The Evolution of Business Growth Models: The Path to Customer-Centricity

WHITE PAPER

Let's look back, way back, to the earliest business transactions. For the longest time, there have been sellers and there have been buyers. A seller would hang a shingle and show off their wares.In a customer-led growth (CLG) model, retaining and growing relationships with existing customers is the top priority, and investments go toward Customer Success and customer experience-led departments. A buyer would purchase the items they needed, and the transaction was complete. Business operated this way – with some added complexities here and there – for…forever. It's just how things were done. Until recently.

Within the past two decades, the subscription revolution has dramatically and forever altered the relationship between the buyer and seller. Now, buyers have more options than ever before, and they can switch between those options at almost any time for any reason. The seller used to have all the power, and now the buyer has the power. The dynamic has fundamentally shifted in favor of the buyer. And that shift is significant.

Companies that depended on the traditional buyer/seller relationship struggled to find ways to evolve in the brave new world of XaaS, Anything as a Service. New businesses popped up to fill in gaps in the marketplace. Investors changed how they determine the value of a company. And new business growth models were born.

In the simplest terms, a business growth model is the principal strategy a business employs to maximize its revenue and development. It's usually tied into a go-to-market (GTM) strategy, which details how the business plans on attracting and cultivating a base of customers when it brings a new product or service to the marketplace. If we look closer, though, when a company chooses a growth model, they are making a decision about which internal resources they will invest in to drive the most growth for the business. CEOs have finite budgets, and they want to invest in the departments that will produce the highest return on company valuation.

As Chris Hicken, Co-Founder and CEO of 'nuffsaid (and customer-led growth expert), explained in a LinkedIn post:

- In a sales-led growth (SLG) model, the CEO invests heavily in Sales and Marketing.

- In a product-led growth (PLG) model, the CEO invests in Product and Engineering, emphasizing design and UX capabilities.
- In a customer-led growth (CLG) model, retaining and growing relationships with existing customers is the top priority, and investments go toward Customer Success and customer experience-led departments.

According to Hicken, all three models can help expand a business, but the CEO must choose between them and distribute their budget accordingly. These growth models didn't spring onto the scene out of nowhere. They are the result of continuously evolving market dynamics and consumer demand. To help guide strategic financial and operational conversations with the C-suite, Customer Success leaders need to be aware of the history behind these growth models and be able to demonstrate why customer-led growth is much more than a GTM strategy. It's a blueprint for the business operations of the whole company, and if followed, it can skyrocket your company's growth into the future.

Chris Hicken recently joined us on our webinar, Customer Success Unlocked, to discuss What It Takes to Become a Customer-Led Growth Leader, so he was the perfect person to sit down with for this deep dive into the evolution of business growth models in the path to customer-centricity. I also had the opportunity to speak with ESG's own CEO and resident business expert, Michael Harnum, for insight into this complicated topic. In our conversations, we examined why CLG came about and what Customer Success leaders can do to promote it in their organizations.

Sales-led growth to product-led growth to customer-led growth: A SaaS story

When SaaS came onto the scene, things got a little crazy. Everyone was excited about this newfangled way of doing business, and the industry threw the old rulebook out the window in favor of booming, rampant growth. This environment had companies jumping on the sales-led growth bandwagon in droves.

"In the early days of SaaS, we gave all our money to Sales and Marketing executives because investors rewarded companies that grew at any cost," explains Hicken. SaaS companies were spending all their money on obtaining new customers without any thought to how good a fit the customers were for their products or services. They weren't looking at churn rates. Few were paying close attention to net retention or gross retention rates. Companies were pumping money into their Sales and Marketing efforts while forgetting all about the customer base they were spending so much to woo in the first place. It was inefficient, and investors eventually realized it was a problem.

According to Hicken, "Everything changed in 2015 because Wallstreet said, 'We can't keep giving these crazy valuations to these companies that are losing massive amounts of money through customer acquisition." So, they introduced the rule of 40. The rule of 40 states that your annual revenue growth rate plus your profitability margin should be at or above 40%. Investors will award significantly higher valuation multiples to SaaS companies that hit this metric.

Suddenly, SaaS companies had to find a more efficient way to cultivate a customer base, and product-led growth was the new go-to strategy. An explosion of successful PLG-focused businesses like Calendly, DocuSign, and Figma had everybody clamoring to add the PLG model to their own approach. Unfortunately, there are a few downsides to the PLG engine.

"Product-led growth only works in companies where the product is stupid simple to use," says Hicken. "You have to get a massive amount of value in a short amount of time." It also takes a long time to build up a customer base. PLG businesses depend on one happy customer telling another happy customer telling another, and so on down the line. It can take years for a business to build a significant customer base. Few companies have that kind of time to prove themselves to investors.

To top it all off, true PLG strategy – one where the CEO saves budget dollars by investing less in Sales and Marketing – is a mirage. In reality, these businesses are still investing just as much or more into Sales and Marketing. "I looked up what percentage of Salesforce's staff is in Sales and Marketing on LinkedIn and compared it to product-led growth companies Zoom, Calendly, and DocuSign," says Hicken. "As a percentage of headcount, those PLG companies invest as much or more in Sales." The truth is, there aren't that many examples of businesses genuinely following the PLG formula.

So, if sales-led growth is too expensive and product-led growth takes too long to get going and only applies to a few companies, what other growth levers do we have to work with? Well, this is where customer-led growth comes into play.

Defining customer-led growth

The second issue of Nuffsaid’s 2.0 magazine delves deeply into the meaning of customer-led growth and what CS leaders need to establish and advance a CLG model. Hicken’s magazine defines CLG as a hybrid GTM model that incorporates the best elements of SLG and PLG while enhancing their central principles with a customer-driven philosophy that permeates the entire business.

"The way that I think of customer-led growth is a mix of growth strategies," says Hicken. "If you can, include some product-led growth in your business. Include some sales-led growth. Then, add a third layer of super high-efficiency growth on top of your existing strategy."

According to Nuffsaid, “In a CLG model, the entire company obsesses about the value that customers are receiving.

1. The company measures whether or not the customer has received value (was the planned outcome achieved, and does the customer believe they received value),

2. They use customer data to drive pricing, target market research, the content roadmap, and product decisions,

3. And they make outsized investments in the Customer team.”

For Harnum, CLG is very straightforward. “I think it’s a pretty simple equation. There are no shortcuts. If you have a meaningful product or service in the marketplace, you’re connected with your customers, you understand the value they expect to get out of it, and you’re delivering on that value most of the time, growth will follow.”

ESG is an excellent example of a company that looked at what customers were saying and pivoted the entire focus of the business to meet those needs. "I would argue that we deployed a customer-led growth strategy at ESG before we had any customers," says Harnum. "We launched Customer Success as a Service because we saw that people didn't know how to hire Customer Success Managers. How to onboard them. How to manage them. So, we went to the market with virtual Customer Success Managers. That was it. We kept it small and simple intentionally because we knew that, inevitably, other problems for us to solve would emerge.”

Then, one day Harnum got a call from an unhappy customer. "I love these conversations because they are really revealing. This customer was looking at metrics but unable to benchmark where they were, say, eight months ago, from a capability standpoint. A Customer Success capabilities standpoint. From the angst of that conversation, the Customer Success Maturity Assessment was born.”

ESG built this assessment to meet the needs of that one customer but then saw how powerful the tool could be and how it could solve problems for other customers. By giving customers a meaningful voice and allowing their needs to fuel new solutions, ESG grew into the Customer Success powerhouse it is today. As Harnum puts it, "We call ourselves a learning company, and it fits directly with a customer-led set of solutions."

Another way to look at CLG is as experience-led growth. McKinsey & Company defines it as "a strategy focused on improving the experience of existing customers [that] can deliver breakthrough growth for incumbent companies – often more than double that of their industry peers." Sound familiar? In their research, McKinsey found that companies focused on improving the customer experience (in their words, "shut[ting] up and listen[ing] to your customers”) are seeing significant financial benefits. In one example, a mobile telecom operator committed to improving their customer experience resulting in a 75% reduction in customer churn. Over three years, revenues nearly doubled, outstripping their rivals' revenue growth threefold.

McKinsey’s report includes some compelling highlights:

- It takes three new customers to compensate for the value of one lost customer
- 80% of the value creation in the world’s most successful growth companies comes from unlocking revenue from existing customers
- A boost in customer satisfaction by at least 20% can lead to:

- Cross sell rates increasing by 15-25%
- Wallet share improving by 5-10%
- 20-30% more customer engagement

These statistics tell us that when companies redefine their priorities to hone in on the success of their customers, growth naturally follows.

How Customer Success can support and advance customer-led growth

Customer Success leaders are well-positioned to pave the way for their organizations to execute customer-led growth. But there are hurdles to overcome in order to become champions of this kind of change. CS leaders can advocate for themselves and their teams better if they fully commit to the principles of CLG and tie their efforts more directly to critical growth metrics like Net Revenue Retention (NRR). We can't be afraid of owning revenue drivers or being vocal about our impact on the growth of the business.

“The reason I’m so big on customer-led growth is because I really, really believe in the power of the Customer Success team,” Hicken says. “I think that most of what CS teams do today is extremely low value. It’s not what CEOs or CFOs care about, but they would care if Customer Success dedicated its sole purpose to measuring the value that customers receive and using that information to improve the company’s product market fit.”

Fortunately, there is a lot that CS leaders can do to deepen their understanding of how their customers receive and perceive value. “Different customers define value in different ways,” explains Harnum. “You need to know how they define value in order to discover where the gaps are, and then you can deliver that back into product feature function capability to close the gap on that value.”

And how do you get this information? Well, at ESG, we are big on having conversations with customers. "Make sure you are talking to customers," says Harnum. "Some people get into leadership positions and no longer own any accounts, so they forget to have these one-on-one discussions with customers. But there is a lot of power in being able to say, 'Hey, I spoke with seven customers last week, and there was one common theme.' There is a lot of gravity in being able to make those statements."

Have those conversations with customers, engage with them, and then build a system for measuring the concrete impact of your CS organization's activities in response to those conversations. Hicken advises that CS leaders develop a documentation system for measuring the value customers receive and then communicating that information back to the organization. "I think they have to come to the executive table every week with a scorecard that shows how the company is doing with respect to product market fit."

Be able to say where in the customer journey the business is stumbling. Are key features missing from the product? How much revenue is going to be lost because of that lack? Which customer segments are suffering the most? And why? Also, critically, what is your overall product market fit score? Not NPS, but how good is your business at matching its product to the problem in the market that you are trying to solve? Answering questions like these will get you to the true value you provide your customers.

Once you've started collecting hard data on your Customer Success team's efforts and shared them up the chain, the next step is providing other organizations with this valuable intelligence to support and boost revenue-generating efforts across the company. Then, CS leaders should also document and report these impactful activities to leadership.

Activities like:

- Regularly informing Marketing which customers would be willing to participate in a case study
- Meeting with Sales to pass along lists of customers who would be willing references for larger deals
- Programmatically flowing customer telemetry and product usage data to the Product team
- Providing Support with customer education maturity scores so they can match the information with case history to identify patterns of successful and unsuccessful customers
- Passing along upsell and cross-sell opportunities or – even better – partnering with Sales to close them

If Customer Success can move in this direction, then CS leaders will be able to demonstrate their organization's impact on net retention with concrete data on the actual customer experience. "CEOs and CFOs love that," says Hicken. "They love it because it gives them something they don't have today. And today, they are so worried about net retention. They don't know why customers are leaving. They feel like they're in the dark." CS leaders need to be ready to show them the light.