How Product-Led Growth is Changing B2B SaaS

MAXIO

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Introduction

Over 25,000 SaaS companies exist in today's market, and they're all looking for new ways to differentiate themselves and achieve scalable growth.

As the competition heats up, many B2B SaaS companies are turning towards the one thing they know better than anyone else: their product. **Product-led growth** is a trending buzzword that's been popping up in the conversations of IPO-hopefuls—but what is it really?

Product-led growth is much more than a growth hack, pricing strategy, or industry buzzword—it's an organizational framework used by B2B SaaS companies to answer one simple question: "How can we get our product to sell itself?"

At Maxio, we make complex subscription and revenue management simple for product-led, sales-led, and hybrid-model companies, so they can execute an effective go-to-market strategy. Now, we're going to share our expertise with you.

Here's everything you need to know about product-led growth and how to determine if it's right for your organization.

What the heck is product-led growth?

"Product-led growth is an end user-focused growth model that relies on the product itself as the primary driver of customer acquisition, conversion, and expansion."

OpenView Venture Partners

Product-led growth (PLG) is a business methodology which puts your product at the center of your company's growth efforts and users in the driver's seat. It's a massive leap from the on-premise software days of the early 2000s. In this model, attracting and converting early adopters is the name of the game.

Many product-led organizations use free trials, pay-as-you-go options, and feature-gated entry-level subscription plans to attract new users and deliver quick time-to-value. Then, those new users take the lead in rolling out the product across their organization. Only after the rest of the organization has experienced the value that product provides does a PLG company sweep in with a sales motion or premium subscription plan to seal the deal.

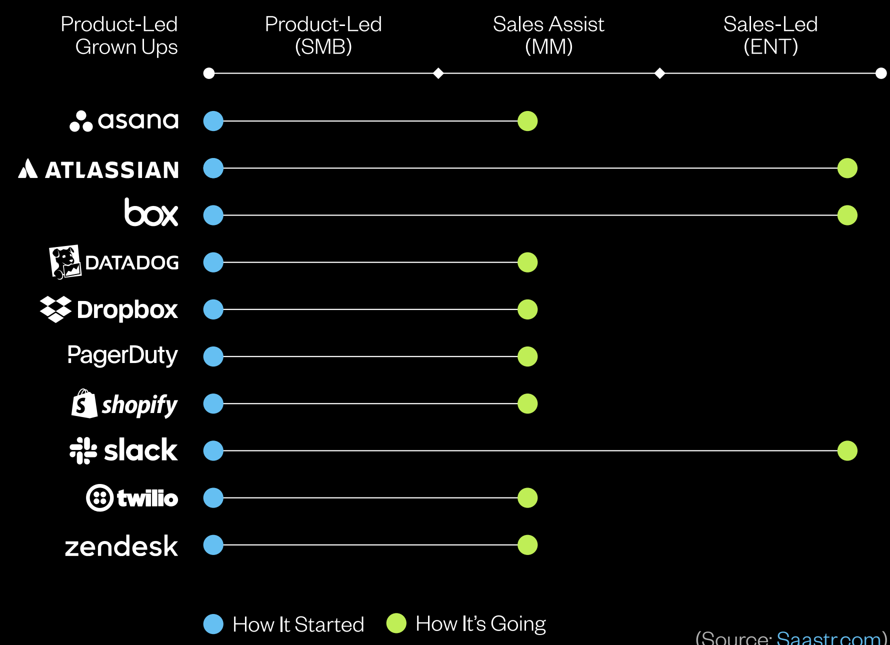
This two-pronged approach between product and sales is commonly referred to as the **Hybrid model**—a common (and effective) strategy where sales-led and product-led tactics are used in tandem to win new business.

On the surface, this framework seems like nothing more than a clever growth formula with some serious user monetization potential—but in reality, the hybrid model is reshaping the future of B2B SaaS. Thousands of companies, regardless of size, vertical, or industry, are using a combination of product-led and sales-led tactics to meet changing market demands and make their products more accessible than ever.

Examples of product-led and hybrid models in SaaS companies

Slack, Calendly, and Atlassian are a few notable examples of SaaS organizations that started out as 100% product-led and eventually transitioned to a sales-led or sales-assisted framework. From its bootstrapped founding in 2002 all the way to a $5 billion valuation in 2016, [Atlassian famously had no salespeople.]

By adopting a product-led model in the very beginning, Atlassian was able to generate a pipeline of active users who would act as champions for their product and brand. Since then, they've turned into the industry titans we know today.



(Source: Saastr.com)

Why is product-led growth so popular?

The idea of product-led growth rose in popularity long before it exploded in the B2B space. B2C SaaS companies were already altering the way customers thought about, used, and purchased software back in the mid-2000s.

With so many consumer applications on the market offering intuitive UI/UX, self sign-up, and hands-off onboarding, users started to wonder, "Why do I have easy access to beautiful, intuitive software at home but not at the office? What gives?"

This rallying cry resulted in what we now know as the consumerization of tech, a phenomenon where corporations adopt consumer-like solutions for business use. As B2C software continues to adopt a customer-centric mindset, B2B software is expected to do the same. Now, B2B SaaS companies are using product-led tactics, offering flexible pricing options, and operating with a "customer first" mentality to keep up with rapidly changing market demands.

This new way of buying explains the sudden rise in popularity of PLG in the B2B SaaS space: if you don't offer your customers a choice, your competitors will.

End users are the new key stakeholders

Back when the software industry was in its infancy, the only way to sell your product was to pitch it directly to a CIO and work through all the nitty-gritty product details. Those days are long gone. Today, executives are becoming less involved in the software buying process.

Now, end-users are a common entry-point and key stakeholder for many SaaS businesses—and a product-led strategy makes it all possible.

“Just as enterprise software shifted from on-premise to SaaS, we’re in the midst of another shift… from enterprise sales & deployment (top-down) to consumerization sales & deployment (bottom-up).”

Michael B. Gilroy,
General Partner at Coatue Management

Users are prioritizing self-service and intuitive onboarding

"Why sit on a long sales demo when I can just figure it out myself?" is the internal dialogue of many B2B SaaS buyers.

Unless you're selling a highly complex product like an ERP, many buyers don't have the time (or patience) to sit through a lengthy demo with a follow-up pitch. Instead, these customers expect to sign up, learn the basics, and start using your SaaS for immediate ROI.

In a product-led model, SaaS companies are meeting these new customer expectations through intuitive, self-service onboarding.

PLG companies often facilitate user onboarding through:

- Free trials
- On-demand training
- Interactive guides
- In-depth knowledge bases
- Community groups and user forums

Notice how none of these processes involve a one-to-one interaction? Self-service onboarding makes it possible for new users to quickly grasp the fundamentals of your SaaS without pulling additional resources from your sales or customer success teams.

PLG creates new business opportunities down market

Building a SaaS product is easier than ever before. With the rise of no-code platforms, APIs, and modular tools, developers no longer need to build everything from scratch. The efficiency of these tools is great news for aspiring tech entrepreneurs who want to launch new ideas without breaking the bank.

However, it's also created a ripple effect in the marketplace. **Lower startup costs mean more products are flooding the market, and as competition rises, so do customer acquisition costs.**

The rising costs associated with market saturation are causing many businesses to rethink the traditional sales-led approach. Instead of wasting sales resources competing over smaller accounts, a product-led approach allows SaaS companies to target the end user and win accounts from the bottom up. As an example of PLG's effectiveness, 80% of the Enterprise Tech 30, a list of the best enterprise tech startups in 2022, have adopted (or were built from the ground with) a product-led growth model.

When we started AdEspresso, we adopted PLG from the get-go... Our team was exceptionally good at content and building usable products. PLG was just a natural choice.

When we sold to Hootsuite, we were at $6M+ ARR and still didn't have a single sales rep!

Massimo Chieruzzi,
Former CEO & Co-Founder of AdEspresso,
GM of Ads at Hootsuite, & Co Founder and CMO of Breadcrumbs.io

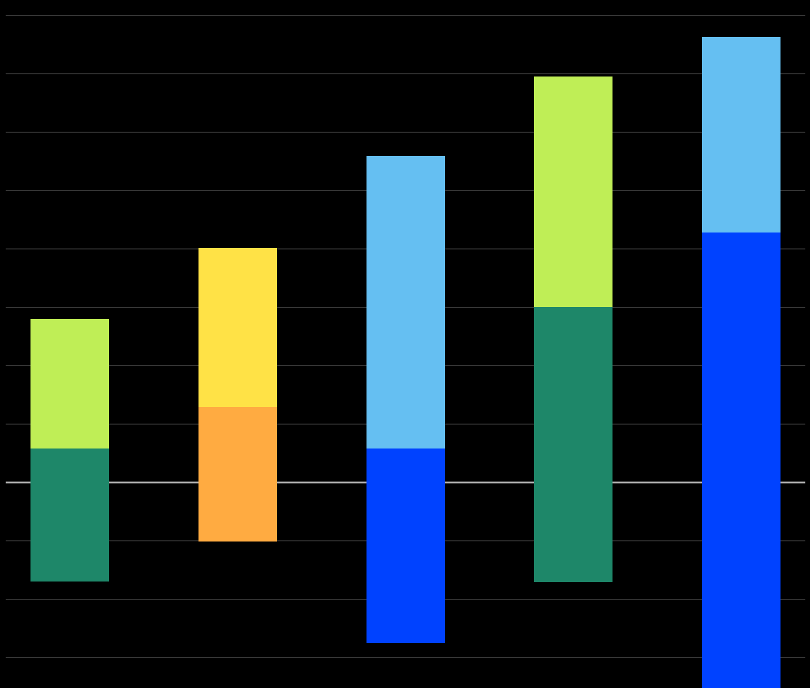
Customer acquisition costs are lower in a product-led model

According to ProfitWell, CACs are on the rise, and customer willingness to pay for features is dropping. So on one hand, we have rising costs, and on the other, we have a lower willingness to pay. You don't have to be a financial whiz to understand that this means your expenses go up while your profitability goes down. By using their product as the main customer acquisition channel, **PLG companies don't have to spend nearly as much on labor-intensive sales outreach or lead-driven marketing campaigns.**

But there's a catch—a product-led strategy has its own unique set of startup costs, including significant investments in research and development, additional server space, and increased customer support.

Based on a study by Crunchbase, the typical rule in SaaS for a growing and mature software company is 40% of revenue is spent on sales and marketing, 20% is spent on product/R&D, and 20% is spent on general and administrative expenses. Put simply, it's the rule of 40/20/20. These numbers stand in stark contrast to a PLG purist company like Atlassian, who spends a whopping 47% of their revenue on R&D compared to only 16% on sales and marketing. They're truly committed to building innovative products that sell themselves.

How to determine if product-led growth is right for you



Quick disclaimer: product-led growth isn't right for everyone, nor is it an "all or nothing" approach. Many successful product-led SaaS companies use a sales-assisted model to negotiate contracts and nurture relationships with enterprise customers. But no matter how you look at it, product-led tactics are influencing the modern SaaS buying process, and B2B companies need to stay agile to adapt.

So, let's determine if incorporating a product-led motion makes sense for your organization. Whether you're a seed-stage company or on your series X, in order to make the transition to product-led, some of the following must be true.

01

Your product can drive customer acquisition

If you got rid of all your lead-gen efforts and sales outreach next quarter, what would happen to your acquisition rates? If your current customer acquisition strategy depends heavily on outbound tactics, you should consider how a product-led model will replace, supplement, or support your existing processes.

02

You have clear product differentiation

A product-led model naturally invites many different users to try out your product/service. Think of it as window shopping for software. Whether or not you retain those users depends on the unique value of your offering.

By demonstrating clear product differentiation—whether through serving a single vertical, offering a custom pricing model, or addressing companies in a specific market stage—your SaaS stands a better chance of standing out in a crowded marketplace.

03

New users can easily onboard themselves

Self-directed, hands-off onboarding is a staple of product-led growth. New users should be able to get started with limited interaction from anyone in your organization. If your SaaS requires a lengthy implementation process or several one-on-one training calls to onboard new users, a product-led model may not be right for you.

04

You're able to offer a free trial

A [freemium business model] allows product-led SaaS companies to build up a large initial user base at no additional cost. It also solves a common problem found in sales-led models: too many paywalls early in the buyer's journey prevents prospects from experiencing your product/service's value firsthand. A freemium offering breaks down those walls and gives users a clear path to discover your SaaS.

If you're unable to offer a free pricing plan due to a restrictive software, an advanced solution built for B2B SaaS may be what you need . If product complexity is the barrier, try offering an interactive resource that demonstrates why your product is worth the investment. (Hubspot's website grader and CoSchedule's headline analyzer are two great examples of this.)

05

You're prepared to rethink your growth strategy

In PLG, growth needs to be interwoven throughout the product experience, and that experience should be designed for virality. The best way to spread product awareness is through a seamless user experience and quick time-to-value—the faster users can get started with your SaaS the better.

Product-led growth means taking a "bottom-up approach" to acquisition and expansion. In this case, your users should be championing your SaaS, not just your salespeople.

06

You understand the high costs of product development

According to Alex Kracov, former VP of Market at Lattice, "The main downside to PLG is that you need to invest more into product development, as you're relying on the product to close the deal. Companies also get less insight and control into the customer's experience. Product-led growth doesn't work well for software that requires high-touch implementation. At Lattice, we used a hybrid approach where prospects would first meet with the sales team, then get access to a free trial to experience the product."

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How will product-led growth affect my company?

This is the million-dollar question. A product-led model will impact your entire organization significantly, from your GTM to roles and responsibilities to goals and KPIs.

Here's what you can expect:

Department roles and responsibilities will change

A product-led acquisition method is very different from the traditional sales-led approach. You know, the one where:

1. Marketing generates leads
2. SDRs and BDRs generate pipeline
3. An account executive closes the deals
4. Somebody bangs a gong

This is still an incredibly effective model, but not if you're set on a product-led growth framework.

Incorporating a product-led motion will force your organization to think differently about how your departments support users throughout their customer lifecycle.

Here's how your department's roles and responsibilities will shift.

Department roles and responsibilities will change

Marketing will be more focused on increasing product adoption and usage instead of just cranking out MQLs each month. They are responsible for building a strategic narrative around the product and nurturing Product-Qualified Leads (PQLs)—these are users who have already experienced value from your product/service. Additionally, PLG marketers will need to put more emphasis on inbound marketing channels—SEO, brand marketing, email nurtures, content, and community—to raise awareness and help new users discover their products.

Sales will track more than just Marketing Qualified Leads (MQLs), but Product Qualified Leads (PQLs) as well. PQLs are determined by different product signals—free trial deadline, number of product users in a company, etc. Sales reps will look for companies that hit a certain product threshold. From there, the sales rep will reach out one-on-one.

In the product-led sales motion, sales reps need to be consultative. Their primary job is to help existing customers build a case for why they need to purchase an enterprise subscription. This also means that sales will be introduced later in the buyer's journey. Instead of cold calling and running through a demo, sales teams will act as a support function—similar to a customer success motion. When a user is ready to upgrade their plan, an account executive will help them put together custom pricing and packaging.

Product will spend more time creating an intuitive and seamless user onboarding experience that allows users to self-educate and get immediate value from your SaaS. They'll also continue to collaborate closely with other teams and current customers to make informed decisions about your product roadmap, as well as your pricing and packaging.

Customer Success will continue to double down on retention and renewal metrics to make sure users who sign up for your SaaS stick around. They'll also distribute firmographic data to inform other departments which users contribute the most to your ARR, NRR, churn, etc.

They also have tremendous influence over upsells and account nurtures. A CSM is often the first person paid customers speak to. Because of this dynamic, Customer Success plays the important role of customer champion and helps determine whether or not target accounts convert to an enterprise deal.

Finance will need to develop a system to account for the complex pricing within a product-led framework. Many product-led organizations use a mix of free trials, usage-based pricing, and other hybrid models to meet the pricing needs of all their users. Finance teams will also need to account for a change in their billing methods, such as switching from invoicing to automatic billing linked to a credit card. Finance teams can use advanced financial operations tools to recognize recurring revenue and track growth metrics that are specific to PLG companies.

Pricing will become one of your biggest growth levers

Pricing is a blind spot in many B2B SaaS companies where lead generation and customer renewals are seen as the MVPs of revenue generation. The thing is, capturing leads and maintaining strong customer relationships isn't cheap. The power of pricing is that it requires no additional investment of your organization's time or money. It just works.

In OpenView's Expansion SaaS Benchmarks study, they found that **98% of companies' pricing changes had either a positive or neutral impact on their growth**. When the numbers look this good, it's a clear sign that SaaS companies should review and reiterate their pricing on a regular basis.

For example, product-led companies often deploy usage-based pricing to accommodate individual users who convert after a free trial has ended. Instead of being cornered into an annual contract or monthly subscription, customers can "pay as they go." This pricing strategy aligns perfectly with the customer-centric philosophy of product-led growth.

That said, pricing changes aren't just about meeting customer expectations—they're also one of the most valuable acquisition methods PLG companies can use. Flexible pricing allows product-led SaaS companies to offer free trials and freemium offers to new users, which is what fuels the "bottom-up" sales process found in many product-led organizations.

Your most valuable metrics and KPIs will change

Traditional SaaS KPIs were established by Dave Mclur all the way back in 2007. He called them “pirate metrics” because they spelled out “AARRR!” (Acquisition, Activation, Retention, Referral, and Revenue.)

We don’t have anything against these metrics (or pirates), but they aren’t designed to capture the unique growth trajectory of a product-led company. Instead, here are a few key metrics that capture the unique value of a product-led model.

Time to value
Time to value (TTV) is the amount of time it takes new users to reach their first “aha” moment or receive value from your product. Time to value could also be looked at as the time it takes users to go from prospect to product-qualified lead. While a prospect may already be registered in your CRM as a potential lead during sign up, a short TTV increases the likelihood of a free-to-paid conversion.

Product-qualified leads
Product-qualified leads (PQLs) are users who have completed a key action within your product and have seen the value that your product can offer first hand. In other words, they’re probably the warmest leads that your sales team is going to get in a PLG framework.

To pinpoint the action(s) that prospects need to take before they’re considered a PQL, interview customers, listen in on calls, and put out surveys to find when prospects are willing to pay for your product/service.

Expansion revenue
Expansion revenue—also called expansion MRR—measures the revenue generated from existing customers through upsells, add-ons, cross-sells, etc.

Although it’s often overlooked in favor of net new acquisition, expansion revenue is easily one of the most important levers for product-led growth in SaaS.

This metric is also crucial for sales-led companies interested in adopting a product-led motion. Tracking expansion revenue across a cohort of users who are trying out a product-led offer is an important first step to “PLG-ifying” your business. Increased revenue expansion across PLG product offerings also makes it easier to get internal buy-in on scaling a product-led or hybrid GTM strategy.

Virality
Product virality occurs when a product’s rate of adoption increases exponentially with each additional user. Viral growth is measured by tracking the conversion rate of users who were invited to use a product/service by an existing user.

Take Calendly, for example. By sending a calendar booking link to users who don’t already use the tool, existing users promote the product in the context of its use.

Is sales-led growth dead?

The short answer is no, sales-led growth is alive and well, and it's not going anywhere. A sales-led growth model gives B2B SaaS companies plenty of superpowers, including:

1. The ability to close on customers with high annual contract values
2. A competitive advantage over niche verticals and markets
3. One-on-one interactions and objection handling with new customers
4. Preferred vendor relationship for heavily regulated industries like government services and public health.

Not to mention, the traditional sales-led approach makes it easy for many enterprise companies to support new customers through negotiations and implementation.

So no, sales-led growth isn't dead—but it is changing. Many sales-led companies have a smaller total addressable market (TAM), so to achieve future growth and avoid stagnation, **they're adopting PLG tactics to monetize their existing user bases**.

One such company is Logz.io, who took self-service from 0% to 50% of new customers in only 12 months. What started out as an adaptive move to help Logz.io align with buyer behavior turned out to be a powerful way for them to open up the market and take advantage of incremental opportunities while giving themselves new paths to build on their existing success—this is the power of a hybrid model.

Product-led growth doesn't mean product-only growth

Introducing product-led growth into your company doesn't have to mean changing your entire strategy. In fact, the best GTM strategy for your business likely won't come down to just product-led or sales-led, but a blend of the two.

If you observe the average sales headcount of early-stage product-led companies, you'll find that many have already laid the foundation of a hybrid model because (in most cases) a strong sales team is what ultimately allows them to scale and maintain their hold on the market.

In a study that analyzed the growth trends of 495 product-led companies, Peersignal found **the percentage of sales headcounts at product-led companies increased along with total employee growth**. In short, as product-led companies begin to scale, they lean further into a sales-assisted or hybrid model.

Sales Headcount as % of Total	PLG Index Averages	B2B Index Averages	Difference
Scaled (>1000 EE)	16%	18%	2%
Established (300 - 1000 EE)	14%	17%	2%
Growth (100 - 300 EE)	12%	16%	3%
Venture (30 - 100 EE)	8%	14%	6%

(Source: Peersignal.com)

Achieving growth through a hybrid model

At first glance, product- and sales-led initiatives seem like opposite strategies, but the reality is neither exists in a vacuum. In most cases, the best GTM strategy includes a mix of the two. By taking a hybrid approach, you get the benefits of product-led growth—scalability and faster client activation—while directing your sales team's effort toward nurturing relationships with enterprise customers.

The shift to a hybrid model typically manifests itself in one of two ways:

1. Fast-growing product-led companies adopt a sales-led motion to expand and create new business opportunities upmarket. While product is still the primary driver of acquisition, sales teams are introduced to manage larger accounts, negotiate complex contracts, and future-proof operations.

2. Sales-led companies adopt a product-led motion to meet changing customer expectations and diversify their growth strategy. PLG tactics give sales-led companies the opportunity to experiment with low friction, self-serve models to gain more customers and monetize their existing user base.

When (and how) should sales-led companies go hybrid?

> *[If you try to change everything all at once,] the antibodies are going to reject it. Everybody in your organization is used to doing things a different way. So you have to carve it out. Put dedicated people on it until it's big enough that the antibodies can't force it out, and it becomes your business. Then you merge everything back together.*

Kipp Bodnar,
Hubspot CMO

When (and how) should sales-led companies go hybrid?

Introducing a product-led motion is a big shift for SLG companies—a shift that affects your product, operations, customer enablement, and culture. That's a lot of change. For established sales-led companies, diving right into a product-led model can seem more disruptive than productive. Since introducing a new growth model is a cultural change as much as it is an operational one, when you choose to make this shift matters. You'll need both internal and external buy-in as well as momentum to support it. Good times to introduce PLG may be when you're:

- Rolling out a new product
- Making a major product update
- Acquiring another company or product
- Announcing a company-wide rebrand

But most importantly, the switch to a hybrid model should be spread out into bite-sized pieces. **Start your product-led journey with a single product.** Instead of completely removing sales from the equation, sales-led companies can hire or train a dedicated product-led team to manage, roadmap, and test a single product to see how it performs in the market. Based on its success or failure, you can make an internal case to the rest of your company to conduct more product-led growth experiments and create new opportunities.

"

Experimentation is a huge part of our growth infrastructure. In 2012 we were running 2-3 experiments per month. These days we're doing 80 per month. We're constantly running experiments. This is driving more than $100M in incremental revenue every year.

Todd Jackson,
Former VP of Product at Dropbox

What you need to implement a hybrid model

It doesn't matter whether you're currently product-led or sales-led. If you're looking to scale, both are needed. Customers want more control over what they buy, when they buy, and how they buy your SaaS—sometimes that means getting started on their own, and sometimes it means talking to a sales rep.

It's your job to give buyers options. If you don't, your competitors will.

However, the flexibility afforded by a product-led or hybrid model is only possible when you have the systems and tools to support it. This is the main hurdle that SaaS companies, specifically sales-led ones, face when transitioning to a hybrid model—they soon find they don't have the tools they need to quickly develop and maintain flexible pricing and packaging.

Once your front-office teams finally figure out a way to build and manage a PLG product catalog, the problem shifts to finance's shoulders as they attempt to recognize and report on this new revenue model while maintaining GAAP/IFRS compliance. This friction puts sales/product and finance teams at odds with each other, especially when creating a competitive GTM strategy.

But you shouldn't have to choose between flexibility and your finance team's sanity. With Maxio, you don't have to.

Maxio is the leading provider of financial operations and subscription billing management for B2B SaaS businesses. Our platform covers the full spectrum of the subscription lifecycle: subscription management, recurring billing, automated revenue recognition and compliance, and drillable SaaS metrics.

With Maxio, you aren't forced to choose. Create the go-to-market model you need to break into new markets and increase retention by giving customers the options they're looking for.

Learn more about Maxio →

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