Find Your Cloud 9s With SaaS Apps

Vendor Risk Assessments on SaaS vendors that help SMBs unlock Business Value, meet Compliance requirements, and choose the right software *the first time*

By ERIC MAGILL

VRA Framework with 700 Questions, Data Points!

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Preface

My journey to writing a book that helps small businesses better select Software as a Service (SaaS) vendors has followed a winding path of serial entrepreneurship since I graduated from Moravian College in 1982.

Researching, reporting, writing, editing, publishing, creating, analyzing, managing, storing, securing … in four decades in the private and public sectors, I have always worked with information in one form or another.

In Find Your Cloud 9's, I combine my background as owner of an IT business and the persistence I developed as a sports writer and weekly newspaper publisher. Those experiences culminated in the vendor risk assessment framework I detail in this book to help SMBs overcome their limited resources when evaluating critical partners such as SaaS providers.

The concept crystallized in my mind while helping a small insurance agency choose a vertical application to replace its 30-year-old DOS program. I realized then how much small organizations relied on SaaS vendors (aka SaaS provider, or SP, in this book) to operate their businesses.

I helped clients choose software many times before, but this time I recognized a crucial point. With desktop software, you control it, your data and the network it resides on, BUT … when you place your data and network operations in a vendor's Cloud, you lose that control and **your business becomes vulnerable to any problems that provider has**.

As my journey continued, I also realized this ...

Conducting vendor risk assessments on SaaS vendors makes VRAs a strategic tool for unlocking business value and desired outcomes from the software.

I do understand that the constraints SMBs face make it challenging to take on the kind of resource-intensive projects needed to properly compare SPs.

Mindful of the financial, time and knowledge limitations SMBs contend with, I designed the VRA modules in this book to save you time and money, find the right provider, and enhance business performance.

Whether you have already invested in SaaS solutions or plan to, you know the advantages your business can gain from them. Therefore, I won't tout the benefits cited in SaaS marketing hype. Instead, I'll address the unique risks SaaS solutions pose to SMBs and the pitfalls of choosing such strategic partners without due diligence beyond features, pricing and ratings.

I address the checklists and questionnaires that come with performing due diligence, but just as importantly, the business value of ***choosing the right SaaS vendor the first time*** through VRAs.

Chapter 1

Find Your Cloud 9s

Avoid SaaS Buyers' Remorse

Small businesses have noticed the benefits the cloud offers. A major part of their increasing tech spending, SMBs want the lower IT costs, faster solution deployment, automatic upgrades, scalability, and anywhere access the cloud promises.

Yet, Gartner's 2024 study, “Software Buyers’ Regret”, showed 60 percent of SMBs regretted a recent software purchase.

> **Worse, the study revealed that 59 percent of SMBs with less than 250 employees said those software selections have negatively impacted long-term business performance**.

That’s serious buyer’s remorse, with serious consequences.

As stated earlier, the SaaS provider controls the parts of your business you place in its Cloud. That leaves your company vulnerable to its problems.

For a smooth SaaS selection, one that matches your compliance requirements and risk tolerance while creating business value in a rewarding partnership, you need to put your contending SPs through the VRA process.

First, let’s define a couple of terms for the purposes of this book:

- **Vendor Risk Assessment (VRA)** -- Due diligence BEFORE you select a SaaS solution
- **Third-Party Risk Management (TPRM)** – Due diligence AFTER the selection through risk monitoring and mitigation

The VRA gathers actionable information on prospective SPs. The TPRM monitors current vendors to ensure they meet your agreements. You can also monitor other contenders you might need to switch to.

Even if you don't fall under the direct jurisdiction of regulators due to your size or industry, you might be indirectly affected by working with clients or vendors who must meet government regulations or industry standards, such as SaaS vendors.

SMBs can find such projects challenging. You might not have the resources to do it, but if you don't, you risk a failed implementation and the prospect of finding a new vendor. Finding another provider becomes a bigger hurdle due to contractual obligations and data migration issues. While all of that goes on, performance suffers.

For those reasons, features, price and user reviews can’t be the only considerations. You should also weigh the provider’s:

- Financial, operational and cybersecurity footing
- Legal and reputational standing
- Ethical and cultural values

Note: You won't likely find a 100 percent perfect fit, but how your vendor mitigates those risks must match your tolerance for those risks.

Failure to account for those risks can result in:

- Ongoing performance, compliance and profitability hits
- Cybersecurity and legal issues
- High employee frustration levels
- Damage to your brand
- A new search for a different SaaS vendor

A properly conducted VRA can avoid such ramifications.

Why the Focus on SaaS?

SaaS vendors share similarities with vendors in other industries. SMBs rely on third-party vendors for parts, supplies, products, sales and services. I chose to focus my VRA system on SPs because:

1. I believe SPs gain more control over a business than other vendors due to their storage, processing and handling of your data.
2. My area of expertise has been developed as owner of a Managed IT Services business helping my clients choose software since 2003.

Data fuels SMBs. Without it, your staff would conduct operations and make decisions blind-folded. You can protect it by selecting your SaaS vendors using VRAs.

Chapter 3

What's Your Cloud 9?

How Much Uptime Does Your SMB Need?

Service Level Agreements, or SLAs, have long been based on the number of 9s of uptime a client needs to run a successful business.

From two 9s (99% uptime for a year) to five 9s (99.999% uptime), you need to determine which level of 9s your business requires.

The "9s" compute as follows:

HOW MANY 9s DO YOU NEED?	
% Uptime	**Downtime Per Year**
99.999	5 minutes, 15 seconds
99.99	52 minutes, 36 seconds
99.9	8 hours, 46 minutes
99.0	3 days, 14 hours, 56 minutes

From the chart above, five 9s would be required for SMBs that provide mission critical services. They can't tolerate downtime without suffering serious consequences or financial losses. Small financial institutions or healthcare facilities come to mind.

Small businesses used to be able to survive with three 9s, or 8 hours, 46 minutes of downtime in a year, or an average of about 2 minutes a day.

Now, you need to consider upgrading your SLA to four 9s, or 99.99% uptime, to take into account the increased reliance on the Internet for SaaS solutions – not just your Internet but the SaaS provider's, as well.

Yes, costs escalate for each additional 9, but you must ensure you don't short-change how much downtime you can tolerate for an asset as valuable as your data.

Keep in mind that downtime doesn't occur uniformly, as in 2 minutes per day. If you have calculated that one hour of downtime would materially harm your business, imagine that happening 4 or 8 times during the year on your end or your provider's. What would be the consequences of that number of outages to your business?

Determining the uptime guarantee you need is the first decision for the SLA. We'll go more in-depth into SLAs later in the book. Finding your Cloud 9 with a SaaS provider will require many other steps along the way.

Chapter 5

Business Value of VRAs

Unlock SaaS App Business Value

So, you want to perform vendor risk assessments to satisfy regulators concerned about third party risk in supply chains? That's certainly a valid reason. Here's a better one …

You should incorporate VRAs on your critical SaaS vendors into your overall business strategy to enhance business value.

Done properly, VRAs conducted in the SaaS selection process bring great value to your business, most importantly this …

VRAs maximize the odds of choosing software that increases your performance and profitability … while minimizing the risk of choosing software that reduces your performance and profitability.

Suffice it to say that you can look beyond compliance and cybersecurity for opportunities in the VRA modules that will maximize performance and profitability in addition to minimizing risk.

From both sides of the Maximize Profit / Minimize Risk equation, VRAs can help establish a profitable, long-term working relationship with the SaaS vendor. Let's look at how VRAs can do this ...

MAXIMIZING PERFORMANCE / PROFITABILITY:

1. **Better decision-making** in the vendor selection process
2. **Increased efficiencies** from software that works your way rather than you adapting to the software
3. **Productivity gains** from software that streamlines workflows versus work-arounds
4. **Increased performance** that flows to your bottom line
5. **Cost savings** from choosing the best software to reduce workloads, subscription and IT costs
6. **Revenue gains** from apps that streamline sales cycles
7. **Compatible corporate cultures** that enhance employee morale and the working relationship with vendors
8. **Better collaboration** with SPs most aligned to your mission, vision and goals
9. **Higher satisfaction** across all stakeholders
10. **More interest** from investors seeking well-run SMBs

MINIMIZING RISKS:

1. Reduced risk of **buyer's remorse**
2. Reduced risk of **operational disruption** due to software bugs
3. Reduced risk of **operational disruption and reputational harm** due to data breaches, negligence, regulatory violations, legal issues or criminal behavior
4. Reduced risk of **unexpected charges** from SPs
5. Reduced risk of **Shadow IT** from unapproved apps
6. Reduced risk of **vendor lag and poor support response**
7. Reduced risk of **harm from compliance issues** due to weaker or stronger vendor compliance requirements
8. Reduced Risk of **clashing corporate cultures**, lower morale, reputational harm, and an awkward or even adversarial working relationship with the vendor
9. Reduced Risk of **mismatched expectations** and **difficult im plementations**
10. Reduced risk of having to **replace the SaaS vendor**

Any of those risks can create productivity- and profit-eroding disruption in a small business. The SaaS VRA creates business value by not only identifying the risks that need mitigation but also the best software to help you increase business performance and achieve business objectives.

Chapter 11

Software Features

Comparing Features Between Vendors

Here, the VRA looks at the compatibility of the solution's features and capabilities with your business. Obviously, if a vendor's software doesn't match your needs, you don't need to consider it further.

Comparing features between SaaS vendors can quickly become an apples to oranges rabbit hole. The following sections of this chapter address how to create apples to apples comparisons from the myriad plans and features.

First, let's consider a couple of things as important as apples in comparing SaaS provider feature sets.

The Roadmap

Ask for the SP's product roadmap or look for it on its website. The roadmap will show you if the SP's direction aligns with your company's direction. The SP's goals, tasks and timelines for future improvements will be key to your growth.

My lead gen app breaks down its roadmap to Under Consideration, Planned, In Progress and Launched. It lists an Email Deliverability Score as Under Consideration, AI Powered Email Writing as In Progress, and AI Generated Variants as Launched.

Feature Requests

Feature requests can make the software and your business more efficient. Feature requests can also be frustrating as they all too often end up in a heap of neglected requests. If you identify feature requests during your trial, ask about them and track the SP's responsiveness.

For critical SPs, make sure their direction matches yours and that they take your feature requests seriously. You don't want to rely on integrations or other SaaS vendors to get where you want to go.

Apples to Oranges to Apples to Apples

Making sense of those apples to oranges comparisons between competing vendors has sent more clients my way than any other factor in the software selection process.

Until you conquer that bit of due diligence, you can't easily move forward toward a decision.

The following chart shows typical marketing-driven plan names for SaaS solutions. You can assume higher prices mean more and better features, but that won't always be the case. You still have to review each plan to understand exactly what you get at each level.

PRICING FOR SOFTWARE VENDORS (prices per user)					
	TERM	Starter	Growth	Scale	Enterprise
Vendor 1	Monthly	$49	$89	$129	$159
	Annual	$468	$948	$1,308	$1,668
		Beginner	Pro	Advanced	
Vendor 2	Monthly	$49	$89	$109	N/A
	Annual	$468	$948	$1,188	N/A
	Term	Standard	Plus	Premium	Ultimate
Vendor 3	Monthly	$49	$99	$189	$229
	Annual	$468	$1,068	$2,148	$2,628

Features and services get different names from each vendor. In addition, what some vendors consider basic or standard features others push up to higher tiers. Conversely, what some vendors consider higher tier features, others include as basic features.

That makes converting those feature sets between vendors from apples to oranges into apples to apples trickier. Conveniently, most SaaS vendors provide a side-by-side comparison of their own feature sets on their websites. That helps with understanding the differences between a specific vendor's plans.

It does not, however, get us to apples to apples between the finalists' plans.

To do that, chart the features and tiers for each finalist side by side. List the features with a description and the plans they're available in. You could use a spreadsheet or similar tool for this.

Now, on to the questionnaire for Software Features.

QUESTIONNAIRE 2

SOFTWARE FEATURES

Vendor Name:

Information and Data Points to Collect

FEATURES

1. **Features Plan Name:** List Plan names (Tier 1, Tier 2, Tier 3, Bronze, Silver, Gold, etc.).

2. **Key Features**: List the features you want for the plans you want.

3. **Add-Ons**: List Add-ons such as advanced features, security upgrades, increased users, etc., for each plan.

4. **Services:** List Services — backups, data storage, tech support, etc. — not covered by the core plan.

5. **Other Features:** Other features that would be helpful.

OTHER QUESTIONS

1. **Users:** Who will use the software?

2. **Software Roadmap**: List the SP's upcoming features.

3. **Features Request Responsiveness**: Enter the SP's average response time to new features requests.

4. **Documents:** Collect documentation for each plan.

Chapter 22

Financial Risk

Assessing SaaS Vendor Financial Risk, Even of Unwilling SPs

I first recognized the importance of financial stability in assessing SaaS providers while helping an insurance agency choose a new Line of Business (LOB) application. The staff narrowed down a list of vendors to an 18-month-old SaaS provider that they really liked and two established providers that they liked but not as much.

We decided the 18-month-old startup's software best fit the agency's objectives. However, we had to consider the risk of giving almost the entire business to such a young company. In the absence of public financial reports for the top contender, my research found that it received $8 million in funding from four venture capital firms several months earlier. It also acquired another company. That comforted my client and it signed with the startup.

Because SPs have your data on network infrastructure they control, you must consider financial risk. If your SP misses payments to a fourth-party vendor, those services could be affected. If the SP files for bankruptcy, your data could be held at arm's length while the bankruptcy trustee works through the case.

In hard shutdowns, where the SaaS vendor closes abruptly and provides strict deadlines for retrieving data or losing it, the typical time for retrieval ranges from 30-45 days. That may sound like plenty of time, but you'll have to pick a new vendor, go through onboarding and training, and migrate your data. If you have terabytes of data, the download and migration could take days. While those wheels turn, you may or may not have access to your software or data.

CASE IN POINT: BANKRUPTCY OF BENCH

Bench, a small business accounting vendor in Canada, shut down abruptly on Dec. 27, 2024, after 12 years in business. Bench notified customers with a notice on its website. That left more than 11,000 SMBs without access to their data. Customers blamed sub-par service after a co-founder's firing three years earlier (why personnel changes matter). Acquired by Employer.com on Dec. 30, 2024, Bench referred clients to Employer.com to retrieve their data.

ASSESSING FINANCIAL RISK

Evaluating a SaaS vendor's financial risk can be a puzzle. We've established that you will probably deal with privately held vendors at times. As noted, assessing a private SP's financial stability can be difficult unless it willingly provides financial data. Request the following to start:

- Profit & Loss statement
- Income statement
- Balance sheet
- Cash Flow statement

FINANCIAL RATIOS

Financial Ratios also offer insights into the SP's financial standing. Look particularly at SaaS Quick Ratio and the Rule of 40. Both ratios measure a SaaS vendor's growth and profitability but do so differently.

SaaS Quick Ratio equals New MRR + Expansion MRR divided by Churned MRR + Contraction MRR. New MRR comes from new customers and Expansion MRR from existing customers that, say, upgrade or add to their plans. Churned MRR comes from customer cancellations while Contraction MRR results from existing customers downgrading their plans, etc. The ratio should be 4.0 or higher. Lower scores indicate issues with churn and customer acquisition.

The Rule of 40 provides a glimpse at two key metrics that don't always align for SaaS companies – Growth and Profitability. The Rule of 40 formula goes like this:

Revenue Growth Rate (%) + EBITDA Margin (%) >= 40%

A Rule of 40 ratio of 40 percent or more means the SaaS vendor is both efficient and scalable. Below 40 percent indicates sustainability issues.

CHURN RATES

Ask for the SaaS provider's annual churn rates. A 5 percent or less annual churn rate would be healthy but it can vary from 1 to 15 percent depending on the age of the SaaS vendor and the sizes of its customers (Enterprise customers create lower churn; SMB customers create higher churn). Look for churn rates below 5 percent for established SPs and 10 percent for younger SPs.

ALTERNATE SOURCES

You can glean hints of a vendor's financial standing through alternate sources, as with the insurance agency I helped. Start with media reports, industry news and press releases, including stories on hiring increases and expansions, and financial databases. Keep in mind, though, financial databases often base revenue figures on small vendors from industry averages rather than actual numbers. For small SPs, don't take aggregated financial figures at face value.

CASE IN POINT: DATA BROKERS

Data brokers offer accurate data on publicly held companies, but not so much on SMBs. Years ago, I noticed data brokers routinely listed the wrong employee count, revenue figures, and even ownership for my SMB clients. In 2025, I found D&B listed the owner of my IT business, FlexITechs, as a woman I had never employed, done work for, bought anything from, or even met in more than two decades in business. We had zero connection. Despite that, it took some convincing to get D&B to fix the error. So, test the data broker's SMB accuracy on your data and your clients' data before buying. That includes LinkedIn Sales Navigator info.

MORE SOURCES

Alternate sources might provide enough information to create a financial picture of your SaaS finalists. These sources can include a list of the vendor's top clients. Talk to them about their experiences as they might have had the influence to obtain financials from the SP. Though NDAs might prevent them from sharing, they can offer an opinion on the vendor's general viability. With all that in mind, let's look at financial risk's potential impact on your business, and the questionnaire.

QUICK GLANCE – FINANCIAL RISK

FINANCIAL RISKS AT SaaS VENDOR

- Provider cash flow issues
- Insufficient / discontinued investor funding
- High customer churn rates
- Late or missed payments by SaaS vendor
- Tax issues / Bankruptcy / Closing

IMPACT ON YOUR ORGANIZATION

- Lost revenue
- Lost access to data
- Operational disruption
- Missed deadlines, inability to meet your contractual obligations
- Finding a new SaaS provider

BUSINESS VALUE FROM MITIGATING RISKS

- Competitive advantage, continuous software innovation
- Enhanced cybersecurity
- Better support, customer service
- Reduced software glitches, operational disruptions

ASSESSING VENDOR RISK

- Financial statements / Tax returns
- Financial ratios (Rule of 40, SaaS Quick Ratio, etc.)
- Churn rate
- Monthly / Annual recurring Revenue (MRR, ARR)
- Credit reports
- Bankruptcies / Judgments / Reorganizations / Liens
- Annual reports / Media reports
- Website / Social Media posts / Job sites

QUESTIONNAIRE 12

FINANCIAL RISK

Vendor Name:

Information and Data Points to Collect

Choose questions based on their relevance, your risk tolerance and the SP's criticality. Start with the Essential questions. Use the Optional questions if necessary to create a financial risk profile of the SaaS vendor.

FINANCIAL STATEMENTS

Essential:

1. **Profit & Loss:** P&L statements for Past 3 Years

2. **Balance Sheet:** Current balance sheet

3. **Income:** Current income statement

4. **Cash Flow:** Current cash flow statement

5. **SEC EDGAR Filings:** For publicly traded SaaS vendors

Optional:

1. **Revenue Growth:** Seek from SP (online if public)

2. **Profitability Growth:** Seek from SP (online if public)

3. **Debt Level:** Seek from SP (online if public)

4. **On-Time Payments:** Seek from SP (online if public)

FINANCIAL STATEMENT REVIEWS

Essential:

1. **Audits:** Were statements audited independently? (Best)
2. **Reviews:** Were statements reviewed independently?
3. **Compiled internally:** Were statements created by the SP?
4. **Declined:** Did SP decline to provide statements?

Optional:

1. **Statement preparers:** Who prepared the statements?
2. **Financial statement dates:** When were they prepared?

FINANCIAL RATIOS

Essential:

1. **Rule of 40:** Revenue Growth (%) + EBITDA Margin (%) >= 40%
2. **SaaS Quick Ratio:** New MRR + Expansion MRR divided by Churned MRR + Contraction MRR (should be 4.0 or more)
3. **Gross Profit Margin:** Should be in the 70% - 75% range for SPs
4. **Operating Profit Margin:** 20%-30% good, best at 35%+
5. **Net Profit Margin:** -40% to +20% depending on SP's maturity

Optional (Financial Ratios – cont.):

1. **Net Revenue Retention:** Revenue growth existing customers (should be more than 110 %)

2. **Churn Rate:** Mature SPs should be 5% or less; new SPs up to 15%

3. **Return on Assets:** Ask for the SaaS vendor's Return on Assets (RAO) ratio.

4. **Return on Equity:** Ask for the SaaS vendor's Return on Equity ratio (ROE),

5. **CAC Payback Period:** CAC measures how long it takes to acquire a new customer. Less than 12 months viewed as strong.

FISCAL CONTROLS

Internal controls for compliance, fraud prevention and accurate reporting

1. **Fiscal controls:** What controls does SP use to ensure accurate reports (ACS 606, GAAP, IFRS)?

2. **Bank reconciliations:** Does SaaS vendor consistently reconcile statements?

3. **Financial reports:** What reports does SaaS vendor produce?

4. **Data protection:** What controls does the SP use to protect your and your clients' financial information (MFA, MDR, ITDR, firewalls, anti-virus, anti-spam, security awareness, role-based access, least privilege, encryption, etc.)?

RED FLAG INDICATORS

Sources that can indicate red flags to SaaS vendor's financial health

Essential:

1. **Credit Rating:** Check current credit rating.
2. **Bankruptcies:** Look for current or past bankruptcies filed by SaaS Provider or principals.
3. **Judgments:** Look for current or past judgments against SaaS Provider or principals.
4. **Reorganizations:** Look for reorganizations and their impact on the SP's performance.
5. **Tax liens vendor:** Look for tax liens against SP.
6. **Tax liens principals:** Look for tax liens against SP's principals.

Optional:

1. **Tax liens personal:** Look for tax liens filed against principals personally.
2. **Tax installment plans:** Look for tax installment plans for SP or principals.
3. **Tax past due balances:** Look for past due tax balances for SP or principals.

ADDITIONAL SOURCES

Additional resources that could help create picture of SP's financial health

1. **Monthly Recurring Revenue:** Current MRR or past year's MRR by month (connected to income statement)

2. **Annual Recurring Revenue:** Current ARR or past 3 years ARR by year (connected to income statement)

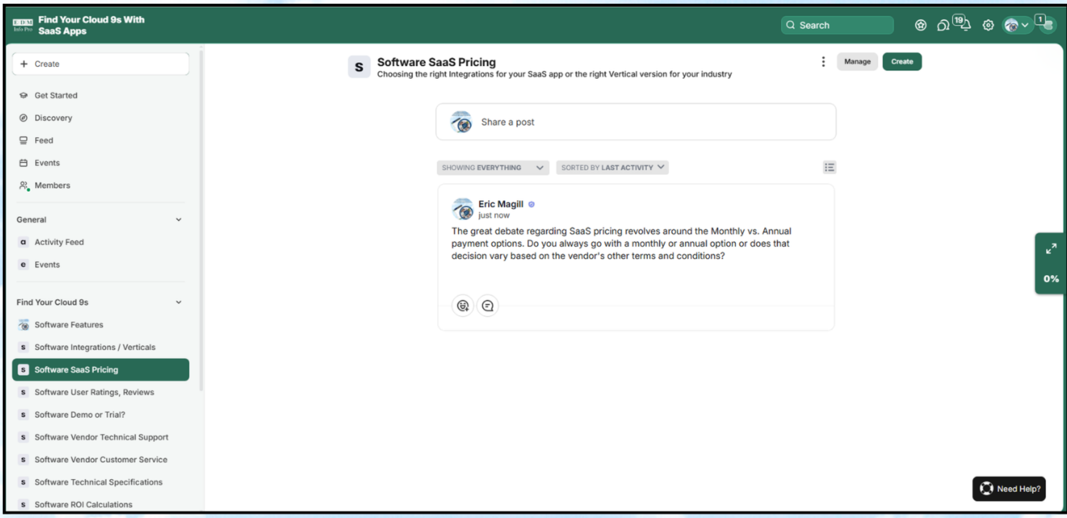
3. **Hiring patterns:** Number of active Help Wanted ads (might indicate growth or high turnover)

4. **Office expansion:** Website, social media, news media info on expansion, hiring, or other growth indicators

5. **Top clients:** Top 5 clients that could indicate confidence in vendor's financial health

6. **Financial databases:** Recent information about SaaS vendor in financial databases

7. **Primary research:** SP financial documentation



Join me in the Find Your Cloud 9s Community at https://edm-info-pro.mn.co/

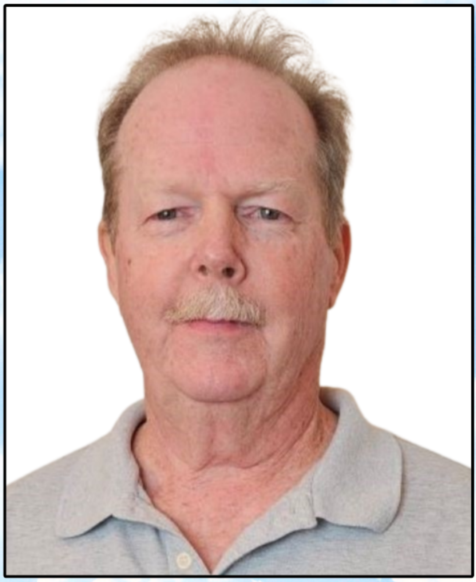
Vendor risk assessments and third-party risk management don't end on the last page of a book. The technology industry changes frequently and quickly.

That's why I created the Find Your Cloud 9s online community, to allow purchasers of this book to share experiences, tips and advice to make all of us more effective at assessing and managing SaaS vendors.

When you sign up, you will see that the community's spaces correspond to the chapters of the book to keep our focus on one topic within each space. See you there!

About the Author, Eric Magill

Eric Magill's journey to writing "Find Your Cloud 9s With SaaS Apps" has followed a path of serial entrepreneurship and public service over the past 40+ years.



Ownership of his Managed IT services firm and a weekly newspaper, and serving on his local town council, uniquely qualifies him to guide SMBs in their due diligence on SaaS vendors:

- His experience helping small businesses choose software helps them avoid costly mistakes, particularly with SaaS agreements.
- As an SMB owner himself, he understands the resource challenges they face in performing necessary due diligence on SaaS vendors.
- His journalism background helps SMBs overcome SaaS vendors' reluctance to provide actionable information.
- His experience with larger projects as a councilman helps SMBs conduct VRAs on SaaS providers.

Find Your Cloud 9s With SaaS Apps leans on all of that experience to step you through the VRA framework to unlock business value, meet compliance requirements, and make the right SaaS choice the first time.

Need help selecting your next SaaS vendor?

Email Eric Magill at eric@ericmagill.com