

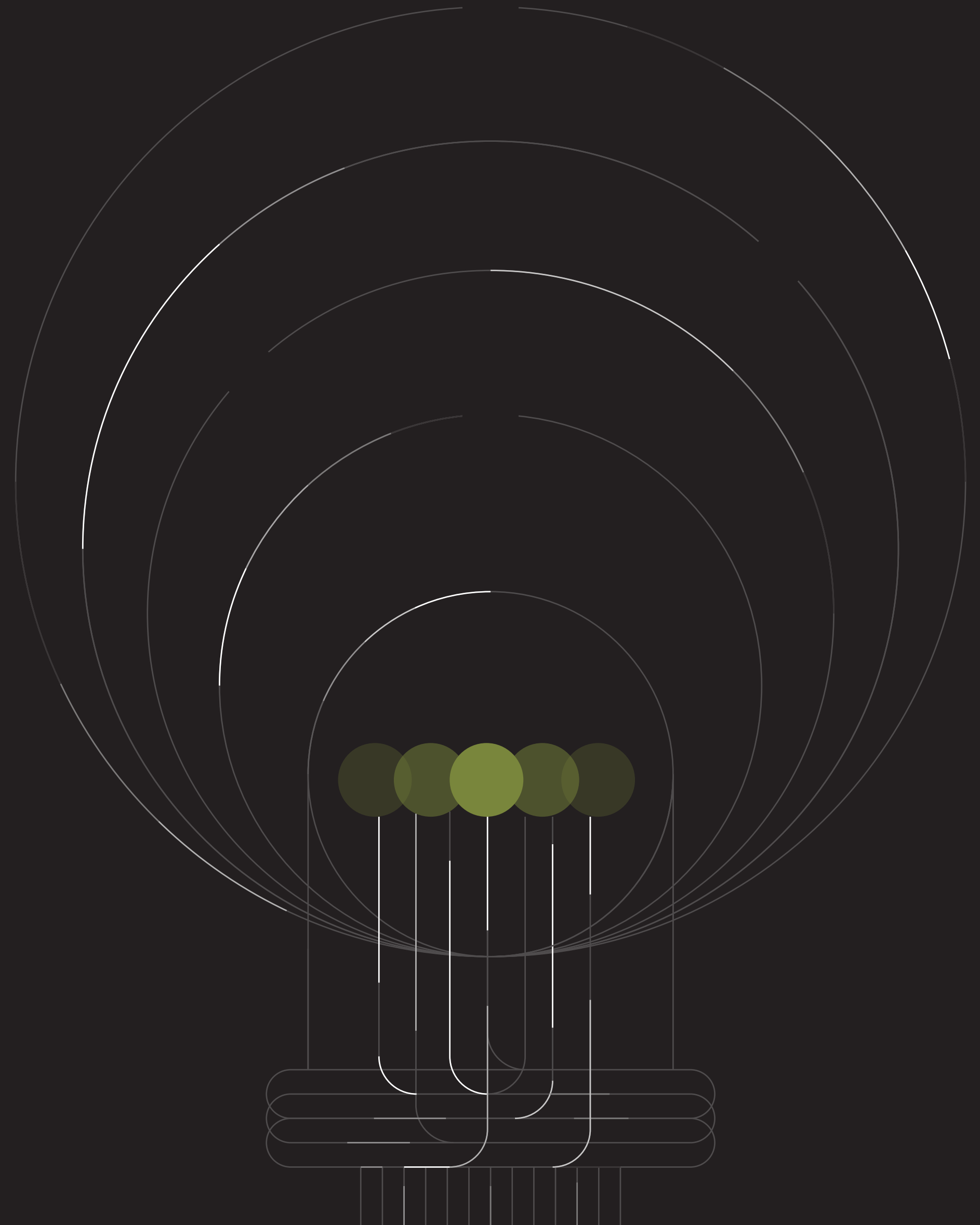


edisonpartners

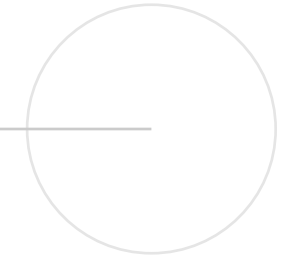
G R O W T H I N D E X

2 0 2 4

**Operating Today in the Context of
Tomorrow: 10 Metrics that Matter**



Introduction



Storytelling is key to the success of your business. Maybe it's the Go to Market (GTM) operator in me, who would credit success to the reliance on powerful customer success stories. Or perhaps it's having been first-party to the sell-side of a few exits (to both strategics and financial buyers), where the importance of a correlating narrative across all of our business functions was critical. In both cases, story itself was less impactful than story plus data.

Metrics tell stories. Stories about **performance** — how your department or business has been operating in recent past. Unfortunately, sometimes they tell a story of **pitfalls** — how a strategy failed or execution fell short. Or maybe a story of **potential** — how competitive trends and macro tailwinds are allowing you to capture more addressable market. No matter where you are in your growth stage, metrics help unlock present and future value for you.

Perhaps you're looking to understand what metrics matter NOW. "I'm staring at big, critical goals this year for the business — what should be front-and-center on my dashboard — what

are the best leading indicators to know if I'm doing ok, or if I should be making changes to my tactics or organization?" or "There are so many possible things to measure — what is right for my department at our stage? And how do I know what to prioritize to make an impact in FY24?"

Or maybe you're thinking about your FUTURE story. It's 3, 2, even 1 year from now, and you're asked to present your functional area to a strategic or financial buyer. What story should I be telling? What do they care about? What data supports my narrative, and what's been its evolution over the last 4-6 Quarters? Am I even measuring the right things? How can peer or industry benchmarking help create smart guardrails today?

If you've had the pleasure of operating in start-ups through scale-up phases, you know the disciplines and processes that got you to \$10M in revenue will not get you to \$100M — and this is certainly the case if you want to minimize the TIME it takes you to get to \$100M (and profitability). Things like forecast accuracy, gross retention, new logo growth, revenue and employee ratios, and R&D as a percentage of revenue — just to

name a few — matter WAY MORE than they did during the "0 to 1" or "1 to 10" journey.

Considering the make-up of our portfolio and the macro headwinds we believe will continue into 2024, this year's Growth Index focuses on Key Performance Indicators every growth-stage company (but more importantly, \$10M-\$100M) should be measuring and monitoring. These metrics, and the insights we'll share, are not meant to be a 'measure and forget' set of data. They should not only inform where and how to make short-term decisions for the business (namely enabling you to operate today in the context of tomorrow), but also ensure the foundation is built for a powerful future-story to maximize your enterprise value.

Casey Myers

Casey Myers
Partner, Edison Edge



Contents

**Participant
Characteristics**

**Metrics that
Matter**

**People-first
Imperatives**

SECTION

1

SECTION

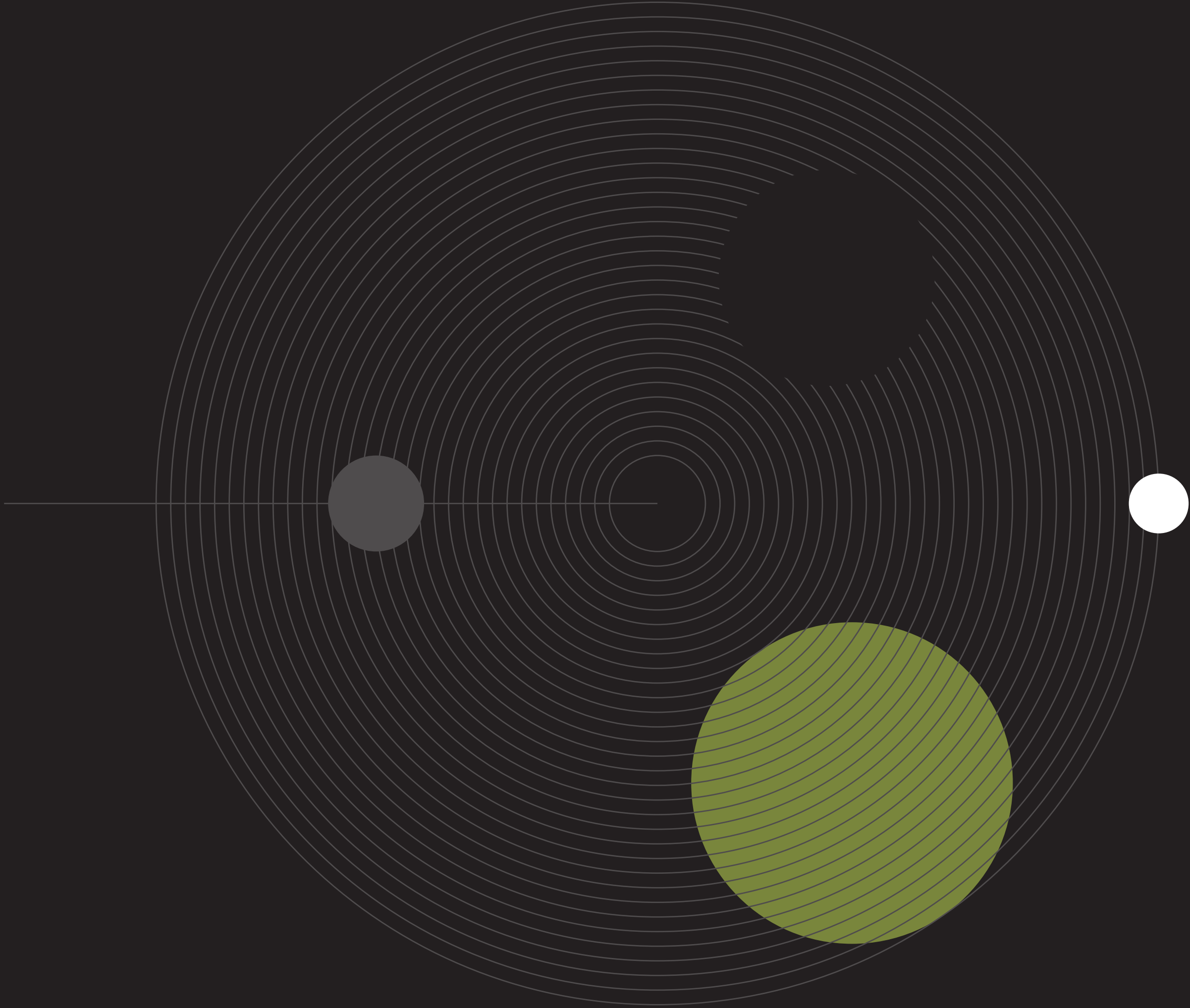
2

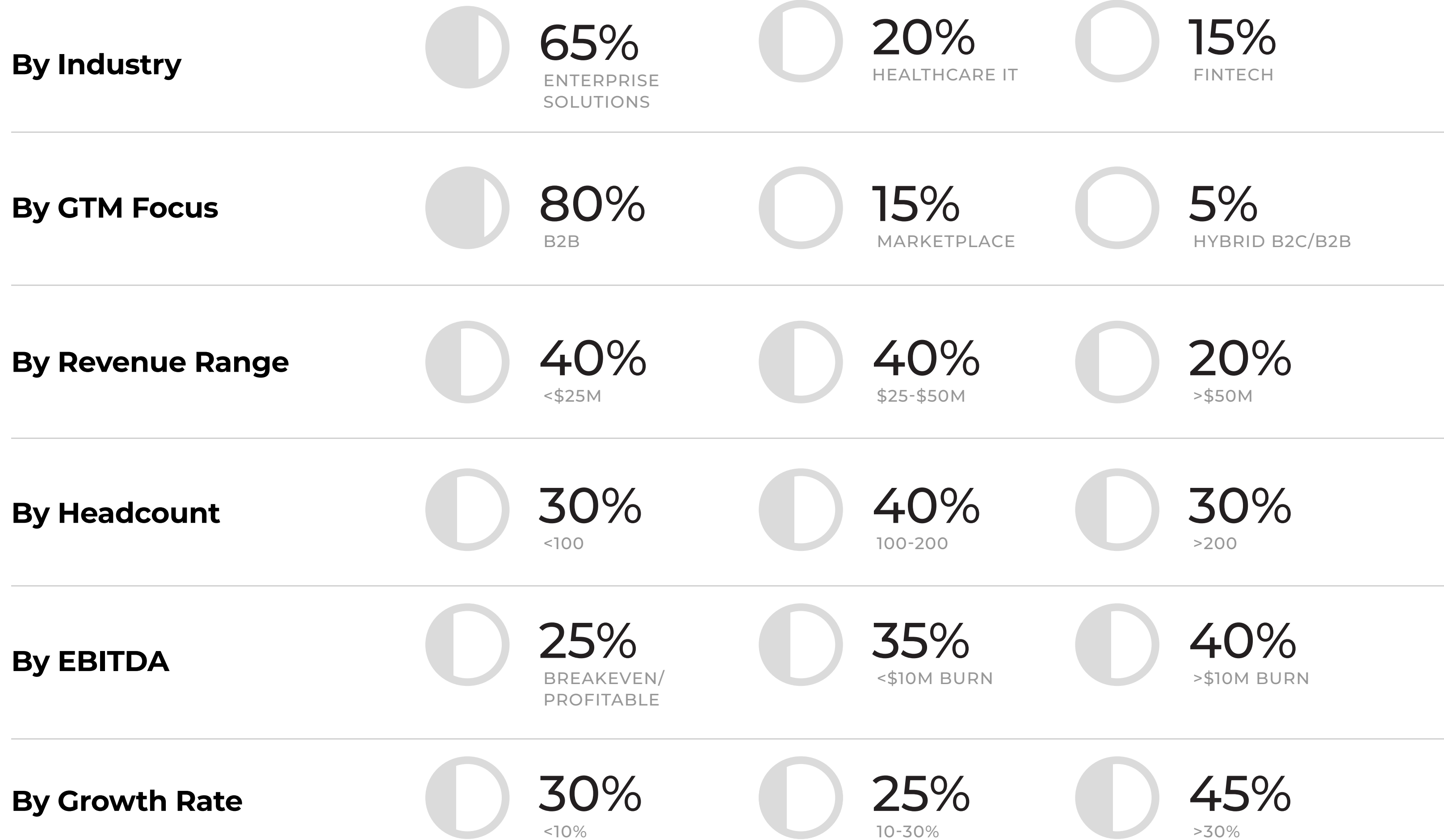
SECTION

3

**Participant
Characteristics**

1



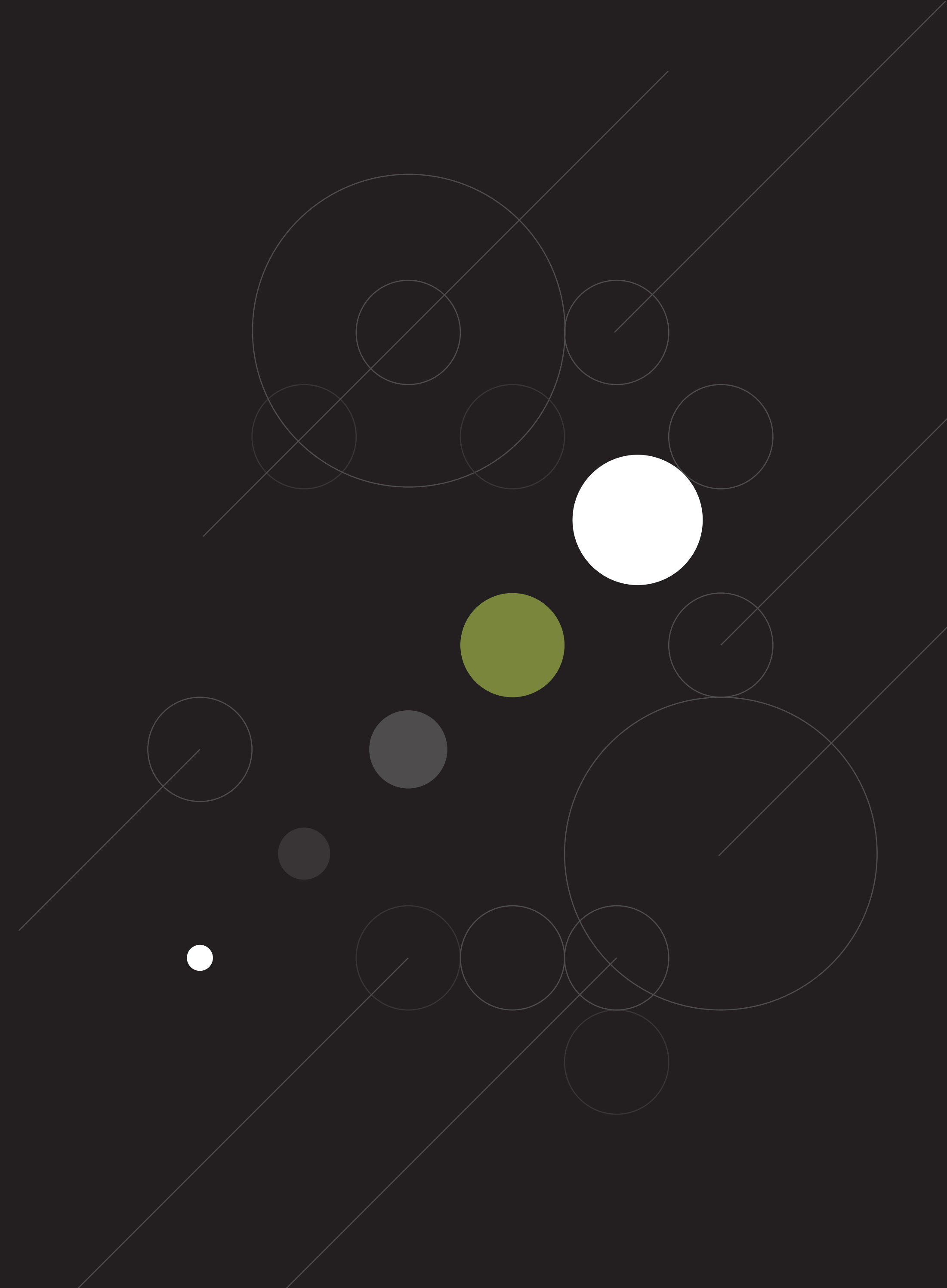


For the purposes of this Growth Index, **'fast growers'** are those respondents with >30% growth rates.



Metrics that Matter
Now & In the Future

2



10 Metrics that Matter

1 — Forecast Accuracy

2 — Retention

3 — New Logo Health

4 — Capital Efficiency

5 — Engineering Costs

6 — Engineering Capabilities

7 — Product Management Process

8 — R&D Resource Allocation

9 — Span of Control

10 — Employee Sentiment

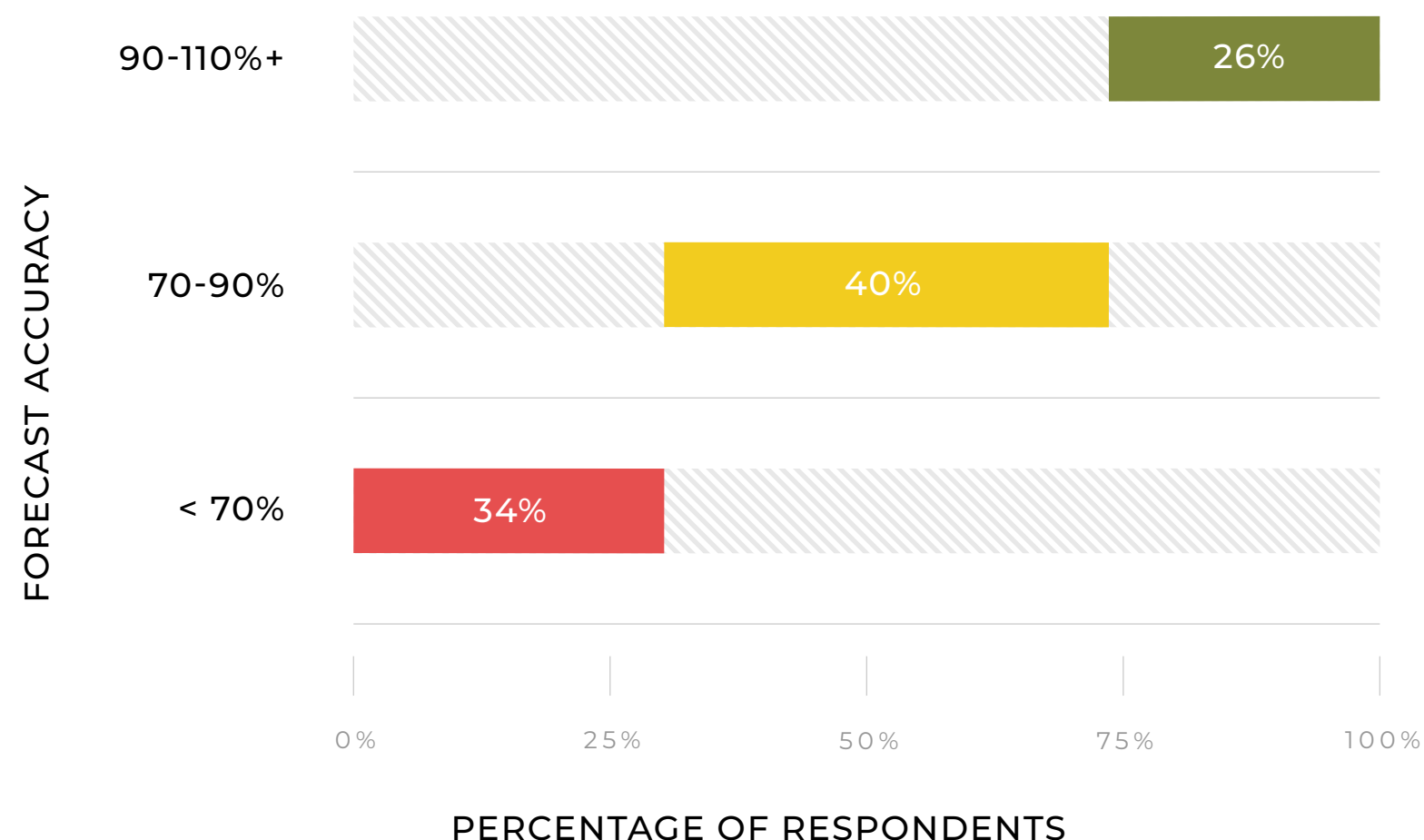
1. Forecast Accuracy

During growth and scale-up phases, forecast accuracy is a key metric that not only builds the board's confidence in the business, but also serves as an important input to your operational planning. Among other things, forecast accuracy is a sign you understand how to sell your product to your customers and have the appropriate processes in place to ensure this happens with as much predictability as possible. The ability to 'call your shot' consistently means you have a tight opportunity management process with **CUSTOMER-DRIVEN** exit criteria. It eliminates "happy ears" and "gut feel" from the equation. Most importantly, it mitigates most unwanted surprises at the end of the Quarter.

This is also one of your best leading-indicators to fuel growth investment decisions proactively. With high degrees of confidence in bookings forecasts, you can hire ahead of the curve with confidence, increase demand generation program spend, add developers, etc. all before the cash is in the bank.

Holding yourself accountable to being good at this is critical to running an effective GTM engine. You should strive to be within **10%** of your forecast at least **8 out of 10** consecutive Quarters.

SURVEY RESULTS



110%+

If you're consistently in this range, consider the ramifications: you have room in your model to adjust and smartly plan your support costs. You may need to explore adding additional sales heads if you are over-capacity. Additionally, if you are beating your own forecast consistently, over 110%+, you potentially have a target that is too low given market dynamics. It's okay to beat your goal by this margin on occasion; however, if it's a regular occurrence, then it's time to look at increasing your goals.

Below 70%

You have urgent work to do. Here are two must-checks.

1. Do you have a documented (and are you following a) sales process with clear stages and **CUSTOMER-DRIVEN** exit criteria? Customer-driven means the customer is doing something to advance the sales stage (for example, a customer asks for a proposal versus a rep offers to send a proposal). If your sales process allows a rep to advance stages without a customer doing something meaningful, this should be addressed. There should only be one dependent criteria to move from stage to stage. Many growth-stage companies make the mistake of having multiple exit criteria elements to advance opportunity stages, and this inserts undue complexity and may distract the sales force from focusing on the one customer-driven element that matters most.
2. Create a list of "must win" deals for the Quarter. Inspect them regularly to look for activities happening, changing customer behaviors, commitments being confirmed in writing (versus verbals), etc. Sales leaders should also consider getting in front of these accounts each Quarter, and/or assigning an executive sponsor (CEO, CFO, etc.) to the account to demonstrate importance and executive presence to the customer.

Fast growers have **32%** higher forecast accuracy.



2. Retention

Executing a growth-stage season with a leaky customer revenue bucket is an exhausting and usually futile effort. However, if you are attracting, retaining, and growing the right customers (which assumes you have a refined and accurate Ideal Customer Profile (ICP)), then your top-line efforts don't have to carry all of the burden of success.

Individually, none of these three metrics are as compelling as all of them analyzed together. Many companies and investors get fascinated by Net Revenue or Dollar Retention ("NRR"), but a big cross or up-sell (which boosts NRR) can easily mask Gross Revenue Retention ("GRR") or Logo churn issues. If one large customer doubles its ARR in a particular year, that may move your net revenue retention up to 125% overall. However, if you lost five blue chip logos and 5% of your gross revenues as a result, you won't see that in your NRR, but rest-assured future investors will find it.

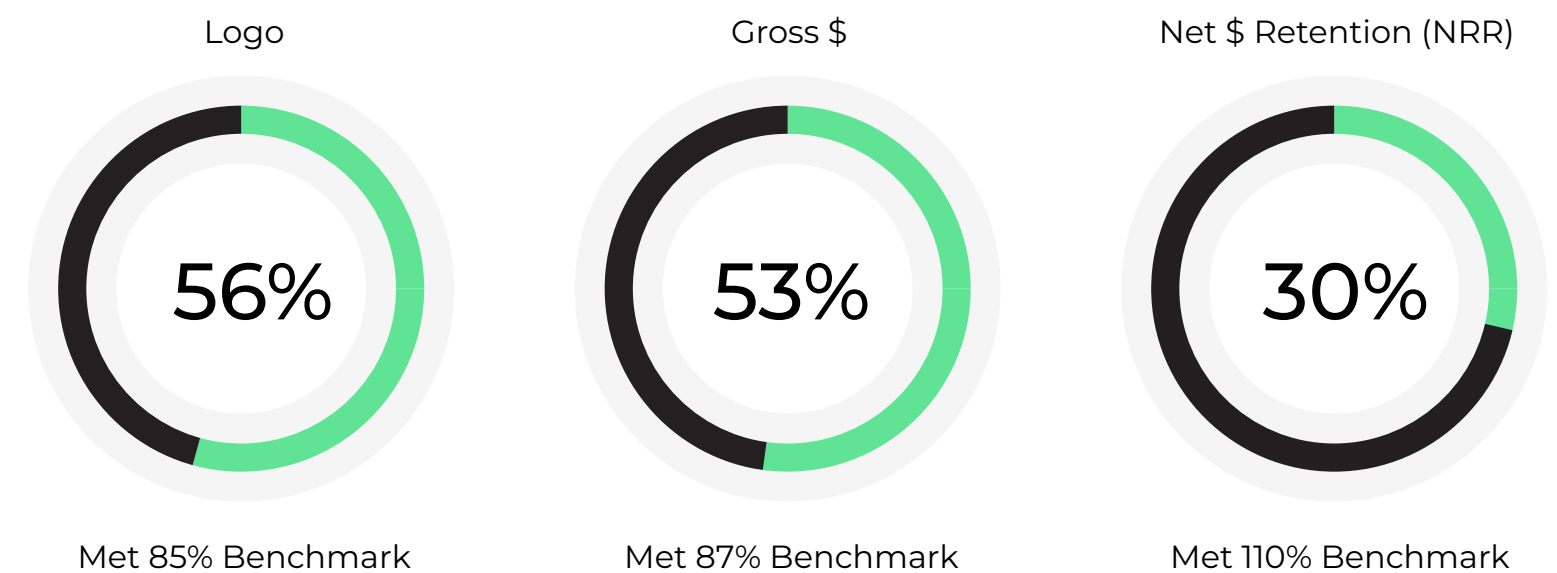
Logo retention is a function of how many unique logos you retain on an individual year. If you have strong product-market-fit, then you should be retaining end customers at a rate of **85%+**. As noted above, a company with high NRR can potentially mask issues on logo retention. As an example, if there are a few customers who have large cross or up-sells in a given year, the NRR can spike up — but, if logo retention is 70%, it suggests a meaningful number of customers aren't finding the value they sought in your product. Time to explore why.

GRR measures how many dollars you started the year with from each customer, less churn and down-sells. The goal here is **87%**. Much like logo retention, this demonstrates customers are getting value from your product. If you are selling a seat-based model and consistently have customers eliminating seats because "people aren't using it," this is also a red flag to investigate.

NRR is intended to demonstrate a company's ability to retain and expand accounts. Many land and expand selling models have a smaller first sale, followed by cross and up-sell expansion over time. NRR shows how effectively a company can do this — but it should not be the only or primary KPI you measure.

Without looking at all three of these in unison, you can easily get false-positives on customer performance and future revenue projections.

SURVEY RESULTS



Results show the most room for improvement is within the NRR area. As lower mid-market software companies scale through growth-stage seasons, they should expect to sharpen product-market-fit — which should result in improved NRR.

As we overlay revenue growth rates of the entire cohort of respondents, it's apparent that fast growers (>30% revenue growth) have figured out these key Retention metrics.

	FAST GROWERS	REST OF RESPONDENTS
LOGO	88%	78%
GRR	90%	73%
NRR	107%	89%

| METRICS THAT MATTER : RETENTION

For those of you at or above all three benchmarks, you are in a solid position to grow and scale. Your ability to add net new bookings on top of solid retention makes growth significantly easier. Certainly, you can explore some of the below ideas to see if you are using best practices to ensure you can continue the trend.

If, however, you are outside these benchmarks, consider the following remedies:

Logo

Examine your NPS and customer data, in particular any verbatims (comments) you collect during satisfaction surveys. Additionally, a neutral internal party (most likely from Product Marketing) should be conducting customer loss calls to collect candid and direct feedback as to why customers are leaving or reducing use of your solution. Most companies overlook this loss-review discipline, and it's a mistake. While your Customer Success or Support teams can provide helpful guidance for improvement, nothing is more meaningful than direct ICP feedback. Aggregate, consolidate, and prioritize what the customers think and why they are leaving. You can also start to segment feedback by function (product, service, support, etc.) to see if you are falling down in a particular area. Additionally, break feedback into "good" vs "bad" churn. For example, you may have decided to move up-market, and as smaller customers attrit, you've collectively agreed this is expected and reasonable churn to not have those customers for the long term. Anyone who fails to renew due to issues caused by product, service or support, however, would be considered "bad" churn.

GRR

In addition to the above actions, you should also investigate any down-sells causing dollar churn in the organization. (For example: *Why did customer XYZ go from 200 seats to 45 this year? What did we miss when we set them up at 200? What unrealized value can we provide? What can we learn about how we sell and forecast future customers, so we don't have them over-buy, only to hurt our GRR later?*)

NRR

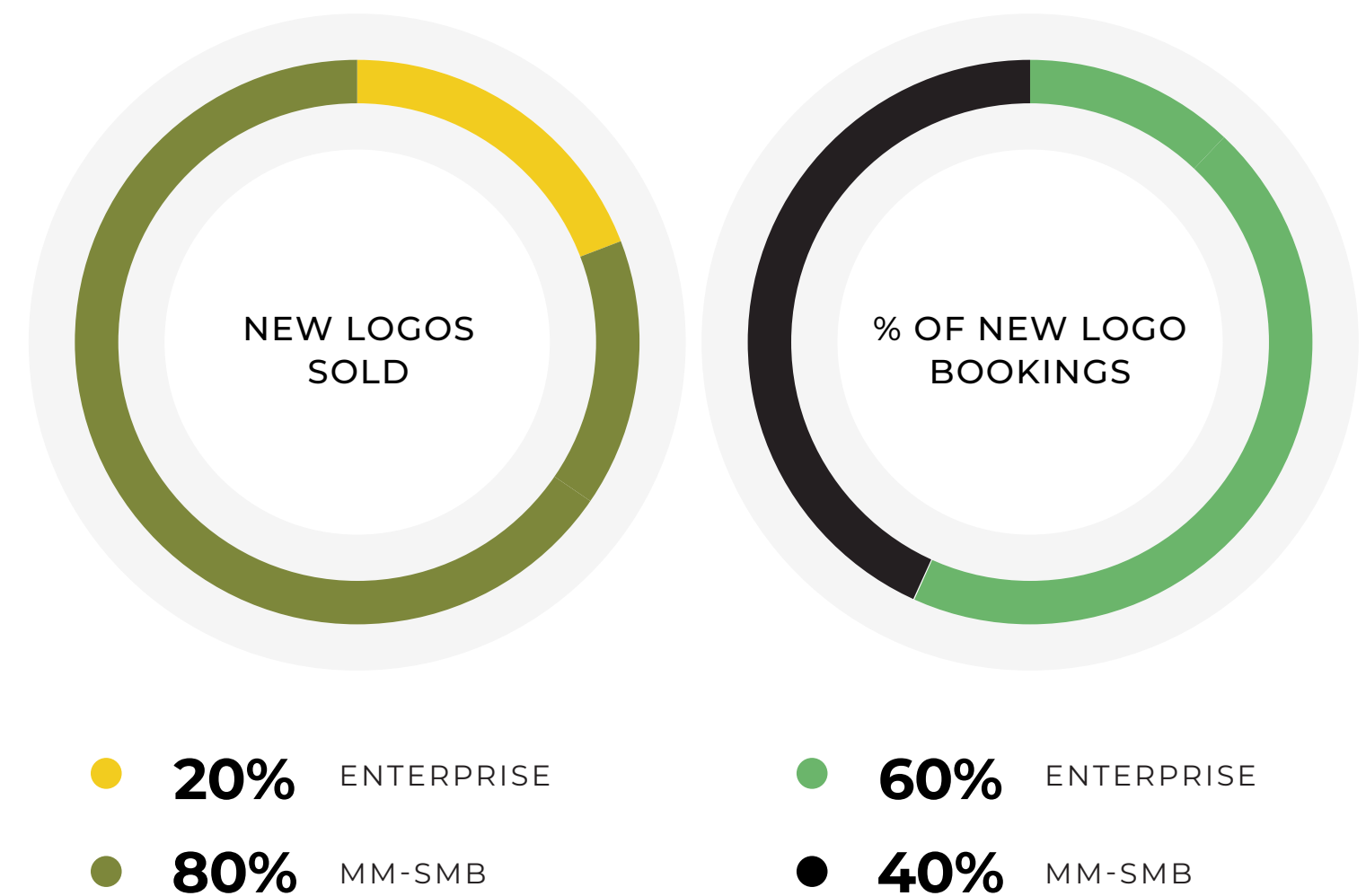
If Logo and GRR numbers are below the benchmark, it's hard to make up for all of that with NRR. You can only add so much in the base if too much is leaking out the bottom of the bucket. One idea is to look at net adds (cross or up-sells) in isolation. How many incremental bookings have we gotten from our base YTD? What growth rate is that year-over-year on the base? A second challenge may be that you just aren't getting cross or up-sells like you expected (and built into your plan). Analyze this area in isolation as well. Talk to customers to ask why they haven't expanded. How has the product performed relative to initial assumptions? It would be a good idea to focus a lot of attention on year 1 customers (first-time renewals). If your time-to-value, or time-to-wallet-share is moving too slowly, what barriers are the customers having early-on that are preventing them from spending more? Was onboarding insufficient? Is the product harder to use than they thought and can enablement and/or in-app tutorials help or be improved? It's challenging for people to learn a new technology. If you aren't setting your customers up for success, your NRR is going to suffer until this gets fixed.

3. New Logo Health

Healthy new logo growth, aligned to your ICP, is one of the best leading indicators of sustainable and successful growth-stage software companies. True scale and product-market-fit comes from consistently proving your ability to close new logos. If you are selling into the same base of customers to grow YoY, QoQ, it gets hard to scale, and this is a clear sign you have product-market-fit issues or a bad ICP.

The market has certainly provided a challenging environment for many companies in the past 6-8 quarters. New logos are coming at a premium and you'll have to work harder to earn them. Any board member or potential investor is going to immediately look at this metric to judge how well a company performs during headwinds. If you are below the market benchmarks in your industry, now is the time to address it. Some new logo growth degradation makes sense in difficult times of macro headwinds, as you retrench and hunker down to protect your GRR and Logo churn, but you have to keep your eye on the new logo ball in advance of better times.

SURVEY RESULTS



As noted in the above charts, the diversification across Enterprise and Mid-Market or SMB is well-balanced between the volume of new logos, and the correlated percentage of bookings each segment delivered.


Apart from new logo segmentation and bookings breakdown, as you look at your overall annual revenues, you should have at least **25%** coming from new logos in any given year. **41%** of respondents met that threshold. Warning: If your new logo revenue percentage is high but your logo retention is low, you may be signing up the wrong customers (check your ICP). Additionally, see other remedies in the Retention section.

| METRICS THAT MATTER : NEW LOGO HEALTH

Often, companies aren't sure where their new logos are coming from (Marketing, Partners, Sales). Our survey respondents had a fairly even mean distribution of new logo sources across Marketing (**38%**), Sales (**40%**), and Partners (**37%**). As you mature through growth stage, however, we'd expect more leverage for your sales organization, which should result in most new logo sources coming from Marketing or other leveraged channels (not direct sales teams). We also recommend looking at your CAC and funnel conversion results to ensure you're investing in the most efficient source. Understanding where these come from is critical, especially in a challenging macro-economic environment.

If you are under-performing on new logo growth, the **EASIEST** thing to do is make sure you are conducting **WIN/LOSS CALLS** on opportunities. Unlike customer loss calls to detect attrition issues, opportunity win/loss calls help inform your organization why you win and why you lose. Your prospects and customers will tell you why you're different, how you compare to alternative choices, and what they don't like about you and/or your offering. There is no greater way to understand why new logos buy or don't buy than doing this activity with regularity. A neutral party (i.e., Product Marketing) should conduct these calls to allow for the most candor and transparency from the buyer persona. Many times, something isn't happening the way it should in a sales campaign. These calls can provide you insight into the fix and you can immediately implement change. You should see results within a quarter or two, if done properly and at scale.

Account Executive (AE) new logo performance, specifically, is also something to study and improve. **27%** of survey respondents had at least **two-thirds** (benchmark) of their fully ramped AEs hitting at least 100% of their assigned quota. While this metric wasn't limited to only new logo bookings, it is an indication that there is room for improvement here which would positively affect new logo growth as a byproduct. The most common problem contributing to poor AE performance (assuming you've done the foundational work on territory quality, marketing support, hiring the right folks, etc.) is **ENABLEMENT**. Our most successful survey respondents in growth stage have solid onboarding and ongoing sales enablement programs. This includes strong Product Marketing functions, and basic role-playing tactics to test the quality of enablement. Enablement should also align to win/loss data, problems identified in sales stage acceleration, and other FAQs from your ICP.



65% of *fast growers* with >\$25M in revenue had the majority of new logos sourced from Marketing or Partners.



Fast growers showed **29%** better Account Executive quota attainment performance.

4. Capital Efficiency

Cash Conversion, Burn Multiple and Cash Efficiency scores are all part of determining the overall capital efficiency of growth-stage companies. In addition, investors will tend to look at the correlation between burn and revenue growth, as well as see how efficiency has improved over time.

Cash Conversion is the amount of GAAP Revenue (or ARR if applicable) generated from every \$1 invested in the business. It takes into consideration all capital raised to-date, plus debt, minus cash on hand. The higher this number is, the better, of course — but **anything over 1.0 is considered good.**



Fast grower Cash Conversion scores averaged **1.17**.

Burn Multiple shows how much cash is burned to generate \$1 of revenue (or ARR). Very high multiples here indicate the business is burning lots of cash to generate incremental revenue. Note that negative multiples will indicate revenue declined in the period of measurement. **Burn Multiple best-in-class should be 1.0 or less.** 1.0-3.0 is reasonable within growth-stage companies, but anything over 3.0 is generally considered poor and needs to show positive trend lines quickly.



Fast grower Burn Multiples averaged **2.0**.

Finally, the overall **Efficiency score** shows how much revenue is generated by \$1 of burn. The lower the burn multiple, the less cash is needed to generate revenue — and the higher the efficiency score, the more efficient the business is at generating revenue. For growth-stage companies, one would expect the efficiency scores to improve over time — so measuring this continually will enable a narrative in the future worth sharing. This is also an indicator of how well management plans, deploys and measures investments to grow their business: spending habits, return on investment disciplines, GTM activities vs. others, etc. **Best-in-class Efficiency scores should be 1.5 or above**, 1.5-0.5 being good, and 0.5-0 being average.



Fast grower Efficiency scores averaged **.95**.

As part of our Growth Index, we took a point-in-time snapshot, but acknowledge a deeper and longer-term analysis is worthwhile. Benchmarks for cash conversion, burn multiples, and overall efficiency will vary depending on growth-stage maturity and timing of capital raises — which is also why tracking these metrics over time to define your unique trend lines and evolution is key to your future story.

If you need to improve Cash Conversion, this likely requires a dual approach:

1. Give prioritized attention to the cost side of generating \$1 in revenue.

Customer Acquisition Cost (CAC) is the best area of the business to start analysis and experiments to improve.

2. Put more discipline in place around investments you're making in the business.

Investing smartly in GTM and/or Product activities should be tied directly to expected and measured revenue. Best practices for successful growth-stage companies include the use of business justification (namely, revenue lift) for initiatives that require additional investment. For example, spending \$500k on a branding campaign (which may be strategically valuable over time), may not be as effective as spending \$500k on developing a new partner channel — or developing a new feature which has a direct tie to up sell pipeline within a FY. There will always be spend on non-revenue generating activities (ERP upgrades, personnel development, HR platforms, etc.), which is why striking the right balance between revenue and non revenue spend is key.

To reduce your Burn Multiple, and the related cash Efficiency scores, you need to **carefully align OpEx spend with revenue actuals and not spend ahead.** Your ARR growth rate should **exceed** the OpEx growth rate. Improvement here is not rocket-science — either reduce burn or grow revenues faster than expenses. In 2023, with inflationary pressures, many growth-stage companies saw revenue growth rates decline YoY; however, many did not cut expenses in a timely or deep enough fashion ('hoping' the growth would return in short-order). Burn Multiples suffered as a result. Responding quickly to changes in market conditions will improve scores, and your board and executive leadership team should talk about these external factors on a frequent basis.

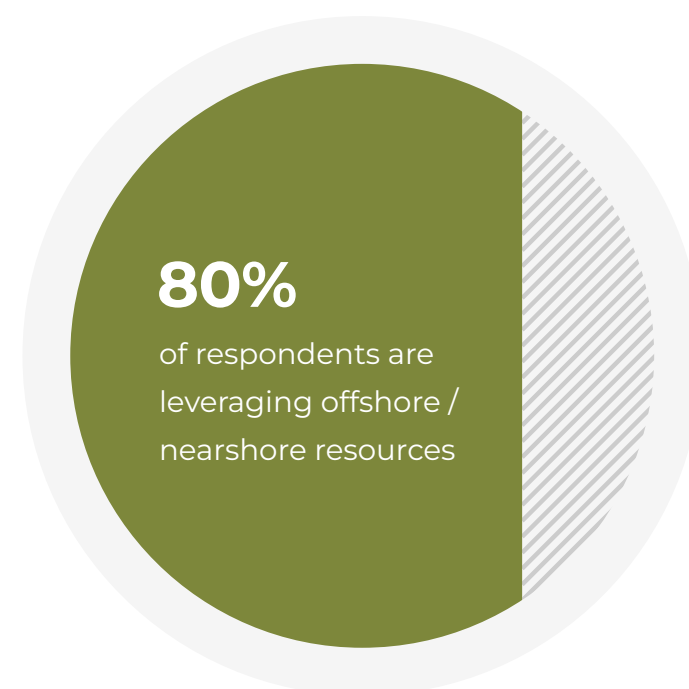
5. Engineering Costs

In today's environment, investors (and even in many cases, strategics) are putting more value on profitability than growth. The days of 'grow at all costs' are gone, and we don't foresee it changing in the near term — therefore, managing costs is critical.

For most of our survey respondents, engineering headcount and cloud costs represent a significant percentage of both indirect and direct cost. Successful growth-stage companies getting more efficient at both will reduce cash burn and/or improve profitability. Both R&D as a percentage of revenue and cloud spend as a percentage of revenue are useful metrics to monitor — but you should take action to improve in the context of your stage and scale. The more efficient your engineering organization is, the faster you will reduce cash burn and/or improve profitability.

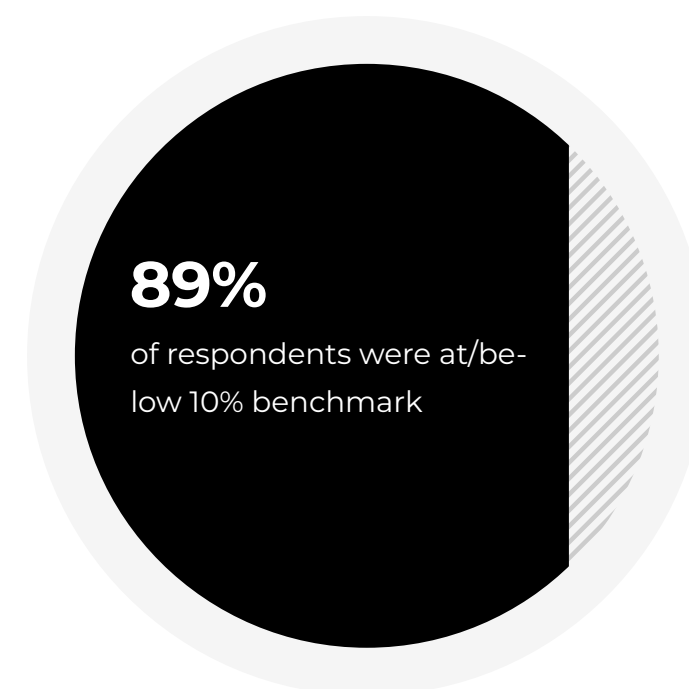
SURVEY RESULTS

% LEVERAGED RESOURCES



Predictably, the majority of respondents are leveraging offshore/nearshore resources to facilitate cost reduction and other forms of operational efficiency. Some are also leveraging a single CPTO organizational construct to improve alignment and reduce cost.

CLOUD SPEND AS A % OF REVENUE



Based on industry benchmarks and in accordance with Edison's best practices, 8-10% is typical for growth-stage companies. Our survey respondents averaged **4.4%** and 89% were below the 10% benchmark.

Focusing on taking cost out of both engineering headcount and cloud spend is unavoidable. If you think you can 'grow your way out' of a bad cost ratio, you're putting your employees and stakeholders in a high-risk situation. There are several ways to tackle this challenge, the most immediate being reducing headcount and buying cloud services more efficiently. **89%** of fast growers are leveraging near and offshore resources to reduce OpEx and effectively address cost reduction (versus **60%** of remaining survey respondents).

Regarding cloud spend, there is a burgeoning FinOps movement that is building best practices and community around cloud-cost management. **30%** of our survey respondents are leveraging either a tool or consultant to assist with what has become a complicated FinOps undertaking. Those that are using a tool and/or consultant mentioned CloudZero (an Edison Edge partner), CloudHealth, or AWS.

In our survey, we asked for total cloud spend as a percentage of revenue, but it will be important for you to also break out cost of sales and direct spend versus the development team's indirect spend. Both need to be actively managed, as one has an impact on gross margin, the other on operating margin. There are also various tools and consultancies that can help reduce costs in both the short and longer term. We are advising our portfolio to take full advantage of these FinOps specialists. Here are some useful links to thought leaders in the FinOps space:

- [FinOps Organization](#)
- [CloudZero Resources](#)
- [CloudZero: Cloud Efficiency Rate](#)
- [SaaStr: Systems Infrastructure Benchmark](#)

Fast growers have **44%** better cloud spend as a percentage of revenue.



6. Engineering Capabilities

The [DevOps Research and Assessment](#) (DORA) articulates a set of core metrics and enabling capabilities for product and engineering departments. These metrics and capabilities can be scored and compared to other development organizations, providing a 3rd-party benchmark against annual survey results. The score (Low, Medium, High, Elite) is a useful tool in shaping opportunities for improvement or validation of your development team's ability to execute. More importantly, Nicole Forsgren's research in support of her book [Accelerate](#) demonstrated a strong positive correlation between high-achieving software development teams (those that score well on the core metrics and embrace the enabling capabilities) and objective organizational success (market leadership, growth rate, profitability, etc.). In short, if you score highly, there's a very good chance that your company is winning in the marketplace. If you score poorly, there's a good chance you're not. Needless to say, there is a lot of pressure on CEOs and CPTOs to measure and benchmark their Engineering organizations. In our view, the DORA model is the most compelling and data-driven. Other credible organizations have opined on this topic including McKinsey and [ThoughtWorks](#) (highly respected technology consultants and a valued Edison Edge Partner).

SURVEY RESULTS

39%

OF RESPONDENTS SCORED HIGH OR ELITE IN EACH OF THE CORE METRICS

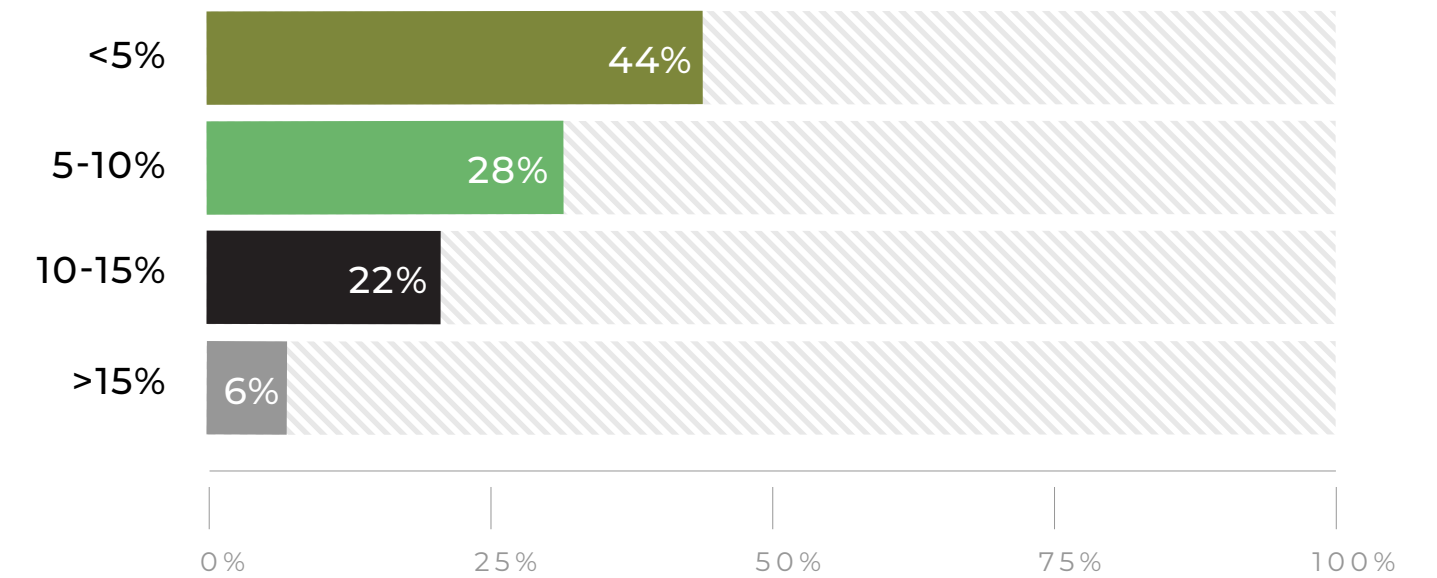
60%

OF RESPONDENTS WITH >\$25M IN REVENUE SCORED HIGH OR ELITE

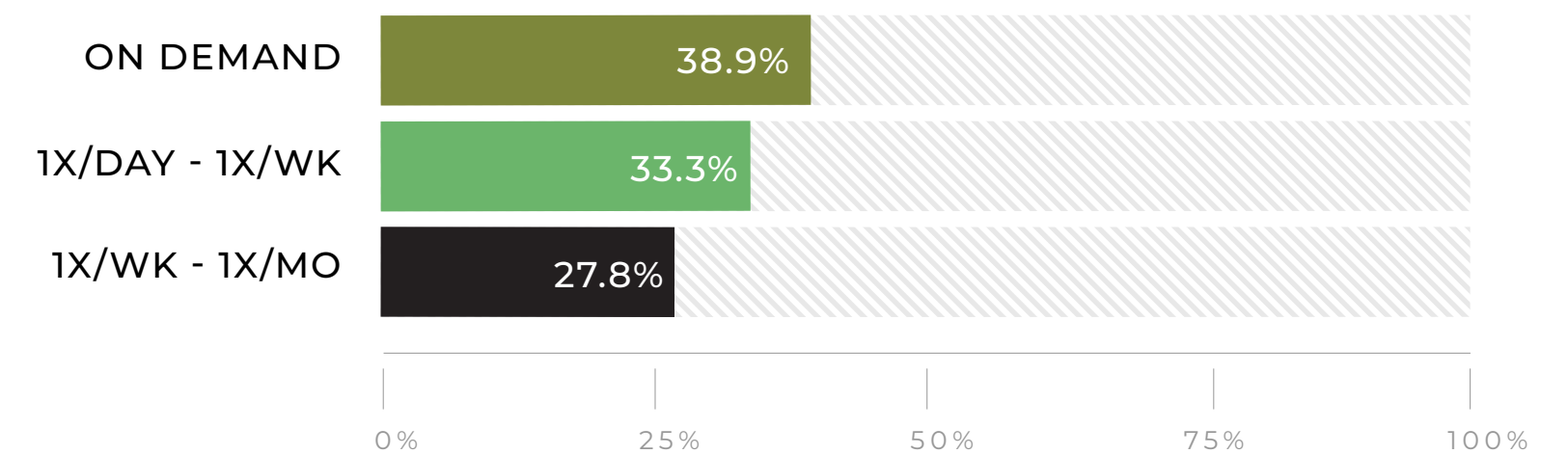
36%

BETTER CLOUD COSTS FOR RESPONDENTS WITH HIGH OR ELITE SCORES

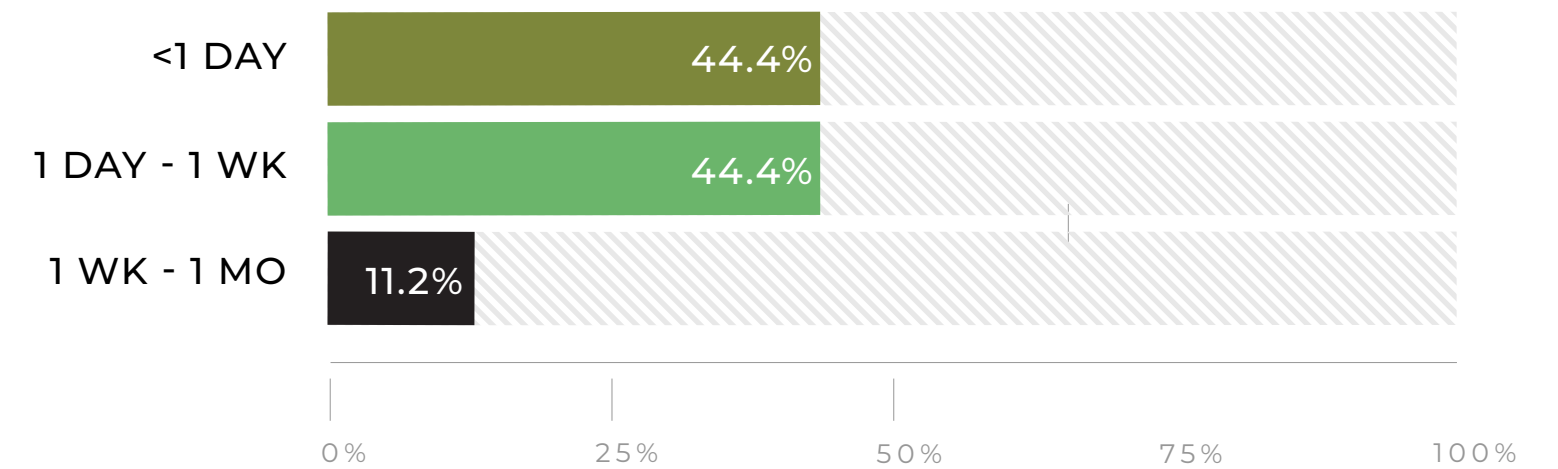
CHANGE FAILURE RATE



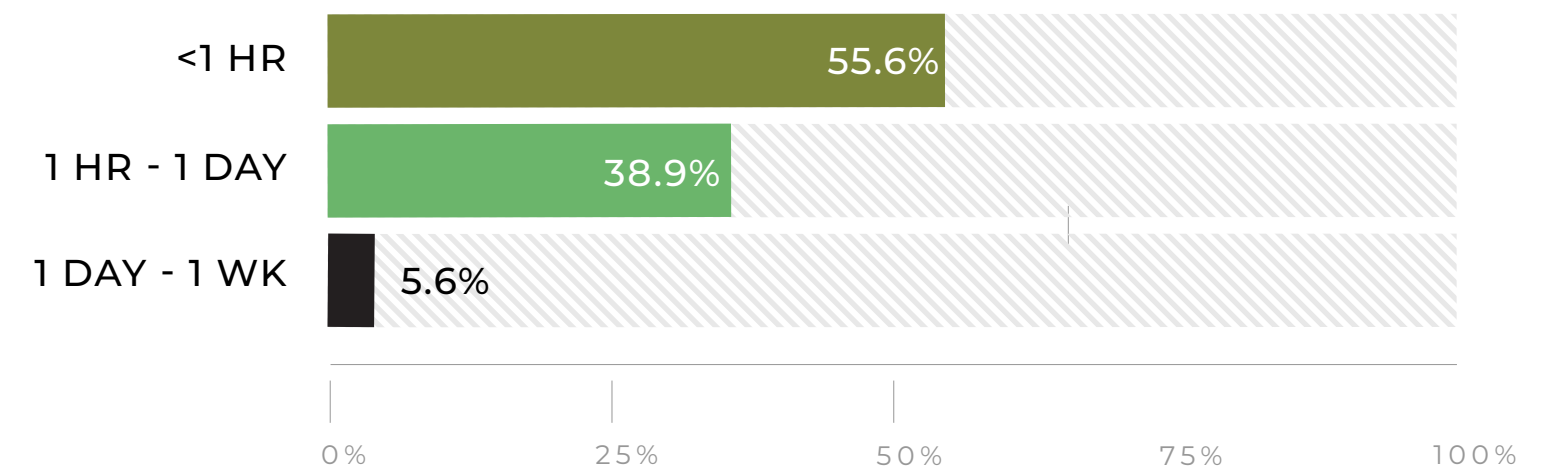
DEPLOYMENT FREQUENCY



CHANGE LEAD TIME



FAILED DEPLOYMENT RECOVERY TIME



PERCENTAGE OF RESPONDENTS

| METRICS THAT MATTER : DORA

If you're not already familiar with the DORA program, follow the links we have shared. Encourage your product and technology leaders to take the Quick Assessment on the DORA site. It provides an initial roadmap for kickstarting your path to "getting better at getting better". Setting up "SMART Goals" or "OKRs" to achieve some of the enabling capabilities is a good second step. The purpose of these metrics and capabilities are to both measure and improve. As you would expect, the more development capabilities your team acquires, the better the scores on the core metrics and the better your overall score.

90% of our survey respondents can readily measure the DORA core metrics (Deployment Frequency, Change Leadtime, Change Failure Rate, Deployment Failure Recovery Time) and in various ways, are enabling key capabilities. Based on our 30+ years of experience with growth stage, we've found that the following characteristics (described and validated by Nicole Forsgren's research in *Accelerate*) are foundational to scale profitably:

1. Continuous Delivery: The foundational best practice for continuous delivery is *automation*. This allows fast growers to bring more value to customers on a more frequent basis, effectively creating a virtuous cycle.

2. Architecture: While both monoliths and loose coupling have their strengths, loosely coupled systems better facilitate reduced dependencies. This enables teams to work independently and in parallel, drive higher velocity (i.e., delivering more customer value, quicker — starting to sound like a repeating theme?).

3. Product and Process: Working in frequent, smaller deployments allows product teams to experiment with potential customer-facing value and quickly adjust if they got the "what" wrong or not quite right. This fast, agile ethos enables fast growers to quickly hone and validate customer value.

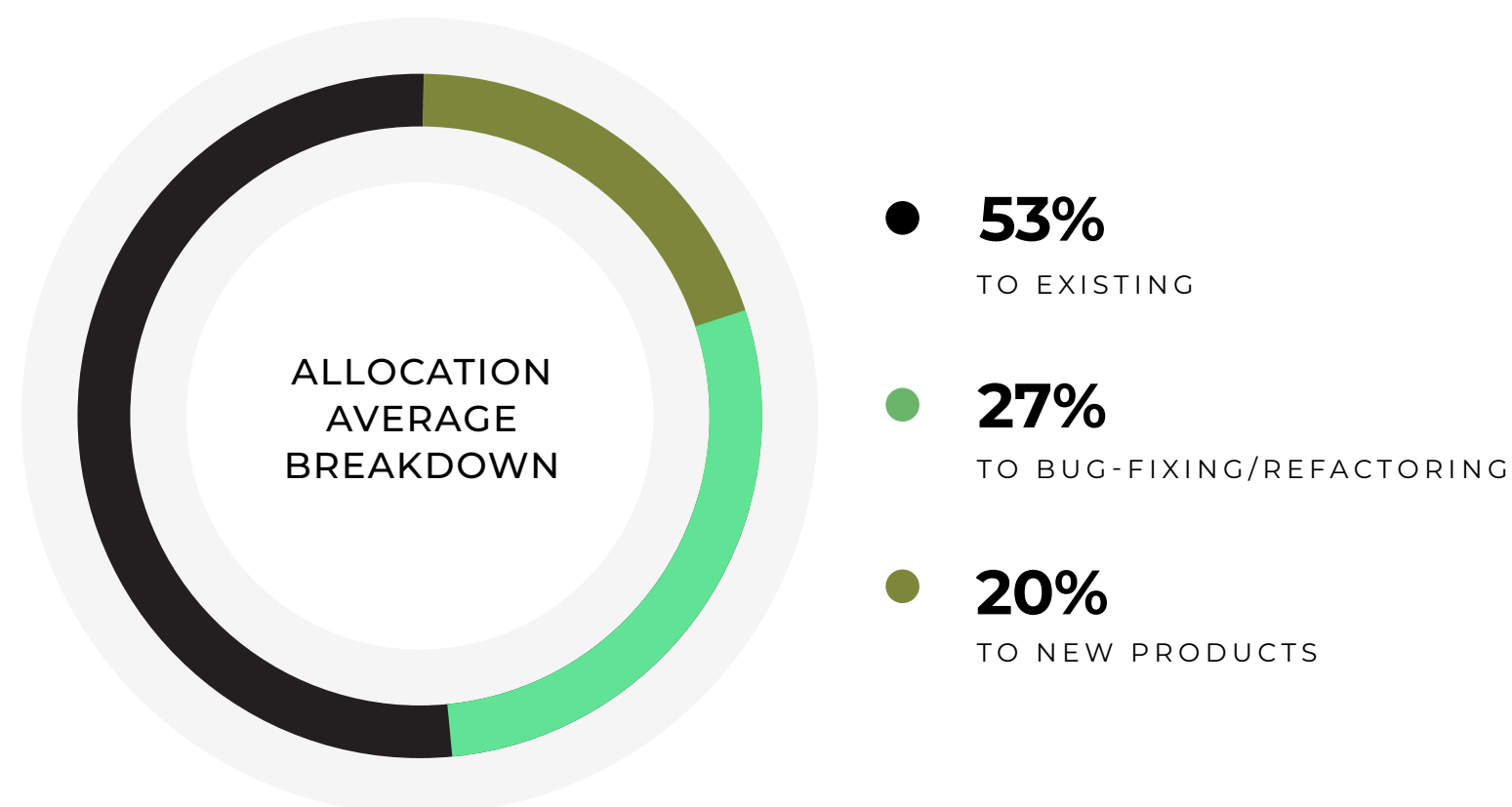
4. Lean Management and Monitoring: Leveraging light-weight change control processes and tools to monitor both functional and non-functional aspects of production systems, ensures you are both building the right things and providing the ideal non-functional service levels for your customers. Monitoring and responding quickly to both facilitates growth and retention.

5. Culture: Culture affects productivity, which is directly correlated to efficiently delivering customer value. Forsgren references the [Westrum model](#) and a 'generative culture' (versus 'bureaucratic' or 'pathological' cultures) as strongly correlated with team productivity and health. Our experience with growth stage aligns well to this preference. Additionally, the Google research from their [Aristotle project](#) supports this concept, rating 'psychological safety' as the differentiating attribute of their most productive development teams.

7. R&D Resource Allocation

You have probably heard someone say something like, “don’t tell me your strategy, show me your budget (i.e., resource allocation) and I’ll tell you your strategy.” This a good way to think about engineering resource allocation and the importance of making purposeful choices about what you’re resourcing. Our more successful survey respondents are deliberate about how they invest their engineering capacity. They’re driving their planning by proactively allocating engineering resources with an eye toward new logo acquisition, and existing customer expansion and retention. For this year’s Growth Index, we asked respondents to share resource allocation percentages across current product enhancements, new product development, and engineering hygiene (bug fixes, tech debt reduction, etc.).

SURVEY RESULTS



This year’s results were consistent with last year’s, in that **80%** of resources are going toward current product enhancements and bug-fixing hygiene. Most of the respondents are selling into an environment of shrinking budgets and fiscal conservatism. As a result, respondents are doubling down on making sure that their core offerings are competitive and that their current customers are satisfied. Enhancing current products and fixing customer-visible bugs and/or usability issues addresses bookings growth (both expansion and new account acquisition) and customer retention.

Engineering resource allocation should be front and center during your annual planning process. You need to be sure that it reflects your strategic intent for the planning period. You don’t want to be in a situation where you’re surprised by or regretting the way you have allocated engineering resources. This may sound obvious, but you would be surprised at how many growth-stage companies believe they have an engineering capacity problem only to find that their capacity is adequate, but their allocation isn’t aligned to their annual plan.

Here are some steps you can take to fix an allocation issue:

- 1. Make resource allocation highly visible during planning, and be sure to do** monthly or quarterly check-ins for “resource and capacity drift”.
- 2. Do a quarterly pulse-check** with your expanded executive leadership team to understand when or if you should reallocate based on market dynamics.
- 3. Use win/loss reviews and other ‘outside-in’ data to confirm your allocation strategy.** Staying ahead of the competition (but more importantly the macro trends) is difficult, but critical to maintain your moat and differentiation.

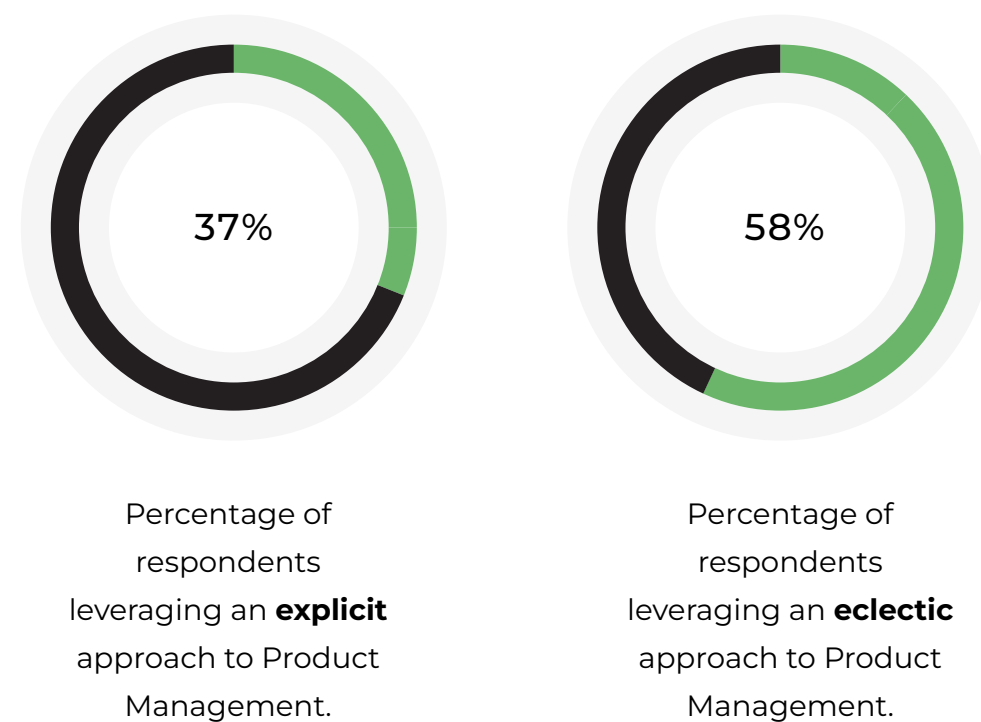
Fast growers are allocating **29% less** resources to bug fixes and technology refactoring and **38% more** towards new products.



8. Product Management Process

Effective Product Management is essential to enabling top-line growth and operational efficiency. The most visible manifestation of a well-run growth-stage company is your Product team's ability to focus and make appropriate trade-offs and prioritization decisions. Done well, the entire company is aligned around servicing the ICP. Ultimately, that's what good Product Management looks like. Done poorly, shiny object syndrome or "last sales call" recency bias rules the roost. This makes it difficult to replicate and scale the selling motion, and impossible for Engineering to be efficient while attempting to hit roadmap commitments. The metrics to evaluate here are mainly qualitative (e.g., Do you have an explicit Product Management approach? Can you describe it? Do you use a defined process for prioritizing and making trade-off decisions? How often are you dealing with "emergency" feature requests or "must have" features to prevent customer churn?).

SURVEY RESULTS



95% of respondents use either an "explicit" (**37%**) or an "eclectic" (**58%**) approach to Product Management. This means that they either subscribe to a specific model (Pragmatic, JobsToBeDone, etc.) or have developed a well-defined approach that blends years of their product leader's experience with various models over time. Remaining survey respondents (**5%**) utilize a bespoke process.

If you're in the eclectic or bespoke group, evaluate your current approach against some of the explicit approaches to make sure you're getting full value from your process.

We, along with one of our partners, TechCXO, have highlighted some of the major Product Management models and their real-world applications in our series entitled [Product Management Practices](#).

Looking to test your Product Management approach? Ask yourself the following questions:

1. Are you winning with your current ICP? If you're not doing sufficient 360-degree reviews and feedback loops to confirm ICP alignment, then you have a process problem that needs addressing. If you're not winning, you may have a product problem that needs to be addressed with product enhancements and/or ICP adjustments. Product marketing-led win/loss reviews are critical inputs to a healthy Product Management process.

2. Are you struggling with difficult trade-off decisions? If so, consider a prioritization methodology like RICE, Kano, or Score Carding. A solid Product Management process will help you stay on track and make the necessary adjustments along the way.

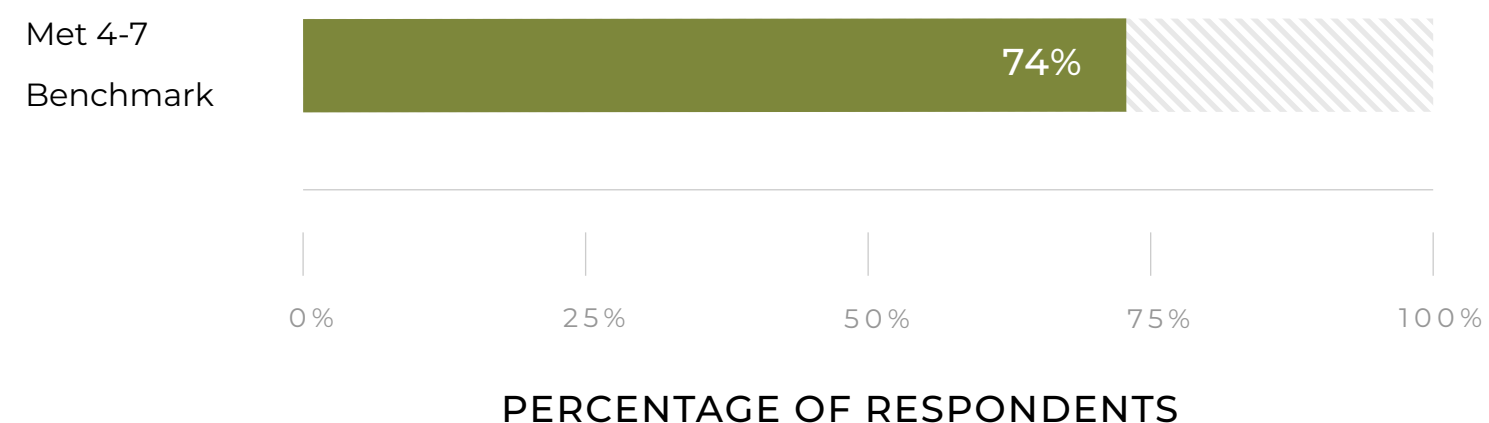
73% of our survey respondents leverage a methodology for **prioritization** to help them make trade-off decisions.



9. Span of Control

Growth-stage companies continue to face the challenge of simultaneously operating lean to manage costs, while still needing to attract and retain key people, especially in high-impact areas of Go-to-Market and Product & Engineering. The need to operate efficiently also requires a focus on cross-functional operating effectiveness and maximizing talent and capabilities. CEOs in growth stages often solve for this challenge by maintaining a flatter organizational structure among their direct reports, and a wider span of control beneath the executive level to promote direct access and connection with leaders as well as improved ownership resulting in expedited decision-making. Ultimately, CEOs must remember that the type, design, and size of their leadership teams set the tone for organizational efficiency and performance. Span of control is a blend of art and science. Research shows that leadership teams of **4-7** people are optimal sizes for growth stage, assuming the right team conditions, team member capabilities, and alignment and measurement systems.

SURVEY RESULTS



Overall, the average span of control amongst survey respondents is **1:5** for leaders reporting to each executive team member, with **74%** of respondents between 4 and 7. That is an optimal benchmark. However, each company operates uniquely based on speed and scale, and may be feeling different levels of pressure to increase span of control, which across industry can often run closer to a **1:10** ratio. Additionally, on average, **22%** of respondent company employees manage at least 1 FTE. This also aligns with the 1:5 ratio at the executive level.

Determining the most effective span of control requires a blend of activities.

1. Conduct a workforce planning exercise to assess the roles, skills, and outputs required to run the business. We recommend taking an outside-in view of the resources required.

2. Assess what the role of “manager” is in the company. For example, are you creating supervisory versus player-coach roles that suggest different skills and priorities needed to fulfill role objectives?

3. If you’re focused on profitability with growth (which all should be in the present macro environment), **ensure you have employees who can operate both as supervisor and player**, and with it have a process to maximize team performance. Finally, be clear about supporting those who lead others to ensure effective feedback, alignment, and execution.

Respondents with >\$25M in revenue had **18%** greater span of control at the executive level.

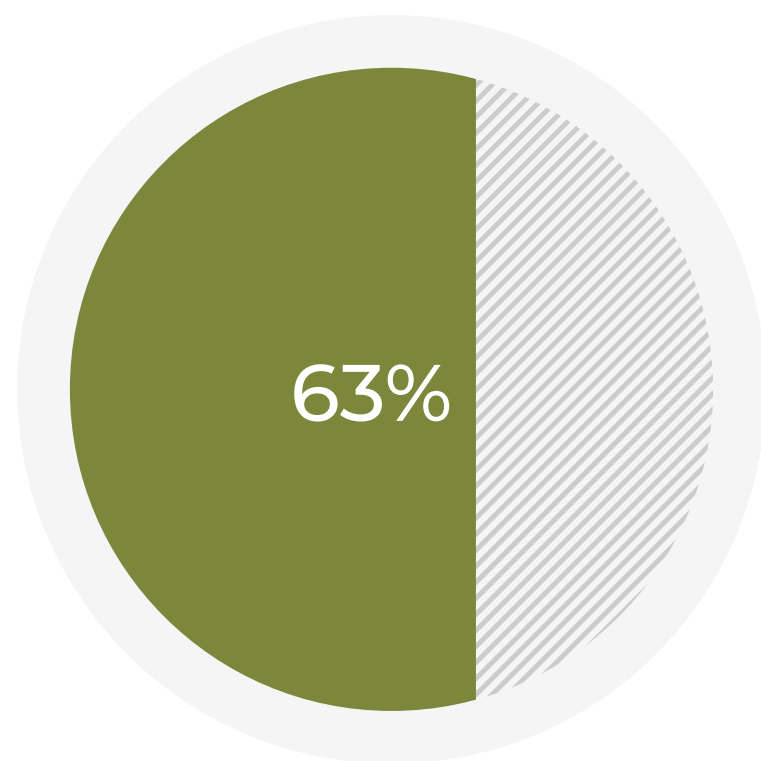


10. Employee Sentiment

Companies who actively measure employee sentiment often take one of two approaches: employee net promoter scoring (eNPS) or general survey-based “great place to work” sentiment scoring. These approaches offer different benefits and detractions. As a great single-item proxy for employee engagement, eNPS provides insight into the broader employee experience. It works better as company size increases and employee participation increases proportionally. However, eNPS does not help to address the reasons why or provide insights into what to do next without secondary questions found in survey tools. Sentiment scoring is a factor of many aspects unique to a company’s culture, employee experience, and leadership.

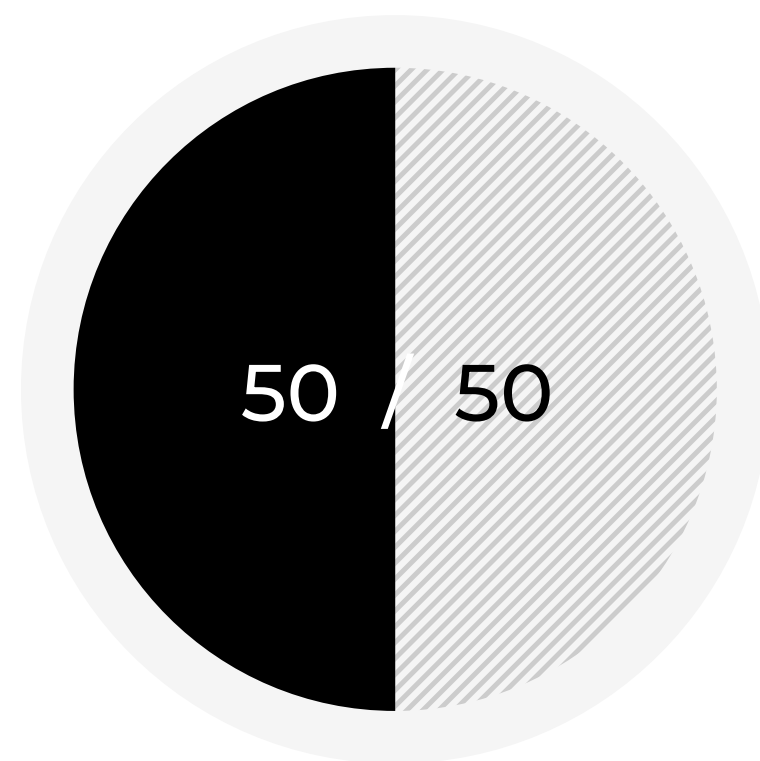
SURVEY RESULTS

% MEASURING SENTIMENT



63% of respondents are measuring employee sentiment...

SCORING APPROACH



...with a 50/50 split between eNPS and 'great place to work' scoring.

For reference, **eNPS scores greater than 10 are seen as generally positive**, with scores over 50 being considered excellent. **General satisfaction scores (i.e., recommending your company as a great place to work) of 70% or higher indicate positive sentiment** and pride, and usually allow for deeper correlation of factors that help determine root cause and effect. But like all culture and climate measurement systems, without an intentional listening strategy that is consistent, transparent, accountable, and action-oriented, you will get limited participation and data quality. Ultimately, words and actions by the CEO and Executive Leadership Team are two of the greatest drivers of positive and negative scoring.

One of the major influencers in recent employee sentiment feedback has been the inevitable “remote/hybrid or return-to-office” dynamic. Looking across all survey respondents, we find a barbell distribution of company workplace practices, which after a few years of learning have resulted in binary choices between fully remote and mostly in-office (3-days minimum). These added challenges suggest eNPS alone is an incomplete measurement approach, and must be one part of an integrated employee listening strategy to understand the nuances of this return-to-office reality.

SURVEY RESULTS

31%

0 DAYS

16%

1-2 DAYS

53%

3-4 DAYS

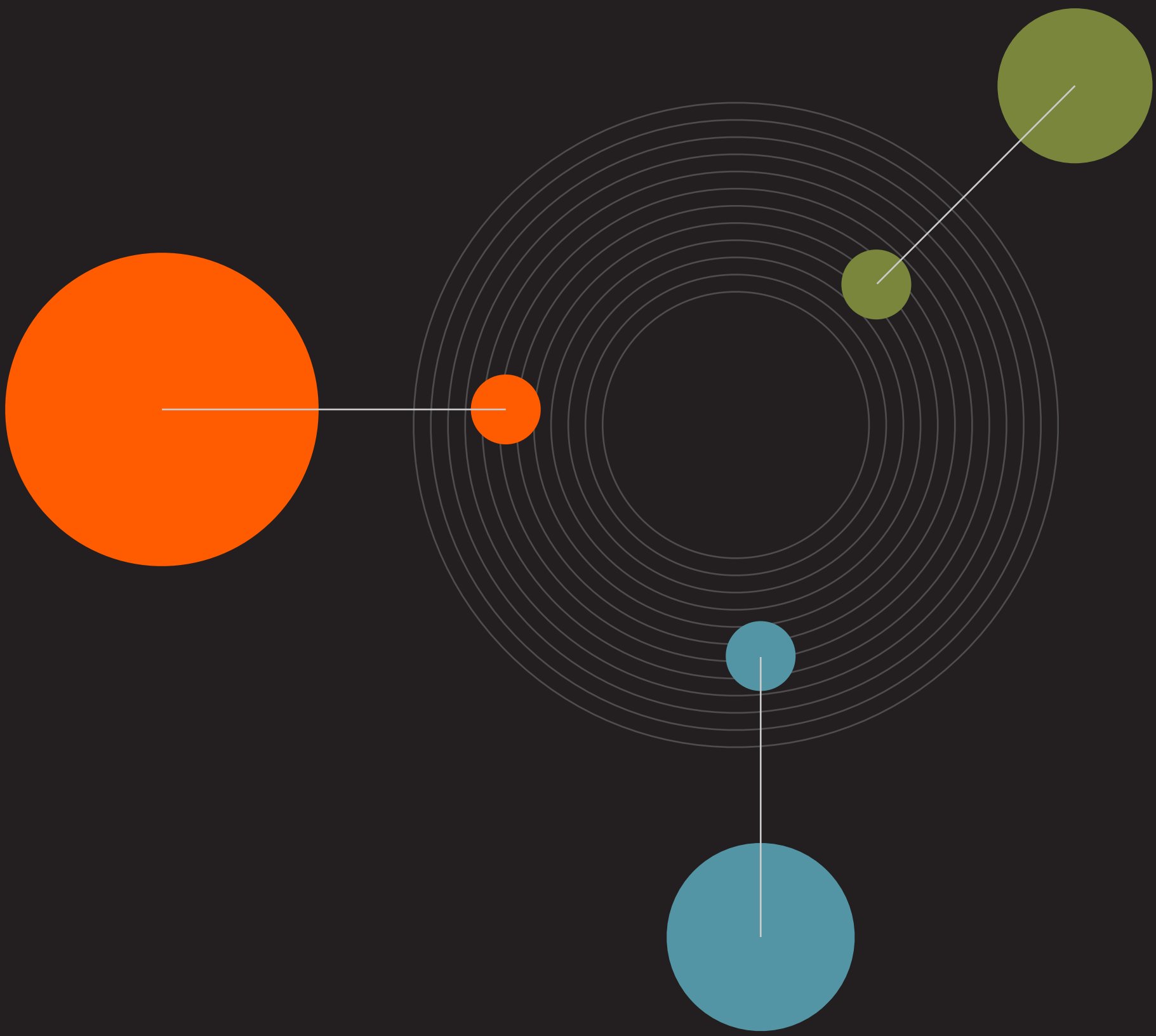
NUMBER OF DAYS EXPECTED IN OFFICE

Fast growers average **30%** higher eNPS and **38%** higher employee satisfaction scores.



**People-first
Imperatives**

3



People-first Imperatives

As 2024 starts to fire on all cylinders, we'd like to call your attention to some trending organizational topics across our growth-stage companies. Managing through profitable growth in times of macro-economic and political headwinds, the following are topics to reflect on, re-prioritize, or re-assert your plans and intentions for the year — mainly around the critical performance levers of people, culture, and workplace. And with those decisions, ensure you have identified and use key performance indicators to navigate the growth journey.

01 - Alignment

Have you chosen and committed to an alignment approach that offers employees greater clarity and line of sight on company direction, annual objectives, and operational or financial performance? Do departments, teams, and individual employees understand the connection of their performance to these priorities?

02 - Value Proposition

Uncertainty breeds uncertainty. As you navigate profitable growth, does your external reputation extend to your employment brand and value proposition? Have you identified the key indicators and tenets of your employee value proposition? Have you mapped out the employee experience and do you have the ability to measure key points from entry to exit?

03 - Capability Planning

Are you clear on the type of skills and behaviors needed for the next stage of growth? Have you conducted a basic workforce plan to inform demand for or shift in key capability areas to stay ahead of the inevitable ups and downs of growth? How is AI impacting the type of skills you need or may need less of?

04 - Compensation & Benefits

What is your ROI on the cost to employ, incentivize, and retain? Have you determined a total compensation philosophy that encompasses elements like total cash and stock compensation, quality and administration of benefit offerings including key workforce policies like PTO and leave? Do you benchmark, and what does the data tell you? How do current and future employees feel and do they understand the value and impact of their total pay package? Do they see these as fair and equitable?

05 - Leadership Investment

Are you underinvesting in leadership and team effectiveness? Are you clear on the leadership capabilities you have, need, and must cultivate? Consider a focus on building and measuring team leadership performance effectiveness in the context of your growth objectives. Be clear on the role of manager in your company, and ensure connection to your workplace policies. Do you need more player-coaches or “team facilitators”? Are the current organization design and corresponding spans of control maximizing or hindering leadership and team performance?

06 - Workplace

What is your workplace strategy and policy? Be clear and be flexible. Can you measure the impact of your workplace policies on key levers such as communication, alignment, belonging, productivity, cross-company value creation, impact on attraction and retention of talent? Is the money saved on smaller real estate assets translating into a more effective company with a much larger and distributed footprint?

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





WWW.EDISONPARTNERS.COM