RESEARCH

# Growth Trends in an Economic Downturn

*Winning by Design conducted a study to understand the impact of an economic downturn on software-as-a-service (SaaS) businesses. We looked at various go-to-market factors, and measured key performance metrics such as sales cycle, deal size, lead conversion, and growth rate.*

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Updated: June 2022

## Summary Points


An increasing share of SaaS companies were able to achieve or maintain hyper-growth during the economic downturn. This was the result of an increased focus on customer expansion, as well as closing new deals at a higher price.

**The recommendations to sustain growth during an economic downturn are:**

**a.** Focus on expansion of existing clients.

> **Action:** Establish a playbook for customer expansion, train your CS team on sales skills, and train managers on coaching their CS team.

**b.** Customer Success teams should inform clients of the impact achieved every month.

> **Action:** Hold a workshop with your CS team to identify the impact that your SaaS service offers, and to establish a cadence to keep the customer informed.

**c.** Increase revenue from logo acquisition by increasing the price where appropriate. This should be combined with helping the sales team identify prospective customers early on, based on the need for Impact and establishing a Critical Event.

> **Action:** Hold a workshop with the Marketing and Sales teams to identify the impact your SaaS service offers; work with your Revenue executive team to identify areas for potential price increases.


## Introduction

The findings in this report cover research conducted by Winning by Design (WbD) over the period from March 2020 to July 2021. Respondents observed that during this period, it was harder to generate new leads and win new deals. As a result, companies shifted focus to existing customer expansion and higher deal values for new business.

The impact of this shift is that a growing number of SaaS companies achieved growth during the economic downturn.

This was the result of focusing the executive team's attention and the company's resources toward customer retention and expansion.

Further analysis shows that growth originated from three specific causes:

1. Larger deal sizes, in some cases the result of a price increase.
2. Fewer but higher quality leads driven by better market awareness.
3. Higher conversion rates based on improved sales skills and execution.

It is because of this that Winning by Design recommends increasing the focus on customer retention and expansion during an economic downturn.

This increase in focus requires companies to understand what impact a product delivers to its customers, and then rally its resources around it.

With a laser focus on impact, it becomes far easier to retain and expand existing customer relationships, and to reduce the cost of sales (or rather, the cost of growth).

In addition, strong customer relationships deliver positive brand perception and customer advocacy, which have a significant impact on demand volume and new business win rates.

In comparison, reverting to a focus on customer acquisition, lead volume, and discounting creates a negative spiral that has proven to lower customer retention and expansion rates. This in turn leads growth rates to come down as more new business is required to fill revenue gaps created by higher churn, and the cost of sales goes up as more effort is needed to maintain the growth trajectory.

## How we Conducted the Survey

We are thankful to the dozens of respondents willing to share their stories and data via individual video interviews. Their stories allowed us to capture both the data and the context behind the numbers.

Respondents were primarily sales leaders (VP of Sales) and company Founders from companies based in Europe with annual revenue between €10 million and €25 million. Countries represented included The Netherlands, Belgium, Germany, and the UK.

The WbD Data Model (also known as "The Bowtie") was used as a foundational construct for respondent interviews and data gathering. We then applied the model to perform analysis and comparisons of current customer results with past customer data.

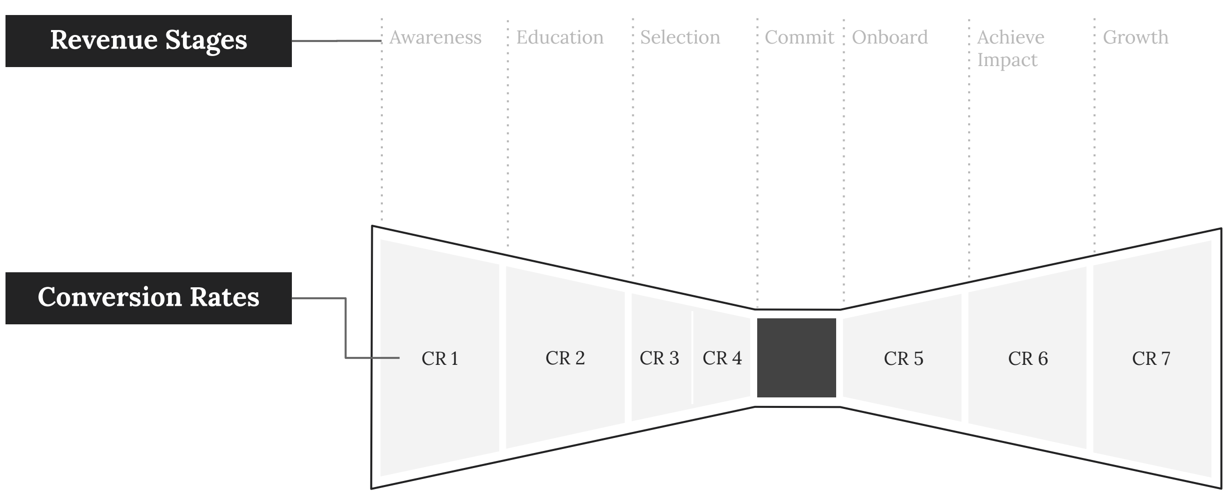


*Figure 1. The Data Model ("The Bowtie") is used to examine the entire Customer Journey.*

# Research Findings: Improvements and Challenges

*Respondents experienced higher revenue growth, larger deal sizes, and shorter deal cycles, but were challenged by market awareness and onboarding existing customers.*

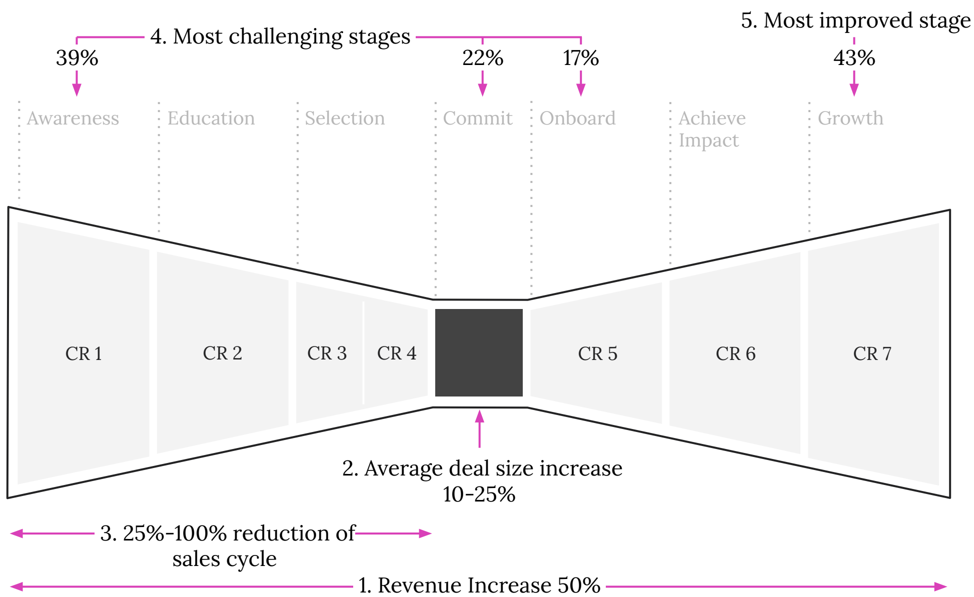


*Figure 2. Visual summary of research findings across the Bowtie.*

## Finding 1 50% Growth Rate

- **Revenue growth:** The majority of respondents are in hyper-growth mode, with revenue increases of more than 50% in the last 15 months during the economic downturn.
- **Hiring growth:** 44% of respondents expect to expand their sales teams by more than 50% in the next 12 months.

*Observation: In volatile conditions or downturns, it is common for SaaS companies to outperform the overall market in terms of revenue growth and hiring demand, as we saw in 2008.*

## Finding 2 Deal Size Increased

- **Deal size:** Companies typically increased average deal size by 10 to 25%. More than half of respondents have a deal size between $10,000 and $100,000.
- **Price increase:** Against expectations, most of the companies had increased their price to compensate for the lower volume of deals.

*Observation: During an economic downturn, companies focus more on existing customers out of necessity. Because existing customers want help to achieve impact from your product, a common result is an improved product. When companies deliver more impact with a better product, both new and existing customers are willing to pay a higher price.*

## Finding 3 Shorter Sales Cycles

- Faster decisions: Companies in the study saw their sales cycles shorten or stay the same; very few companies saw cycle times get longer. Sales cycles for respondents were typically 90 days or longer.
- Significant time reductions: 70% of respondents encountered a reduction of the sales cycles beyond 26%.
- Further reduction potential: Respondents expect that optimizing sales team skills and defining a better target account approach will be vital to shortening sales cycles even further.

*Observation: The key driver behind a commitment (and therefore a shorter sales cycle) is to identify a Critical Event that requires a customer to make a decision. A Critical Event is the need to achieve a desired impact by a specific time or risk consequences. In 2020, the sense of urgency was heightened by market challenges, creating a need for immediate impact and faster decisions.*

## Finding 4 New Challenges

A series of challenges were experienced:

- **Awareness:** 91% of respondents said they measure conversion rates. Respondents said in the last 15 months, their biggest challenges were creating awareness (39%), winning deals (22%), and onboarding new customers (17%).
- **Sales stage improvement:** Respondents said the expansion sales stage improved the most by far (43%) (*see Figure 1 for definition of expansion stage*).
- **Sales stage challenges:** Respondents said that over the next 12 months, they will apply the most effort and resources to the awareness and education stages.

*Observation: With the shift to focus on delivering customer impact, respondents saw their funnels naturally reset to a more productive level. Companies that experience this are achieving a natural growth state. For SaaS companies, this creates hyper-growth because happy customers who achieve desired impact will naturally want to buy more.*

# Research Findings: Perspective on Strategy Risks

*A disproportionate improvement in revenue can only come from the compound growth of existing customers. Reverting to pre-COVID tactics and shifting focus and resources away from helping customers achieve impact will slow down growth.*

## Finding 5 Risks of Traditional Volume-Focused Growth Tactics

Study findings show that companies are planning a return to pre-COVID growth tactics with increased focus on deal volume. Although deal volume does impact growth and should be part of go-to-market strategies, it is winning the right accounts that delivers hyper growth. Often, deal volume means winning any account, not just the right ones.

The consequence of winning the wrong deals is increased churn, which consumes valuable resources and slows down growth (note: root causes of this are explained in a storyboard found in the Annex).

WbD recommends that companies proceed with caution when considering the return to a more traditional growth strategy with tactics focused primarily on lead volume and new customer acquisition.

## Finding 6 Advantages of Maintaining a Focus on Customer Impact

Study respondents said circumstances in 2020 caused a shift to focus on existing customers. The positive result they delivered was a stronger foundation for recurring revenue based on two factors:

1. Focus on helping existing customers achieve a positive impact
2. Ability to realize higher prices based on positive customer impact

Our research found evidence of this based on revenue growth attainment and improvement of conversion metrics across pre- and post-sale stages from March 2020 to June 2021.

## Finding 7 Performance Metrics

The top 40 most successful SaaS companies have two metrics in common: it takes them on average 21 months to recoup CAC, and their LTV to CAC ratio is 3:1 or better, meaning the long-term value of a customer is at least three times the cost of winning them.

That means that to run a successful and sustainable SaaS operation, companies must hold on to a customer's business for an average of 63 months, or 5¼ years. Most companies cannot expect customer relationships to last this long, so they need to look for ways to reduce CAC and increase LTV faster.

Paying attention to performance metric improvements is the best way to optimize the recurring revenue engine for hyper-growth.

# Recommendations

*Recommended actions to help companies maintain Growth Rate*

## Recommendation 1 Install a Standardized Data Model

*Companies cannot improve what they do not measure.*

Most revenue teams have plenty of data at their fingertips, but get lost when interpreting it. The result is not identifying critical problems, and therefore not taking the right actions to remediate issues. Companies define their own set of data and metrics, which makes benchmarking against peers challenging.

This challenge can be solved by applying the Recurring Revenue Operating Model, which defines a standard set of metrics across all stages of the customer journey and makes it easier to measure, interpret, and monitor improvement.

## Recommendation 2
## Understand And Deliver Impact Across The Customer Journey

*Recurring revenue is the result of recurring impact.*

Winning by Design's work with more than 600 SaaS companies shows that hyper-growth originates not just from finding more leads and winning more deals, but from a shift to winning the right deals and helping customers achieve their desired impact. The result is an increase in net retention and organic customer advocacy, which then fuels recurring revenue growth further.

Companies should identify the rational and emotional impacts that customers expect when they buy, then address gaps in their ability to deliver impact, or the customers' ability to realize and measure it.

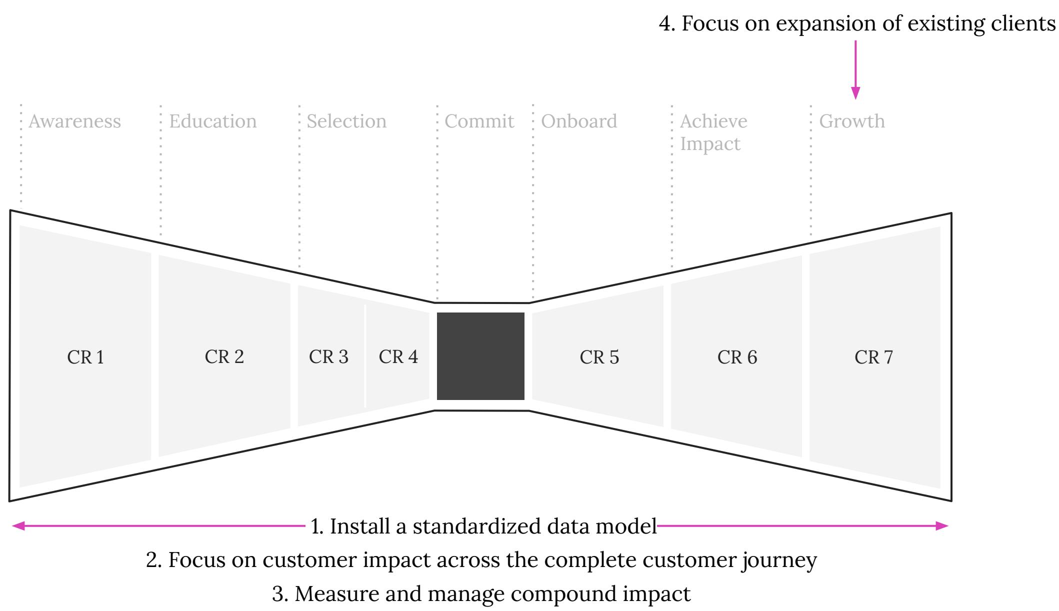


*Figure 3. Recurring Revenue Recommendations*

## Recommendation 3 Focus on Expansion of Existing Clients

*Balance resources and time across both sides of the Bowtie.*

Companies typically place outsized emphasis on the first half of the Bowtie, the buying cycle. This leads to a heavy focus on awareness, education, and winning more new deals, all of which require significant budget investment and increase CAC.

Instead of maintaining this old approach, most companies have excellent opportunities for growth from existing customers. By measuring and analyzing metrics from the right side of the Bowtie, companies can determine where they have retention and expansion potential. By balancing investment across pre- and post-sale stages, companies will maintain the gains of the last 15 months.

### Recommendation 4 Measure And Manage Compound Impact

*Ensuring that customers are happy is the best way to maximize sales, marketing, and CS results.*

Recurring revenue can be optimized through incremental improvements to critical conversion points across the customer journey. Exponential growth can come from the compound impact of retaining and expanding customers.

A big reason for this is that happy customers become an extension of your marketing and sales teams. Companies lower CAC and increase LTV when customers stay longer, expand their spend on your services, and support greater brand awareness and positive perception. By knowing which Bowtie stages have experience gaps, Revenue teams can improve their ability to create these gains.

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