REVENUE ARCHITECTURE

CHAPTER ONE

01

INTRODUCTION

ISBN: 979-8-218-96493-1

DISCLAIMER: The information provided in this book is intended for informational purposes only and should not be construed as legal, financial, or professional advice. The views expressed herein are those of the author alone and may not reflect those of any organization or entity with which the author is affiliated. While every effort has been made to ensure the accuracy of the information presented, the author and publisher make no representation or warranties with respect to the accuracy, applicability, fitness, or completeness of the book's contents. The author shall not be liable nor responsible for any loss or damage allegedly arising from any information or suggestion within this book. The reader is responsible for performing their own due diligence and should seek the advice of qualified professionals before making any decisions related to the content of this book.

First Edition, revision 1.2, January 29, 2024

Unless otherwise stated, all graphs and visual aids included in this book were designed and produced by Winning by Design Creative. Special thanks to Roee Hartuv, Dan Smith, Jackie Kummerl, Oren Lavi, Alex Esser, Dominique Levin, Dave Boyce, Calvin Boyce, David Spitz, and Sari Green for their hard work, input, and guidance.

To our readers, thank you for embarking on this journey with us. We hope the insights and strategies shared in these pages empower you to achieve new heights in your business.

01 | INTRODUCTION

A few years ago, we witnessed one of the most remarkable human-made wonders ever. Nearly all of humankind came to depend on it overnight. Yet, even today, few can pinpoint what it was, as it was obscured by the events that followed. This book not only unveils the source code behind this modern marvel but also provides the blueprint to recreate its magic.

In 2020, the world faced a crisis of monumental proportions: a global pandemic. Almost overnight, remote work became not the exception, but the rule. Billions relied on their phones, tablets, and computers to navigate the intricacies of daily life—to work, communicate with family, participate in their communities, and go to school. At some point during the pandemic, nearly everyone on earth who had a smartphone installed a product like Zoom, hosted on a ubiquitous infrastructure known as "the cloud." The technology deployed on an unprecedented scale, and against all odds, it worked flawlessly. Students and teachers, schools and governments—everyone found themselves relying on the cloud.

Amid the chaos and upheaval of a global pandemic, a quiet wonder had occurred—one that many of us took for granted, even while it underpinned nearly every facet of our lives: *the cloud had come to our rescue*. This wonder didn't just suddenly appear; it came about through decades of incremental advancements in global infrastructure and software that allowed the cloud to embrace the moment. The term "the cloud" may sound fluffy, but there is much more to it than its nebulous name suggests.

The cloud came to exist because it was heavily influenced by the following:

1. **The Internet:** The triumph of SaaS, or Software as a Service, in 2020 was rooted in an intricate web of interconnected servers and computing power built over the previous 30 years. This offered extensive, seamless, and ubiquitous access to the cloud regardless of geographical location.

2. **Smartphones:** Devices permeate every aspect of our lives. With over 6.5 billion smartphones in the market, approximately 2 out of every 3 individuals had direct access to the cloud infrastructure.

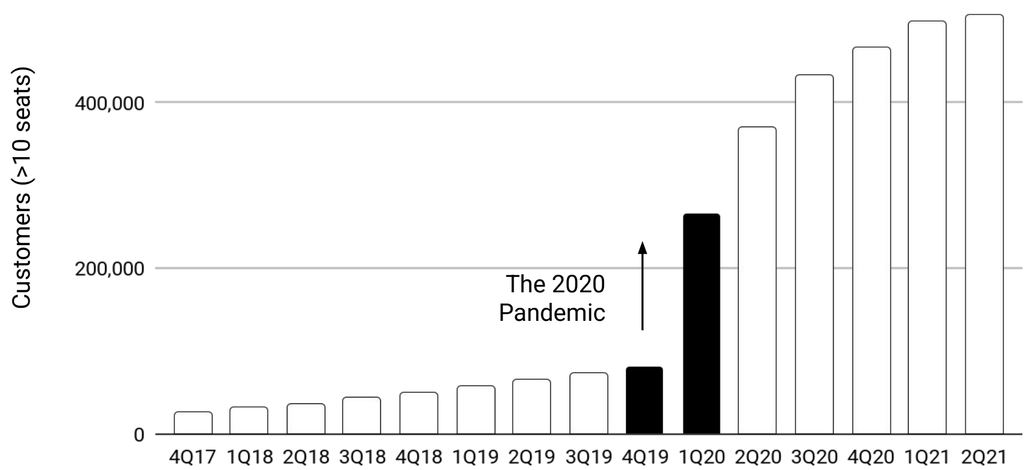
3. **A Diverse Landscape of Applications:** With many applications available, virtually every need could be catered to. Communication apps such as Zoom (see Figure 1.1) gained immense popularity, fostering seamless connections between people regardless of their physical isolation.

These building blocks forged a highly reliable global infrastructure serving billions of users worldwide. Yet, one crucial building block has gone unnoticed:

4. **Innovative Business Models:** The industry embraced a novel business approach, enabling access to essential services through subscription- or usage-based fees on a recurring basis. The most popular use case is SaaS. This innovation facilitated ubiquitous access and enabled everyone with a smartphone to partake.

Before the pandemic, many industry experts doubted a cloud-based infrastructure could carry the performance needed for global Enterprise-grade systems. However, the 2020 pandemic proved them wrong. Overnight, every business, government, and educational institution worldwide became dependent on cloud products and experienced the benefits of a subscription-based approach using a recurring revenue model. In the middle of 2020, we pinched ourselves, for we had all witnessed a wonder: during the pandemic, the entire world had become dependent on subscription- and consumption-based services overnight, and it did so without a hitch. It felt as if SaaS products and their novel pay structures had just saved the world.

FIGURE 1.1 ***The explosive growth of communication applications in B2B during the pandemic reflected by the rise in the number of Zoom customers with more than 10 employees.***



Next, we will dissect the factors behind the rapid growth and the subsequent market crash, analyzing its underlying causes, in **Section 1.1 The Golden Era**. This exploration will help set the stage for where we are headed next and how to get there, introducing 3 key concepts:

- **Section 1.2 The Revenue Factory:** We'll delve into the Factory concept, which offers a blueprint for sustainable growth and operational efficiency in recurring revenue businesses.
- **Section 1.3 The Go-To-Market (GTM) Approach:** Moving away from the siloed operation, we'll explore a GTM approach where revenue is generated through a unified organizational effort akin to a factory's production line.
- **Section 1.4 Phase Shifting:** An examination of how recurring revenue businesses undergo several fundamental changes quickly, a concept known as Phase Shifts. The focus will be on managing through these numerous phase shifts smoothly, which most management teams are unfamiliar with.

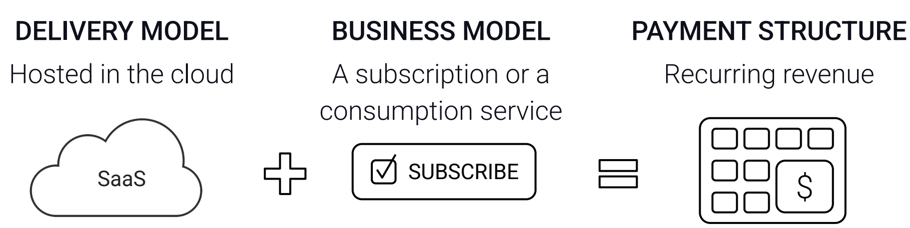
Collectively, they do not just narrate a shift in strategic thinking; they propel us into an exciting future and act as tools to navigate the modern economic landscape's ever-changing landscape.

AMBIGUOUS SAAS TERMINOLOGY EXPLAINED

SaaS is a versatile term that encompasses various aspects of the software delivery model. It plays a pivotal role in modern technology, and its usage can be classified into 3 categories:

- **SaaS as a Delivery Model:** Refers to cloud-hosted applications accessed via the internet through subscription-based services. Users lease the software instead of owning it outright. The advantages include accessibility from any internet connection and regular software updates and maintenance without the hassle of manual installations.
- **SaaS as a Business Model:** Includes both subscription-based and consumption-based agreements. Subscription-based agreements specify the duration of software access, ranging from daily to annual terms, while consumption-based agreements detail the usage-based terms and pricing, aligning costs with the actual use of the software.
- **SaaS as a Payment Structure:** Encompasses recurring payments based on the terms outlined in a subscription contract. Recurring payments provide a more dependable and continuous stream of income, allowing for better resource allocation. Due to the need to provide ongoing results to retain customers, it naturally fosters long-term relationships with customers, making it customer-centric.

FIGURE 1.2 ***The term "SaaS" means different things to different people.***



Throughout this document, we will limit the use of "SaaS" and instead refer to "Recurring Revenue," indicating its use as a payment structure, or "Subscription" to reflect on it as a business model. This approach provides a clearer delineation of the multifaceted role of SaaS in the software industry.

1.1 THE GOLDEN ERA

While the number of subscription services were exploding and valuations were catapulting, underneath, a fire was smoldering. Most of these companies were being built on a “growth-at-all-costs” mindset, and the sudden increase in usage made their structural and conceptual weaknesses more pronounced. To create more growth, more people were hired, and more attention was paid to short-term wins without applying short- or long-term financial discipline. Unsurprisingly, this resulted in a steep increase in the cost of acquisitions. Meanwhile, companies went public with less revenue, relying on more immature Sales and Marketing motions. Surely this could not continue? All this led to 2021, a year that marked a watershed era of success for the SaaS industry: 27 Initial Public Offerings (IPOs), and an astonishing 787 unicorns were minted, according to DealRoom. This surge was largely fueled by the continued growth-at-all-costs mindset.

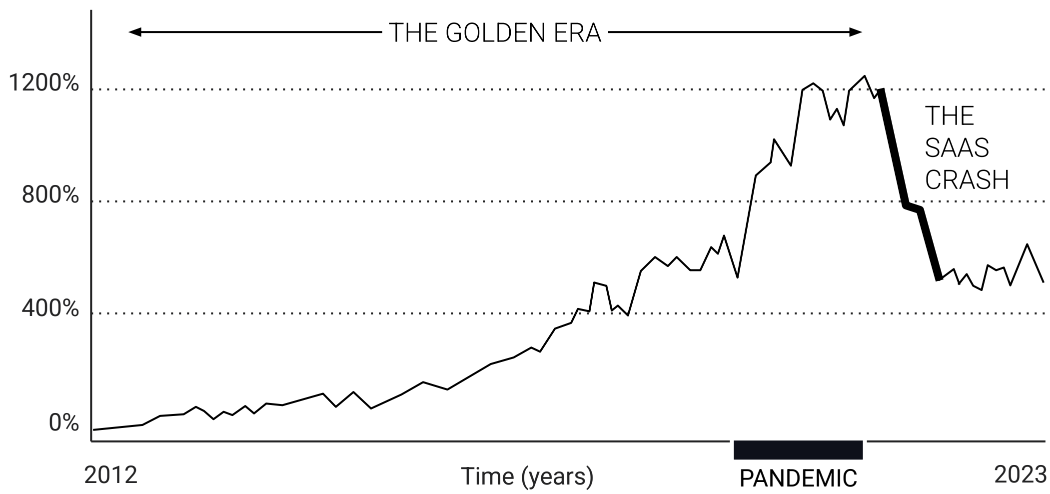
The SaaS Crash

In 2021, after more than a decade of intense growth, signs of a coming transformation began to emerge. In November 2021, the SaaS stock market peaked. However, on December 3, 2021, the first domino fell as the *Wall Street Journal* reported, "DocuSign Shares Fall More Than 40% as Customer Behavior Shifts." At the start of 2022, a casual observer might have judged everything to be fine, but by then, geopolitics and other emerging challenges had begun to slow down the economy.

In February 2022, many marketing leaders noticed a sluggish lead flow, and in the following months, sales leaders started to see deals being delayed. Naturally, booking performance fell short, and soon after, the growth rate began to decline, slowing down funding and delaying IPOs. With less money available to invest, the valuations of Startups dropped. Market reporter Rebecca Szkutak published an article on March 23, 2022, entitled "Record-Setting Venture Capital Market Shows Signs of a Slowdown.”

By mid 2022, the situation had worsened, and venture firms started to recommend their portfolio companies cut costs by 20% across the board, while others advised surgically paring down expenses. However, it was too late; the damage was done. The SaaS market had crashed, marking the end of an 11-year tech bull market that resulted in a historic 50% value destruction in public (and private) SaaS companies, with the average market cap down 57% from its 12-month highs. This massive reduction in market value impacted public SaaS companies and hit the entire tech ecosystem like a tidal wave.

FIGURE 1.3 ***Performance of SaaS companies over time, normalized against January 2012 by SaaS Capital Index®.***



The end of the Golden Era of SaaS had come. An era that began with Marc Andreessen's prescient words in 2011, "Why Software is Eating the World," crashed during the winter of 2022 and ended with an exclamation point with the collapse of Silicon Valley Bank on March 10, 2023. So, where do we go from here? To learn where we are going we must first delve into the origins of this turmoil.

The new situation we find ourselves in demands a new operational framework. But to do that, we have one important thing to do. We must first identify the root cause of the crash to prevent it from ever happening again.

What Caused the SaaS Crash?

The SaaS crash did not come as a surprise to everyone. Many industry experts had warned of the market's unsustainability in the years leading up to this. However, the speed at which it happened and the widespread impact of the crash still caught many off guard. For far too long, the market had coasted on a diet of financial junk food, propelled by cheap investment money warranted by occasional bursts of explosive growth in a particular sector.

Various factors contributed to this unprecedented fall, including rising interest rates, the end of the COVID inflation, macroeconomic risks, and geopolitical uncertainties like the war in Europe. While these events certainly played an important role and may have caused the situation to spill over, they were not its root causes. An average customer buying a license to sign electronic documents or to use communication software is typically disconnected from U.S. bond prices. And let's not forget that customers were still buying and feverishly using SaaS products when this occurred. So what was the cause?

During the Golden Era of SaaS, the prolonged period of low interest rates led to abundant investor capital. It enabled SaaS investments to grow without regard to near-term profitability, a Go-To-Market (GTM) approach that has since been coined “growth at all costs.” To find the actual problem, let's analyze what the growth-at-all-costs GTM approach is.

The Growth-at-All-Costs Culture

During the Golden Era the market rewarded growth at SaaS companies with higher valuations. Entrepreneurs quickly realized that the faster the growth, the higher the valuation, thereby increasing the likelihood of going public.

Investors themselves also favored this trend, as an investment made at a given valuation could swiftly be justified by the next investor willing to invest at multiple times that valuation. Ultimately, the public markets rewarded founders, allowing them to amass unimaginable wealth and helping investors achieve their Internal Rate of Return, or IRR, targets. It resulted in companies hiring unskilled labor, purchasing a myriad of tools, and applying unproven methods—all of which contributed to the soaring costs found on most SaaS companies' financial statements.

In practical terms, the quality of the customer experience was considered secondary to the growth rate. This approach compelled organizations to focus on seeking more revenue, leading to an emphasis on acquiring more deals and leads. Unfortunately, this relentless pursuit of *more* led to organizations using spam-like tactics and handing over control to the lowest-cost and least-skilled laborers who used the advances of email automation to SPAM prospects and customers. This GTM approach caused overall costs to skyrocket, resulting in a chaotic array of tools and methods. Consequently, departments operated ineffectively and inefficiently, pressuring companies to search for more leads to create more deals and generate more revenue. The growth-at-all-costs mentality fostered an "always do more" culture. It's important to note that the industry wasn't oblivious to these issues.

As early as 2016, it became evident that the current growth tactics wouldn't be sustainable in the long run. In fact, by 2018, the industry recognized the necessity for a more cost-efficient approach to growth and initiated efforts to address the situation. However, when the pandemic struck, these corrective initiatives were set aside. If anything, the pandemic further fueled the flames of the growth-at-all-costs mindset, intensifying an already precarious situation.

Who's to Blame?

Although we may be quick to point fingers at investors as the root of all this, such blame is unfair and inaccurate; entrepreneurs were equally at fault. A pattern had emerged: pursue growth at all costs, and receive higher and higher valuations. Investors could justify their investment, with each of these valuations doubling or tripling. Companies could get to the public market faster, where the founders and investors could take their chips off the table and become wealthy. Then, technology vendors such as email automation providers, service providers, and consultants came along to fan the flames. Everyone was contributing to the hype. It was not the fault of a single party. It was an entire industry's doing, and it brought us to where we are today, with tens of thousands of SaaS companies sitting on a mature global infrastructure with over a billion users—not a bad place to be, and a fantastic foundation upon which to build.

The Road from Growth at All Costs Leads to Sustainable Growth

SaaS as an industry has undergone a significant transformation over the last decade, marked by 4 distinct eras:

- *In 2012, we witnessed a surge in growth* fueled by low interest rates, fostering a growth-at-all-costs mentality, which inevitably led to bloated cost structures.
- *Starting in 2020,* growth stalled amid economic uncertainty and recession fears, while high acquisition costs persisted. Rising interest rates began to compress valuation multiples from as much as 40x down to 8x.
- *In 2022*, there was a significant shift towards cost control. Then, in early 2023, the collapse of SVB marked a turning point away from the growth-at-all-costs trend. However, even as companies started reducing growth guidance, expense cuts remained relatively shallow.
- *In 2024, the era of sustainable growth begins.* Companies are starting to manage the costs of growth and aim for a long-term target of 30% operating margins. Highly profitable, high-growth companies are emerging.

This trajectory shows a clear path toward a more profitable and sustainable future.

In summary: During the Golden Era, SaaS companies aimed for high valuations, often relying on a single metric—the growth rate. With ready access to low-cost capital, they received virtually unlimited funding, driving growth with minimal oversight, resulting in a pervasive growth-at-all-costs mentality. This relentless pursuit of growth led to an increased demand for unskilled and technology–assisted labor, prioritizing quantity over quality in serving customers. The time has come to transition to a new, more sustainable framework. It promises an era of sustainable growth and the rise of high-quality, billion-dollar B2B software companies. As we look toward a future defined by growth, we turn our attention to an unconventional yet promising domain—the factory model.

1.2 THE RECURRING REVENUE FACTORY

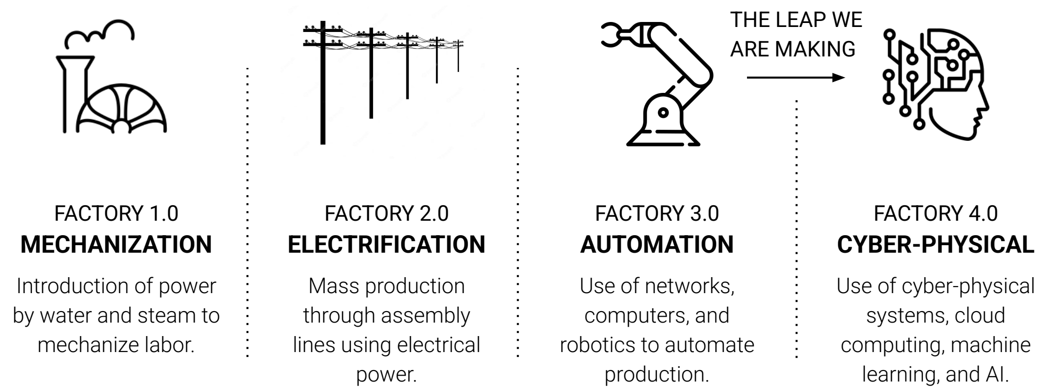
When one thinks of a factory, images of stark, grueling environments with monotonous production lines may come to mind—hardly the ideal of a dynamic modern workplace. Of course, this isn't the vision we aim for with the recurring revenue factory. Consider this: throughout history, factories have spearheaded technological advances to the extent that today, we give a number to the industrial revolutions they have caused. Each has brought a monumental shift made possible by new foundational principles upon which the next generation of factories could be built. We envision the revenue factory as an example of a fourth-generation factory designed to drive efficient, high-quality growth.

The Goal of a Factory: Cost Efficient Production of Quality Products
Factories have always served as symbols of the implementation of organized, systematic methodologies. At its core, a factory aims to enhance production and achieve economies of scale, leading to reduced unit costs as production numbers increase. However, the pursuit of increased volume and cost reduction historically has resulted in quality issues. This brings us to a third crucial goal of a factory, as emphasized by the renowned W. Edwards Deming: Quality. His approach to quality is deeply rooted in processes that prioritize the customer, rely on data-driven decision-making, and embrace a culture of continuous improvement. Deming's teachings on quality management have left an indelible mark on the manufacturing industry and played a pivotal role in shaping the global quality management movement.

1.2.1 *The Impact of the Industrial Revolution*

The Industrial Revolution transformed small, decentralized, and often craft-based workshops into large-scale, centralized, and mechanized industrial facilities. These advances span multiple generations. Known as "industrial revolutions," each marks a major shift in industrial and technological capabilities. These revolutions have reshaped our world, resulting in profound changes across social, economic, and technological dimensions.

FIGURE 1.4 ***The 4th Industrial Revolution is marked by cloud computing, machine learning, and AI.***



The Golden Era Thrived on Automation, Part of the Third Industrial Revolution

For example, during the Golden Era, many developments were the result of the Third Industrial Revolution (3IR). With the transition to a subscription-based revenue model, the revenue per customer declined, necessitating a significant increase in customer acquisition to meet growth objectives. This led to a demand for more customers and leads well before achieving operational maturity to handle such growth. The SaaS industry turned to a product of the Third Industrial Revolution: Automation. Email automation, in particular, played a pivotal role in increasing production of emails, enhancing production consistency through email sequencing, and improving quality using templated emails. This approach, by its very nature, led to cost reduction, as a single prospector with automation tools could achieve the work of many prospectors doing this manually.

Today We Are in the Fourth Industrial Revolution

Today, we find ourselves in the Fourth Industrial Revolution (4IR), marked by Machine Learning (ML) and Artificial Intelligence (AI). These advances rely on processes to make data-driven decisions. Although it's still early, the technological advances have already led to transformative apps, such as personalized customer experiences driven by the analysis of usage patterns, real-time coaching (co-pilots), dynamic pricing responding to demand, and predictive forecasting, to name a few.

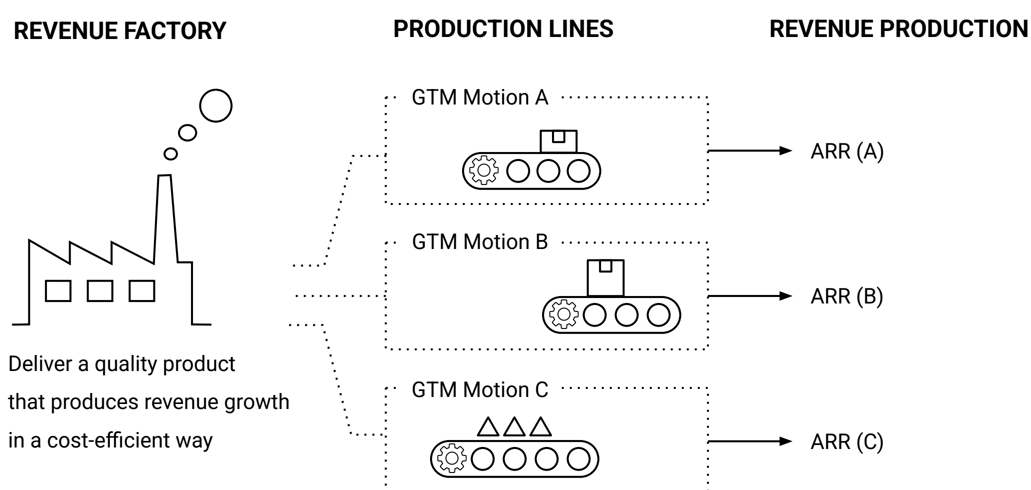
1.2.2 *Mapping a Factory Approach to Producing Recurring Revenue*

The analogy of a subscription business with a factory extends beyond mere automation. Just like a factory that produces revenue growth, a subscription business operates with similar objectives. In fact, the goals of a factory align to those of a recurring revenue business perfectly:

Factory Goals		Goals of a Recurring Revenue Factory
• Increase Production	⇒	Achieve Growth
• Improve Efficiency	⇒	Lower Costs
• Enhance Quality	⇒	Deliver the Promised Impact

The first goal in both factories and subscription businesses is clear: increase output. In factories, this means more production, akin to achieving growth in subscription businesses. Historically this was driven by a growth-at-all-costs approach. Today's emphasis on sustainable growth in subscriptions mirrors the factory's aim for efficiency. The analogy further extends to the methods of increasing output: just as factories use different production lines to create a variety of products from the same materials, subscription businesses deploy various GTM motions to diversify their revenue streams

FIGURE 1.5 ***A subscription business operates like a revenue factory with a number of production lines (GTM motions). Each production line signifies a different revenue stream, characterized by specific growth metrics and cost structures.***



Similarly, we can identify the shift toward cost-conscious growth, which today is referred to as “sustainable growth,” prioritizing cost reduction, or what VCs have termed “capital-efficient growth,” aimed at increasing Free Cash Flow. These objectives are inward-focused and do not directly benefit the customer.

This is where the importance of the third goal, Quality, becomes evident. In a factory context, “Quality” signifies a product's consistent ability to perform its intended function. When applied to SaaS products, this concept translates to its ability to reliably deliver the promised results, again and again, commonly referred to as “delivering recurring impact.” To implement the Recurring Revenue Factory, we can identify the essential tasks:

- Achieve Growth ⇒ Implement efficient processes for *scalability*.
- Lower Costs ⇒ Apply unit economics to ensure *sustainability*.
- Recurring Impact ⇒ Instill quality management for long-term *durability*.

Historically, operationalization followed a departmental approach, where each department aimed to achieve specific targets. However, achieving results in a Recurring Revenue Factory requires a more integrated approach, which we will refer to as the GTM approach. This approach emphasizes cross-functional collaboration and alignment across departments to drive recurring impact.

SUSTAINABLE VS. CAPITAL-EFFICIENT GROWTH

Sustainable and capital-efficient growth are similar but not the same: Sustainable growth involves maintaining a consistent long-term growth rate without encountering operational or financial hurdles. Companies achieving this show strong revenue retention metrics like GRR and NRR, balancing resource allocation. On the other hand, capital-efficient growth focuses on how well a company uses its capital for expansion, typically measured by revenue or profit per investment unit, with Free Cash Flow (FCF) as a key metric. While sustainable growth is about long term viability, capital-efficient growth aims for cost-effective expansion. Both are crucial for the success of a recurring revenue business.

1.2.3 *The Increase in Volume and Velocity*

In 2010, closing a perpetual software deal in the enterprise sector could generate revenue ranging from $500,000 to $10,000,000 up front. These numbers typically did not account for an additional 18% to 22% per year allocated for annual upgrade and support contracts, which were commonly established for at least another 3 years. Enterprise sellers would concentrate on a restricted number of qualified opportunities annually, typically achieving a 30% win rate. Sales cycles in this context often extended for an average of 18 months, and in some instances, as long as 3 years. This level of effort would typically generate annual revenue of around $2,000,000 for a junior rep and well above $4,000,000 for a senior rep.

We can compare that to the subscription-based services market in which a solution similar in scope brings in $100,000 in annual contract value (ACV) with a sales cycle ranging from 6 to 9 months. In this scenario, the same experienced rep would carry a lower target around $1,200,000. This would require the rep to secure 12 commitments per year. Based on today's win rate of 20%, the seller would, therefore, need to work on 60 qualified opportunities per year. This would be a challenge for most of today’s enterprise reps. When we contrast this with an SMB sale, these numbers escalate even further. For example, a deal with an ACV of $10,000 against a quota of $500,000 requires a total of 50 wins per year and require as many as 50 qualified opportunities per month. Win rates and sales cycles will vary depending on factors such as industry, product, market conditions, and company strategies. However, the overall outcome remains the same: a much higher velocity and an order of magnitude increase in deal volume compared to a perpetual business.

In summary: The goal of a recurring revenue business is to achieve the highest growth rate in the most cost-efficient manner. The Revenue Factory tackles this challenge by streamlining processes and enhancing efficiency through iterative improvements, thereby ensuring consistent delivery of recurring impact. To achieve this, companies must shift from a traditional departmental approach to a more collaborative, cross-departmental approach known as a GTM approach.

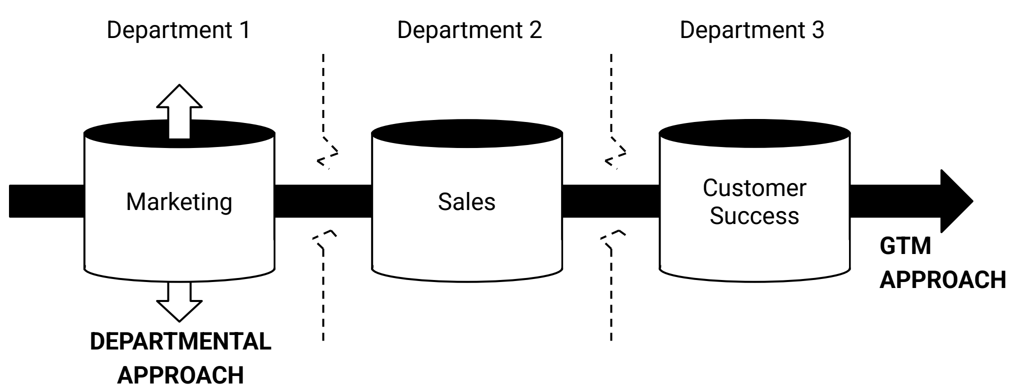
1.3 THE GO-TO-MARKET APPROACH

The integration of various functions in marketing, sales, and customer success forms what is referred to as the Go-To-Market (GTM) approach. This approach aligns the product with market needs and business goals. It aims to build awareness among prospective customers, educate them on the product's merits, help sell it effectively and efficiently, and importantly, ensure consistent delivery on what was promised. The GTM approach serves as the driving force behind growth, and its significance cannot be overstated.

Today's Departmental Approach

Traditionally, each department functioned autonomously, employing distinct means and methods to achieve its objectives. For example, the marketing department, led by the CMO, focused on generating awareness and providing qualified leads to support the sales team. Similarly, the sales and customer success departments operated independently, each with its own set of metrics and tools specific to their functions. However, it doesn't stop there. Companies structure and organize their resources differently within each department. Marketing departments are divided into distinct functions that operate in parallel, such as Content Marketing, Email Marketing, and Demand Generation, with each responsible for specific programs or campaigns.

FIGURE 1.6 ***Today, recurring revenue businesses operate in silos, in which each department focuses on its own objectives. A GTM approach breaks down these silos and emphasizes cross-functional collaboration and alignment across departments.***



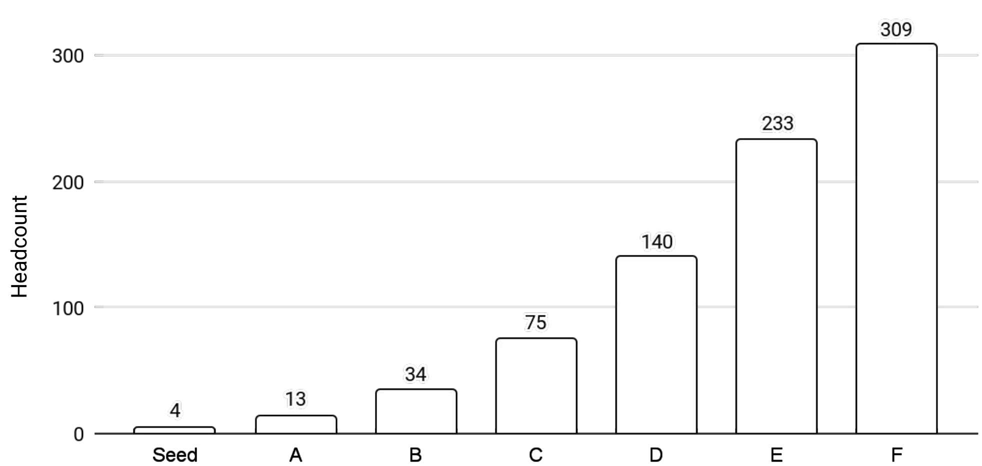
Sales teams are segmented based on regions, vertical markets, or company size. Customer success is typically organized with functions operating sequentially, such as onboarding, renewals, and expansion.

The Impact of Silos

With the departmental approach, each department has its unique structure built around specific deliverables. The consequence of such an approach is that it creates silos within the organization. These silos in turn create inefficiencies, including duplicated efforts and a lack of alignment towards broader company objectives. For instance, the marketing team might focus on generating leads that the sales team is unaware of, or the customer success team might miss opportunities for upselling or cross-selling due to a lack of alignment with the sales department. Team members working from different locations (remote) further complicates cross-department/cross- functional coordination. Such a lack of coordination has hindered overall company performance and growth. This heightened level of complexity necessitates organized restructuring, leading us to a cross-functional GTM approach where departments work collaboratively and share information to achieve the common objective: deliver Recurring Impact to attain Recurring Revenue. This shift aims to break down the silos, leading to greater organizational efficiency and effectiveness.

FIGURE 1.7

The median headcount by fundraising stage was recorded by Carta in 2021. It shows the 10x growth in headcount which causes fiefdom building. Such rapid growth occurs at the moment the organization still lacks processes.



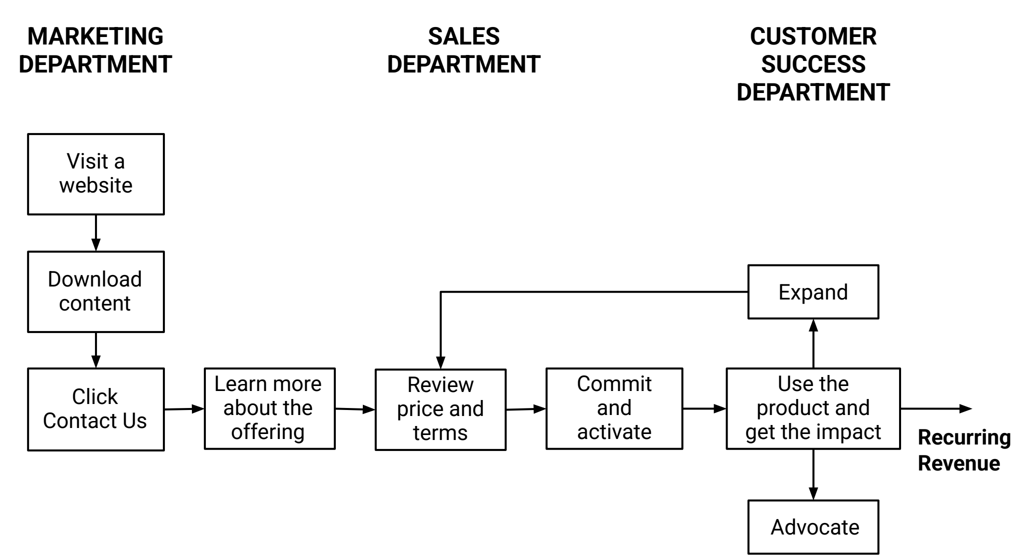
1.3.1 *Introducing the GTM Motion*

Where a factory has product lines, a revenue factory has GTM motions. A GTM motion refers to a company's structured set of activities, tactics, and processes that span across the entire customer journey. It starts with finding prospects, qualifies them, and ultimately turns them into satisfied customers. This approach involves collaboration across functions from the marketing, sales, and customer success departments. The aim of a GTM motion is to enhance organizational efficiency by reducing costs and boosting effectiveness through increased production or growth, alongside improving customer experience.

Go Fast and Go Long

Different types of GTM motions are suited to different business models, products, and customer bases. They are essential for scaling business operations and achieving a sustainable, profitable growth rate. For example, an "inbound GTM motion" might involve generating leads through content marketing, qualifying them via technology or human interactions, and then handing them off to a sales team to gain a commitment. In that scenario, they will trigger dozens of micro-actions, pass through at least 3 different departments, and do so all within mere minutes.

FIGURE 1.8 ***An example of a high-velocity inbound GTM motion, as perceived from the customer's perspective. It involves multiple actions across many functions and 3 departments***



On the other hand, an "Enterprise motion" might involve targeted outreach to large companies, using a dedicated sales force backed by high-level marketing and account management efforts. This may take a consistent approach for a long period of time. The goal of a GTM motion is to ensure that, amid all this activity, the customer has the best possible experience. It aims to create coherence across all these actions and make the interactions appear smooth. For this we are going to use the concept of GTM motions.

1.3.2 Different GTM Motions

Thinking about GTM motions leads us to a deeper understanding of revenue growth and its associated costs, both of which are essential components of achieving a profitable business model. In this book we will explore the following 5 GTM motions:

- **No Touch:** Customers are marketing, selling, and servicing the products.
- **Low Touch:** Marketing, sales, and support relies on technology, like chatbots, with personal engagement reserved for more complex situations.
- **Medium Touch:** Involves specialized roles like a Sales Development Rep (SDR) or Customer Success Manager (CSM) qualifying a customer's needs before involving a Sales Manager or product expert.
- **High Touch:** A Sales Manager or Customer Success Manager, often field-based, oversees a small portfolio of accounts. For advanced solutions, this likely involves support from a Solutions Architect.
- **Dedicated Touch:** A dedicated team solely focused on serving one large Fortune 500 account, often led by an executive who reports directly to the CEO, ensuring a comprehensive approach to both sales and service needs.

Each of these GTM motions operates on a different cost structure. For example, it would make no sense to fly cross country to close a $10/month deal. This means that to be sustainable requires that we map the right GTM motion to the revenue generated by the customer over time.

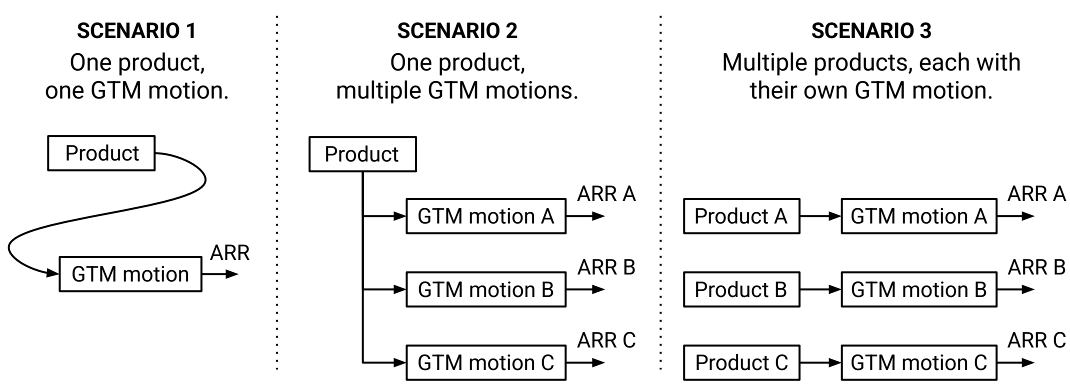
1.3.3 *Matching Products with GTM Motions*

Just as a company can have multiple products each generating its own revenue stream, a single product can have multiple GTM motions, also with their own revenue stream (see Figure 1.9). For example:

- **Scenario 1:** A product-led growth (PLG) product employs an inbound motion to attract pro-users, generating leads through content marketing.
- **Scenario 2:** A single product utilizes 3 separate GTM motions. For example, an inbound motion is in place for targeting SMB accounts, a field sales team focuses on Enterprise accounts, and a dedicated team caters to a select few strategic accounts.
- **Scenario 3:** Three distinct products are each aligned with their own GTM motion. For instance, Product A targets pro-users through an inbound motion. Product B aims at the SMB market using an outbound motion. Finally, Product C focuses on the Enterprise sector, employing a field sales motion.

By understanding different GTM motions and scenarios, businesses can strategize on varied paths to growth. Some GTM motions might be slower but generate substantial recurring revenue, like the Enterprise GTM motion. Others might offer a much higher deal volume but come at a lower ACV.

FIGURE 1.9 ***Different products and GTM motions each can create different revenue streams.***



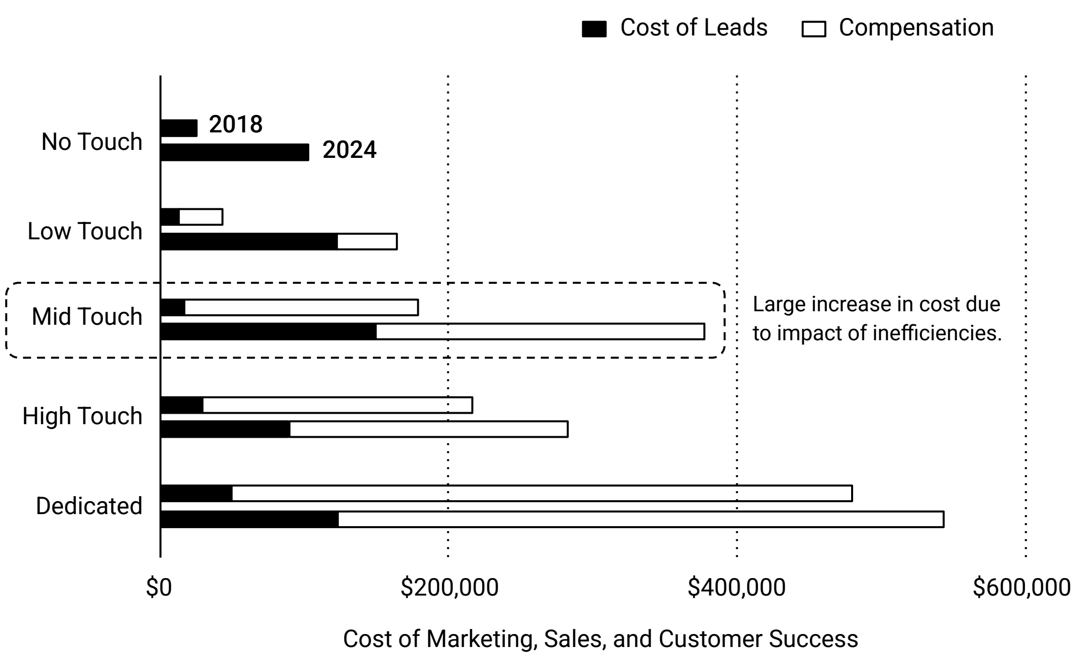
1.3.4 Cost of a GTM Motion

A crucial aspect of different GTM motions is aligning the cost with the revenue it generates. For instance, if you sell a multimillion-dollar solution, you can't expect customers to purchase it by watching a demo video and presenting their credit card information; they will want to engage with multiple specialists and stakeholders.

Conversely, if you sell a $5/month subscription, customers don't expect an on-site visit. Actually, they will probably prefer to watch a video and enter their credit card information in a self-serve portal. In essence, the cost of the GTM motion must be aligned with the recurring revenue it produces.

From 2018 to 2021, we witnessed a significant increase in the cost of GTM motions (see Figure 1.10). The 2022 SaaS market crash was caused by companies paying twice as much for GTM motions.

FIGURE 1.10 ***From 2018 to 2024, we observed a significant rise in the cost of GTM motions. In some instances, the mid-touch approach, utilizing 2 junior sellers (SDR and a Jr. AE), even became more costly than a high-touch approach relying on a single seller (Sr. AE).***



The Need for Sustainable GTM Motions

Creating a sustainable business relies on implementing cost-effective GTM motion anchored in proven, repeatable processes. This requires utilizing technology for more affordable task execution or hiring individuals at standard wages for routine tasks, instead of depending on scarce, exceptionally skilled, and highly paid talent.

THE RISING COST OF THE OUTBOUND MOTION

The surge in demand for subscription-based services has fueled the rapid expansion of SaaS companies, skyrocketing from approximately 1,000 in 2011 to a staggering 35,000 by 2023. These companies have adopted similar GTM motions, often with the assistance of popular technology.

For example, between 2015 and 2020, the outbound GTM motion featuring an inside sales team emerged as the preferred approach. This strategy leveraged cutting-edge email hyper-personalization and sequencing technologies. However, as automation increased production, the success rate of outbound emails declined.

In 2015, it took over 100 cold outbound emails to generate a single opportunity. By 2018, this number had risen to 200 cold outbound attempts, including emails, calls, and social interactions. In 2023, it had surged over 1,000 cold outbound attempts to generate one opportunity.

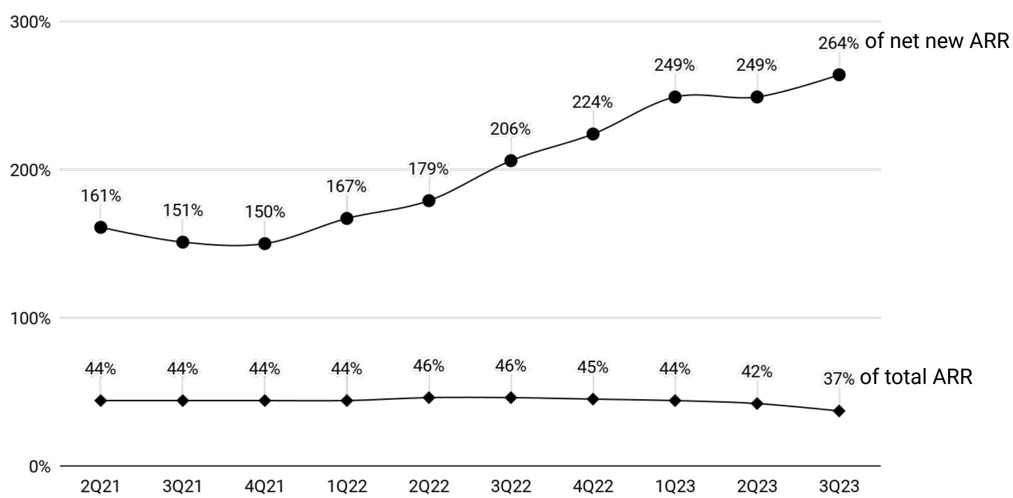
This created an insatiable thirst for leads to call on, resulting in soaring lead acquisition costs. But it didn't stop there. It generated a demand for more salespeople to send out more emails, which drove up salaries. For instance, entry-level Sales Development Representative (SDR) positions, which had a starting annual salary of around $35,000 in 2015, had climbed to $55,000 by 2018. By 2023, the target earnings for a US-based SDR reached $80,586, according to ZipRecruiter reports.

This led to the cost of outbound doubling from 2018 to 2023.

1.3.5 The Problem Only Got Worse

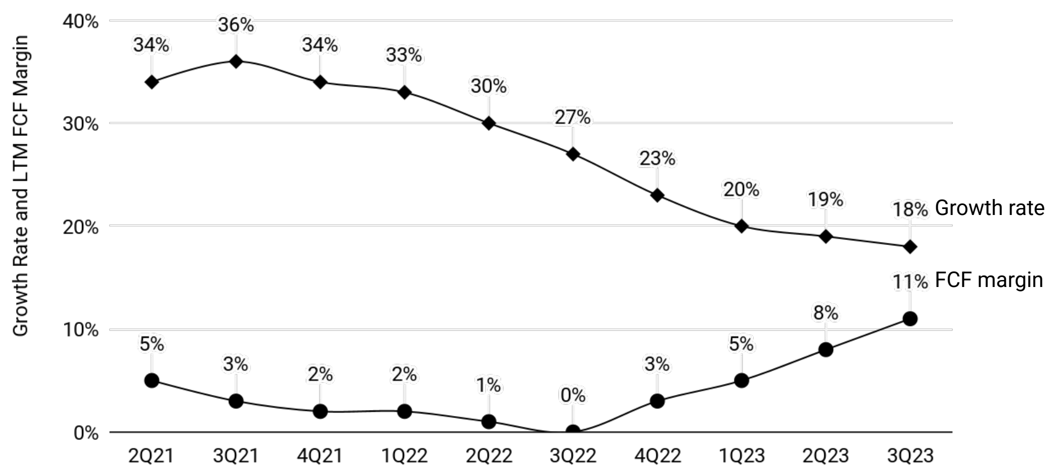
Several years after the crash, the SaaS industry is still struggling to find scalable and sustainable GTM motions. This challenge is evident in the trend of Sales and Marketing costs as a percentage of newly acquired revenue, depicted in Figure 1.11. Despite initial cost reductions due to workforce downsizing, the expenses subsequently increased. By the end of 2023, the cost of acquisition had worsened to 1.5 times the severity observed at the outset of the crash. The issue stems from the industry's failure to adapt their GTM motions in the years that followed the crash.

FIGURE 1.11 ***Cost of Acquisition and Expansion depicts that the GTM problem is not solved.***



The trend toward cost reduction and Free Cash Flow (FCF) generation, especially among venture-backed companies, led to the continuation of inefficient practices. The widespread availability of AI tools exacerbated the problem by enabling startups to continue their aggressive "Grow at all costs" strategies at a lower cost. While a healthy focus on FCF is generally prudent, a lack of operational capability to apply this to GTM motions led to a decline in growth. This phenomenon was reported by David Spitz from Benchsights who looked at the data from publicly listed SaaS companies. It revealed a decline in average growth rate from 36% to 18%, effectively halving it (see Figure 1.12).

FIGURE 1.12 ***The decline in average growth rate and increase of FCF among public SaaS companies.***



The combination of the decline in growth rate, and the increase in cost of acquisition tell us that the GTM challenges faced by late-stage startups and scaleups are worsening. These challenges can often be traced back to lack of knowledge and expertise in revenue architecture. The teams that operate the recurring revenue machine, commonly do not understand how it works. Thus, it's reasonable to predict that a sustainable GTM strategy will become a key success differentiator for venture-backed companies in the coming years, and that Revenue Architecture will play an important role.

1.3.6 Navigating Growth Stages

A high-velocity organization undergoes various stages of growth in a relatively short time frame. What an average company accomplishes in 40 years, a hypergrowth subscription-based company achieves in about 10 years—4 times faster—by progressing through a series of growth stages and critical milestones.

Growth stages

Growth stages in SaaS mark a firm's maturation and business evolution. Each stage comes with unique challenges, objectives, and key performance indicators.

For simplicity, we will keep it to 3 growth stages here:

- **Startup Stage:** In this initial phase, SaaS startups aim to validate their product–market fit by acquiring the first set of customers willing to pay for the product. That makes the product the star of the show, and rightly so. However, once they have validated the product and gained traction, the focus shifts from having a great product to selling it at scale.
- **Scaleup Stage:** SaaS companies in the Scaleup stage focus on rapid growth, expanding revenue from $10 million to $500 million, by launching multiple GTM motions and optimizing each GTM motion for profitability.
- **Grownup Stage:** Representing maturity, SaaS companies shift their focus entirely to profitability, operational efficiency, adhering to metrics related to publicly traded companies.

From initial ideation and securing first customers to scaling operations and optimizing for profitability across GTM motions, understanding these stages helps SaaS businesses allocate resources effectively, target the right customer segments, and implement growth strategies tailored to their current phase.

Critical Milestones

In the SaaS industry, success hinges on a few critical milestones:

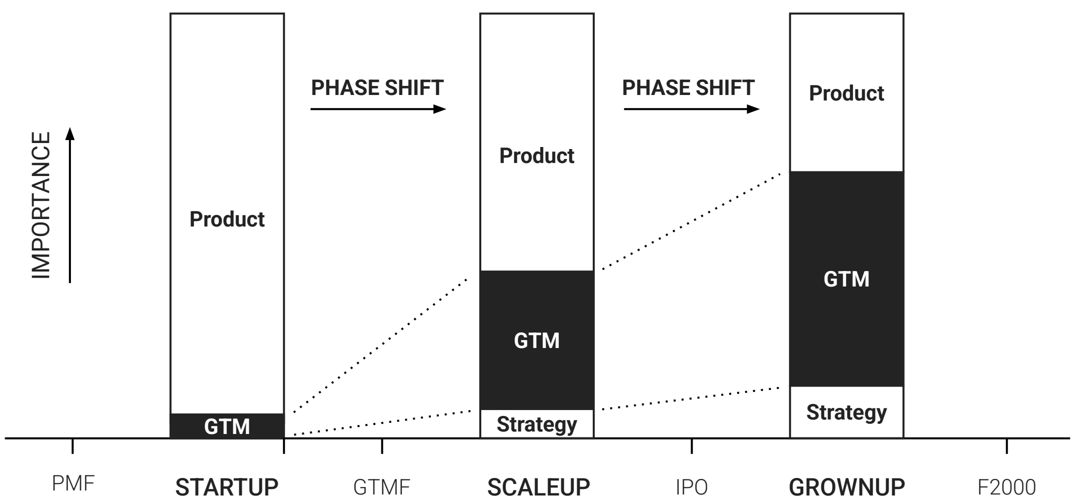
- **Product-Market Fit (PMF)** ensures that the software isn't just another product; it means it addresses a genuine market need, and different customers are willing to pay for it, often indicated by reaching $1M in ARR.
- **Go-To-Market Fit (GTMF)** focuses on how you effectively bring your product to the masses. It's not only about the value your software offers but also how you present, and deliver that value.

  Achieving PMF means you have created a product that customers find valuable enough to pay for. GTMF, on the other hand, ensures this product is presented to, and reaches the right audience, efficiently. True GTMF goes beyond consistently hitting growth targets by acquiring new customers; it involves reliably delivering value to customers, thus fostering retention and enhancing lifetime value for both the seller and the buyer. Typically, reaching true GTMF is a process that spans years – and for good reason.

- **Going IPO** by offering shares to the general public allows a company to raise substantial capital from external investors, enabling further expansion and growth. Going public also brings increased scrutiny, regulatory compliance, and transparency requirements. It's worth noting that not all successful SaaS companies go public; some opt for acquisitions or other forms of exit.
- **Fortune 2000** reflects a company has achieved over $5B in revenue, and is seen as a major accomplishment in the business world.

This requires a significant shift in focus as the company matures, moving from a product-centric approach to emphasizing GTM-centric approach. This shift is referred to as a Phase Shift, a topic we will delve into next.

FIGURE 1.13 ***The importance of GTM grows significantly as a company evolves from a Startup into a Scaleup. This transformation requires a company to make drastic changes.***



In summary: A successful recurring revenue factory depends on multiple scalable and sustainable GTM motions, which cover all customer-facing roles. The GTM motions are tailored to align with buyers' purchasing preferences, ranging from the Low Touch motion used for inbound businesses to the High Touch motion used for enterprise sales. Ideally, each GTM motion should achieve sustainability before hitting $10M in ARR.

1.4 PHASE SHIFTING

Think of the 3 growth stages mentioned earlier (see Figure 1.13) as akin to the educational system, where you first attend elementary school, then move on to high school, followed by college. The progression through growth stages is similar to progressing through school, where each school prepares you for the next one. Each school is different, very different; consider the difference between college and high school for example. This reflects how different each growth stage is. And each school has a clear end to it—a graduation.

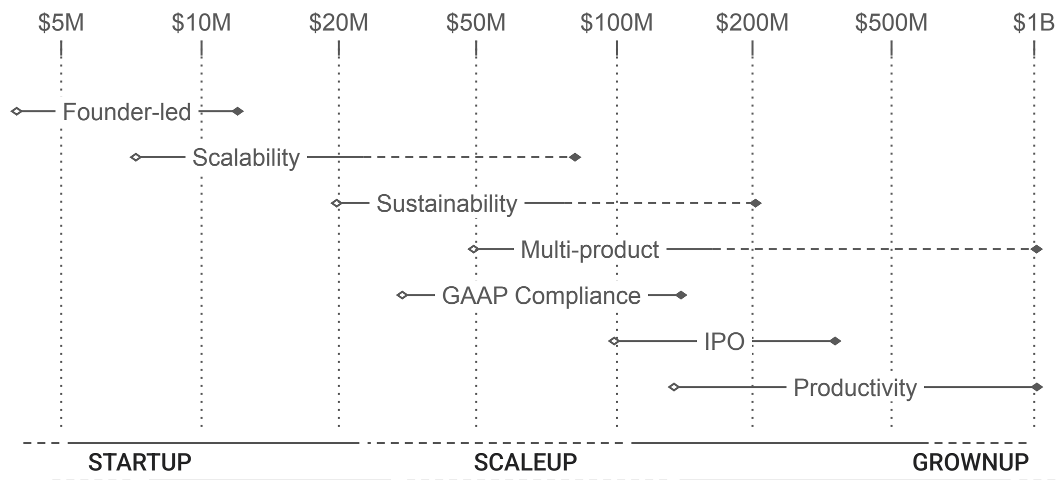
Schooling vs. Scaling

Unlike the educational system, where you know when you graduate, the transitions between growth stages are less defined. In many cases, one growth stage flows seamlessly into another; this is referred to as a phase shift. For example, the transition from Startup to Scaleup represents a phase shift, but there are many others:

- From founder-led to sales-led growth.
- From grow at all costs to sustainable growth.
- From a people-centric to a process-centric culture.
- From a SMB to an Enterprise GTM motion.
- From domestic to international growth.
- From a single product to a product portfolio.
- From non-GAAP to GAAP compliance.
- From a private to a public company (IPO)

These are just a few examples of phase shifts a company experiences. While in the educational system, people "phase shift" from one school to the next every 4 to 6 years, hypergrowth companies experience multiple phase shifts, often 2 to 3 simultaneously, over the span of a few years. Each growth stage requires a different set of strategies, a new set of metrics, involves new leadership, different systems, demands more advanced processes, and so on. This explains why phase shifts can take time, on average, around 18 months, making them a significant undertaking that demands the full attention of the CEO and careful planning by those involved on the executive team.

FIGURE 1.14 ***Phase Shifts define the Startup, Scaleup, and Grownup growth stages.***



Executives are aware of most of these phase shifts, but they are unaware of the process of a phase shift, so they spend most of their time reacting to the effects of past phase shifts rather than preparing for the next one. The presence of departmental silos and the constant turnover of staff only make this more daunting. Perhaps this helps explain why the grow-at-all-costs mindset has endured for such an extended period, while we all knew it no longer worked. It's just so much more convenient to continue with the status quo.

In summary: Revenue Architecture, as a discipline, establishes the scientific foundation for Recurring Revenue growth and serves as a linchpin in driving these transformative phase shifts, in particular those involving GTM motions. Through a series of models, it not only educates but also guide companies on their growth journey, It helps them to proactively prepare for phase shifts, rather than merely reacting to them.

1.5 RECAP

The Golden Era of SaaS, which spanned from 2011 to late 2021, was marked by remarkable growth and innovation. However, its abrupt end in early 2022 can be attributed to the unsustainable grow-at-all-costs approach that had become the norm. This resulted in companies going public prematurely, often with insufficient revenue, while relying on immature Sales and Marketing strategies.

Although a shift to a sustainable approach is essential, it alone will not address the operational growth challenges, and when applied incorrectly it is likely to have adverse effects that focusing on cost reduction often leads to a decline in product quality. The product quality in a recurring revenue business is what leads to renewals.

To tackle these challenges, we are introducing a simple concept: To operate a recurring revenue business as if it were a factory, a Recurring Revenue Factory, and see each GTM motion as a production line. This approach draws inspiration from the best practices from the industrial revolution, and it customizes them to suit to the distinctive needs of recurring revenue businesses.

Table 1.1 ***The 3 main goals of a recurring revenue factory, mapped to maturity phases.***

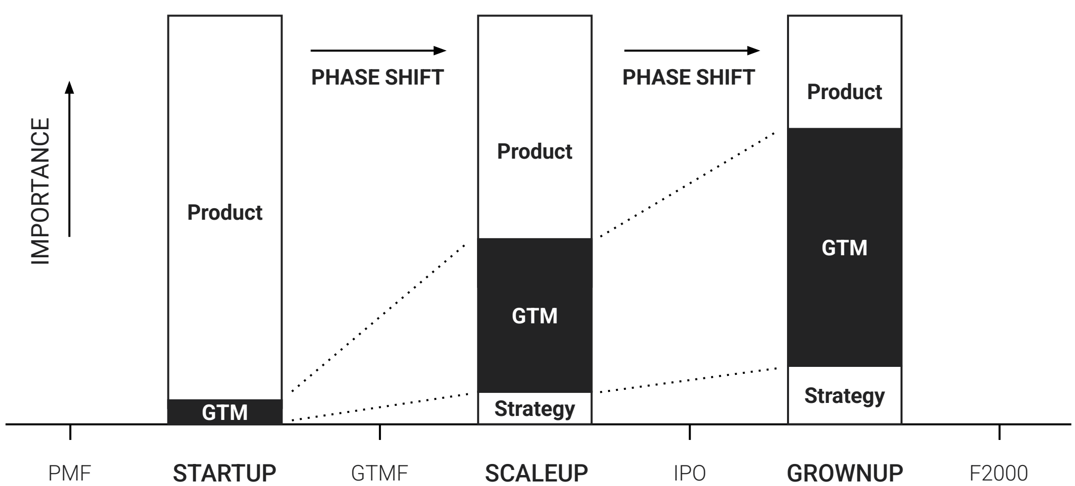
Factory Goal	Recurring Revenue Factory	Operational Directive	Maturity Phase
Production	Accelerate Growth	Implement proven processes	Scalability
Efficiency	Lower Cost	Apply unit economics (cost)	Sustainability
Quality	Deliver Recurring Impact	Instill quality management	Durability

The main goal of the Revenue Factory is clear: to establish recurring revenue growth. This goal centers on delivering what causes recurring revenue, recurring impact. This requires a customer-centric approach that covers the entire customer journey.

The shift in perspective requires that organizations break away from their traditional departmental approach, silos, and instead develop cross-functional collaboration.

Central to this transformation is the GTM approach that brings together all functions that call on a customer under a GTM motion. We identified 5 specific GTM motions: No Touch, Low Touch, Medium Touch, High Touch, and Dedicated Touch. These motions offer flexibility to tailor to different business models and customer needs. Implementing such a transformative change is not without challenges and takes time, typically requiring an 18-month phase shift.

FIGURE 1.15 ***The importance of GTM grows significantly as a company evolves from a Startup into a Scaleup. This transformation requires a phase shift.***



In summary: The Revenue Factory emerges in response to the 2022 market crash, aiming to establish recurring revenue through recurring impact. This objective hinges on cross-functional collaboration, the adoption of a GTM approach, and the strategic use of GTM motions. Revenue Architecture provides a guiding framework to design, build, and operate a successful recurring revenue factory based on GTM motions.

WHAT IS NEXT?

Just as an architect meticulously designs a bridge to ensure its longevity, stability, and efficiency through the use of proven frameworks, Revenue Architecture uses a series of established frameworks. This is vital to achieve the same level of rigor in designing, building, and deploying a revenue factory.

- **Part I. Fundamentals:** This section covers the scientific frameworks upon which a recurring revenue factory is based, including First Principles, Models & Data, and Systems & Processes.
- **Part II. Design:** Here, we explore the design of a recurring revenue factory, which is based on a series of frameworks that form a foundation. This includes The Revenue Model, The Data Model, and The Mathematical Model.
- **Part III. Build:** To build the factory, more frameworks are utilized, designed to enable a business to adapt to frequent market changes. These are The Operating Model, The Growth Model, and The Go-to-Market Model.
- **Part IV. Deploy:** For most organizations, adopting a scientific approach does not come naturally. It requires guidance on operating it with an emphasis on continuous and iterative improvement.

Let's begin by exploring the fundamentals upon which a recurring revenue factory is based, as this understanding is crucial for the successful operation of a recurring revenue business.

GET THE BOOK