THE BOWTIE STANDARD

A Modern Data Model for Recurring Revenue Businesses

Index

1. Thinking in Models

A venture-backed startup aims to build a fantastic head-snapping product and use it to transform a million-dollar startup into a billion-dollar grownup. This transformation requires extraordinary annual growth rates driven by an innovative product aligned with an effective Go-To-Market (GTM) strategy.

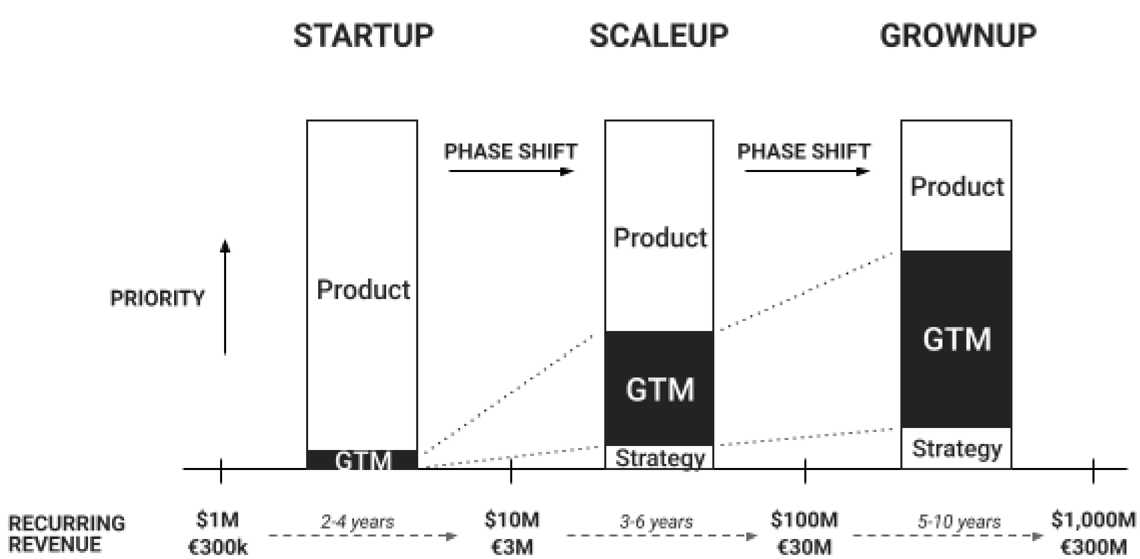

Figure 1.1 The importance of Go-To-Market strategies increases significantly as a company evolves from a Startup to a Grownup. This transformation is characterized by a shift in priorities, moving from a singular focus on building great products to incorporating robust GTM approaches and strategic planning.

When developing an exceptional product, it's clear that most do not start from scratch. Great products are built on existing functions and components. Take, for instance, an iPhone based on a screen, processor, memory, and software pulled from libraries. Each component is built on the best practices of those who engineered it before them.

Similarly, to create a GTM strategy, we should not have to start from scratch. Instead, we should draw on the accumulated knowledge of those who have come before us. This knowledge in the services industry is encapsulated in models. A model is much like a software module, but for GTM, it provides a structured, proven framework that can be adapted and implemented to suit a specific need and goal.

1.1 Architecture is Based on Using Proven Models

Models are crucial in many fields because they simplify complex information and help us understand how things work. They're like blueprints that turn observations into practical plans. Take the Golden Gate Bridge, for example. It was considered the longest suspension bridge when it was built in the 1930s. The bridge's design is based on six simple parts: Anchors, Piers, Towers, Main Cables, Suspension Cables, and the Deck. Each part was studied individually and together by analyzing its behavior. This way, architects could increase the span by increasing the components and testing and improving the design to handle the increase in weight and meet the local requirements around earthquakes and the challenges of the moisture and wind from the ocean.

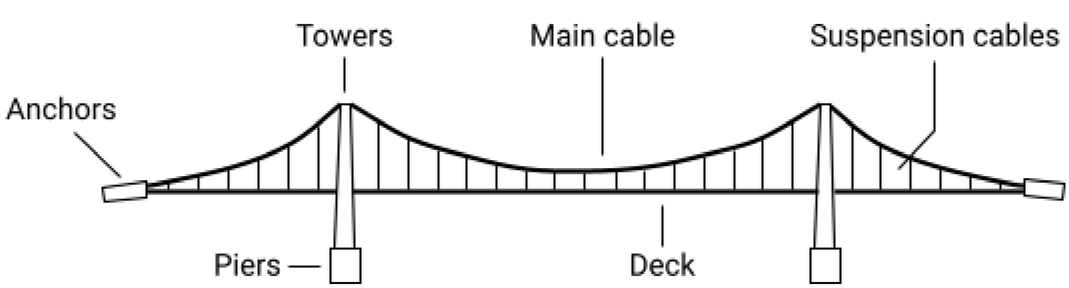

Figure 1.2 The design of a suspension bridge broken down into its six essential components, each modeled independently or in combination to simulate and predict behavior.

This modular approach helps us design other bridges based on the same parts, but that might face different local challenges. We are going to use the same concept and build repeatable growth by developing sustainable GTM strategies based on proven models.

1.2 There are Six Essential Models that Govern Hypergrowth

Just as the components of a bridge facilitate its construction, six key models are instrumental in designing business growth:

- **The Revenue Model** outlines how to generate revenue through three monetization strategies:
    - **Ownership:** On-premise hardware and perpetual software licensing.
    - **Subscription:** Primarily SaaS-based models.
    - **Consumption:** Usage, consumption, and outcome-based models.

- **The Data Model** transforms the traditional sales and marketing funnel into a bowtie shape, emphasizing three critical growth areas: Acquisition, Retention, and Expansion. It utilizes Volume, Conversion, and Velocity Metrics to effectively map and analyze growth across different GTM strategies.

- **The Mathematical Model** explains how hypergrowth works by exploring the mechanics that drive growth from acquisition, retention, and expansion. Hypergrowth results from a disproportionate impact, which, in the case of acquisition, is determined by the frequency of actions (n), such as the number of meetings. For retention and expansion, the key factor is repetition over time (t), exemplified by actions like renewing annual subscriptions or increasing monthly usage.

- **The Operating Model** ensures the business operates like a well-oiled Lean Revenue Factory, employing a standardized data model, speaking a common language, and adhering to a uniform methodology.

- **The Growth Model** shows the progression through four stages of growth—Startup, Scaleup, Grownup, and Enterprise. Each stage is characterized by unique challenges and requires a specific strategy. Importantly, what proves effective in one stage may harm growth in the next.

- **The GTM Model** integrates marketing, sales, and customer success functions to meet specific market or segment needs, similar to a factory's production lines. It includes five types of GTM motions; each can encompass both channel and direct sales approaches and have a different growth and cost profile:
  - **No Touch:** Self-serve options.
  - **Low Touch:** AI or chatbots that can escalate to human interaction.
  - **Medium Touch:** Inside sales utilizing online selling.
  - **High Touch:** Field sales with subject matter experts.
  - **Dedicated Touch:** Strategic account management with dedicated resources.

Just as every suspension bridge, big or small, is built from the same six parts, every hypergrowth Lean Revenue Factory is constructed using a framework with these same six models.

1.3 These Six Essential Models Form a Lean Revenue Factory

The combination of these six essential models creates hypergrowth as follows:

- The Revenue Model specifies the revenue generated based on the product sold—ownership, subscription, or consumption. The product is then marketed to (prospective) customers through various GTM motions that align with the customer's preferences. The GTM Model provides a framework for which of the five GTM motions works best.
- GTM motions act as distinct revenue production lines, each with its inputs (leads), throughputs (conversion rates), and outputs (revenue). The effectiveness and efficiency of each GTM motion can be evaluated using the Data Model, which assesses performance and identifies areas for incremental improvement. Each GTM motion also carries distinct cost implications that must correspond to the revenue it generates; for example, people-centric growth strategies like direct sales are generally more costly than system-driven approaches such as PLG and AiLG.

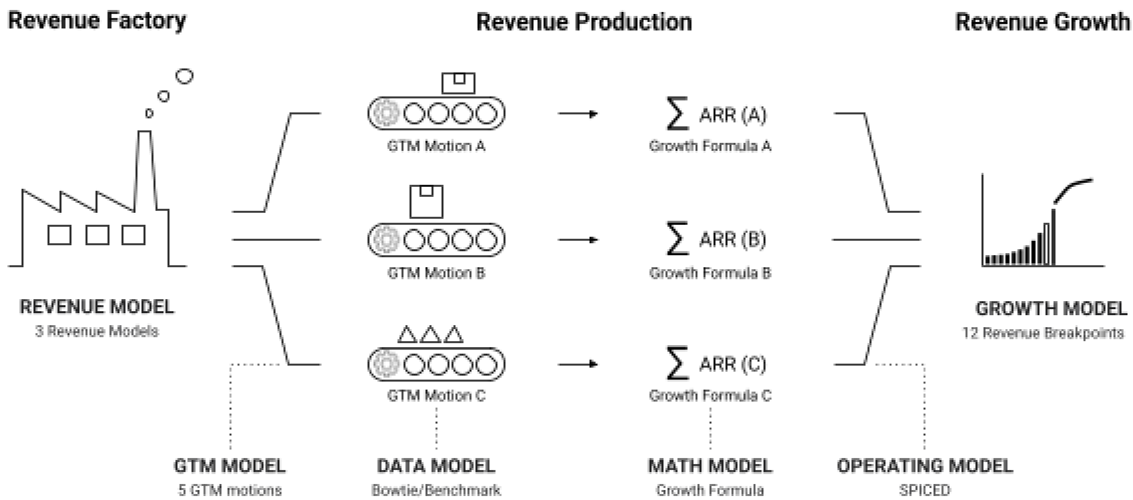

Figure 1.3 The process diagram of the six essential models to form a Lean Revenue Factory

- The metrics from the Data Model are encapsulated in a growth formula, which quantifies the revenue produced by each GTM motion. Aggregating the revenue streams from each GTM motion reveals the company's overall revenue growth.
- Managing multiple GTM motions introduces complexity and leads to chaos, resulting in reduced productivity. The Operating Model restores structure and enhances efficiency by continuously evaluating and optimizing each GTM motion and discontinuing those that underperform, enabling the company to achieve sustainable hypergrowth.

This demonstrates that the Data Model is part of a much larger, interconnected system of models.

Re-occurring vs. Recurring Revenue

Understanding the difference between recurring and re-occurring revenue is essential for businesses to evaluate their revenue models, predict cash flow, and determine their value in the market. Companies can build a more stable and sustainable business model with a predictable income stream by focusing on recurring revenue. What is recurring revenue?

Recurring: The term "Recurring" implies that something happens repeatedly and consistently, following a predictable pattern with regular intervals. For example, a SaaS (Software as a Service) contract that requires payment on the 1st day of every month is a

Recurring Revenue model. It signifies a systematic and fixed pattern where customers are regularly billed for continued access to the product or service. Subscription-based revenue is considered recurring.

Re-occurring: On the other hand, "re-occurring" suggests that something happens again but lacks the same level of regularity or predictability. It implies sporadic or occasional repetition rather than a consistent and predetermined pattern. In the context of revenue, re-occurring revenue refers to income that may occur repeatedly but without a recurring schedule. It can vary both in amount and frequency. Consumption-based revenue is considered Re-occuring.

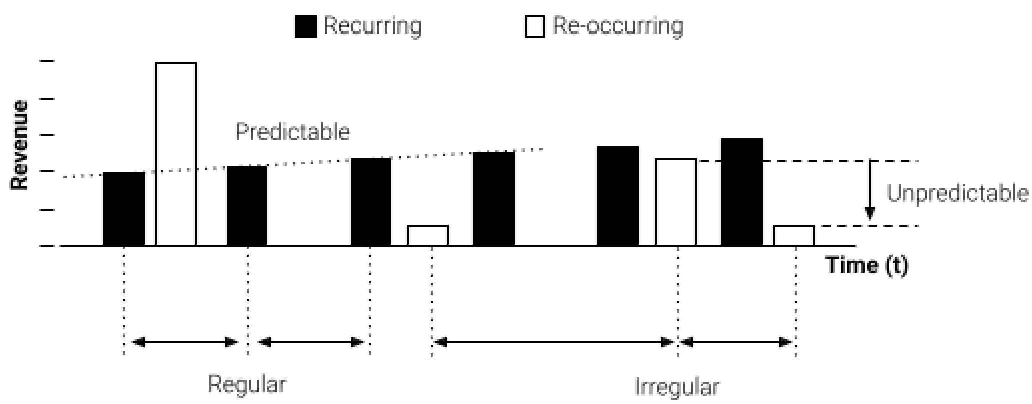

Figure 1.4 The difference between recurring and re-occurring revenue comes down to regularity over time and the predictability of the amount of revenue.

Consumption-based models can be converted into a subscription-like model as follows:

- **Step 1. Bill at Regular Intervals:** Commonly done on a monthly basis, this method ensures a consistent revenue flow and simplifies budgeting for customers.
- **Step 2. Create Fixed Spend per Interval:** Develop tiers of usage with predetermined prices. For example, you might offer a plan where up to 20,000 units of consumption are billed at $100 per month.
- **Step 3. Offer Pre-Purchase Options Based on Usage Patterns:** Encourage customers to pre-buy their expected consumption at favorable prices calculated from historical usage.

This pricing model is advantageous for both the service provider and the customer, as it provides predictable revenue for the provider and manageable costs for the customer.

2. The Classic Sales and Marketing Funnel

The Classic Sales and Marketing Funnel models how revenue gets acquired.

The process begins with a broad base of prospects, each representing potential revenue within the Total Addressable Market (TAM). At the top of the funnel (TOFU), these prospects are turned into leads through a Lead Generation Process. These leads are then developed into opportunities via a Lead Development Process. Opportunities are carefully managed through a sales process, resulting in closed deals. Each closed deal is integrated into financial (billing) and operational (access to the software) processes, eventually converting into newly acquired revenue.

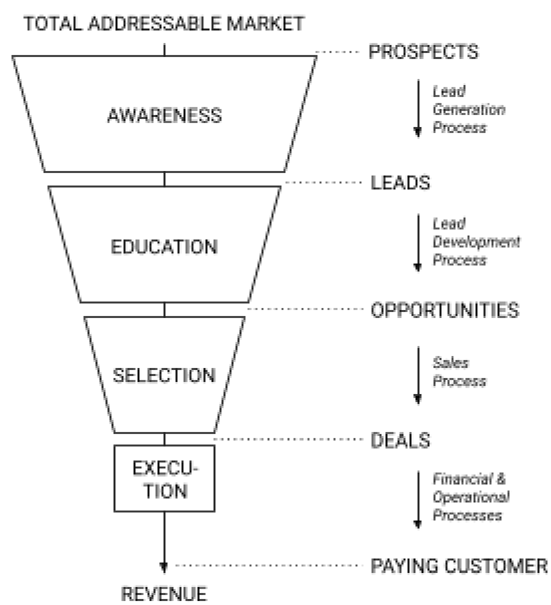

Figure 2.1. The marketing and sales funnel models revenue acquisition

In a Recurring Revenue model based on a subscription contract, the Classic Sales and Marketing funnel output is typically quantified as Recurring Revenue, and for consumption-based models, this results in Re-occuring Revenue.

2.1 The Four Stages of Revenue Acquisition

Revenue Acquisition can be divided into four stages:

Stage 1. Awareness, the Lead Generation stage

This stage covers the awareness stage and utilizes a series of touchpoints to transform prospects into leads by raising awareness of a problem the prospect is experiencing and the implications of inaction on their business. These touchpoints can include activities like filling out a form on a website, downloading content, attending online events like workshops, or watching demo videos.

In this context, a lead refers to an individual who has shown interest in your products or services, expressed through actions such as attending a webinar, downloading a research paper, commenting on a post, or sending an inbound request via the website. Leads can be contacted through email, social media, or phone, although they may not yet be ready to learn more about your offering.

Stage 2. Education, the Lead Development Stage

In this stage, leads educate themselves about the problem and solution. This process aims to fully understand the product's impact and determine its priority. Depending on the GTM motion, this conversion turns a lead into a qualified opportunity. In a Medium Touch motion, for instance, a Sales Development Representative (SDR) may engage with the lead, qualifying them through conversations that can occur via calls, emails, or LinkedIn messages.

The most common approach for buyers is either a self-serve demo (or video) or an online discovery call. During these calls, a salesperson assesses the customer's issue, determines the urgency with which the customer views it, and evaluates the ability of their product to assist the customer effectively.

Stage 3. Selection, also known as the Sales Stage

This stage guides customers through the decision-making and purchasing process. It can be as simple as providing a link to a webpage for placing an order, or it may involve a months-long decision-making process that includes a series of meetings. During this process, the seller works closely with the customer to answer questions and address the customer's needs.

Selection often involves educating stakeholders throughout the buyer's organization and may include conducting a proof of concept (POC) to help validate the decision with a proposal that presents the return on investment (ROI). In an ownership-based strategy, the deal is closed, the customer transfers money to the seller within 30 days of closing, and the opportunity is converted into revenue.

Stage 4: Deal Execution, also known as the Booking Stage

After a deal is closed, the booking stage ensures flawless execution of product or service delivery. This includes creating instances to provide access to software, setting up financial records, and finalizing logistics for product delivery. The stage also processes payments, which results in revenue realization, marking the completion of the acquisition cycle in the company's financial systems.

Together, these four stages form a revenue acquisition system. At the top, there is significant economic potential, but only a small percentage converts at each stage. What emerges at the bottom represents a tiny fraction of the initial economic value, giving it the shape of a funnel (see Figure 2.1).

2.2 The Constraints of the Classic Sales and Marketing Funnel

Once the revenue acquisition system is understood, we can identify the constraints within the classic sales and marketing funnel. With a clear understanding of the challenges we need to address, we can design a new system—known as the bowtie—that overcomes these limitations and aligns better with the goals of modern revenue growth. Here are some of the key constraints, which we will explore in more detail:

- **Constraint 1:** The funnel stops where Recurring Revenue begins.
- **Constraint 2:** The funnel is seller-centric.
- **Constraint 3:** Lack of Accountability for the Revenue Acquisition Process as a Whole
- **Constraint 4**: Operators run the business in the wrong way

Let's dive deeper into each of these.

Constraint 1: The Funnel Stops Where Recurring Revenue Begins

To state the obvious, two out of three revenue growth engines (retention and expansion) occur outside the funnel's purview. Recurring revenue, growth, and profits all take place beyond the marketing and sales funnel. This means the classic funnel, which has served the industry for over 100 years, ends exactly where Recurring Revenue begins. It fails to properly model subscription- and consumption-based business models.

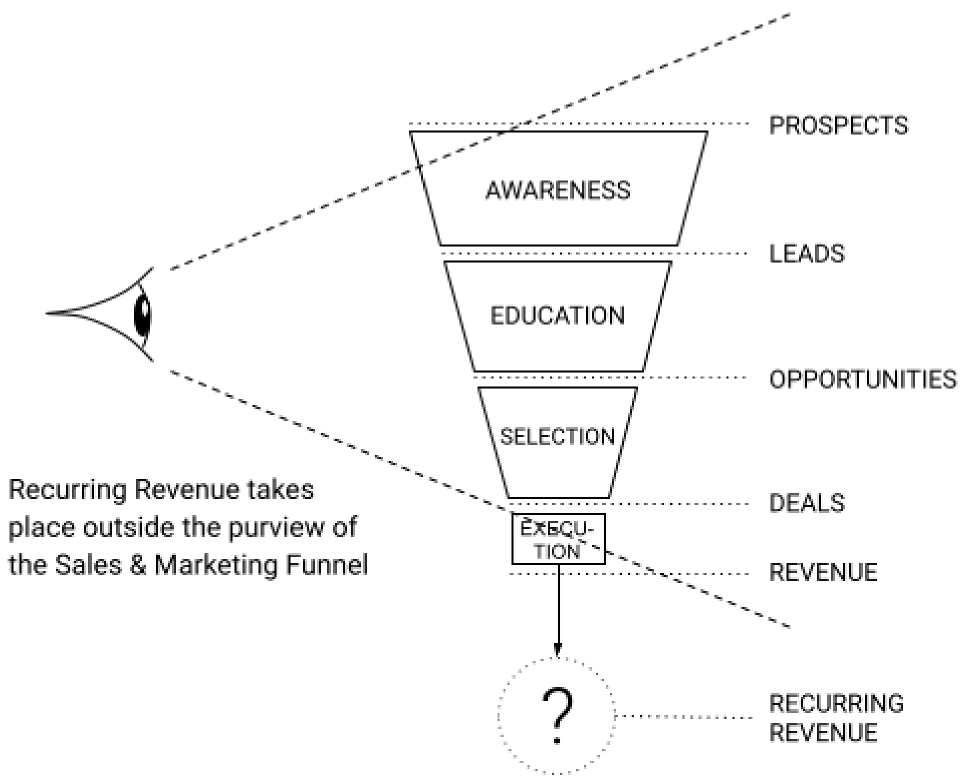

Figure 2.2 Recurring Revenue takes place outside the purview of the marketing and sales funnel.

Constraint 2: The Funnel is Seller-Centric

A seller-centric funnel primarily focuses on closing deals by emphasizing the solution's value from the seller's perspective. However, Recurring Revenue models focus on the value the product delivers to the customer—what we refer to as impact. If the customer does not experience the desired impact, the seller will not achieve recurring revenue.

This seller-centric approach is common in organizations where the sales process is designed to fulfill the seller's goals rather than helping the customer achieve theirs. A typical example is how sales stages are structured, dedicating most of the stages to closing the deal (See Figure 2.4).

This focus on closing deals, while effective in early growth stages, often leads to an insatiable demand for more leads. While necessary in the early stages (up to $10M), leaving this unchecked will make scaling significantly more difficult. Overcoming this challenge often requires a hard reset, such as a leadership change.

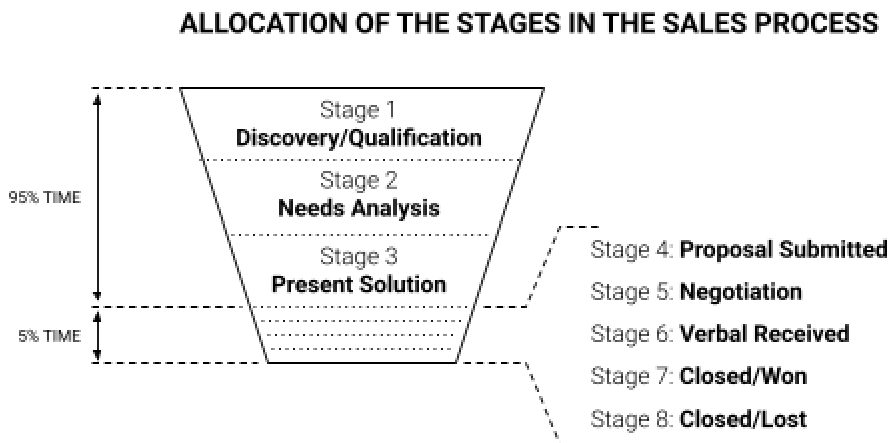

Figure 2.3 A disproportionate amount of time is spent on the final stages of closing the deal. This seller-centric focus reflects growth challenges, as the sales process becomes more about forecasting deal flow rather than addressing customer needs, which ultimately drives long-term value.

Constraint 3: Lack of Accountability for the Revenue Acquisition Process as a Whole

A major challenge organizations face is the absence of clear ownership over the entire revenue acquisition process. While each individual stage may have its own processes and responsibilities, no one is accountable for ensuring the overall system works cohesively. This lack of centralized ownership leads to inefficiencies, missed opportunities for optimization, and poor alignment across teams, ultimately hindering growth and scalability.

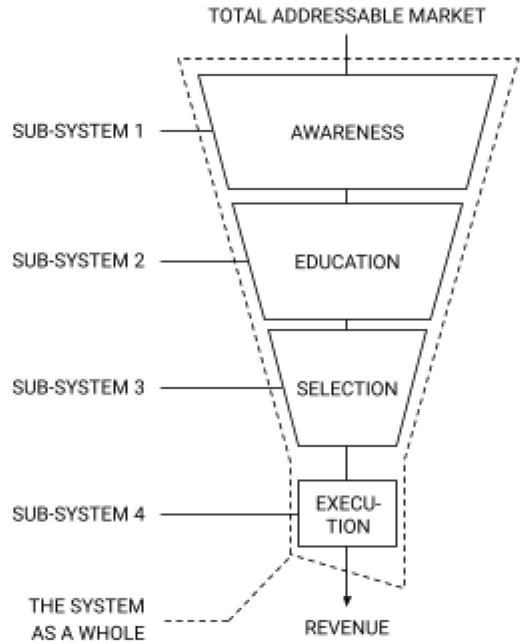

Figure 2.4 The marketing and sales funnel models revenue acquisition

Constraint 4. Operators run the business in the wrong way

The sales and marketing funnel was designed for sales cycles that could span years, and it has two major issues that reflect this outdated approach:

1. **One-Directional Flow:** The funnel is one-directional—prospects enter at the top and flow downward until they exit at the bottom. This model is flawed because customers don't always follow a linear path; they often switch between functions, leading to incorrect modeling of processes and data.
2. **Linear Growth Assumption:** When faced with the need to double revenue, revenue leaders often respond by demanding twice as many resources—such as twice as many leads—assuming that the funnel operates along a linear path. This is untrue. In most cases, people-based organizations experience diminishing returns as they scale.

These four constraints amplify each other, reinforcing the wrong behaviors. As a result, many companies struggle daily with issues caused by the boundaries imposed by the funnel and the bad habits developed over nearly 15 years of a "Growth-At-All-Costs" mentality.

3. The Data Model for Recurring Revenue

The rise of subscription-based businesses in the early 2000s, followed by the increasing emphasis on Recurring Revenue models after 2008, marked a dramatic shift in how revenue recognition was handled. In the coming years, we expect another shift—from traditional Recurring Revenue models like SaaS to re-occurring revenue models, such as usage-based, consumption-based, and outcome-based models.

This is in stark contrast to the ownership-based revenue model, where revenue is recognized upon shipment of equipment or delivery of a software license, often within 30 days of receiving the purchase order. The subscription model, however, operates differently. In this model, only a small portion of the fees is recognized when the deal is closed, and the full revenue typically takes years to materialize.

3.1 The Additional Stages that Form the Bowtie

This change in revenue recognition—and how it materializes long after the deal closes—renders the classic Sales and Marketing funnel inadequate. Enter the Bowtie model, which extends the funnel with additional stages to capture growth from retention, expansion, and acquisition.

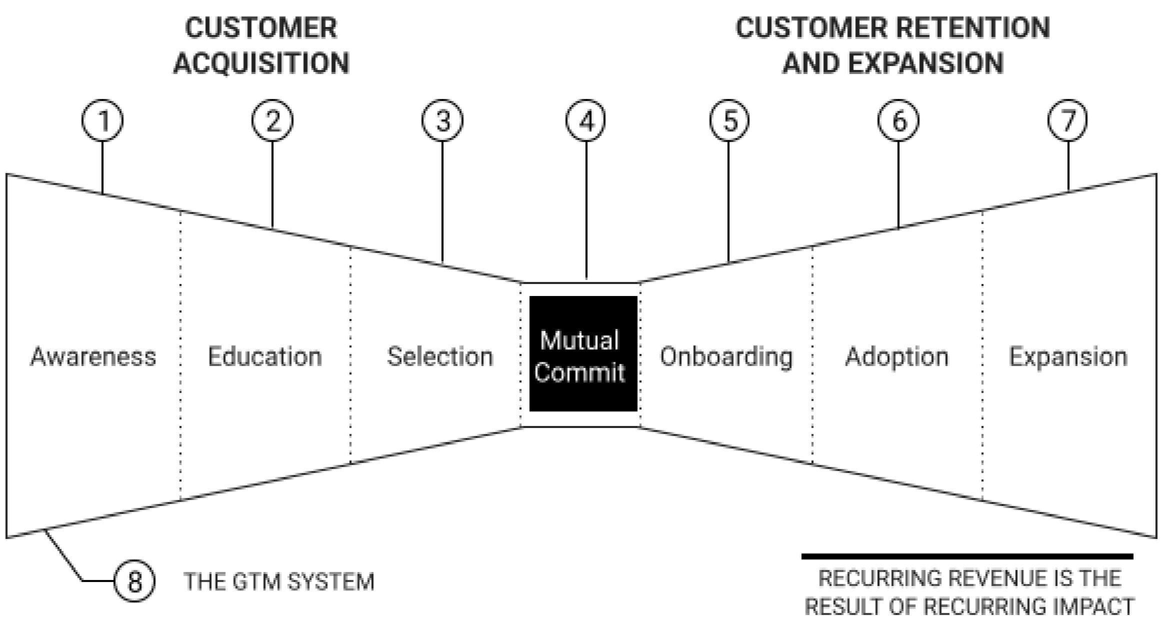

Figure 3.1 The seven stages capture the customer journey from Awareness to Expansion, while the GTM System (#8) ensures alignment across all stages.

Stage 4: Mutual Commit

"Closing a deal" is not the end; it marks the beginning of a multi-year relationship. Both parties commit to working together: one to continue delivering the promised impact and the other to continue paying for the product's usage to achieve that impact. This stage is, therefore, referred to as **Mutual Commit** or simply **Commit**. During this stage, the company establishes a customer entity in its CRM systems and ensures the customer is appropriately set up to use its products or services.

Stage 5: Onboarding

Onboarding, also known as Activation in PLG, is designed to quickly guide customers toward experiencing their initial impact with your product. Whether it takes weeks due to complex integrations or mere seconds through a browser plugin, the goal is to ensure customers quickly experience the product's effect or impact.

Stage 6: Retention & Adoption

During Adoption, customers integrate the product into their daily routines. Providers must offer training, support, and updates to optimize product usage and impact. Effective Adoption naturally leads to contract renewal.

Stage 7: Expansion

This stage focuses on growing the business with the customer. Expansion may involve adding additional licenses, upgrading to higher-tier plans, or unlocking additional modules and features.

The classic sales and marketing funnel's acquisition system has been replaced by a new system covering the entire customer journey. This new system, comprising the stages and the **GTM System (#8),** creates an end-to-end approach that integrates customer acquisition, retention, and expansion, driving sustainable growth.

#8. The GTM System

The GTM system encompasses all the sub-systems that make the Recurring Revenue model function as a cohesive whole. Even when individual sub-systems perform effectively, the GTM system can face challenges. For example, a batch of bad deals can result in high churn, highlighting issues raised by the "grow-at-all-costs" approach.

To understand the importance of the GTM system as a whole, consider this analogy:
Think of an orchestra. Each section—such as percussion, brass, and strings—represents a sub-system. Each has its role and sheet music, but the orchestra has unique characteristics. If one section falls out of sync, the overall performance suffers, regardless of the musicians' skill levels. The conductor ensures the orchestra works as a cohesive unit, bringing harmony to the performance.

Similarly, even if every function across the customer journey operates well individually, the overall system can only improve if these functions are harmonized. This is especially critical in a Recurring Revenue business. A minor shift in lead volume or a slight dip in retention can dramatically affect overall performance, much like small changes in rhythm or tempo can disrupt a band's performance.

Who owns GTM?

Owning the GTM System requires reallocating budgets and resources across the company. Currently, the CEO, with the assistance of the CFO, is the only authority who can (re)allocate these resources. However, most CEOs, especially in large organizations, lack the in-depth insight needed to make fully informed decisions regarding GTM. This creates a gap in ownership that remains unresolved and warrants further exploration in the coming years. What is clear, however, is this:

- **Team Approach:** Since GTM operates across multiple functions, it requires a collaborative, team-based approach. Organizations should consider creating an “Office of the CEO.”

- **Executive Understanding:** All executives must fully understand how the GTM System works as a whole. This understanding will require training on Revenue Architecture, and in the future, certification may be necessary before executives can be put in charge of GTM-related decisions.

- **Data Alignment:** A successful GTM System requires data alignment, signaling the need for an accurate and comprehensive data model.

- **Key Functions:** Several functions play a critical role in the success of the GTM System. RevOps, which often reports to the CRO, and the FP&A team, which reports to the CFO, are key contributors to ensuring the system functions smoothly and aligns with overall business goals.

3.2. Value vs. Impact

Up to this point, we have learned that the classic marketing and sales funnel ends where Recurring Revenue begins. Therefore, we extended the funnel into a Bowtie. We will explore why this model is customer-centric and how it facilitates a shift to impact-based thinking. This shift is crucial for operationalizing customer-centric thinking in real-world scenarios.

The Balance Between Value and Impact

The seller's objectives differ based on whether the buyer pays upfront or opts for a subscription or consumption-based payment. To clarify these differences, let's categorize the concepts of Value and Impact:

- **Value represents a promise of future Impact.**

  Value refers to the perceived benefits or value customers expect from purchasing a product. Companies typically present a value proposition, promising specific results or benefits. For instance, a company selling cloud-based project management software might promise enhanced efficiency, streamlined communication, and improved project tracking.

- **Impact is the fulfillment of the promised Value.**

  Impact signifies the fulfillment of that promise about the tangible, measurable results or benefits the product delivers during actual use. Using the previous example, if a small business purchases this software and subsequently experiences a 30% reduction in project completion time, better team collaboration, and fewer missed deadlines, these are measurable impacts of the product.

With this categorization, Value and Impact can be aligned with different monetization strategies. Value corresponds to an ownership monetization strategy, where sellers promise value, but customers realize the impact of the product they purchase. In contrast, Impact is associated with the consumption model, where customers pay based on usage or even for the impact itself. With that said, a subscription business aligns with the Impact aspect as well, where ongoing customer payments are made only if the customer achieves impact over and over again. Therefore, both subscription and consumption-based monetization strategies hinge on the delivery of continuous, measurable impact.

For instance, SaaS services regularly enhance their software to ensure sustained benefits for users. Furthermore, SaaS platforms often provide robust analytics, enabling customers to measure the software's impact on their business. This commitment to delivering continuous, measurable outcomes aligns with the First Principle of recurring revenue, which prioritizes delivering Impact rather than merely promising Value. This approach is a hallmark of subscription or consumption-based models.

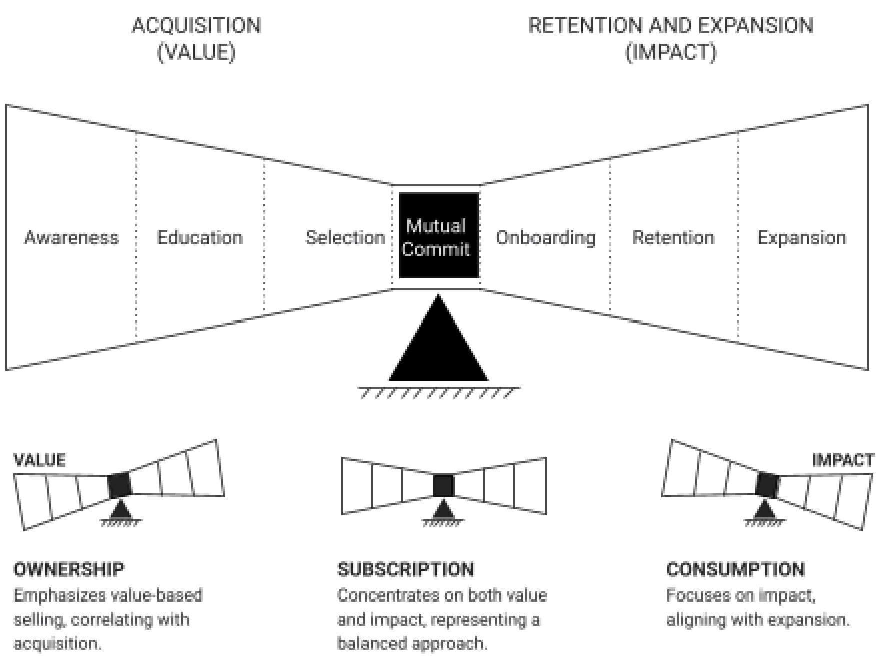

Figure 3.2 The Bowtie as a Data Model reflects the balance shift from Value to Impact as the revenue model changes from ownership through subscription to consumption.

The Bowtie model isn't just a conceptual tool; it's a custom-designed system for recurring revenue, built on everything we love from the Classic Sales and Marketing Funnel.

Operationalizing Customer-Centricity

Customer centricity is about more than just placing the customer at the forefront; it's about ensuring they achieve the desired impact from your product. This requires a shift from a Value-based perspective to an Impact-based perspective, focusing on delivering the promised Impact to the customer. The Bowtie model illustrates this by framing each stage from the customer's perspective. Awareness, for example, is not just about recognizing your product's excellence or your company's reputation. It's about the customer realizing they have a problem that needs solving, marking the beginning of their solution-seeking journey.

To operationalize customer-centricity, it's critical to accurately define the Impact upfront. During the Prioritization and Selection stages of the sales process, the seller must work closely with the prospect to identify and confirm the specific Impact they seek. This ensures that the sales process focuses on delivering the desired Impact rather than simply selling on value. Once the Impact is identified and confirmed, it becomes the benchmark against which the solution is sold, allowing for more focused delivery. This also makes it easier to deliver the initial Impact without introducing unnecessary features or capabilities that could confuse or alarm the prospect, making the Impact more nebulous.

In a Recurring Revenue business, delivering Impact aligns directly with increasing revenue, as this process supports customer retention and expansion. Growth is driven by retaining your best customers. Retention is built on consistently delivering measurable Impact, and the more Impact is provided, the more likely the customer will expand their business. This, in turn, increases Customer Lifetime Value (CLTV) and drives long-term revenue growth.

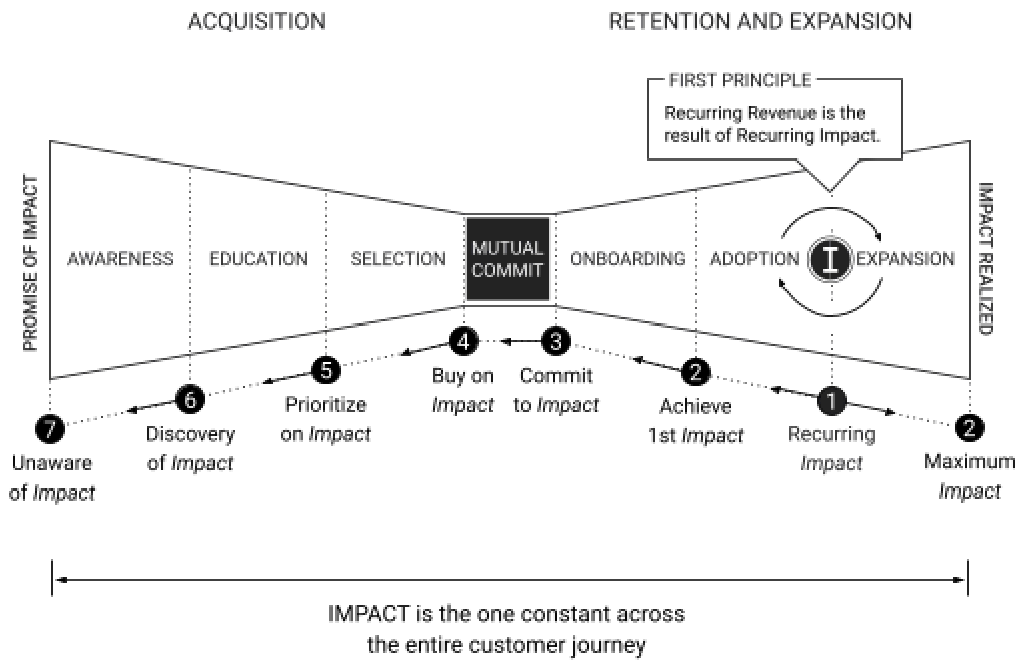

Figure 3.3 The Bowtie as Customer Impact Journey

Now that we have established that delivering recurring impact for a customer unlocks recurring revenue, the steps to achieve that become clearer: is the customer using the product? In other words, are you achieving adoption? If not, you have to put efforts in place to achieve that. If we go further upstream, we can now ask, “Were you able to attain the first Impact in the first place?” As we go further upstream, it now leads us to ask, "What Impact did we commit during the close, and by when?" The journey mapped back from what the customer wants to achieve suddenly aligns all the company's resources. This applies equally to a business that sells products and services under a $1M annual SaaS contract as well as a $10/month subscription.

Operationalizing Closed Loops

The pinnacle of a subscription business is realized when it functions as a closed-loop system. In this setting, the system evolves by learning from its actions and feeding outcomes, such as customer feedback, back into it in real-time.

For a long time, people believed that a customer would only provide feedback and act as a referral once they were a happy customer, but this is not the case. Customers will likely mention your product or brand much earlier than expected. They're not necessarily giving a glowing recommendation yet, but they're putting your name out there. They might ask their community if they've heard of you or if they're considering your product, too.

This behavior highlights the interconnected nature of customer decision-making. These interactions form feedback loops that can impact your business long before a customer becomes fully satisfied. Understanding this changes how we think about customer engagement and the customer journey. It's not just about waiting for happy customers to spread the word–it's about recognizing that conversations about your product happen much earlier in the process."

For example:

1. **Renewals:** The most apparent closed loop is when customers renew and expand their business with you, contributing to compound growth.

2. **Risk Sharing:** During onboarding, a customer might mention another team that could benefit from your solution, thereby reducing their own risk. Savvy companies make this query part of the onboarding process.

3. **Advocacy:** Another common closed-loop process involves satisfied customers spontaneously becoming advocates on social media or through formal channels like a customer advisory board.

4. **Ideal Customer Profile:** As B2B SaaS sales have become increasingly challenging—especially with economic slowdowns—there's a tendency to overcompensate by pushing more resources into TOFU, hoping to generate more pipelines. However, simply adding more leads is not the answer.

   Updating your acquisition strategy based on insights from your best customers creates a powerful feedback loop that can (re)model your ICP with precision. This shifts the focus from acquiring new leads to targeting those most likely to generate sustainable, long-term growth.

5. **Referrals:** Even during the sales process, customers often discuss your solution with peers, potentially pulling them away from competitors. For example, anybody using the PLG as a GTM motion knows they need to encourage existing users to invite their peers to join.

6. **Nurturing:** Some customers who are interested but not ready to buy can become “talking leaflets” as they stay updated on your offerings. Various nurturing levels exist, from monthly newsletters to press releases and social media updates.

Closed loops are powerful as they are highly effective and efficient ways of achieving growth. To make a closed loop work in your organization, however, you need to do something.

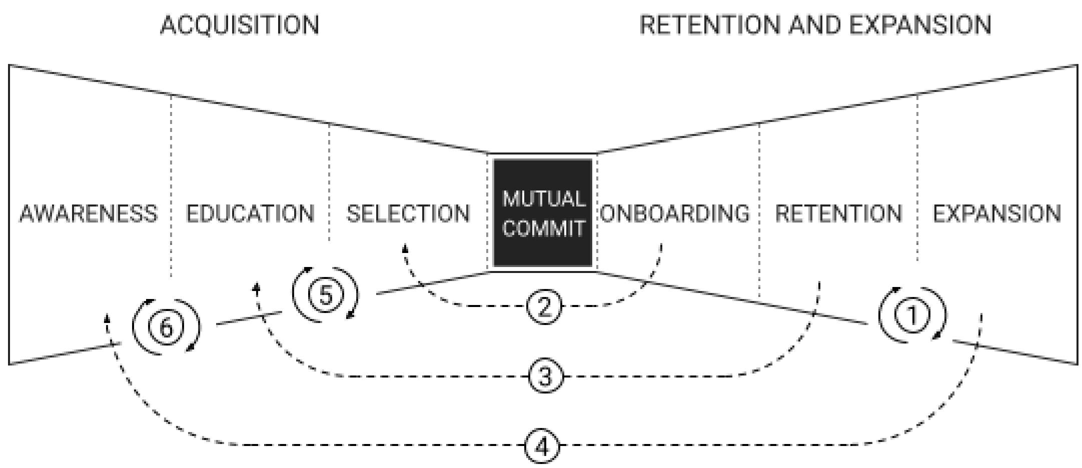

Figure 3.4 Across the Bowtie, numerous closed loops accelerate growth, generate new leads, or create new opportunities.

The key to unlocking the full potential of closed loops is having a shared goal across all customer-facing roles. This calls for an integrated GTM approach that fosters collaboration and knowledge sharing. Contrast this with a siloed organization, where various functions operate in isolation, each pursuing its own objectives. It's crucial to understand that achieving hypergrowth is about identifying and leveraging a company's closed loops. We must establish proven processes to harness these loops' potential, especially those involving human effort.

Case In Point: PLG Is A Closed Loop System

Historically, business-to-business GTM motions were primarily based on human-led growth (HLG). Deals were forged through in-person meetings and many emails and phone calls facilitated by sales representatives. However, recent years have ushered in a paradigm shift: the advent of PLG. PLG is not just another marketing lead generation campaign or an innovative sales strategy but a comprehensive approach that touches every aspect of customer interaction. Its defining feature? A closed-loop system. PLG centers the product as the catalyst for growth. Through the nuanced use of customer product feedback and observing behavioral trends, it continuously refines both the product and its promotional strategies, setting into motion a relentless cycle of improvement.

The PLG framework establishes deep bonds between a company and its customers. These lasting relationships promote sustained growth within existing accounts, with continuous engagement bolstering them further. The ongoing interactions provide crucial insights that help blueprint new customer acquisition and improved engagement. The result? A system that stands resilient and is in sync with evolving customer preferences.

As we watch the business world evolve around AI, a fresh concept emerges: AI-led growth or AILG. AiLG, much like PLG, leverages a systems approach. In the 1990s, the early adopters of the Internet were among the first to succeed. In the 2000s, it was those who embraced software. In the 2010s, the pioneers of cloud technology led the way. Now, in the 2020s, those who embrace AI are poised to be the big winners. Embracing AI involves adhering to systems and processes, particularly closed-loop systems. The success of PLG has demonstrated this.

4. The Data Structure for Recurring Revenue

Now that we've established a data model encompassing the full customer journey, including the point at which Recurring Revenue is achieved, we can overlay a structure with the following elements:

- Volume metrics, VM[n]
- Conversion metrics, CR[n]
- Velocity/Time metrics, Δt[n]

The structure of the data is straightforward. We look at every system or sub-system as a function with an input and an output. Each input and output is considered a volume metric, such as the number of leads. Dividing the output by the input provides a conversion metric. The time it takes for the input to convert into output is a time metric.

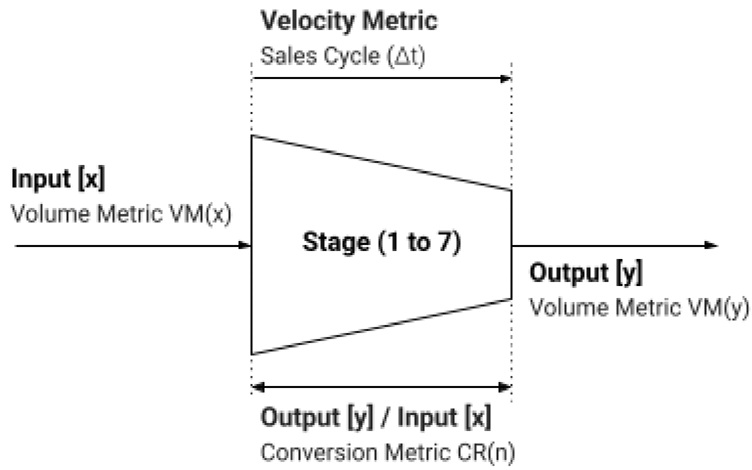

Figure 4.1 A simplified view of the Data Structure.

As simple as this data structure is, it solves many of the daily problems created when organizations are dealing with a standard metric such as win rate. In this case, sales is a sub-system of the acquisition process. It has an output called "Commits" and an input called "Qualified Opportunities." This means that the conversion rate, called the win rate, is the number of commits divided by the total number of qualified opportunities. Simple right? It establishes clarity around where to measure the sales cycle; per the standardized data structure, it is the time it takes to convert a qualified opportunity into a commitment.

4.1 Volume Metrics

Volume metrics measure quantity at any given point in the data model. Common volume metrics are the number of leads, amount of revenue, number of daily active users, etc.

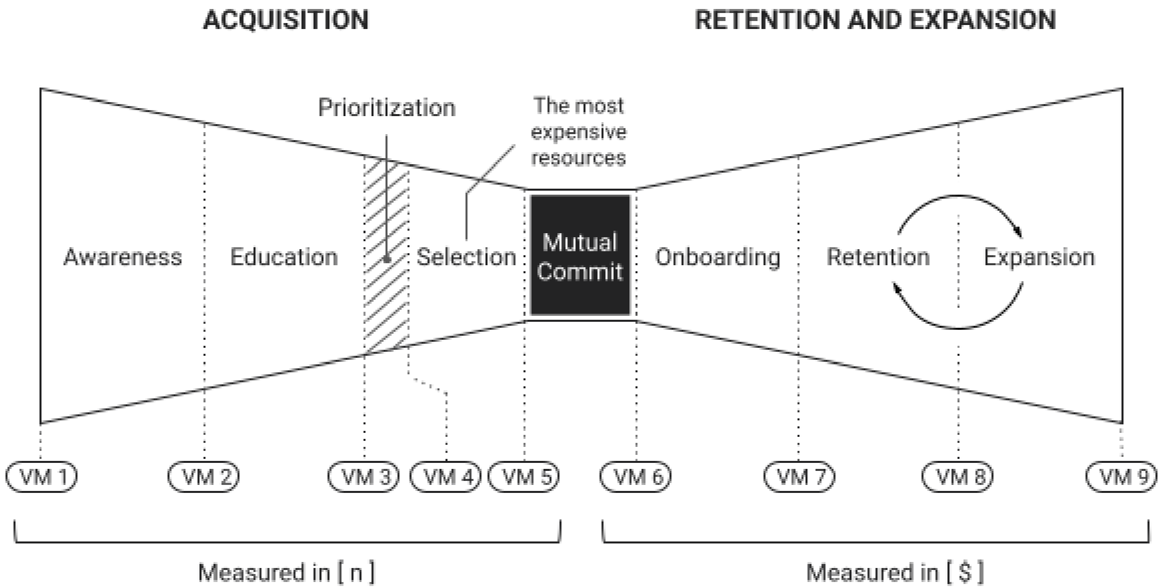

Figure 4.2 The Data Structure: Volume Metrics measured across the customer journey.

The Importance of Prioritization

Between the Education and Selection stages, we introduce a vital phase called Prioritization. This stage focuses on ensuring that both parties—the buyer and the seller— align their efforts and mutually commit to the desired impact that needs to be achieved.

This intervention is timely, as the selection process is where companies typically allocate their most expensive resources, namely people. In Enterprise sales, this phase may include an on-prem product demo and access to sales engineers. In PLG, this may provide free access to the product for weeks. Thus, the Prioritization stage acts as a strategic checkpoint, ensuring that the objectives of both the seller and the buyer are in alignment.

Table 4.1 Definition of the Volume Metrics in the Standardized Data Model mapped to different GTM motions

METRIC	DESCRIPTION	PLG	AiLG	HLG
VM1	Target the Situation, Pain, and Impact potential	Prospect	Prospect	Prospect
VM2	Expressed interest and provided contact information	Handraise	MQL	Lead
VM3	Considering taking action	PQL	SQL	Opportunity
VM4	Verified that this is a priority	PQA	SAL	Qualified
VM5	Number of Mutual Commitments	SignUps	Wins	Wins

VM6	Amount of revenue committed	Active User	$MRR_{committ}$	$MRR_{committ}$
VM7	Amount of revenue committed minus the Onboarding churn	MRR_{start}	MRR_{start}	MRR_{start}
VM8	Monthly or Annual Recurring Revenue	MRR	MRR	MRR
VM9	The total amount of revenue generated over the entire lifetime	LTV	LTV	LTV

You will notice that the metrics on the left side of the Bowtie (VM1 to VM5) are commonly measured in numbers, such as the number of leads, opportunities, discovery calls, seats sold, etc. In contrast, the metrics on the right side of the Bowtie (VM6 to VM9) are commonly measured in revenue.

The transition from the left side of the Bowtie (numbers) to the right side of the Bowtie (revenue) is caused by multiplying the number of the Mutual Commitments (VM5) by the average contract value, or ACV, to give users the amount committed (VM6).

4.2 Conversion Metrics

Conversion metrics are key indicators that measure efficiency across the customer journey. Essentially, they quantify the output in relation to the input. For instance, if you're in sales, you're likely familiar with conversion metrics like win rate and discount. In marketing, you might be accustomed to metrics such as lead to opportunity (L2O) and opportunity to close (OTC), and in Customer Success, you are familiar with Retention (or its inverse churn).

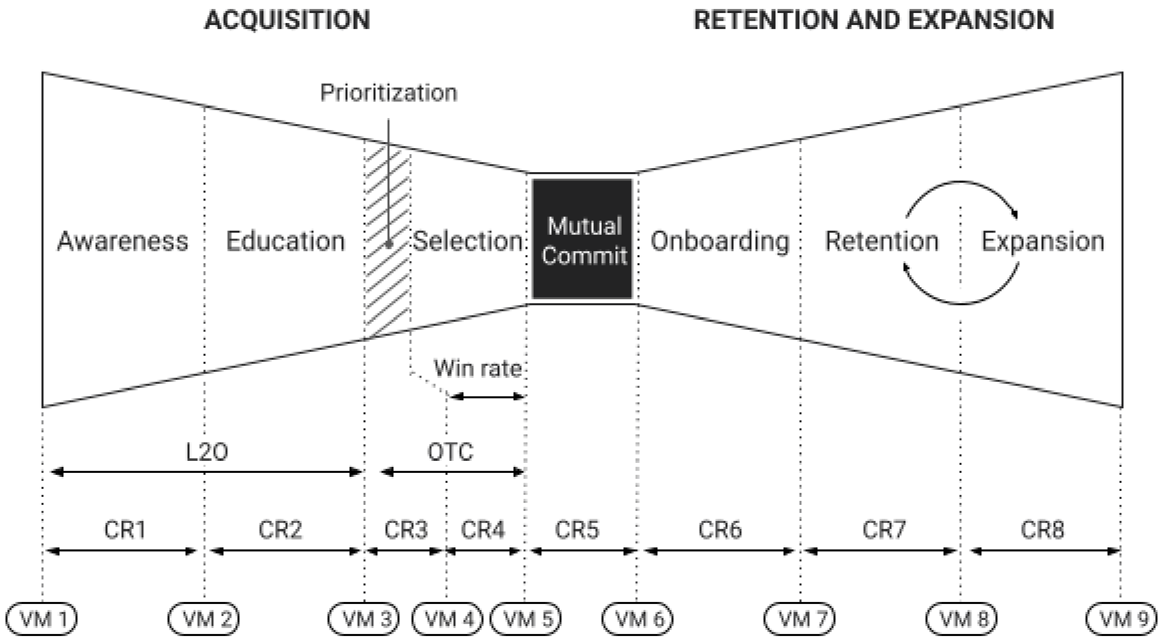

Figure 4.3 The historical data model (L2O, OTC, and churn) mapped to a standardized data structure.

However, it's important to note that traditional metrics like L2O and OTC lack the granularity needed for high-velocity GTM motions, such as product-led growth (PLG). Therefore, as illustrated in the accompanying diagram, both L2O, which equals multiplying CR1 and CR2, and OTC, which equals multiplying CR3 and CR4, have been further refined to offer more detailed insights, enabling you to optimize more effectively.

Table 4.2 Definition of the volume metrics with an example of a GTM motion.

METRIC	STAGE	DESCRIPTION (Example of an HLG motion)
CR 1	AWARENESS	The efficiency of lead gen marketing campaigns in attracting attention, such as the number of signups as a percentage of the total visitors.
CR 2	EDUCATION	The effectiveness of outreach campaigns in developing leads, such as the number of people who want to enter the sales process.
CR 3	PRIORITIZATION	Qualify the lead based on the priority of the impact. It will result in a qualified opportunity. A common way to do this is through a discovery call.
CR 4	SELLING	The “win rate” measures the number of qualified opportunities to obtain one commitment.
CR 5	COMMIT	Multiplying the number of deals committed by the list price (minus any discounts) provides us with the revenue committed.
CR 6	ONBOARDING	The percentage of committed clients in the cohort who were successfully Onboarded is represented as a retention number (1 minus churn).

CR 7	RETENTION	Gross revenue retention (GRR) is the percentage of Recurring Revenue retained from existing customers, including downgrades and cancellations.
CR 8	EXPANSION	New ARR was added to the cohort through upsells or expansions during the first year and measured as a percentage of the ARR of the cohort post-churn.
CR 9	CLOSED LOOP	For future use in closed loops.

A Note on Expansion (CR8)

Expansion is a crucial growth component for any company using a Recurring Revenue model. It reflects the ability to drive revenue growth from existing accounts, increasing the customer's Lifetime Value (LTV). By continuously delivering impact and expanding the usage of the SaaS solution within the customer base, you can achieve sustainable revenue growth and enhance customer success. When done correctly, growth from expansion comes at a much lower cost compared to growth from acquisition. Expansion can take four forms:

- **Upselling**

  Upselling involves selling additional products, features, or higher-tier plans to existing customers. This can include offering add-ons, premium features, increased usage limits, or more advanced functionality that aligns with the customer's evolving needs. Upselling aims to increase the customer's investment and the value they derive from the SaaS solution. Upselling may also include geographical expansion or annual price increases.

- **Cross-selling**

  Cross-selling refers to selling complementary or related products or services to a different set of stakeholders within an existing customer. This can involve targeting other teams, departments, or business units within the customer's organization. For example, ESPN, Disney Parks, and ABC Television are three different groups within The Walt Disney Company.

- **Renewal and Extension**

  Successful renewal of contracts and extending the subscription period with existing customers contribute to expansion. This involves maintaining customer satisfaction, delivering ongoing value, and ensuring a smooth renewal process. Contract extensions may include adjustments to the subscription's terms, duration, or scope to accommodate the customer's changing needs. Renewals typically occur automatically on or right before the anniversary of the contract. Factors that increase the chances of renewals include effective onboarding, expediting time to first impact, delivering recurring impact, a smooth renewal process, a fantastic user interface, intuitive navigation, responsive functionality, and customer satisfaction, in particular, the speed with which issues are being addressed.

- **Reselling**
  Reselling is often overlooked, yet it holds both the most significant threat and the most tremendous potential. Reselling occurs when the current Champion, alpha user or decision-maker leaves their role, say, to accept a job elsewhere. This creates a significant threat as the new person in the position may be tasked with reducing operational expenses and may not have an emotional connection to your product. Therefore, you need to "resell" this person immediately. Don't overlook the opportunity for your Champion to become a great advocate in gaining the new account.

Two variables influence the growth of a customer's business: a) the impact of the SaaS solution and b) the person or team who benefits from that impact, known as a benefactor.

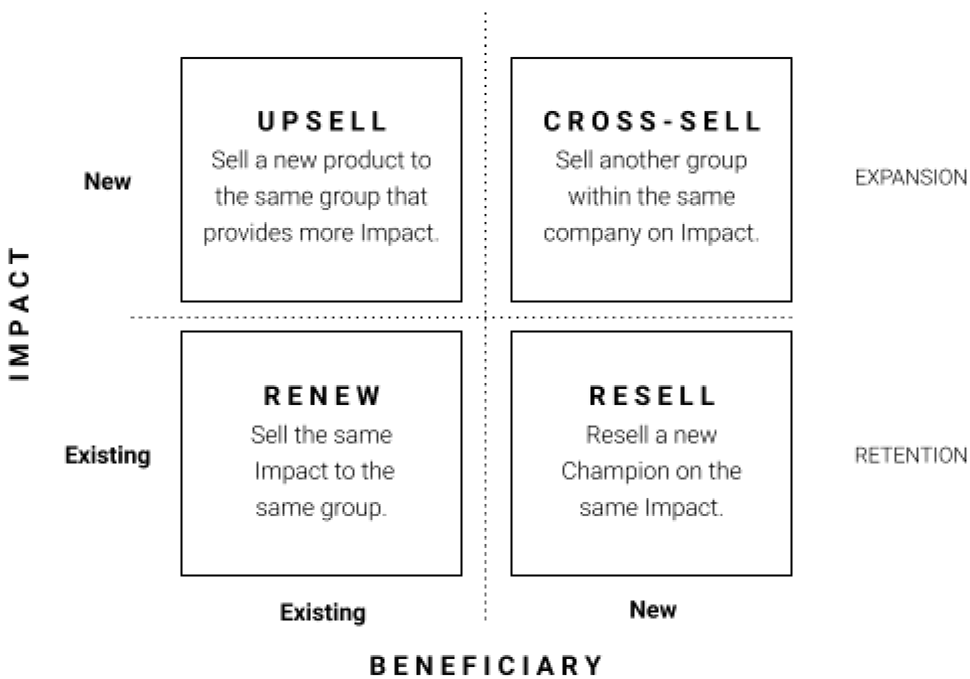

Figure 4.4 Four growth areas, each with a different opportunity.

An excited benefactor increases the impact, for example, by buying more seats, upgrading to a more premium version of your software, or buying new products. This is considered an upsell. CSMs may be capable of doing this reactively. Still, if you want to reach out proactively, you will likely need an acquisition-focused salesforce, often referred to as Account Managers or, as you may have picked up, AMs. When a new benefactor in an existing account needs to be won over, this is referred to as a cross-sell. A cross-sell should never be handled by a CSM, as this is the most complicated sale. You may even need to uproot an existing competitor chosen by another Champion.

One of the most overlooked opportunities is the resell. When your Champion leaves their position, perhaps via promotion, it creates a vacuum for a new Champion to fill. Your team must immediately resell the new person on the benefits of the offering or face an instant increased risk of churning. An exciting part of the reselling opportunity is that if it involves your Champion leaving to join another company, this creates an opportunity to win a new deal.

4.3 Time (Velocity) Metrics

Time metrics are used to measure the duration it takes to transform one variable into another. However, what sets the time metrics apart in the GTM motion is their focus. They are not determined by the actual duration of an activity but rather by the waiting time between various actions. To illustrate, writing an email invite for an event takes only a few minutes, but receiving a response takes several days. Therefore, in this context, the time metric is reflective of the response time rather than the action time.

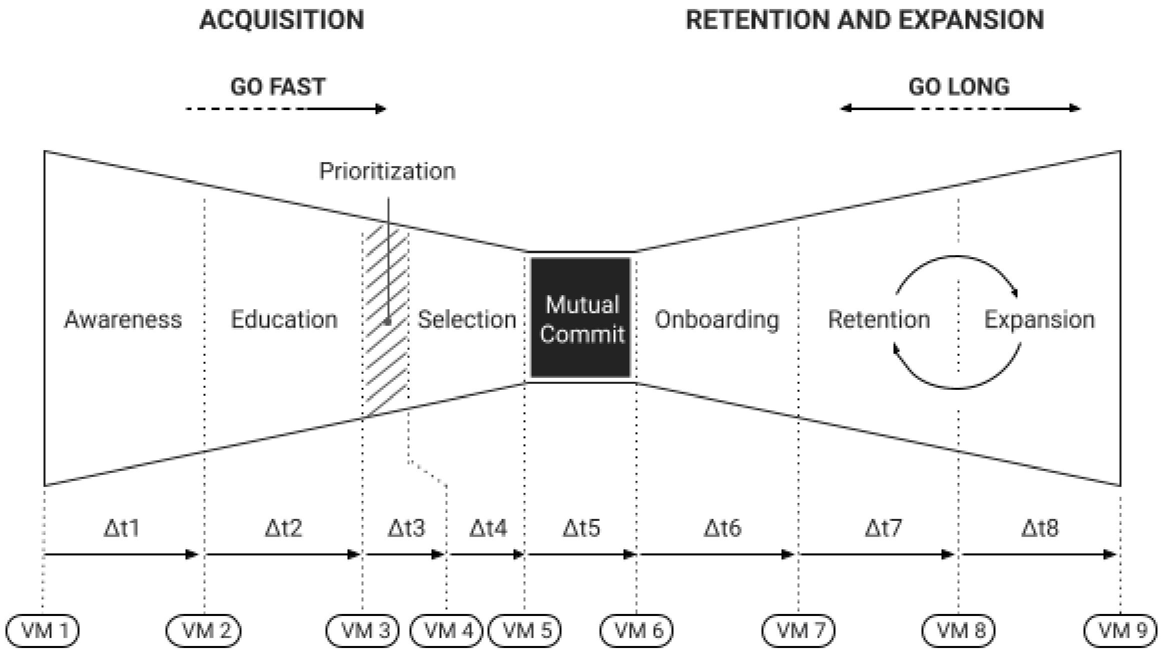

Figure 4.5 The data structure: Time metrics measured across the customer journey.

There are two key ways to approach time in sales, Go Fast or Go Long. Let's explain: Sellers typically aim to go fast to shorten the sales cycle during acquisition, while during expansion, they focus on extending the customer's lifetime or going long. Time has a disproportionate impact on profit—extending a customer's lifetime can significantly increase profitability. This dynamic varies based on who engages with the customer: an Account Manager focuses on maximizing long-term revenue, while a traditional sales rep seeks to close deals quickly.

Table 4.3 Definitions of the time metrics.

METRIC	STAGE	DESCRIPTION (Example of an HLG motion)
Δt1	AWARENESS	Prospect conversion time: the time it takes to develop a conversation with a customer.
Δt2	EDUCATION	Education time is needed before a customer is interested in starting the buying process.
Δt3	PRIORITIZATION	The time it takes to qualify for the opportunity is based on priority (Budget and ROI play a secondary role in Recurring Revenue models).
Δt4	SELLING	The length of the sales cycle.
Δt5	COMMIT	The time it takes to set up an instance in the internal systems and processes.
Δt6	ONBOARDING	The time from when a customer buys to when the first Impact is achieved.

Δt7	RETENTION	The length of the contract is often monthly or annually.
Δt8	EXPANSION	The lifetime of the customer is often measured in years.
Δt9	CLOSED LOOP	For future use in closed loops.

4.4 Benchmark Data

Having a standardized data model allows companies to compare their metrics against one another. BenchSight has launched a public benchmark, providing data from over 600 companies from various industries since early 2024. Companies can register to compare their metrics at www.benchsights.com/wbd

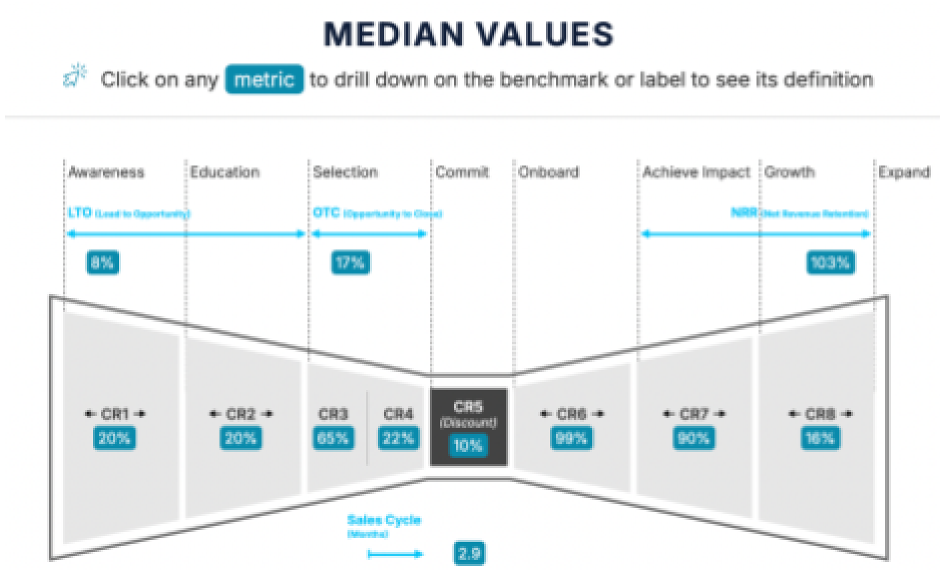

Figure 4.6 Benchsights Real-Time Bowtie Metrics

4.5 Trendline

While an industry benchmark offers a general understanding of performance, it lacks the accuracy required to operate a Lean Revenue Factory. A more effective method is self-benchmarking using trendlines based on your data, such as analyzing performance over the last 12 months (LTM).

Trendlines are straightforward and aid in understanding, analyzing and communicating performance trends. This process enables informed decisions, practical goal-setting, and enhanced performance management.

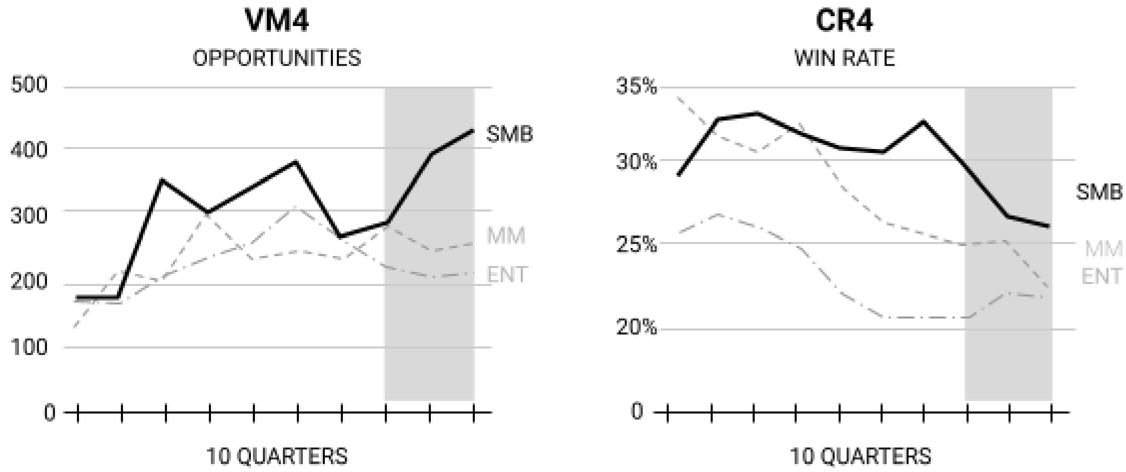

Figure 4.7 Example trendline of lead development and win rate.

4.6 Growth Metrics

Not all metrics are created equal; there exists a hierarchy with distinct layers, each focused on different aspects of the business.

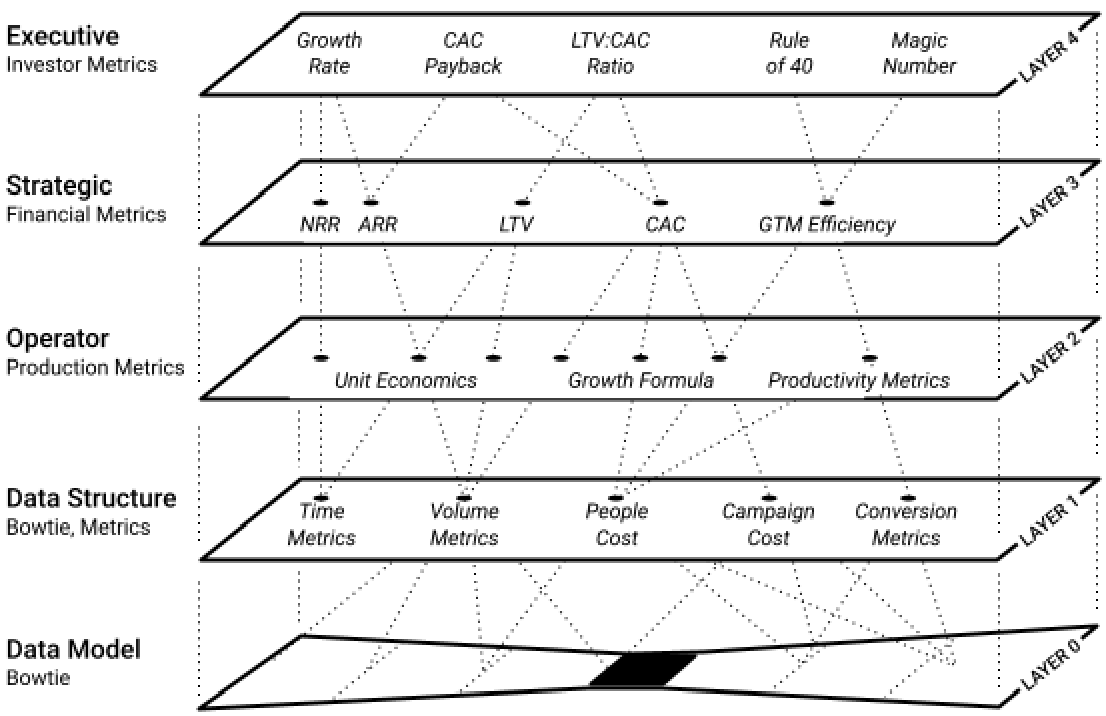

Figure 4.6 This illustration demonstrates the causal and temporal relationships among various data layers, each tailored to specific use cases and anchored on a fundamentally different data model (bowtie) that encompasses the entire customer journey.

The layers are structured as follows:

- **Layer 0: Data Model**

  The Data Model defines what is being measured, shifting from a model that focuses solely on acquisition (Funnel) to one that includes retention and expansion (Bowtie).

- **Layer 1: Data Structure**

  The Data Structure standardizes metrics, defines what is measured, and establishes a consistent naming convention that can be applied across different GTM motions.

- **Layer 2: Operator Metrics**

  Operator metrics focus on improving business performance by managing inputs, throughputs, and outputs, refining processes, and ensuring efficiency.

- **Layer 3: Strategic/Financial Metrics:**

  Metrics such as CAC, NRR, and LTV help the finance team manage the business's financial health, focusing on

- **Layer 4: Executive/Investor Metrics:**

  Ratios like CAC: LTV provide insights for stakeholders to make informed investment decisions and guide operational strategies.

The structured layer of metrics highlights that investor metrics are not the same as operator metrics. Investor metrics are designed to inform investment decisions that influence company valuation but are not intended to guide day-to-day operational choices. For decisions that involve accelerating growth by investing in a particular GTM motion, operators need metrics that are closely aligned with daily business activities and operational performance.

5. Applications

This chapter will apply the Data Model and Data Structure across different GTM motions. The beauty of the Data Structure we've provided is its uniformity—regardless of the GTM motion, the underlying structure remains consistent. The only adjustment needed is a change in the naming convention to align with the specific GTM motion in use. For simplification, we will focus on three distinct GTM motions, though hybrids can be created from these core types:

- High Touch, Human-Led Growth (HLG) for large, high-value deals.
- Low Touch, AI-Led Growth (AiLG) for high-velocity, mid-market deals.
- No Touch, Product-Led Growth (PLG) for a high volume of smaller deals.

By applying the standardized Data Structure across different GTM motions, businesses can operate multiple motions in parallel, compare the metrics of each, and more easily analyze and optimize the performance of systems and processes.

5.1 Application of a High Touch (HLG) GTM Motion

Building on this approach, we can map the Data Model to the High Touch GTM (HLG) motion as follows:

- VM1 represents Targets
- VM2 represents Marketing Qualified Accounts (MQAs)
- VM3 represents Opportunities
- VM4 represents Qualified Opportunities

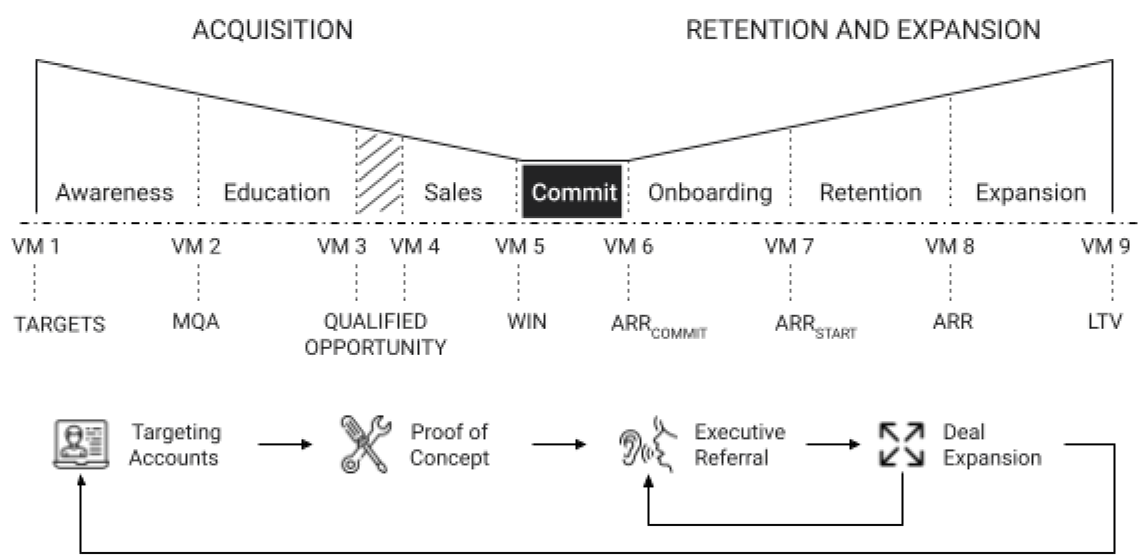

Figure 5.1 Mapping *a High Touch GTM motion on top of the Data Model/Structure.*

Here are some unique characteristics of the High Touch GTM motion:

- Targeting: Given the substantial resource investment required over a long sales cycle, it is essential for sellers to carefully select the accounts they wish to pursue.
- Proof of Concept (POC): In a High-Touch GTM motion, the sales cycle can take over a year. During this time, the seller must prove that their solution is compatible with the buyer's existing systems, which requires a significant upfront investment in resources (subject matter experts).
- Executive Referrals: Lead generation heavily relies on existing customers who refer and advocate for the solution to potential buyers. This process can be supported by mechanisms like a Customer Advisory Board (CAB).
- Deal Expansion: While initial deals can be large, they often generate limited profit due to the high resources required to deliver. Real growth and profitability stem from expanding the business over the following years.

This approach creates a customer journey within the Data Model that aligns with the distinctive characteristics of the High Touch GTM motion.

5.2 The Medium Touch (AiLG) GTM Motion

The Medium Touch GTM Motion operates seamlessly within the same data model as the High Touch GTM Motion. In this model, systems are leveraged to optimize performance, with AI tools and automation playing a significant role in lead development (inbound) and, to some extent, lead generation (outbound). After that, the AI system hands off the qualified deal to a sales manager, who then guides the customer through the sales process. The Medium Touch GTM motion maps to the Data Model as follows:

- VM1 represents Prospects
- VM2 represents Marketing Qualified Leads (MQL)—prospects who've provided their contact information
- VM3 represents Sales Qualified Leads (SQL)—leads who have expressed interest in a solution
- VM4 relates to Sales Accepted Leads (SAL)—leads that the sales rep has qualified

The Medium Touch GTM motion is commonly used in SMB sales and operates alongside the High Touch GTM motion, typically employed for Enterprise sales. The following figure (Figure 5.2) illustrates the customer journey and highlights the characteristics of the Medium Touch GTM motion.

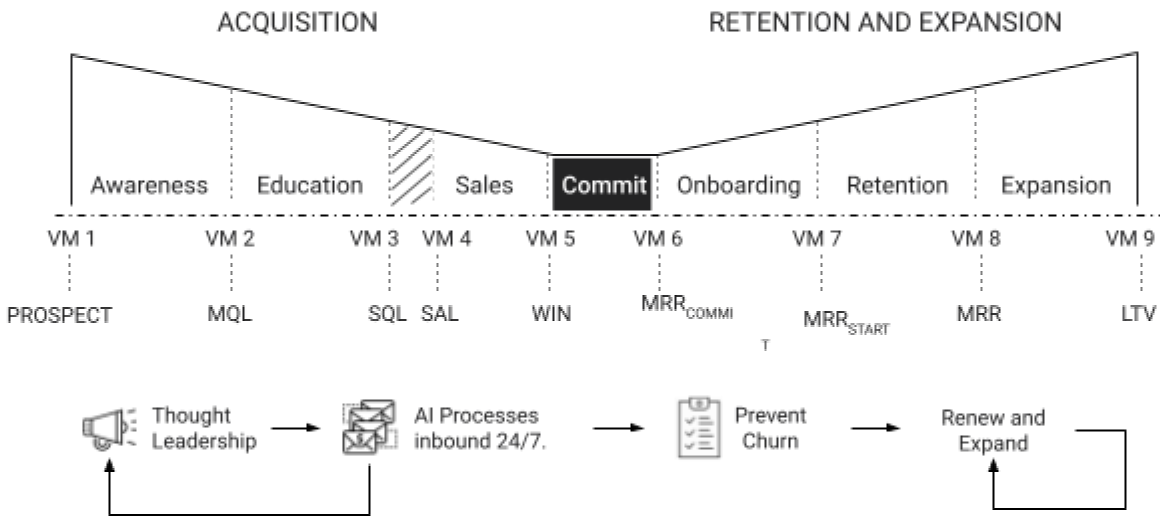

Figure 5.2 *Applying the Medium Touch GTM Motion to the Data Model/Structure.*

Unique Characteristics of the Medium Touch GTM Motion:

- Thought Leadership: Given the high volume of deals, there is a constant demand for more leads. Thought leadership is used to generate leads at scale. A prime example is HubSpot, which excels in inbound marketing to drive lead generation.
- AI Processing: Deals move at a relatively high velocity, and while companies have historically used email automation tools for outreach and follow-up, they are expected to deploy AI systems that process inbound leads 24/7 at a higher conversion rate.
- Churn Prevention: This GTM motion's high velocity makes it particularly sensitive to churn. As a result, there is a strong focus on churn prevention, though this sometimes comes at the cost of prioritizing the achievement of recurring impact.
- Renewal: Given the model's reliance on a large customer base, renewals are crucial for sustaining growth. The business thrives on high renewal rates, with customers often staying for 5+ years.

Notably, due to the emphasis on high volume, the Medium Touch GTM Motion has historically focused more on driving growth through customer acquisition (leads), lacking a feedback loop from Customer Retention and Expansion back to Customer Acquisition. The lack of nurturing in this closed loop has historically limited Medium Touch's growth potential and represents an opportunity for AI.

5.3 The No Touch GTM (PLG) Motion

The No Touch GTM motion, commonly called Product-Led Growth (PLG), has gained popularity in recent years. PLG is neither a lead generation tool nor a sales methodology; it is intrinsically linked to the product. In this model, customers create their own journey across the various Bowtie stages, commonly driven by the product's ease of use. This GTM motion has its own naming convention and acronyms, as outlined below (see Figure 5.3):

- VM1 represents Prospects
- VM2 represents those who raised their hands to request access to the product.
- VM3 represents PQL (Product Qualified Lead), indicating a user whose engagement with the product signals readiness to convert.
- VM4 aligns with PQA (Product Qualified Account), identifying an account with multiple users that presents an opportunity for selling a team license.
- VM5 is associated with sign-ups/activations, referring to users who create an account to evaluate the product and its impact.
- VM8 denotes Monthly Active Users (MAU), measuring the unique users interacting with the software each month.

The No Touch GTM motion is commonly used in direct-to-pro-user sales, particularly for products where buyers, such as developers, prefer the product to do the talking rather than engaging with salespeople.

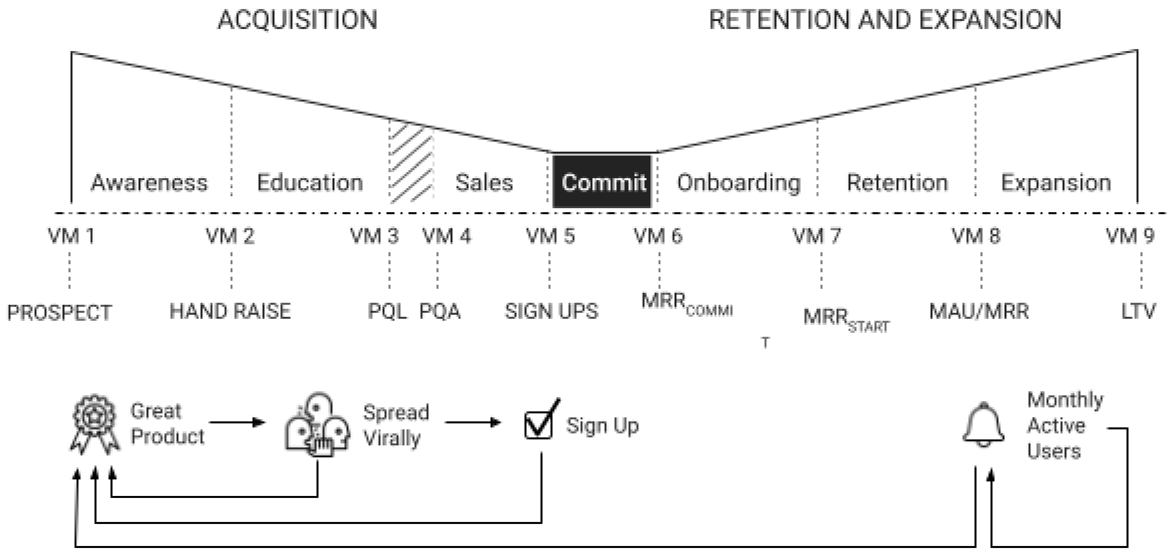

Figure 5.3 *Applying the No Touch GTM Motion to the Data Model/Structure.*

The No Touch GTM (PLG) Motion has the following characteristics:

- Dependency on a Spectacular Product: PLG relies on leveraging the product as a marketing tool, often through beta-user programs, to generate leads.
- Viral Spread: Passionate users can drive the product's popularity, creating a viral effect where the product acts as its own marketing and sales force. With high-demand products, this viral spread can occur well before the product is launched.
- Sign-Up Focus: Unlike other GTM motions that focus on acquiring customers (logos), the PLG motion uniquely emphasizes getting actual product users to sign up and engage with the product.
- Usage: Sustaining product usage is a primary challenge in most PLG GTM motions and an early indicator of churn. Success metrics, such as MAU (Monthly Active Users), along with Active Users) and DAU (Daily Active Users) are crucial indicators of engagement and retention.

The No Touch GTM motion applies to application sales, where individual users sign up, and platform sales, where the product serves as a fully functional sandbox account for the initial user.

6. Conclusion

At the heart of Recurring Revenue is the concept that it stems from ongoing impact, which lies beyond the classic marketing and sales funnel. In fact, the journey of Recurring Revenue starts where the classic funnel ends. The standardized Data Model we've adopted extends this funnel into a Bowtie shape, integrating post-commitment activities. This model is bifurcated: the left side targets customer acquisition, while the right side focuses on nurturing long-term customer relationships. To create the Data Model, we overlay a standardized Data Structure that utilizes three metrics: Volume Metrics (VM), Conversion Metrics (CR), and Time Metrics (t). This forms a Data Structure (The Bowtie Metrics) that is layered on top of the Data Model (The Bowtie).

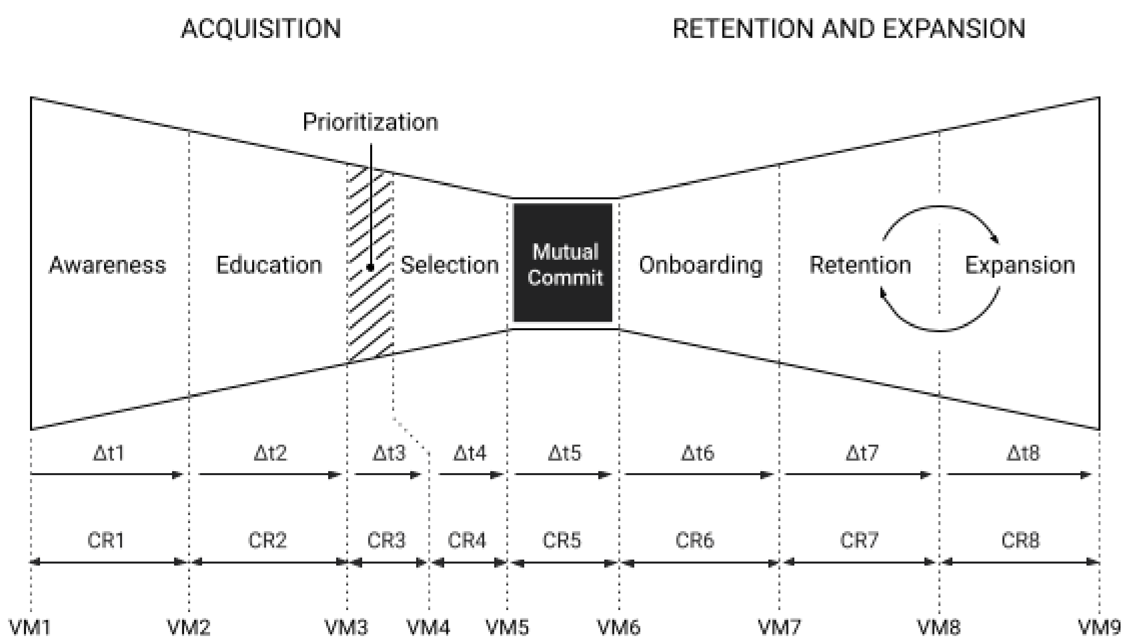

Figure 6.1 The Bowtie: The standardized data model for recurring revenue.

The classic marketing and sales funnel, having been in use for over a century, stands not as an outdated relic but as a testament to its immense value and enduring relevance. It's imperative to preserve the rich knowledge and infrastructure built upon this funnel as a model. In doing this, we do not just honor its historical significance but, more importantly, ensure that its foundational principles are adapted to guide modern marketing, sales, and customer success strategies. This is particularly relevant in the realm of recurring revenue.

The Data Model for the Lean Revenue Factory evolves the funnel into a Bowtie shape, using it as a platform to transition toward a GTM approach. This evolution pays homage to the legacy of the classic marketing and sales funnel, leveraging its timeless wisdom to enhance a Recurring Revenue business.

Abbreviations

ABM – Account-Based Marketing

ACV – Average Contract Value

AiLG – Ai Led Growth

ARR – Annual Recurring Revenue

CAB – Customer Advisory Board

CAC – Customer Acquisition Cost

CR – Conversion Rate (e.g., CR1, CR2)

CSM – Customer Success Manager

DAU – Daily Active Users

GRR – Gross Revenue Retention

LTV – Lifetime Value

MAU – Monthly Active Users

MRR – Monthly Recurring Revenue

NRR – Net Revenue Retention

PLG – Product-Led Growth

PQA – Product Qualified Account

PQL – Product Qualified Lead

POC – Proof of Concept

ROI – Return on Investment

SAL – Sales Accepted Lead

SDR – Sales Development Representative

SEO – Search Engine Optimization

SMB – Small and Medium-sized Business

SQL – Sales Qualified Lead

TOFU – Top of the Funnel

VM – Volume Metric (e.g., VM1, VM2)

WAU – Weekly Active Users

Δt – Time/Velocity Metric (e.g., $\Delta t1$, $\Delta t2$)

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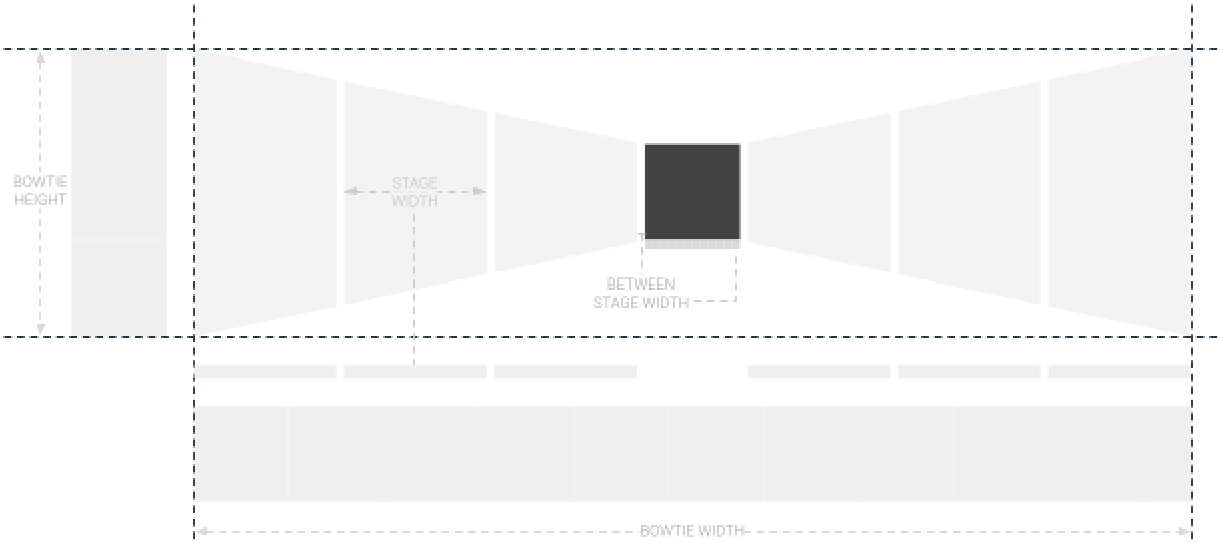
Annex A: Standard Bowtie Specifications



BOWTIE WIDTH

10.5 Commit squares
(1050% width scale)

BOWTIE HEIGHT

3 Commit squares
(300% height scale)

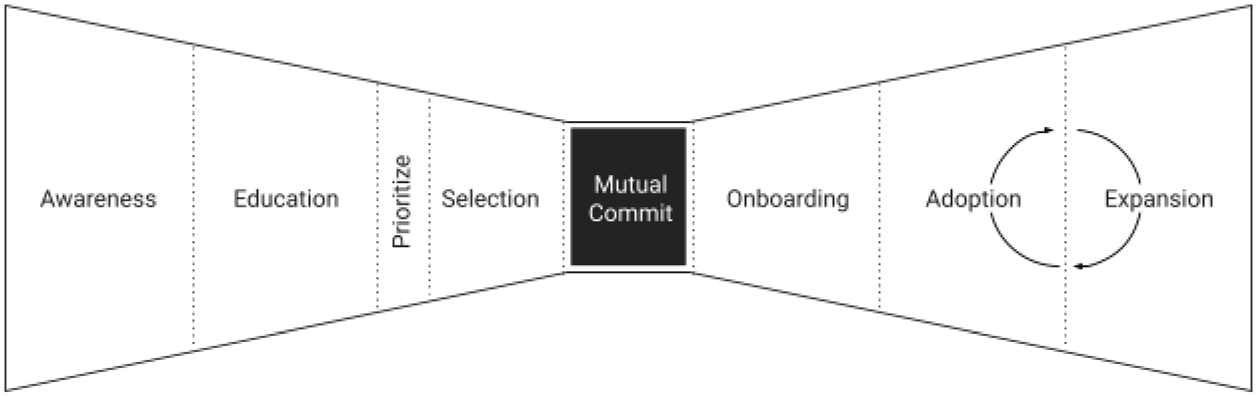
STAGE WIDTH

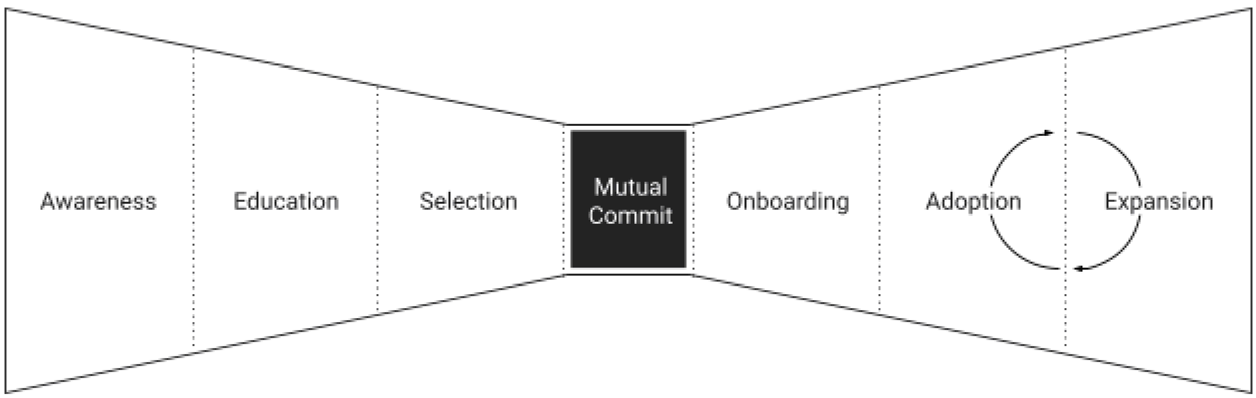
1.5 Commit squares
(150% width scale)

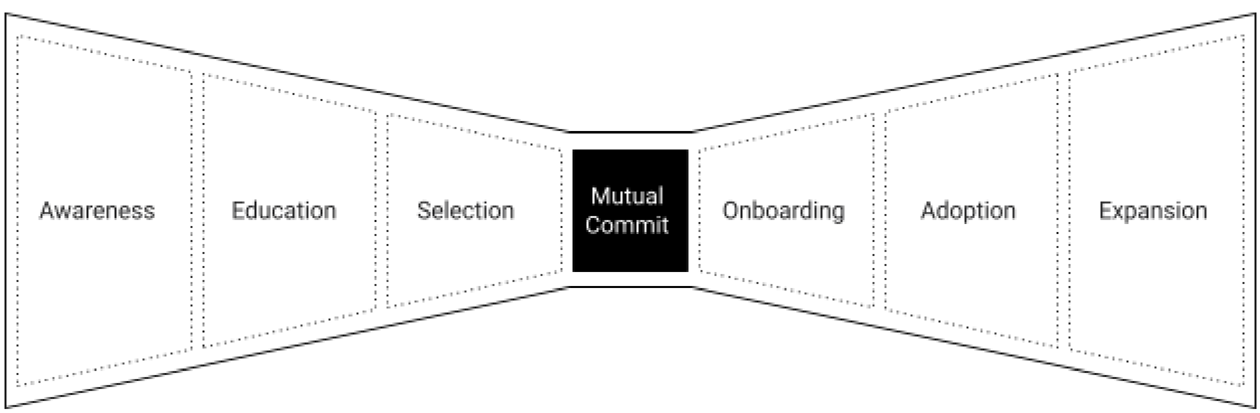
BETWEEN STAGE WIDTH

1/12 Commit squares
(8.33% width/height scale)

Correct depictions of the bowtie, with and without prioritization.


Awareness
Education
Prioritize
Selection
Mutual Commit
Onboarding
Adoption
Expansion


Awareness
Education
Selection
Mutual Commit
Onboarding
Adoption
Expansion


Awareness
Education
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