Customer-Value-Led-Growth

How to build a profitable SaaS business with a high valuation

Remark-able

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The customer era is here

The number of competitors in every SaaS market space exploded in the past few years. Customers have infinite choices today and consequently, their expectations have never been higher.

If they don't get enough value from your product, they are gone in an instant and will try their luck with another vendor. The level SaaS companies compete today is customer success.

Additionally, customer acquisition costs have risen by 60-75% (according to research from Profitwell) in the past few years. A trend, which is unlikely to come to a halt anytime soon.

While churn has always been inconvenient it has become really painful as replacing lost revenue with new acquisitions became incredibly expensive.

And yet, most SaaS companies have not adapted to the new reality. They still run the old playbook of high-volume acquisitions as their primary driver of growth and care too little about what happens after the initial sale.

That’s not how you build a profitable SaaS business with a top valuation anymore.

There's a better way to grow

The data leaves no doubt that the old way is obsolete as new customer acquisition is the weakest growth lever by far. According to the KeyBanc SaaS Survey of 2019, the best-performing companies made:

- 1.150% profit from customer expansions
- 170% from upsells
- 18% from new customer acquisitions

And at the bottom end, companies made a 50% loss on every dollar spent on new acquisitions while expansions still delivered a 100% profit.

There is no doubt that the future of SaaS growth is led by customer value. Because only if customers successful are successful they will create demand for upsells and expansions.

How the Customer-Value-Led-Growth business model works in a nutshell:

1. Marketing no longer focuses on numbers but lead quality. They create demand from ICP customers with high success and revenue potential.
2. Sales spend more time with high-quality opportunities, resulting in higher conversion rates as well as lower churn and CAC.
3. Customer success teams are no longer the churn firefighting squads, but help customers to grow their value with a dedicated success program.
4. Customers who have successfully achieved their initial goals will look to further scale their value through expansions and upsells.
5. The more successful customers become, the higher their motivation is to refer your product to others gets.
6. With the growing value customers get, their willingness to pay grows as well, making them less sensitive to price increases.
7. Instead of a funnel, what you create is a helix where you grow exponentially from (almost) every single customer.
8. The more money you can put into this helix, the more momentum you'll create and grow faster, further and, profitable for a high valuation.

The core of Customer-Value-Led-Growth

The CVLG approach is built on the belief that customer success is not the responsibility of a single team but the whole organization. The same is true for its evil antagonist, better known as churn.

Customers are successful when they achieve or even exceed their desired outcomes. Churn, on the other hand, is the consequence of customers failing to achieve their goals.

The only exceptions are customers leaving due to reasons that are not under your control. Most importantly, when they are going out of business or getting acquired and/or are forced to adopt the buyer's tech stack.

However, most SaaS companies don't understand the true reason for churn because they don't dig deep enough. Churned customers often say:

- **"The product is too expensive" - How is that possible when customers know the price in advance? What they are really saying is that they are paying too much for the value they get.**

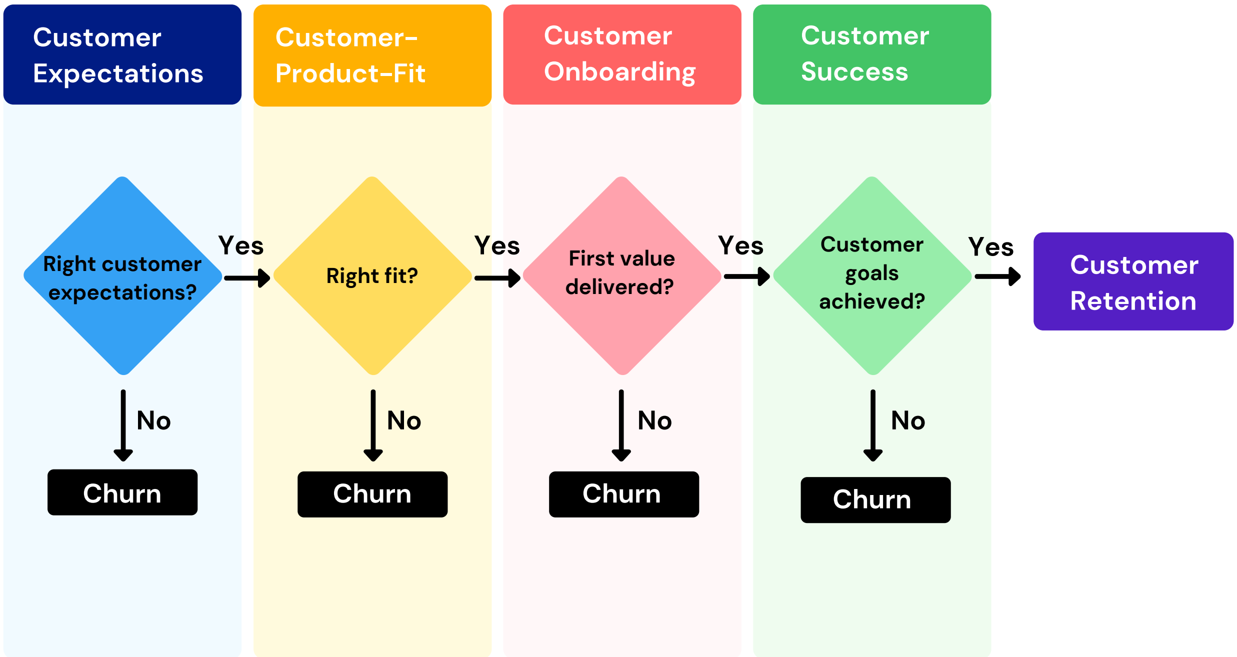
- **"Feature X is missing" - The product was not the right choice for the customer right from the beginning. What's been missing was proper targeting and lead qualification identifying the mismatch.**

- **"We will go with competitor Y" - Your customers are not leaving because your competitor has a better offer. If so, they would not have chosen yours first. What they are really saying is that you did not deliver and now they will try their luck elsewhere.**

The Customer Lifecycle

However, while the only reason for churn is customers failing to achieve their desired outcomes, there are 4 different stages in the customer lifecycle where it’s caused. It's of high importance to notice that under no circumstances churn is a post-purchase phenomenon.

For a customer to become successful, all 4 stages of the graphic below need to be completed with a positive outcome.



All customer success starts with setting the right expectations. If customers buy your product with the wrong expectations they won't achieve their goals. Defining the success your company is selling to its customers is the CEO's responsibility.

If the customer wants something you can't deliver the journey ends. Only customers with the right expectations move to the sales stage where the customer-product-fit is evaluated.

Sales reps close only deals if the product fits the customers' needs and they possess the means to become successful (or acquire them in the process).

Most SaaS companies still don’t understand the purpose of the customer onboarding. It’s not introducing your customers to every feature and function of your product.

The only thing you'll achieve is overwhelming your customers. They will feel lost, get nothing done and quit. Customer onboarding is about giving the customer quick wins to validate their purchase decision and get their full commitment.

Sometimes it's all it takes to convince customers to buy more from you immediately. That's one more argument to focus on reducing the time to value.

Finally, a dedicated customer success program eliminates the remaining roadblocks between your customers' current and future performance.

With a mix of education, training and consulting services customers acquire the skills and knowledge to build excellence on the job for which they need the product. Because it’s not the technology that holds them back but their limited capabilities.

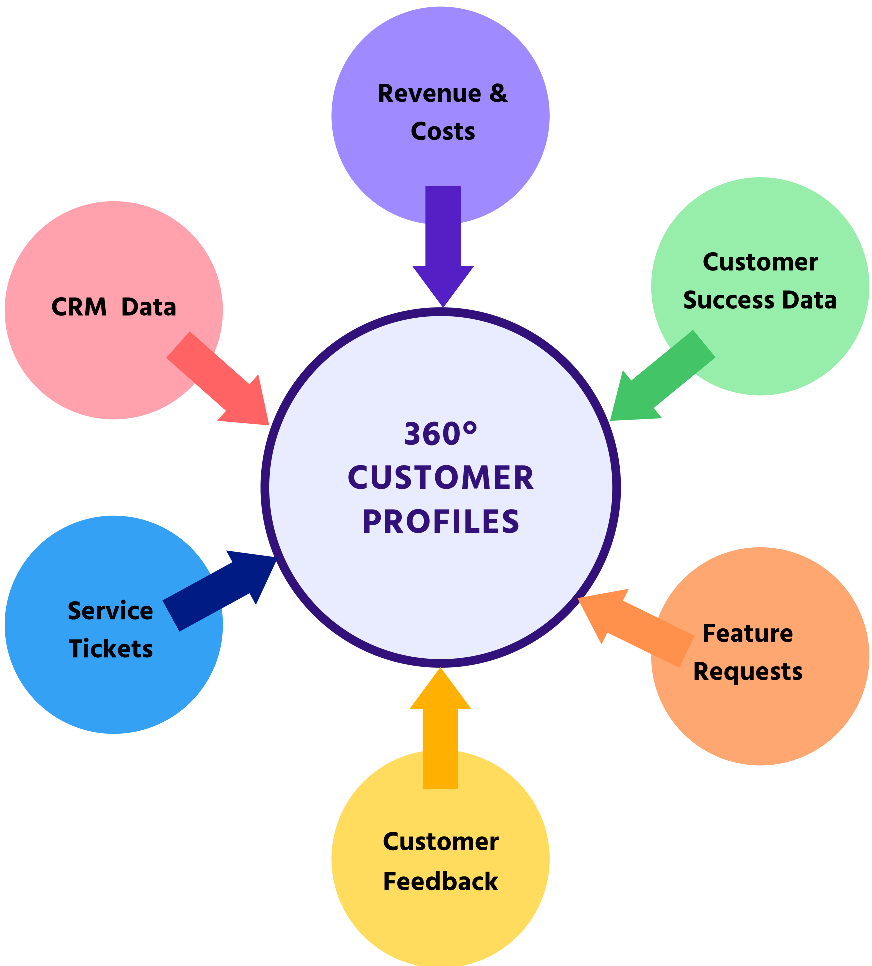
Customer success runs through the whole customer lifecycle and needs to become more than a single team - a company-wide philosophy and operating system.

Part I: Customer Analytics

The first step to take customer success on a company-wide level is to break down the data silos and give everybody access to all - quantitative and qualitative customer data. Also known as the famous 360° customer view.

All your teams - marketing, sales, product development, customer support, and success, as well as the company's leadership, need to understand the "who", the "what" and the "why". If you don't understand your customers and how they are ticking, you'll never become truly customer-centric.

A complete customer profile includes revenue & costs (time series), CRM data, customer feedback, support tickets, feature requests, and customer success data. It contains both, quantitative and qualitative data, to reveal the whole story of your former and actual customers.



I won’t sugarcoat it - it’s a challenge to collect all that data but having it all at your fingertips is a competitive advantage on its own. It will give your operational performance a huge boost as you can reallocate your resources way more effectively.

A few examples:

- **Product development understands whether a feature request comes from highly profitable customers or the ones who complain about the product all the time and prioritize accordingly.**
- **Sales reps understand what customers who churned have in common and check for red flags during the lead qualification process.**
- **The leadership may mourn the loss of a key account and want it recovered not realizing they'll lose money every month they stay.**

Customer profitability and growth potential

In the CVLG business model, analytics always starts with determining your existing and former customers' profitability and growth potential. The more long-term data you've got available, the better insights you will gain.

Your initial analytics goal is to give customers "weight" according to the value for your business. The value for your business depends on your customers profitability and their growth potential. Customers might not be profitable yet but will become once they've adopted your product to a greater extent.

Determining your customers’ growth potential is a rather qualitative analysis based on research, comparing with past clients of a similar cohort and common sense. A company that recently closed 8-figure funding will likely fit the profile of a client with high growth potential.

Customer Value Intelligence

Your customers buy your product because they want to increase their revenue, reduce costs, improve productivity, and their related personal goals. It's a mystery to me why so many SaaS companies track all kinds of data but not the value customers get out of their product.

If you don’t have a tool or framework to define and track customer goals, you need to mine the information the old-fashioned way from conducting targeted customer interviews.

In order to get the full picture of tangible and intangible customer outcomes, you need to be able to answer these 3 questions:

- How did the customer's results change?
- How did their work-life change?
- How do they feel now?

The information you will get from the customer value analysis will help you set the expectations for future customers more precisely. Put simply, you want to build your narrative about the specific outcomes your most successful customers already get out of your product.

You should see a high correlation between customer value and profitability because successful customers continue to buy more from you. If that's not the case, there's a high probability that your pricing sucks.

If it’s the other way round you should be very happy - profitable customers who only get mediocre results are a rare species.

Churn

As determined earlier the only reason for customers to churn - besides for reasons out of your control - is customers failing to get enough value from your product.

As a consequence, the churn analysis needs to identify the stage where things went south and the cause. Put simply, you are trying to understand the deviations between intent and outcome.

- **Wrong customer expectations: Intended versus expected outcome**
- **Lack of customer-product-fit: What are the relevant criteria and which ones were missing?**
- **Onboarding failed to deliver quick wins: What's been the initial goal and why has it not been achieved?**
- **The customer success program failed to help customers achieve their main goals - Why and where exactly did it fail?**

What you are looking for are recurring patterns behind the deviations. It's not possible to eliminate all churn except the one for external reasons. The kind of churn you need to eliminate is the systematic one that happens over and over for the same reasons. The good news is that you can resolve it in a sustainable and highly efficient way.

One of the most beautiful things of the CVLG business model is that when you rebuild your strategy for maximizing and monetizing customer value you'll eliminate systematic churn in the process.

Part II: Positioning - managing customer expectations

Let’s kick this off by destroying a popular myth - positioning is not a marketing task but one of the key responsibilities of the CEO. Why? Because it requires all teams to be aligned around a single mission and goal.

How could a marketing leader, who is usually considered as responsible for the company's positioning, ever create company-wide alignment? If the CEO does not buy in, why would anyone else?

In the customer success era, positioning is no longer about whom you are compared to your competitors. It’s about the value you can deliver to your customers and how you transform their business.

The second, and not any less important, purpose of your positioning is to define the single mission and goal everybody in the company needs to contribute. What your customers expect matches with what your team works to achieve.

Many SaaS companies purposely keep their positioning and messaging vague because of the misguided belief they'll create more opportunities and sales.

But what they create are:

- **High customer acquisition costs because sales reps spend a lot of time manually disqualifying customers who want something you can't deliver**
- **High churn when they are not disqualified but signed up anyway because sales reps need to meet some ridiculous quota.**
- **Lost opportunities because wrong expectations work both ways and customers with high demand don’t understand the value of your offer and never bother to find out.**
- **More lost opportunities because your sales reps don't get back in time to those who came for the right reason.**

Developing your positioning

In the CVLG business model, everything is built based on customer insights and your positioning is no exception. More specifically, it's derived from the most valuable outcomes your most successful customers already get out of your product.

The obvious challenge here is to determine where to draw the bottom line of "most successful". There's no universal answer for it but selling the low-hanging fruit will put you in the "generic vendor" category.

When you are conducting your customer interviews, I recommend you to ask specific questions based on previous answers you've got. When a customer tells you how their business changed, you continue to ask until you get to the most valuable outcome.

When you are selling an employee engagement platform, the basic outcome is e.g. a 20% lower employee turnover. But the real interesting outcomes are the consequences and that's what you should specifically ask about. That could be something very obvious like lower hiring costs, to something like better collaboration because people think it's worth building relationships now.

The highest value is always of qualitative nature - the meaning behind the numbers. A few more examples:

- **"We now get our customer feedback in a decision-ready way"**
- **"Our performance increased so much that we can now choose our clients"**
- **"Now I'm doing the work I've been hired for rather than being a data entry clerk"**
- **"Our marketing team has grown into tremendous ROI generators"**

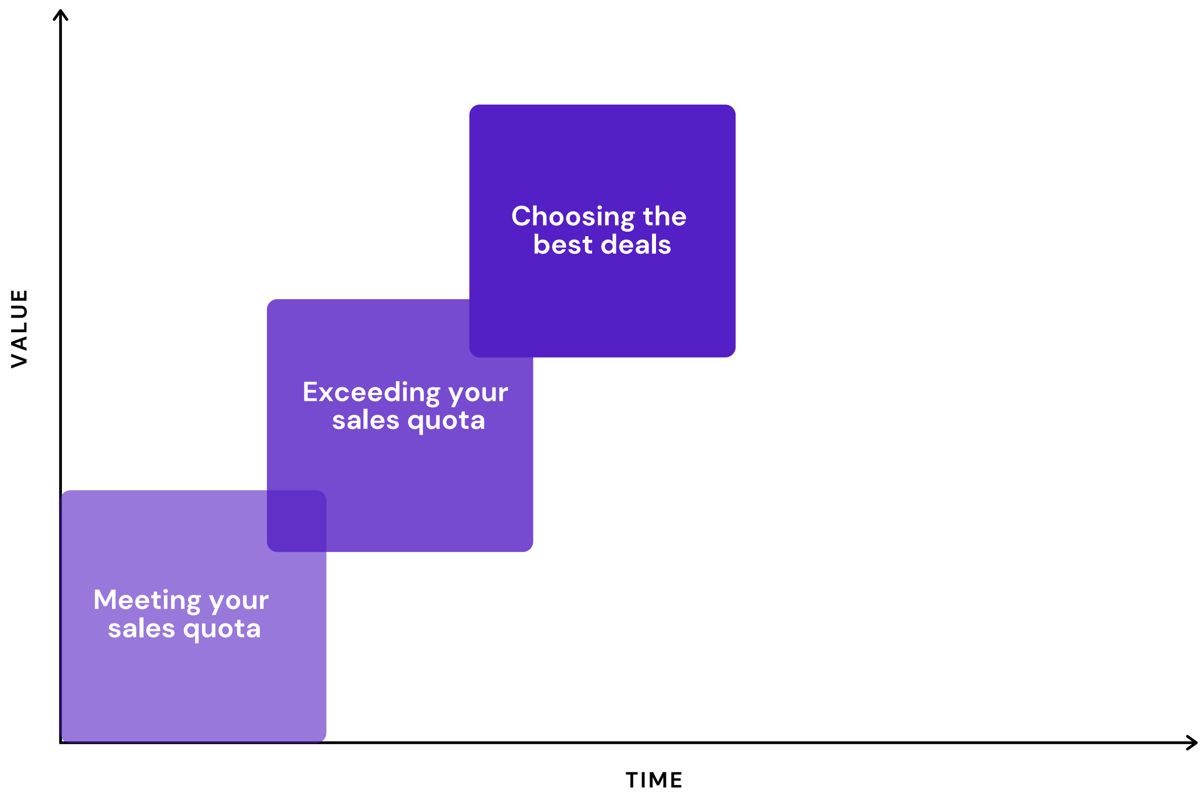
It's not a static concept

As your product continuously gets better and your customer success services improve your customers' capabilities, the customer value grows. And if the bottomline value of your customer base grows you'll want to communicate it. Because the more you can promise AND deliver the more attractive your offer becomes.

That's why investing in building expertise and eventually thought leadership on the subject delivers a high ROI. Taking customers to "the next level" for real should be a key priority. This is not about squeezing out a few percent here and there but creating leaps in performance.

This does not only give you a competitive advantage in terms of customer acquisition but increases your customers' willingness to pay and puts you in charge of your prices.

If you are e.g. selling a sales tool your customers might start from missing their quota. As they achieve their initial goal they are raising the bar and now aim to exceed their quota. Eventually, they want to add a qualitative component to their sales goals and want to exceed their quota while closing only the most profitable deals.



Part III: The Customer-Product-Fit

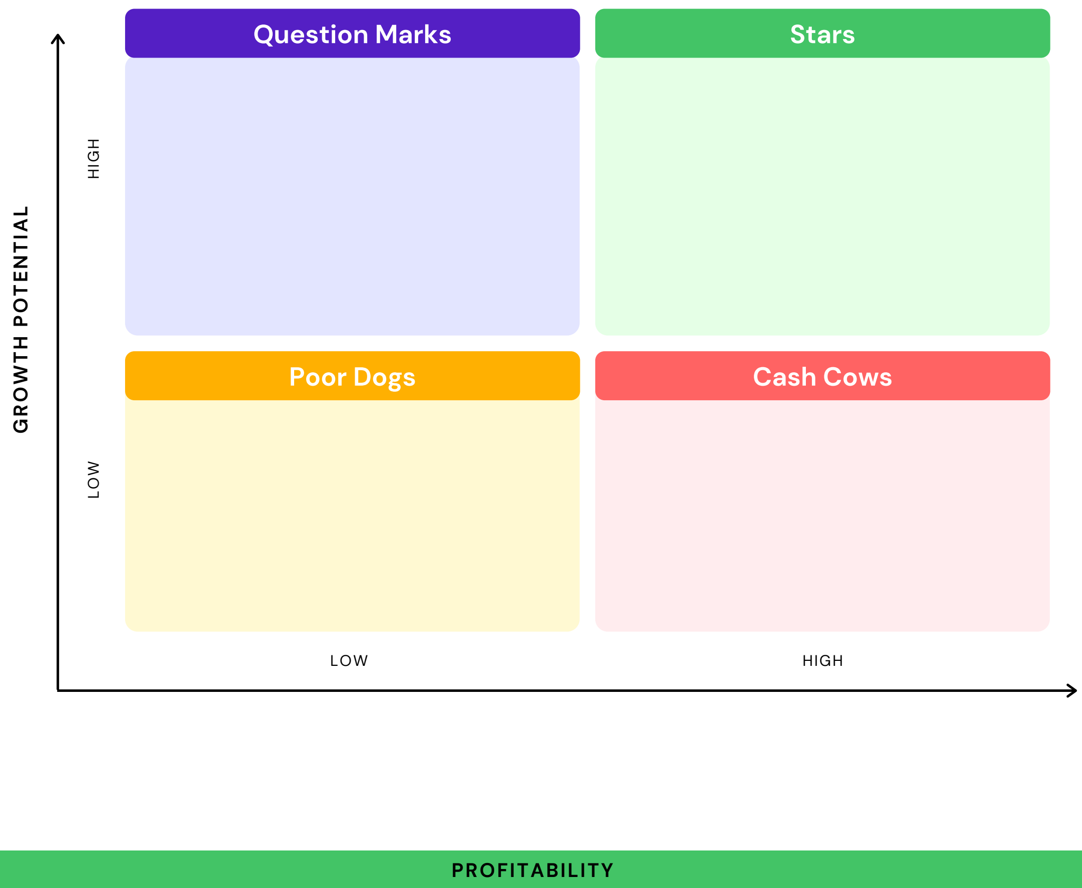
Saying no to potential customers and revenue is hard, really really hard. Because it's perfectly logical that more opportunities lead to more sales. But the truth is that your product is not the right choice for everybody.

With your positioning, you should have helped the non-buyers in terms of unfulfillable expectations to disqualify themselves. As a result, you should see an immediate drop in churn and CAC.

However, having the right expectations towards the outcomes is not enough. The customer also needs to possess the means to become successful or is likely able to acquire them in the process. Similarly, the product needs to fit the customers' needs as well.

Segmentation

In the CVLG business model the ideal customer profiles are reverse-engineered from the quantitative and qualitative data of your existing customers. Put simply, what you want is to acquire more of your most profitable and successful customers.



With the help of this matrix (BCG-matrix) and the assumptions that profit follows success, you can effectively segment your entire customer portfolio.

- Stars: The customers who find tremendous value from your product and continuously buy more resources from you. These are the customers that move the needle for your business.

- Question marks: Customers who already get a lot of value from your product but are not profitable yet. They may become stars one day but it's crucial to evaluate their expansion and upselling potential. An effective way is to compare their characteristics with the former question marks that turned into stars.

- Cash cows: Customers who deliver high profits but don't possess any significant growth potential (anymore). It's important to understand their history to determine whether they are former stars and should influence your ICP creation.

- Poor dogs: They represent the group of your bad-fit customers. They constantly need a lot of attention from your CSMs (and support) and the costs of service exceed their revenue contribution.

It's obvious that ideally, your future pipeline will contain only Stars and not a single dog. However, that's quite unrealistic because even with your best precautions you might miss a hidden red flag. But what matters is to gradually improve the ratio towards high quality leads.

The Ideal Customer Profile (ICP)

When building their Ideal Customer Profiles, most SaaS businesses focus on the most obvious and superficial traits like revenue, company size, or industry. But none of these are relevant for the creation of customer value.

That's why in the CVLG business model the definition of the ICP starts with the customers' problems and their roots. Because in order to create a high customer value you need to help the customer solve a valuable problem.

What most SaaS companies unfortunately do is that they want to solve a lot of small problems instead of the big valuable one that really pains the customer. They try to be everything for everyone and end up with high CAC and churn.

Anyways, the 5 most important characteristics to determine the ICP are:

- **The customer problem: What valuable problem do they need to solve to achieve their goal?**
- **The roots of the problem: Why does the problem exist? Does it result from their process design, goals, resources, etc.?**
- **What kind of skills, knowledge, and resources do they possess to solve the problem?**
- **What did they acquire in the process to become successful?**
- **What cultural traits and mindsets positively influenced the outcomes?**

This list is non-exhaustive and the more characteristics related to the problem and solution the more precise your ICPs become. Speaking of, like your positioning, refining your ICPs is an ongoing process. Ideally, you'll validate your profiles every month.

Part IV: Customer Onboarding

There's no second chance for a first impression and the same is true for starting a new customer engagement. It's crucial to deliver a delightful first experience because it sets the customer's expectations for what's to come.

Unfortunately, most SaaS companies don't understand the purpose of the customer onboarding. It's not to introduce the customer to all the features and functions because they will be overwhelmed and get nothing done.

The purpose of your onboarding is to give your customers quick wins by solving an urgent problem. That's how you validate their purchase decision and get their full commitment.

How to get started

The best way to start a new customer engagement is with a kick-off meeting where you are having a good old-fashioned conversation. It's non-scalable and expensive but it's an investment that gets repaid with compound interest. With the information, you are mining the odds of success, and the time to value increases significantly.

Ideally, your sales team has already covered some ground and provides the CS team with a hand-off that includes vital customer information. So they can ask specific questions to develop a granular understanding of the customer's business and their specific needs.

If you show genuine interest in your customer's success, everything becomes easier. Because you will build trust right from the beginning. Trust leads to transparency and with the transparency you get the insights to deliver high-quality services.

Transform the insights you've gained from the meeting into a customized proposal for a customized onboarding roadmap, share it with your customer, and get their buy-in. You are in this project together.

However, if a customer is paying 20$ per month it would be uneconomical to have these 1:1 conversations. The alternatives are to let your product do the job with in-built questionnaires or use chatbots to determine

Customer segmentation

With the insights you've gained from the kick-off meeting, you can effectively segment your customers for your service delivery. Segmentation in the CVLG business model for the post-purchase part of the customer lifecycle happens in accordance with your ICP definition.

As such, customers are clustered by the problems they want to solve and the point where they start. It's a possibility that it overlaps with the customers' industry if there's an industry-typical problem.

The starting point is determined by your customers' current skills, knowledge, and processes. While some customers may have only very limited capabilities, others already perform on a decent level. As a result, the former requires way more help to get enough value from the product.

If you segment your customers this way, you can build customized yet repeatable processes respectively roadmaps to purposely take your customers to the promised land.

Part V: Building a customer success program

Being "proactive" is the mantra proclaimed as state-of-the-art in customer success. Monitor customer activity and their behavior and reach out if you anticipate there might be a problem. Like when a customer has been inactive for a while or did not adopt the product according to the company’s plan.

While that’s certainly better than waiting for customers to reach out to you it’s still a deeply flawed approach. Because it relies on guesswork and leaves an infinite number of possibilities for your customers to leave the success path.

By the time your playbook sounds the alarm the customer might be gone already and can't be reactivated because they felt abandoned. And worse, the customer might never appear as a churn risk because they have a perfect health score. They have adopted all features and are highly active. The only problem is they are just trying and trying with no success.

In the Customer-Value-Led-Growth business model, you will LEAD your customers all the way to achieve their goals. They will join a customer success program with a mix of education-, training- and consulting services tailored to their needs.

Build true customer relationships

You need to continue what you've started with your kick-off meeting and invest in building relationships. Becoming the now often cited trusted advisor is your goal.

That means you'll take charge of your communications and constantly communicate with the customer. Rather than having a meaningless QBR meeting you'll frequently engage in follow-ups talking about progress, unexpected roadblocks, discuss strategies, and get feedback.

Many SaaS companies think they can't spend that much 1 on 1 time but the thing is that you'll invest in growth. It's not different than sales reps spending 1 on 1 time with prospects. Well, there actually is a difference - strong customer relationships "convert" at much higher rates for future expansions, upsells and referrals.

Beyond product education

In the CVLG business model, customer success managers are not product educators. Their job is to help customers build excellence on the job for which they need the product.

Because your customers' bottleneck is not the technology but their skills and knowledge. Even if they become true masters of the product - bad input will lead to the bad output. But if they achieve a breakthrough and achieve their initial goal, they'll look to further scale their value by expansions and upsells.

It’s your mission to eliminate all the roadblocks that keep your customers from achieving their goals. That's why it's crucial to segment your customers carefully. Because there are roadblocks you can't eliminate like the wrong mindset e.g. customers not willing to invest enough time.

The further you’ll take your customer on the success journey the more sophisticated and customized your services need to become. At some point, you will no longer educate and train the customer but become a strategic advisor.

Customer success process design

Let's put the pieces together. With your positioning, you've set the end goal and know what your customers want. In the onboarding kick-off meeting, you determine where customers start by understanding their problems, skills, and knowledge.

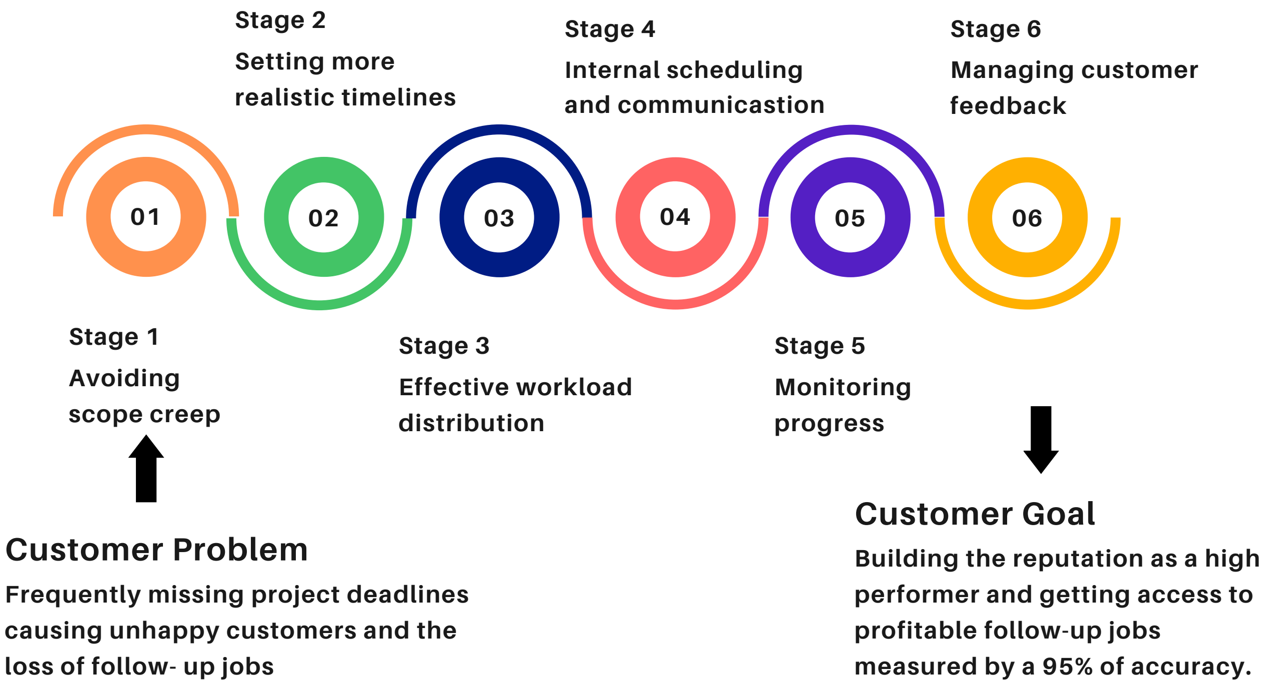
If you know the beginning and the end you can build an effective customer roadmap in between. Most SaaS companies don't have a strategic program in place that purposely leads the customer to success. Instead, they have a random mix of inputs coming with random timings.

In the CVLG business model, the customer success journey is engineered. That includes outlining all intermediate steps or goals, the tasks that need to be completed as well as the skills and knowledge that have to be acquired in the process.

However, when you design your customer success processes there are a few things you need to consider.

While (hopefully) all your new customers fit your ICP, they still start from different levels in terms of skills and knowledge. They also don't necessarily have the same problems to solve or need to solve them in a different order.

This is how it could look like for a company selling project management software to help customers meet their deadlines with a higher accuracy:



It's only logical that not all reasons will apply to every customer and if they do they will differ in intensity and therefore priority. That's why you should design the whole process and then customize it for the unique customer situation. It's important that you don't start from scratch because your performance increases with repetition.

Closing the gaps

After you've outlined the process and its variations the next step is about determining the inputs your customers need to build the required capabilities.

Sticking with the project management example - how can you help your customers to set deadlines more accurately, improve task distribution, etc. The most obvious thing is that you need to build expertise on the subject yourself.

I'm 100% convinced that this will be what separates the top CSMs from the pack in the next years because everybody can become a product expert. Because the level SaaS companies will compete, and already do today, is customer value.

Broadly spoken, your services will consist of a mix of education, training, and consulting services in varying formats (from 1:1 to 1:n). Quality and efficiency are very important. No one wants to watch a generic 60min eat-or-die product tutorial that may give them the answer they need.

But they'll be interested in a 5 min personal video that talks exactly about one of their problems and how to solve it. It can't be emphasized enough - you need to have a deep understanding of the customer and their needs.

Creativity and solution-thinking are highly powerful assets for a customer success manager. It (almost) does not matter how you do it as long as customers build the capabilities to become highly successful. Teaching skills are a huge advantage.

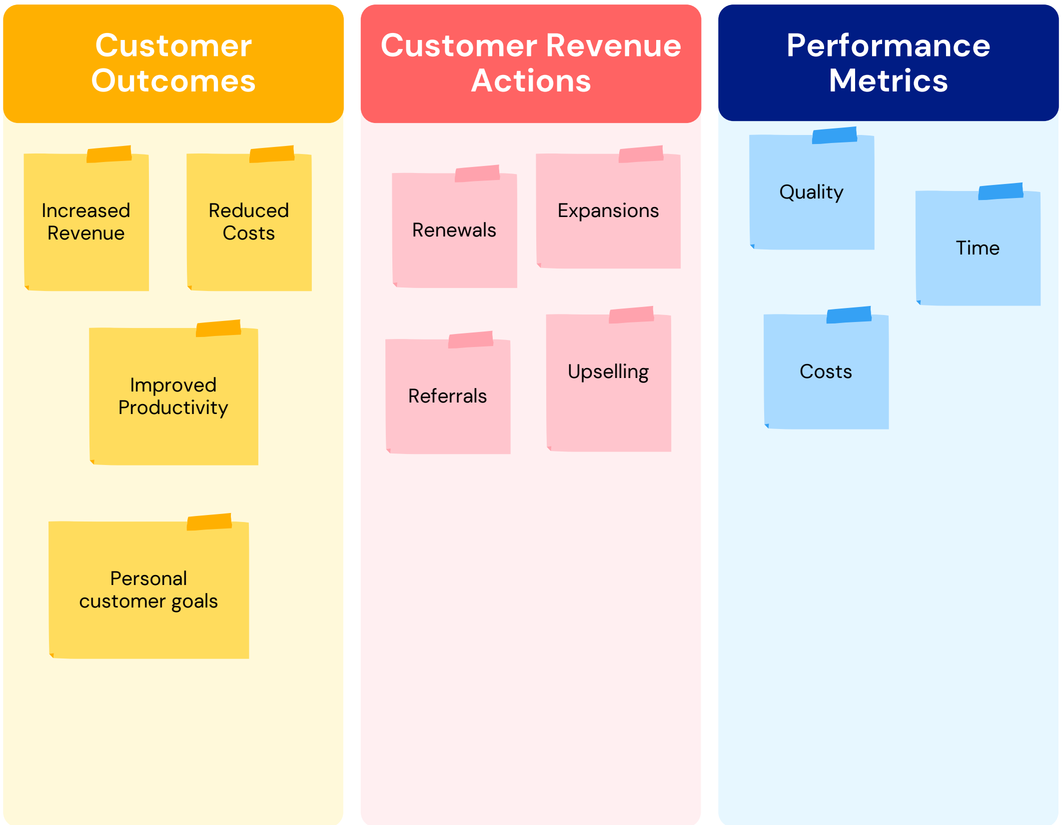
Part VI: Customer Success Metrics

One of the most broken things in customer success is the metric systems that are used. SaaS companies track things like net-promoter- or health scores, feature adoption, and user activity.

That's how YOU measure customer success and not your customer. They could not care less about all these metrics. Your customers buy your product to increase their revenue, reduce costs, improve productivity, and their personal goals connected. That's what you need to measure in the first place.

Feature adoption and user activity are even potentially misleading you. A customer might have adopted all features and is highly active but does not get anything done and is just trying and trying. But this customer would likely never appear as a churn risk in your dashboards.

I recommend you to implement a 3-layered metric system that covers customer outcomes, revenue impact, and delivery performance.



Customer Outcomes

It never ceases to amaze me that so many SaaS companies don't know whether their customers will renew at the end of the month. You may not be able to eliminate all churn but you can (almost) perfectly predict it.

Churn happens when your customers don't get enough value from the product and that's what you can measure. If it's not straightforward, you need to ask your customers how they evaluate the results from your product and adopt them.

Ideally, you use a shared metric system with your customer to track progress and to plan future initiatives based on actual customer data.

Customer Revenue Actions

Customer success is a growth function. Delivering customer success is not an end in itself. That means from your company's point of view you need to measure how customer value correlates with what I call customer revenue actions.

Put simply you need to understand how much value you have to create for customers to create renewals, expansion, upsells and (successful) referrals.

Delivery performance

The third and final layer of your metric system should measure the effectiveness and efficiency of your services. By putting the generated revenue in relation to the costs of service, you'll determine the ROI of your efforts.

Additionally, you don't only want to deliver high customer value but do it fast because creating additional demand for expansions and upsells earlier means higher revenue over the customer lifetime.

Last but not least, the quality or accuracy of your services is important. How frequently do you succeed in helping customers achieve their goals?

Part VII: Monetization

As many SaaS CROs are former sales leaders, they focus most resources on new customer acquisition and treat it like it's the only revenue stream. To say that they are leaving money on the table would be an understatement.

Every SaaS company has 5 different revenue streams - acquisition, retention, expansion/upselling, pricing, and product. If you also offer professional services, it's actually 6.

In the Customer-Value-Led-Growth business model, you will focus on all of them simultaneously to optimize growth.

New Customer Acquisition

Signing new customers will still play an important role in the CVLG business model. Because that's where you'll plant the seeds that get nurtured into big huge growth trees. But, contrary to the Acquisition-led business model it's no longer about quantity but quality.

Customers will only be acquired if they come with the right expectations and fit. With that shift, your sales don't actually get down but up because sales reps spend more time with real opportunities and achieve higher conversions while CAC decreases significantly.

Selling to a higher quality of prospects will also likely increase your ACV as new customers already buy more from the beginning. In some cases, your CAC won't even go down at all. But they actually don't matter. What matters is always the relationship between ACV and CAC.

Retention

The SaaS business model is literally built on customer success. Because only successful customers will buy your each and every month again. Renewals are, in fact, continuous purchases.

The worst thing any SaaS company can do is trying to replace churn with new acquisitions. This is the fastest way to kill your company.

However, despite its importance, retention in the CVLG business model is only the low-hanging fruit. It's the initial goal on the customer success journey and customers should buy renewals seamlessly as their value increases.

Expansion and Upselling

If I had to name a single goal for the customer success team, it would be to make customers so successful that they buy more to further scale their value.

The beautiful thing about expansions is that there is almost no limit. Customers can easily buy 10x the resources they did initially. Upselling options are usually more restricted but therefore it's not uncommon that the higher tier is 3x as valuable as the lower one.

In order to optimize your expansions, you need to have a dynamic pricing model in place that is connected to the customer value metric (e.g. the number of contacts, leads, social media channels, etc.).

One of the worst things I’ve heard people in SaaS say is that they don’t want to “punish their customers for success”. That's because they still don't understand that customers don't care about the price but the value. If your customers get more value, they are willing to pay more, and not charging them means leaving profitable growth on the table.

How can you find the right value metric? First, you need to identify what matters for your customers. In some cases, it's pretty straightforward as the number of contacts for an E-Mail Marketing software. In other cases, it's more tricky like for an IT-Management tool.

And second, the one you choose should possess low volatility. If you are selling a Social Media Management tool the importance of every platform for the customer might be very different.

So charging on the number of channels will be highly inaccurate according to the value they get. With the number of postings as your value metric, your customers can distribute it to their needs.

Upselling is another highly efficient growth lever although more limited than expansions. But the beautiful thing is that the next pricing tier can be 3x worth the one before.

However, when you are designing your tiers the challenging part is to bundle them well. That's why I'm a big fan of pricing strategies that are based on modules and consumptions. This way customers can custom the product and payments to their needs with high accuracy. A great example of this approach is the customer communication platform Twilio.

Value-based prices

The arguably most underutilized lever of growth in SaaS is the pricing. So many companies care so little about what they charge their customers. In most cases, they simply copy and paste the prices of their competitors, give or take a few percent.

But the price is actually the most scalable growth lever. An increase affects every single new acquisition, renewal, expansion, and upselling. If you can raise your prices without losing (too many) customers you'll see a jump in profitability.

However, while expansions and upsells happen individually price increases are collective raises. That means a price increase is only viable if the bottom-line value for (almost) all customers increases.

That's one more good reason to understand how much value your customers get out of your product. If it's difficult to determine work with approximations based on your customer conversations.

To make it perfectly clear what you need to define is the value and consequently the price per "unit" (e.g. 1 lead).

Product value

There are many weird things going on in the SaaS world and one of them is companies who ship feature after feature but never raise their prices. But logic dictates that additional features would improve the product.

So a better product results in higher customer value which justifies a price increase. The only other conclusion is that you build new features for the sake of it.

Technically, this would be another price increase but there are two different triggers for it. Before, it was about customers getting more value out of a product without changes to the product. Now it happens due to new add-ons.

A lot of SaaS companies struggle with deciding on what features to build and how to prioritize. Because they don't differentiate between the customers who made feature requests.

The key to optimizing your product is to not make it wide to appease everyone but to improve its value for your already most successful customers.

This is the final reason why it's so important to build in-depth customer relationships. It allows you to discover, possibly together with your customers, what additional features increase the value and understand why.

Which greatly increases the odds of building the right items in the right order and benefit from it.

The big picture

The Customer-Acquisition-Led business model is designed to optimize your growth through delivering and monetizing customer value. But how do you measure if you are right on track?

Most Saas companies measure dozens, if not hundreds of KPIs and view growth from many angles. In the CVLG business model, there are two north star metrics everybody in the company is responsible for.

The Net Retention Rate in the short-term and the Customer Lifetime Value Growth in the long-term. These are the metrics that measure the quality of your operations and your growth.

It's literally impossible to ever achieve a high NRR and CLTV without being aligned on customer success throughout the company. Because misalignment leads to high churn and with a high churn your NRR and CLTV will remain low.

That's why everybody's incentives and bonuses - from the CEO down - should depend on the NRR. The only way to keep those metrics growing is to improve the quality of the things you are doing.

The CVLG business model is not only better for your business but also for your employees. As they no longer have to achieve ridiculous short-term goals and vanity metrics they can focus on doing their best work and that's when the magic happens.

Not sold yet? Companies like Snowflake or Twilio have NRRs of 150% and higher which means they would grow by 50% even without a single new acquisition.

The highest performers like Snowflake or Twilio have Net Retention Rates of 150% and above. That means they grew by 50% YoY only from their existing customers.

It's time to put an end to pursuing vanity metrics and instant gratification and focus on what really matters.

Remark-able

Markus Rentsch

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