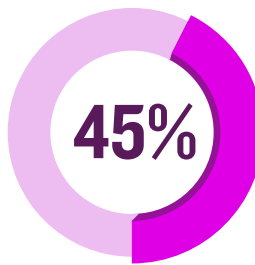
45% of respondents said that participation in the Salesforce AppExchange increased their company's revenue at least 20% to greater than 50%.

40%

40% of respondents are increasing their Dreamforce spend, while only 25% of respondents are planning to increase their World Tour spend.

25%
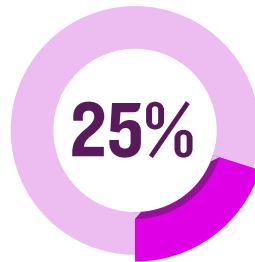
25% of respondents currently participate in the 1% Pledge and an additional 19% are considering adoption of the pledge.
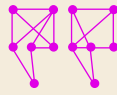
"The AppExchange ecosystem plays an important role in fueling new revenue growth for technology partners. Nintex Document Generation for Salesforce and Nintex Workflow for Salesforce fill process automation technology gaps which Salesforce ISV's are leveraging to meet the needs of their customers, reduce deployment costs and increase overall client retention and satisfaction."

Sean Hogan
Sr. Director of Technology Alliances | Nintex

On average, **Salesforce Account Executives generate between 16-20% of leads when Annual Recurring Revenue (ARR) is between $500k and $100M.** (It's amazing to note that it stays relatively consistent across the entire growth cycle.)

As ARR increases, so does the ability to invest in the paid marketing opportunities at Salesforce, including Dreamforce, World Tours, and AppExchange Marketing Program (AMP). There is a correlation between ARR and the percentage of leads generated from these sources.

V.
Investment

Key Findings: The ecosystem is relatively balanced with 43% of respondents having raised venture capital and 48% reported bootstrapping. While a few AppExchange companies experienced liquidity events like the acquisitions of ServiceMax (by GE for $915M), Riskonnect (by Thoma Bravo for an undisclosed amount), and Velocify (by Ellie Mae for $128M), there has not been an IPO in the AppExchange community since 2013 with Veeva. Change may be in the air since 4% of respondents are forecasting an IPO in 2018!
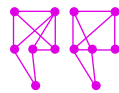
"After 5 years of working closely with the Salesforce AppExchange, we've witnessed firsthand the power of the ecosystem's benefits for startups. AppExchange companies represent 10% of 330 investments we've made, and on average AppExchange companies have outperformed non-AppExchange companies – they have 10% higher growth rates and have raised 2x the amount of venture capital."

BJ Lackland
CEO | Lighter Capital

68%
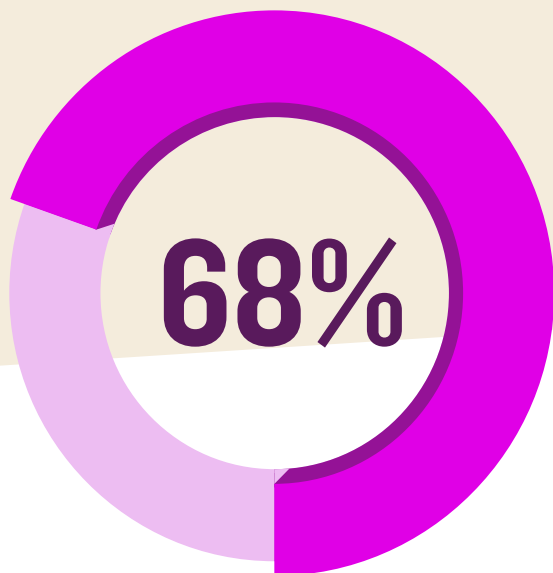
Overall, 68% of partners responded that funding comes from a single source.

The largest segment is bootstrapping, at 48%.

The second largest segment uses venture capital, at 43%.

28% of venture back companies took their last round of funding in the previous 12 months.

25% expect to raise a new round of funding in the next 12 months, with the majority expecting to raise it from venture capital.

4% are looking to IPO.

"We've been thrilled to have Salesforce Ventures involved with FullStory. The Salesforce ecosystem is massive and the Ventures team has masterfully helped us navigate internal organizations and trail blaze new customer segments."

Scott Voigt
CEO | FullStory

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Lighter Capital is a fintech company that has created a new fundraising path for early-stage tech companies. We understand that an entrepreneur's two greatest constraints are time and money, and we've developed a funding instrument that solves for both. Our transparent, data-driven process provides founders up to $2 million of non-dilutive growth capital in a fraction of the time it takes to raise from traditional sources. We have a $25M AppExchange fund to specifically help AppExchange companies accelerate their growth. Based in Seattle, we invest in companies across the US.

www.lightercapital.com/appexchange

CODE SCIENCE

CodeScience, one of the original certified Salesforce Product Development Organizations (PDO) and the only PDO Master, helps power the AppExchange ecosystem. Founded in 2008, CodeScience builds and brings commercial products to market on the Salesforce platform. The expert team, headquartered in Chattanooga, TN and San Francisco, CA, enabled the launch of hundreds of products for companies ranging from up-and-coming start-ups to the Fortune 10.

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