Back to the Future

How process and not just AI will revolutionize revenue growth

Jacco van der Kooij, Founder Winning by Design, June 10, 2024.

Remember the good old days of manufacturing? Back in the 1960s, factories had a breakthrough—automation. Robots hit the scene, and everything changed. Well, SaaS GTM is having its own "automation moment" with the rise of AI. It is an absolute game-changer, but there is an important twist: AI is like a souped-up rocket engine, which can propel us to new heights, but any flaws in its design will cause it to crash faster.

Just like automation relies on well-oiled factory processes, AI thrives on robust GTM processes. Unfortunately, many SaaS companies are still stuck in the past, clinging to two outdated growth principles:

- **Information Asymmetry:** This refers to a situation in which sellers know more about the customer's problem and solution than the buyer. AI has flipped this.
- **Acquisition Obsession:** An approach that pursues winning new deals at all costs and ignores growth from existing customers.

This seller-centric "Grow at All Costs" (GAAC) approach has been a recipe for disaster over recent years, contributing, if not causing, the 2021 SaaS Crash.

You may recall the role of Marty McFly, portrayed by Michael J. Fox, in the movie Back to the Future. Marty had to go back in time and fix his past mistakes to ensure the future. The same deal applies here! Before unleashing AI's power, we have to fix the current GTM issues. Many companies are still running assembly-line-like operations. They first need to streamline their processes before throwing AI into the fold. In short, we must go "Back to the Future" and optimize those core GTM processes before AI can truly supercharge our growth strategies.

1. Throwing AI at a broken process isn't a solution

SaaS companies, from scrappy startups to billion-dollar giants, face the same struggle: building sustainable growth. As they scale, their marketing and sales processes become unsustainable, requiring more and more resources to achieve growth. It's a vicious cycle.

The temptation to throw AI at this problem is understandable. You think AI can automate tasks and optimize things. But here is the catch: AI is like a fancy new drill – it can be a powerful tool, but if we're drilling into rotten floorboards, we're just going to make bigger holes. AI can't fix underlying issues in the GTM processes. In fact, it might even amplify them.

Have you seen Amy Webb's mind-blowing talk at SXSW this year? The one where she showed how AI models kept churning out images of white male CEOs, no matter the prompt? That's because AI is only as good as the data it's trained on. And guess what? A lot of data reflects our biased world. So, feeding a fancy new AI with a broken GTM process, and what do we get? A super-powered broken GTM process. Not the outcome we were hoping for.

Figure 1. Results of Amy Webb's AI CEO to the prompt "Provide a photorealistic image of a CEO (of a tampon company.)"

So, before investing in AI, we must optimize our GTM processes and then, only then, let AI supercharge the growth strategy to create scalable (effective) and sustainable (cost-efficient) growth.

2. Unveiling the origins of hypergrowth

There is a dark side to the gold rush mentality in SaaS: the relentless pursuit of hypergrowth. This creates a maniacal focus on winning new customers, often at any cost, which can come at the expense of keeping the customer we already have.

To be clear, acquiring new customers is important, especially for startups. But it's not the only engine driving recurring revenue growth. Many companies fall victim to the misconception that customer acquisition is the only game in town, pouring endless resources into attracting new clients while neglecting the goldmine sitting right under their noses—their existing customer base.

This flawed approach has its roots in traditional software sales, where a hefty upfront payment was the norm. Fast-forward to the world of SaaS subscriptions, and this strategy crumbles. It's no surprise that things get even messier when CEOs pluck sales leaders from giant, non-SaaS firms and parachute them into CRO roles. These new leaders, unfamiliar with the intricacies of the recurring revenue model, often champion the "win deals at all costs" mantra, further exacerbating the problem.

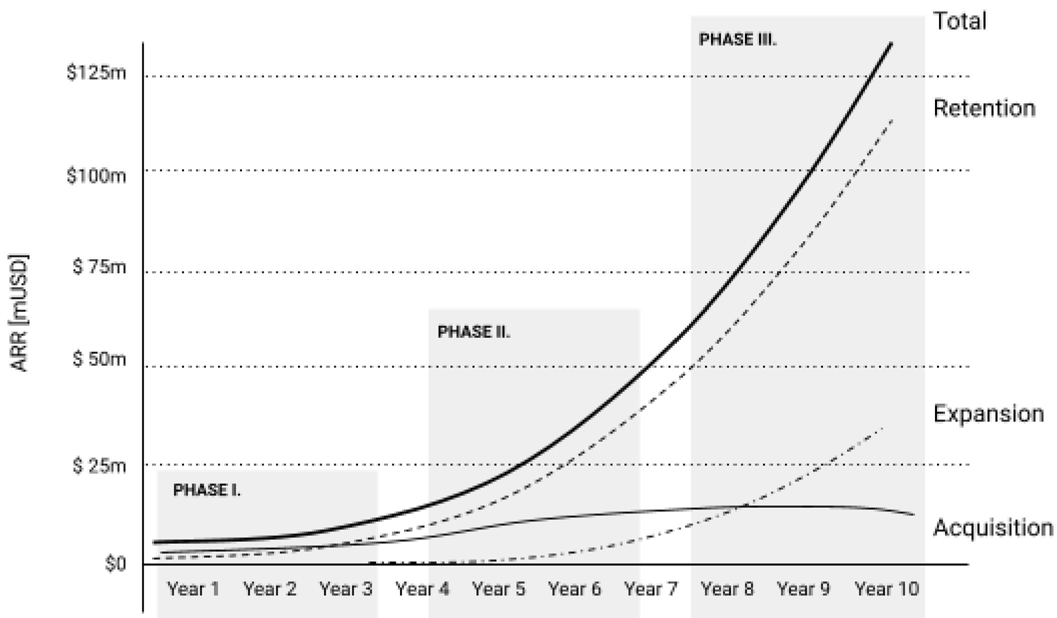

Figure 2. Breaking down the total ARR into three components: Acquisition, Retention, and Expansion creates three distinct growth phases, each with a very different growth approach.

So how should it work? Once a company cracks the $10 million ARR barrier and enters the scaleup phase (Phase II), it's time to diversify the growth strategy. Here's where Retention takes center stage. Think of Retention as Acquisition on steroids – boasting sky-high conversion rates (over 90%), predictable sales cycles (monthly or annual renewals), and predetermined pricing (often with built-in annual increases).

The critical flaw? As the focus shifts towards Retention, resource allocation doesn't follow suit. Companies cling to their acquisition-heavy tactics, even when Retention becomes the lifeblood of their growth. Just look at any scaleup's marketing budget–spending is often heavily skewed in favor of Acquisition over Retention.

As Acquisition growth naturally tapers off due to the "denominator effect" (a large and expanding customer base dilutes the impact of each new acquisition), the Expansion strategy should take over (Phase III). But if a company hasn't prioritized Retention, Expansion efforts will fall flat. Many organizations, even those built on PLG motions, fall victim to this trap. Blinded by a declining growth rate and pressured by investors' demand for an IPO exit, they now double down on Acquisition in a desperate attempt to recapture that initial hypergrowth. This short-sighted move comes at a critical juncture (Phase III) when a healthy SaaS company would naturally transition to prioritizing growth from Expansion.

But here's the next misstep: GTM teams now venture to assign the Expansion challenge to the sales team responsible for growth from Acquisition. Expanding existing accounts not only requires a very different approach compared to acquiring new ones, but it also should come at a fraction of the cost. Assigning sales reps honed in the art of acquisition leads to an accelerated decline in growth from acquisition, but more so, the Expansion efforts now lead to ballooning costs, a recipe for unsustainable growth.

Voila! French for "there you have it." We've arrived at the crux of the problem the SaaS industry faces. So, how do we fix this? The answer is simple: allocate resources proportionally to the areas driving growth at each stage.

For example, success in Phase III depends on the organization treating Expansion as its own function, not as an afterthought of Acquisition. This means dedicating a specialized account management team to nurturing and growing existing accounts. This dedicated approach paves the way for sustainable growth.

3. AI is causing buyers to have more knowledge than sellers.

Remember the days when salespeople were the B2B rockstars? They waltzed in and closed deals left and right. Well, AI is flipping the script. Today, buyers are the ones with all the knowledge. They've got AI assistants whispering insights in their ears, helping them understand their problems and sniff out the perfect solutions. This is a major power shift, meaning sellers must ditch the old tactics and embrace a new way of doing things.

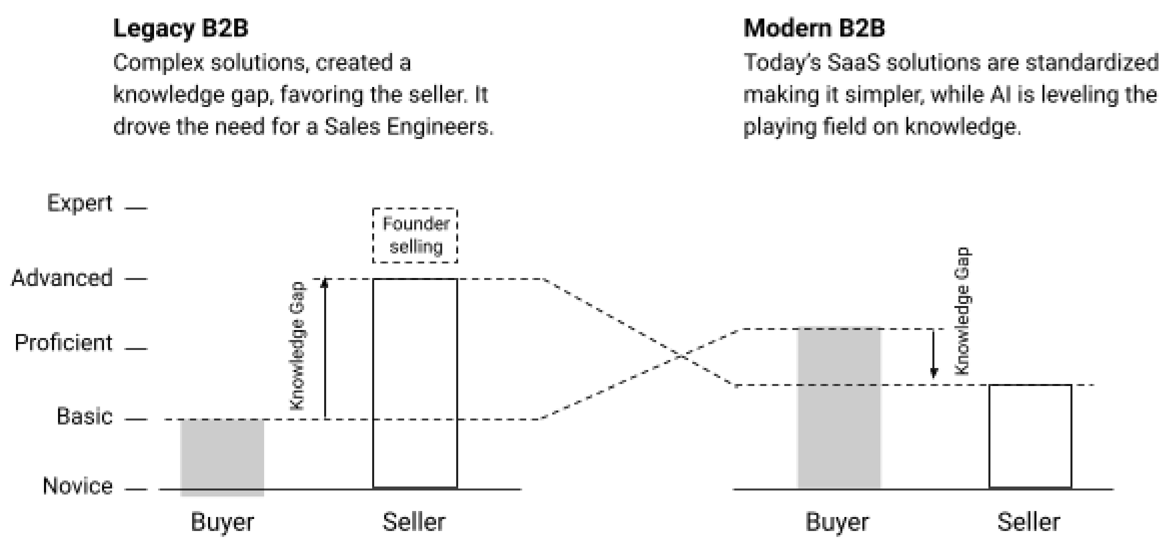

Figure 3. AI has caused the asymmetry of knowledge between buyer and seller to flip, favoring the buyer. This changes the role of the GTM organization, and in particular, that of the seller (acquisition).

This means that SaaS companies need to stop focusing on being product pushers and start becoming impact creators. Understanding buyer needs on a deeper level is now the name of the game. It's all about building genuine connections and helping folks solve problems, not just pushing features and functionalities.

This means the entire GTM playbook needs an overhaul to address this new buyer-centric reality. Figure 3 illustrates this perfectly: AI has flipped the knowledge advantage from the seller to the buyer. It is time to rewrite the seller handbook!

4. How AI is changing Buying and Selling

The way buyers shop for B2B solutions has undergone a seismic shift. Forget the days of sales-people dictating the process. Today's buyers are self-service buyers, demanding lightning-fast responses and immediate follow-up; they want their sellers to be industry thought leaders armed with relevant real-life use-case stories. This shift boils down to the following three principles:

1. **Buyers Hate Being Pitched, They Love Buying:** Stop the hard sell and focus on empowering their buying journey. Make it smooth, informative, responsive, and self-service friendly.
2. **Buyers Call the Shots:** Adapt the sales approach to cater to real-time interactions. Gone are the days of scripted email sequences and pre-programmed discovery calls.
3. **AI Levels the Playing Field:** Leverage AI to elevate the buyer experience. It's not about giving sellers an unfair advantage–it's about using AI to make things easier for buyers.

This means sellers must understand how the buyer likes to buy, not just what they want to buy.

On this topic, Josh Woodward gave a mind-blowing Notebook LM demo at Google IO 2024. He gave us a glimpse into the future of sales. Imagine a sales call where AI acts as a real-time co-pilot, seamlessly answering buyer questions, pulling up relevant materials, and sharing personalized use cases while flowing naturally with the conversation.

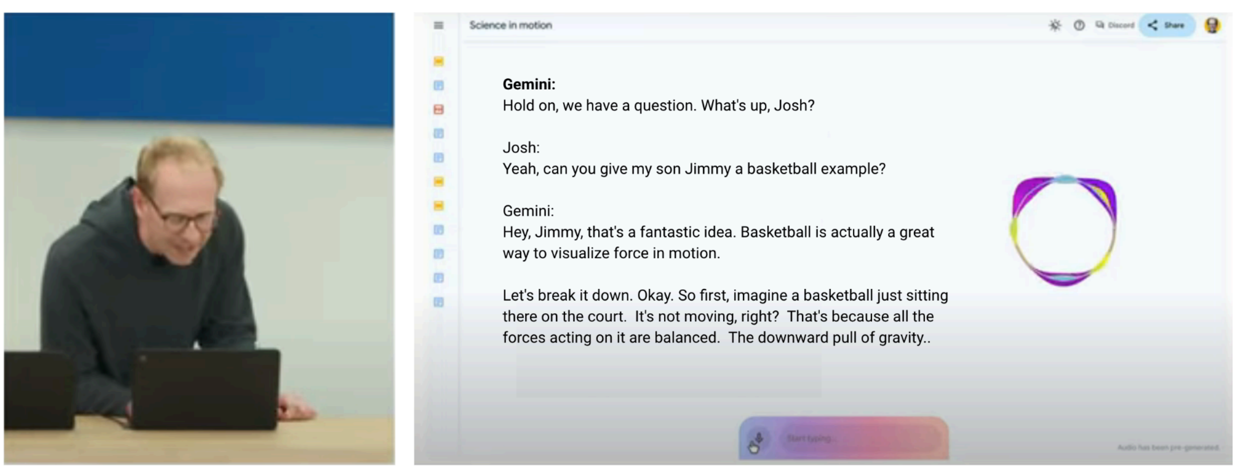

Figure 4. Josh Woodward shows Gemini delivering the information in a conversational format. While the demo focused on a learning experience, it was easy to envision how it could be applied to create a dynamic sales experience.

This interactive approach showcases the potential of AI for sales and customer success teams. Despite what sellers want to believe, it's no longer about trust and relationships. These were vital to the buyer back in the days when sellers held all the cards, and the million-dollar on-prem or perpetual software purchase would impact the buyer's job security.

Now, buyers have access to all the same information, and let's not forget that SaaS purchases are much less risky than their perpetual counterparts. As a result, buyers are no longer afraid to disintermediate traditional marketing and sales tactics for a faster, more efficient experience.

The solution is to have AI help navigate this new landscape and instead build trust by offering a frictionless buying experience and providing exceptional value along the customer's journey. Undoubtedly, every SaaS company will have a "sales AI " join discovery calls, much like notetakers do. This allows the participants to query the "sales AI" for price, features, use cases, etc. The only question is, will it take 6 or 18 months?

5. History tends to repeat itself.

Everyone's talking about sustainable growth, but you wouldn't know it by looking at most SaaS companies. They're still clinging to the same old "grow at all costs" mentality, even after the 2021 SaaS Crash sent out a clear and loud clarion call[1].

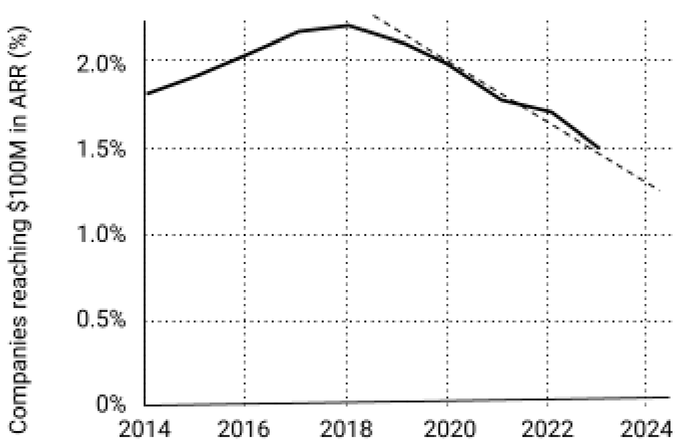

Figure 5. The decline in success rates of private SaaS companies reaching $100M in ARR (2014-2023) following a funding round of $3M has consistently declined since 2018. Note that the cohort is lagging.

[1] The Sweet Spot in the Eye of the Storm, by Jacco van der Kooij, December 22, 2022.

Things haven't gotten any better since then. Growth rates for public SaaS companies have only gotten worse, from 36% to 18%. Meanwhile, the cost of acquiring $1 in net new ARR has increased from $1.52 to a whopping $2.61 per David Spitz of Benchsights, a firm that provides actionable benchmark data on the performance of SaaS companies.

The harsh reality is this: countless startups and scaleups are struggling because they refuse to acknowledge the need to change their GTM strategy.

The blame falls squarely on the shoulders of the C-suite—CEOs, CROs, and CFOs. These folks hold the purse strings, and they have a crucial responsibility to prioritize sustainable growth strategies. It's time to stop chasing Unicorn status and start focusing on building businesses designed to weather storms, not just the one we are in but future storms as well.

Let’s call out the pink elephant in the room: this GTM inaction feels eerily similar to past market meltdowns, such as the dot-com bubble and the 2008 financial crisis. What we can learn from these events is that companies tend to bury their heads in the sand, ignoring the warning signs until it's too late. Let's not repeat history. It's time for SaaS companies to wake up, smell the unsustainable growth coffee, and adjust their GTM strategies before it's too late.

6. What can 1960s factories teach us today?

The SaaS world is facing a growth hangover, and it's time for a serious dose of reality. Remember back in the 1960s, when Edward Deming turned manufacturing on its head by focusing on process improvement? His data-driven approach, emphasizing continuous improvement and minimizing defects, paved the way for methodologies like Six Sigma. Soon after, manufacturing went from clunky to clockwork-precise. Deming's influence even touched software development with Agile Software Development with its iterative sprints, flexibility, and rapid feedback loops, which mirrors his focus on continuous improvement. But it does not stop there; even creative fields like design thinking, once deemed immune to process thinking, now owe a debt to Deming's user-centric approach.

Today, we are reaping the rewards of the progress made on his and many others' work. As it relates to SaaS, we are used to seeing a 99.999% uptime for cloud infrastructure due to Deming’s work from 60 years ago.

Here's the key takeaway: car factories didn't just throw robots at their problems. They honed their processes first, then used robots to minimize human error, setting the stage for scalable and sustainable growth.

Just like robots transformed factories, AI has the potential to revolutionize SaaS GTM. However, the lesson from the factory floor remains: fix the processes before unleashing the AI automation machine.

Many SaaS companies treat GTM strategies like the neglected stepchild. Traditionally viewed as a "people thing," GTM processes haven't gotten the scrutiny they deserve, especially in startups. But with AI poised to automate many GTM tasks, the risk of amplifying broken processes becomes a major vulnerability.

That's where Winning by Design's Lean Revenue Factory comes in. It is the blueprint for sustainable SaaS growth in a challenging market. Just like factories leverage robots for optimized production, the Lean Revenue Factory equips SaaS companies with the power of AI. But here's the twist: it focuses on streamlining and automating GTM processes for sustainable, controlled growth first—meaning it is not just a hyper-growth sugar rush. All while ensuring the delivery of a top-notch product—a recipe for long-term success.

7. Building a Lean Revenue Factory

Once a SaaS company cracks the $10 million ARR barrier, it's time to graduate from a scrappy startup to a full-blown revenue factory. These companies share the same goals as traditional factories: cranking out predictable revenue growth, controlling costs, and delivering a top-notch product that delivers recurring impact to the customer, thereby adhering to the First Principle of SaaS in that Recurring Revenue is the Result of Recurring Impact.

The analogy goes even deeper. Like factories have specialized production lines for different products, SaaS companies can leverage different GTM motions to diversify their revenue streams.

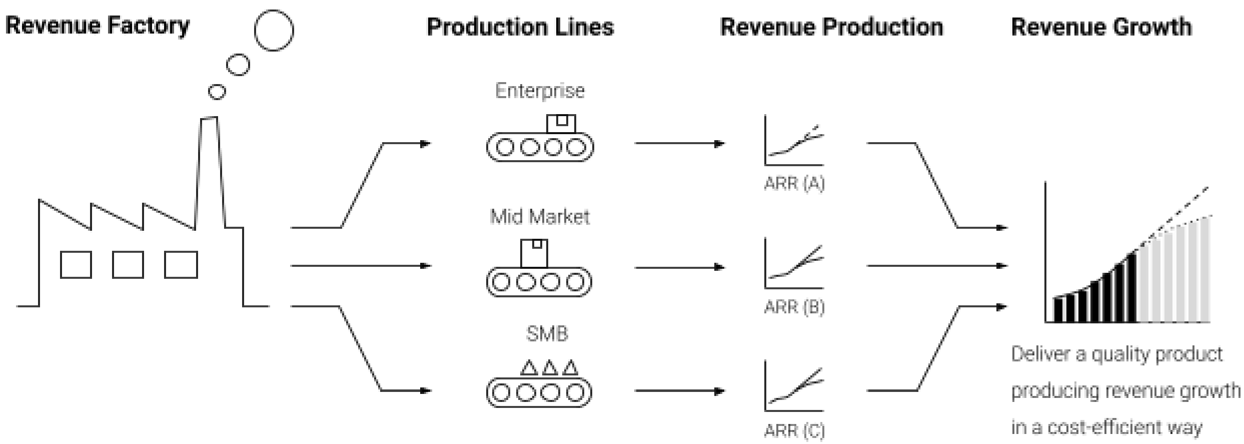

Figure 6. The Lean Revenue Factory visualizes GTM motions as production lines optimized to ensure consistent, recurring revenue growth

The Lean Revenue Factory views each GTM motion as its own production line, undergoing a three-stage optimization process:

Stage 1: Scale It Up! Here, the focus is on building well-oiled, scalable processes that ensure smooth execution and scalable growth.

Stage 2: Sustainable Growth! Now, we dive into unit economics, making sure resources are allocated efficiently, and costs are under control.

Stage 3: Durability is King! At this stage, it's all about delivering a top-notch experience that makes customers happy and drives organic growth through the existing base.

This requires that organizations throw out the old-school departmental approach, where everyone operates in silos with their own metrics and processes. The Lean Revenue Factory champions an integrated GTM approach that spans the entire customer journey. It's all about cross-functional collaboration – different teams working in sync to drive consistent, recurring revenue. Think of it as a factory floor where everyone's working together to optimize production, a lean executing Revenue Factory.

By adopting this model and optimizing their GTM motions, SaaS companies can unlock scalable growth, minimize costs, and build a solid foundation for long-term success—a recipe for a thriving SaaS business!

8. How a GTM production line generates revenue.

The Lean Revenue Factory is a new way of thinking about using GTM to achieve SaaS growth. Think of it as a giant machine that produces recurring revenue (ARR). It all starts with feeding leads into GTM's different GTM motions, which operate like revenue production lines. Each production line's growth formula is based on acquiring and growing a customer base unique to the targeted market, unique in that it maps to the buying experience of that specific market.

In the Revenue Factory, all key metrics, like Win Rate (acquisition), Gross Recurring Retention Rate (GRR), and Net Retention Rate (NRR), are put together in a growth formula and tracked. The growth formula observes how efficient the different GTM motions (revenue production lines) are in converting leads into customers and keeping them happy. Retention and Expansion feed into each other, creating a virtuous cycle of customer satisfaction and growth. The insights we gained will help us fine-tune the GTM production lines for maximum performance.

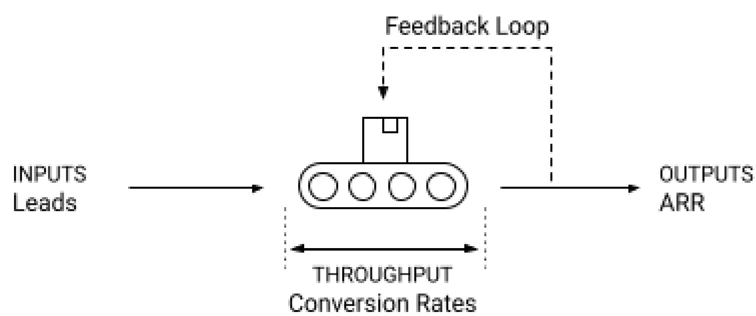

Figure 7. A simplified view of a recurring revenue system

Here's the kicker: as revenue scales and surpasses $10 million in ARR, relying on a flood of random leads or continued outbound cold calling, in most cases, is deemed unscalable. Conversion rates eventually will start to sputter because, let's face it, not all leads are created equal. That's when it's time to shift from an "always do more" input-centric approach to a “do better” throughput-centric approach. This means focusing on optimizing those conversion rates, ensuring we help the customer succeed, and optimizing the output out of every single customer.

There are three main ways to boost throughput performance:

- **Improve the Process:** This is all about having well-oiled, efficient processes running GTM production lines. Think of clear procedures – the kind of stuff that AI can help supercharge once we've got it nailed down.
- **Automate It:** The right technology can streamline processes and make the GTM machine smoother. Integration across various tools is vital here!
- **Where needed, add a Human Touch.** Don't underestimate the power of people to provide the magic for complex problem-solving, creativity, and high-quality customer interactions.

The Lean Revenue Factory is all about optimizing GTM processes to create a well-oiled revenue-generating machine that achieves sustainable growth. For this, we need a new kind of leader, a topic we will discuss next.

9. The Role of the CxO: Modernize GTM Processes

The Lean Revenue Factory throws out the old-school sales playbook. Forget the glory days of the single-minded sales leader obsessed with lead volume and always wanting to hire more sellers to achieve growth.

In this new world, we need a conductor of the revenue orchestra, a CxO who can oversee the entire customer journey – Acquisition, Retention, and Expansion. This shift to a data-driven approach is crucial. The newly assigned CxO wields metrics and analytics like a maestro's baton, pinpointing bottlenecks and growth opportunities across the entire revenue generation process. Unlike the traditional VP of Sales, who prioritized "acquisition at all costs," the modern CxO owns the whole show and orchestrates actions across marketing, sales, and customer success. It's a collaborative effort, ensuring every team member plays their part in harmony.

This holistic approach is the secret sauce for sustainable growth in today's competitive SaaS landscape. A laser focus on acquiring new customers at the expense of keeping existing ones happy (retention) or growing their accounts (expansion) is a recipe for disaster, even with fancy AI lead gen tools. The key ingredient? Well-defined processes are the sheet music for this revenue orchestra. AI is a powerful instrument that augments human capabilities and helps teams perform at their best. The modern CxO fosters a culture of continuous improvement, ensuring the processes are tight and the AI integration is seamless.

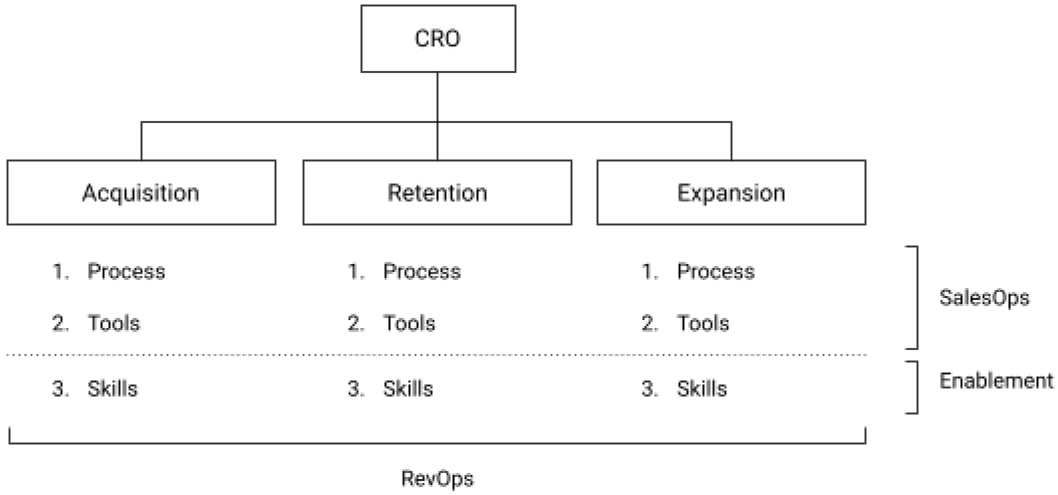

Figure 8. Drawing with the CRO overseeing marketing, sales, and customer success

The CxO's mission, if you will, is not to secure revenue per se but to secure what gives rise to revenue. In other words, to meticulously design, implement, and refine the revenue-generating processes for long-term success. They have process geeks on their team (SalesOps), RevOps performing data analysis, and an Enablement team in charge of blending human expertise with AI technology. Their ultimate goal? To ensure the revenue orchestra consistently delivers revenue, exceeding goals quarter after quarter.

So, CROs of the world, heed the call! This “chief of the revenue factory” role is yours for the taking. But if you cling to the old ways of "acquisition at all costs," then maybe the role of VP of Sales is a better fit.

10. In conclusion: Process first, AI second.

AI is like that hot new gadget everyone's talking about, promising to revolutionize GTM and deliver hypergrowth at low cost. But here's the thing: just throwing AI at GTM problems by itself won't fix the growth challenge. To unlock AI’s true potential, we must have a solid foundation of well-defined processes in place.

Remember how process improvements revolutionized manufacturing back in the 60s? The same thing is about to happen to GTM strategies. Companies will achieve long-lasting success by transforming them into well-oiled Lean Revenue Factories. And guess who's leading the charge?

The SaaS industry! We are paving the way for a GTM evolution that will benefit all industries for decades to come.

To unlock this, we must prioritize process excellence. The future of lean revenue generation is a beautiful collaboration between human expertise and AI—a match made in revenue heaven! Think data-driven decisions and flawless execution, resulting in sustainable growth. It's basically like the Fourth Industrial Revolution taking notes from the Third—a "Back to the Future" moment for GTM, optimizing strategies for the exciting road ahead.

Sure, some folks might be clinging to short-term gains over sustainable growth and hesitant to embrace this shift. Maybe they're like Marty McFly's audience–not quite ready for the future yet. But here's the thing: the future is coming, and those who jump on board now will be the GTM rockstars of tomorrow. So, ditch the "throw AI at it" approach and embrace the power of process-driven GTM. Your future self (and your investors) will thank you.