The 2020 State of Independent SaaS

FROM THE TEAM AT

MicroConf

IN PARTNERSHIP WITH

Basecamp stripe

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MicroConf

Welcome to the inaugural State of Independent SaaS!

For nearly a decade MicroConf has helped startup founders grow faster through access to education from world-class experts, and the world's most popular community of ambitious, non-venture track startup founders. MicroConf has become the mothership for founders like yourself looking to learn and share strategies, tactics, advice, and inspiration.

The report you hold in your hands is the next step in our mission to help you be more successful, faster.

This journey is difficult, and as founders we are often forced to make difficult decisions with incomplete information. The goal of this report is to support or call into questions our commonly held rules of thumb, and to provide you with the data you need to make better decisions as you grow your company.

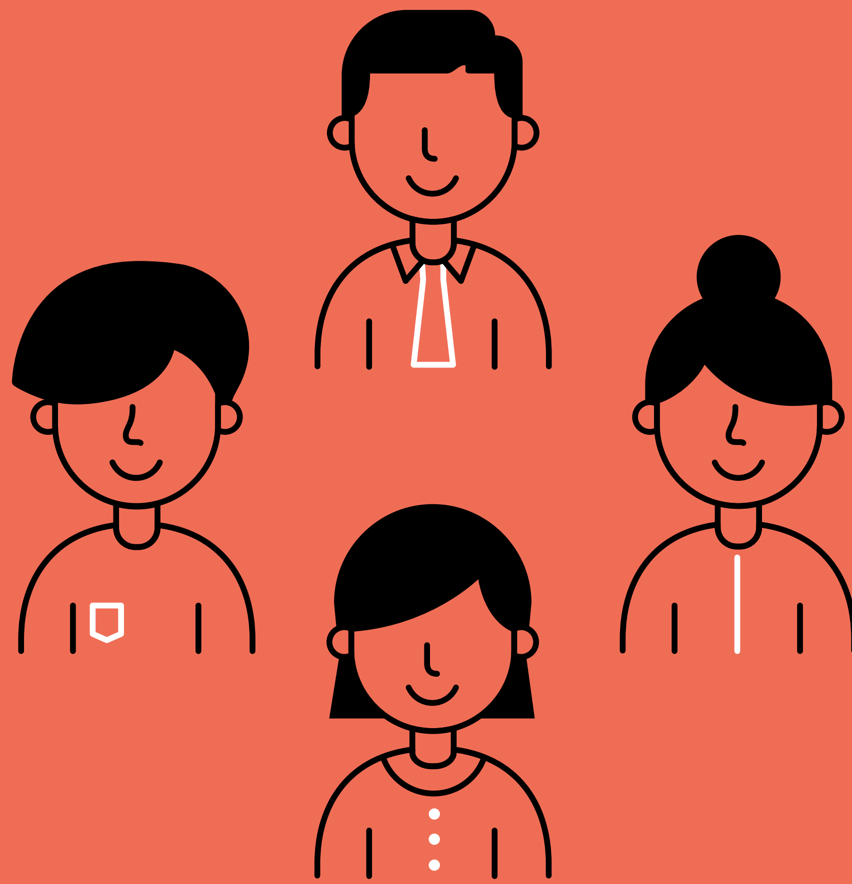
With responses from more than 1,500 founders and several hundred person-hours invested in analyzing the data and creating the report, I hope it serves you well.

For the full scoop on MicroConf and to ensure you receive next year's report, head to MicroConf.

Onward!

ROB AND THE MICROCONF TEAM

1. The Founders



EXPECTED

- 56% of respondents are single founders. More than 90% are one- or two-founder teams. This lines up with our experience of the independent SaaS space.
- Diversity continues to be an issue in SaaS. Only 11% of founding teams include a non-male and 21% include a non-white founder.

UNEXPECTED

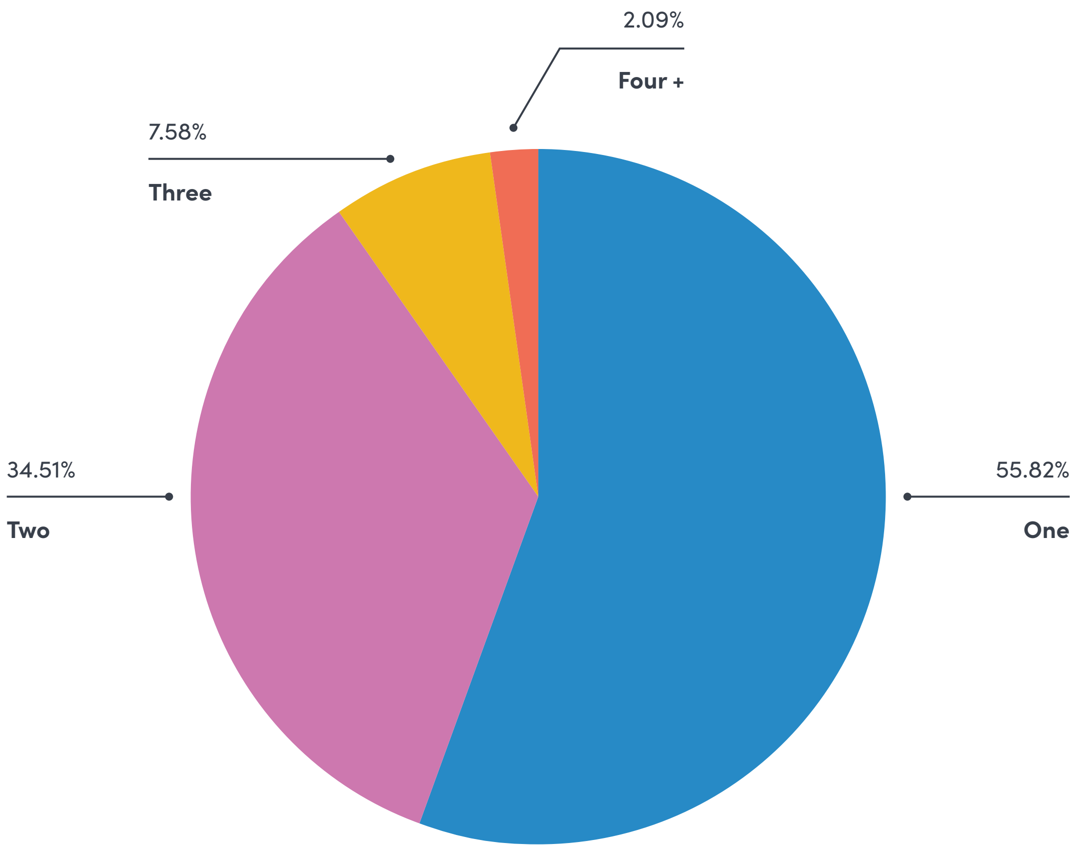
- Only 25% of founders work a “standard” 40-49 hour week. Almost half work 10-39 hours, presumably by choice (4-Hour Workweek style) or due to a day job.

UNCHARTED TERRITORY

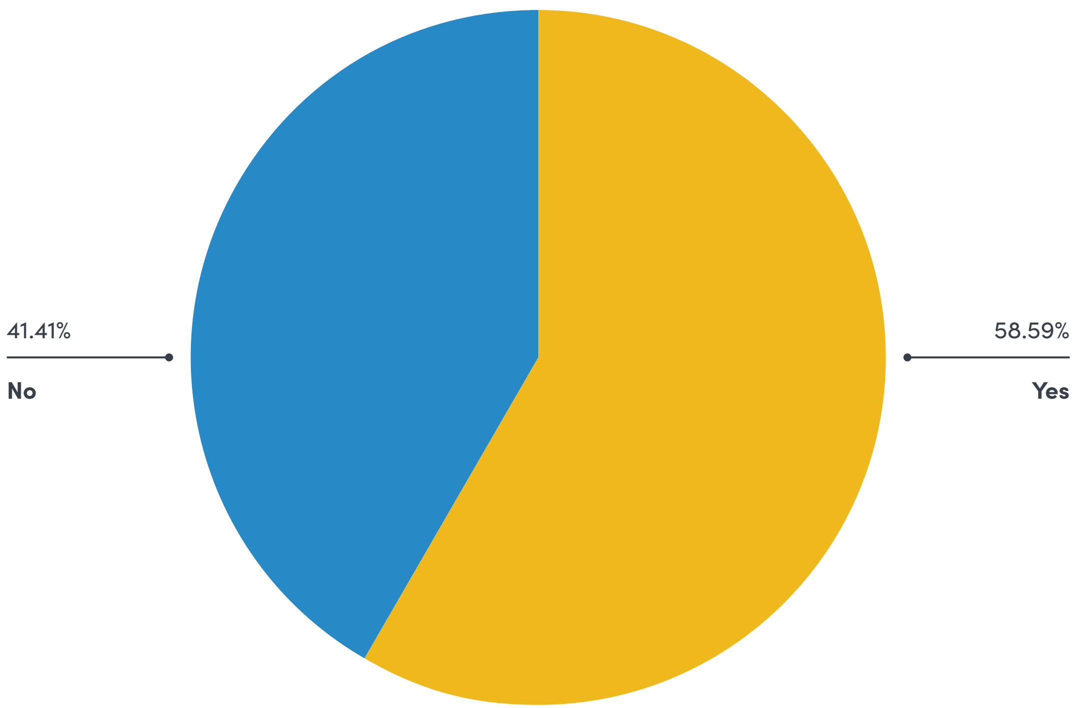
- 6 in 10 founders have started a prior company.

1. THE FOUNDERS

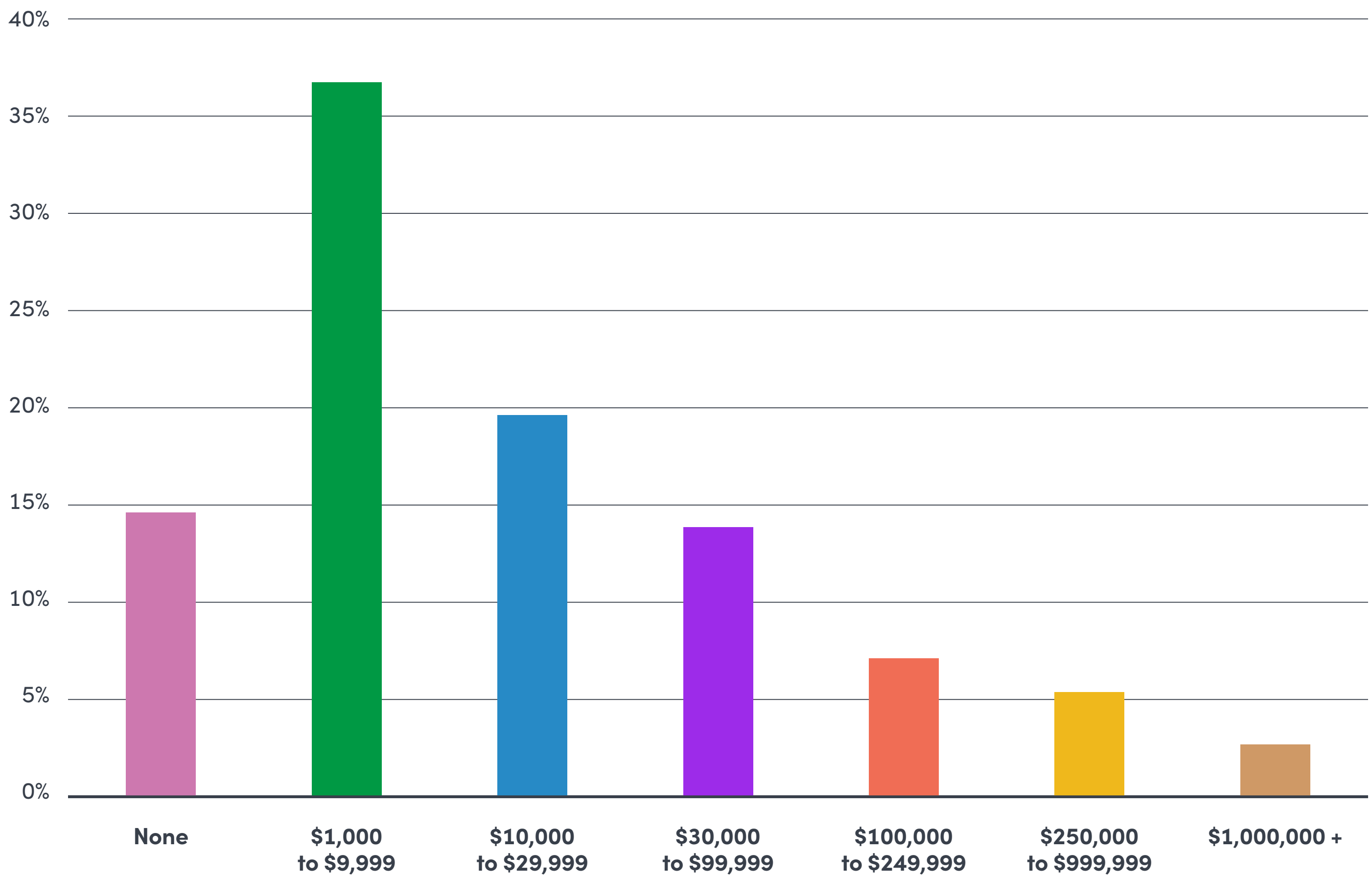
How many founders started your company?



Before founding your current company, did you start a prior company?

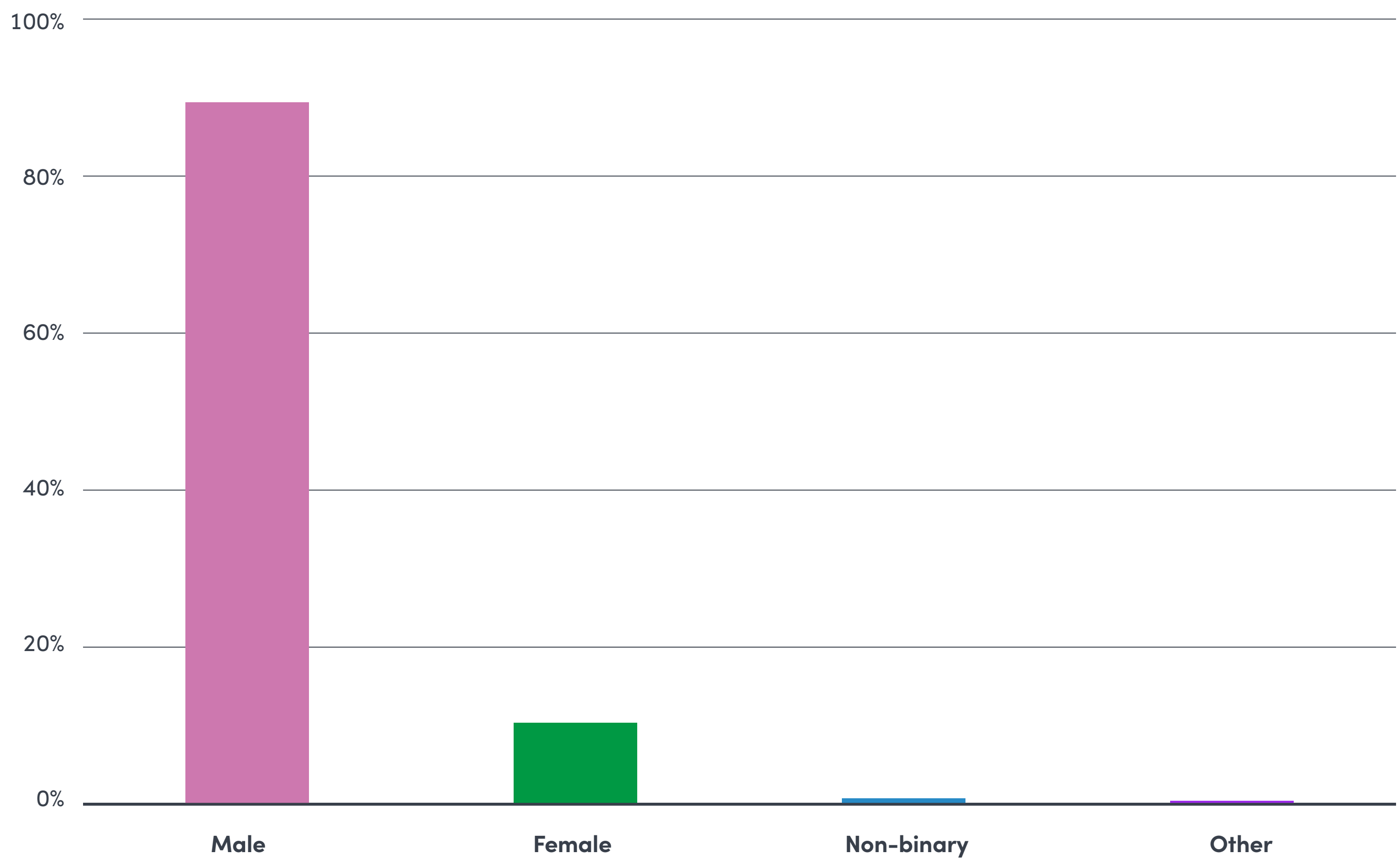


If you started a previous company, what was the peak monthly revenue achieved at any time during its operation?

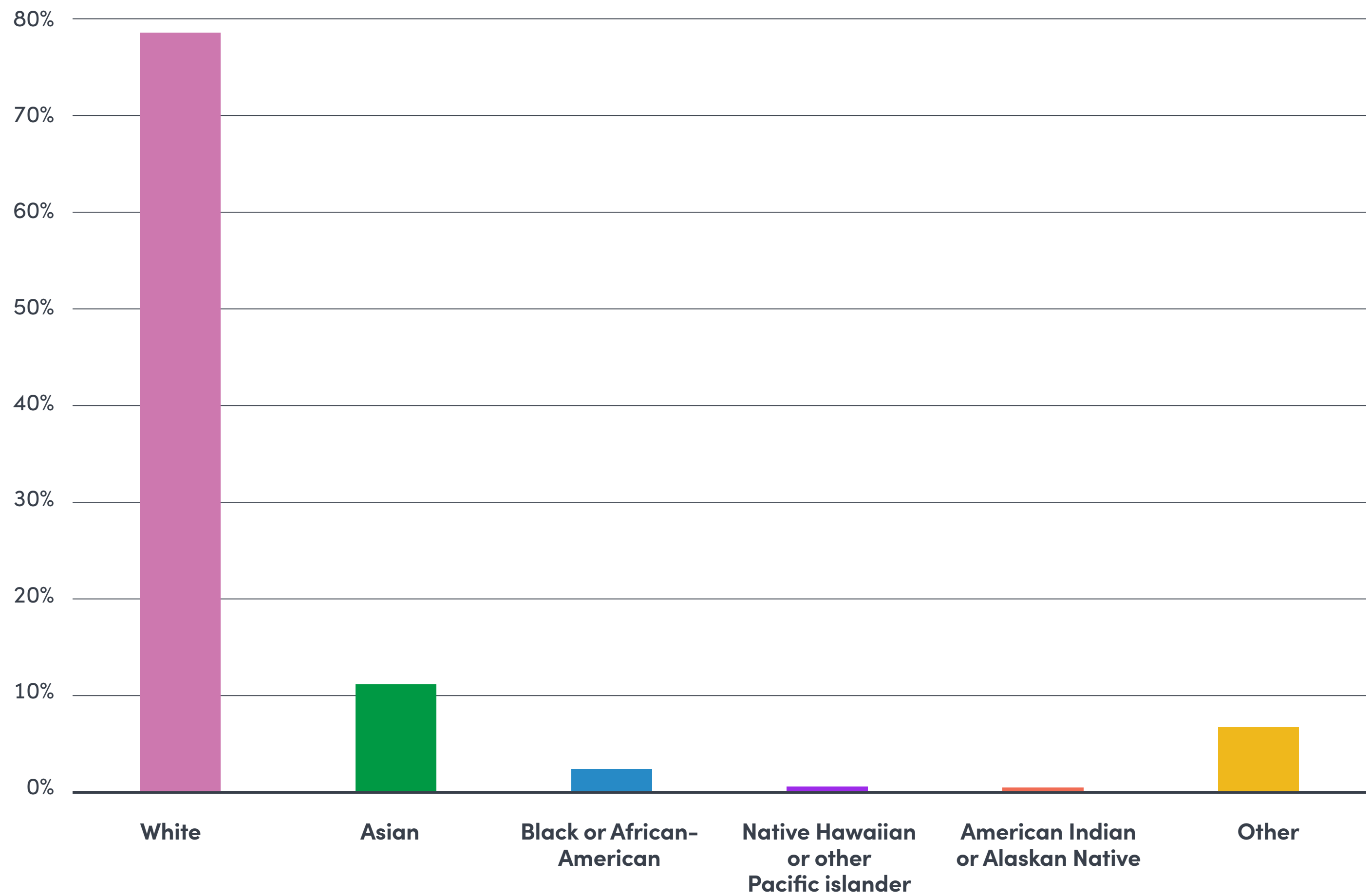


1. THE FOUNDERS

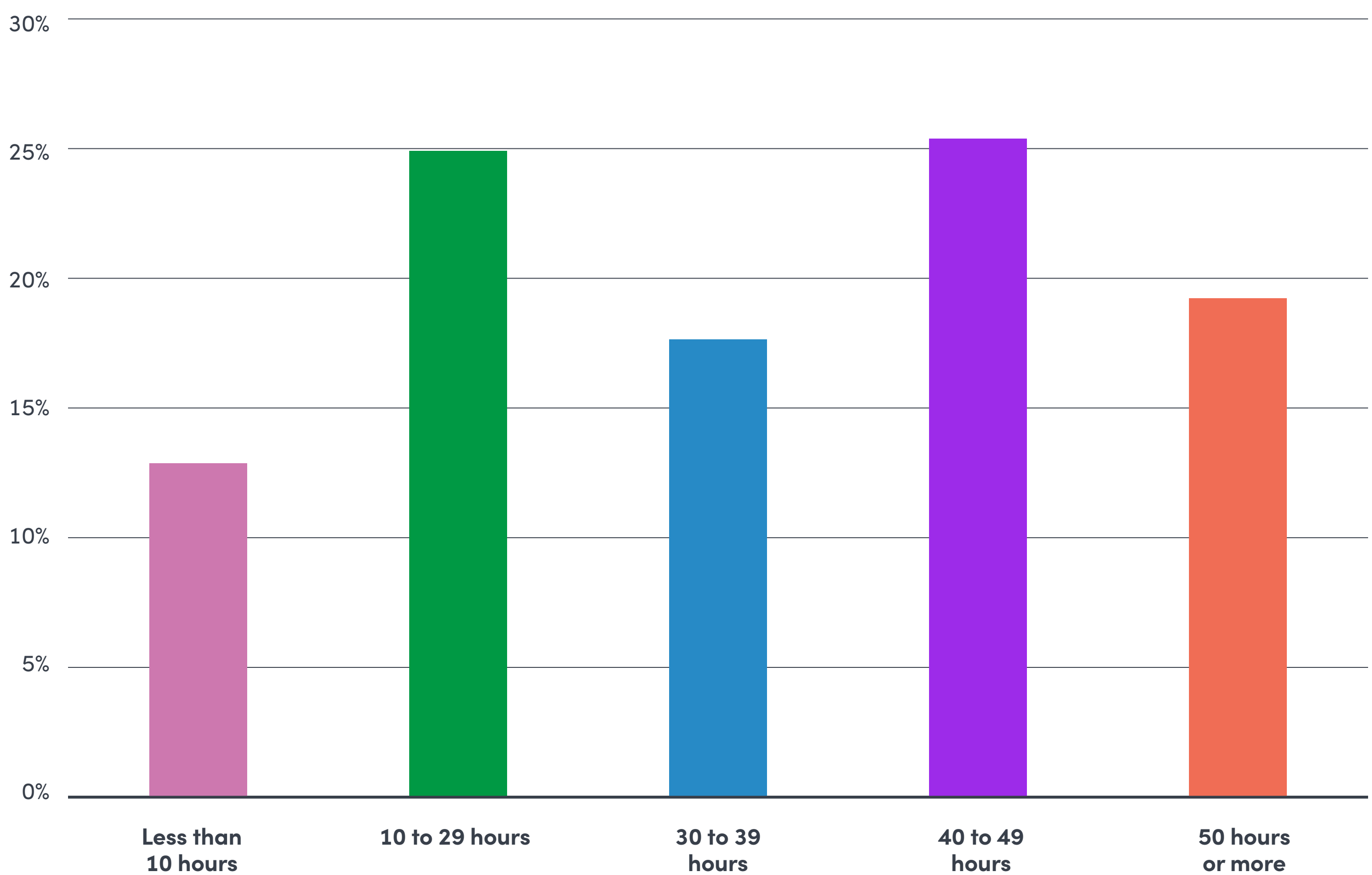
Among the founders of your company, which of the following gender categories are represented?



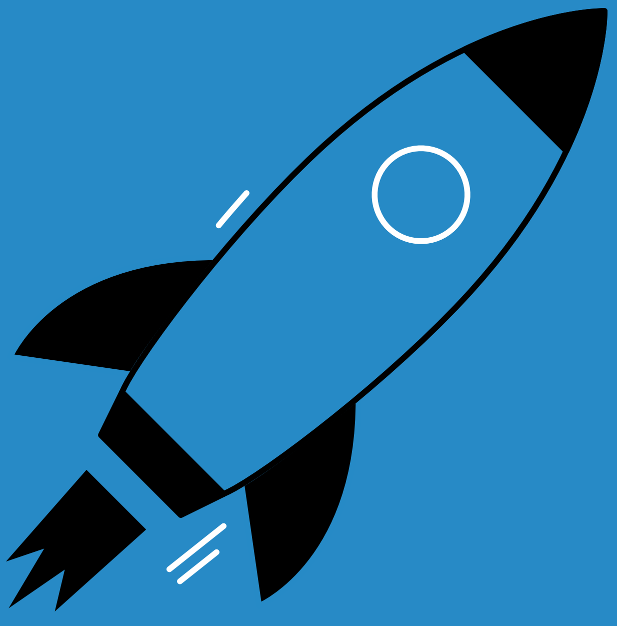
Among the founders of your company, which of the following racial categories are represented?



In a typical week, how many hours do you personally work on your company?



2. The Companies



EXPECTED

- Independent SaaS founders live everywhere. Of the 340 cities named as company headquarters, 214 had only a single company located there.

- The most popular city (London) holds only 4% of respondents and the top 10 cities capture only 20% of companies. This is the opposite of venture-track startups, where a tiny handful of hubs house the majority of companies.

- 3 of 4 companies have less than five full-time or contract employees.

- Approximately 12% of companies have raised some kind of funding. Of those, more than 40% raised from the founders or friends and family.

UNEXPECTED

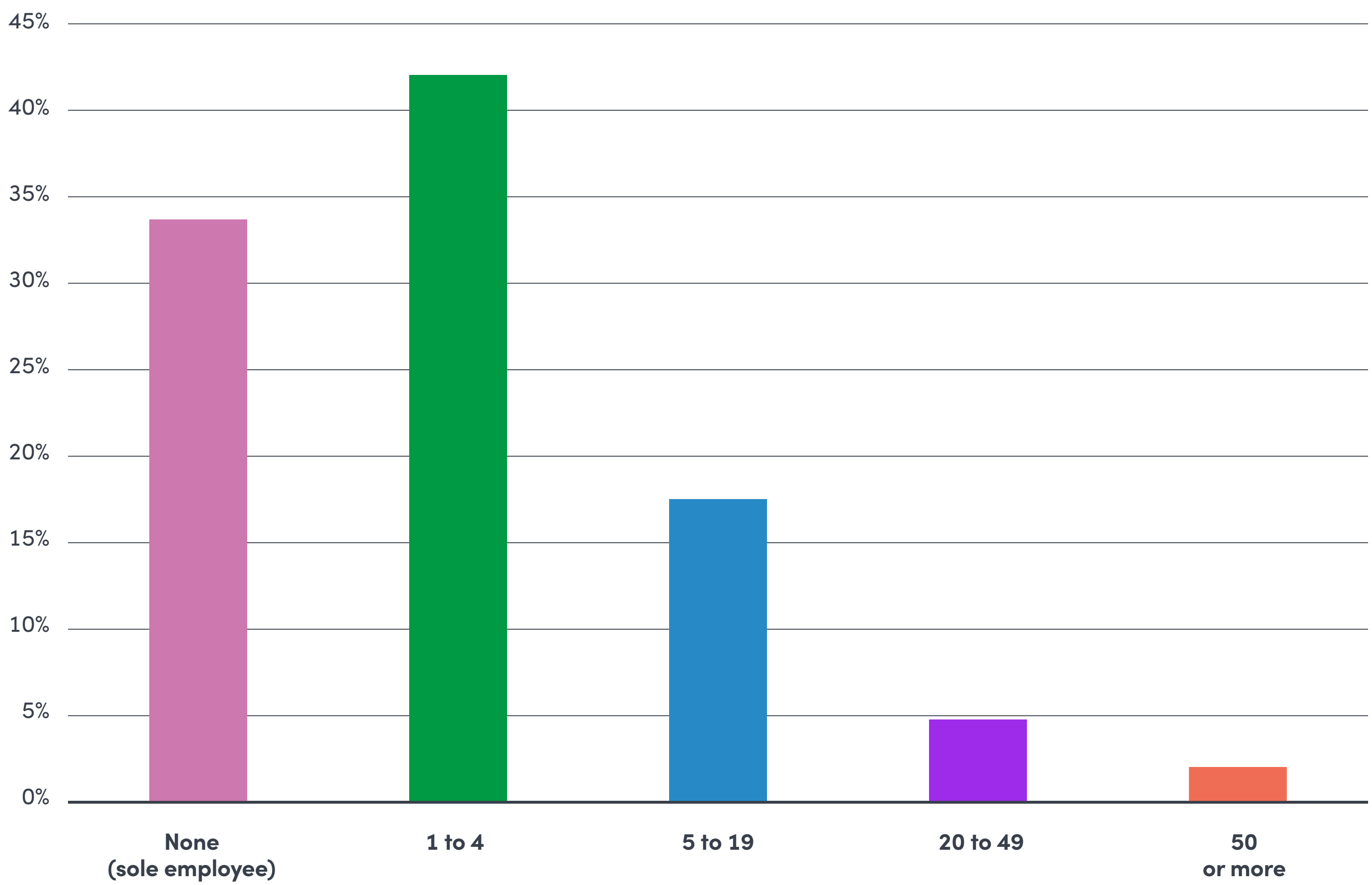
- Only half of business ideas came from a problem the founder was facing. Many founders discuss starting a company to fix a problem they were experiencing, but the data shows that the businesses they start are less often tied to their own pain points than expected.

- More than 25% of respondents have been running their business for 5-10 years, which is longer expected given the relative newness of SaaS, and the high chance a startup fails in its first one or two years.

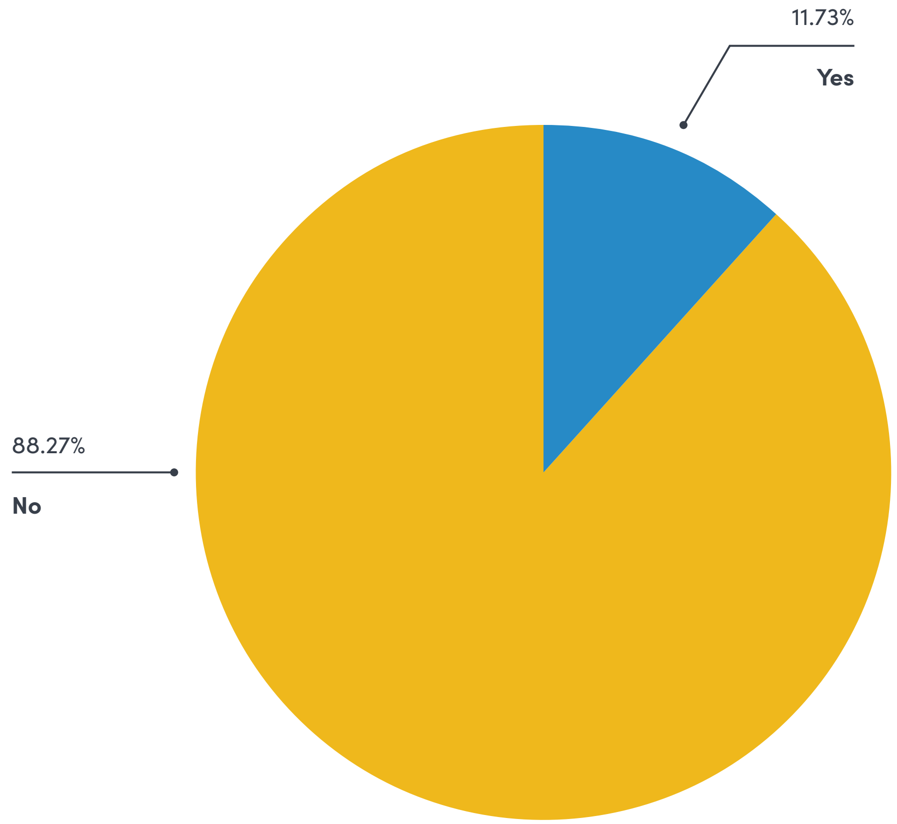
UNCHARTED TERRITORY

- Almost one-third of founders did not validate their business idea before building. Around 7% used a landing page "smoke test" to validate, a tactic that was once popular due to mentions in *The 4-Hour Workweek, The Lean Startup* and *Start Small, Stay Small.*

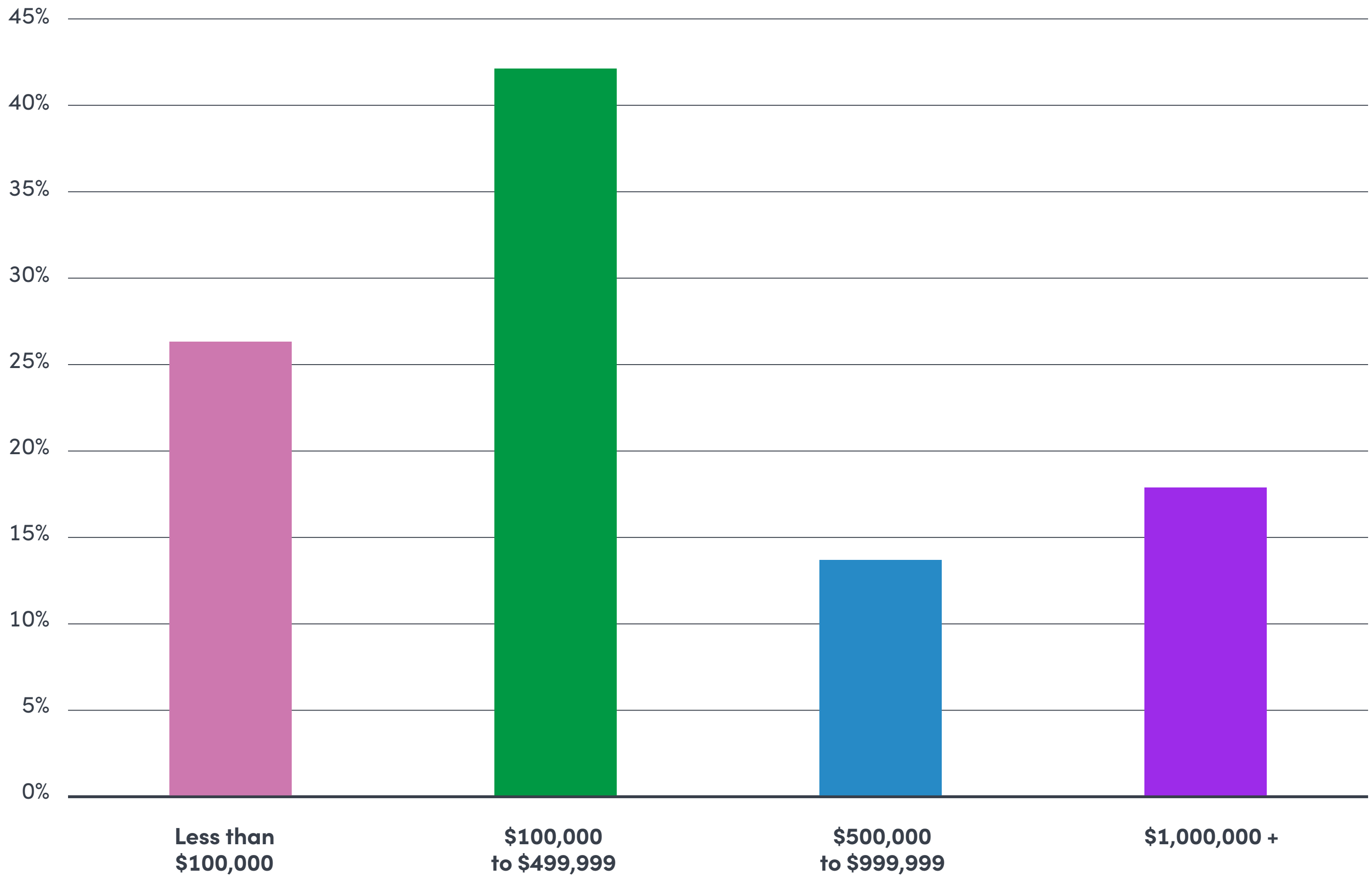
In addition to you, how many full-time or contract employees work at your company?



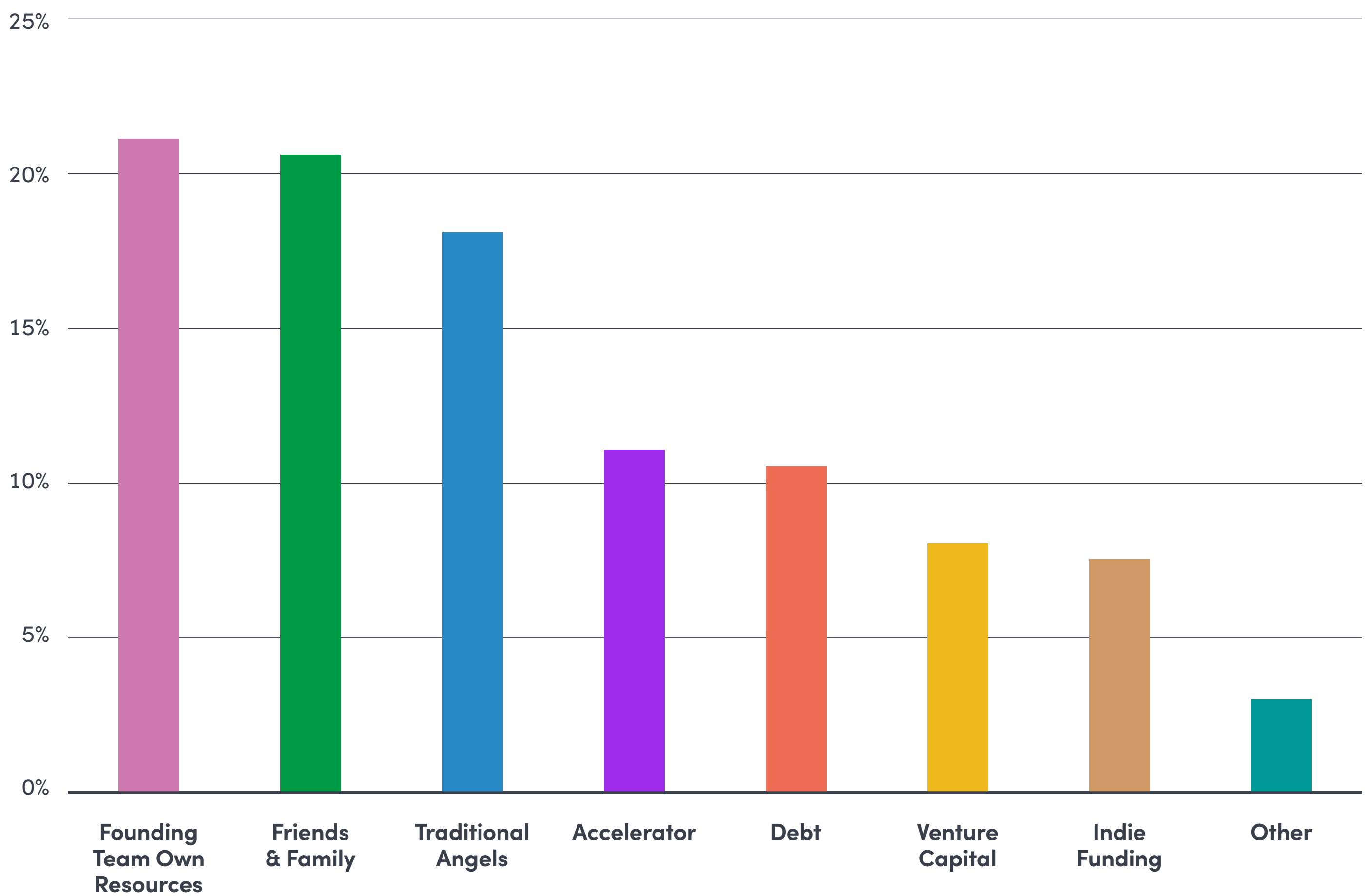
Have you raised funding for this company?



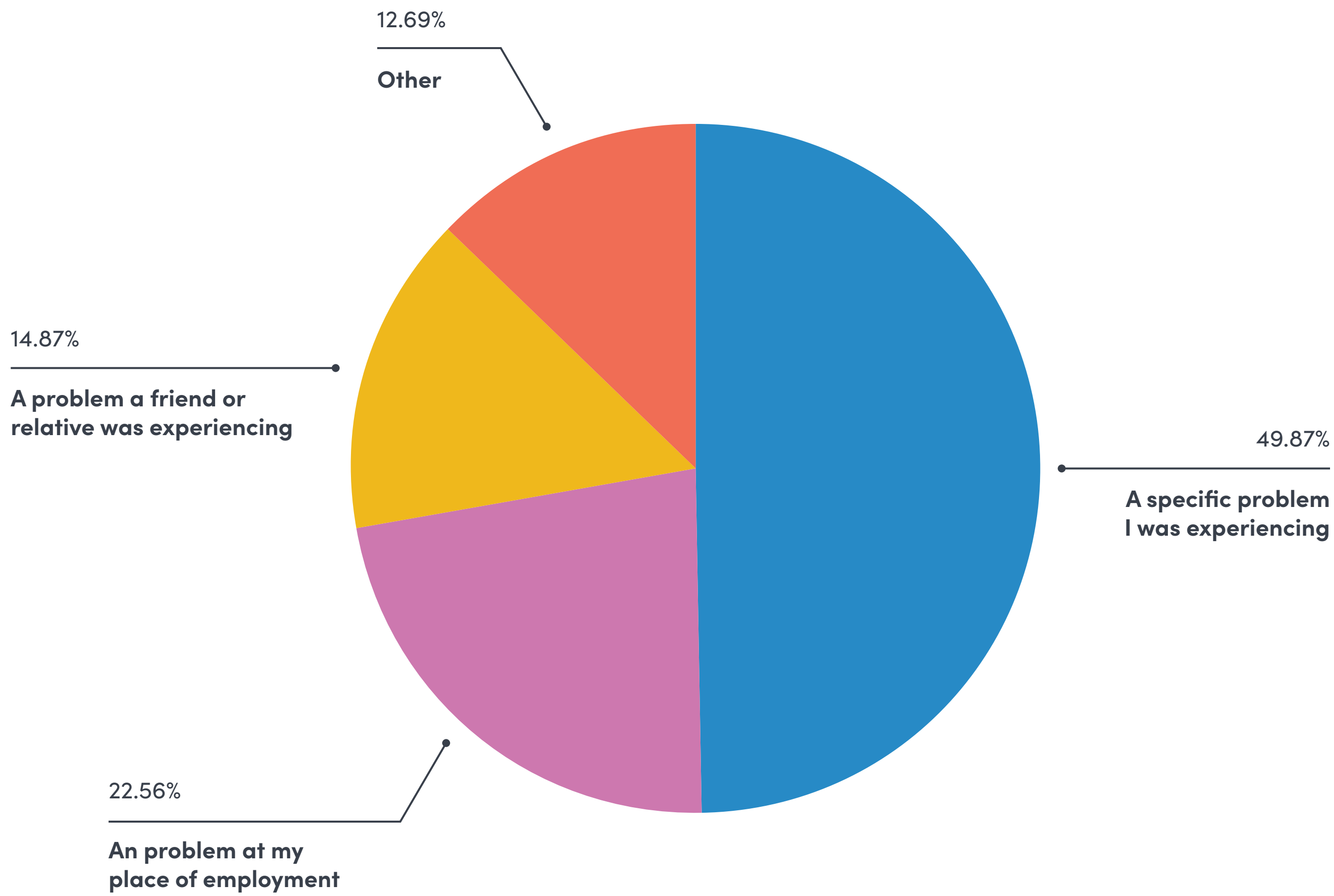
If you have raised outside funding, how much have you raised?



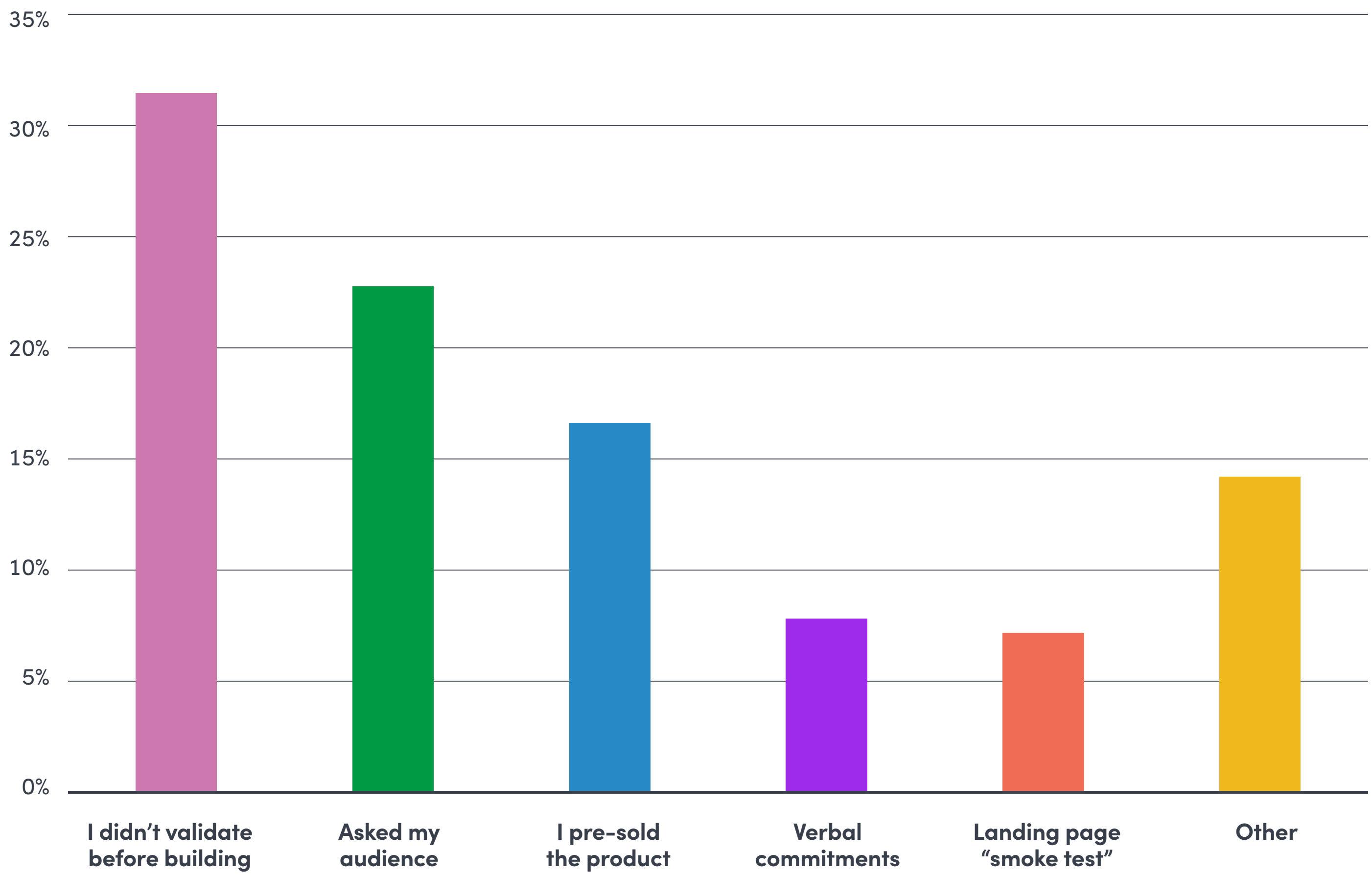
If you have raised outside funding, which of the following best describes the source or sources of funding?



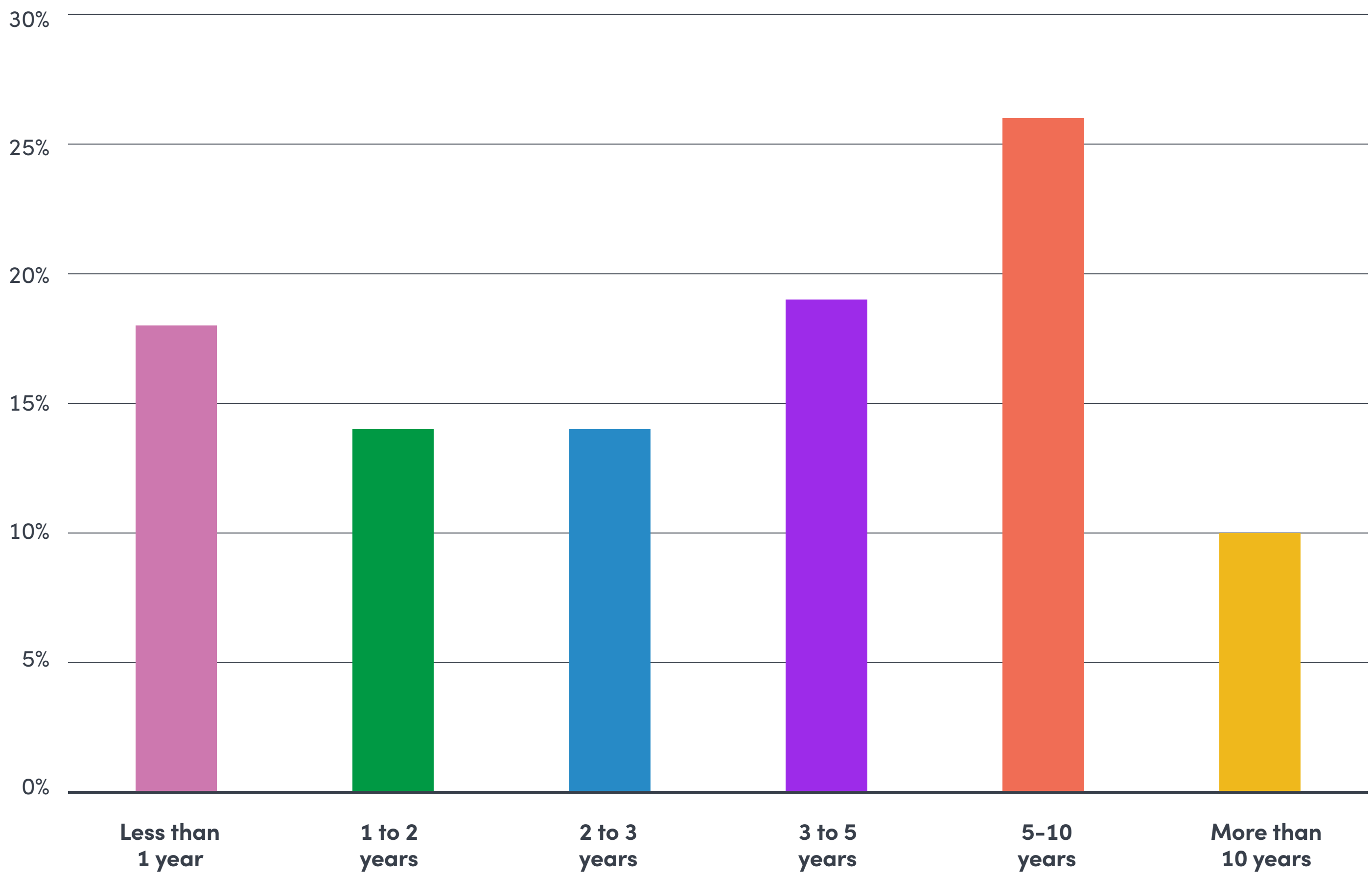
Which of the categories below best describes how you developed the idea for this product/company?



In thinking about your company's founding, which of the following category or categories best describes the way in which you validated the original business idea?



How long ago did you land the first paying customer for your current product/company?



3. Pricing

EXPECTED

- About two-thirds of companies offer a free trial, a common practice since the advent of SaaS.

- 14% of respondents offer annual pricing plans only. Monthly pricing works best for consumers and smaller companies, as they often don't have the cash to pre-pay an entire year. Annual-only can work with larger companies where cash is less of an issue.

UNEXPECTED

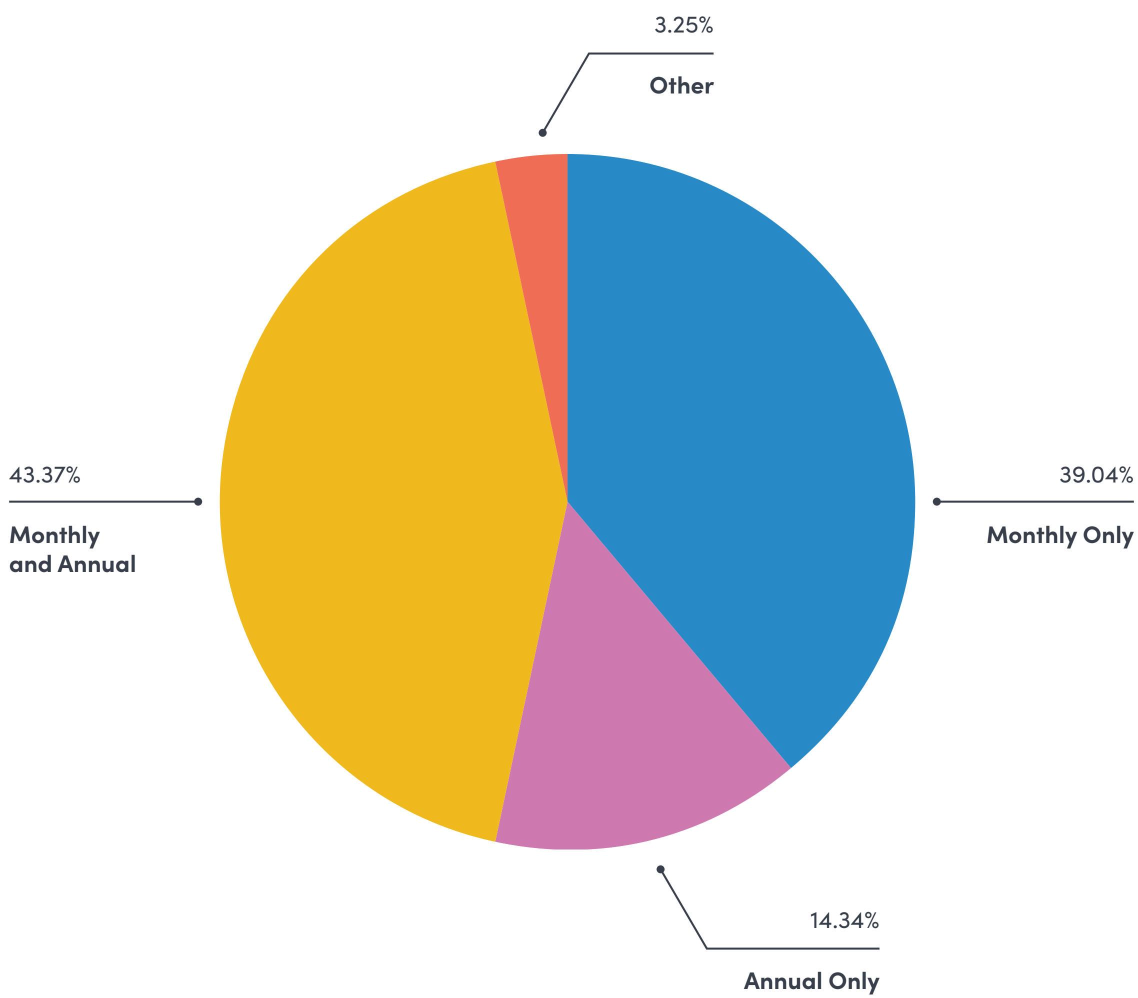
- 73% of companies with a free trial do not require a credit card up-front (which feels higher than expected). This is a number we're looking forward to tracking each year, as we expect it's on the rise.

UNCHARTED TERRITORY

- 4 in 10 companies have their lowest monthly pricing tier under $30. Less than 1 in 10 have their lowest tier above $250.

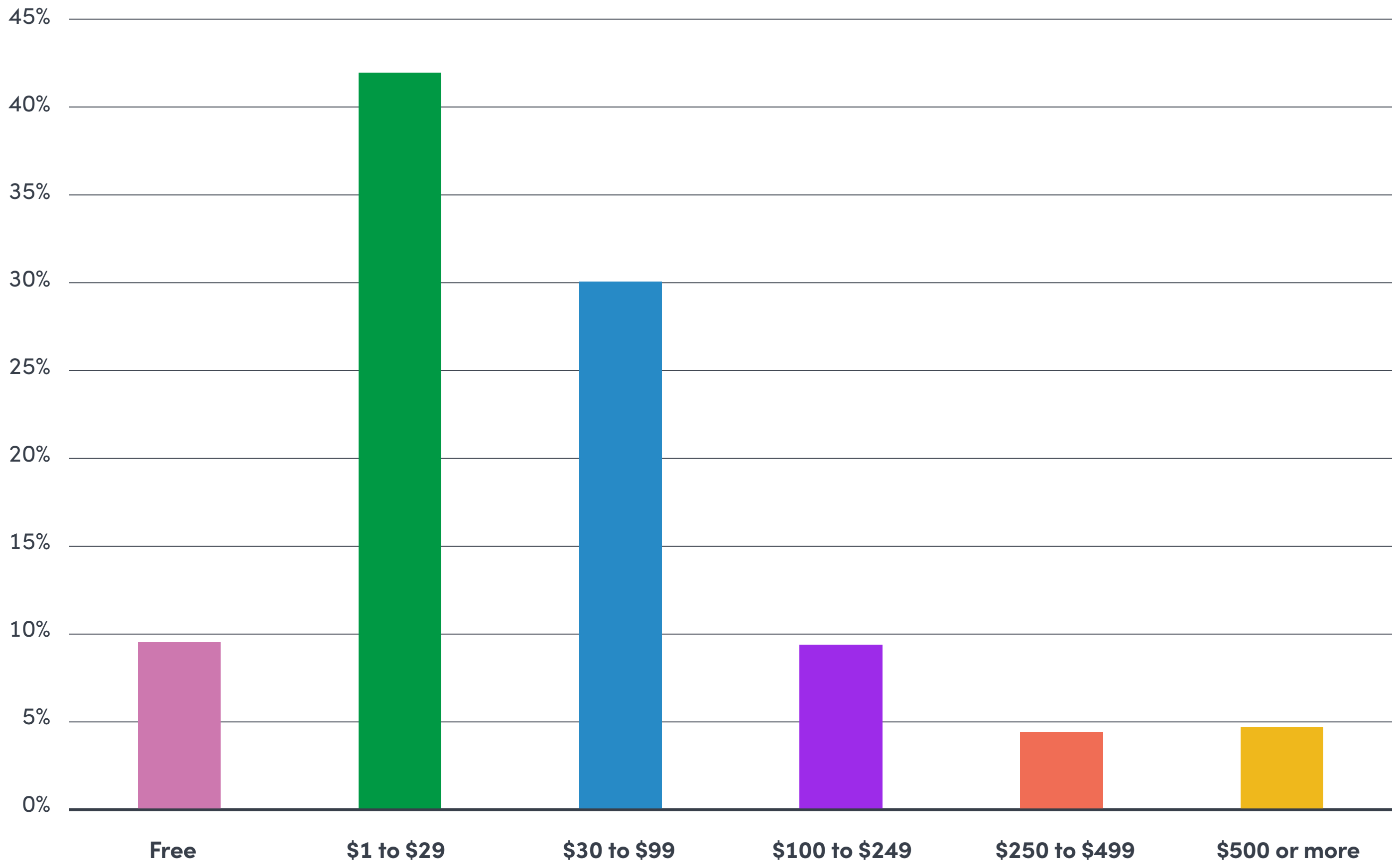
- 1 in 5 companies have a forever-free plan.

Which of the following best describes the pricing time structure of your product?

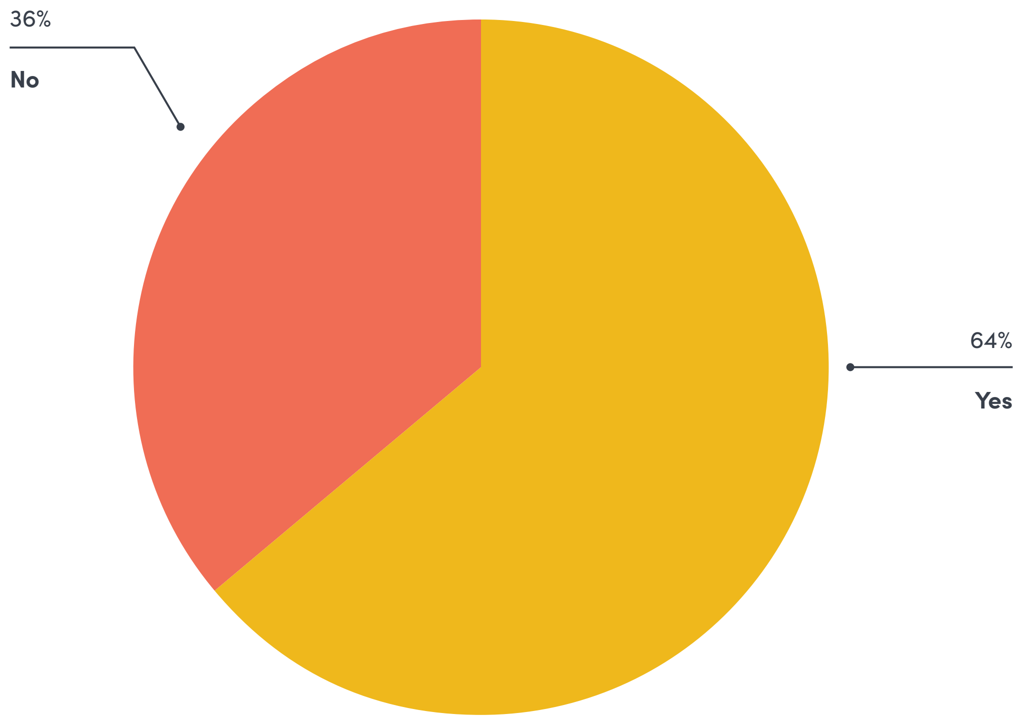


3. PRICING

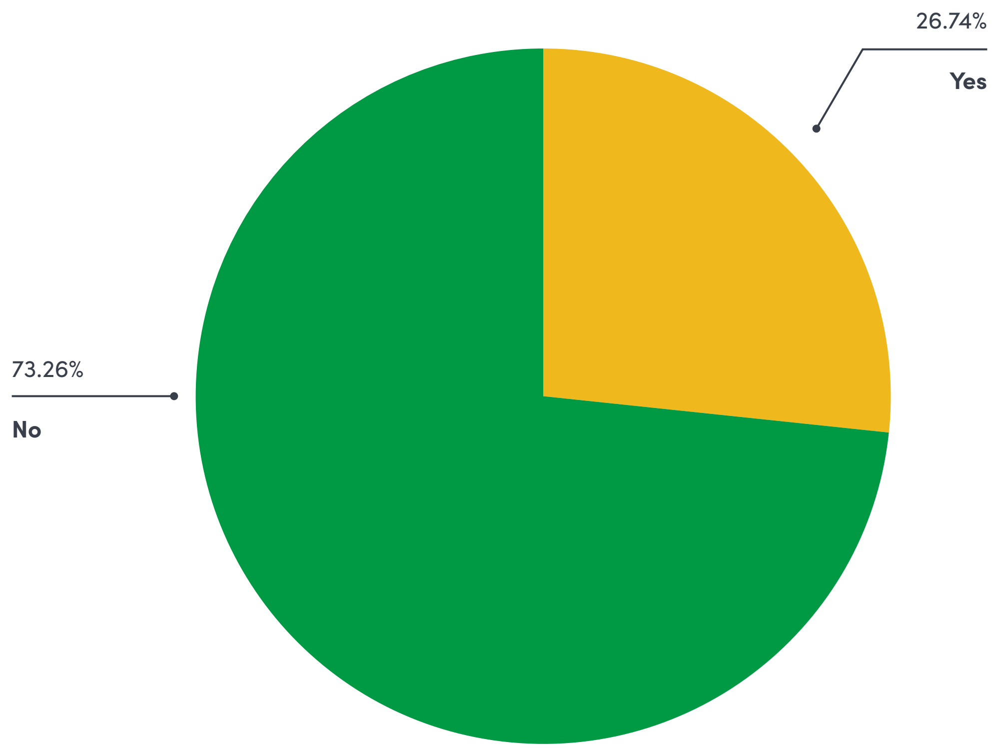
Which of the following best describes the pricing plan for your lowest-cost pricing tier on a monthly basis?



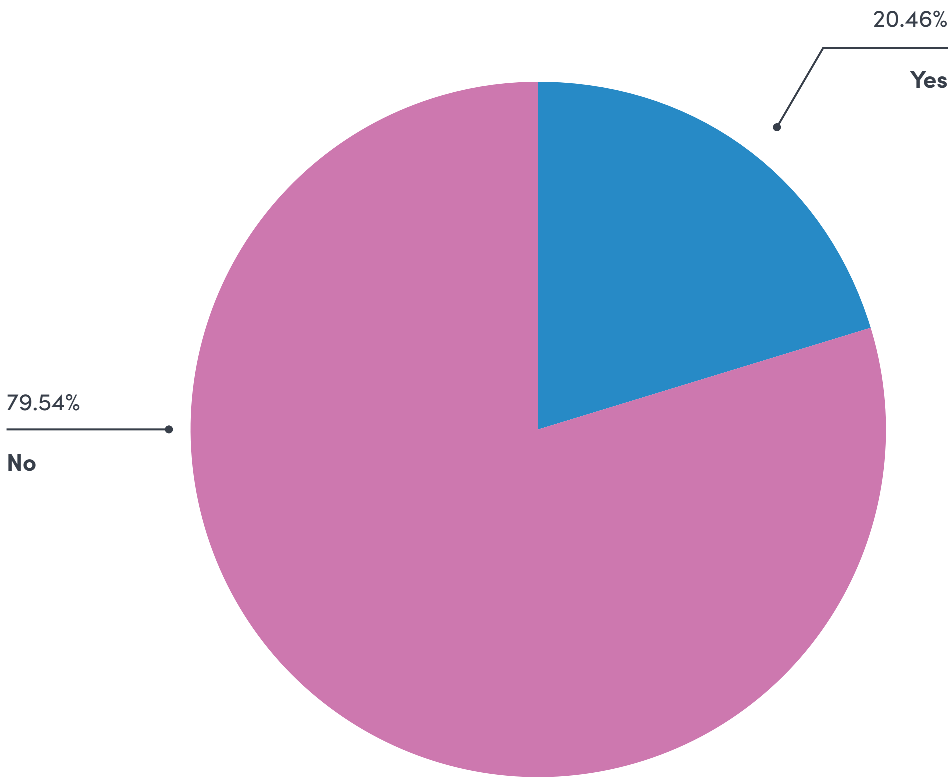
Do you offer a free trial for your product?



When a potential customer registers for a free trial, do you request a credit card number in order to start the trial?



Do you offer a forever-free plan?



You're lucky, you're just starting out. You get to choose the best way to work, right from the beginning. Choose Basecamp.

Many of our customers switched to Basecamp after burning out on Slack, Trello, Jira, Asana, etc. Stuff was slipping, balls were dropped, things were spread out everywhere, work was a mess. So they finally turned to Basecamp.

They learned the hard way. You can learn the easy way. Start with Basecamp and get ahead of the pack. Basecamp's all you need, and everything you want, for project management and internal communication.

Form good habits on day one. Go with Basecamp.

Basecamp

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4. SaaS Metrics

EXPECTED

- More than 20% of companies have flat revenue (they are neither growing nor declining).

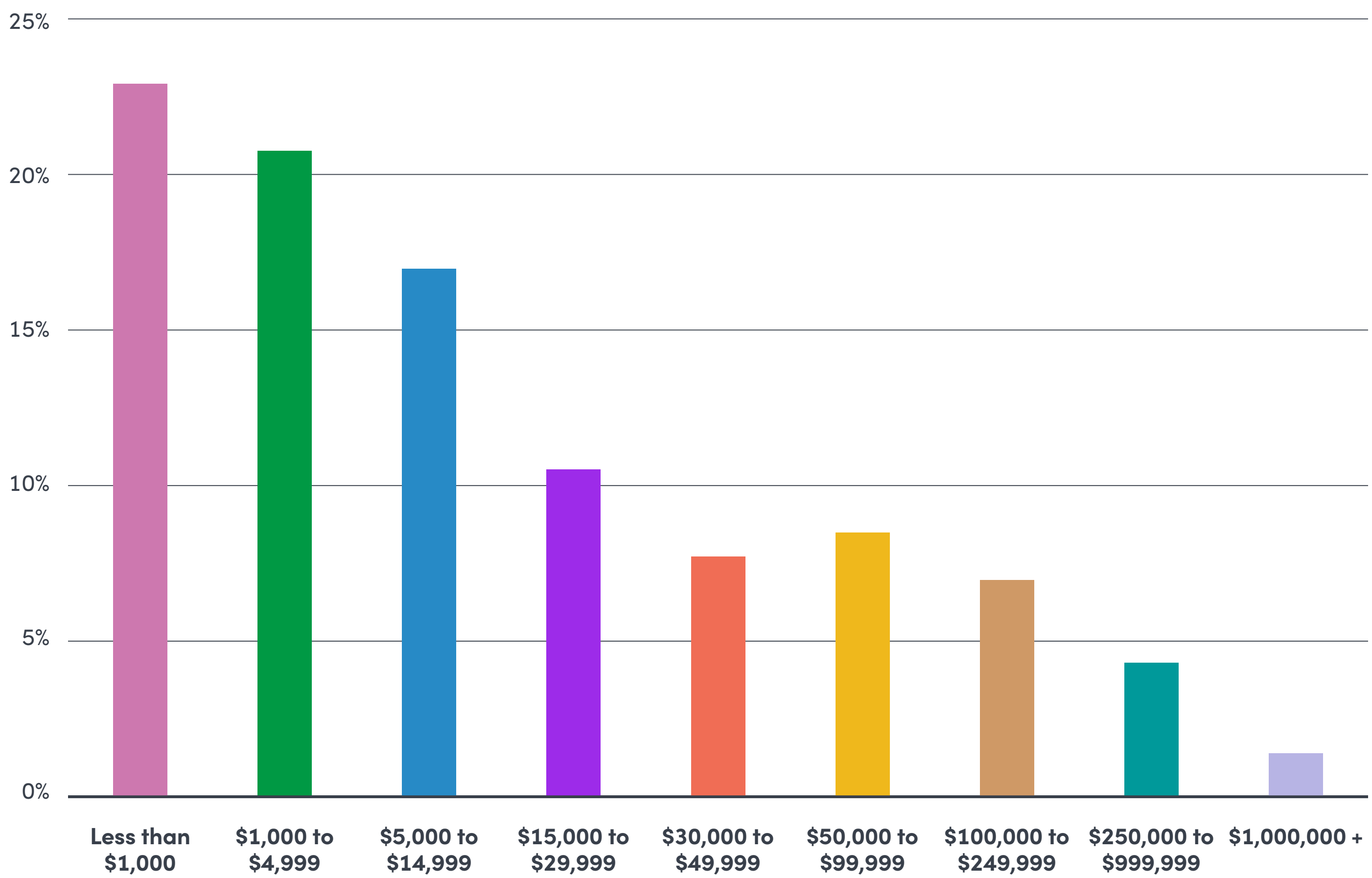
UNEXPECTED

- 40% of companies who offer a free trial don't know their website visitor to trial conversion rate. This number is surprisingly high, given that it is an important metric companies should be tracking and optimizing.
- Almost 10% of companies report net negative revenue churn. Nearly 1 in 4 companies report churn under 1%!

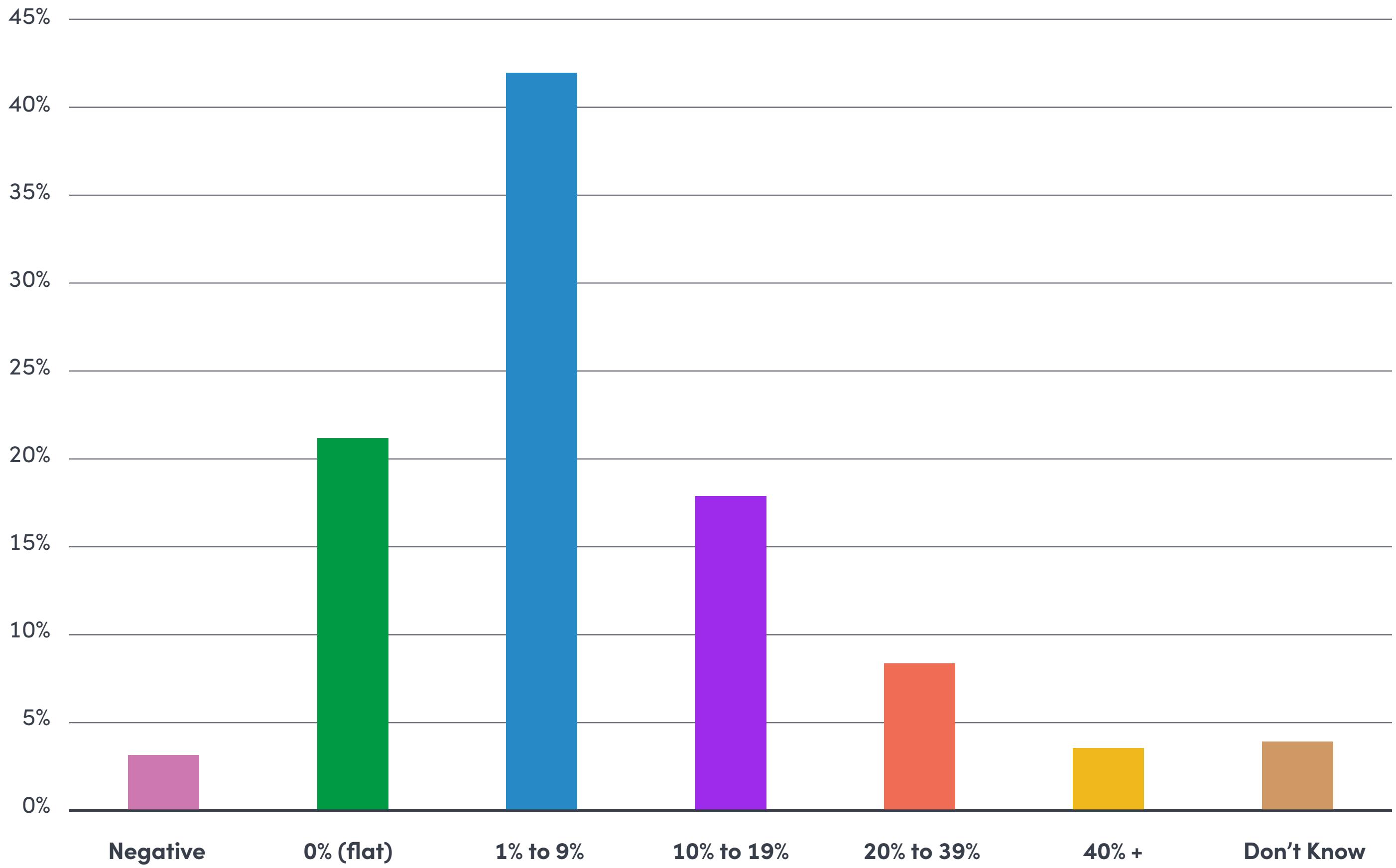
UNCHARTED TERRITORY

- The most common month-over-month growth rate is 1-9%, with more than 40% of companies falling into this bucket.
- Customer lifetime values (LTVs) are divided rather evenly, with no less than 12% and no more than 19% of companies falling into any single LTV range.

What is your Monthly Recurring Revenue (MRR)?

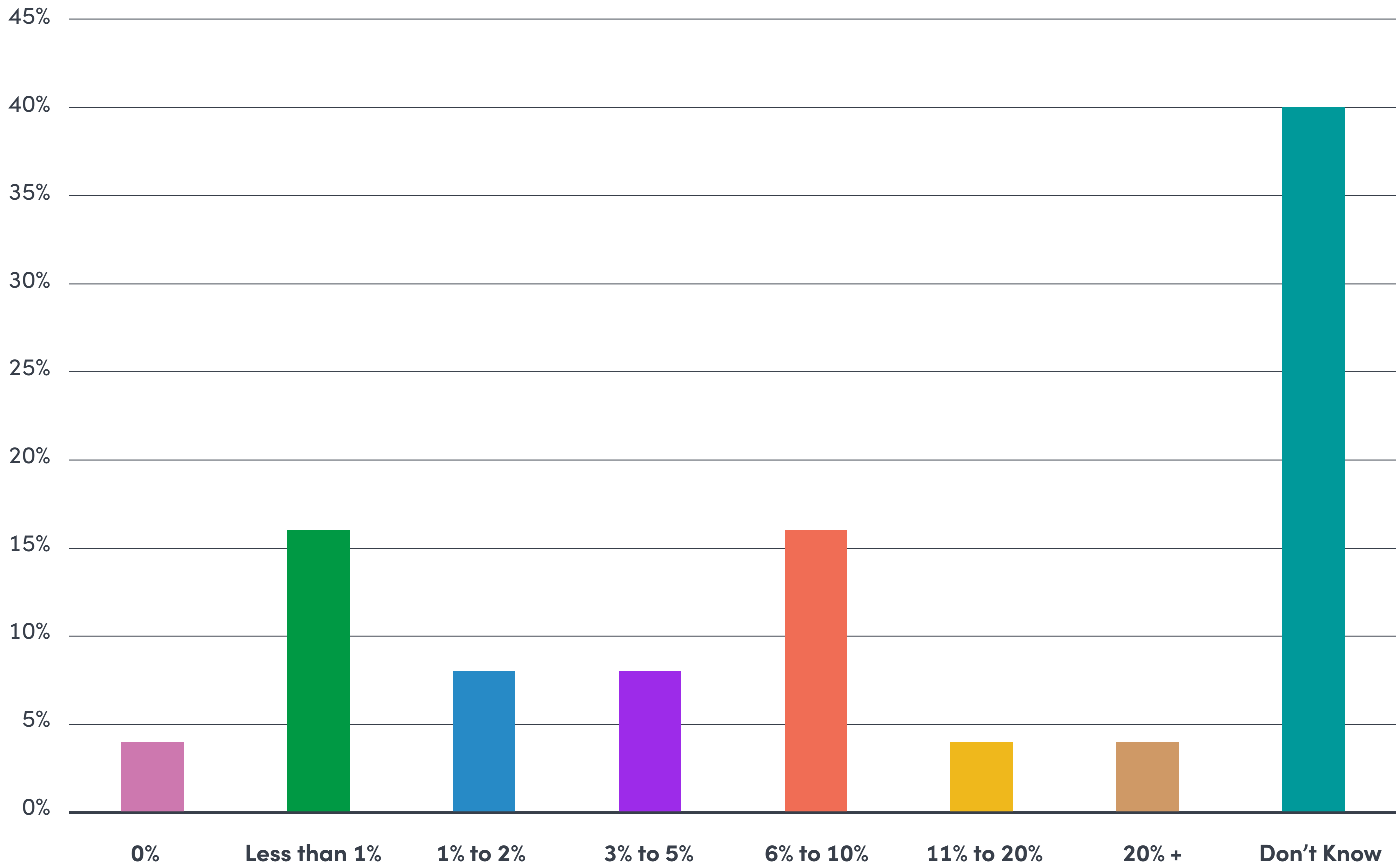


What best describes your company's average Month-Over-Month (MOM) growth rate over the past 3 months?

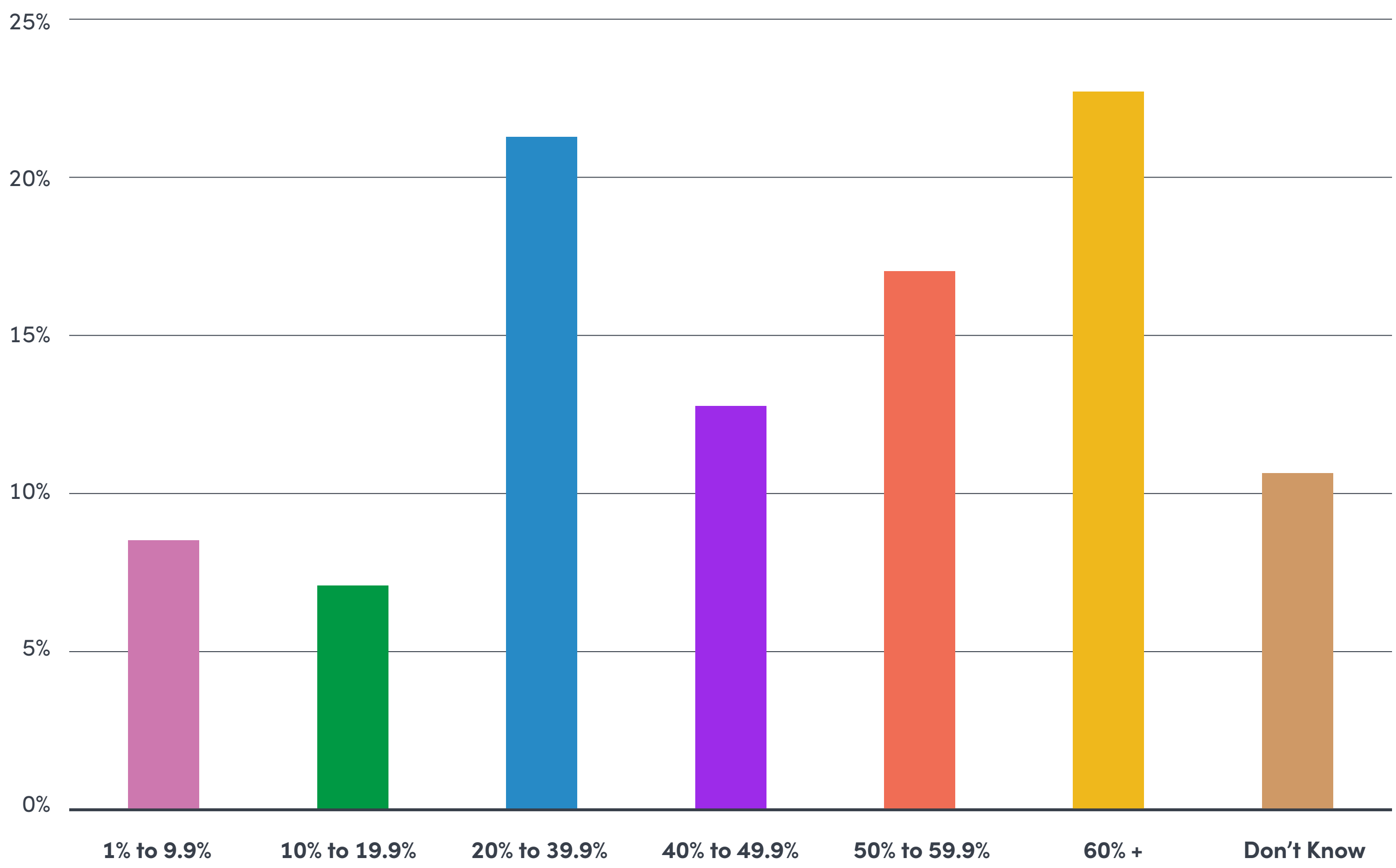


If you offer a free trial, what percentage of your website's unique visitors start a trial?

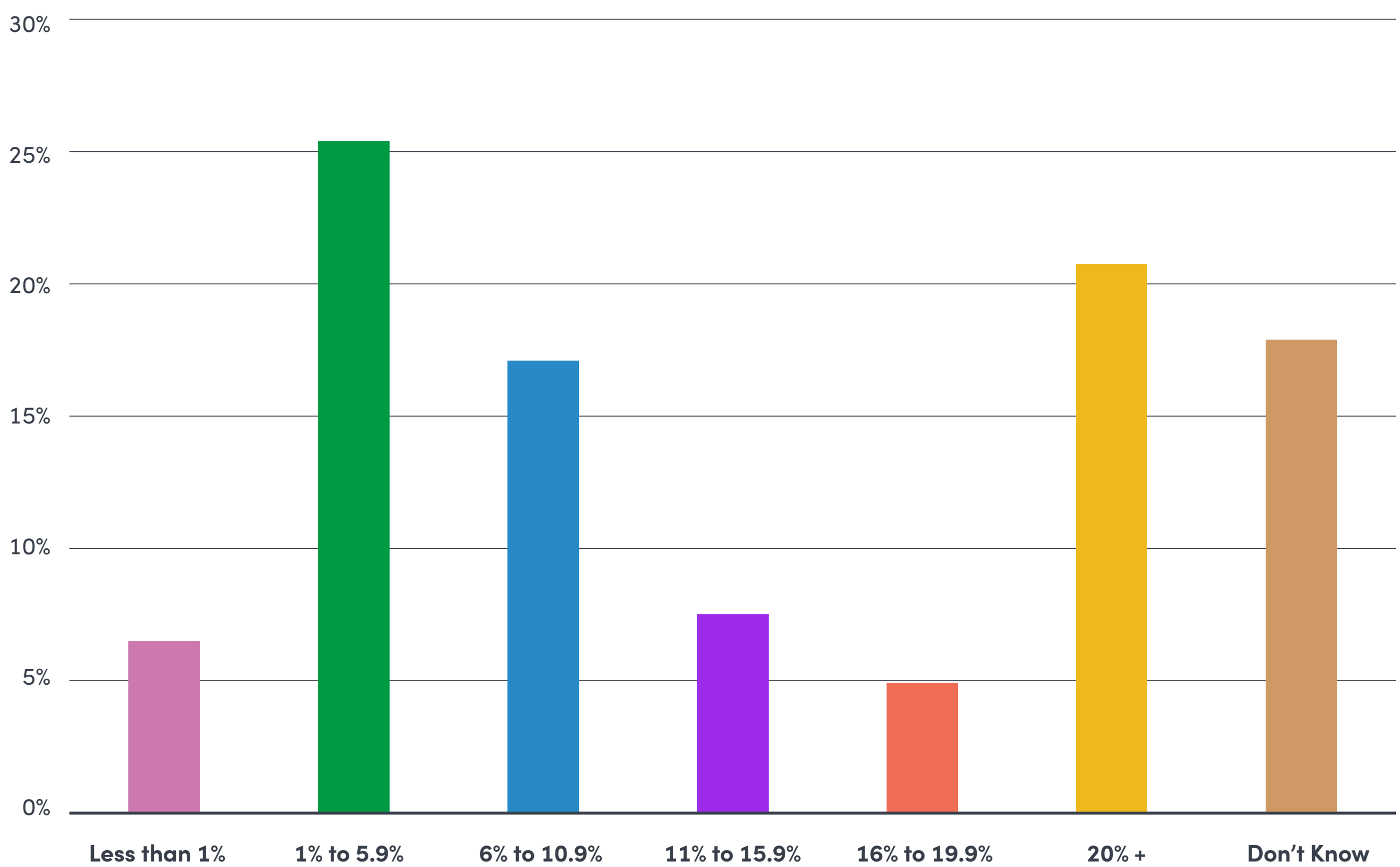
Most of the metrics in this section were marked "Don't Know" by 10-15% of founders. This graph shows a larger knowledge gap, with 4 in 10 founders unaware of their visitor to trial rate.



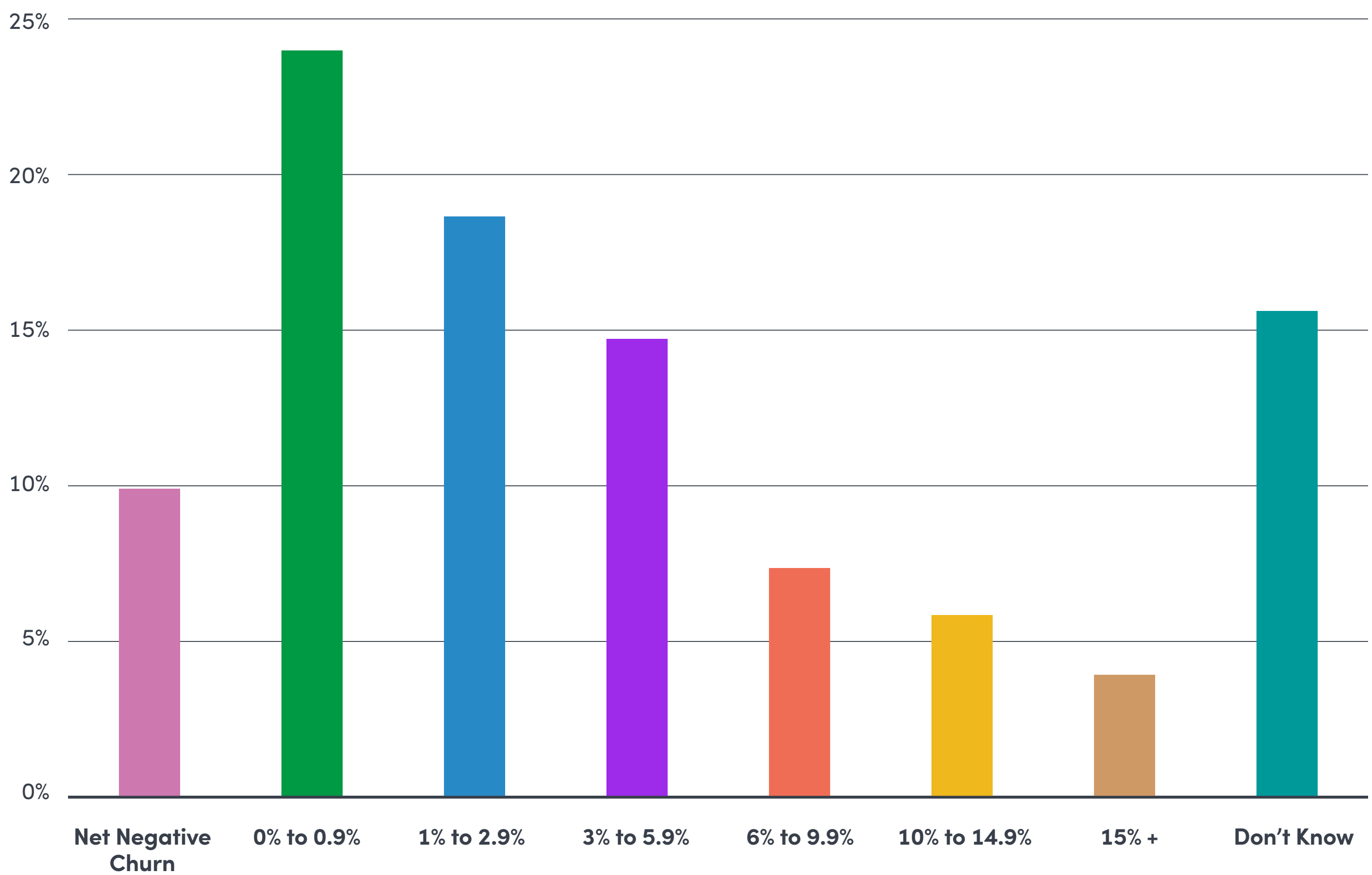
For prospects that start a free-trial with a credit card up-front, what percentage become paying customers?



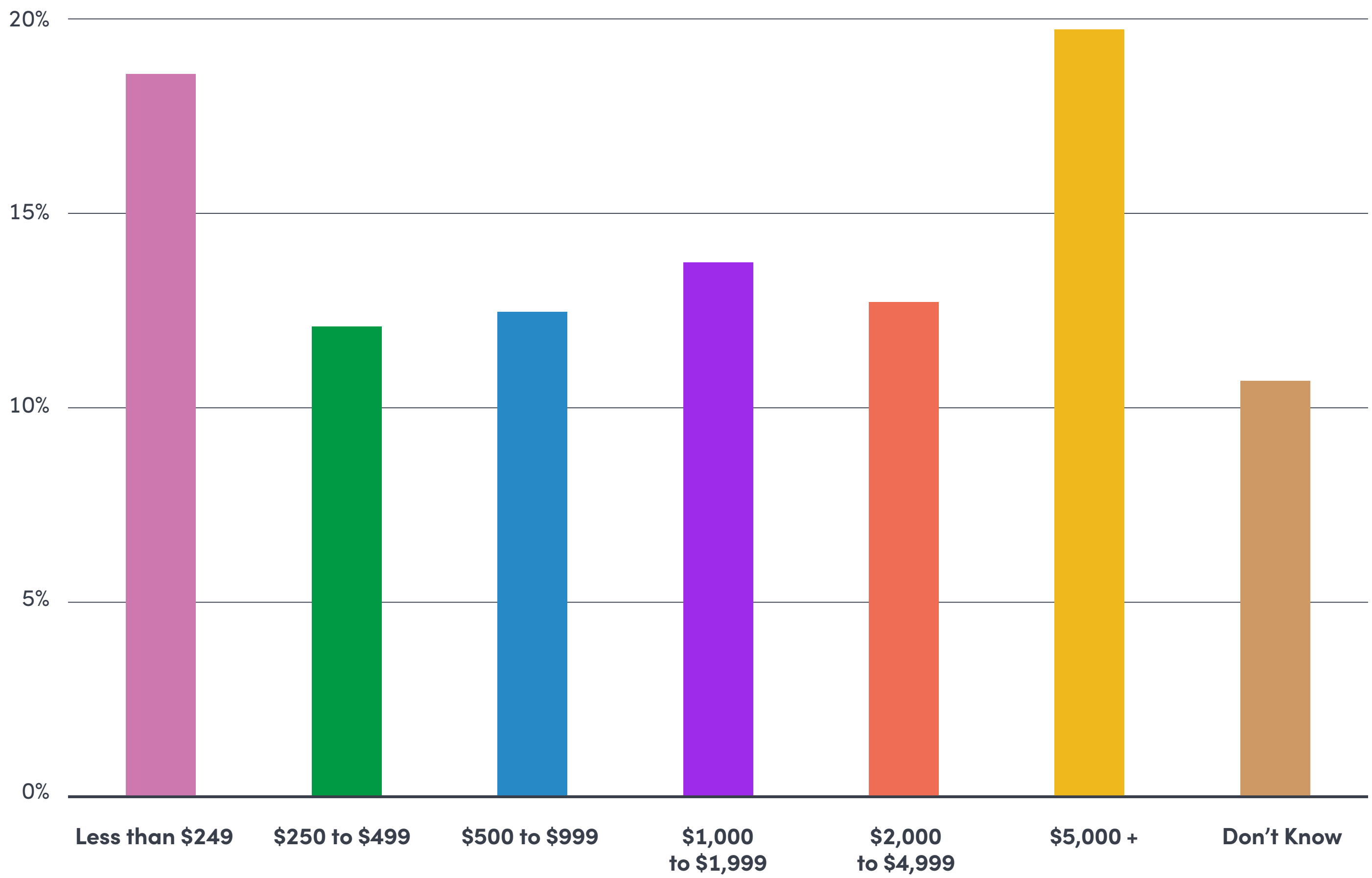
For prospects that start a free-trial without a credit card up-front, what percentage become paying customers?



Over the past 3 months, what was your average monthly revenue churn?



Which of the following best describes your average Customer Lifetime Value (LTV)?



Basecamp

Know No

No is easier to do, yes is easier to say.

Yes is no to a thousand things.

No is a precision instrument, a surgeon's scalpel, a laser beam focused on one point. Yes is a blunt object, a club, a fisherman's net that catches everything indiscriminately.

No is specific. Yes is general.

When you say no to one thing, it's a choice that breeds choices. Tomorrow you can be as open to new opportunities as you were today.

When you say yes to one thing, you've spent that choice. The door is shut on a whole host of alternative possibilities and tomorrow is much more limited.

When you say no now, you can come back and say yes later. If you say yes now, it's harder to say no later.

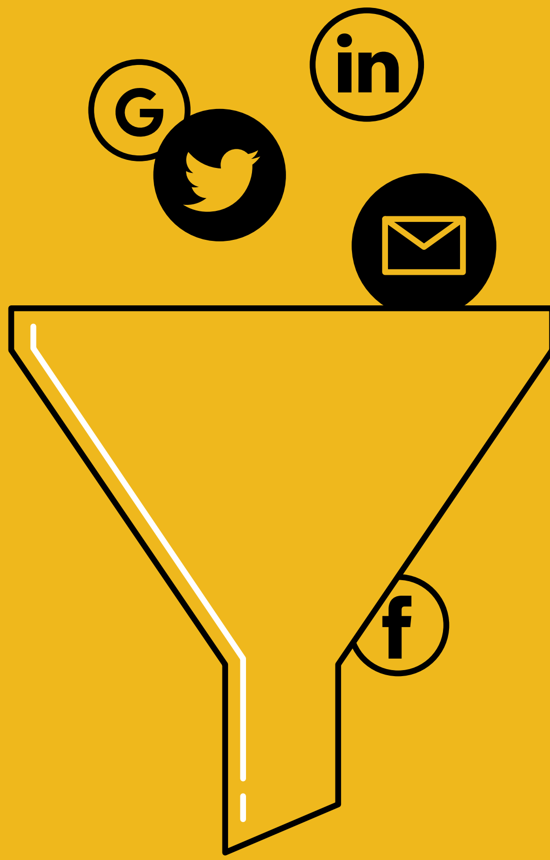
No is calm but hard. Yes is easy but a flurry.

Knowing what you'll say no to is better than knowing what you'll say yes to.

Know no.

Jason Fried
Co-Founder
Basecamp

5. Marketing



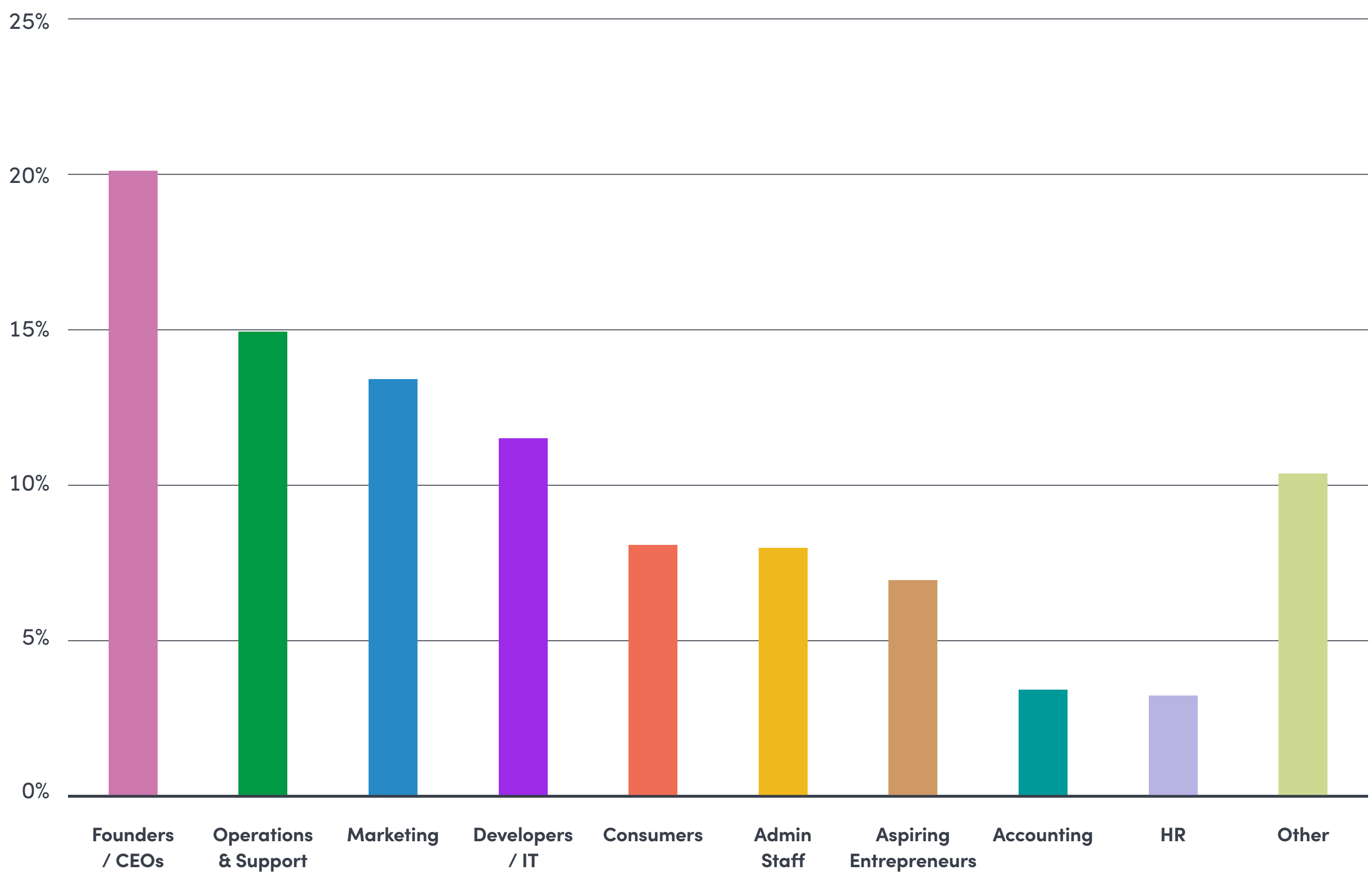
EXPECTED

- Nearly half of companies indicate their ideal customer is a business with less than 50 employees.
- Nearly half of companies that advertise run ads on Google or Facebook.

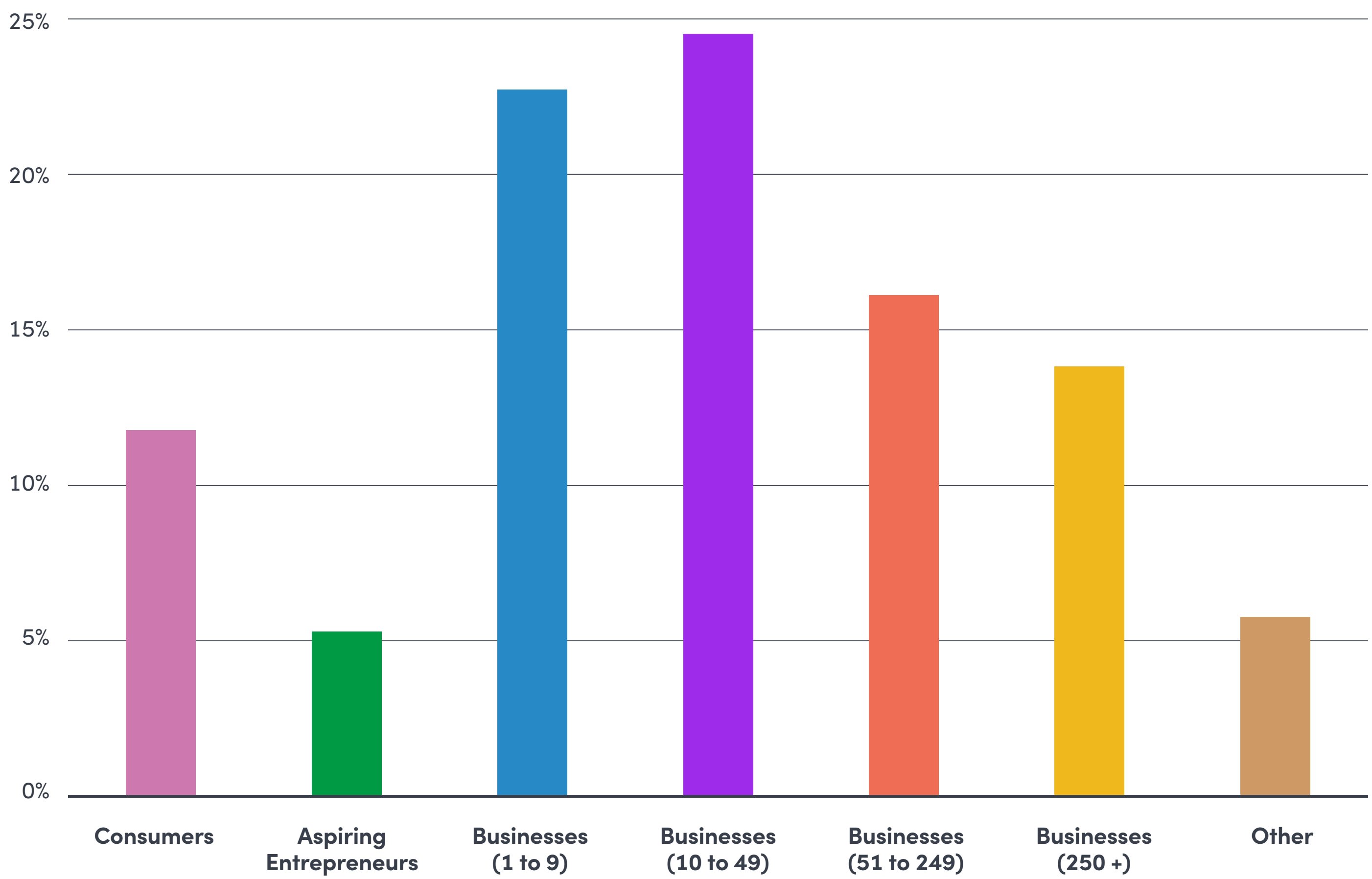
UNEXPECTED

- Only 4% of companies that advertise use online display ads. Only 3% advertise on Twitter.
- Almost 40% of companies that advertise report a 1–4 month payback on their Google and Facebook ad spends. 25% of companies don't know their payback period for either ad network.

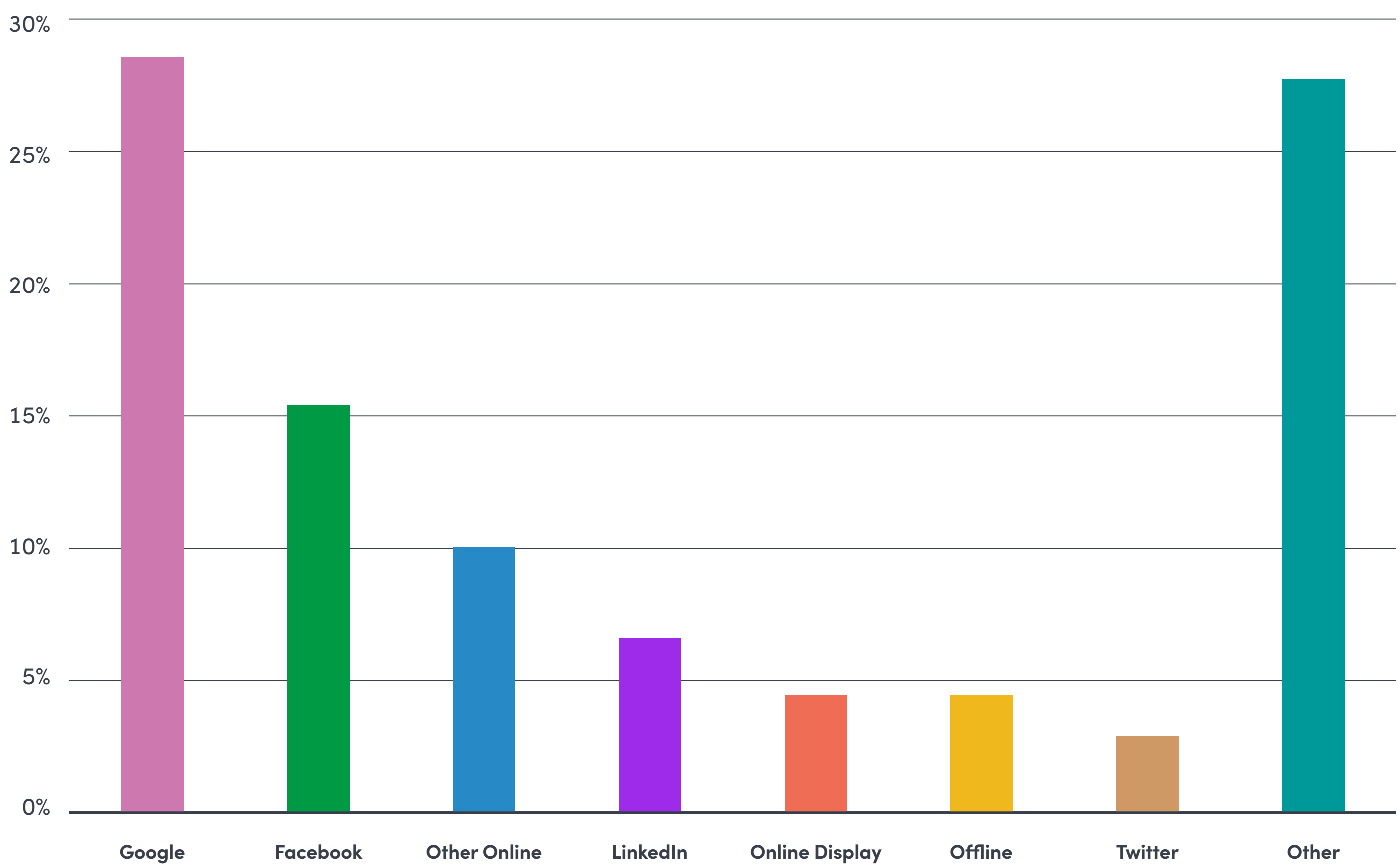
Please select the 3 most common customer roles that represent the majority of your customer base.



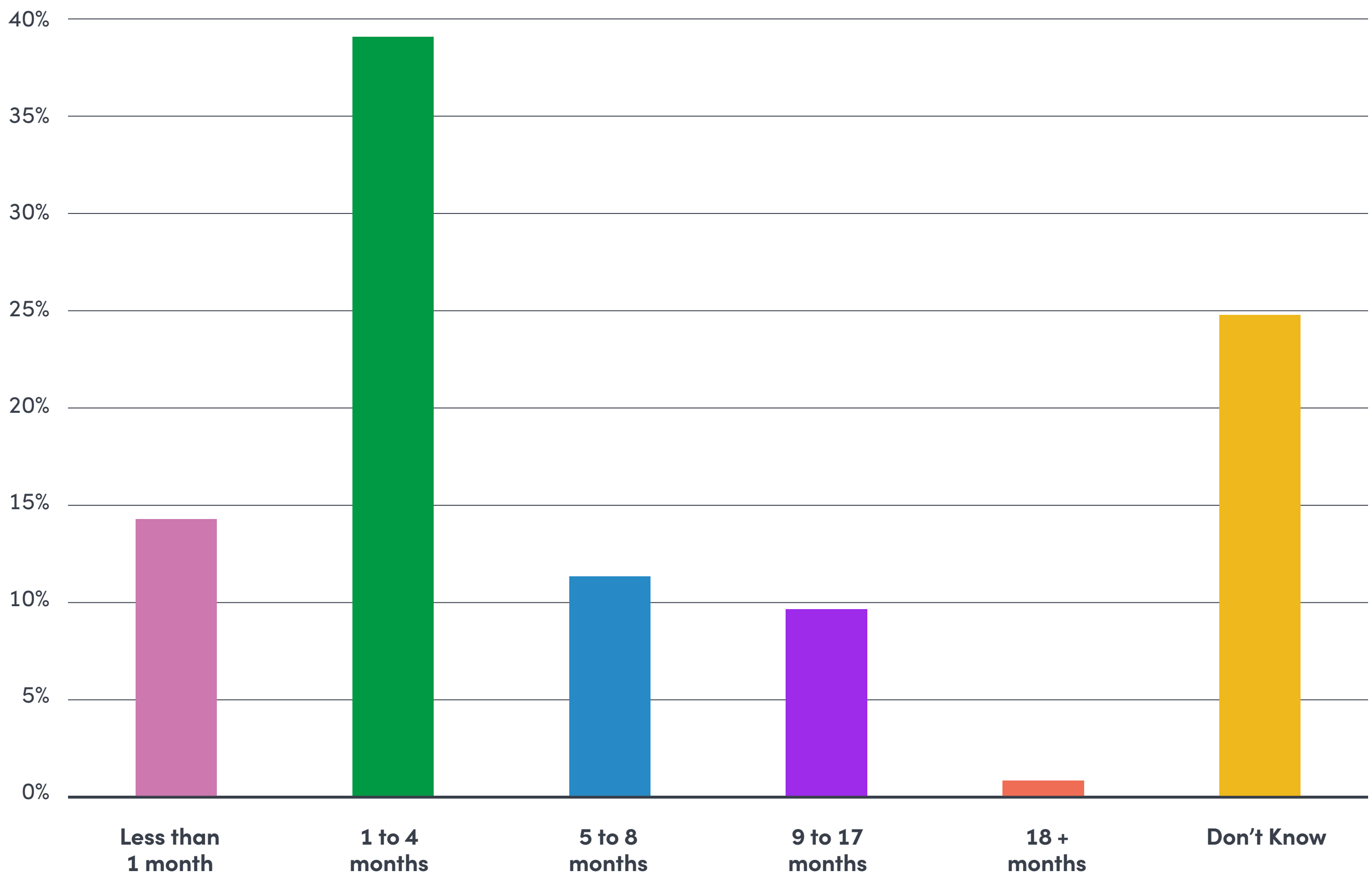
Which of the following category or categories best describes the ideal customer for your company?



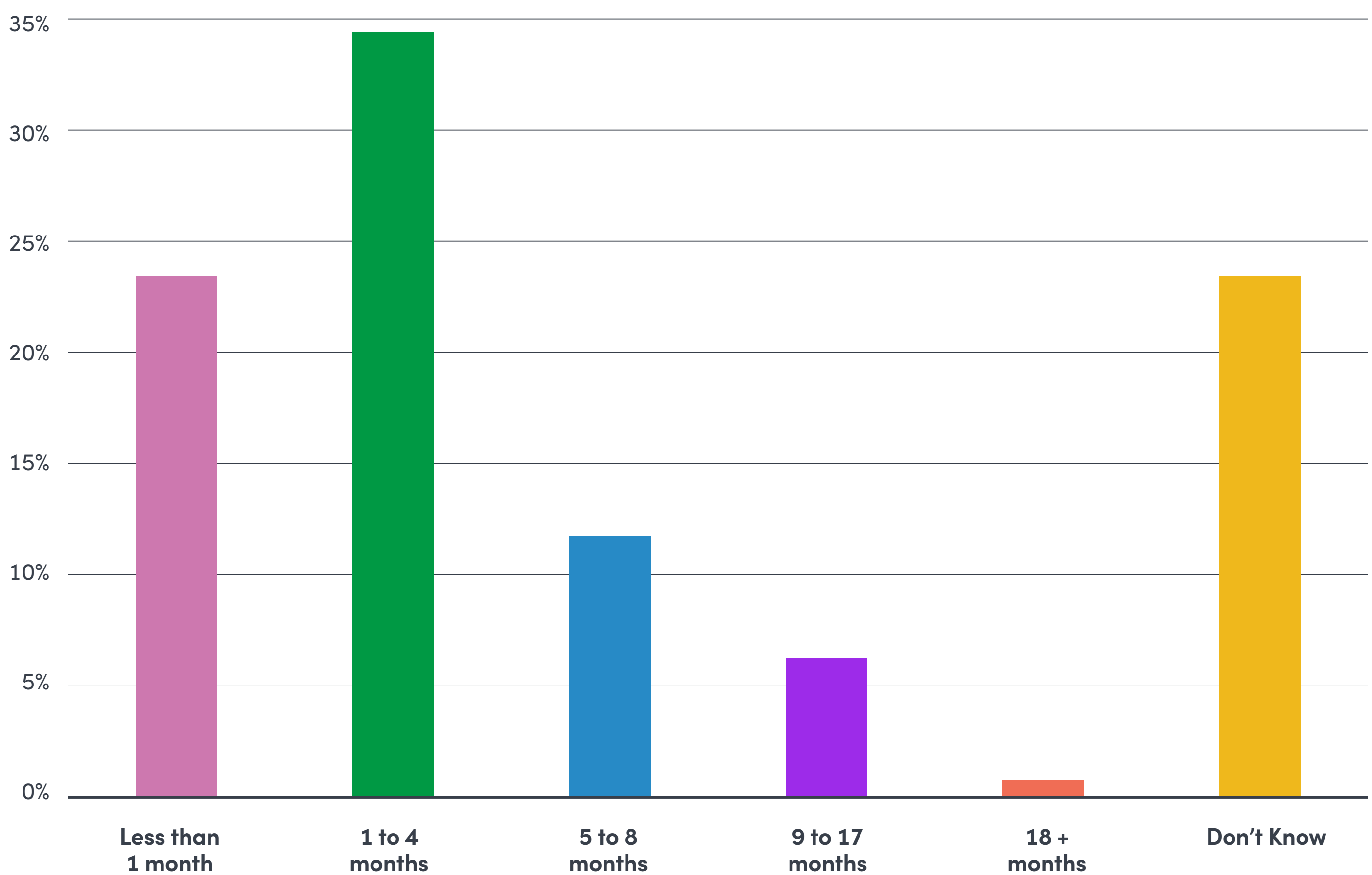
Please select up to 2 advertising activities that you believe have had the most impact on increasing your revenue.



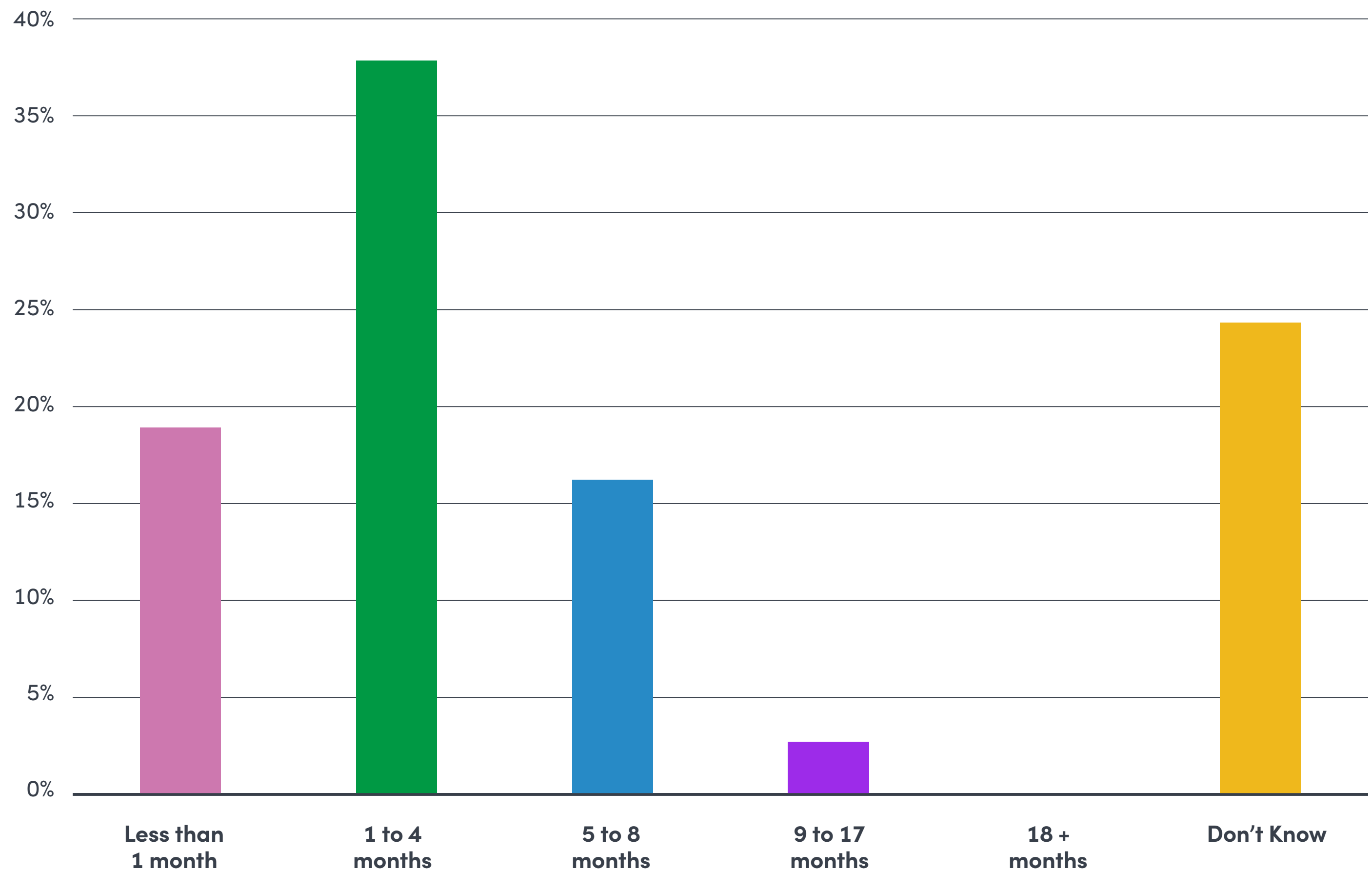
Google Adwords Monthly Payback



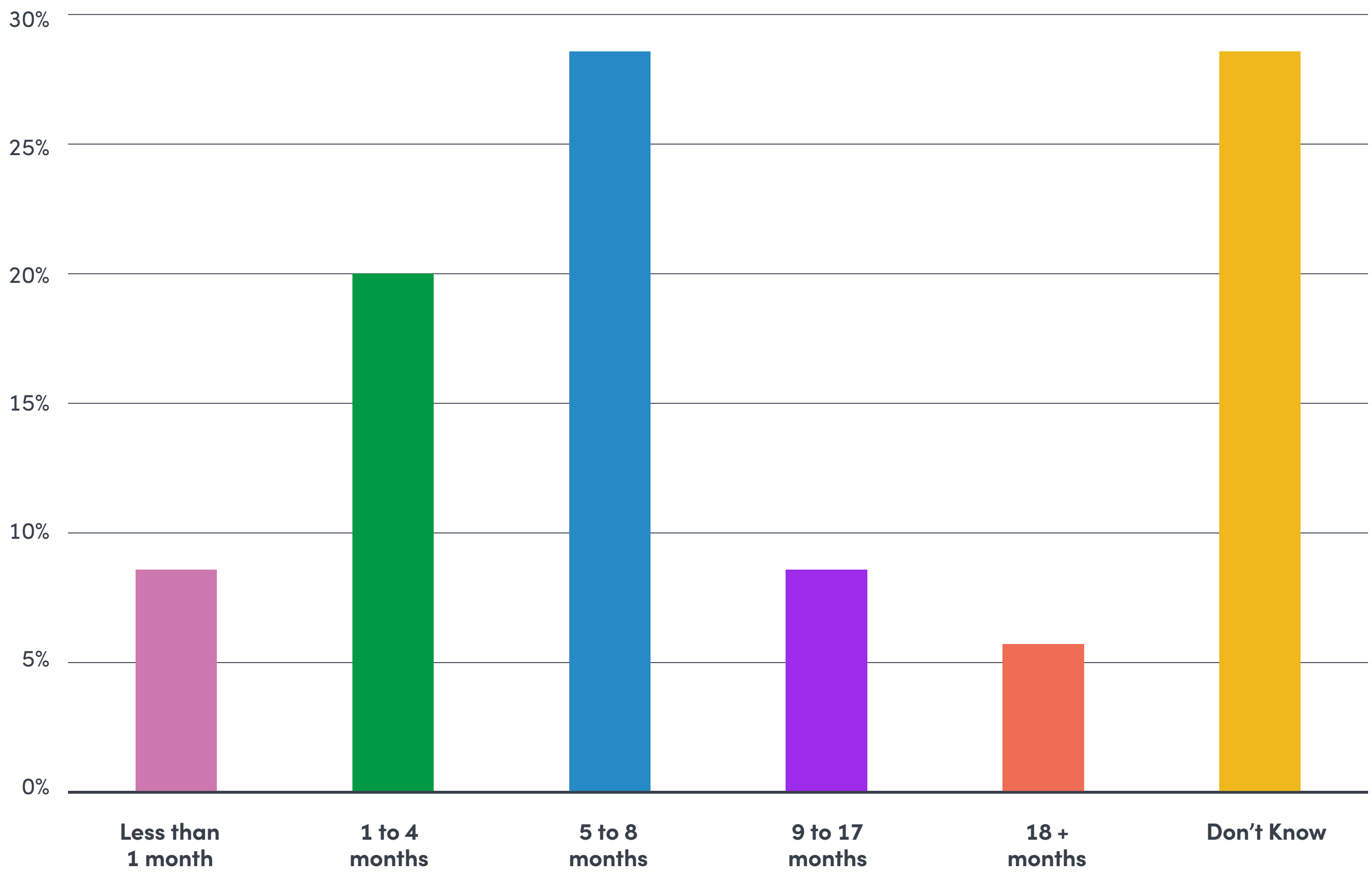
Facebook Ads Monthly Payback



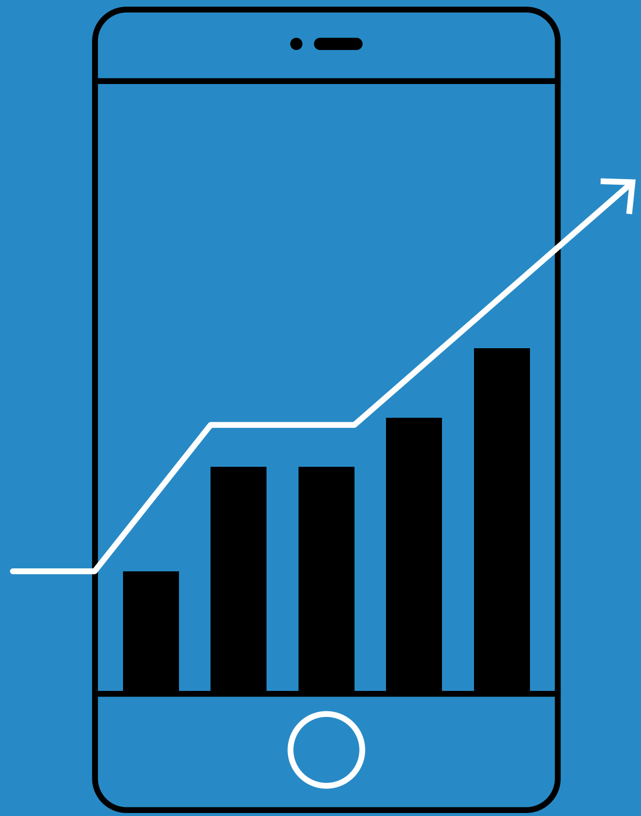
Online Display Ads Monthly Payback



Offline Ads Monthly Payback



6. Growth



Recall that correlation does not equal causation. Just because two factors move in lock-step, does not mean that one caused the other.

EXPECTED

- In general, the larger the business a startup is selling to, the faster the revenue growth.
- A higher price point correlates with faster revenue growth.
- Higher customer lifetime value correlates with faster revenue growth.
- Companies that raised more funding grew faster. While controversial, one can imagine this is the case for several reasons:
  - Companies that are growing faster have the ability to raise more money.
  - More funding can translate to a larger team size, with more people focused on marketing and sales.
  - Founders who raise funding focus on faster growth, whereas founders who self-fund may elect not to.

UNEXPECTED

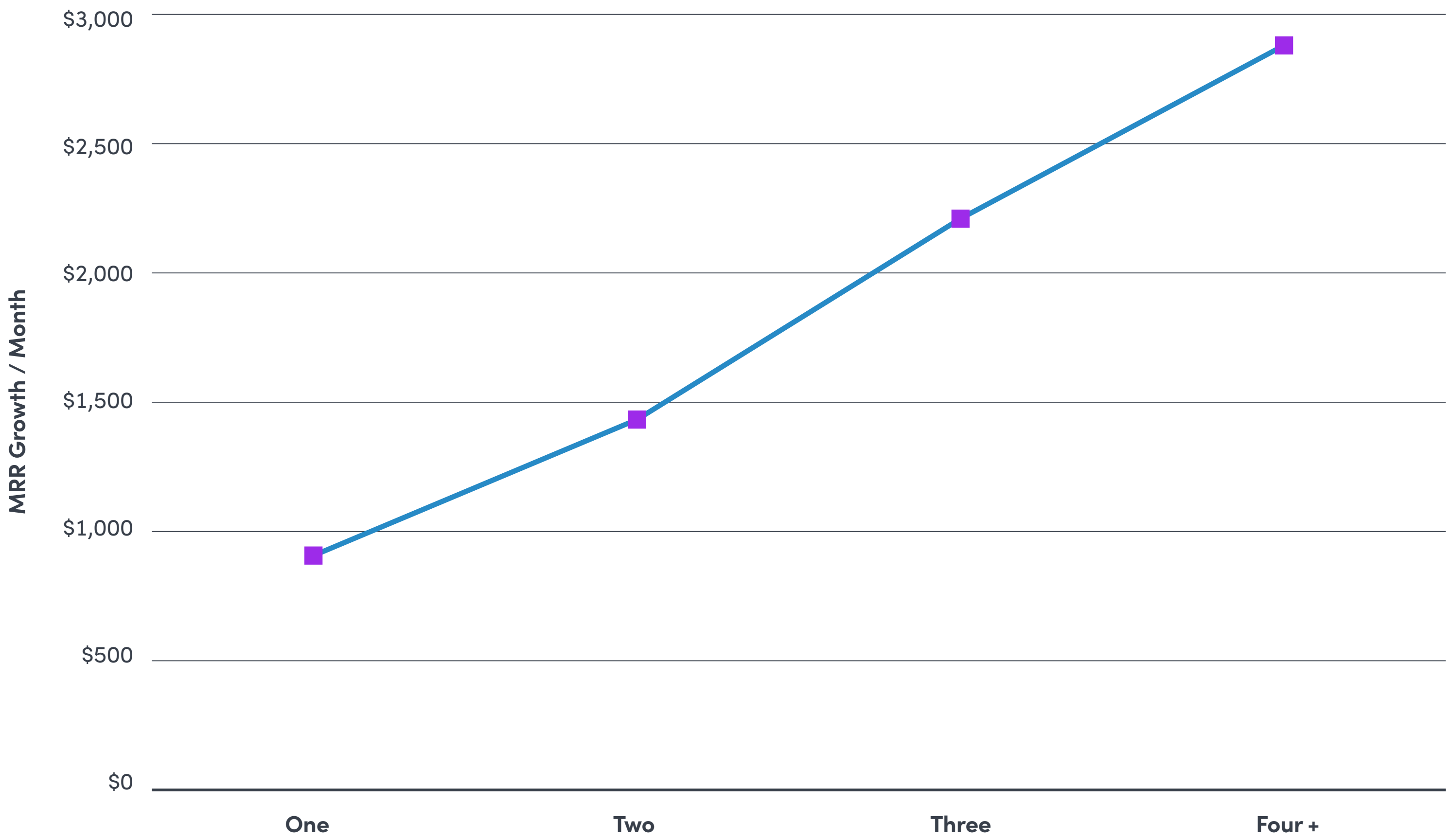
- There is a notable correlation between the number of founders and revenue growth.
- There is a strong correlation between the hours worked by a founder and revenue growth.
- Free trial vs. not and free plan vs. none has little correlation with revenue growth.
- We found either very little, or unexplainable, correlations with Net Promoter Score (NPS), growth, and churn.

UNCHARTED TERRITORY

- Asking for a credit card before a free trial has almost no correlation with revenue growth.

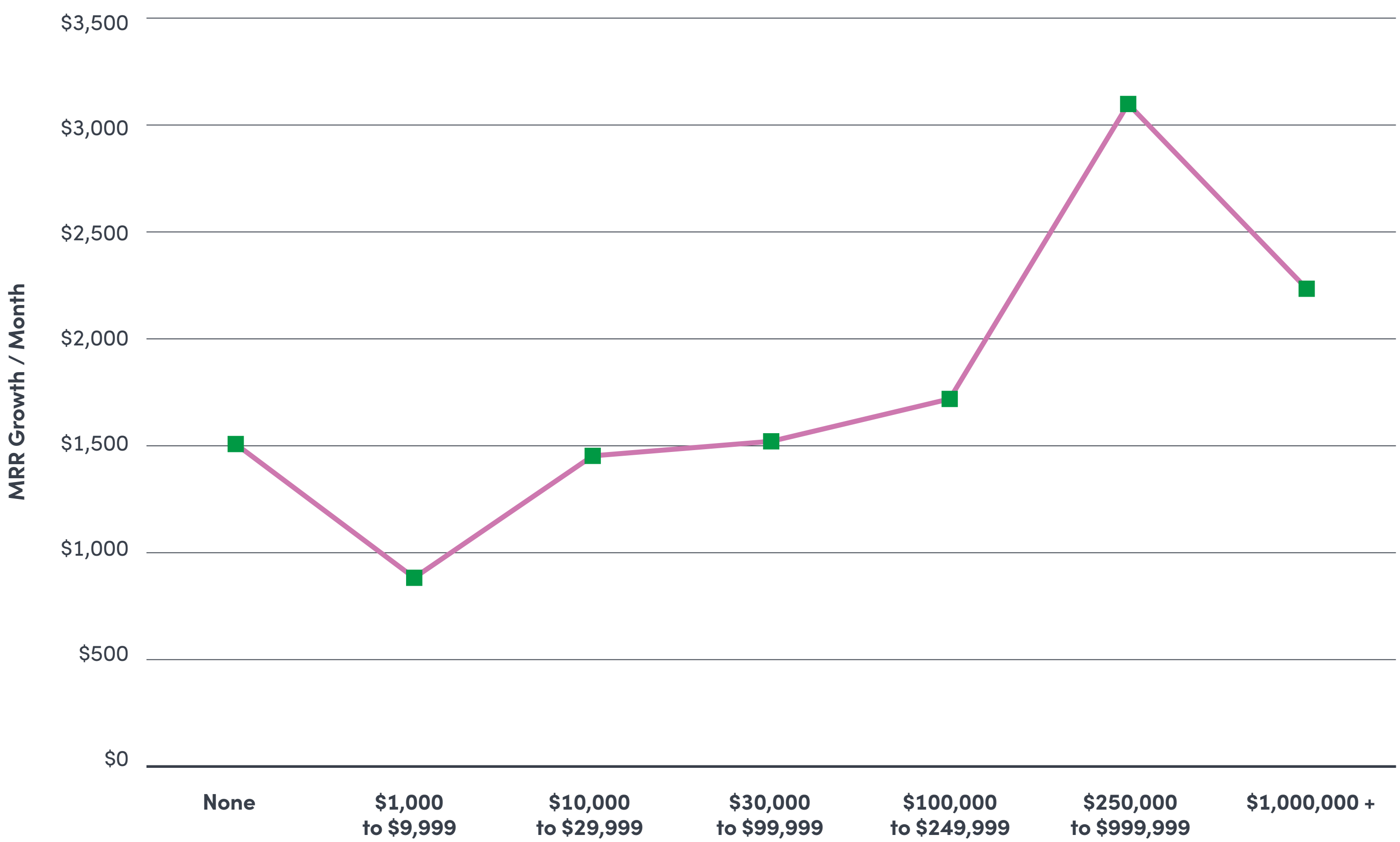
Founder Count vs. Growth

One could assume the small sample size at the top end skews the results, larger teams tackle more ambitious markets, or that many hands mean product and marketing can move faster, resulting in faster growth.



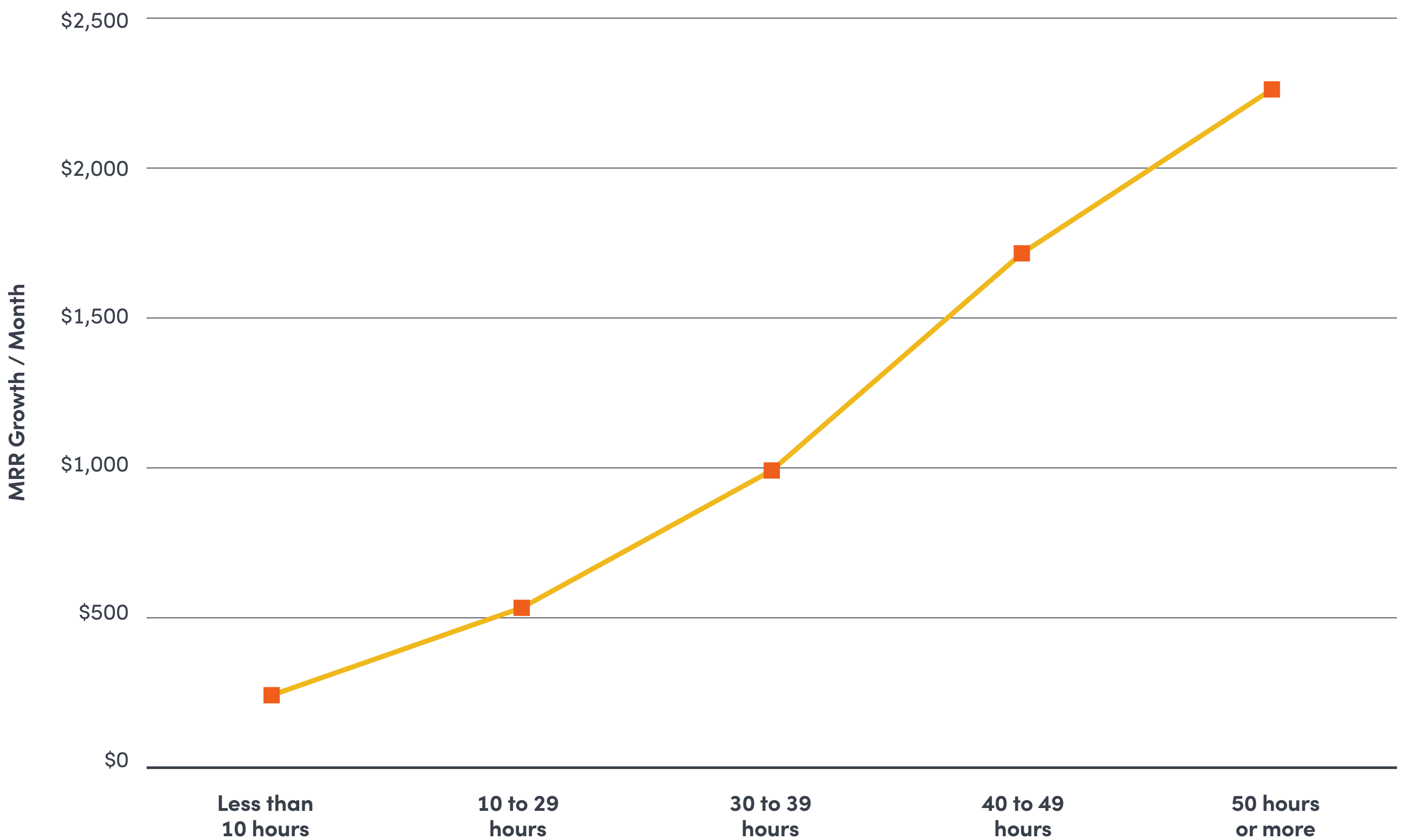
Prior Peak vs. Growth

Few surprises here. In general, the more money a founder's prior company made, the faster their next company grew.



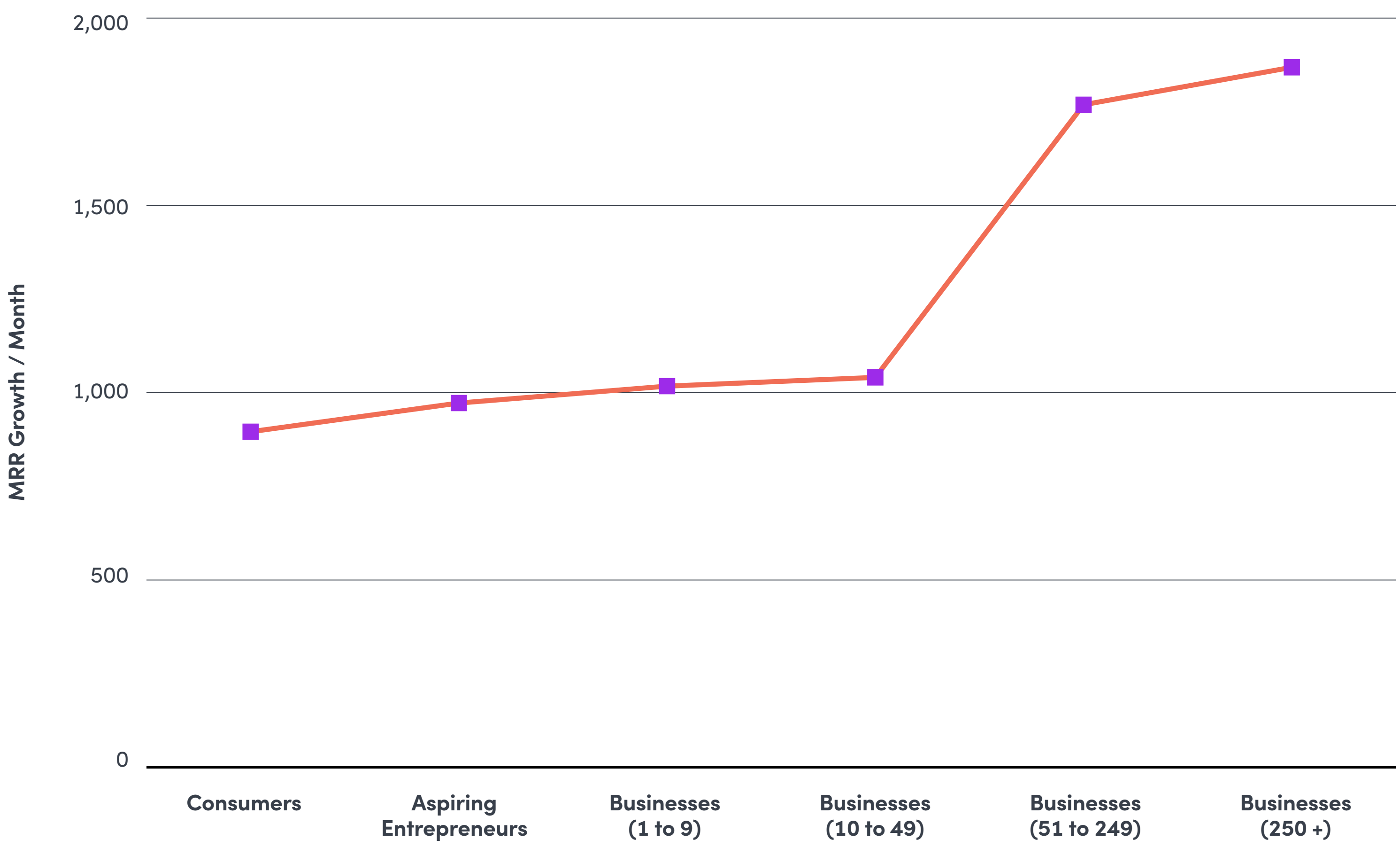
Founder Hours vs. Growth

These results show a pronounced correlation of faster growth and more founder hours worked. This could be explained because more hours means they move faster, or because successful companies that are growing quickly motivate founders to invest more of their time.



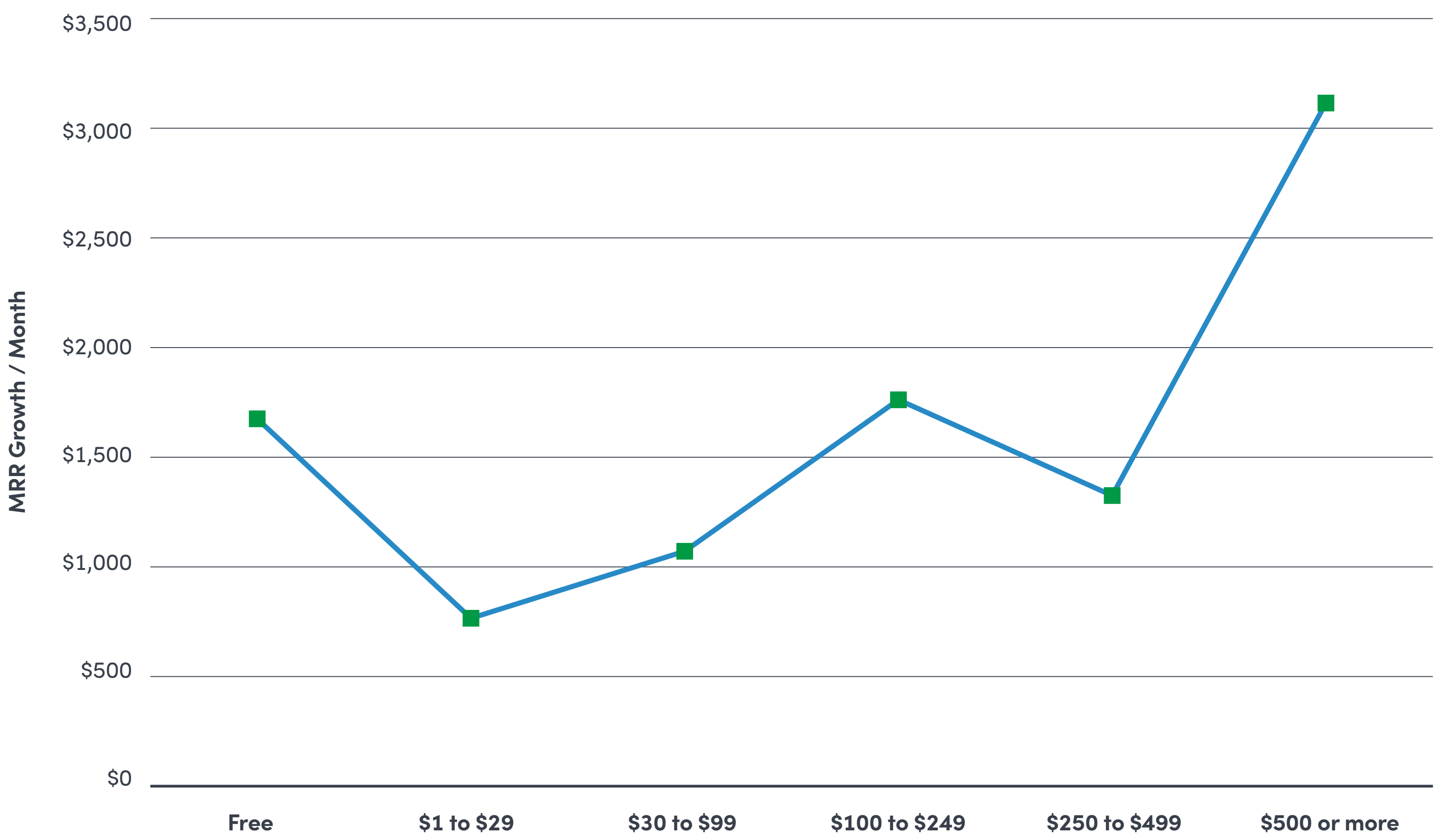
Ideal Customer

This data fits common MicroConf wisdom that if your customers are larger companies, your growth rate will be faster. This is usually because larger companies are less price sensitive and churn far less often than consumers or small enterprises.



Monthly Pricing vs. Growth

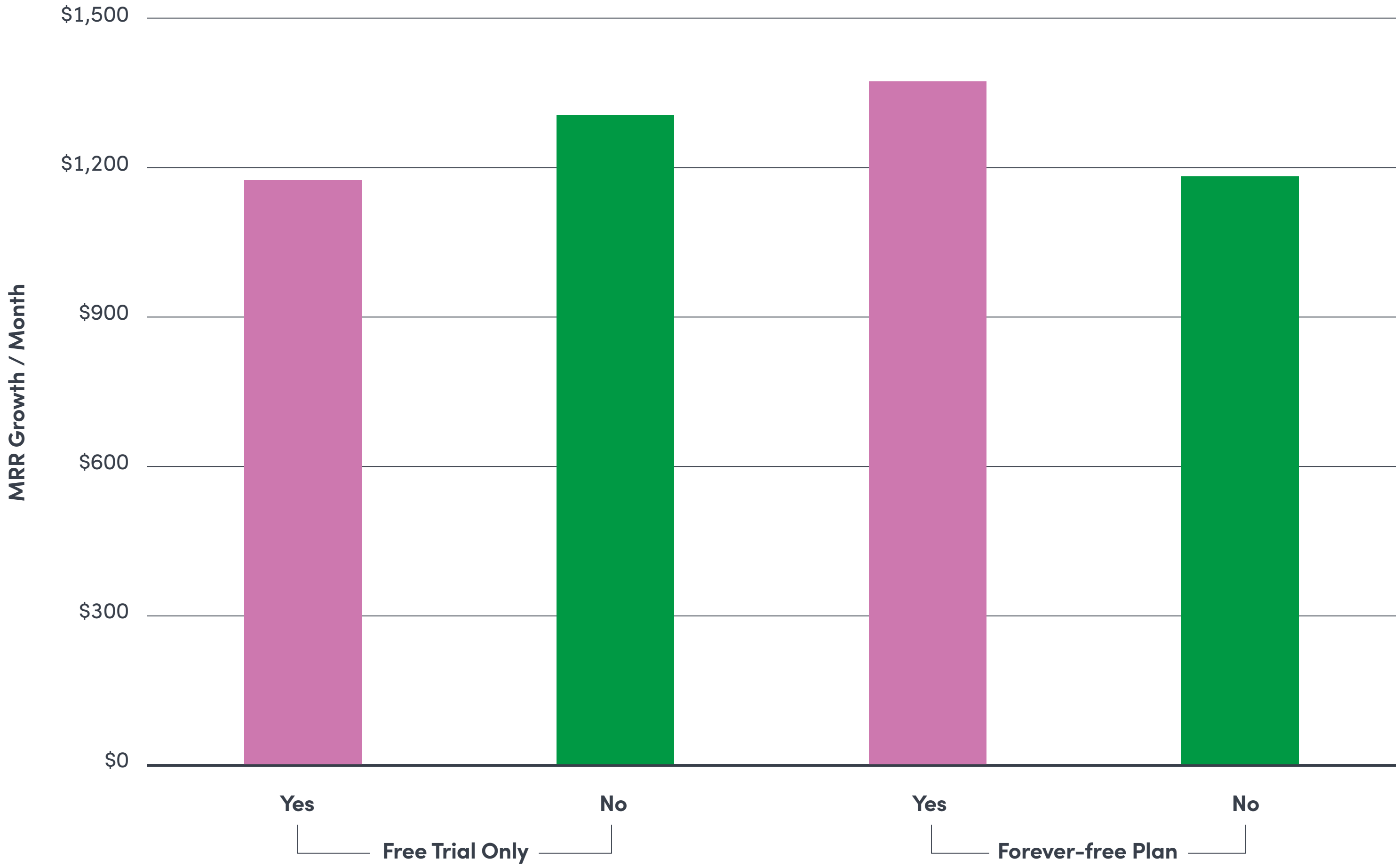
These results imply higher price points correlate with faster growth, most noticeably with monthly price points above $500 growing 2-4x faster than the others. We see a curious dip around 250-499, and that the existence of a free plan correlates with slightly higher than baseline growth.



Forever-free vs. Growth

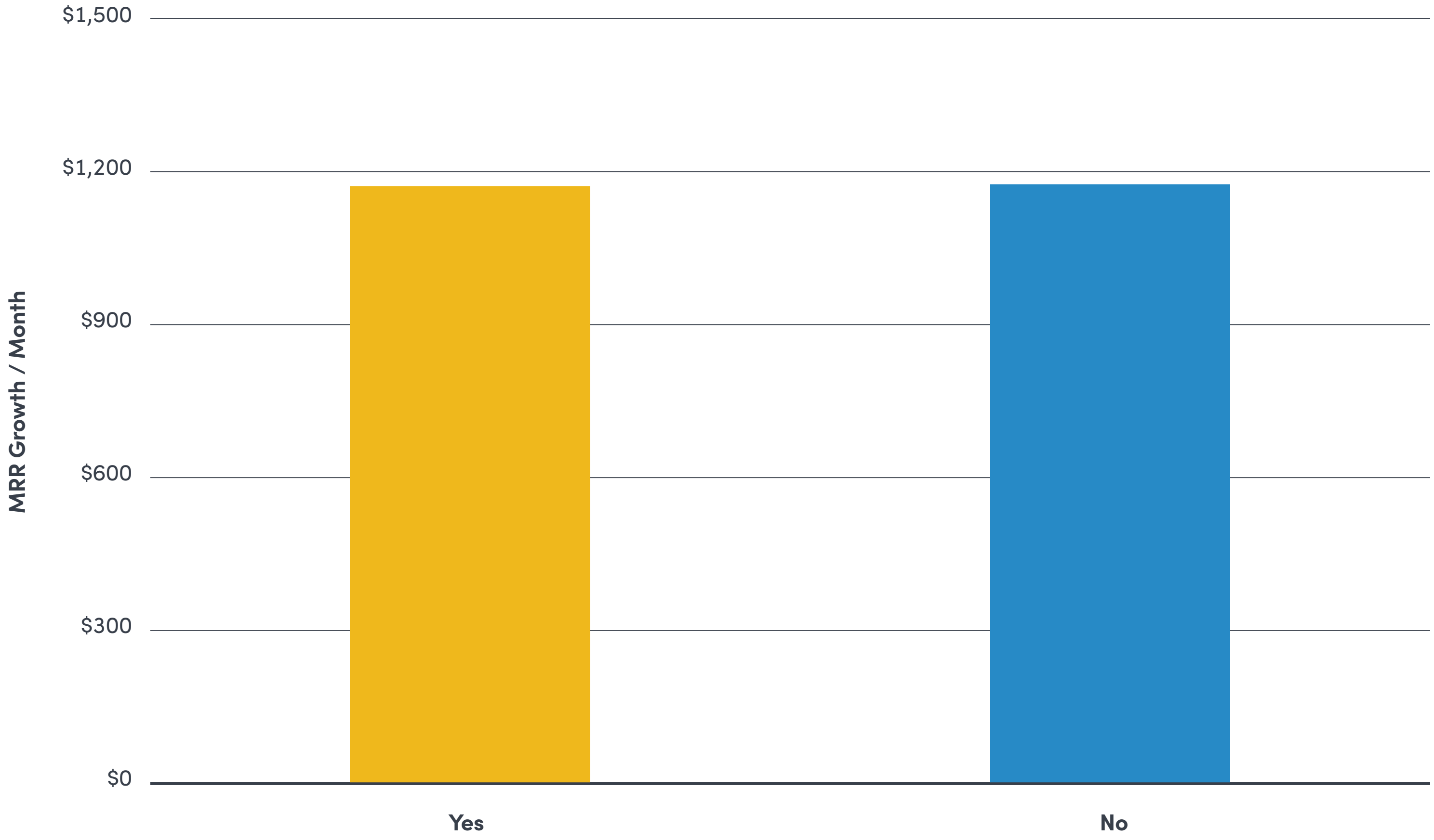
The data implies an almost inconsequential increase in growth rate from companies that do not offer a free trial. Likewise, slightly faster growth from companies with a forever-free plan.

We cannot say freemium causes faster growth, as it may be that companies growing faster have the luxury of experimenting with freemium.



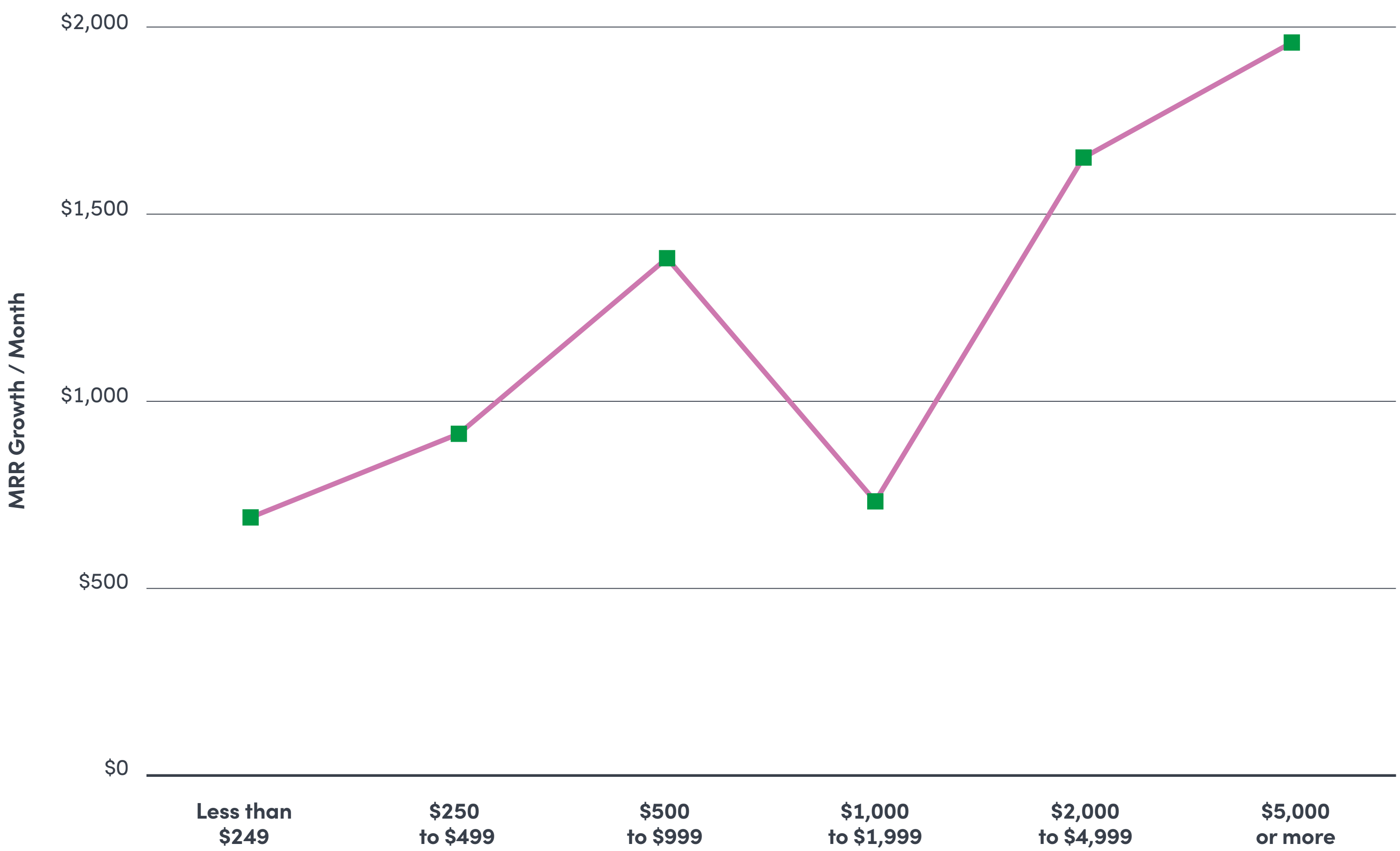
Credit Card vs. Growth

These results imply that asking for credit card before a trial has essentially zero impact on a company's growth rate.



Lifetime Value vs. Growth

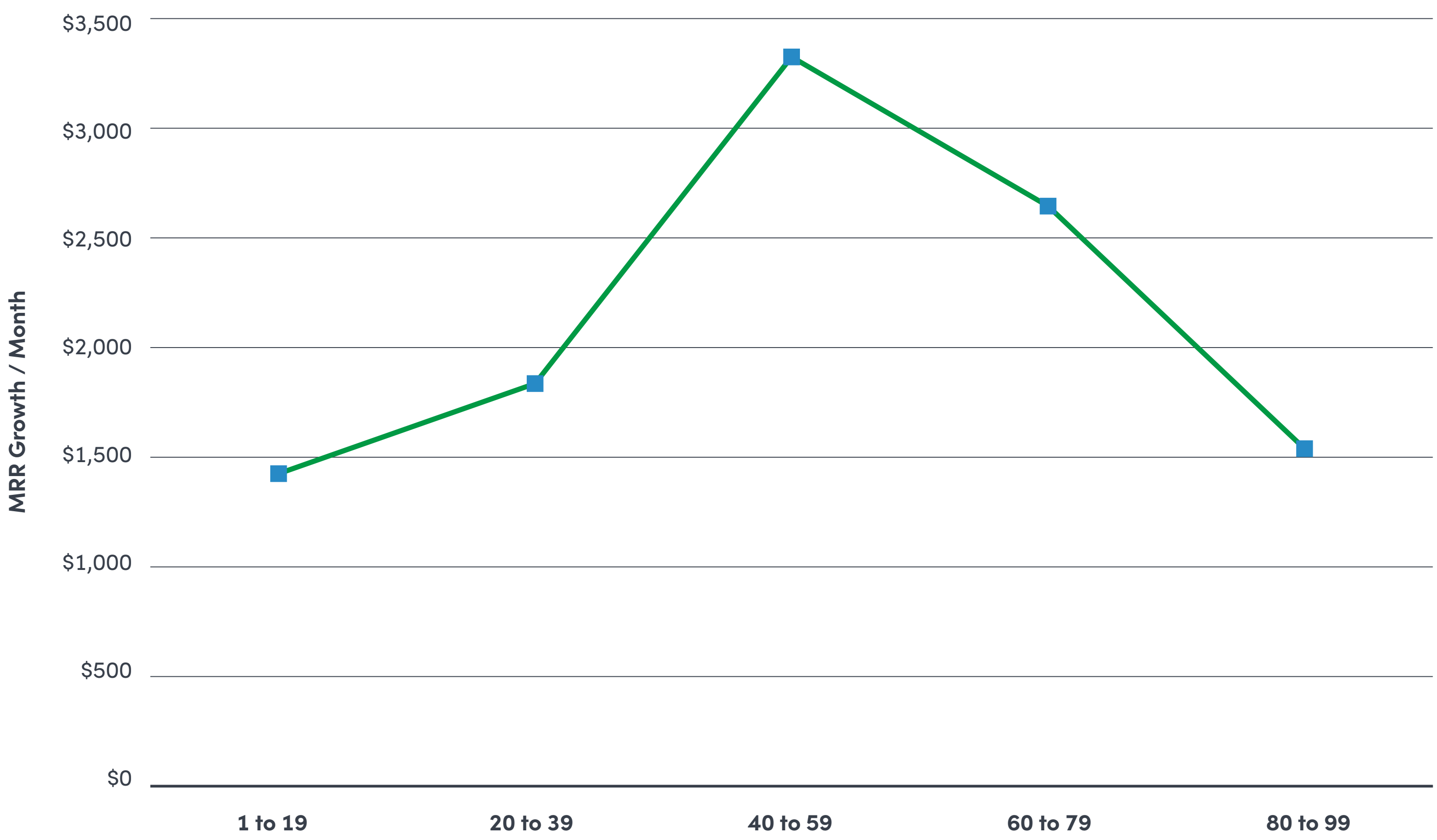
Intuitively, a higher customer Lifetime Value (LTV) should imply faster growth. That trend holds precisely, except for the anomalous dip between $1,000 and $1,999.



NPS Score vs. Growth

This data shows an unexpected pattern with fastest growth at between NPS 40 and 59. One would expect a higher NPS to drive faster growth.

We also looked at churn rate vs. NPS and found no correlation between the two.



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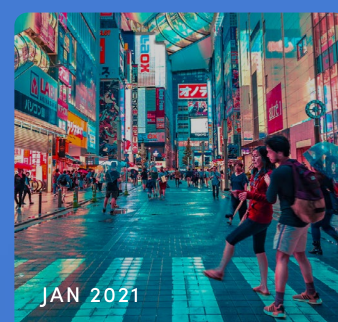
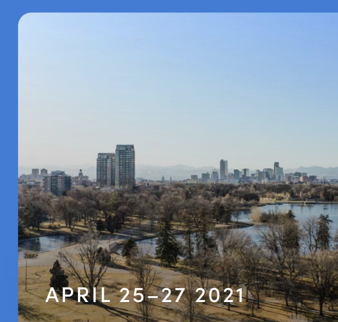
State of
Independent SaaS
Report: 2021



MicroConf
Growth Asia



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Growth Denver
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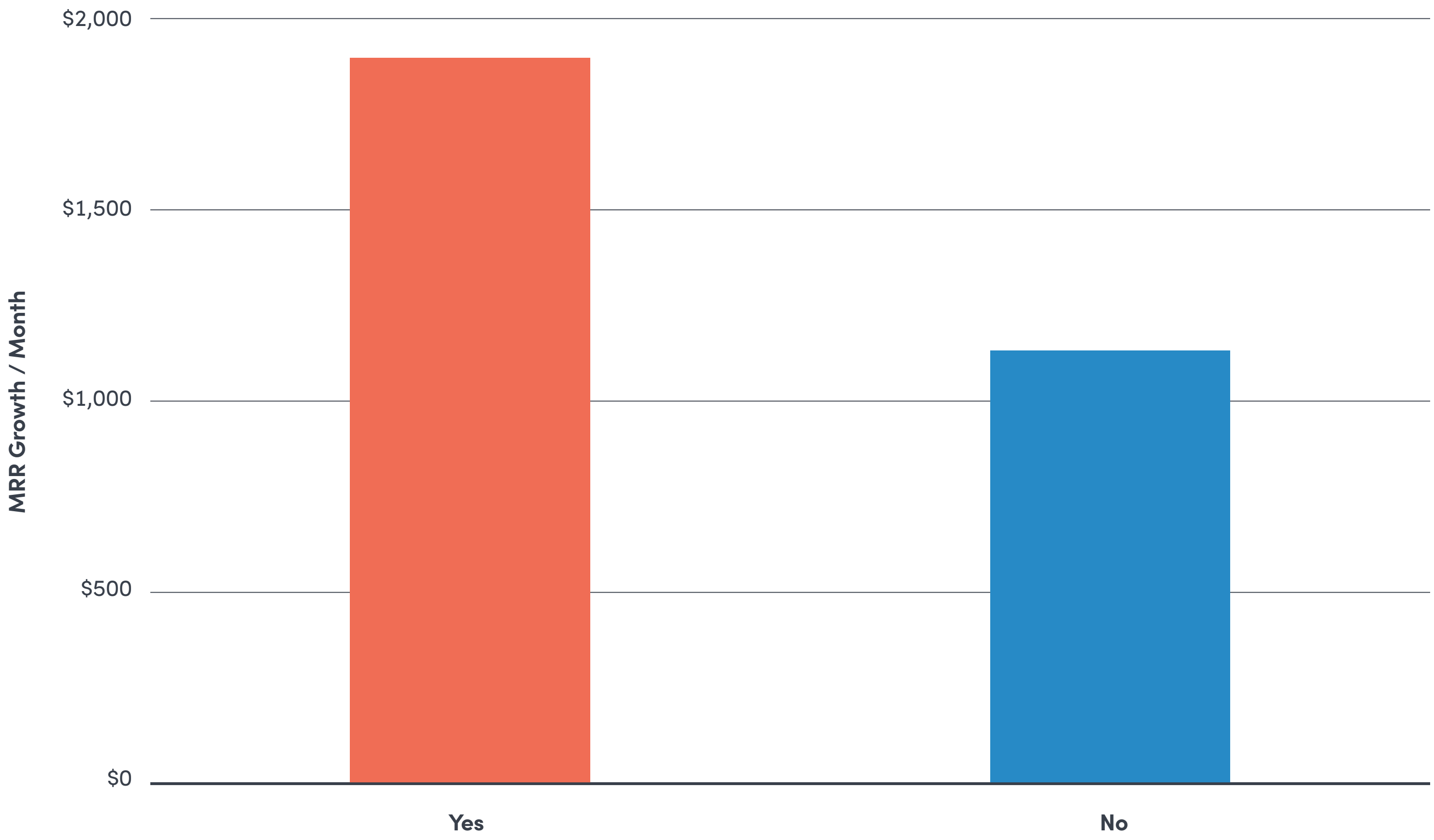
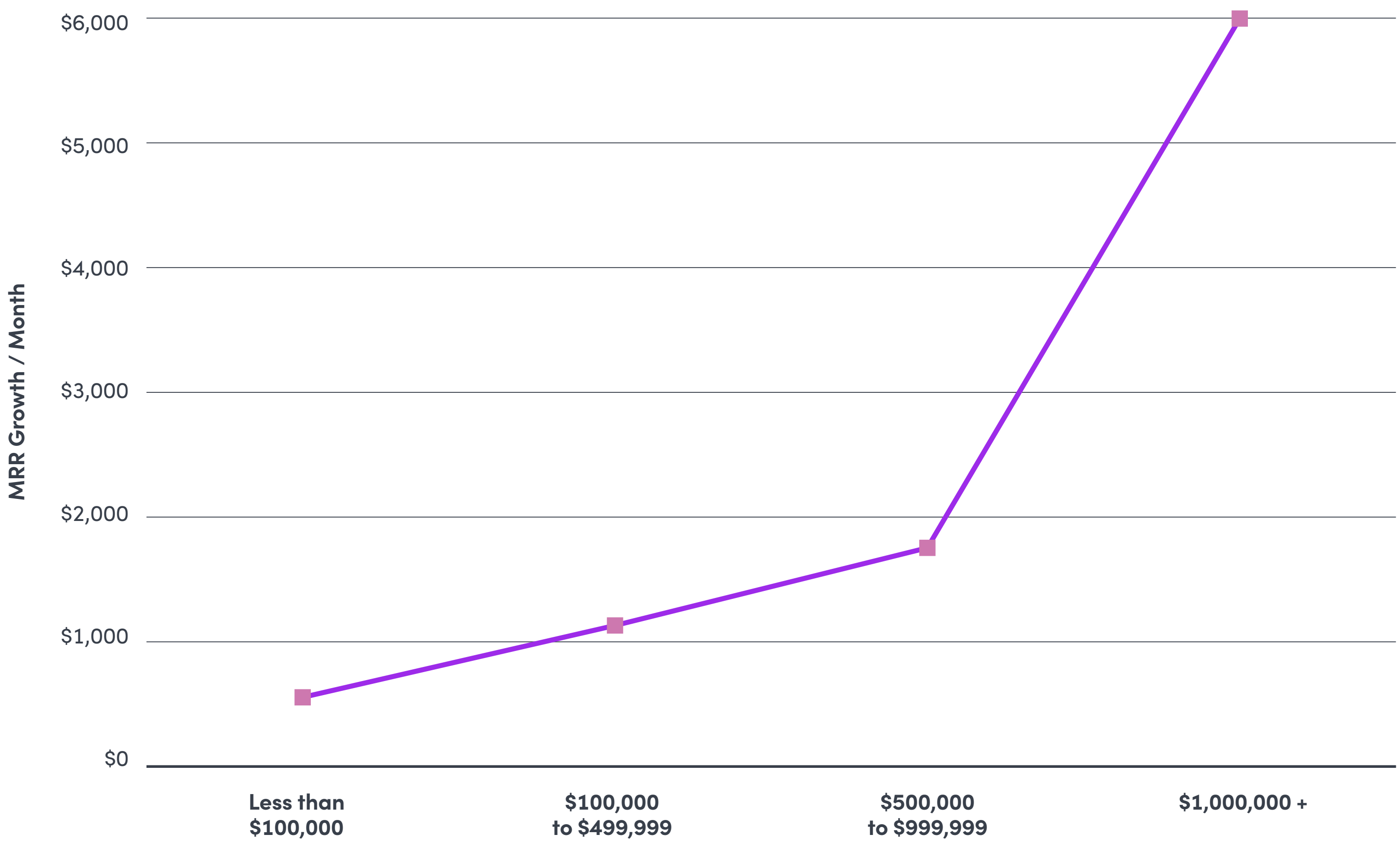
Funding vs. Growth

Not surprisingly, companies that raised funding grew faster.



Funding Amount vs. Growth

Following up on the previous correlation, the more funding a company raises the faster it grows. A couple possible and likely explanations: having more funding allows you to grow faster, and companies that are growing faster are able to raise more funding.



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Thank you for checking out the inaugural State of Independent SaaS!
I hope it serves you well on your entrepreneurial journey.

To stay in the loop on next year's State of Independent SaaS report and to find out more about the world's greatest community of non-venture track startup founders, head to MicroConf.com.

All the best,

ROB AND THE MICROCONF TEAM

OVERVIEW

Since 2011 MicroConf has helped startup founders grow faster through access to education from world-class experts, and the world's most popular community of ambitious, non-venture track startup founders. MicroConf has become the mothership for founders looking to learn and share strategies, tactics, advice, and inspiration.

The purpose of this survey and report is three-fold:

1. to gather critical information on the behaviors, attitudes and "firmagraphics" of participating members;
2. statistically analyze the collected data and
3. organize and interpret the results in a final report, covering topics from idea validation to marketing approaches to SaaS bench-marks, and more.

Of note, Founders who completed the survey received the bonus "Marketing Extras" not immediately available to the larger community.

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Special thanks to James Galanis, PhD for his hard work co-crafting the survey with the MicoConf team, and for time spent crunching the numbers. Thanks to Vanda Marasan for her exceptional visual design work on this report.

RESEARCH DESIGN

The survey instrument (questionnaire) was provided online and consisted of approximately 40 questions with a mean response time of 11 minutes and 12 seconds and a maximum response time of 23 minutes and 58 seconds. Approximately 25,000 potential respondents received at least one reminder via email. The total number of completions reached 1,556 by the close of the fielding period. Guaranteed anonymity, respondents retained the option to provide contact information in certain scenarios.

Respondents were screened according to the following criteria:

1. in current operation;
2. revenue generating and;
3. subscription-software.

In scenarios where the company provided multiple products, respondents were directed to answer questions in the context of the highest revenue-generating product. Finally, companies that have ceased operations were offered the opportunity to participate in a future survey by providing contact information.

ANALYSIS STRATEGY

The bulk of this report is a sharing of basic findings, such as what percentage of respondents have started a prior company, or what portion of companies have one founder vs. two, three, etc.

The more complex analysis centers on the generation and evaluation of cross-tabulations, which are table-based presentations of question relationships. Typically, the rows of the table are behaviors of people (CEOs) or firms (revenue generation) and the columns are the "driver" variables such as the number of founders or the amount of funding raised. In this sense the column variables drive or explain the row variables. In some cases, these relationships may be construed as "cause-and-effect" though, strictly speaking, these are simply associative relationships and do not provide definitive, conclusive proof of a particular variable relationship.

From these cross tabulations, we generated graphs to more easily display the variable relationships.

Thank you!

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