



Salesforce: Business Breakdowns Research

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Primary Research Sources

- [Latest 10K](#)
- [Investor presentation](#)
- [Latest quarterly earnings presentation](#)

High Level Summary

- **Cloud + SaaS pioneer:** Salesforce was one of the first businesses to offer its products on its own servers. No need for on-premise installations, CDs or floppy disks. The company branded it “No Software” because software installations had such negative connotations. As we know, it has since sparked a monsoon of cloud-based SaaS businesses.
- **Acquisitions:** The company has used M&A as an important growth tool. As per [Ben Thompson's article](#) about their Slack acquisition, “the fact that the company “buys growth” is often held up as a criticism, but the truth is that M&A is probably the best possible use of an incumbents cash flow: plugging an innovative product into an existing distribution channel instantly increases the value of that product.”
- **Cornered Resource:** A large part of Salesforce's growth can be traced back to its incredible team and leadership. Marc Benioff identified the problem, formed the company in 1999, and has grown the business (organically and via M&A) into a large-scale multinational.

Interesting Facts & Figures

- 90% of the Fortune 500 use Salesforce. The business has 150,000 customers.
- Marc Benioff originally trademarked the phrase “App Store” but in good faith he gifted it to Steve Jobs as gratitude for support over the years.
- Salesforce started from a rented one-bedroom apartment in Telegraph Hill. Marc Benioff and his partners began working on the first version of Salesforce's CRM from this apartment.
- 1/1/1 model: A philanthropic model coined by Marc Benioff. It is based on companies contributing 1% of equity, 1% of its product and 1% of employee hours back to the community.

Company History & Key People

1999: Salesforce was founded by Marc Benioff, a former Oracle executive.

2000: Official company launch at San Francisco's Regency Theater. The event is themed “*End of Software*” to convey the company's differentiation.

- o Ben Thompson's [What is a Tech Company](#) outlines the context behind Salesforce's pioneering cloud-based strategy well.

2001: Marc Benioff is named CEO & Chairman. The company surpasses 3000 customers.

2003: First [Dreamforce](#) event in San Francisco attracting over 1000 attendees. This is a family reunion designed to bring together the entire Salesforce community [customers, partners, employees] to learn, connect and have fun.

2004: The company goes public on the New York Stock Exchange under the ticker symbol (CRM). The shares are priced at \$11 (\$1.1 bn valuation) and the company raises \$110M.

2005: Launch of [AppExchange](#); an e-commerce site offering third party developers a place to work on their own applications and open them up to Salesforce customers. Forbes describes it as the "the iTunes of business software"

2008: Launch of Force.com making it easier for customers to build and install apps on Salesforce's architecture.

2009: First cloud computing company to reach the \$1B revenue mark.

2011: Salesforce reaches 100,000 customers.

2013: Acquisition of email service provider [ExactTarget](#) for \$2.5B. ExactTarget later becomes Marketing Cloud, one of Salesforce key offerings.

2014: [Trailhead Learning Platform](#) is launched - a free online platform to learn about Salesforce's technology and build a career in the industry.

2016: The company goes on a buying spree:

Salesforce 2016 Acquisitions



Source

2018: \$6.5B acquisition of [Mulesoft](#) to help power Salesforce's integration capabilities.

2019: \$15.7B acquisition of [Tableau](#)

2020: The company acquired [Slack](#) for \$27.7B. This acquisition set the company to compete directly with Microsoft in the remote collaboration space. Read [Ben Thompson](#) to understand the reasoning and opportunity.

2021: March 21 marks the 22nd anniversary of Salesforce. Introduction of Sales Cloud 360-upgraded version of the company's sales cloud that offers virtual selling, pipeline inspection, Einstein conversation insights, opportunity scoring, AI-powered predictions. Preparation for [Dreamforce](#) in September. It is the biggest gathering of the Salesforce community every year.

Key People:

- **Marc Benioff.** Founder, Chair & CEO of Salesforce and a pioneer of cloud computing. Under his tutelage spanning 22 years, Salesforce is the number one provider of CRM solutions worldwide.
- **Parker Harris.** Co-founder, Director & Chief Technology Officer. Drives technology vision and architecture across Salesforce.

Business Model & Secret Sauce

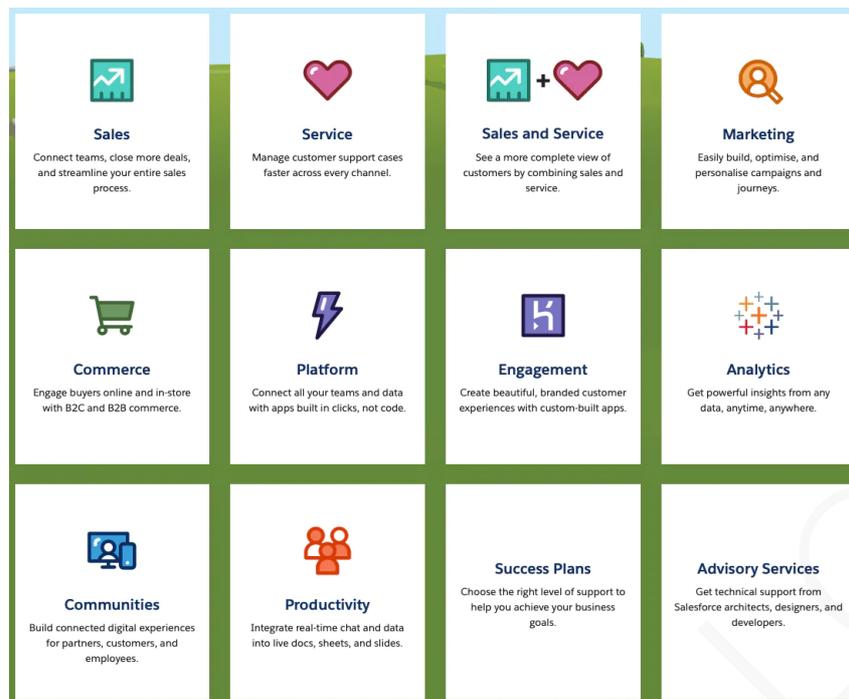
A New Business Model

- Prior to Salesforce, software was sold as a manufactured good. Software in a box. The internet was not reliable / widespread so the software was packaged in a box, in whatever data storage medium was cost effective at the time and shipped across the world (Tren Griffin has blog [posts](#) on software in a box).
- This was expensive and also problematic. Primarily because of versioning. A software company had to maintain different versions of the software for disparate platforms. So think about say Microsoft Word. Microsoft would produce Microsoft word. It would be sold through floppy disks (the 90s). The user would run Windows 95. Now, Microsoft stops supporting Windows 95, but the customer still uses that version of office on Windows 95. Additionally, from a licensing and piracy perspective this was tricky, revenue leakage was high. However, it's how software was sold.
- Before Salesforce, the box model was standard. Software was delivered using CDs and DVDs. Everyone knew that the traditional box model wasn't sustainable, but nobody was willing to pull the trigger due to inertia, existing distribution channels, consumer behaviour etc. This is what Benioff and co. figured out that it will be cheaper to run SaaS (from a customer acquisition, retention and life time value perspective) as you're constantly engaged with them.
- This shift kickstarted the SaaS revolution and everyone has followed suite. Adobe, Microsoft, VMware, Oracle, SAP all offer subscription versions of their software.

Value Proposition

○ What problem does Salesforce solve?

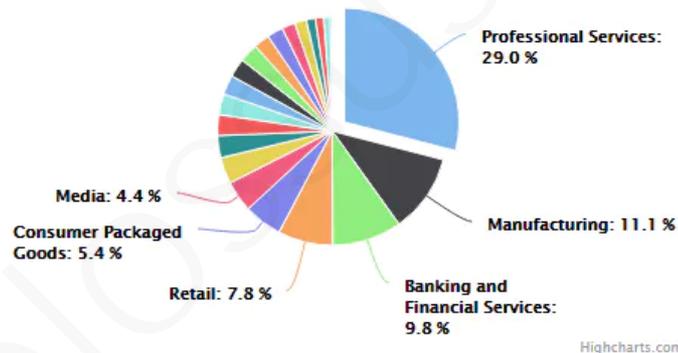
- Salesforce is a cloud-based Customer Relationship Platform (CRM), which gives businesses a 360-degree view of their customer touch-points. Their platform enables different departments, often spread over multiple locations, to share a single source of truth for their leads and customers. This means:
 - **Sales teams** can access reliable information about the progress of individual team members in achieving their sales targets, for example, and see how well individual sales teams, products and campaigns are performing too. Sales reps benefit from reduced admin, a deeper understanding of their clients, and the opportunity to spend more time selling and less time inputting data.
 - **Marketing teams** can see a clear picture of every opportunity or lead, and map out the whole customer journey from enquiry through to sale, giving them a better understanding of the sales pipeline or prospective work coming in. The platform can also pull information from customers' public social media activity – their likes and dislikes, and their sentiment about specific brands and businesses.
 - **Customer service teams** can effectively track conversations across channels. For example, a customer might raise an issue in one channel – say, Twitter or Facebook – but then switch to email, phone or live chat to resolve it in private.
 - **Supply-chain, procurement and partner management teams** can track meetings with suppliers and partners, record requests made, add useful notes, schedule follow-ups and stay on top of expected next steps. And reporting enables businesses to compare the efficiency of suppliers and so manage their entire supply chain more effectively.
 - **HR teams** can speed up their on-boarding process, automating the process of managing candidates, analysing resourcing needs and identifying skills gaps, and supporting the pursuit of staff retention targets.
- Therefore, Salesforce offers a clear overview of customer activity, and presents that information in the form of a customisable dashboard employees can access from any device, anytime, anywhere. This enables businesses to improve sales reporting, forecasting and productivity, increase customer loyalty through better service, maximise marketing ROI, and increase cross-department collaboration.
- Salesforce calls its cloud-platform Customer 360, within which they offer 'apps' to suite any business need. Depending on the scope and scale of your business, you buy a subscription to one or more of these apps. They charge per user so Salesforce's revenue scales with that of its customers.



Source: Salesforce

Who uses Salesforce?

- Salesforce has more than 150,000 customers across various industries globally with the largest segment being professional services (29%) followed by manufacturing (11%).



Source

- **Market segments/geographies:** The largest market for Salesforce is America, followed by Europe and the Asia Pacific. Of their FY21 revenues, they earned:
 - 69% in the Americas
 - 21% in Europe
 - 10% in Asia Pacific

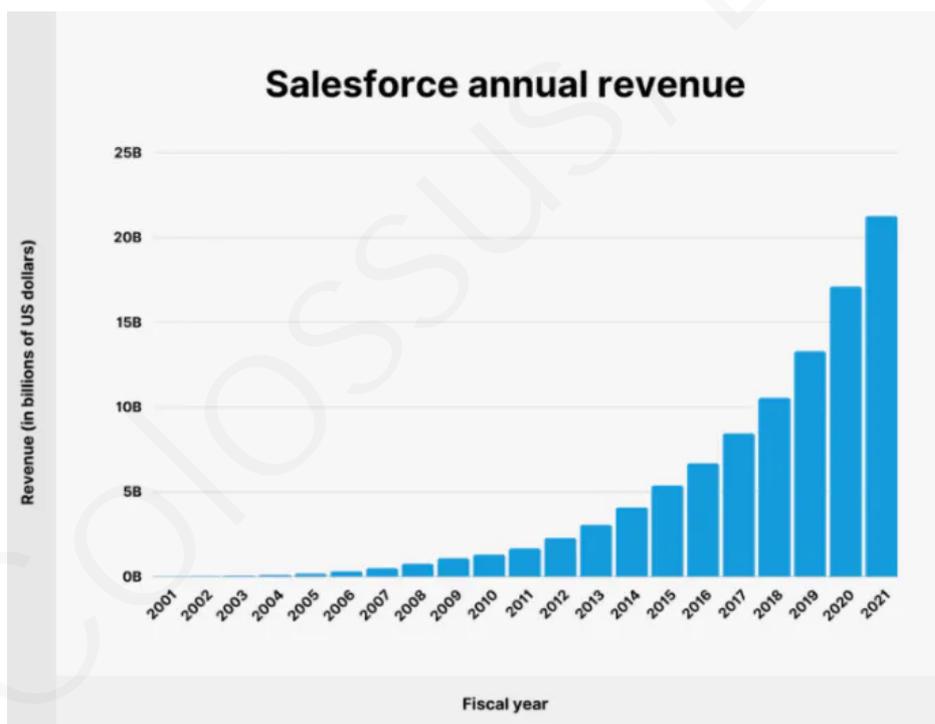
• Distribution & Growth:

- **Distribution:** Salesforce sells through four main distribution channels:
 - **Direct Sales** - Telephone sales personnel & field sales personnel based in territories close to customers.
 - **Referrals/Indirect Sales** - The company has a network of partners who are paid a fee based on the first year's subscription generated from the customer they referred. These partners include global consulting firms & systems integrators.
 - **Marketing** - Content marketing and engagement on social media channels, search engine marketing, customer testimonials, event sponsorships etc. As well as events like Dreamforce.

- **Strategic Investments** - Salesforce invests in technology and professional cloud companies to support its key business and increase the capabilities of its platform. The primary objective is to increase the ecosystem of enterprise cloud companies and partners, accelerating the adoption of cloud technologies and creating the next generation of mobile applications and connected products.
- **Growth:**
 - **Land new customers** - through the channels above, or through acquisition.
 - **Expand existing customers** - i.e. sell more of Salesforce's apps to their customers. If a small business starts with their Sales app, for example, over time they expect to be able to sell them their Service app, or Marketing app.
 - They say their 2017 cohort uses an average of 1.7 Salesforce apps, where their 2021 cohort uses 3.6.
 - **International expansion.**
 - **Reduce customer churn** - Salesforce's attrition rate was between 9% and 9.5% last year.

Economics:

- **Revenue:**
 - In their most recent fiscal year, FY21, they generated \$21.25bn in revenue. They've grown revenue at a CAGR of **51.22%** over the last 20 years. Taken over the last 10 years, compound annual revenue growth is **29.04%**.



Source

- For reporting, Salesforce groups their cloud apps into four major segments.
 - *Sales Cloud, Service Cloud, Marketing Cloud, and Salesforce Platform & Other.*

	Three Months Ended April 30,	
	2021	2020
Sales	\$ 1,388	\$ 1,245
Service	1,506	1,252
Platform and Other (1)	1,747	1,364
Marketing and Commerce	895	714
	\$ 5,536	\$ 4,575

Source

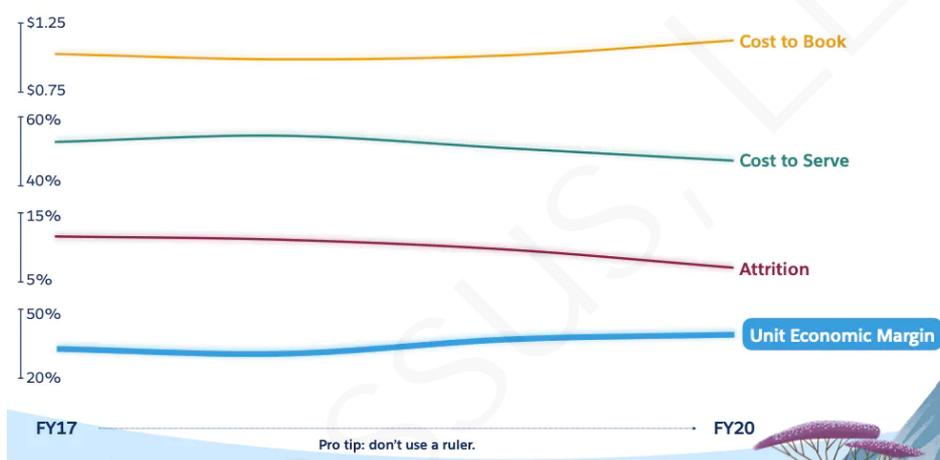
- Revenue growth rates across the different geographies are as follows:

	Three Months Ended April 30, 2021 compared to Three Months Ended April 30, 2020	Three Months Ended January 31, 2021 compared to Three Months Ended January 31, 2020	Three Months Ended April 30, 2020 compared to Three Months Ended April 30, 2019
Americas	22%	18%	29%
Europe	17%	20%	41%
Asia Pacific	17%	21%	28%
Total growth	20%	19%	31%

Source

● **Cost Structure:** Key costs to fuel the business model are:

- Salesforce earns gross profit margins of 75%.
- Marketing costs are a key lever they deploy to grow the business. For the last three years, they have consistently spent ~45% of their total revenues on marketing. They also tend to spend a mid-teens percentage (14%-17%) of revenues on R&D.
- They talk a lot about unit economic margins as the way to frame their subscription business. Unit economic margins equals lifetime revenue minus (cost to book + cost to serve). Their unit economic margin is around **20%**. As you'd expect, their GAAP operating margin is mid-to-low single digits.



Source: Investor Presentation

Competitive Advantages:

- **Network effects and scale:** A key strength of Salesforce's strength is its ecosystem. Third party developers are eagerly building applications on top of the platform. Having more developers on the platform creates powerful network effects which makes the platform more valuable to developers & the companies that use it.
 - Salesforce works with a range of industries, including financial services, healthcare, life sciences, communications, retail, media, government, manufacturing, automotive, higher education, and nonprofit. Other CRM vendors can't match the breadth of Salesforce's reach. At the end of 2018, Salesforce had business relationships with *83% of Fortune 500 companies*. Its market penetration in the Fortune 100 is at 95%.
- **First-mover advantage in distribution:** They figured out that software as a service will ultimately win and took advantage of its head start to get into adjacencies, eventually hoping to be the Microsoft of SaaS. It wasn't so much the software, it was the distribution / delivery model that powered their growth.
- **Cornered resource?** Mark Benioff and his team deserve a lot of credit for spotting the cloud opportunity, delivering a SaaS model, and scaling Salesforce into a big multinational business.
- **Venture investing:** Salesforce Ventures is Salesforce's investment arm launched in 2009 that invests in other startup cloud companies. The idea here is to partner with innovative cloud companies to help accelerate their growth and in turn extend to them the features and functionality of Salesforce's platform.

- In 2020, Salesforce raised \$2.17B from gains in investments. Notable investments include Snowflake, nCino and Zoom. Snowflake and nCino soared after they both went public raising a combined \$1.7B in investment gains in 2020. Salesforce invested \$100M in Zoom's 2019 IPO and sold in 2020. Gains from such strategic investments are boosting Salesforce's bottom line. Look [here](#) for Salesforce's portfolio of companies.
- **Advanced customisations:** Customers can scale their business by adding additional users and functionalities with a few clicks. Most competitors offer less flexible interfaces with limited customizations.

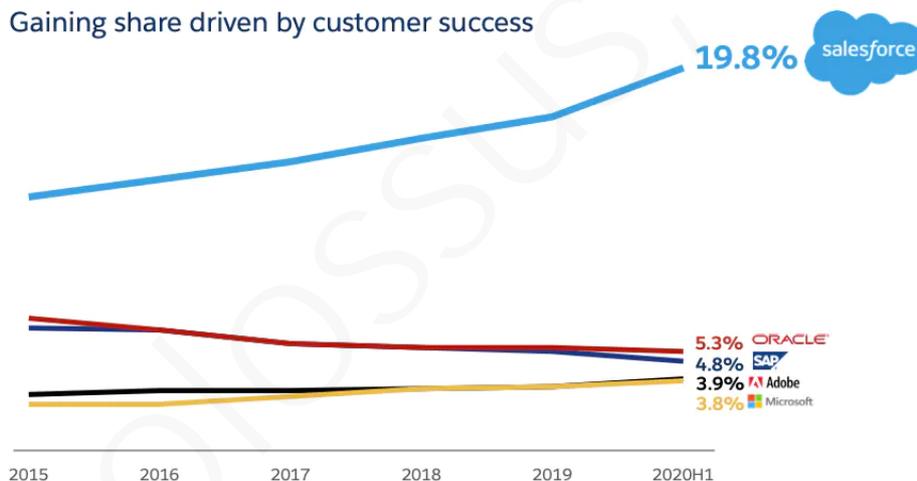
Competitive Position

Industry:

- Salesforce is the global leader in CRM (customer relationship management). It's over a \$100B market today, and Salesforce has about 20% of the overall market share.
 - Salesforce jumped 53 places last year on the Fortune 500 list to 137.
 - They have over 150K customers and 90% of the Fortune 500 is a customer.
- Salesforce was the first mover in the SaaS CRM industry and remains a clear leader, accounting for 19.8% [19.5% in 2020] share of the CRM market as at 2021. More than 150,000 businesses use Salesforce.
- The United States is home to most of the top CRM providers except SAP based in Germany. The largest market for Salesforce is America, followed by Europe and the Asia Pacific.
- Some of Salesforce's key competitors include: [SAP](#), [Oracle](#), [Microsoft Dynamics](#) & [Adobe](#).

The Global Leader in CRM

Gaining share driven by customer success



Ranked #1 for CRM Applications based on IDC 2020H1 Revenue Market Share Worldwide.

Source: Investor Presentation

● Risk(s) To Competitive Position

- **Unbundling from vertical competition:** Because of its wide reach across business types and industries, as well as its scale advantage over big CRM players like Oracle and Microsoft, is Salesforce's main competitive threat from vertical specialists who can better serve businesses and their customers in specific sectors?

Useful Resources

Title	Type	What You Will Learn (140 Characters)	URL (Must be https://)
The History of Salesforce Company: 1999 to 2021	Article	22 Year History of Salesforce	https://boolo.io/blog/salesforce-history-since-1999/
Salesforce Impressive \$21Billion B2B Ecosystem	Article	Learn how Salesforces' AppExchange has revolutionized the way that B2B ecosystems operate.	https://foundationinc.co/lab/salesforce-21b-b2b-ecosystem/

Behind the Cloud: The Untold Story of How Salesforce.com Went from Idea to Billion-Dollar Company-and Revolutionized an Industry	Book	Benioff shares the strategies that have seen Salesforce grow from a small start up into the world's fastest growing software company.	https://www.amazon.com/Behind-Cloud-Salesforce-com-Billion-Dollar-Company/dp/0470521163
Trailblazer: The Power of Business as the Greatest Platform for Change	Book	Benioff gives a behind-the-scenes look at Salesforce and reveals how the company's core values and commitment to giving back to the community have been the secret to its growth and success.	https://www.amazon.com/Trailblazer-Business-Greatest-Platform-Change/dp/1984825194/
Salesforce: The Multi-Billion Dollar Subscription Based CRM	Article	Learn about Salesforce business model.	https://fourweekmba.com/salesforce-business-model/
A Cup of Chai on Salesforce	Podcast	Listen to a Salesforce user and implementer explain what makes Salesforce so good	https://themokaya.com/2021/07/15/a-cup-of-chai-about-salesforce/

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