Has SaaS Lost GTM Fit?
And What To Do About It

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ACT

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What Happened, & How We Got Here

We're spending more, and more, and more...

How did this happen?

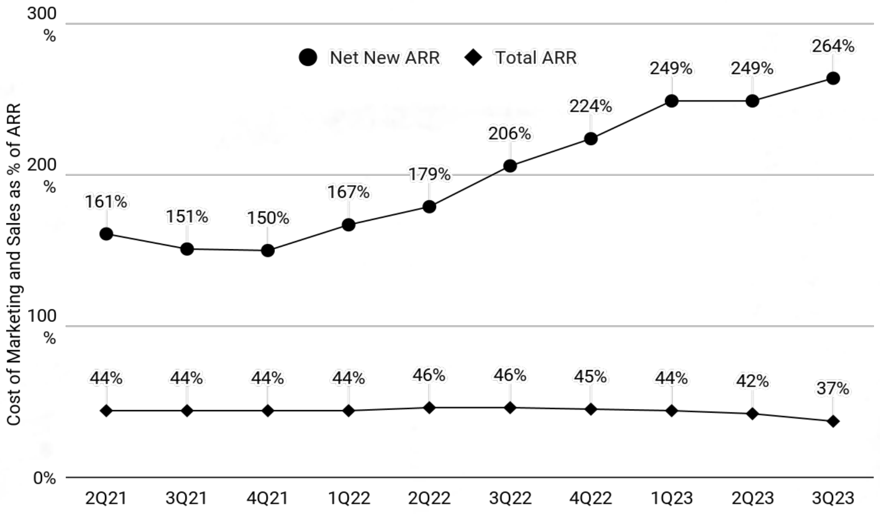
A Is this due to macro effects (demand drying up)?

B Is this due to micro effects (pursuing GTM motions that are no longer effective?)

C Both?

POLL

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

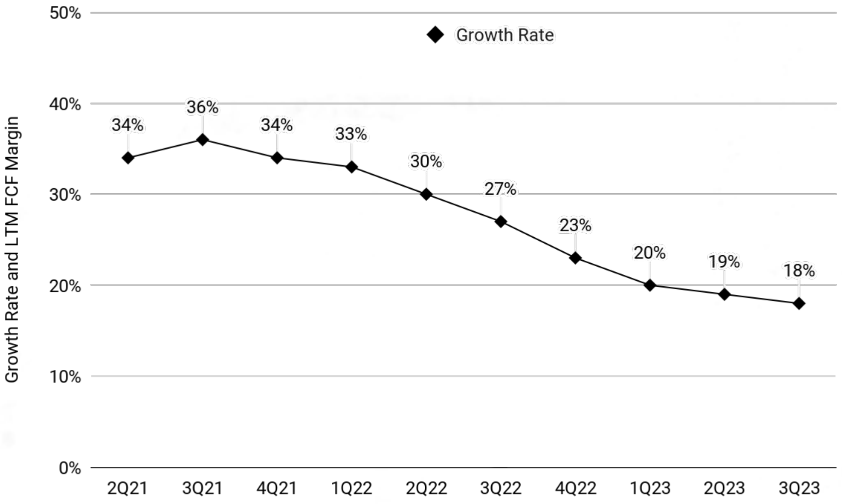


And what are we getting for it?

- We're spending more, and our growth rates are plummeting

- How many saw your growth rates decline from 2021 to 2023?

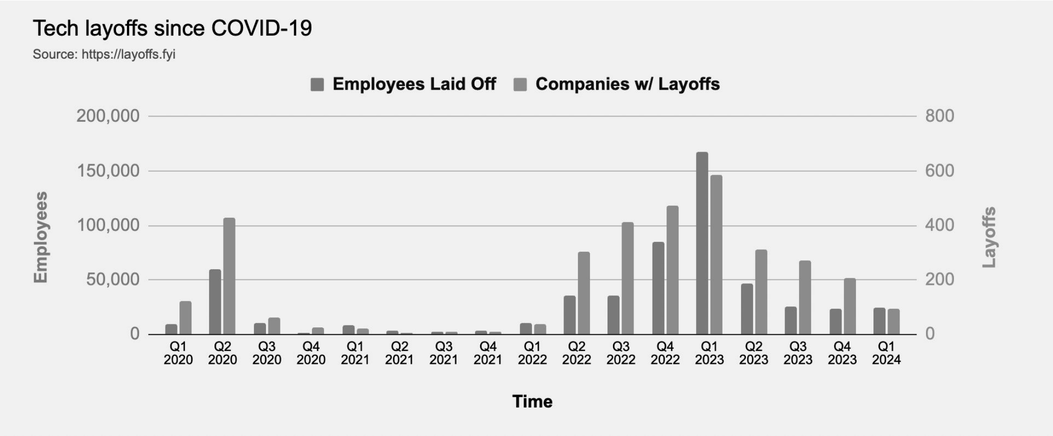
***Growth Rates** among public SaaS companies have experienced a **steady decline**.*



“This isn’t working… cut, cut, cut”

***Cost Reduction** was a major theme for tech companies in 2022 and 2023.*

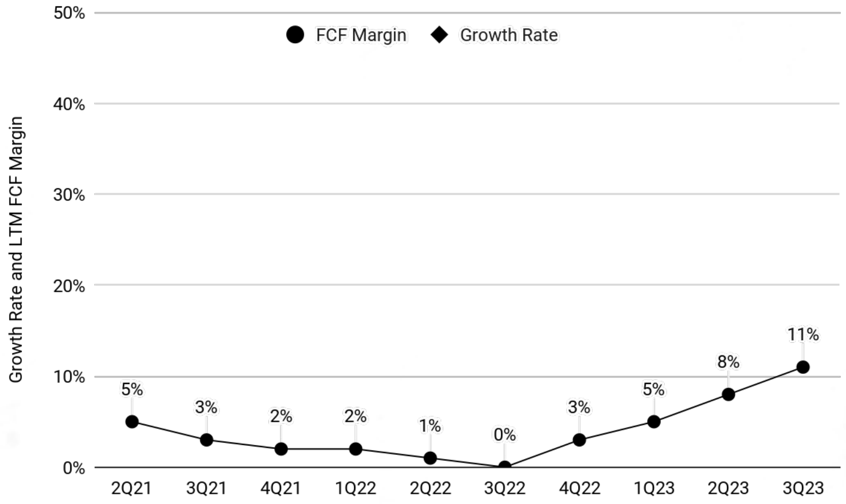
- If we weren’t getting the revenue, we would have to cut costs.
- Tech companies began laying off in 2022, peaked in 2023, and we’re still at it



Good News–We Got FCF Back

- We got our Free cash flow back

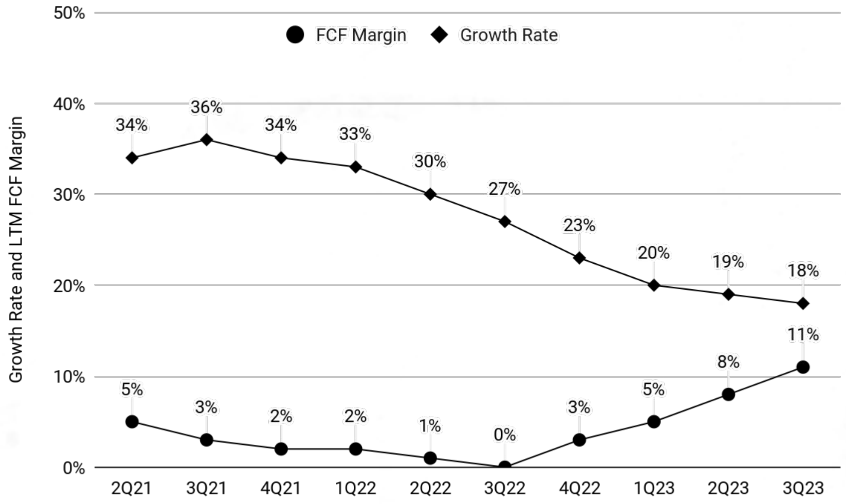
***Free Cash Flow** among public SaaS companies has **recovered**.*



An Untenable picture at any cost

- But growth is still a problem
- Now what?

***Rising FCF and declining Growth Rates** is not a formula for success.*



Two "Fits"

Product-Market Fit	***Go-to-Market Fit***

"You've got to start with the customer experience and work back toward the technology, not the other way around."

Steve Jobs

CONCEPTUAL

The product solves a real problem for real people, compelling them to use it regularly. Recurring impact keeps users coming back daily / weekly / monthly.

QUANTITATIVE

Product-market fit is best measured via usage retention.

"Recurring revenue is a function of recurring impact."

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Go-to-Market Fit

"You've got to start with the customer experience and work back toward the GTM, not the other way around."

Jeeve Sahbs

CONCEPTUAL

We have a scalable source of new customers we can acquire reliably and economically.

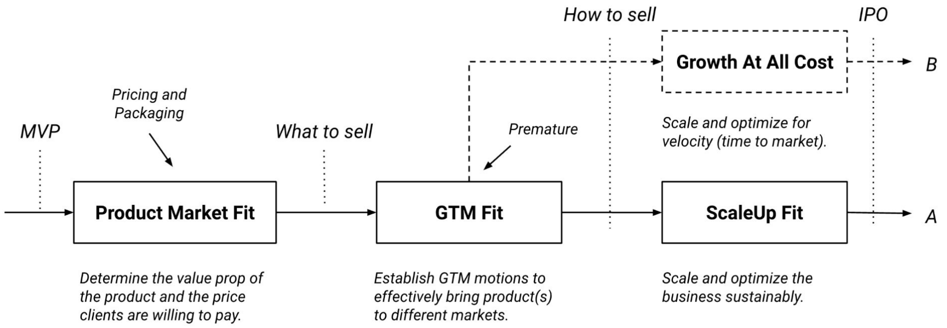
QUANTITATIVE

CAC Payback is <1 year (adjusted for market).

How did we get here?

- We've been spending $2.64 for every dollar of net new ARR
- ***Why?*** Because we were being rewarded for it
- The financial markets were "paying" us in high valuations, **as long as we showed up with growth**
- When market conditions changed, our expensive GTM machines were no longer producing what they used to

Growth at all costs led GTM motions to scale prematurely.



So what happens now?

2024 is a Time for Building.

We could go back and build the same expensive machines

OR

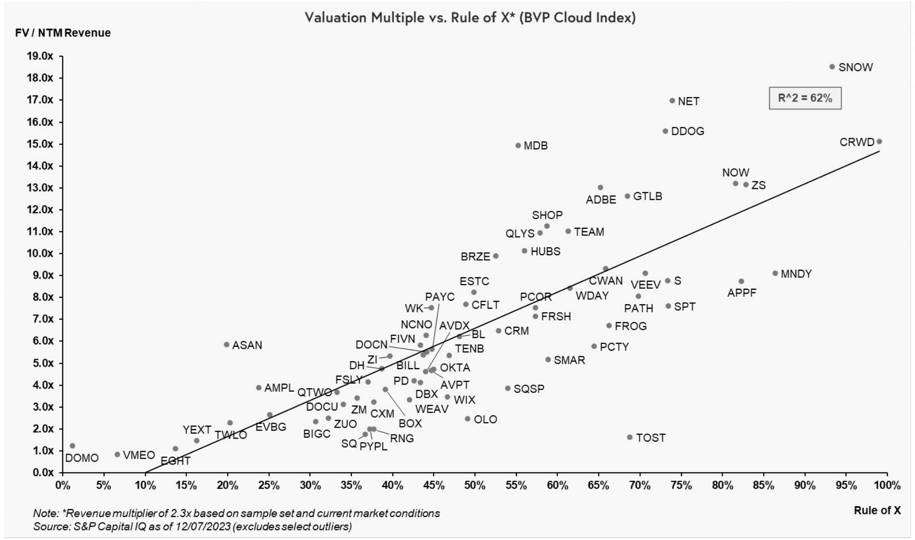
- *We build something that is more sustainable*
- *We become less dependent on outside funding, more dependent on customer revenue*
- *We fund our own growth*

This is the approach most leadership should now be taking

AND...it turns out that growth still matters, a lot.

Even though we've had to right-size into FCF, valuation will still always be about growth

- Growth is 2.5x more correlative to valuation than FCF is
- In a world where PMF has been lost, no one is coming to bail us out



Source: https://www.bvp.com/atlas/the-rule-of-x

FCF doesn’t build enterprise value.

We have to build growth back in....

and we have to be considerate

about how we build it back in

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How We Build It Back

Step 1. Runway

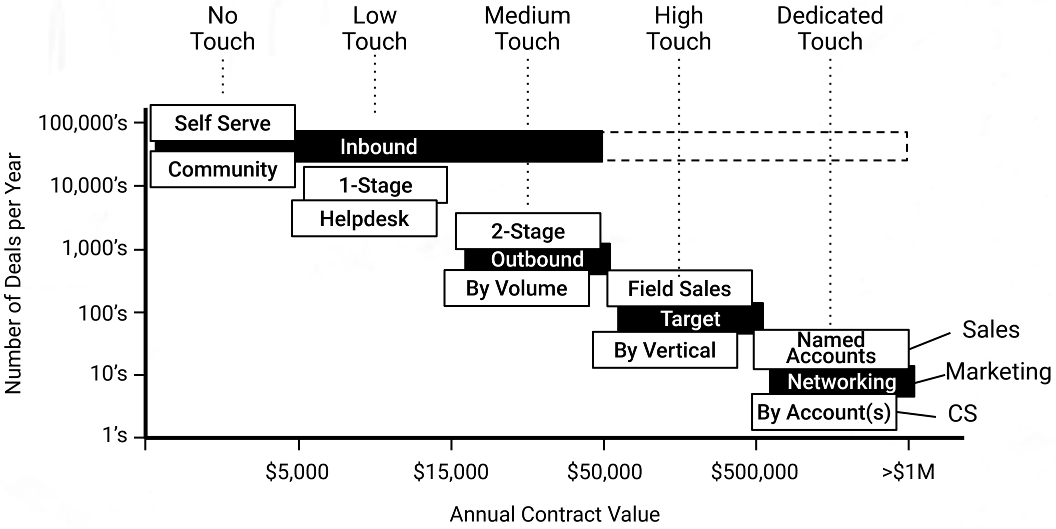
- Make sure you have at least 2 years of runway (if not infinite)
- This must be done first, before you start the rebuild process.

“Default alive.”

-Paul Graham

Step 2. Evaluate

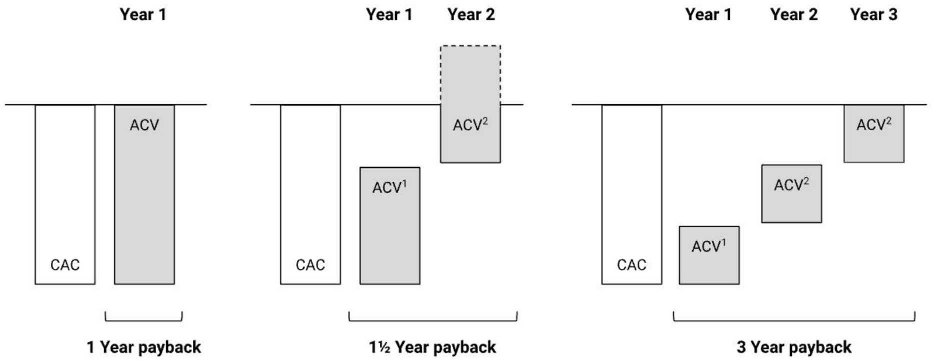
- Take stock of your GTM motions
- Make sure you are evaluating each GTM as its own standalone business



Step 2. Evaluate

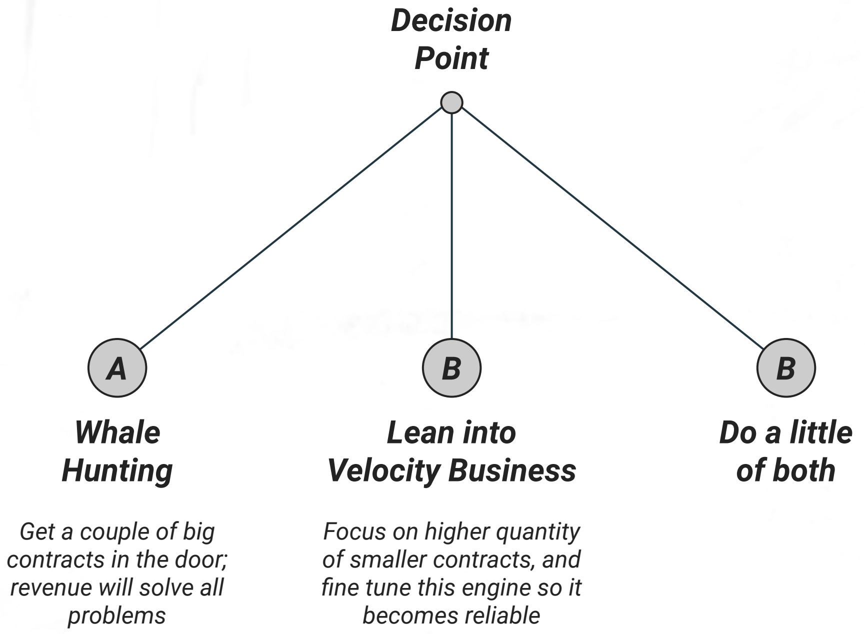
- Understand the unit economics of each one, independent of the others (e.g., allocate expenses in a logical way)
- Look at the motions that provide a reasonable CAC payback. A reasonable CAC cutoff = 12 months. Why? if it's more than 1 year, then you're acting more like a bank than a business - consider removing that GTM motion

How CAC Payback for SaaS Companies Works.



A Key Decision Point

Exaggerated to make a point →



As tempting as it is to skip the tedium of building a revenue factory, extraordinary acts of heroism will never be repeatable.

1. *Systematize Human-led Actions (faster)*
   - *Design processes*
   - *Train people*
   - *Then **manage process** and **lead people***

2. *Automate Wherever possible (more reliable)*
   - *AI for human assist*
   - *PLGTM for product-led*

To Summarize…

No time like the present	**Secure 2 years of runway**	**Assess GTMs, and eliminate some if needed**
Build your revenue factory	**Streamline and define your processes**	***...and only then, focus on automating what's automatable.***

Wrapping up

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