HAS SaaS LOST GO-TO-MARKET FIT?

AND WHAT TO DO ABOUT IT

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with data contribution from David Spitz

The SaaS industry is grappling with a significant decline in key performance metrics. Since late 2021, growth rates have halved, the cost of acquiring new customers has surged by 1.5 times, and Net Revenue Retention (NRR) has seen a substantial decrease. Both public and private SaaS companies are now contending with the compounded effects of these challenges.

ACT I. HAS SaaS LOST GO-TO-MARKET FIT?

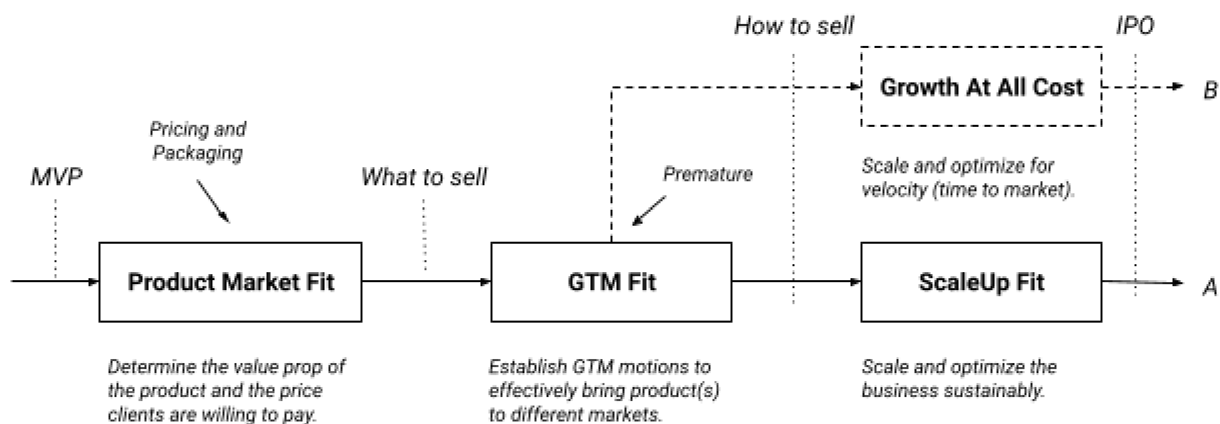
The decline in SaaS Go-To-Market (GTM) metrics across the board has turned SaaS unit economics upside down, pointing to a potential loss of GTM Fit. Simply put, what used to work no longer works. Trendlines suggest this represents more than a temporary glitch, but rather a shift that will have continued impact for the foreseeable future. To make matters worse, the stop-gap solution CEOs turned to in the past is no longer viable, with investors unwilling or unable to provide bridge financing. In the face of this new reality, CEOs must reevaluate and adapt to changing market dynamics.

Thesis: We Have A GTM Fit Problem

Product Market Fit (PMF) is the first objective in the evolution of any new product. PMF focuses on what products and features resonate with which customers. Having achieved Product Market Fit, companies move toward achieving GTM Fit, aligning their product offerings with their marketing, sales, and customer success strategies.

In short, while PMF focuses on *what to sell*, GTM Fit focuses on *how to sell*, using effective customer acquisition, retention, and expansion motions. The current challenges facing SaaS are consistent with a loss of GTM Fit. In recent years, the SaaS industry prematurely scaled GTM motions, driven by the "grow-at-all-cost" philosophy.

FIGURE 1.
Growth at all costs led GTM motions to scale prematurely.



This approach emphasized rapid market entry and velocity, focusing on achieving swift economic returns for stakeholders, rather than the historically more sustainable approach of first achieving ScaleUp Fit. The concept of ScaleUp Fit revolves around careful scaling of what was found to work during GTM Fit, expanding to new markets and segments, and adjusting along the way to maintain favorable economics. Attempting to force this stage using growth-at-all-cost can produce impressive growth, but with declining unit economics. In essence, it puts maximum pressure on the system to deliver growth.

Our thesis posits that many GTM motions currently employed are, at best, prematurely scaled and, at worst, unscalable under prevailing market conditions. This misalignment, coupled with rapid scaling, has resulted in upside-down unit economics, indicating a loss of GTM Fit.

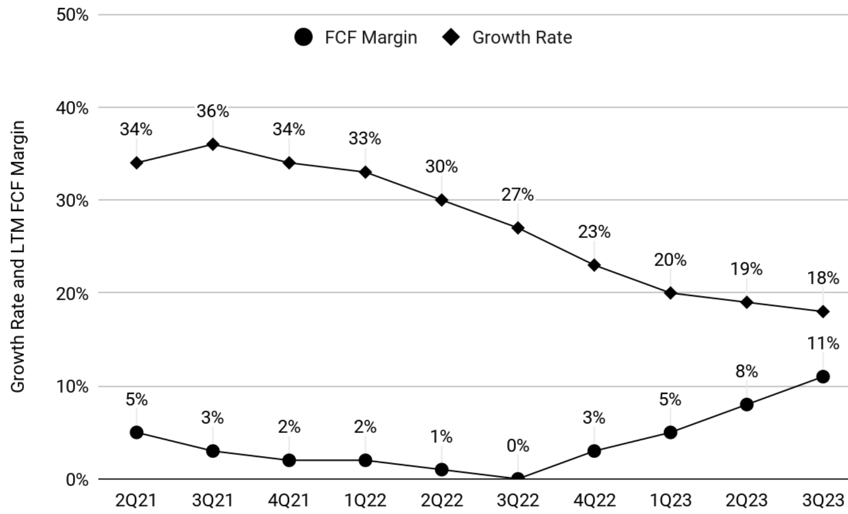
Evidence: The Data to Support the Thesis

Let's analyze recent trends to determine if they indicate a loss of GTM Fit:

- **A Decline in Growth Rate:** Data show a significant drop in revenue growth rate (Ref. 1). This decline can be a sign of losing GTM Fit, possibly due to changes in market needs, budgets, or companies' purchasing processes. A worst-case scenario would be a loss of PMF, which signals an inability to adapt product offerings to evolving customer requirements.

FIGURE 2.

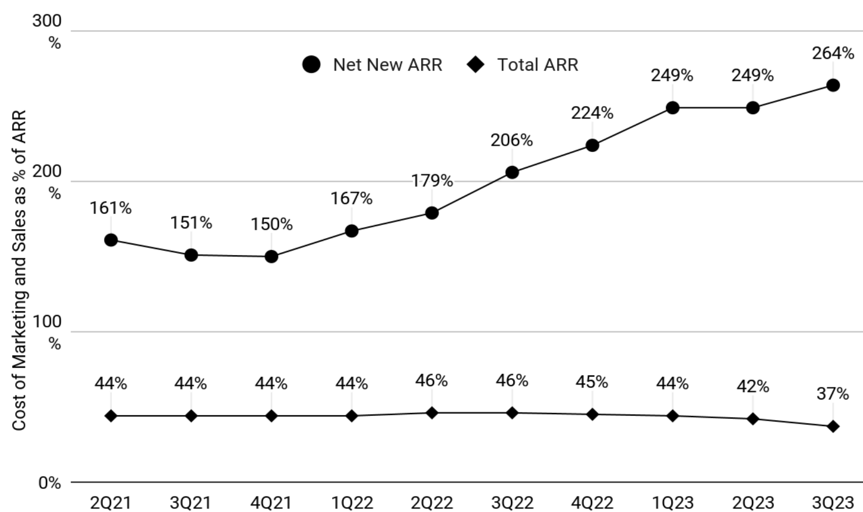
Growth Rates among public SaaS companies have experienced a steady decline.



- **Increase in Cost to Acquire Net New Revenue:** A rising cost to acquire new ARR (Ref. 2) indicates that companies spend more to acquire and retain customers and revenue. This can be due to a combination of GTM tactics losing effectiveness, retention and expansion strategies struggling to produce results, or a generalized product-market mismatch.

FIGURE 3.

In two years, the cost of acquiring net new revenue increased from 150% to 264%.



- **Decline in Net Revenue Retention (NRR):** NRR is a key metric that reflects customer satisfaction, loyalty, and the value customers derive from the product. A declining NRR (Ref. 3) shows customers are expanding more slowly, downgrading their subscriptions, or churning at a higher rate. A reduction in NRR is a critical indicator of degrading GTM Fit, implying the product no longer meets its customer base's ongoing needs or expectations.

FIGURE 4.

NRR has dropped from 1.23 to 1.13, a trend with significant downstream consequences.

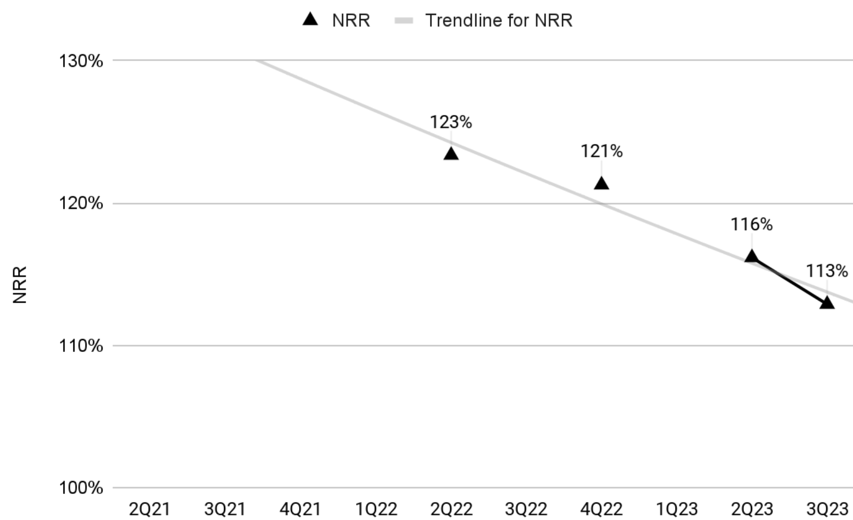


TABLE 1.

Top performing SaaS companies experiencing a drop in NRR.

	Jun'22*	Dec'22*	Jun'23*	Oct-23*
Snowflake	171%	165%	151%	135%
Twilio	123%	110%	103%	101%
WalkMe	120%	116%	109%	104%
Zoominfo	116%	116%	104%	104%
Cloudflare	126%	122%	115%	116%
Datadog	130%	130%	130%	120%
HashiCorp	134%	134%	127%	124%
Box	111%	110%	106%	103%
DocuSign	110%	108%	105%	102%
Gitlab	130%	130%	128%	124%
Zoom	115%	112%	109%	109%
Average	**126%**	**123%**	**117%**	**113%**

Note: (*)These reflect the dates the data was collected.

As shown in Table 1, the NRR dropped on average among top-performing companies, from 123% to 113%. This drop occurred despite anecdotal evidence of widespread price increases during the same period in an effort to combat the declining NRR.

The decline in revenue growth, coupled with the escalating cost of acquiring new revenue and the significant drop in NRR, points to a likely loss of GTM Fit. Due to the persistent degradation of these metrics over two years, this appears to be systemic, meaning there are no quick fixes. Companies must reevaluate and possibly reinvent their GTM strategies. For CEOs, recognizing whether these challenges are structural is crucial. If the challenges are structural, pursuing immediate and thoughtful action is imperative.

Heads-Up: It Is Likely To Get Worse Before It Gets Better

Considering trends across all three metrics, it seems likely the situation will worsen as costs to acquire net new ARR continue to rise, and NRR continues to decline:

- **Continued Rise of the Cost of Net New ARR:** Many organizations lack structure in their GTM motions, characterized by an overdependence on technology and inadequately trained personnel (Ref 7.). As these companies increasingly fall short of growth targets, they will likely resort to lower-cost-but-less-effective demand-generation tactics. This might include AI-powered cold email campaigns, LinkedIn blasts, or content syndication. Such tactics can result in market oversaturation, reducing these channels' effectiveness and increasing acquisition costs.

- **Ongoing Decline in NRR:** Much of the SaaS market relies on selling services to other SaaS companies. Considering the widespread impact of the sector's downturn, it is reasonable to expect more cost-cutting / tool consolidation, which will likely result in the 'firing of more apps.' This is particularly pertinent as companies approach the fiscal year-end when CFOs traditionally scrutinize budgets and enforce necessary cuts. Underlining this trend, Zoominfo, which reported an NRR of 104% in its most recent filing, is projected to have an NRR below 90% at the close of FY23 (Ref. 4). It is prudent for organizations to brace for a further decline in NRR during the first months of the year.

The decline, unfolding over the past two years, touches various aspects of the business, confirming it is systemic. Therefore, it is reasonable to assume there is no quick fix. Time will be part of the solution to correct this–likely two years or more.

Astute companies will prepare for the situation to worsen during the first six months of 2024. In the past, a miss in one portion of the GTM could be offset by overperformance elsewhere. Because we are currently seeing degradation across the full GTM motion, the compound effects of these misses could catch operators by surprise.

> Individual departments and functions will have limited visibility of the compound effects this will have across the business. As such, this requires the immediate and full attention of the executive team.

Exceptions: Vertical SaaS, Isolated Regions, and Products In Demand

There are notable exceptions within the SaaS market. For instance, Vertical SaaS solutions targeting specific segments have historically been resilient to these trends. An example would be a company that sells to apartment building owners, auto dealerships, or senior centers. Additionally, SaaS companies operating in standalone regions experiencing economic growth may be less affected, like Brazil, where we see a surge in SaaS activity. Lastly, new product developments, particularly in areas like native AI or highly in-demand product categories like personalized security software, can tend to deviate from these general market trends.

> While generalized trends vary on a per-segment basis, it is evident the SaaS industry is contending with widespread decline in growth rate, an increase in the cost of acquiring new revenue, and a decline in NRR. As these trends continue to decline, it suggests an imminent loss of GTM Fit

ACT II. WHAT TO DO ABOUT IT

Re-establishing GTM Fit involves three simple steps that are crucial for steering SaaS companies back to sustainable growth and market leadership:

Step 1. Cut costs to make room for growth.

Step 2. Understand, trust, and act on unit economics.

Step 3. Iteratively Improve GTM Effectiveness and Efficiency.

These steps are not hard to understand, but they can require a commitment to implement. The complexity does not lie in the steps themselves but in the discipline and time required for successful implementation. Dedication to this process over many quarters can be a challenge, requiring the entire team's unwavering commitment and strategic persistence. This challenge can be further complicated by the trend of short executive tenures, averaging less than two years. Frequent leadership changes can disrupt the continuity and momentum necessary for systematic course correction. With that in mind, let's take a closer look at each step.

Step 1: Cut Costs to Make Room for Growth

Many companies have already done rounds of layoffs. But for companies experiencing a loss of GTM Fit, the work is not done. If that company's executives have extrapolated current GTM results over the next 12 months, they already know it's time to get drastic. This may mean closing offices, canceling products, canceling marketing campaigns, removing long-tenured executives, and even firing customers. It is a difficult but necessary step, similar to a phenomenon we see in nature called "ecological succession."

Natural habitats like forests evolve rapidly after disruptive events such as forest fires (Ref. 5.). Just as ecological systems recalibrate and flourish by adapting to changing conditions, businesses can also initiate their succession by cost-cutting. Careful cost-cutting removes organizational clutter and focuses a company's most valuable resources on the initiatives with the highest growth potential, making room for innovative, growth-oriented initiatives.

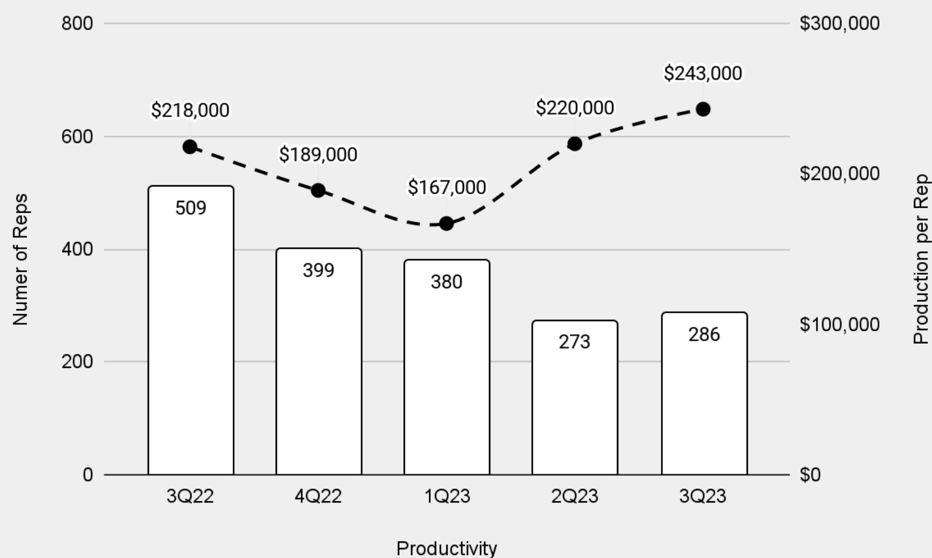
Growth reasons for cutting costs can be multifold:

- Cost cutting can increase productivity per headcount. This can increase motivation for remaining reps, who are more likely to achieve quota. Productivity per headcount is also a key company-level metric for companies continuing on their IPO trajectory.

Case Study: How Lower Rep Count Leads To An Increase In Productivity

In 2022, one of our clients reduced its sales organization from about 509 to about 286 people. Within a year, this caused the revenue production per rep to increase significantly. In any reduction-in-force, the goal is to remove underperformers while not adversely affecting customers, quality, or revenue. Customers and territories are typically re-distributed to the remaining reps, whose acumen makes them well-suited to deliver results. Cutting costs is a growth initiative in these situations, not the opposite.

FIGURE 5.
An Increase in Productivity Compensates For Headcount Reduction.



- Lowering cost structures can generate more free cash flow (FCF). For companies losing money, this can extend the runway and reduce dependence on outside funding. For companies with positive cash flow, this allows for accelerated investment in innovative products or the deployment of a new GTM motion.
- Removing unproductive people and assets can create a much-needed focus on areas of growth aimed at taking a market leadership position.

> The point is this: cost-cutting–when done thoughtfully–is not merely about survival through reduction. It is about setting the stage for a new phase of growth and diversification, akin to ecological succession.

To understand where and how to apply these strategies, we need to comprehend the unit economics of each GTM motion, which is the focus of the next step.

Step 2. Understand, Trust, and Act on Unit-Economics

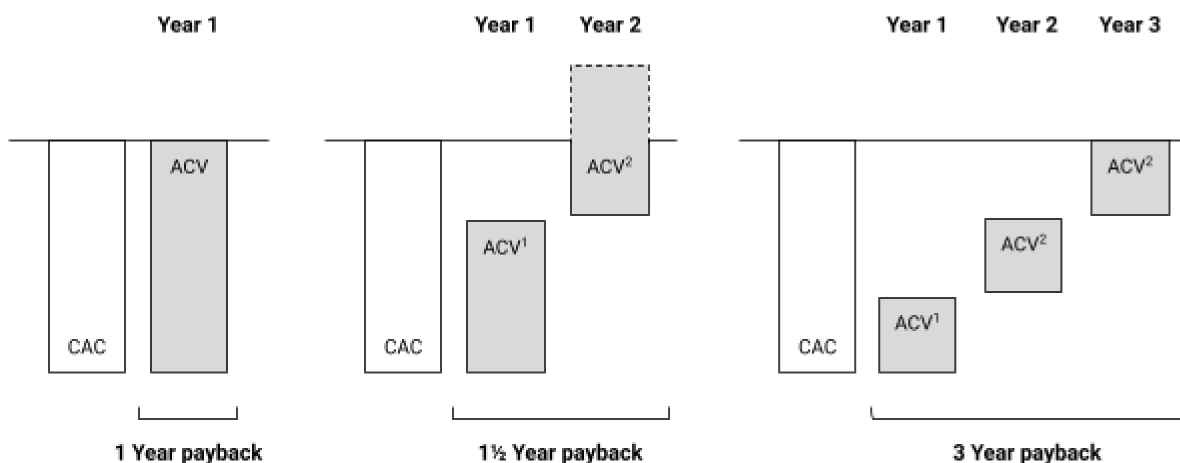
Take a fundamental look at your business by performing a GTM Diagnostic. In this diagnostic, you structure your operation in different GTM motions, such as a high-touch motion for your Enterprise business, a low-touch motion for your inbound-centric SMB market, and a no-touch PLG motion using self-service.

> Treat each of your GTM motions as its own standalone business. Then, take an honest look at the unit economics of each motion.

For each GTM motion, divide the total sales and marketing expenses (customer acquisition cost, or CAC) by the average annual recurring contract value (ACV). This yields a CAC Payback, expressed in years. Examine the CAC Payback for each GTM. Will this GTM pay back the acquisition cost in the first year? If not, you are "financing" new sales and betting on the future to pay the investment back.

In today's economy, we would like to see the cost of acquisition paid back in 18 months, ideally under a year. What would happen if you focus on fewer, more profitable GTM motions? If you have several GTMs, segments, geographies, or product lines where the payback is substantially longer than a year, consolidate or even kill them. Fold these customer bases into other segments and care for those customers using those teams' resources. Do not skip this GTM diagnosis; if you lack the know-how or bandwidth, hire a consultant who looks at your business without bias.

FIGURE 6.
How CAC Payback for SaaS Companies Works.



Case in Point: When To Stop Whale Hunting

A common strategy under these circumstances is to go 'Whale Hunting' (pursue Enterprise deals). The logic seems straightforward: if acquisition costs are high, why not aim for Enterprise-sized contracts to justify the expense?

However, in our experience, this approach rarely works as expected. Pursuing Enterprise deals tends to consume many more resources, including some of your most valuable people's time and attention. Furthermore, sales cycles for these deals are typically prolonged, and, to make matters worse, initial contracts are often much smaller than anticipated.

When analyzed through unit economics, an Enterprise approach will likely reveal a high acquisition cost for a relatively low net new revenue contribution to growth. If your enterprise GTM delivers results like this, it's time to reconsider: Stop pursuing larger Enterprise deals. Instead, dismantle the enterprise GTM motion altogether and reallocate high-quality resources toward accelerating revenue growth via improving the effectiveness and efficiency* of your core GTM motions.

*Effectiveness is defined as gaining commitment for the right kind of revenue, and efficiency is defined as acquiring revenue through the most cost-efficient use of resources.

Step 3. Iteratively Improve GTM Effectiveness and Efficiency

Once you have cut costs to make room for growth and reallocated resources according to unit economics, it's time to work on what is left. To enhance your GTM strategy, focus on two crucial areas:

1. Improve human-led processes to increase effectiveness and
2. Leverage technology (AI) to enhance efficiency.

Improving unit economics starts by maximizing efficiency in the most resource-intensive areas, specifically human-led processes. You want all processes to be as smooth and consistent as possible, so you can measure what works and standardize on that.

A skilled and efficient team is fundamental for successfully executing GTM motions. In this context, implementing a training program focused on micro-skills (Sprints) can be an effective investment of money and time. Sprints encourage iterative skill development through simple, achievable, and targeted objectives. Sprints have been shown to boost performance by as much as 1.5 times, measured across 50,000 opportunities in 2023 (Ref. 6).

Now that your GTM processes are proven, it's time to streamline them by incorporating technology. The directive here is clear: automate wherever possible. The rationale behind this is simple yet profound—if competitors automate their GTM processes before you do, they will secure a long-term competitive advantage that is nearly impossible to recapture. Aim to build this automation into your products wherever feasible, such as through self-service trials, personalized onboarding, smart renewals, and expansions. Where automation is not feasible, employ AI to augment human efforts, maximizing both effectiveness and efficiency.

> While immediate improvements via human-led process optimization yield the quickest gains, the future-proofing of your GTM strategy lies in embracing advances in technology. Product-led and AI-enhanced GTM can create long-term competitive advantage.

The dual approach of optimizing human-led processes and leaning into product-led and AI-enhanced GTM ensures operational excellence now and competitive superiority in the future.

Final Thoughts

Over the past years, companies have spread their GTM resources across numerous, often unstructured, GTM motions in a scattergun approach. Key metrics such as a decline in growth rate coupled with an increased acquisition cost indicate that this approach has become highly ineffective, leading to a loss of GTM Fit. These metrics are expected to worsen in 2024, increasing the urgency for leadership to act decisively.

As we enter 2024, no immediate, groundbreaking solution seems to be on the horizon. Neither novel GTM motions nor significant funding rounds will be the answer. Even AI, beneficial as it is, is still in its infancy, and it will benefit the entire market uniformly; thus, it is unlikely to offer a unique competitive edge.

> The strategy for 2024 is simple: Take control of the controllable, consolidate GTM motions, structure them efficiently, and focus your resources on those motions that drive growth most effectively.

Utilizing unit economics to identify the most efficient GTM motions is crucial. By strategically channeling resources into areas with the highest growth and profit potential, particularly those significantly contributing to Free Cash Flow (FCF), companies can reduce revenue acquisition costs while boosting revenue growth.

This approach is more than a temporary fix; it's a long-term strategy. As technological advancements emerge, they will be most beneficial when applied to already effective GTM motions. Ownership should expect this realignment of performance levels with adjusted valuation expectations to take 6-to-8 quarters. It is a logical evolution, and fewer but more valuable companies will emerge from this period.

References (Hyperlinks):

Ref. 1: SaaS Growth has been falling off a cliff, by David Spitz, October 2023

Ref. 2: Median GTM Spend Ratio by David Spitz, December 2023

Ref. 3: NRR is Plummeting by David Spitz, November 2023,

Ref. 4: 5 Interesting Learnings From ZoomInfo, by Jason Lemkin, November 2023

Ref. 5: Successional Theories by Cambridge Philosophical Society, July 2023

Ref. 6: Solving Underperformance by Winning by Design, August 2023

Ref. 7: The Sweet Spot In the Eye of the Storm, by Jacco van der Kooij, December 2022

Abbreviations used:

AI Artificial Intelligence

ACV Average Contract Value

ARR Annual Recurring Revenue

CAC Customer Acquisition Cost

FCF Free Cash Flow

GTM Go-To-Market

MVP Minimal Viable Product

NRR Net Revenue Retention

PLG Product Led-Growth

PMF Product Market Fit

SMB Small and Medium-sized Business

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