

Xactly visits more locations on its sales performance roadmap, gives Force.com a ride

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Sector: Enterprise Software

On-demand startup **Xactly** is living up to promises it made back in March 2007 to build out a sales performance apps suite based on its core Incent sales compensation software. This year will see more members of that suite becoming available in areas including quota and territory, as well as price management.

Xactly is also working on a version of its Rewards app, which will run natively on **Salesforce.com's** Force.com platform. While non-cash rewards compensation has long been a staple motivator within corporate sales forces, Xactly and its peers are seeing more customer interest in broadening the use of those incentives across their workforce to encompass marketing and call-center staff.

The 451 Take

Don't you like it when a software vendor says what they're going to do and then they actually go ahead and do it? We're impressed that Xactly is making good on its March 2007 promises. The vendor has left itself a fair amount to do this year, but we're reasonably confident it'll deliver those modules and updates as promised. We're interested to see how much VC love Xactly's series D generates; lingering at the back of our minds is whether sales performance management is truly a sustainable niche market outside of CRM. We're also intrigued to see how some of Xactly's newer forays into Force.com development and its benchmark and assessment services will be embraced by customers.

Context

Based in San Jose, Xactly was founded in March 2005 by executives previously with **Callidus Software**, one of the two pioneers of the sales compensation apps market in the late 1990s, the other one being **Centive**, originally known as **Incentive Systems**. While those two players started out by going after enterprise-level business, Xactly's sweet spot is among midmarket companies.

Privately held Xactly employs around 120 staff and focuses primarily on the North American market, although it's beginning to reach out to European customers. The startup has 100 customers, double what it had a year ago when we last talked with the company, and we'll look more at the makeup of that user base in our customers segment below.

Xactly doesn't provide specifics on its current financial picture, but expects to be cash-flow positive in 2009. The startup has already raised a total of \$27m in venture funding spread out over the course of three rounds of investment. The startup plans a series D round by the middle of this year. In September 2005 **Bay Partners** and **Rembrandt Ventures** led a series A investment, which generated \$4m. The two VCs then contributed to a series B round of

\$8m in March 2006 headed up by new investors **Outlook Ventures** and **Spinner Asset Management**. All four VCs took part in the March 2007 series C round, which raised \$15m and was led by **Alloy Ventures**. Some of the money raised is more in the way of the rainy day fund for Xactly rather than for immediate spending, according to the startup.

Customers

Xactly's target audience is companies with between 100 and 2,000 payees, either employees or people outside of an organization, like channel partners. These users have previously tended to calculate compensation using spreadsheets and have lacked any kind of automated compensation management. That said, Xactly's Incent software is also in use at smaller and larger organizations than solely that midmarket sweet spot. Customers drawn from a variety of different vertical markets include **Aspen Technology, Best Buy, Cablevision Systems, Cox Media, DHL Global Mail, John Hancock** and **Scripps Network, Time Warner** and **US Bioservices**.

A typical installation is around 250 subscribers. The list price for the Incent sales compensation app is \$50 per subscriber per month, equating to an annual cost of \$600. Other Xactly modules each cost an additional 10-15% per user per month, with some bundling options available.

Last year, Xactly also began catering specifically to small firms with its Incent Managed Service offering for those companies with a maximum of 25 payees. The service has three tiers, enabling customers to choose how much of their compensation management functions they want to outsource to Xactly. The technology underpinning the SMB product is the same as bigger brother Incent, so users can switch to the heavier-duty offering when their operations require it.

Products

While Incent is all about the creation, deployment and fine tuning of sales compensation management, Xactly is gradually building upon that foundation to create a suite of sales performance management apps. The data required to automate sales compensation lives in a variety of third-party sources, including ERP and CRM apps. Xactly brings all that business information together in a secure, hosted repository where it can be analyzed and accessed by Incent and the other sales performance management modules.

Already available are Xactly's data management, analytics, modeling, credit assignment and rewards apps. A quota and territory management module is due out in the third quarter of this year, followed by a price management module in the fourth quarter.

Xactly is keenly aware of the value of the data it collects in its repository, which provides a historical record of products sold, the buyers, and the channels used. The startup's partnered with research firm **CSO Insights** to produce a series of sales performance management benchmarks based on both data from Xactly's repository and surveys conducted by CSO Insights. Xactly intends to package up the benchmarks together with assessments of how a particular company might rank against its industry peers in sales performance management. Called Xactly Research, the service will be available in the second half of this year, with pricing still to be determined.

Rewards is the first module where Xactly will also offer a version of the app built natively on Salesforce.com's Force.com development platform. The startup plans to unveil Xactly Rewards for Force.com in May at the on-demand CRM vendor's Dreamforce Europe conference in London. At the same time, Xactly declares itself very open to the future possibility of also using other vendors' alternative platforms.

Xactly Rewards for Force.com will be tightly integrated with Salesforce CRM so that, for example, when a marketer moves an inbound lead to the CRM app, that action could automatically be rewarded by the assigning of redeemable points to that individual. The person can then access their own compensation statement to see how many points they've amassed and what items they're eligible to receive from an online catalog. The rewards can range from tickets to concerts and sporting events to travel and vacations. At present, the online catalog is geared toward US users, but Xactly intends to make rewards redemption fully international later this year.

Partners

Salesforce.com remains Xactly's closest partner with Incent available on the CRM vendor's AppExchange online marketplace. Salesforce.com is also an Xactly customer, using the startup's software to manage compensation of its 800-strong sales force. Around 50-55% of Xactly's 100 customers also use Salesforce CRM, and the two companies engage in co-marketing and co-selling efforts.

But Salesforce.com is no longer the only CRM vendor to have direct integration via single sign-on into Xactly's software. The startup late last year began offering the same tight bond with **Oracle's Siebel** On Demand, recently renamed Oracle CRM On Demand. Xactly is also beginning to build similar hooks into **Microsoft's** SaaS Dynamics CRM Live. CRM was the first logical integration step for Xactly, but given the variety of different apps that Incent and its other modules draw upon, the vendor expects to forge other relationships with ERP vendors. One particular area of interest is teaming up with human resources (HR) players, for instance, building on the existing relationship with Xactly partner and customer **SuccessFactors** and reaching out to startup **Workday Inc.**

Xactly is also keen to work with **SAP**, particularly in relation to the vendor's on-demand midmarket Business ByDesign suite, which includes ERP and CRM apps.

While Xactly's data integration partnerships with **Informatica** and **Pervasive Software** remain in place, the startup is stepping back from its relationship with business intelligence vendor **Cognos**. Xactly feels confident in the improvements it's made in analytics since debuting the module in October 2006 and no longer relies on Cognos' reporting capabilities. The startup expects to come out with a major new release of its analytics toward the end of April.

Competition

As we mentioned before, Xactly is most often pitching its software to companies using spreadsheets, not other sales compensation apps. However, the rivals it does see from time to time are Callidus and Centive. Centive sold off its high-end CompCentral business in 2006 to focus purely on the software-as-a-service (SaaS) SMB space with its Compel

software, so it's more of a competitor to Xactly than Callidus, which more often targets larger users.

When it comes to CRM players, Xactly positions itself as complementary to what those vendors offer. While CRM is mostly about pre-sales data, what rocks Xactly's world is all geared to post-sales information, so the two disciplines are rather different. Sales compensation management also involves intensive calculation work that's not part of CRM. Of course, should a CRM vendor, or for that matter, an ERP player see enough value in owning a stake in sales compensation management, they could buy their way in. Xactly doesn't consider HR players that offer compensation capabilities like **Authoria**, **Softscape** and SuccessFactors as head-on competitors, since their offerings tend to be geared more around one-time payments like bonuses rather than continually recurring instances.

One future Xactly competitor is startup **Makana Solutions**, headed up by former cofounder of Centive Liz Cobb. Makana brought out its first product, Motivator, a stand-alone compensation plan design and modeling tool, in October 2007. But the startup intends to offer a suite of sales compensation software initially aimed at SMBs with a maximum of 50 payees. Xactly looks at Motivator today and sees a complementary technology to its own, but it could well be looking at a rival for its lower-end business once Makana has its suite in place.

Strengths	Weaknesses
Xactly's executed strongly so far on broadening its initial focus on sales compensation management into a well-thought-out sales performance management suite of apps. The company is well funded and is generating a lot of good buzz for its efforts.	The startup's integration efforts have only really just begun, although hooking into two, soon to be three, of the leading on-demand CRM apps is a good start. We wonder whether Xactly can demonstrate the same smarts in choosing its ERP and other apps integration wisely.
Opportunities	Threats
Any time the main competition is a spreadsheet, players in an emerging app area are likely to perform well. Sales performance management is one of those areas that companies have previously struggled to get their arms around, and automation of processes is very welcome.	While clearly an area where prior expertise in field counts, a large CRM or ERP player could potentially buy itself into the sales performance management space. We wonder where that would leave Xactly, assuming it wasn't the acquisition target itself.

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