**SaaS Show 1 -- The Impact of COVID-19 on the SaaS sector**
**How COVID-19 Accelerated the SaaS Sector**

In today's show, you'll hear investor perspectives on the COVID-19 impact on the SaaS sector.

This is Investor Perspectives, I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

It's the time of COVID-19. Software as a Service is currently undergoing tremendous change across the U.S. The lockdown has disrupted many industries such as travel, hospitality, restaurants, and more. We have investors and startup founders describe the impact of COVID-19 on the SaaS market.

Our guests are:

1. **Matt Oguz, Chief Investment Officer, Iris Family Office and Founding Partner at Venture Science, Venture Science**
2. **George Spencer, Managing Partner, Seyen Capital**
3. **Chris Hall, Principal, Escalate Capital Partners**
4. **Nick Adams, Managing Partner, Differential Ventures**
5. **Jason Kraus, Partner, EQx Fund**
6. **Karey Barker, Founding Managing Director, Cross Creek**
7. **John Gu, Principal-Growth Equity Group, Spring Mountain Capital**
8. **JD Weinstein, Head, Global VC Practice, Oracle**
9. **Stuart Kime, Co-Founder, Chief Future Officer, hOp**

I hope you enjoy this episode.

**Our first guest is Matt Oguz,** Chief Investment Officer, Iris Family Office and Founding Partner at Venture Science, Venture Science

**Hall T Martin:** [00:05:49] Well, hello, this is Hall Martin with Investor Connect. Joining us today is Matt Oguz, Chief Investment Officer at IRIS Family Office and Founding Partner at Venture Science, a San Francisco, California-based investment company that applies rational fund management principles such as stochastic finance and multi-factor analysis to venture capital. Matt, thank you for joining us.

**Matt Oguz:** [00:06:10] Thank you for having me.

**Hall T Martin:** [00:06:11] Well, great. Well, it's been a few years since we last spoke, and a lot has changed since the last time we had a podcast interview, but, want to talk today about SaaS and the impact that COVID has had on that sector and, just want to get your take on that. What do you think the overall impact was and where do you think things are going?

**Matt Oguz:** [00:06:32] Well, yes, Hall, it's been a few years, it's great to be back on the show today. Obviously, the COVID era is a rough period for all of us, and first and foremost, our thoughts and prayers are with everyone working on the forefront to solve this massive problem and make it a thing of the past once and for all, hopefully sometime soon so all of us could get back to work and our children could get back to their classrooms. But in the meantime, obviously, it has changed the way we work and the way we do business. Some people, including myself, were fortunate enough to already position ourselves in the realm of communicating with our partners, our stakeholders, our affiliates, our service providers, for the most part remotely. You know, we're fortunate in the San Francisco Bay Area that most people want to come visit us here rather than us getting on the plane to go someplace. But, you know, I've always noticed a certain level of efficiency in terms of getting work done when you're not delivering a physical product or service per se. And so, unfortunately, for those folks in customer-facing businesses, whether it's a retail operation or, you know, restaurants, coffee shops, and so forth, they've been impacted the worst. But for everyone else, whether that's, you know, legal services, investment services, where instead of physical products, digital products kind of exchange hands and drives the economy that way, those sectors adopted rapidly and adopted well. And, to enable all of that and to enable the growth in the remote exchange of thoughts, and ideas, and businesses, and capital, and payments, and money, and everything else, you know, obviously there's emerged a major need to create the enabling infrastructure for those. And so, for instance, companies like Zoom thrive well today in a much faster pace than ever expected or anticipated. Why? Because, you know, they're essentially software as a service company and they provide underlying infrastructure to people who need. Other software as service companies, whether it's a marketing platform, or an email platform, a design platform, you name it, just going down the stack, all those platforms, especially the best-of-breed providers are doing a fantastic job making everybody's lives easier and as a result, reaping the economic benefits of all of that. So, and in parallel, obviously, the underlying technology of all of these software as a service businesses is cloud technologies. We have three or four massive cloud technology providers in our country and around the world, now, you know, all the big names, the usual suspects, AWS, Microsoft, Azure, IBM, Oracle, Google. Fortunately, these companies had already built-in capacity and they were able to expand that capacity to provide the software bandwidth that essentially fueled all these software as a service companies and what we do today. And so, on that front, obviously, the economic benefits once again played in and those companies thrived. Apple, in a major way, is also a cloud provider today with its photos, and iCloud, and files, and so forth. And so, software as a service became even bigger than what it was before during COVID era.

**Our next guest is George Spencer,** Managing Partner, Seven Capital
Hall T Martin: [02:29]: Joining us today is George Spencer Spencer, managing partner at Seyen Capital, a Chicago based VC fund that focuses on venture growth, stage investments in information technology and software. Is in the process of raising its second fund. George Spencer, thank you for joining us again.

George Spencer: [02:54]:  Thanks for having me.

Hall T Martin: [02:56]: We all know about covid impact on the market, in the industry and so forth, and today we're talking about SaaS businesses and wanted to get your take on… what was the impact of covid on SaaS in general. What do you see out there?

George Spencer: [03:13]: I would say, you know, I probably got, I don't know at this point in time 10 recurring revenue businesses in my portfolio. And most of those are either SaaS or some level of managed service, which has an embedded level of software in it. I would say that the effect has been different across different sectors. I would say the companies that were selling into the sales and marketing organizations of companies have had a little bit bumpier ride than some of the others. I mean, in general, SaaS is way more resilient business model than enterprise software ever was. You know, and as long as the customers are sticky, you can hunker down and generally survive everything. I mean, I was early into the SaaS space. I mean, I was investing in software when it was called service-oriented architecture protocols back in the late 90s. And those businesses tend to be very very resilient in downturns. You've got less of course, you got____________, you're in a sector that's just obliterated. I mean, if you think about companies that were selling into the airplane or the airline industry or the airplane manufacturing business. They probably got just totally hammered here between like… You know, in my portfolio I have, I guess three companies selling into this kind of marketing functions of organizations. You know, they've had a bumpy ride, but I think by and large, they will all survive. We're starting to see the one that was in the worst position is starting to kind of tick back here. None of them are thriving right now, but they're all they're all going to survive on some level when one of these things happens, if you're in the wrong sector, surviving is the most important. You know, I've got another company that's been selling into the insurance industry. I would say they've done fine. Fine a while, you know, I think it took a while for the insurance people to figure out how to do business remotely. But once they figure that out, things were sort of back to normal.  You know, I made a couple of investments in telehealth businesses, which are partially SaaS businesses, and those are just an absolute tear at this point in time. I closed an opioid telehealth deal March 12th, the timing was unbelievable. I mean, they're just, I mean the growth rate there is pretty notable. Anyway that's kind of the lay of the land here. I think that in general, we've seen the resilience I think we have. The other thing I would tell you is that technology and SaaS frankly allowed a lot of the economy to keep operating in this world, which it probably wouldn't have been able to do without it.

Hall T Martin: [06:14]: When the lockdown's hit, there was a prediction that even the resilient SaaS companies would take something of a hit to sales because the economy overall was contracting. You heard anywhere from 20 to 30% forecasts for those that were still in a good area of the economy. What kind of hit sales did you think most of them take?

George Spencer: [06:37]:  You know, I mean, the question really is, what's the triumph, the sales haven't been affected that much at least. I mean, there were sort of an immediate like, what the hell just happened? You know, a period of time. I would say in general, the companies that were selling mission-critical stuff probably got affected a little bit, but haven't been affected that badly. Companies selling, like I said, company selling into sales and marketing, which tend to be less, you know, mission-critical and marketing budgets were going all over the place had a harder time. And we did see higher levels of churn there for a while, especially in software that wasn't super mission-critical or strategic to customers. But looking at any of these situations when cash is tight and you don't know where the next dollar is coming from. One of the things you can do in a SaaS company is basically shut down sales and marketing. I mean, I tell my entrepreneurs, if the fish aren't biting, don't waste money on bait. And that's some of the things that you can do. And you can hire sales guys back pretty quickly if you need to. Anyway, that's a long way of saying, it wasn't a disaster, but it hurt some guys. And I wouldn't say we saw any real significant decline in sales and marketing.

**Our next guest is Chris Hall,** Principal, Escalate Capital Partners

**[00:01:19] Hall Martin:** Joining us today is Chris Hall, principal at Escalate Capital. Chris, thank you for joining us.

**[00:01:27] Chris Hall:** Thanks for having me.

**[00:01:28] Hall Martin:** Great, so Escalate Capital, you guys are a leading growth capital provider in Austin. Since 2005, you've invested in quite a few deals, over a hundred software, SaaS, and tech-enabled companies, but can you tell us a little more about your group?

**[00:01:42] Chris Hall:** Sure, so we are a mezdebt fund or a venture debt fund, so it's not your traditional, you know, Series ABC equity, we look a little when companies are still burning money but have surpassed that $10 million run rate revenue, you know, benchmark, you know, proof of concept is already, you know, proven out and they want go to market, our capital is used to help scale the business. So it's less for a company to figure out their idea and more blocking and tackling, put fuel on the fire and continue growth. So, our capital's a little different, instead of owning say just a random number 10% of the company, we would own maybe 1% of the company, but we also earn interest on the principal and we get our principal back before the equity holders would, but we get our upside after the preferred equity holder. So, it's a scalable and more efficient way to grow your business that's less dilutive.

**[00:02:43] Hall Martin:** That's great. So you focus on SaaS, and we've come out of the COVID lockdowns and various stages of reopening and just wanted to get your take is, what would you think is the major impact of COVID on the SaaS businesses out there?

**[00:02:59] Chris Hall:** So it affects, you know, different sectors, you know, where these companies fall. So, things like cybersecurity, cloud, e-commerce, healthcare IT, you know, there are elements of these sub sectors that I think have positively benefited from, you know, from this, just ______________, like with cybersecurity, when people work from home there's more endpoints so companies are more susceptible to hacks, right, to intrusions. So you know, impactful solutions are even more impactful and more valuable. You know, cloud infrastructure, again, more distributed workforce, the scalability that cloud provides is important and moving from _________ to cloud is not easy, and how to manage that is not easy, and we had a cloud portfolio company that we would track cloud ________, they're _________ Enterprises, and the CEO told us that at that time, a few years ago, I don't think it's changed, there's a -100% employment rate for cloud engineers, and I don't think that's changed so you just can't hire. So, having these solutions enable that process, it's just even more important and it's really driven tech adoption, if you look at things like people my parents' age, FaceTime was a relatively new technology for them and now they have Zoom calls with their friends weekly. So, it just has sped up that adoption. In short, that's the biggest change, just adoption of technology has accelerated much faster over these last six months than it has in I think, you know, years.

**[00:04:43] Hall Martin:** All right, we certainly saw that with Zoom and some of the tools that were being used in the lockdown in a big way, but not all companies were like Zoom. Were there some that were affected negatively from the lockdown?

**[00:04:56] Chris Hall:** I think a lot of it would be who your customers are. Before we'd look at customers and just, it was either is it enterprise or SMB, right, small-medium business? And that was really as deep as we went into it because, in enterprise and small business, you know, there's some differentiation there between the likelihood a restaurant might close pre-COVID versus a law firm, right, so law firms stick around usually and restaurants have a higher close rate or a failure rate. But yeah, it was enterprise or SMB, where now it's like what's your exposure to tourism sectors, I mean, in retail, in-person retail versus e-commerce, right? So, same bucket but very, very different responses, so now we'll look a little harder into who is the end consumer. But yeah, I mean, it's not exactly too insightful to say tourism kind of hit the hardest, right, and retail was closely behind it. So, you're in the same software product that would serve, you know, a high tech, you know, company or maybe a healthcare company would be okay, whereas the same service to something that focused on airlines or booking hotels or something like that would probably have gotten crushed, so.

**[00:06:12] Hall Martin:** I read during the pandemic that some people estimated or forecasted that in general SaaS business would see reduced sales by about 20 or 30%, and with groups like Zoom we really didn't see it, you know, it was I guess an essential service more or less, but with those that weren't an essential service, what kind of sales impact generally did you think cut across the board?

**[00:06:35] Chris Hall:** Well, everyone's written their plan down, everyone should have. A lot of it is ___________customer paralysis, so, you know, say pre-COVID you assumed you'd grow say 100% a year, which would be great, it's very aggressive, it just easy round number, well, you have certain assumptions on cycle time, you know, how long it takes to close deals, well now to figure out these, you know, selling to enterprises, you don't know what the future holds, it's very difficult. Why would you be in a hurry to sign, right? Why not wait a couple of months to see, you know. We originally thought the lockdown would last two weeks, right, and it's been six months, and it's different depending on what state or sometimes what city you're in, dive deeper even if you're allowed to go out you _________ feel safe, right, so it's maybe it's demographics, you know. Unfortunately there's political aspects of that too which is very different by geography, so if you're a customer why would you sign up for it today when you can wait a couple months, and that's a drag on growth, maybe a year from now it's made up and growth accelerates faster, but it's just unrealistic to think that you can close deals at the same time and sometimes, you know, with big enterprise sales, you know, large dollar amounts, you meet in person, you press palms, you can't do that now, right, especially in certain parts of the country you have to quarantine for two weeks before you have meetings, like that's just not sustainable. So it's not, you know, feasible, so you try, you know, to replace it with Zoom but it just drags that process out to where it would bend that curve, you know, common phrase _________ recently, but with sales growth. So, it's more of managing to your bottom line, like if you're planning on hiring 20 new sales staff to, you know, maintain rapid growth, like maybe you wait a little bit because deals won't be closing as quickly.

**[00:08:22] Hall Martin:** And what about the effect of the stock market? Of course it dropped dramatically at the beginning and then it came back, and then now even today we have many companies putting their IPO back in play faster than I thought most people would expect it to come back, but do you see that same impact on SaaS revenue and so forth as the stock market is back up, and people are back at work, and these people that are using their tools are back at work, that should really drive it forward, do you see that as an impact?

**[00:08:51] Chris Hall:** So there's always, you know, a bit of a disconnect between the public markets and the private markets and that usually goes out to, you know, we look at multiples, and you know, with _________ multiples and then when we price deals, you know, that is an input in our pricing, but the disconnect seems much wider than I've ever seen it before, so I wish I understood what was going on. So the market seems to be pretty steady, a lot of that is, you know, optimism I think coupled with unlimited stimulus, at least in the short term, so I mean, but even if stock prices are doing well, you know, the company is still in budget and with all the uncertainty, I mean, uncertainty just lowers the value for everything so it still drags growth, but yeah, I really wish I knew what was going on in the public markets, I thought I'd be doing a lot better, but I invested.

**Our next guest is Nick Adams,** Managing Partner, Differential Ventures

**Hall T Martin:** [00:01:49] Joining us today is Nick Adams, Managing Partner at Differential Ventures. Nick, thank you for joining us.

**Nick Adams:** [00:01:58] Hi Hall, thanks for having me.

**Hall T Martin:** [00:01:59] So, Differential Ventures, you know, you invest in early-stage tech companies and, maybe you can tell us more about your company there and what you guys do.

**Nick Adams:** [00:02:08] Yes. So, we're a New York-based seed fund investing of our Fund I right now, two new funds coming online in the next few months, and our focus is really pre-seed and seed investments, usually somewhere, our first check is usually $250,000-$1 million into companies at those stages. We invest really only in enterprise B2B technology with a pretty heavy focus on data science, machine learning, and AI.

**Hall T Martin:** [00:02:38] Well, great. And so, we just went through COVID pandemic lockdowns and are at various stages of reopening now, and you deal in the SaaS world in particular, as well as other places, and I'd like to hear your take on what was the impact of COVID lockdowns on the SaaS market. What changed and where is it going?

**Nick Adams:** [00:02:59] I think we're still learning in a lot of ways, but, you know, there is sort of the immediate reaction with COVID and quarantine, that this was going to be really bad and protracted and the reaction was to slow down a bit and retrench and think about what your startup is. So, I think the obvious challenges and opportunities that were created was just how do you get a bunch of employees online very, very quickly, effectively? And, probably the biggest challenge these days is securely. So I think, obviously working from home and adopting, accelerating, or accelerating adoption of a lot of technology that, you know, candidly, has been out there for quite some time, but not totally embraced by large enterprises, has accelerated pretty quickly. So for us, you know, we're sort of anticipating an enterprise technology revolution at some point in time and for us, meaning a 5-10 year horizon in our fund lifespan. And it kicked off very, very quickly back on about March 13th of this year, things accelerated in a hurry. So, I think for us, we're looking at a bunch of different work from home, accelerate work from home solutions, certainly, zero-trust authentication and getting companies online or employees online very quickly, without introducing more risk to the network and then just how do you get everybody to modernize their work experience in a way they can still be productive from home and _______different areas for us?

**Our next guest is Jason Kraus,** Partner, EQx Fund

[00:01:57] Hall Martin: Joining us today is Jason Kraus, partner at EQx Fund, a Boston based venture capital and private equity company. EQx Fund is an angel investment fund that focuses on emotional capital, they look primarily for the founders and leaders that can grow the business and take a company from idea to exit and typically invest early on in the Seed Series A round. The fund is industry agnostic and follows an evergreen structure, allowing new investors to join at any point for the opportunity to participate in the next 20 deals. Jason, thank you for joining us.

[00:02:37] Jason Kraus: Glad to be here, yeah, thanks for having me on.

[00:02:39] Hall Martin: Great. So we had COVID come through, and we went through the lockdowns and the pandemic, and we're at various stages of reopening and so forth. And _________ talk about what was the impact on the SaaS industry structure from COVID, what did you see go on there, from your point of view?

[00:02:58] Jason Kraus: Yeah, I think companies in the tech space, SaaS included, sort of fall into three categories. There are some that their businesses were pretty affected. Anyone in SaaS _________, they're not as affected directly, like a lot of, you know, it's technology that can be built most of the time. Most of the time, these companies are set up for remote work anyways, but depending on their client base, it could be the SaaS for the travel industry or for the education space, other company or other industries that were more affected, it might affect their sales cycle, yeah, and sort of the progress there. But there's industries or sectors within SaaS that were pretty stable throughout, didn't have much of a change, and their client base didn't necessarily have much of a change; and then there's some sectors that see significantly more growth, if you look at companies like Zoom and other businesses that have a software as a service platform that enable more remote work, enable industries, or even enable some of the struggling industries to stay afloat and now become more of an essential tool in their toolkit.

[00:04:42] Hall Martin: Did you see any examples of offline companies going online after the pandemic and moving into the SaaS mode at that point?

[00:04:51] Jason Kraus: Yeah, so there's, I mean, in the event space, there's several new platforms that have come up, like, enabling event groups and remote conferences to now, like, have huge – I was on a pretty large conference the last couple of days that had thousands of attendees from around the world and they're on a platform that might have had some traction before, but now has increased significantly in their demand there. There's a lot of or several different companies like serving the restaurant, industry enabling businesses that might have only done over the phone ordering and other aspects of their delivery beforehand, and now needed to shift over to stay in business and continue to grow their business. And then, yeah, also more of B2B, like, even tools that enable or, with now, a lot of accountants and lawyers still have to be or transition from pretty much never working remotely before to managing the security and making sure all the document transfers go pretty or go smoothly and efficiently. So they also have new tools and systems that they've been signing up for that, might have been resistant to change in the past.

[00:06:40] Hall Martin: And what's an example of a company that didn't do well, even though they were on SaaS – do you see any SaaS businesses that were impacted negatively more than just this interruption in sales, but, in general, they went down quite a bit?

[00:06:57] Jason Kraus: Yeah, I'd say the first couple months, so like March-April, into even May were slower for a lot of companies. And then now that there's a little bit clearer timeline of or not necessarily one will go back to normal but, at least, more where there's more understanding of what's going to happen in the short term and long term, some of their sales will pick back up after some slower months in there towards the beginning of the pandemic.

**Our next guest is Karey Barker,** Founding Managing Director, Cross Creek

[00:11:10] **Hall Martin:** Joining us today is Karey Barker, Founding Managing Director at Cross Creek based in Salt Lake City, Utah. Karey, thank you for joining us.

[00:11:26] **Karey Barker:** Thank you for having me.

[00:11:28] **Hall Martin:** Well, great. Well, recently COVID has come through and made a big change in all of our lives and in many of the industries we work in. Today, I would like to talk about the impact of COVID on SaaS. And can you give us a brief update on what you think the overall impact was of COVID on the SaaS sector?

[00:11:46] **Karey Barker:** Absolutely. Well, I think when people think of SaaS, they primarily think of B2B SaaS, large software for major companies. And obviously, cloud software has had a huge acceleration from COVID, because those people are working from home, there's been a big push to get more of the applications that the employees and customers of those companies use in the cloud. And, of course, that means, moving from installations that are heavily dependent on sort of physical hardware and local software to cloud SaaS offerings. And, that's not going back. So, once you've made that transition, when COVID is over, hopefully, and everybody's back in the offices, nobody's going back. So that's a permanent acceleration. We're also seeing that conversion in B2SMB sort of small business. So this might be businesses as small as two or three employees, and in that space, I think it's not a conversion from perpetual software to SaaS. It's really the adoption of software at all. So something as simple as payroll for a small business was probably being done, physically writing checks, dropping them in the mail, that sort of thing. And we've seen a big adoption of just moving to cloud with COVID for even small businesses. SaaS is also B2C, like, consumer and people don't think of SaaS as much in that. But really, I think, if you think of something even like Netflix, this is really a _________ model for selling things to the consumer. And if you think about Netflix, obviously, that trend was longer way that people don't go to blockbuster anymore, they go to Netflix. But then you think about going to the theater, I think, for consumer, it's really replaced many traditional physical retail experiences where people might be using any number of media SaaS offerings, whether they're signing up for Hulu or Disney Plus or all these things are replacing a lot of physical entertainment being replaced by SaaS for the consumer. So hopefully, that gives you a sense, but I think, across the board, we think COVID has just been a very large accelerator for SaaS of all types.

**Our next guest is John Gu,** Principal-Growth Equity Group, Spring Mountain Capital

[00:03:06] **Hall Martin:** Joining us today is John Gu, Principal, Growth Equity Group at Spring Mountain Capital, New York based private equity investment management firm that focuses on alternative asset investing and offers investors a wide range of strategies designed to produce attractive risk adjusted returns. John, thank you for joining us.

[00:03:31] **John Gu:** Thank you for having me, Hall.

[00:03:32] **Hall Martin:** Great. So let's talk about SaaS, and let's discuss what you see coming up, and how did COVID-19 accelerate that sector?

[00:03:43] **John Gu:** Yeah, so we've been very bullish on SaaS for quite some time, to be honest. I think that COVID-19 as a whole, the pandemic has kind of acted as a catalyst for the digitization of the world as a whole, SaaS being a part of it. I think there are some very, very well-known household names nowadays, such as Zoom, which is the platform that we're on, as well as a lot of the household names like Amazon and workflow collaboration tools like Slack are just getting a huge lift from everyone having to work from home. For the companies that we typically invest in, we're typically investing in high-end enterprise software companies, and most of these companies do allow for some sort of workflow _________ work flow improvement. And so, by and large, they have seen an uptake in terms of adoption. That being said, COVID-19 as a whole has also injected a lot of uncertainty into the environment as well. And so, when it comes to sales process perspective, there has been an extra degree of uncertainty that weighs on the sales process. So it's a mixed bag for sure.

**Our next guest is JD Weinstein,** Head, Global VC Practice, Oracle

[00:06:46] **Hall Martin:** Joining us today is JD Weinstein, Head of Global VC Practice at Oracle. Oracle is a cloud technology company that provides organizations around the world with computing infrastructure and software to help them innovate, unlock efficiencies and become more effective. JD, thank you for joining us.

[00:07:05] **J.D. Weinstein:** Thanks for having me on the show, Hall, appreciate you having me here.

[00:07:08] **Hall Martin:** Well, coming from Oracle, you are indeed an expert at SaaS, and other aspects of software. So let's talk about SaaS and hear what you have in your thoughts about coming up and how COVID-19 accelerated that sector.

[00:07:26] **J.D. Weinstein:** Yeah, certainly. So, of course, at Oracle, we really specialize in helping B2B SaaS companies leverage all our different resources throughout the Oracle ecosystem to scale. And so, whether that be our global customer network or cloud solutions or what have you, that's really the goal of our division, our program, that's sort of based in research and development. SaaS was already the way of the future pre-COVID, and so, I think, in many ways, accelerated that transformation. But a couple of points maybe to note about the state of the industry before getting into it – if you don't already know this, every CEO or CFO has a spreadsheet of existing software spend with weighted rankings. And so, vendors below a specific line, because of _________ experiences or they aren't essential, whatever it is, are cut. And so, now, I think, you now, more than ever, need to demonstrate why you're above that bottom line. The next point is, now many SaaS businesses have adopted the product model of SaaS, meaning the future of cloud and recurring revenue, but maybe not necessarily the internal practices that go alongside with it. And so, that's what makes SaaS so appealing, this always on model. Many still put new sales at the center of the business model, when in actuality we've entered this age of extreme customer satisfaction. So your product and your customer experience needs to be the center focal point. Alongside this right obsessing over churn and retention, technical term on this is fixing a leaky bucket, I think that's a good maybe starter to how we're seeing SaaS change now.

**Our final guest is Stuart Kime,** Co-Founder, Chief Future Officer, hOp

[00:11:49] **Hall Martin:** Joining us today is Stuart Kime, cofounder, Chief Future Officer at hOp. hOp sells micro social networks to multifamily apartments and churches that build trust within the community. When a person knows six or more people, their renewal rate rises to 70%. You can start running your audience from Facebook and start owning one today. Stuart, thank you for joining us.

[00:12:11] **Stuart Kime:** Thank you. Thanks for having me.

[00:12:12] **Hall Martin:** So let's talk about SaaS and explore about what you see coming up, and how did COVID-19 accelerate that sector?

[00:12:21] **Stuart Kime:** Well, in our world, we build digital community and COVID really fast-forwarded our plans. We started out – when I do a startup these days, I call it the seven-year overnight success. So instead of knowing the right answer, I kind of make a minimum viable product and go out and test it in a bunch of different markets. So we were doing music festivals and restaurant, church, like, we got banned from Franklin's, neighborhood golf club. But the place that digital community really took off was in multifamily apartments. So we had plans on just staying in that niche and vertical for the next couple of years as we build out free cash flow, but COVID-19 sort of, it really imported the future that we were planning on for around 2030, where everybody is going to be able to see and create digital community more like how gamers do. Gamers are really good at having digital community today, but everyone else is still trying to do it with the audience they get off of Facebook groups and pages.

[00:13:35] **Hall Martin:** And so how do you see the shift going from Facebook to micro groups like yours, what's driving that change, is it the fact that you can have more control over it or is it information control, or what's the differences there?

[00:13:49] **Stuart Kime:** Well, the big challenge for our customers in apartments and in churches is that if you try to build an audience and connect it on any of the platforms, not just to pick on Facebook, you're going to compete with advertisers for your own, you know, Pepsi and Coke are both going to be in your conversation, and so the average reach on those platforms is anywhere between five and 10%. So if you have 1000 people, only 50 to 100 of them are ever even going to see anything going on with your group period, just because there's so much stuff in there. So Facebook to us is sort of like the AOL of social media, the AOL tried to put the entire, at 1999, we were trying to put the entire internet in one giant bucket. And so when you have a public social network with 2.4 billion monthly active uniques that have, you know, last year they removed 6.6 billion fake identities, so that's three times as many fake people as real people on their platform, that's their published numbers. So when you own a private social network that is connecting only 500 to 1000 people, it's 42 times cheaper to do it on your own.

[00:15:12] **Hall Martin:** You think that's one of the solutions to the challenge with tech today and social media, there's so much noise on these platforms, there's so much come combativeness, and then so much fake news and other things that just go on; and, in an ad model, it's all about more, whether it's good or bad, it's just more.

[00:15:34] **Stuart Kime:** Yeah. Well, I think, you're, I mean, you're pointing them out. Right? I call it yellow journalism 2.0. So we've already seen yellow journalism a 120 years ago, and there was little news boys on the corner going extra, extra, read all about it. That's basically pay per click. So they were in the famous telegraph from that era was from Hearst when he had sent an artist down to Cuba because he thought there was going to be a battle, and the artist telegraphed and said nothing's going on, can I return home. And Hearst's famous telegram was, please remain, stop, you furnish the pictures and I'll furnish the war. And so, they complained about what they called scandal mongering and muck raking and sectarianism, those are just different names for filter bubbles and disinformation or fake news. So to us we looked at that and there was a guy who solved that problem with a technology. So the innovation was not a new kind of newspaper. It was a new kind of revenue model, and this guy Adolph Ochs in like 1896 or something moved to New York and bought the 17th largest paper called the New York Times. And his innovation from out of Chattanooga was to have a subscription news. So if you prepaid him for like 10 papers a month, he would just – his return, you know, in modern nerdy terms, it's like, he had a very high return on attention. So his little tagline, all the news that's fit to print was because he didn't need to make the paper gigantic, because they didn't know how to hold all your attention. He tried to make it make it as small as possible. So that's really what the innovation with sponsored social media versus pay per click social media we think is about.

[00:17:39] **Hall Martin:** Do you think we're going to get back to subscription models, and that solves a lot of the problems going forward, or is it other solutions?

[00:17:47] **Stuart Kime:** I think it will be a subscription model, but it's not going to be paid for by the end user. I think there's a lot of community creators that want to own their own audience and talk to create the conversation in that audience in different ways. And so, we think that social media is really like in the third inning. If you look at the rise of like TV channels, there were like four over the air, there were 10 on VHF or whatever, and then you get 30 on cable. But YouTube took that power public. And back when Kevin Kelly predicted at the turn – in 2000, he predicted there'd be 100,000 TV channels one day, and everyone told him, he was crazy – he's the founder of TechCrunch or wired, I can't – I think it's wired – and everybody thought he was crazy. And he recently said, yeah, I was wrong, there's 31 million channels on YouTube. Right? And so if you look at the number of websites, it's the same thing. There were 623 total websites in 1993. In 2004, when WordPress was founded, there was about 52 million websites, and today there's 1.8 billion. So we think that social media, the number of social networks in the world is sort of at that same early stage where there's about 50 million Facebook pages and groups today or no, 65 million pages and groups. So right now, Facebook is larger than the internet was when it was founded.

[00:19:27] **Hall Martin:** Wow. So looks like we're just repeating history here, but with different technologies and formats.

[00:19:33] **Stuart Kime:** Yeah. And as long as people are getting paid to hold your attention, the way I think about it is sort of like news has a link, has a distance of travel. So if you're the modern New York Times or Guardian or Washington Post, you need audience in the millions to get the economies of scale to pay your bills. So the only news that has the ability to capture a million people's attention is something that is, honestly, it's outrage. Right? Like, what crazy thing that Kanye said, what crazy thing did somebody in government say? Those are the things that a million people want to know. But our news is stuff like, Lisa in apartment 159 needs some eggs and got them from Melissa. These stories only have 50 feet of relevance, not five miles of relevance, or let alone a 1000 miles. The thing that Trump says now, they have 10,000 miles of relevance. When we were traveling around the world for the year, that was really some of the only news we heard.