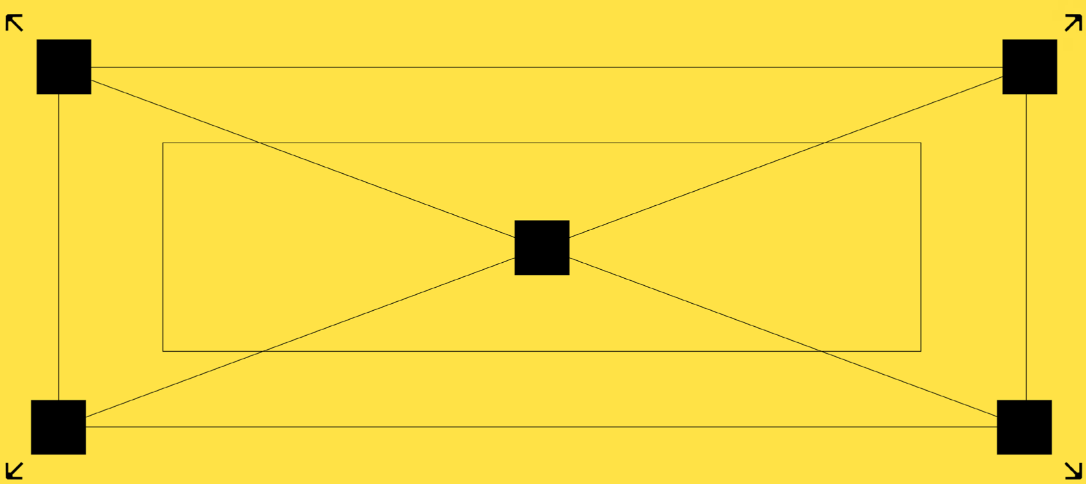
Scaling During a Recession

Winning Strategies for SaaS Leaders



MAXIO

Over the past few months, the SaaS community has been hit particularly hard by economic uncertainty.

Inflation is rising, VC money is in short supply, and SaaS leaders are holding their breath to see how markets will swing. With a potential recession fast-approaching, B2B SaaS companies need to be well-equipped to navigate the downturn unscathed.

Our goal with this guide is to provide you with actionable strategies and tactics that you can implement across teams (Leadership, Product, Customer Success, Finance) to survive and thrive in volatile economic conditions.

What's inside this guide

In the following pages, you'll hear insights from pricing consultants, fractional CFO's, and SaaS veterans on:

- → Pricing strategies to maximize revenue while reducing spend
- → How to retain users when churn is on the rise
- → How to extend your cash runway and reduce burn rates
- → Which financial metrics and KPIs you should be tracking
- → Proven methods for protecting your most valuable financial asset: cash

But first, a quick note on the VC landscape.

Relying on VC Funding to stay afloat? Think again.

After several years in which capital flowed freely and the entire venture capital ecosystem and startup market marched in lockstep toward bigger, faster rounds at higher prices, the days of easy money are over.

The big global venture capital pullback we were all expecting is finally here.

In the first three months of 2022, global funding fell 19% to $144 billion from Q4 of 2021—the largest quarter-over-quarter percentage decline in nearly 10 years.

Now, the global venture ecosystem continues its slowdown in Q3 of 2022 as funding decreases 34% quarter-over-quarter. This steady decline in SaaS company valuations and exits has mostly affected later-stage deals, and it's now trickling down to the rest of the private markets. With VC rounds in short supply, many SaaS founders feel torn between raising a down round and keeping enough cash in reserve to stay afloat.

We believe you don't have to raise another round just to beat a market downturn. It's time to batten down the hatches and start taking action to ward off churn, maximize revenue, and maintain financial stability.

Let's dive in.

Table of Contents

MAXIO

Part 01

Implement flexible pricing and billing models

Keep this in mind before you raise prices

When inflation hits, most SaaS companies increase prices to address rising costs—but every price range has a ceiling, and your customers' willingness to pay isn't likely to go up during a downturn.

Should stagflation occur (in which inflation persists well into the recession), **SaaS companies will need to get a lot more sophisticated in their approach to pricing.**

That means replacing broad-based price increases with strategic increases that connect the dots between the amount you charge and what your customers value. That being said, not all of your customers will be able to handle a pricing hike. However, raising prices for specific customer cohorts or product lines could actually increase long-term loyalty.

How to introduce a price increase during a downturn

1. Conduct a customer cohort analysis to identify accounts with high ACVs or CLVs—your highest paying customers will typically be able to withstand an increase in price.
2. Develop a revised pricing plan based on your pricing model (per user, usage-based, tiered pricing). Once you've landed on the right pricing plan(s) for your users, implement the advised strategies below to help achieve your goal (beat inflation, hit revenue targets, etc.).
3. Communicate your pricing change in advance to ward off churn and maintain healthy relationships with your customers.

(Did we mention that you can execute each step in this process with Maxio?)

Effective pricing plays for navigating a market downturn

What do you do when customers are less willing to pay for your SaaS?

Your first inclination may be to encourage new signups with price discounts. This is simple and sometimes effective, but beware: unnecessary discounts can dilute the value of your SaaS.

Before you put a red slash through your list price, consider this: **you can offset your customers' lowered willingness to pay by implementing flexible pricing and billing models.** The key is finding a price point that benefits both your customers and your bottom line.

Brian Martell, Head of Product Marketing at [Mosaic], offers the following strategies to help SaaS companies maintain pricing integrity during a market downturn:

1. **The Barter Method**
   Discount your list price in exchange for a commitment for case studies, G2 crowd reviews, or customer references. These marketing activities have economic value in their own right, and will help you increase ARR through customer acquisition.

2. **The Freebie Offer**
   Offer one or two months of your product for free. You'll take a small hit to revenue in year one in exchange for a long-term agreement, which will pay off in year two and beyond. This method also protects your reputation in the marketplace by avoiding discounts on your list price.

3. **The First Class Treatment**
   If you have tiered pricing plans (i.e. basic, business, enterprise), offer your mid-level plan at the same price as your first-tier plan for one year with the stipulation that your customer will move up to the mid-level price in year two. This tactic helps introduce advanced product capabilities to new users and protects your overall list price from dropping.

4. **The Value Play**
   Offering non-monetary perks gives your buyers more value for the price. This feels like a discount because the psychological mechanics of discounts are all about relativity—instead of getting the same amount for less, they feel like they're getting something extra for free.

   Examples of perks:
   - Premium support
   - Quarterly 1:1 sessions with the executive team
   - Sneak previews or early access to new features or special prices on new features
   - Free tickets to an annual user conference

   The strategy here is that it's better to take an immediate hit on OPEX (operating expenses) or services fees than on your long-term ARR.

5. **The "Payday" Strategy**
   If you're really tightening your belt, the 'payday' strategy is a great way to ensure faster collections and avoid cash flow issues. Here's how it works:

   Offer a discount on your list price in exchange for more favorable payment terms. Instead of net 45, require net 30, for example. The hit to ARR will be made up for by faster cash collection and more cash in the bank to fund the business. This is a solid option for early-stage businesses who are worried about cash flow or who don't have the cash runway needed to keep them in business.

∗ **Bonus: Introduce Value-Based Pricing**
If you're strictly charging per user or per seat, you could face serious drop offs in revenue during a recession.

As discretionary spending decreases, many of your customers could try to eliminate their user seats or licenses as a way to save money—all at the expense of your bottom line. Adopting a value-based pricing method like [usage-based pricing] ensures you're not pigeonholing yourself by offering customers flexible payment options.

Communicate a pricing change to your customers

Restaurants, airlines, and publicly-traded software companies are quick to raise prices when economic conditions change. So why don't SMB SaaS companies do the same? Why don't they adjust pricing more frequently, test higher price points, or at least peg monthly rates to inflation?

Scott Hurff, Co-founder and CPO of Churnkey, has a hypothesis. After speaking with hundreds of SaaS founders and operators, Hurff realized that a failure to change pricing and packaging comes down to a fear that growth will fall, that there will be a massive customer backlash, or that one's reputation will be destroyed.

> If you're feeling pricing pressure in your business, it's possible to raise prices with proper telegraphing. Be open and honest about the changes, give [your customers] plenty of time, and don't make it about you. The key here is empathy. If a pricing increase is difficult for any of your customers, find an equilibrium that works for both of you.

Scott Hurff
Co-founder & CPO, Churnkey

Finally, if you've decided to increase your list price, be sure to communicate the change in price early and often.

For smaller accounts, you can schedule email outreaches at regular intervals leading up to the final date of the pricing change. For large, enterprise accounts with high ACVs, consider having a Sales or Customer Success rep walk your customer through each element of the newly proposed pricing plan.

Not only does communicating early allow your customers to review their budgets, but it gives you ample time to address the concerns of any customers who are considering canceling their subscription as a result.

Future-proofing your SaaS pricing strategy

Pricing plays a big part in the three fundamental goals of every SaaS business:

01
Maximize ARR

02
Protect ARR annuity

03
Optimize cash collection

"There's an always-on balancing act between these three things," says Martell. "For example, lowering your prices can result in a higher quantity of deals, but at lower ACVs. Similarly, offering discounts off list prices in exchange for faster payment terms means cash in the door faster, but lower ARR. It's helpful to keep this foundational 'push-and-pull' context in mind before making hasty pricing decisions."

There's no question you'll have to get creative on pricing in a downmarket. **The key is to make sure if you give up something on price, then do everything you can to get something back in exchange.** Quid Pro Quo.

Martell adds, "The easiest and most impulsive thing to do is lower your list price. Make the product cheaper, and more people will buy it. While this is true (basic supply and demand), you'll need to be careful with this approach. Try to make this your last resort option. It increases your CAC ratio, lowers ACVs, hurts your unit economics, and sends a message to buyers that you don't really have confidence in the value of your product. If you did, why would you be willing to discount 20%, 30%, 40% of that value?"

The pricing balancing act and long-term effects

When growth stalls, it's tempting to start pulling all your growth levers in an attempt to hit revenue targets. The problem is, rapid changes to your pricing and packaging is more of a knee-jerk reaction than a viable long-term strategy. Martell agrees that this type of impulsive decision-making won't do your business any good.

→ ***Summary: smart pricing isn't a silver bullet***

You can't outstrategize or outmaneuver the natural ebb and flow of market demand, and it's important to keep this in mind when evaluating a new pricing strategy.

If you're still experiencing spikes in churn or stalled growth after running a pricing experiment, recognize there are larger macroeconomic factors at play. Don't keep running endless pricing experiments in hopes that something will stick.

Making changes to your pricing and packaging too often signals to your customers that you're not sure how to properly value your offering. Instead, take a slow, iterative approach. Run A/B tests and evaluate your SaaS metrics and analytics to determine if your sticker price is supporting your broader monetization strategy.

Part 02

Doubling down on customer success

In a market downturn, customer loyalty is either earned or lost. It's a moment of increased churn, with customers more aggressively scrutinizing spending and looking for the best-value alternatives. That's why SaaS companies who double down on customer success are well positioned to beat a market downturn.

Research has shown that retaining customers is cheaper than acquiring new ones, and that improving retention by just 5% can drive profits up over 25%. If your company's NRR sits at 100% (or more), you'll be able to maintain or scale growth—even if your sales team has nothing in the pipeline. That's the true value of an experienced customer success team.

Now let's dive into the strategies that make this possible.

Optimizing your customer success process

To start, let's address a common problem within the CS function.

Customer Success reps often feel like they're playing defense. They often don't have accurate customer data to help them determine where they should be spending their time, and, as a result, spend most of it responding to the loudest voices. This failure to prioritize at-risk accounts leads to potentially over-servicing accounts that are likely to churn anyway while neglecting those that could be saved or nurtured.

To avoid the confusion of mixed customer signals, the Customer Success reps here at Maxio run an in-depth cohort analysis of all their target accounts before servicing them. Using Maxio's advanced subscription momentum report, they can filter accounts by highest ARR, lowest ARR, and customer health score. They can also drill down further to organize target accounts based on industry, sub-industry, employee headcount, etc.

Advanced Subscription Momentum

Run Quick Edit Edit Save As... Delete Definition Export▾

Momentum (USD)

Category / ↳ Customer: Industry / ↳ Customer: Name	Customer: Number	Item: Name	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18
⊞ Opening			-	8,042	16,337	23,704	34,383	44,351	51,755	51,713	63,180	85,551	101,079	103,607
⊟ New			8,042	7,271	6,342	9,804	8,764	6,283	-	8,937	18,204	7,334	3,377	3,754
⊞			-	-	-	-	-	-	-	4,167	11,000	-	-	200
⊞ Biotechnology			1,025	1,025	-	1,708	1,313	-	-	-	-	-	288	-
⊟ Commerce and Shopping			1,275	-	2,050	250	-	833	-	-	-	-	-	-
AdvisorEngine	2018-574	Astonish Enterprise	250	-	-	-	-	-	-	-	-	-	-	-
ThoughtSpot	2018-597	Astonish Nano	192	-	-	-	-	-	-	-	-	-	-	-
ThoughtSpot	2018-597	Astonish Platform	833	-	-	-	-	-	-	-	-	-	-	-
		(6 hidden rows)			2,050	250		833						
⊞ Communications			-	1,025	-	-	-	1,313	-	1,025	-	-	-	-
⊞ Construction			-	-	-	-	-	583	-	-	-	-	-	-
⊞ Consulting			-	-	-	-	-	1,025	-	-	-	-	-	-
⊞ Electronics			1,000	-	-	1,025	-	-	-	-	-	-	-	-
⊞ Engineering			1,217	-	-	-	-	-	-	-	-	-	-	-
⊞ Finance			-	-	-	1,313	-	-	-	-	-	-	-	-
⊞ Gaming			-	-	-	-	-	-	-	-	-	1,217	-	-
⊞ Healthcare			-	-	-	-	1,313	-	-	-	-	-	-	-
⊞ Hospitality			-	-	-	-	-	-	-	-	-	109	-	-
⊞ Information Technology			1,025	-	-	-	-	-	-	-	-	-	-	-
⊞ Manufacturing			50	-	1,025	1,121	1,217	-	-	-	2,337	-	-	-
⊞ Media			2,242	2,146	2,242	1,025	3,938	1,217	-	1,217	-	-	-	1,121
⊞ Retail			-	-	1,025	-	-	-	-	1,313	-	2,454	1,969	-

Once you've broken up your target accounts into individual cohorts, your CS reps can more easily determine when, where, and how to spend their time helping customers. All you need now are proven tactics to retain, cross-sell, and upsell the accounts you're targeting.

Here are a few CS plays you can run to ensure that your customers sign up and stick around.

The Customer Success playbook

01

Provide flexibility on net payment terms

If your customers are experiencing cash flow issues, offer to change their net payment terms and the billing model linked to their account (e.g. switch from annual billing to quarterly or monthly). The ability to adjust payment periods and methods during a downturn will give your customers the breathing room they need to continue paying for your SaaS, instead of canceling their subscription altogether. Additionally, this kind of quick response reinforces customer loyalty (a great contributing factor to your overall CLV).

02

Propose custom offers

Offering discounts and additional features on an as-needed basis isn't a novel idea, however, when your CS reps are able to strategically target accounts that need servicing, you can determine when to give out those freebies.

For example, if you give out "premium support" to every customer who's thinking of canceling their subscription, is it really premium, or have you diluted the value of that offering? Instead, you can easily draw a line in the sand by only offering certain incentives to the customers who are a part of your highest quartile of ARR. In order to use this tactic effectively at scale, you should have a solid understanding of the value of your proposed offering and the benefit it provides to your customers.

03

Monitor product usage to identify upsell opportunities

To make up for lost revenue on new accounts, you can monitor product usage among your existing customers to identify upsell opportunities instead. According to our recent report, data found that more frequent product usage monitoring helps SaaS companies identify up-sell opportunities earlier and identify product usage trends, which can lead to increased customer satisfaction and net dollar retention rates.

The Customer Success playbook

04 Introduce a cancellation clause

Provide a clause in a customer contract wherein the customer has to give notice a certain number of days before canceling their subscription. Oftentimes, you'll have customers asking how many days are required to provide notice—this is a huge signal for you to activate your CSM team to stop churn before it happens.

Not only does providing a cancellation clause give you a chance to win the customer back, it gives your finance department ample time to account for this loss of revenue when conducting financial planning. Similarly, your sales and marketing teams can shift their pipeline and leads generated goals to recoup lost revenue in the next month or quarter.

05 Offer up an alternative pricing plan

If your customers feel that they can no longer afford to meet payments for your SaaS on an annual, quarterly, or monthly basis, offer to switch them to an alternative pricing plan, such as usage-based pricing. With usage-based pricing, your users can continue to use your SaaS without spending more than they're able to afford.

Before you go handing out discounts, keep this in mind

None of these decisions should be made in a silo—especially when offering discounts or pricing changes at the account level.

You should loop in your Sales and Finance departments in advance so you can provide customer support that ties directly back to your organization's revenue and financial goals. But most importantly, the greatest asset to all your teams is the ability to have these conversations and make decisions at rapid pace.

You can streamline the entire decision-making process by having all your departments operating off of a centralized set of SaaS metrics and analytics that are based on the same data as your financials. (This just so happens to be something we at Maxio help SaaS companies do every day.)

Part 03

Maintaining financial integrity

Every trip to the boardroom will eventually result in a tough, long look at the company balance sheet.

What do our bookings like for this month? Are you monitoring cash usage effectively? How much longer until we'll see a return on our investment?

Dramatics aside, it's common to have a healthy blend of scrutiny and unwavering support from your board and investors. These feelings are only amplified when the market hits the bottom of the trough.

If you want to keep your board off your back and get real-time, accurate updates of your company's financial standing, start by reevaluating your current financial model.

Start with a strong financial model

Having a centralized dashboard view of what is happening in your organization financially and how that's going to change in the future is the most important aspect of an effective SaaS finance and accounting function—especially during a downturn when private and public markets could swing either way.

Finance teams need to be able to drill down into their financials, and your company's master Excel spreadsheet with 20+ color-coded columns and endless rows just won't cut it. To ensure financial integrity during a downturn, you need a centralized dashboard that provides visibility of the following metrics:

→ **Revenue**
You need summary totals by account for invoicing, revenue, deferred revenue, and unbilled A/R. Additionally, your finance department should have tools available that make it easy to pull detailed journal entries. These journal entries are necessary to book month-end revenue, liabilities, and assets.

→ **Rollforwards**
Your model should allow you to view the changes in deferred revenue and A/R during a specified time period.

→ **Contracts**
Internal stakeholders need the ability to see revenue, deferred revenue, and invoice waterfalls at a moment's notice.

→ **A/R aging**
To keep cash flow consistent, you'll need tools to track how much each of your customers owe you, grouped by days past due.

→ **A/R health trends**
Trends in your A/R allow you to check the composition of your A/R balance over a period of time based on how long invoices have been outstanding.

→ **Days sales outstanding**
Your DSO will allow you to find out exactly when invoices are being paid, so you can maintain consistent cash flow month-over-month.

Once you have high-level visibility of these metrics, you can start charting the course and planning scenarios for navigating a down market.

Brainstorm future scenarios: should you play offense or defense?

Bain & Company research has found that companies make more dramatic gains and losses during downturns than during stable periods.

If you want to ensure you're a part of the winning majority, you need to make a realistic assessment of your company's strategic and financial position first. In what areas are you strong or weak? How do you compare to competitors in your space?

Strategic Position	Financial Position
• Total market share	• Margins/unit cost position
• Product portfolio vs. competitors	• Recession sensitivity
• Customer loyalty	• Balance sheet/liquidity
• Industry exposure to recession	

By making an accurate assessment of your starting position, you'll understand which recessionary levers need to be pulled in order to grow. For example, if you have both a strong strategic and financial position, then it's time to play offense. You can afford to push the envelope on market share, leadership, and growth.

But what if you're short on cash? In this case, it's advisable to focus on your core products and services. Without VC funding or extensive cash reserves to fall back on, the potential reward of "growing for growth's sake" is not worth the risk.

To determine your financial position, you should integrate cash flow forecasting into your profit and loss outlooks and scenario modeling. In simpler terms, you need to know when, where, and how cash is being used throughout your organization, as well as how much cash is coming in the door each month.

While you're digging into your accounts payable and receivables to determine your future cash position, you also need to stay focused on what's right in front of you. You can get a grip on your current financial standing by consistently running your budget vs. actuals.

Keep your finger on the pulse with budget vs. actuals

When you run your monthly budget vs. actuals, pinpoint where your assumptions were right and where they were wrong. The best CEOs and financial leaders should have their fingers on their company's financial pulse, so they can make changes (like reforecasting or making budget cuts) very quickly.

SaaS leaders who don't keep up with the financial standing of their organization often end up losing money and are forced to raise in a down round or make severe budget cuts to recoup their loss in profits. You don't want to find yourself in either of these situations.

Protect your most important financial asset: cash

Cash is crucial during a market downturn. How can you ensure that you're able to keep as much cash in hand as possible when times are tough?

When crisis strikes, successful SaaS companies immediately take stock of market conditions and start laying the foundation for a solid recovery. The vital first steps are setting up a cash war room, developing a cash flow forecast, modeling profit-and-loss (P&L) scenarios, and initiating greater oversight on spending.

Once your leadership teams have those basic elements in place, you can focus on sustaining a stable liquidity position over the next 12 to 18 months and beyond. An effective plan focuses on two key goals: rigorous liquidity monitoring and actions that can significantly improve—or even transform—your company's cash position.

Maintaining an unflinching eye on cash is critical. This task may feel difficult amidst all the unknowns, especially if the downturn is at an early stage and recovery seems more than a year away. That being said, sustained cash management practices will lay the groundwork for your company to emerge from the market downturn in a position to grow.

How to preserve cash during a downturn

01

Get clear on your burn rate

In order to protect your working capital you need to know your cash burn rate and when your projected "cash out" date is (when you'll go out of business if cash runs out). Once you understand how money is being spent in your business—and at what rate—you can start to cut costs and save the remaining capital leftover.

02

Understand where your expenses are coming from

SaaS leaders should understand their business on a P&L classification basis (how much budget is going towards payroll, software, advertising, and other areas of their business). Once you've got a good handle on your P&L, you can start tackling cost improvement and liquidity protection efforts.

03

Eliminate overspending: the silent killer of SaaS

To preserve cash, you'll need to keep a watchful eye on your spending practices. Use daily spending review sessions to assess whether purchase requests are critical to your business.

However, overspending isn't the main problem. Rather, most SaaS leaders don't know what they're spending money on. How is this possible? This is often caused by a poor AR (Accounts Receivable) process. Even if you have a master Excel spreadsheet to provide visibility into all your financials, you still won't be able to drill down deep enough to see where your money is being spent. Once you've sorted out your AR process, consider expanding the authority of these spending review sessions to oversee other decisions, such as recurring spending, capital expenditures, and hiring.

How to preserve cash during a downturn

04

Consider restructuring opportunities

Restructuring organizations to support cash preservation over the long term is what gets companies through recessions time and time again. You can start by assessing various business units, geographies, channels, and product lines to identify areas that are underperforming. Then, you can determine where to deploy improvement plans and where to implement a broader restructuring plan to reduce drag on your organization.

05

Study how revenue is moving in your business

Before you can make clear predictions on how much cash you'll be able to safely stow away, you need to understand how revenue is moving in your organization over time. What are the movements in your ARR and MRR each month? How much is going towards new, contraction, and churn? Understanding these movements and how they're trending over time will be one of the main focuses of a board meeting during a downturn.

06

Perform regular cash flow forecasting

Ensure weekly cash inflows and outflows match the short- and long-term forecasts. Improve forecast accuracy where there is high variance. Refresh cash flow forecasts as new information arises and monitor key metrics such as available cash and cash burn rate. Continue to track cash collections and pursue customers with outstanding account balances.

A note on budget cuts

Avoid layoffs if possible.

Sometimes they're inevitable, and it's the ugly side of business that most people choose to ignore. However, there are several other areas of the business where you can reduce expenses before trying to shrink the size of your payroll.

If you truly can't stomach the expenses of your current workforce, take inventory of current spend with external contractors first and ramp up/down activities as needed. Then, prevent additional hires, so you're not recruiting FTEs ahead of your revenue/growth goals.

Ensuring job security is a primary contributing factor to a healthy company culture, and it pays off long after the market stabilizes again. Remember, market cycles are temporary, but the company culture you foster will follow you long after.

Navigating the market downturn with Maxio

If you made it this far, you should be well-equipped to take action and plan ahead of a potential recession.

If you skipped to the end, here's the **TLDR version** on how to scale during a recession

- → Implement flexible pricing and billing models to meet the needs of your customers.
- → Double down on customer success to retain users and generate expansion revenue.
- → Build a strong financial model to track your current and future cash position, manage cash burn, and plan future scenarios accordingly.

And most importantly:

- → Align both your customer-facing and non-customer facing teams around a centralized data set of SaaS metrics and analytics to inform better decision making across your organization.

So, how are you supposed to execute on all of this?

By blending the right processes with the right talent and technology, you can create truly dynamic financial planning and adjust quickly and confidently to any dip, trough, or downturn that happens in the market.

About Maxio

Maxio empowers growing B2B SaaS leaders to monetize their business and uncover critical financial insights in an unpredictable market.

Ready to unlock your next stage of growth? Schedule a demo to learn how we're helping B2B SaaS leaders beat the market downturn.

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Learn more →