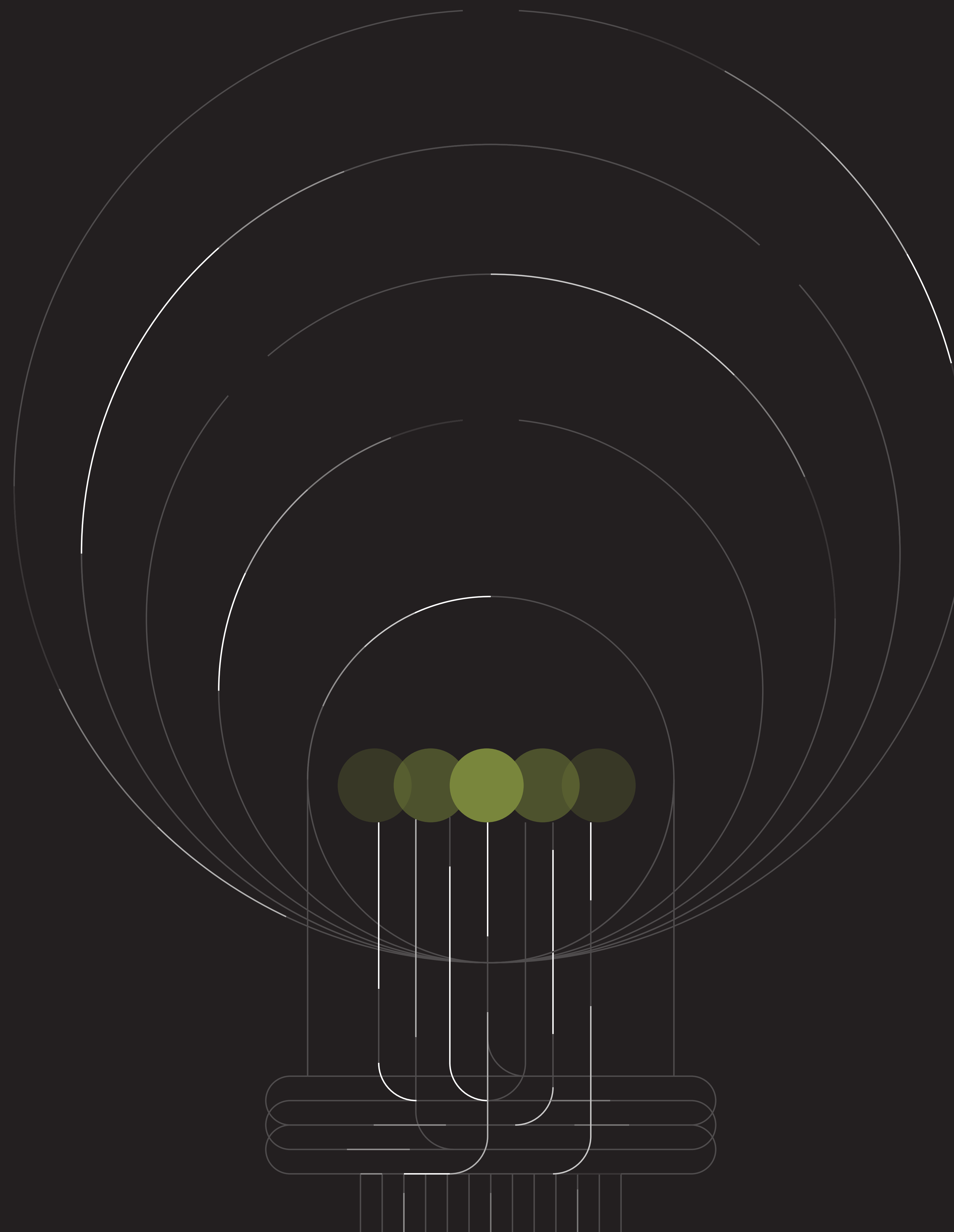
edisonpartners

GROWTH INDEX

2023

The Dos & Don’ts of Growth Companies during Uncertain Times



Introduction

In recent weeks, many executives have taken the intentional (or unintentional) time to not only reflect on this past year, but also recast focus for the upcoming year. For many of you, 2022 may have had its challenges and perhaps even significant valley seasons. While there is no guarantee that those valleys will turn into mountaintops in 2023, take heart in what Ryan Holiday shared at our November 2022 CEO Summit, “Remember, you don’t control what happens to you, you control how you respond.”

For this year’s Growth Index, we’ve applied this lens to the growth-stage companies in our active portfolio – seeking to correlate trends of what they are doing, and perhaps, more importantly, what they are NOT doing to navigate these times of economic uncertainty. Yes, companies are growing in these turbulent times – which doesn’t necessarily mean they aren’t themselves in valley seasons. Nevertheless, there remains growth potential out there. If you are a mid-market software company, this eBook is for you. Our hope is the data provides some guidance and insights which you can apply in 2023 to strengthen your business.

Throughout 2023, we will be sharing what our growth companies are doing to prepare for an inevitable positive turn in the macro environment. What we do in the valley seasons undoubtedly prepares us for how quickly we will ascend the mountain amongst our peers. Let’s together make wise use of our time in 2023, as we prepare for a shift from headwinds to tailwinds – which will come in due time.

In conclusion, an important note of thanks to this years’ participants for their contributions to the study – Edison Edge programs like this would not be possible without your continued engagement and partnership.

Casey Myers

Casey Myers
Partner, Edison Edge

Growth Company Dos & Don’ts in Uncertain Times

Do

1. Have 12+ months of cash availability
2. Use debt strategically
3. Increase revenue per head
4. Use pricing as a proactive hedge
5. Reprioritize marketing spend

Don’t

1. Guess how the numbers will be made
2. Radically change product priorities
3. Single-thread on Go-to-Market
4. Curb sales investment
5. Let PLG be a distraction

Contents

Participant Demographics

SECTION 1

Fast-growing Companies Do

SECTION 2

Fast-growing Companies Don't

SECTION 3

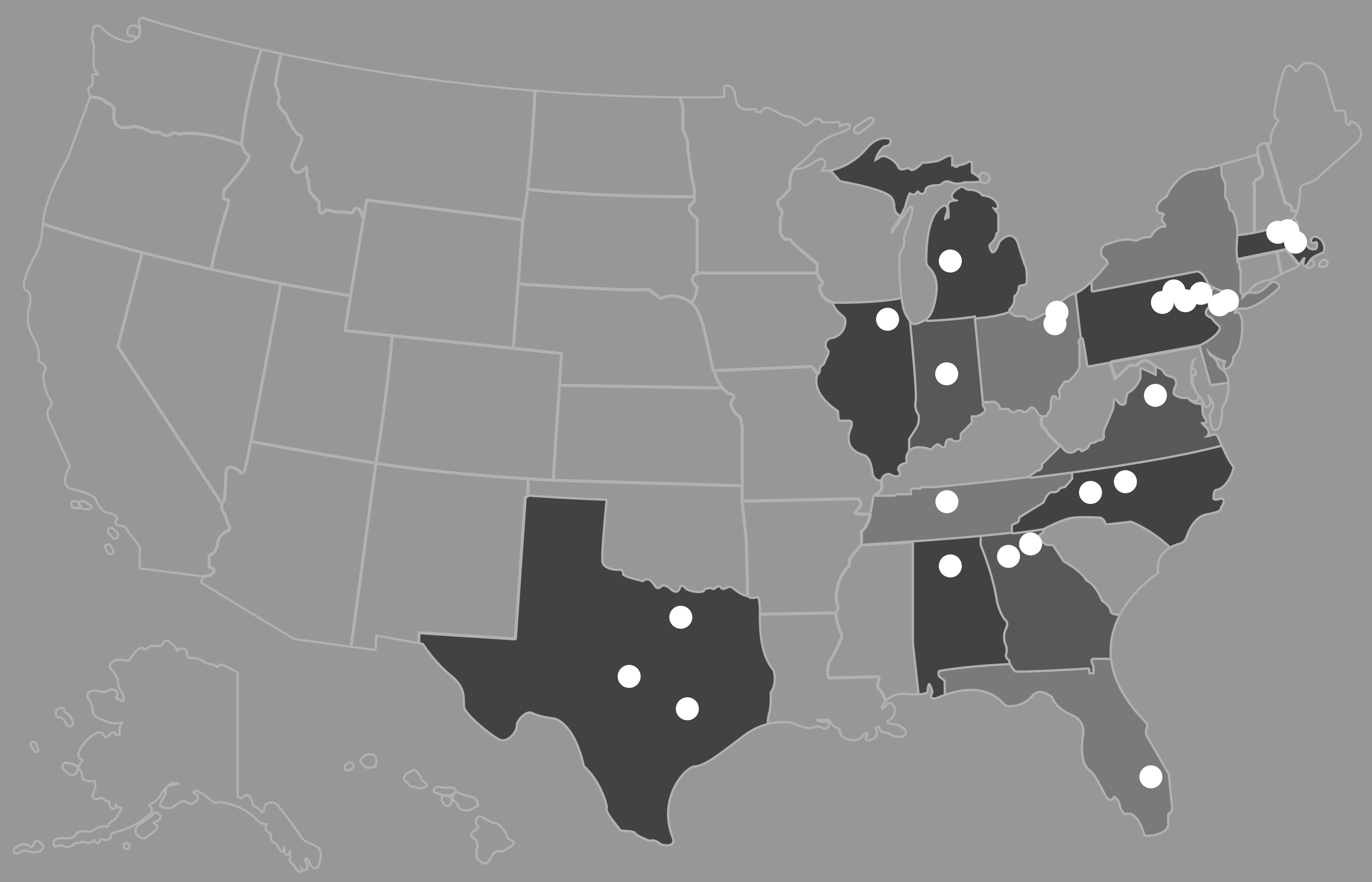
Leadership Imperatives

SECTION 4

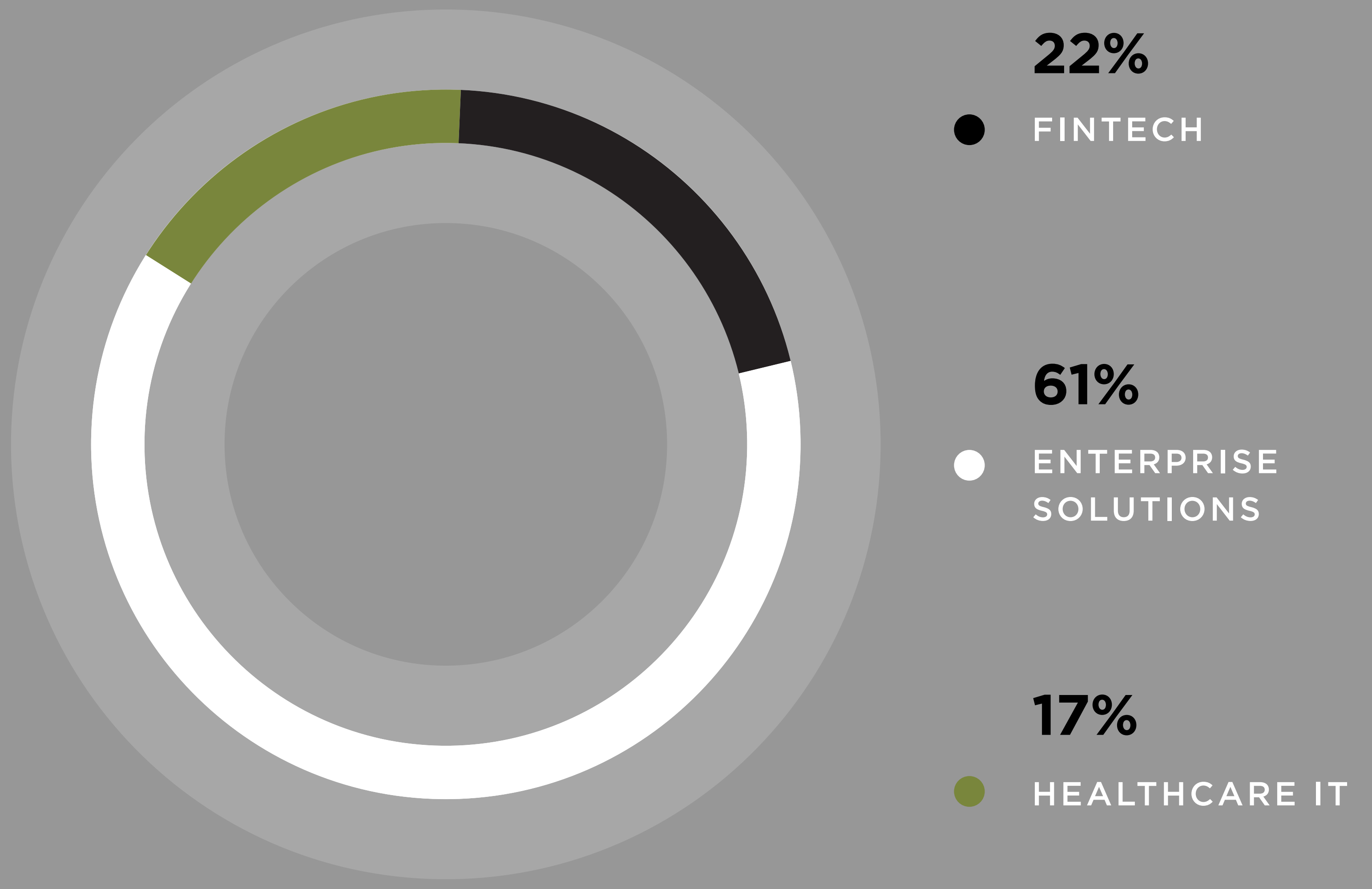
Participant Demographics

1

Study participants are from 29 cities across 18 States



Participants by Industry



Edison Partners' investment strategy focuses specifically on high-growth, capital-efficient tech companies located in markets outside Silicon Valley.

Participants by Revenue Type

11% TRANSACTIONAL

28% REPEATING

61% RECURRING

Participants by Revenue Range

32% 10-25M

36% 25-50M

32% 50M+

Participants by Growth Rate

37% < 30%

26% 30-50%

17% 50-100%

20% > 100%

Participants by Headcount

45% 50-100

26% 100-200

20% 200-500

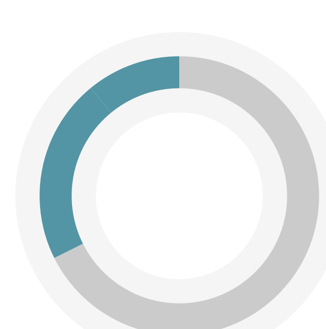
9% > 500

Participants by Gross Margin

44% > 70%

56% < 70%

Participants by EBITDA



31% BREAKEVEN OR PROFITABLE

28% > $500K BURN

Participant go-to-market model composition

ECONOMIC VALUE

Velocity

18%

- Inside direct or channel to Small & Midsized companies
- Inbound & Outbound Marketing
- <4-month cycles (extended with downturn)
- $5k-$80k ASPs (discount pressure during downturn)
- Mid to high deal volume
- Automation important
- Low-medium touch customer success & support

Enterprise

64%

- Field, channel or inside reps selling upmarket
- Outbound / Account-Based Marketing
- 6+ month cycles (extended with downturn)
- $100k+ ASPs
- Low deal volume
- Relationships important
- High-touch customer success & support

Self-Service

18%

- Marketing = Sales (Inbound and/or Product-Led)
- Small business, departmental or consumer buyer
- Low price points
- High transaction volume
- Fully automated, frictionless
- No-touch customer success & support

Not Applicable

(and not conducive to scalable growth under any macro-economic conditions)

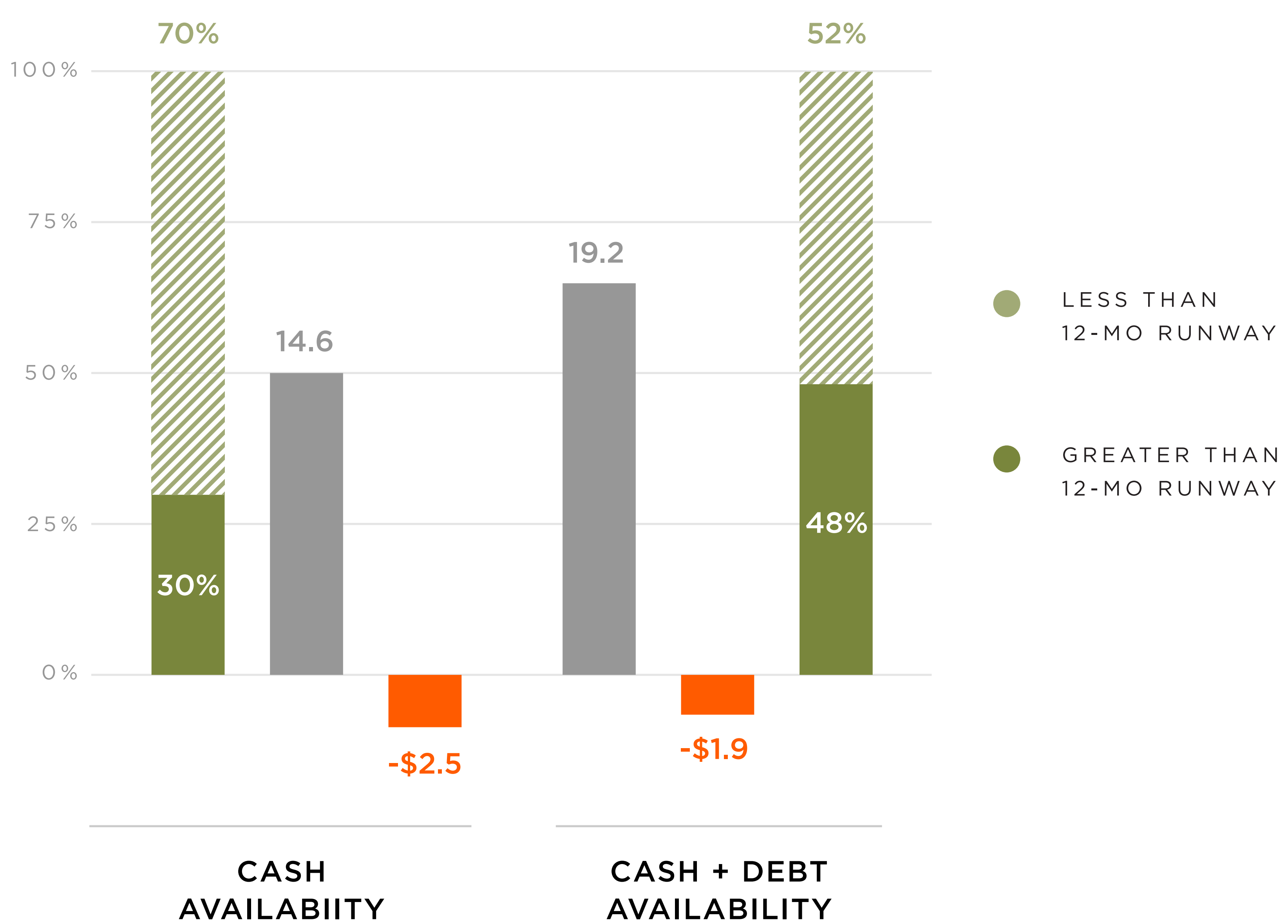
COMPLEXITY

During times of uncertainty, fast-growing companies __ Do

2

Do have a year or more of cash availability

As compared to 2021, the number of months of cash runway increased 36%.



62%

62% of study participants were already breakeven to profitable or shifted gears to become so in 2022. These companies average $12M cash on hand.

1 Year+

The majority of the companies who are burning cash are mitigating macroeconomic risk with a year or more of cash availability.

48%

Of the companies burning, 48% have at least 12 months of runway including debt availability. The average burn of these companies is $1.9.

13%

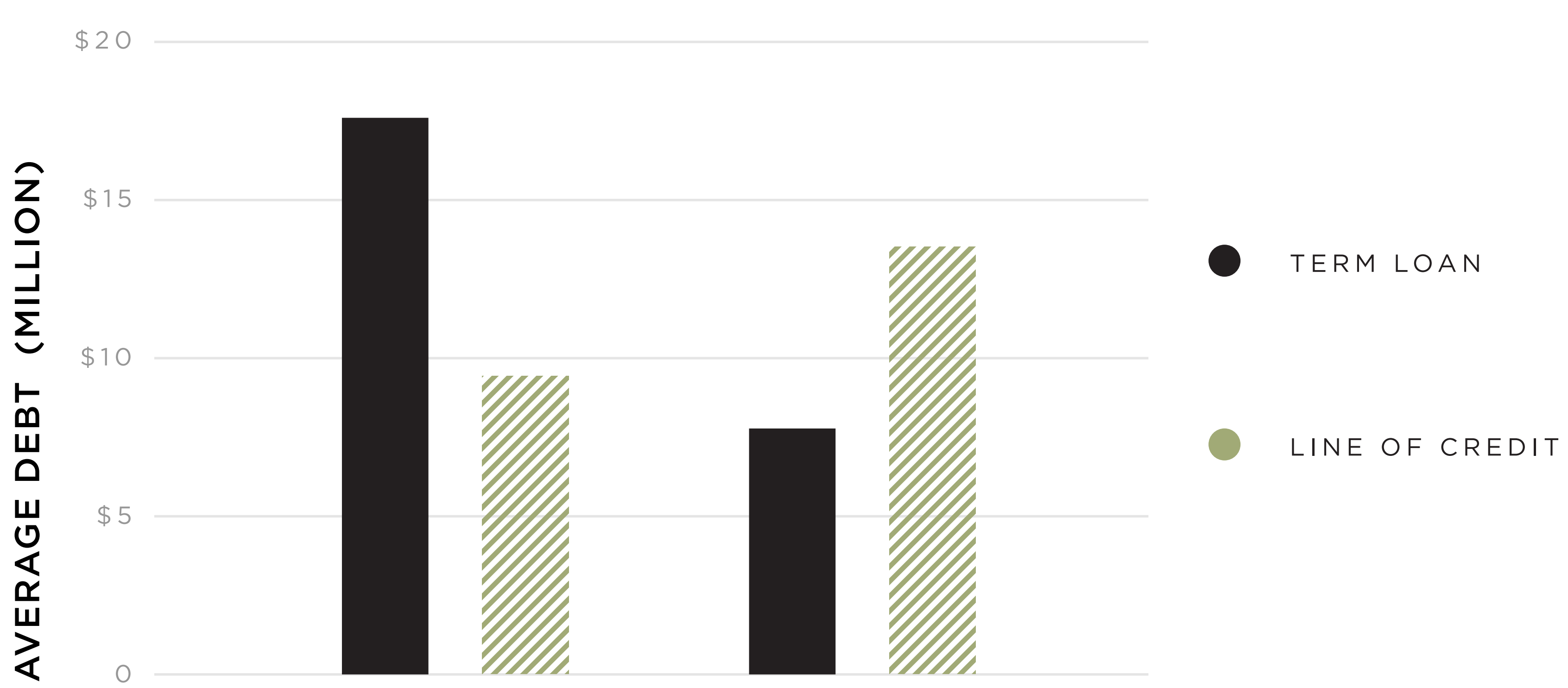
13% of companies have untouched debt facilities, whether lines of credit or term loans, amounting to $46M and $5m, respectively.

$16.6M

Average cash on hand, per company, increased from $11.4M to $16.6M (46% YoY increase).

Do use debt strategically

Debt Lines: Some are taking down all possible debt while others are ensuring it's available, but not taking it yet. We think it's a good idea to take available debt and not plan to use it without agreement from the Board. Consider it an insurance policy.



$7.6M

On average, there's $7.6M of debt available across 53% of participants.

26%

For the period of December 2021 to September 2022, we saw 26% of companies increase their lines of credit by an average of $6.8M.

27%

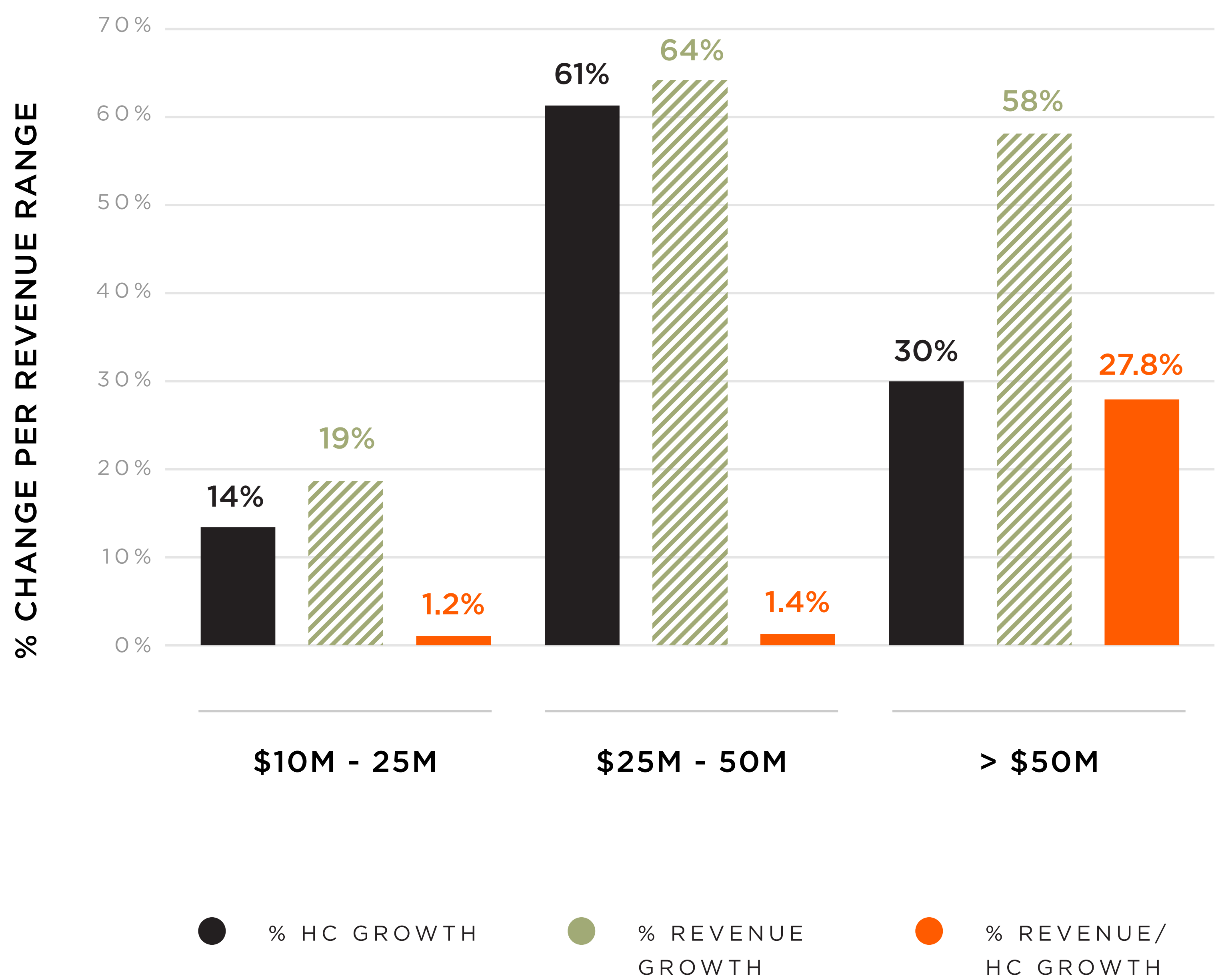
Over that same period, we saw 27% of companies take on new term debt, at an average of $2.4M

15%

We also saw 15% of companies call on their line of credit and 8% utilize their term loans.

Do monitor headcount to revenue growth rates

Healthy growth companies with $10-$50M in revenue kept headcount growth 3-5 percentage points **below** revenue growth.



Growth

Participants have increased revenue per head in the current trailing 12 months, vs. the prior 12-month period. Despite the economic environment, these companies are growing revenue faster than headcount.

>$50M

Companies with higher revenue (>$50M) are able to further increase their revenue while optimizing headcount growth, achieving the highest % Revenue/Headcount growth of all Revenue ranges.

Do use pricing as a proactive hedge

Growth companies are using pricing as a proactive hedge – with 44% raising pricing in 2022

USAGE Subscription or pay-as-you-go tiering based on a usage volume metric, e.g., contacts, campaigns, storage, data calls

USERS Named user or seat-based fee structure with volume-based tiering

DATA Monetizing high-value data and/or insights collected through your platform as an add-on to existing subscription, or as a new revenue stream from other third parties

FEATURES Enhancements to drive up subscription value. However, if feature is a competitive differentiator and/or usage driver, best to include in platform price

ADD-ONS Enhancements to the platform's core value proposition priced at 10-30% of platform price, e.g., integrations, new use cases

SERVICES Education, implementation and customization service offerings commonly fetch 10-20+% of core solution or platform contract value

NEW PRODUCTS Offerings with an independent value proposition priced separately based on a metric that represents the value the customer realizes from usage. 2+ of the above levers also apply

44%

Study participants place high importance on getting pricing right, especially in times of rapidly changing buyer behavior and inflation. They are protecting themselves against inflation with price increases, as 44% raised prices in 2022 by an average of 10%, and 56% raised prices in both 2021 and 2022 by a combined average of 21%.

78%

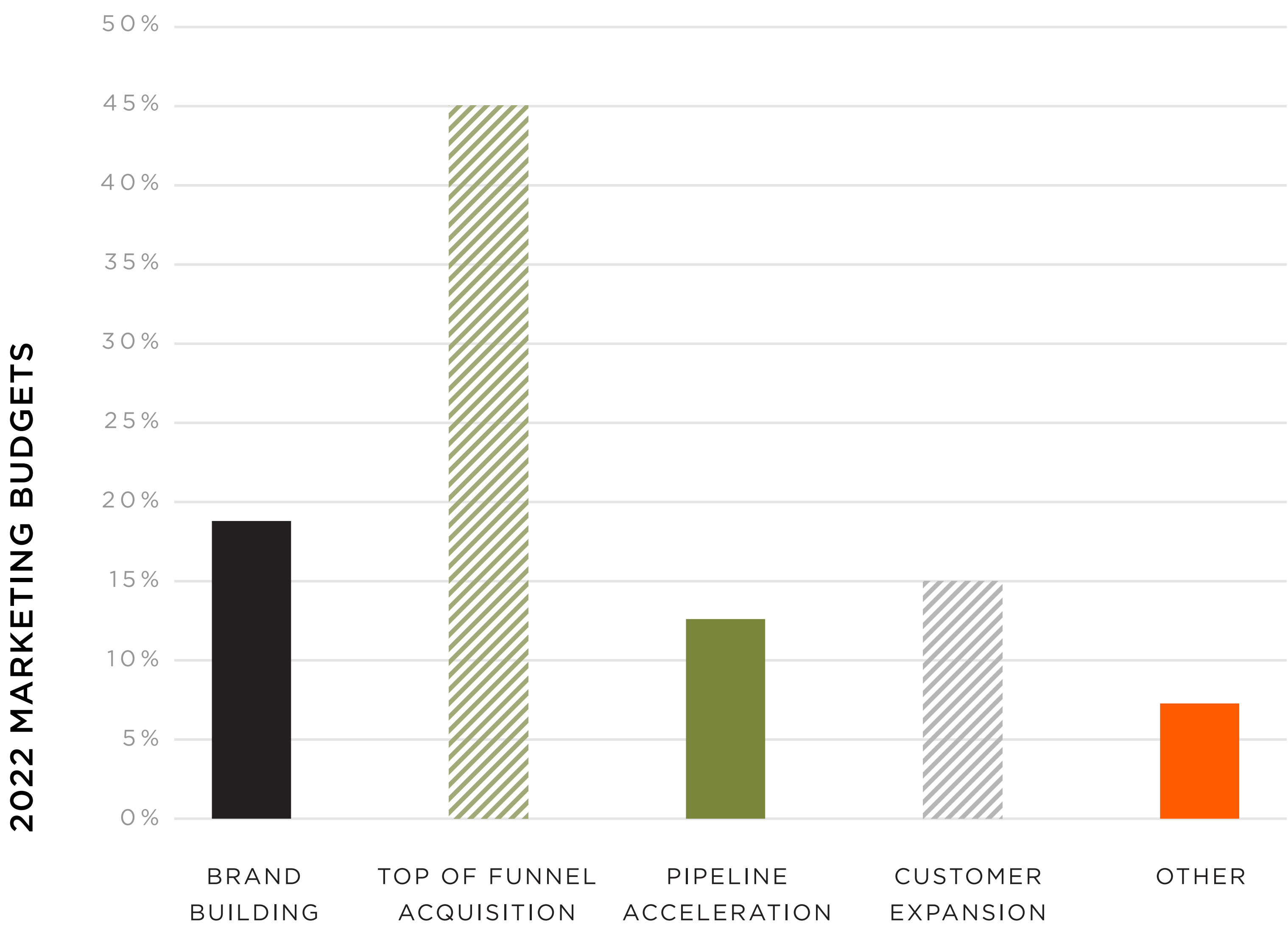
Further, 78% of study participants use an average of at least three pricing levers to maximize value captured at acquisition, expansion and renewal junctures of the customer lifecycle. The list illustrates the seven most common pricing levers used by tech and tech-enabled growth companies.

Tactics

Other popular tactics participants use to ward off potential churn during recessionary times include: making longer-term contracts more attractive and incorporating auto-renewal clauses.

Do reprioritize marketing spend

64% of participants are reprioritizing & 36% reducing overall spend



5-30%

In times of market tailwinds or headwinds, Marketing must remain nimble and tends to have the greatest ability to flex both spend directions and amounts. On the whole, we saw marketing budgets almost double between 2021 and 2022, however, with macro trends worsening in 2022, 36% of companies reduced or plan to reduce spend by 5-30%. There was no correlation by revenue stage, growth rate, sector nor GTM model, per se – only cash runway. As mentioned on page 10, 67% of those burning cash have ensured at least 12 months of runway.

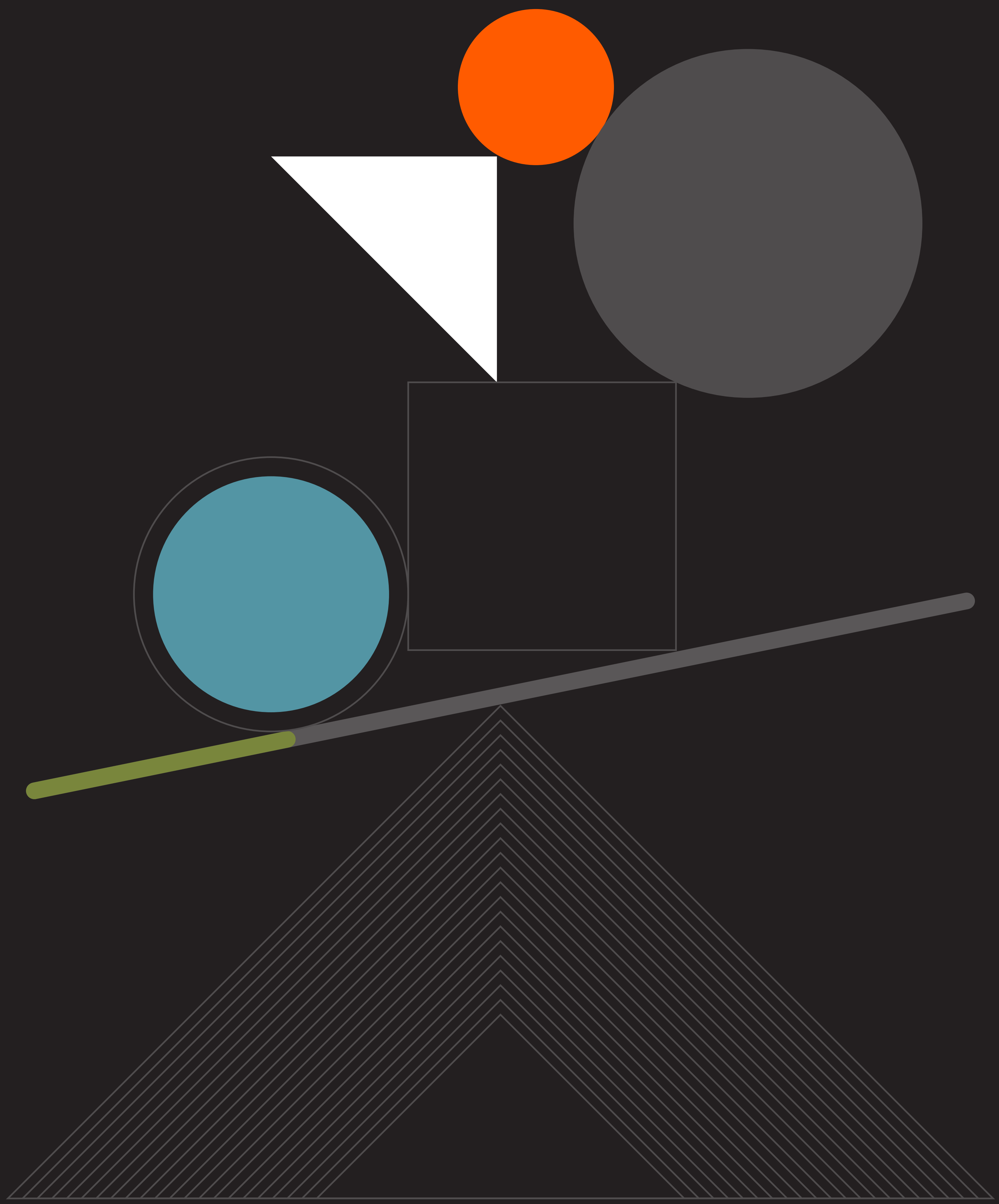
64%

Interestingly, whether or not marketing spend was or will be reduced, 64% of participants said they reprioritized in the face of the downturn with a primary focus on top of funnel initiatives over other areas of marketing impact, per the chart to the left. Brand marketing is the second budget priority, which is surprising for two reasons:

This is often an area of pull-back during a downturn, particularly for B2B companies (86% of study participants). By prioritizing top of funnel, brand marketing benefits are inherent – a two-for-one opportunity.

During times of uncertainty, fast-growing companies __ Don't

3



Don't guess how the numbers will be made

Growth companies have done the hard measurement work so the data has a voice

See data-driven methodologies below:

STAGE	<$10M	$10M-25M	$25M+
THEME	Confirm Growth Potential	Accelerate & Diversify Go-to-Market	Scale Performance
DYNAMICS	• Product-market fit • More product expense • Deciding trade-offs • Hire best athletes to build + fly • Highly nimble, adaptive org	• Deal volume up with ICP focus • Segment / sector specialization • Retention trend = confidence! • Price preservation with model sophistication • Hire position players	• ICP &/or product expansion • Predictable forecast - channel diversification • Rapid innovation • Price increases + upsell • Monthly business reviews
KPI SYSTEM	Establish North Star to coalesce around vision	Add OKRs to scale the business	Layer in KPI Tree for speed of execution at scale
EXAMPLE METRICS	• Sales volume, value, velocity • Time to value (adoption) • Usage (health) • Budget allocation (% of revenue) • Speed to close product gaps	• 80% quota attainment • Time to revenue • 12-18-month CAC recovery • 50+ NPS • > 100% Net Revenue Retention • > 3x CLTV/CAC	• 40%+ growth • 30%+ bookings from channel • 50%+ competitive win rate • New market penetration &/or product uptake • eNPS

KPIs

An overwhelming majority of participant's budget process includes both a top-down and bottom-up approach, measuring business performance based on a common set of KPIs. In the current environment, the result is greater forecast accuracy (no guessing games), and the ability to make quick decisions to course-correct and adapt (no analysis paralysis).

$10M

When it comes to KPI paradigms, size matters, though. At $10M revenue, people and operations are still maturing and the GTM model is often still fluid. KPIs play a key role in accelerating operational insights and, hence, maturity. As such, the more variability or unpredictability in an employee's workday means the more specific the KPI map should be for the organization. And for fast growers, this is why we encourage CFOs to invest in an FP&A function earlier rather than later, though only 50% of study participants reported having FP&A in place.

Don't radically change product priorities

Growth companies are not over-indexing Product or R&D investments on any single strategy across acquisition, retention, or expansion

R&D

Study participants are practicing strategic vigilance on the R&D front during these times of economic uncertainty. They are staying calm in the pocket, not radically changing their product priorities nor development approaches.

PRODUCT PRIORITIES

70%

In fact, 70% had the same priority stack ranking of their roadmap prior to and now during the market downturn. Product investments have parity and align with growth strategies for acquisition, retention and expansion.

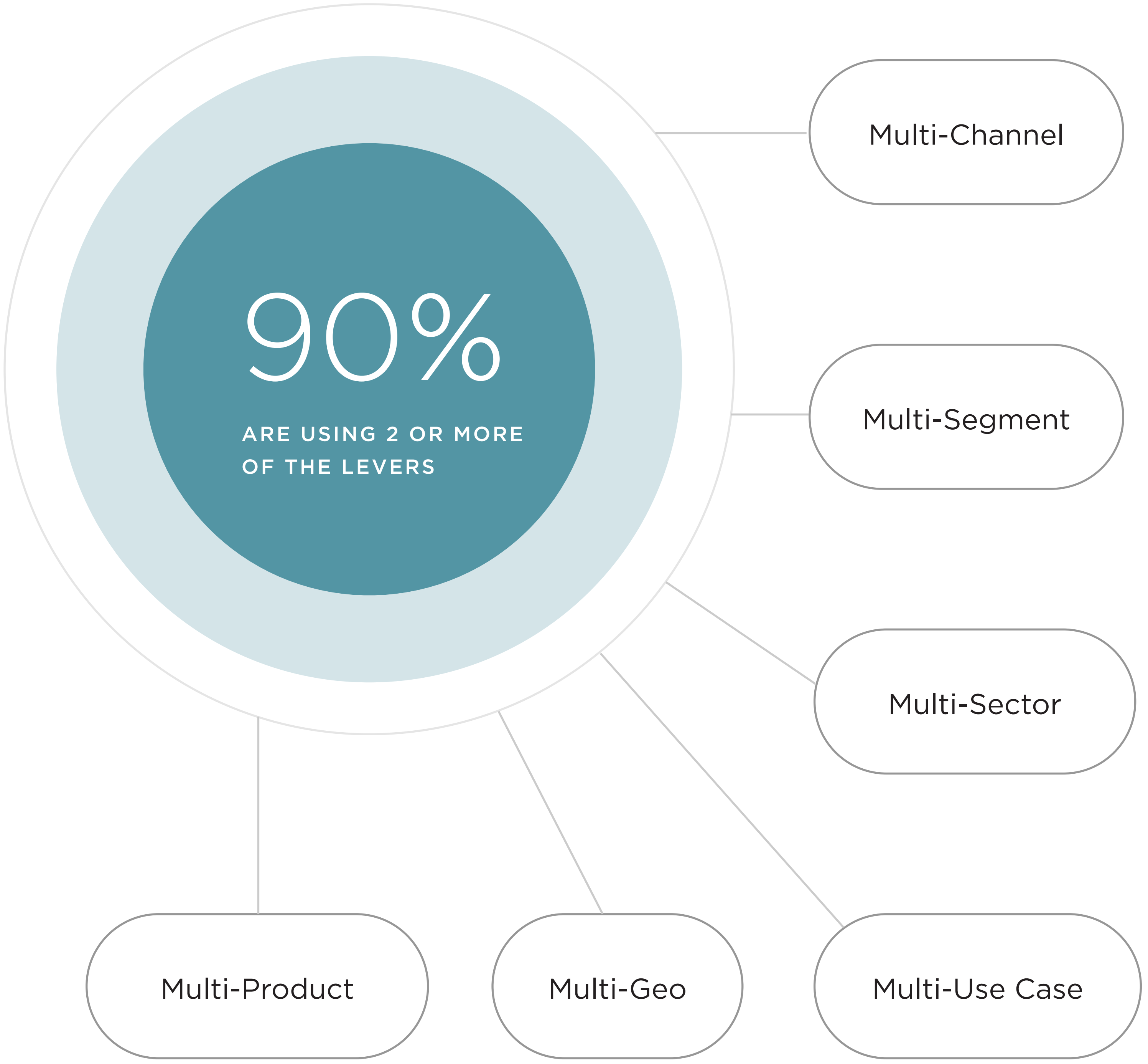
DEVELOPMENT PRACTICES

85%

Further, 85% are embracing third-party development (i.e., offshore/onshore, contractors) for flexible capacity, specialized skills, and cost reduction. 75% said that their approach to outsourcing has remained and will remain unchanged. Only 22% indicated that their primary reason for outsourcing was cost reduction.

Don't single-thread on the go-to-market

Growth companies can protect the core and expand their SAM at the same time



Key Inputs

The 'one and done' or 'all your eggs in one basket' approach to go-to-market strategy is a recipe for failure in recessionary times. Businesses need to be nimble, but that requires two key inputs: (1) industry intelligence, i.e., knowing the inflationary and/or downturn impact on your customers' businesses (which we did not cover in this study), and (2) ability to leverage multiple GTM levers.

90%

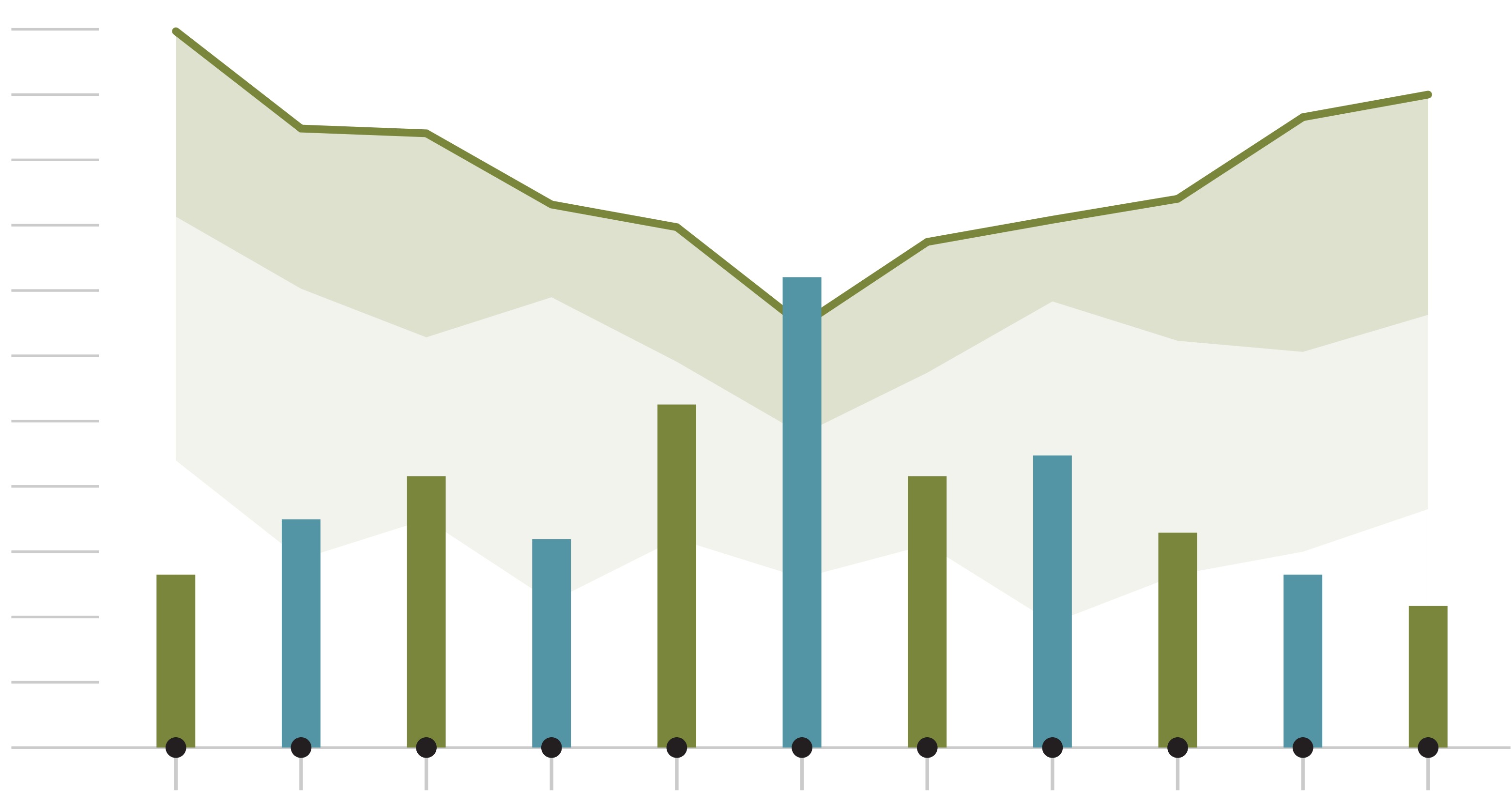
For study participants, we found 90% of companies are indeed multi-threading on GTM. Fast growers are minimizing risks by playing more than one card; they are protecting and growing their base, expanding to new channels, segments and sectors, and launching new products; they are paying attention to shifting sands and are ready with multiple strategies to capture growth wherever and whenever new opportunities arise. Fast growers are going where the puck will be, based on real-time anticipation where their customers will be.

ROI

In these times, it's important to simultaneously protect your core (with extreme focus), while experimenting (with agility) new avenues of revenue. Our fast growers are prioritizing experiments with new strategies based on data-driven decisions for potential ROI.

Don't curb sales hiring or investment

Valley seasons are the perfect time to upgrade and/or uplevel your sales talent



38%

Study participants showed a 38% increase in sales hiring in 2022 over 2021, going from an average of 7 to over 10 reps.

3

Further, study participants have an average of 3 sales rep openings per company.

Freeze

While hiring and open reqs reduced as 2022 progressed, it's clear one of the last areas of headcount freeze implications is for sales.

Shifts

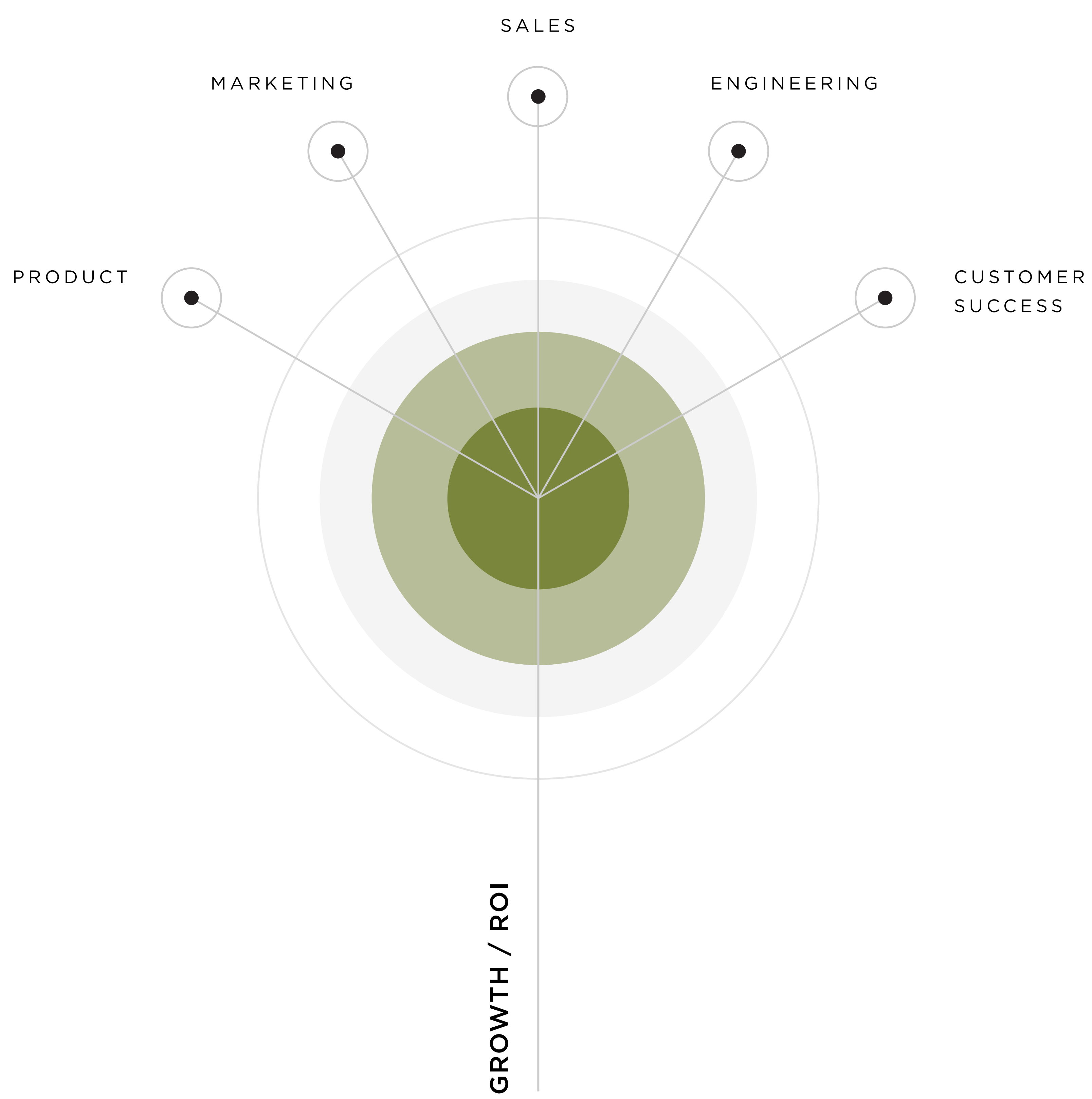
Competitiveness in hiring for sales has decreased due to macro-economic shifts in 2H22 vs. 1H22.

In-house

Finally, growth companies are using this time to up-level in-house talent pools like SDRs, BDRs, and CSMs into formidable sales professionals.

Don't let product-led growth be a major distraction

Pragmatic experimentation is the key to unlocking the potential with PLG growth levers



PLG

Historically, product-led growth ("PLG") has been a popular strategy for broadly horizontal SaaS products with massive TAMs. Because Edison has an investment strategy that is largely sector-specific wherein 65% of our active portfolio sells verticalized solutions to large enterprises, PLG has not been a prominent motion in our portfolio in terms of customer acquisition, retention and expansion being driven by product usage. But that's changing.

73%

73% of study participants indicated that they have businesses that could employ PLG strategies, and 86% have begun the journey to experiment with PLG strategies. In the majority of cases, this is being done ONLY where there is not a major Product shift or R&D lift required (see slide 18).

Experiments

Some experiments include 'free trial' on-ramps, 'self-service' for upgrades / upsells, 'integrated applications' through partner exchanges or marketplaces, pre-baked / pre-wired templates and industry solutions, and other opportunities to test the waters on new sources of users and usage. In each of these experiments, it's a requirement for (1) there to be minimal-to-no professional services required, and (2) a clear definition / KPIs for success – so they know when to accelerate or cease the experiment.

SWOT

In at least one scenario, when they found success with PLG, they segmented off a SWOT team or POD to ensure it received the minimal focus required to maximize growth leverage and upside.

Leadership Imperatives

4

Leadership Imperatives

Don't hide from the truth. Great companies can be built in uncertain times. These DOs and DON'Ts must be grounded in strong organizational leadership and strategic alignment. The pandemic was a catalyst for study participants to level up their focus on culture and people operations and that is serving companies well in the uncertain times that have followed. While consistency and depth of practices vary by revenue stage, we've found those most effectively navigating the current environment follow six common leadership imperatives.

01

Focus on cultivating and sustaining culture, with accountability at the top.

02

Have a talent strategy and planning process that aligns to growth metrics and company priorities. Assess quarterly, even monthly, as the business evolves.

03

Balance pace and commitment in which the ELT lead and operate with support for employee growth and well-being and tangible financial and non-financial methods that drive retention and motivation.

04

Hire with discipline, onboard with intent. Underestimating the need to be disciplined in identifying, interviewing, selecting, and onboarding talent is a mistake. Ensuring the entire experience exemplifies your culture in the best way.

05

Face tough people decisions head on. While downsizing may be your first reflex, ask yourself if you can redeploy talent or re-prioritize what capabilities are needed for an interim period. If change is required, exit poor performers, those who have skills that may not scale with the company, or those who exhibit behaviors counter to the culture being cultivated.

06

Communicate. Communicate. Communicate. Create trust and alignment through clarity of strategy, financials, success and failure, team or individual performance expectations, and workplace practices (whether remote, hybrid, or in-office).

The Growth Index is a program of Edison Edge, a personalized value creation platform of people, plans and programming – all tailored for portfolio company stage, strategy and operating needs.

edge

edisonpartners

WWW.EDISONPARTNERS.COM