

SaaS Industry in China: A Broad Image

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2023 Supplementary Document

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01 Brief Introduction of SaaS

SaaS (Software-as-a-Service) is a cloud-based, on-demand software delivery model in which clients are provided with out-of-the-box applications and IT services at significantly low prices flexibly calculated.

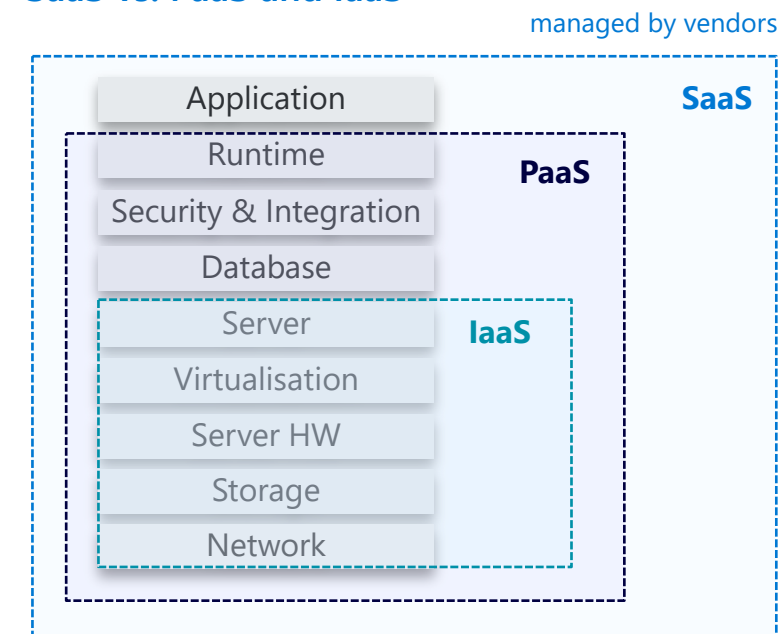
How to distinguish SaaS from traditional software

- **Product/Service:**
 - Cloud-based, hosted on public clouds (e.g. Azure, AWS, Alibaba Cloud)
 - Web-oriented Technology Stack, including JavaScript, SCSS, Java
- **Business:**
 - Pay-as-you-go, features differ between subscription plans and increment paid
 - Continuously IT support, on-demand response and update following

How to distinguish a SaaS provider from a traditional software provider

- **Company:**
 - Gross profit margin > 50% (traditional software company: around 30%~40%)
 - Less private delivery, more standardised features
- **Industry Specifics (esp. Vertical SaaS):**
 - Strong demand for data security – private delivery would be of acceptance (eg. medicine, finance, government)
 - Analysing contracts and the size of the delivery team/customisation team

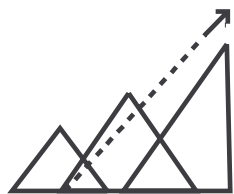
SaaS vs. PaaS and IaaS



02 Key Aspects of Product Assessment and Valuation

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1.

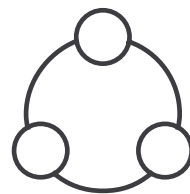


Understanding the core of software business

Standardised Product + Low Marginal Cost = **High Margin**

Standardised Product =
Standardised Pricing Strategy
→ **Scale Effect**

2.



Practical and Sustainable Business Logic

Renewal/Retention being as the lifeblood of SaaS enterprises

Contract and level design of subscription billing

The extent of product features

3.



The Demand/Need from Real Economy

Following **the trend of enterprise digitalisation** in different industries

Following **the industry lifecycle** (acceptance, transformation, selling)

4.



Running at a loss but predicted to have a positive cash flow

→ **P/S** instead of P/E

Divide its revenue into SaaS business, licence business, customisation and more

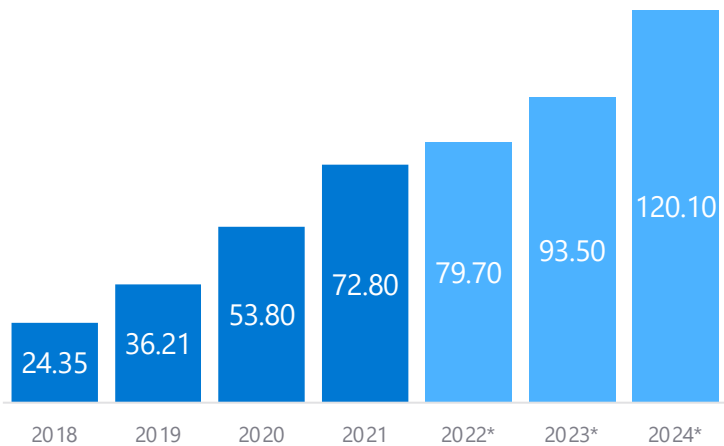
→ Using different multipliers

“The thing that surprises many investors and boards of directors about the SaaS model is that, even with perfect execution, an acceleration of growth will often be accompanied by a squeeze on profitability and cash flow.” - Ron Gill

03 SaaS in China: Market Overview

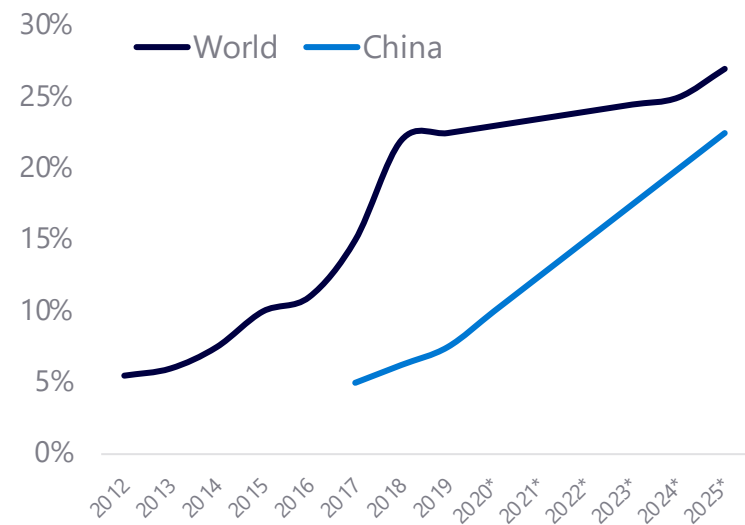
Key indicators

Market Size of SaaS in China (in billion yuan)



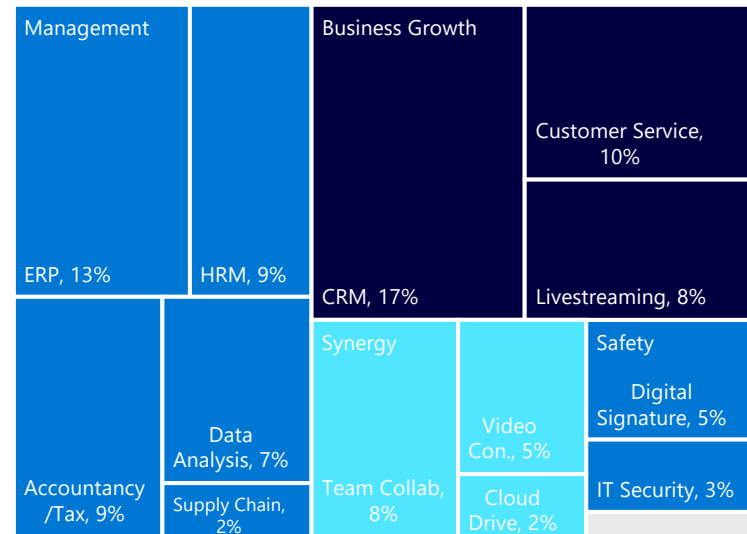
Source: Statista. The asterisk mark (*) represents estimation.

SaaS Penetration, world and China



Source: Gartner, IDC; Deloitte. *estimation

Market Shares of Enterprise SaaS in China



Source: iResearch Consulting

04 SaaS in China: Future

The fact: low penetration and saturated vertical markets

- **Low SaaS penetration generally:** $\approx 10\%$
- **Low SaaS penetration in traditional industries:** with the slow process of enterprise digitalisation
- **Saturated vertical markets:** players are more than games – fierce competition and the bold moves of tech giants

The action: timing and opportunity

- **Timing is unprecedentedly important:** cutting in consumers' process of falling into the subscription/digital habits and dominate
- **Opportunities lie in small overlaps between vertical markets:** creating new demands from recurring problems in the real business

Case Study

Each case is targeting a specific section of industry research, including the market overview, the business model of a company, the product characteristic, and so forth.

Case Study: Salesforce

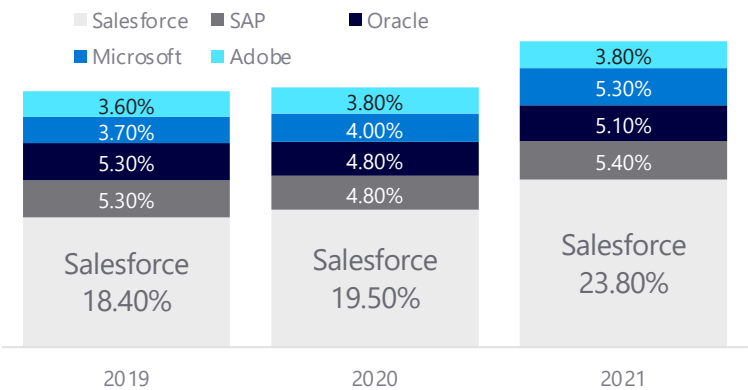
Salesforce (NYSE: CRM) is the largest enterprise software firm by 2022, providing customer relationship management (CRM) software focused on sales, commerce, service, and analytics with one integrated platform named Customer 360.

Product Introduction

Salesforce provides a product mix of solutions for different industries based on Customer 360 platform, covering every step of commerce and the whole generation of customer lifetime value. The platform could be divided into 5 roles: Digital, Sales, Service, Marketing, and IT.

Market Overview

Salesforce takes up the biggest market revenue share of CRM applications market worldwide from 2016 – 2021.



Important Acquisitions

Salesforce continues to acquire companies providing digital services in different sectors to expand its product family and interact.

In 2021, Salesforce completed the acquisition of the team collaboration platform, **Slack**, to “create digital HQ”.

In 2019, Salesforce acquired the leading analytics platform and tool, **Tableau**.

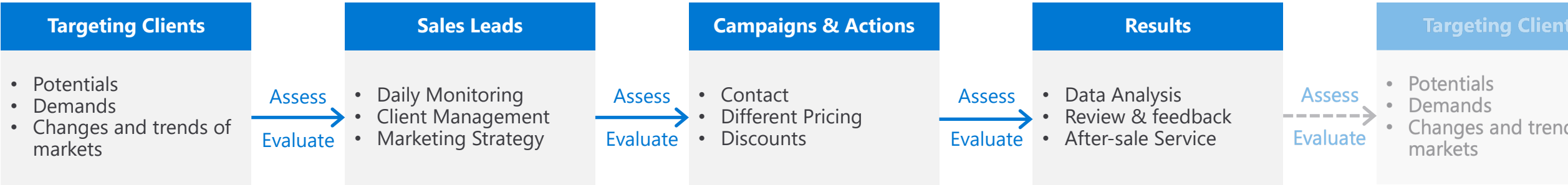
In 2011, Salesforce acquired the leading cloud application platform **Heroku** and integrated PaaS business into the product family.

Source: Statista

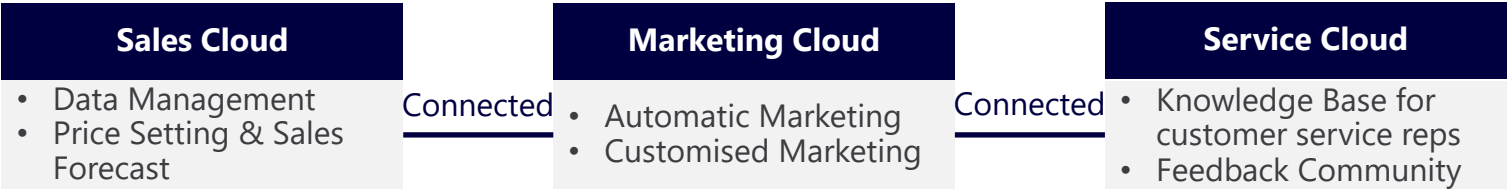
Case Study: Salesforce

How Salesforce helps clients in selling

General process of selling



Salesforce joining each step with digital management, automatic operation, and smart prediction empowered by artificial intelligence

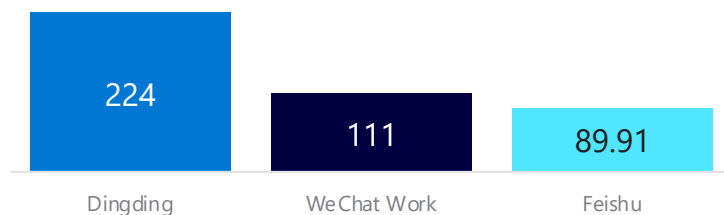


Case Study: General Team Collaboration Tools in China

Team collaboration tools are regarded as the entrance of enterprise digitalisation, assisting in work conversations and meetings, management, schedules, approvals, and gradually covering the whole value chain within an entity or a whole industry.

In China, there are 3 giants in this segment, namely Dingding, WeChat Work, and Feishu (Lark for international).

MAU of Dingding, WeChat Work, and Feishu
(in million yuan, September 2022)



Source: Questmobile

Underlying Problems of Chinese Team Collaboration SaaS

Costs are not lowered with the increasing scale of users as most of them are using free versions, and research costs are even soaring due to new demands and competitions

Difficulties arise from international business, especially for Lark (Feishu Intl')

Case Study: General Team Collaboration Tools in China

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Recent activities regarding business strategies of three (2023)

Dingding: Reorient to PaaS (Platform-as-a-service) and launch “Cloud+Dingding”

Reorient to PaaS: Dingding itself only provides basic functions like IM, Calendar, File Management, and so forth, while other features would be equipped by third-party ISVs and charged by commission.

“Cloud+Dingding”: Dingding shifts its focus to larger clients and continuously offers customisation and private deployment for them, while for SMEs there would only be public cloud deployment and standardised products.

WeChat Work: New pricing and a possible package selling

New pricing: From the previous “platform technology service fee” calculated per app used to “platform API calling permission fee” calculated per API call

Package selling: Tencent is considering a Microsoft-365-alike collaboration tool package selling strategy combining WeChat Work, Tencent Meeting, and Tencent Document.

Feishu: Release Feishu People, an HR SaaS integrated with Feishu

Feishu People: Not only an attempt of entering HR SaaS business, targeting SMEs and new startups but also an entrance of enterprise digitalisation by selling its “advanced management” business concept

Old problems remain: Careful pricing strategy in case of losing already-signed clients and free version users; Labelled or stereotyped as a light tool for small- and medium-size teams

Case Study: Microsoft 365

Product family of Microsoft 365

By User

- Personal** (Individual)
- Family** (1-6 people)
- Business**
- Enterprise**
- Education**
- Non-profit Organisation**
- Government**

By Software

- Web apps and desktop apps of Office**
- Cloud:** OneDrive
- Mail and Calendar:** Outlook, Exchange
- IM:** Teams
- Third-party:** SharePoint, Yammer, Viva
- Analysis:** PowerBI
- Security:** Information Protection, Virus Detection, Identity Authentication

Current Name System of Products in China

- Enterprise:**
 - Microsoft 365 Enterprise: E3, E5, F3
 - Office 365 Enterprise: E1, E3, E5
- Business:**
 - Microsoft 365 Business (International/China): Basic, Standard, Premium, Apps for business
- Home and Personal:**
 - Microsoft 365 Home: Family, Personal, (Basic for international only)

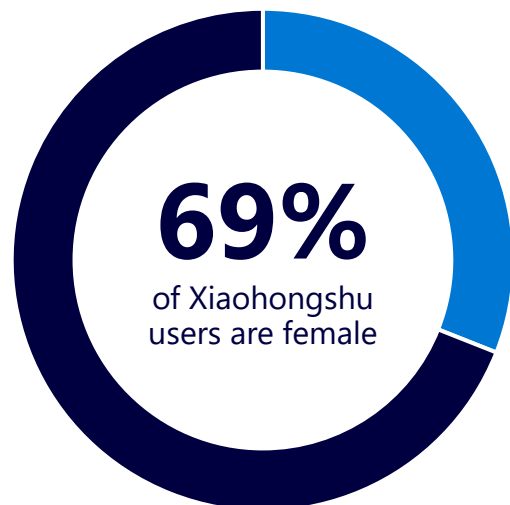
Source: Microsoft

Case Study: Xiaohongshu (Little Red Book, content community, not SaaS)

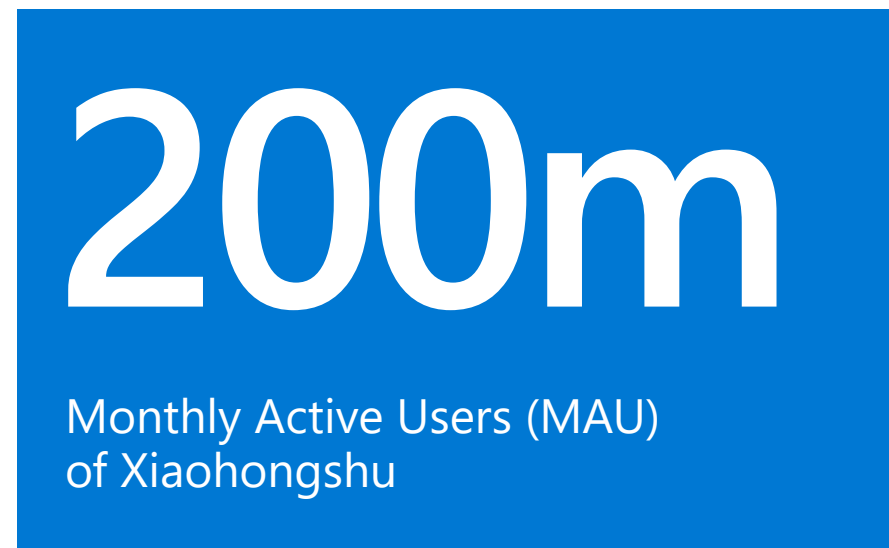
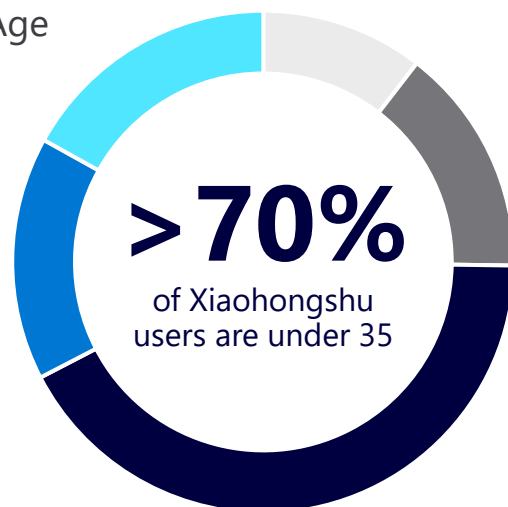
Xiaohongshu is a fast-developing Chinese social media/content community to share text-within-picture or video content and e-commerce platform. The amount of its monthly active users (MAU) doubled to 200 million from Jun 2020 – Jan 2022.

Key User Indicators

Sex



Age



Source: Questmobile (December 2021), Xiaohongshu Press Releases

Case Study: Xiaohongshu (Little Red Book)

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Product characteristics making Xiaohongshu a standout



Realness

- Real **people** sharing user-generated content
- Real **motivation** for sharing: interest or profit
- Real **content** based on real-life experiences
- Real **labelling**: triggered by user actions



As a Tool

- Double-column homepage of text-within-picture contents:** more detailed than Instagram, more efficient than TikTok, giving some power of decision back to users
- Search with purpose:** shorter link/journey to find useful, real-time information than search engines
- Continuously receiving positive feedback:** strong emphasis on content quality and the community instead of key opinion leaders (KOLs) as most users have less than 500 followers



Chinese Information

- A possible answer for problems in Chinese internet:** the lack of promptness, openness, readability and the variability of people's actions – Xiaohongshu is no social media (eg. Weibo), no search engine (Baidu) wholly but a combination of two and lives in a grey area of supervision
- A community for Chinese people with similar cultural backgrounds,** including Chinese who live abroad or share the same cultural origin

Case Study: Xiaohongshu (Little Red Book)

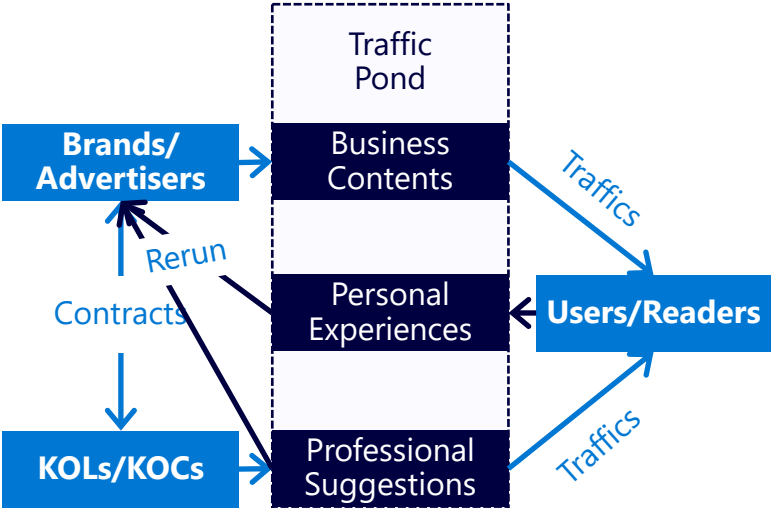
Business model

The Business Model of Xiaohongshu

80% of revenue from advertisement, 20% from e-commerce

Advertisement			E-Commerce
Ad space	Ad commission	Promotion	Self-Operated
Fixed-price ads	10% for both advertisers and content creators	Selling ad exposure by quantity or quality to individual users	Traditional model: price gap
Bidding-price ads			Third-Party
Search results, homepage recommendation	Blind Advertising		Livestreaming
			Commission & Fee

The Cycle of Traffics



Source: Xiaohongshu Press Releases, CC Data, Weiboyi, Tianfeng Securities

Thank you!

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