PRODUCT-LED GROWTH

The secret behind today's fastest growing subscription businesses.

WES BUSH

Who We Are

Wes Bush is the founder and president of Traffic Is Currency, which helps subscription businesses significantly reduce their customer acquisition costs (CAC), scale globally, and shorten sales cycles. We accomplish these outcomes by helping businesses launch and optimize free-trial and freemium models **that convert**. Our specialty is turning users into paying customers. You're about to learn the same tactics and strategies we use to help our clients launch and optimize million-dollar user onboarding funnels. Learn more about us at trafficiscurrency.com.

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Preface

Product-Led Growth is the future of the subscription economy. Product-Led Growth flips the traditional model of selling software applications 180 degrees by letting people try the product before they buy.

Product-Led Growth is a go-to-market strategy that relies on using your product as a customer acquisition model that converts users into customers. Product-Led Growth is powered by the word free—the most powerful word in marketing.

It raises eyebrows. It captures attention. And it gets people, like you and me, to pull out our wallets.

Whether it's a free sample at Costco or a free trial for a software application, businesses that know how to leverage the word "free" sell more products and grow faster. And it's not just my opinion…

- A freemium product helped Dropbox acquire over 500 million users.
- A free trial helped Ahrefs grow to 40M ARR with just 40 employees.

When it comes to subscription businesses, leveraging a free-trial or freemium model can give you a serious competitive advantage. You can significantly reduce your customer acquisition costs (CAC), scale globally fast, shorten sales cycles, and help more customers.

But there's a dark side to product-led growth: It's also destroyed countless businesses. You see, product-led growth is like a samurai sword. According to Rob Walling, former CEO of Drip, if you don't know what you're doing, you can easily cut your arm off.

Many have tried and failed; others have seen extraordinary growth. I believe that executing on a successful product-led growth strategy should have better odds than flipping a damn coin.

So, my goal for this book is twofold. First, I want to help subscription leaders, like yourself, to decide if product-led growth is right for you. Second, I also want to share what it takes to launch and maintain a world-class product-led go-to-market strategy.

To get the most out of this book, I recommend reading one chapter at a time, then taking the time to apply it to your business. Without action, knowledge is just entertainment.

Enjoy,

Wes Bush

Part I: Strategy

Chapter 1: Why Is Product-Led Growth So Important?

Right now, a tsunami is coming to wipe out thousands of SaaS companies.

In this chapter, I'll walk you through the three tidal waves coming ashore and show you how to avoid their potentially disastrous consequences.

The Three Tidal Waves Coming for Your SaaS Business

Tidal Wave 1: Buyers now prefer to self-educate.

This isn't limited to the Business to Consumer (B2C) space. Three out of every four Business to Business (B2B) buyers would rather self-educate than learn about a product from a sales representative, according to Forrester.

Let me ask you two questions:

1. Would you like to see and use a software product before buying it?
2. Or would you prefer to go through a lengthy sales process to see if it's a good fit?

If you're like most people, you'll opt for trying out the product on your own. This doesn't apply just to small and mid-size businesses. As Aptrinsic notes, "Enterprise buyers also expect to try and evaluate software in an easy, frictionless way."

Trying out a product through a free-trial or freemium model is less hassle and can help you decide quickly on a product. Do you agree?

Tidal Wave 2: Startups are more expensive to grow.

In one sense, this is counterintuitive: It has never been cheaper to build a SaaS company. (HackerNoon even goes so far as to claim that you can now build a SaaS product with $0.)

However, because of this low barrier to entry, there's no shortage of competition. As a result, argues Andrew Chen, it's becoming more expensive to acquire customers. Just take a look at these three channels:

- **Facebook**: 171% Increase in Cost per Thousand Impressions, or CPM (2017)
- **Twitter**: 20% Increase in CPM (Q4 2017)
- **LinkedIn**: 44% Increase in CPM (Q2 2017)

There are other channels, of course, but these numbers hint that, well, marketing isn't getting any cheaper. According to ProfitWell, customer acquisition costs (CAC) have increased by over 55% in the last five years.

During that same period, customer willingness to pay for features has dropped by 30%.

So, on one hand, we have rising costs; 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.

If you have high churn in your SaaS business, this tidal wave may be lethal. Wouldn't you agree?

Tidal Wave 3: Product experiences have become an essential part of the buying process.

If you've used Slack or Dropbox, you've witnessed this first-hand—you didn't read a lengthy whitepaper on the benefits of strong internal communication or cloud-based file sharing. You wanted to see the damn product in action!

Wouldn't you agree?

If you've been agreeing with everything that I've said so far, you'll also agree that these tidal waves aren't stopping anytime soon. They're here to stay. Consumers (like us) demand it.

Now, your subscription business might be able to weather *one* of these tidal waves, but do you really want to take a chance on surviving all three?

To put your subscription business in the best position to win, you need to pick a go-to-market strategy that will place your business on high ground.

How to Put Your Subscription Business on High Ground

First off, what is a go-to-market strategy? A go-to-market (GTM) strategy is an action plan that specifies how a company will reach target customers and achieve a competitive advantage.

Before we dive into which GTM strategies might work best for your business, you need to take four elements into account:

1. Battle environment (i.e. market conditions and competitive positioning)
2. Target or enemy (i.e. ideal customer)
3. Weapon of choice (i.e. product offering and pricing)
4. Tactical plan (i.e. customer acquisition process and channels)

Knowing each of these elements will help you choose a GTM strategy that will acquire, retain, and grow your customer base in the most capital-efficient way.

Other strategies, in contrast, are ripe for disruption and put you at risk.

Why the sales-led go-to-market strategy is at risk?

If the only way you can sell a product is if someone talks to you, you're using a sales-led strategy.

Even if you have a marketing engine that generates 1,000's of leads for your sales team, you're not off the hook.

This is because relying on your sales team to make every sale prevents you from helping your users self-educate. Whether you know it or not, you are adding an incredible amount of friction to the entire buying process. It also keeps your customer acquisition cost (CAC) high - great sales teams aren't cheap.

As you can see in the graph below, a sales-led GTM strategy puts you at risk for each tsunami wave.

The sales-led GTM strategy

Tidal Waves	**Safety Zone**
Tidal Wave 1 – Self-Educate	❌

Tidal Wave 2 – Rising Acquisition Costs	❌
Tidal Wave 3 – Product Experience	❌

Even with being at risk of each tsunami wave, these are some reasons why you still might consider using a sales-led GTM:

Pros of a sales-led go-to-market strategy

1. Ability to close high Lifetime Value (LTV) customers

One of the main lures behind using a sales-led GTM is that you can close customers with a high Annual Contract Value (ACV). This sounds great but can often lead to poor revenue diversity where several customers make up a large percentage of your Annual Recurring Revenue (ARR).

If even just a single customer leaves, it could ruin your revenue projections and force you to unexpectedly lay off your employees.

With that being said, if you're tackling enterprise first and have a highly complex solution, you may need a higher touch, sales model because of complexities of their procurement process and implementation.

2. Perfect for hyper-niche solutions

If you have a product with a small Total Addressable Market (TAM), it often makes sense to forgo a product-led model in favor of a sales-led model. One of the biggest reasons is because the quality of the relationships you have with your market will have an outsized impact on how you grow your business. Whereas, the product-led model is built for a large TAM where you can scale rapidly.

3. Perfect for new categories

When you're launching a new category, you have to change the way people approach tackling certain problems. This not only takes time to do, but requires you to educate people on how to do things differently.

As a result, it often makes sense to start with a sales-led approach to better understand the customer's pain points, objections, and core problems implementing your solution. If you jump too quickly to a product-led model with a new category, you can risk having a high churn rate because you simply don't understand what it fully takes for your customers to be successful.

If you don't have successful customers, a product-led model can simply amplify the problem. Before you go down the product-led route, make sure you know what goes into creating a successful customer.

Cons of a sales-led go-to-market strategy

1. High customer acquisition costs (CAC)

A big downside of the high-touch sales model is that the CAC is out of control, and the sales cycles are extremely long. As you might have guessed, high-touch sales is a leading indicator of CAC.

To make sure the high-touch sales model remains profitable, the Lifetime Value (LTV) of a customer naturally has to be high enough to recoup the investment in acquiring each new customer.

To reach that LTV, most sales-led businesses charge their customers a hefty premium. That premium price isn't because the solution is more valuable but because the customer acquisition model is more expensive.

As Paul Graham, founder of Y combinator, states "The more it costs you to sell something, the more it will cost others to buy it." In short, a sales-led strategy passes costs to consumers that have no connection to product value.

If you currently use a sales-led GTM, you need to watch out for competitors with a more efficient customer acquisition model as they can steal your market share by offering a comparable product with a more affordable price tag.

2. The customer acquisition model is leaky.

In a sales-led organization, the customer acquisition model has a big leak. According to SiriusDecisions, 98% of marketing-qualified leads never result in closed business.

One reason this conversion rate is famously awful is that the MQL model has a few hidden flaws:

1. It encourages marketers to gate content to hit their MQL goals;

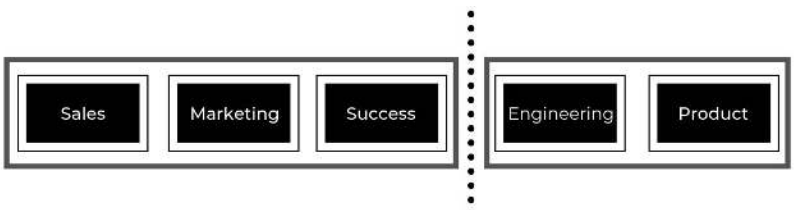
2. It focuses on content consumption as a leading indicator of intent;
3. The entire process rewards creating friction in the buying process.

As a result, there is often a disconnect between marketing and sales. Should we really be surprised? Does downloading a whitepaper mean you're ready to buy?

Absolutely not.

3. The organization structure hinders great products from being built.

According to Elie Khoury, CEO of Woopra, the typical sales-led business structures their team like the graph below:



On the left side, you have your profit centre which handles your sales, marketing, and customer success teams. While on the right, you have your cost centre which creates the product.

The problem with this organization structure is that the product is often an afterthought. If the sales team closes a really big customer which is conditional on a few product tweaks, well, the engineering and product team have a new project to do.

When your organization leads with sales and follows with product, you are going to be forced to move upmarket and get on the elephant hunting treadmill. And it's not just my opinion...

Case Study

These are the exact words from the CEO of a company that recently raised a Series C from great investors, is growing rapidly, has strong customer retention and a top-notch leadership team:

My biggest regret is that our first customer was $1M ACV. *Ever since that first customer, our product, go-to-market, our support model have all been pulled in one direction — high-end enterprise.*

Our first $1M ACV *customer forced us to get on the elephant hunting treadmill, and we've never been able to get off it. Our board, our employees, everyone expects us to only go after customers that were as large or larger than our first customer.*

And I've been watching this new competitor emerge that's going after the same market as we are, except from the low end. They are tiny but growing rapidly. And it's too hard for us to compete with them — we don't have the people, technology stack, support model or frankly, the mindset.

His words reinforced something I have long believed: Truly great software companies are product-led.

Why subscription businesses are opting to be product-led

The future of growth belongs to product-led companies. At HubSpot, we realized this a few years ago, which is why we disrupted our own business model before anyone else could.

At the time, HubSpot was still growing 30%-40% per year on the shoulders of our original marketing and sales driven inbound marketing model. Despite the success, we consciously chose to upend what had been working by launching our first freemium products.

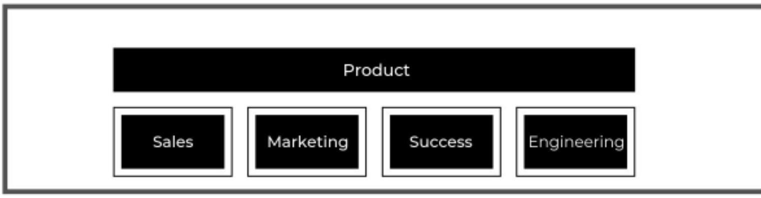
Market dynamics and consumer behavior have changed - increasingly consumers expect to use software and extract value from it ***before buying****. To stay relevant over the long term we needed to adapt, or risk "getting our lunch eaten."*

– Kieran Flanagan, VP of Marketing, HubSpot

Over the years, countless subscription businesses have opted to switch from a sales-led GTM to a product-led GTM strategy to create a moat around their business.

This is the same strategy that many well-respected software companies have adopted, including Grammarly, Slack, and Dropbox.

What makes product-led organizations unique is that they lead with the product across every department, according to the CEO of Woopra.



Having the product team involved throughout every aspect of the business allows for product-led businesses to create a seamless customer experience across every department.

Now, one thing I want to be very clear about is that you can still have a sales team with a product-led strategy, however, your sales team's efforts will be focused on helping users get more value out of the product vs. following up on people who downloaded your company's latest whitepaper.

As you can see in the graph below, a product-led GTM strategy puts you in the safety zone for each tsunami wave.

Tidal Waves	**Safety Zone**
Tidal Wave 1 – Self-Educate	✓
Tidal Wave 2 – Rising Acquisition Costs	
Tidal Wave 3 – Product Experience	✓

Even though the product-led approach can put your business in a great position to dominate your market, it isn't without its risks.

Before going down this path, please consider these warnings so that you can make an educated decision.

Cons of Product-Led Growth

Hard to implement correctly.

This is one of the main reasons I'm writing this book. Product-led growth isn't easy to implement. It's not just giving people the option to try your product before they buy, your entire approach as an organization needs to shift. Instead of leading with sales and following with product, you need to make sure that every team has a hand in helping each user become successful.

Pros of Product-Led Growth

Product-led SaaS businesses have an unfair advantage and enjoy access to a dominant growth engine and significantly lower CAC.

Dominant growth engine

Product-led businesses tend to scale faster than their competitors in two powerful ways:

1. **Wider top of funnel**: A free-trial or freemium model opens up your funnel to people earlier in the customer journey. This is powerful because—instead of prospects filling out your

competitor's demo requests—they're evaluating your product.

2. **Rapid global scale**: While your competitors are busy hiring new sales reps for each region under the sun, you can focus on improving your onboarding to service more customers around the world in a fraction of the time.

A significantly lower CAC

Free software also builds a moat around your business in three powerful ways:

1. **Fast sales cycles**: By having your prospects onboard themselves, you can significantly reduce your prospect's time-to-value and sales cycle. Once people experience value in your product, the next logical thing to do is upgrade. The quicker your users can accomplish a key outcome in your product, the quicker you can convert your free-trial users into paying customers.
2. **High revenue-per-employee (RPE)**: Software was always built to scale well, but with a product-led approach, you're able to do more with fewer people on your team. Less hand-holding means higher profit margins per customer. Just take a look at Ahrefs.com in 2019. They have a 40M ARR business with 40 employees.
3. **Better user experience**: Since your product is built for people to onboard themselves, people

can experience meaningful value in your product without any hand holding.

The benefits of a product-led GTM strategy don't stop there.

According to OpenView, product-led businesses are valued more than 30% higher than the public-market SaaS Index Fund.

What this means for you?

This is not for everyone. You don't *need* to be a product-led business. If you don't know what you're doing, adopting a product-led GTM strategy might kill your business instead of helping it.

Many ambitious entrepreneurs have tried and failed. Rob Walling, the previous CEO of Drip, offers a warning: "Freemium is like a Samurai sword: unless you're a master at using it, you can cut your arm off."

Part of the reason many subscription businesses fail at transitioning from a traditional GTM strategy to a product-led one is that there's no battle-tested playbook. You need to figure out whether a free-trial or freemium model will work for your business.

To help make this process easier, I created a decision framework to help you decide whether a free-trial, freemium, or demo model will work best.

Chapter 2: Choose your weapon—Free Trial, Freemium, or Demos?

When deciding between a free-trial, freemium, or demo model, you need to be extremely careful. Choosing the wrong model can easily bankrupt your business. Unfortunately, you can't just Google the pros and cons or ask a fellow SaaS founder which model will work best for you.

Why not?

Because that advice comes from people managing *completely* different businesses—different target audiences, different pricing strategies, and different products (which may range from "simple and familiar" to "how on earth do I even use this thing?").

What works for them won't necessarily work for you.

To make the right choice, **you still need a decision framework** to compare the free-trial, freemium, and demo models.

In this chapter, we'll walk through my **MOAT framework** to help you pick the right go-to-market strategy for your business:

1. **M**arket Strategy: Is your go-to-market strategy dominant, disruptive, or differentiated?
2. **O**cean Conditions: Are you in a red- or blue-ocean business?
3. **A**udience: Do you have a top-down or bottom-up marketing strategy?
4. **T**ime-to-value: How motivated and tech savvy is your audience?

Let's quickly go over the difference between a free-trial and freemium model so we're on the same page.

What's the difference between a free-trial or freemium model?

A free trial is a customer acquisition model that provides a partial or complete product to prospects free of charge for a limited time.

A freemium model is a customer acquisition model that provides access to part of a software product to prospects free of charge, without a time limit.

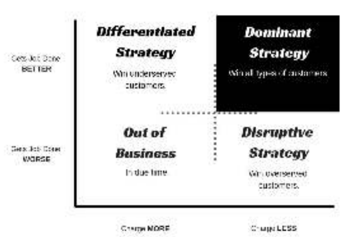
Now, it might seem like freemium is just an indefinite free trial, but the go-to-market strategies could not be more different.

Once you know your go-to-market strategy, it will become much easier to decide between a free trial, freemium, or demo model for your business.

Market Strategy: Is your growth strategy dominant, disruptive, or differentiated?

These aren't the *only* go-to-market approaches. In Tony Ulwick's job-to-be-done growth matrix, he broke down the five most common growth strategies for any business.

However, I'm going to highlight only the differentiated, dominant, and disruptive strategies. They work best in the SaaS space, especially if you want to grow quickly.
As you can see in the graph below, these three growth strategies each have a unique advantage:



Dominant SaaS Growth Strategy

The dominant growth strategy works great if you do something much better than your market *and* can charge significantly less.

Companies that employ the dominant growth strategy include:

- Netflix
- Uber
- Shopify

The freemium model is vital in a dominant growth strategy and can help you take a sizable chunk out of a market.

How big a market? Well, Jason Benkins, the founder of SaaStr, argues in this article that you need 50 million active users for freemium to work.

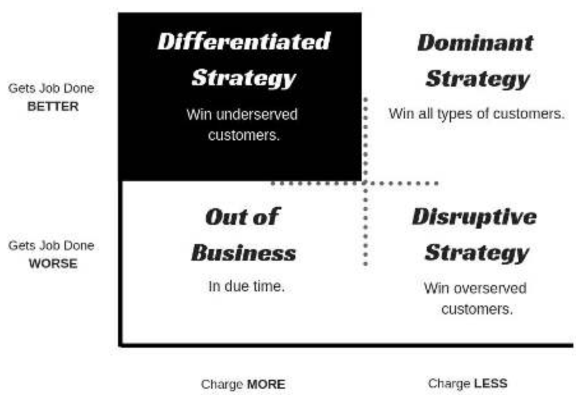
Now, I'd argue that you don't need *that* many, because not every entrepreneur wants to create a $100M unicorn business, but you do need a significant volume of users for the math to work in your favor.

If you have a niche product with a total addressable market (TAM) of 50 customers, good luck. A freemium model will give away your product to the precious few users who might actually pay for it.

The verdict: Both freemium and free-trial models work much better than the traditional sales model (i.e. demo *requests) in the dominant growth strategy because you keep costs low and prevent competitors from stealing your market share. That's your competitive advantage: low cost for an exceptional product.*

Questions to ask yourself when deciding if a dominant growth strategy is right for you:

1. Is your TAM big enough to support a freemium model?
2. Does your product solve a specific job significantly better and at a lower cost than anyone else in the market?
3. Can your user realize significant ongoing value quickly with little-to-no help from company personnel?
4. Do you want to be the undisputed market leader in your category?



Differentiated SaaS Growth Strategy

This is a common strategy if you want to pick (and win) your fight with an industry goliath.

Your main line of defense against the goliath in your market is specialization. For instance, if you were to take away part of HubSpot's CRM market share, you might discover an underserved niche (e.g. real estate agents) and create a CRM product tailored to that audience.

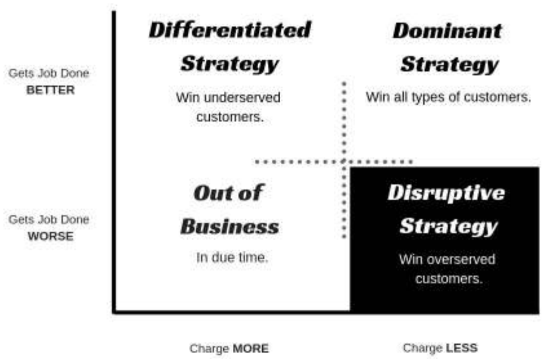
Differentiated growth requires you to do a specific job better than the competition and charge significantly more. This is not a one-size-fits-all model.

This approach works well with free trials and demos. However, due to the inherent specialization and complexity of these products, it's difficult to create a freemium experience with a quick time-to-value..

The verdict: Both free trials and demos work great with a differentiated approach, but due to the market-size limitations and complexity of the product, a freemium model often will not work in this environment. Your competitive advantage is how you solve your customer's problems.

Questions to ask yourself when deciding if a differentiated growth strategy is right for you:

1. Is your market comprised of underserved customers?
2. What is your TAM?
3. Is your Annual Contract Value (ACV) high enough to support a low- or high-touch sales team?
4. Could your prospects experience an "Aha!" moment during a free trial?



Disruptive SaaS Growth Strategy

Most fast-growing SaaS companies are labelled "disruptors," but don't let the label fool you. Few ever deploy a disruptive growth strategy.

Why?

The disruptive growth approach requires you to charge less for what many might consider an "inferior product." Most people think this is a bad idea, but it's not.

If you've used Canva (a simple custom-graphic tool), you've witnessed this first hand. If you compare Adobe Photoshop's features against those of Canva, Canva loses every time—by a lot.

But with so many over-served customers in this particular market, Canva was able to build a much simpler product that solved very specific pain points, such as creating social media graphics in seconds.

Quite a few other companies have taken this approach:

- Google Docs (relative to Microsoft Word)
- Udacity (relative to traditional universities)
- Wave (relative to traditional accounting software)

The verdict: The freemium model thrives in the disruptive environment. Keeping costs low draws in prospects using existing solutions. Since the product is a scaled-down version of an existing solution, it must be easy to use. You can use a free trial with a disruptive growth strategy, but it weakens the "magnetic draw" enjoyed by the freemium model.

Questions to ask yourself when deciding if a disruptive growth strategy is right for you:

1. Is your market full of over-served customers?
2. Are you competing in a hyper-competitive market?

3. Is your market large enough to support a freemium model? (Hint: Look to your competitors to gauge the market size.)
4. Do you have the resources to support a freemium model?
5. Can your onboarding be completely self-service?

Activity: Make a decision on your growth strategy

By now, I want you to decide whether your SaaS product follows a dominant, differentiated, or disruptive growth strategy.

Questions to ask yourself when deciding on your market strategy:

- Do you want to offer the best solution for the lowest price? (Dominant strategy)
- Do you want to offer the best customized solution for the highest price to underserved customers? (Differentiated strategy)
- Do you want to offer the simplest product for the lowest price to over-served customers? (Disruptive strategy)

Once you know your market strategy, you need to validate that it is suited to external factors in your market. One of the best ways to vet your market strategy is by understanding whether you're in a red- or blue-ocean business.

Chapter 3: Ocean Conditions: Are you in a red- or blue-ocean business?

Before we dive into how your ocean strategy will affect your product-led growth model, I want to explain the difference between blue- and red-ocean companies.

Red Ocean companies try to outperform their rivals to **grab a greater share of existing demand**. As the market space gets crowded, prospects for profits and growth reduce. Products become commodities and cut-throat competition turns the ocean bloody red.

Blue Ocean companies access untapped market space and **create demand**, and so they have the opportunity for highly profitable growth. In Blue Oceans, competition is irrelevant. Yes, imitators arise, but experience shows there is a wide window of opportunity to stay ahead of imitators.

Here's a high-level overview of the differences between the two ocean strategies:

Red Ocean vs. Blue Ocean Strategy

Red Ocean Strategy (Harvest Demand)	Blue Ocean Strategy (Create Demand)
Compete in existing markets	Create uncontested market spaces
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand

To put it simply, if you're competing in a red ocean, you're fighting to exploit existing demand, whereas in a blue ocean, you're creating demand.

Now, when you make a decision on whether you're in a blue or red ocean, it's not as easy as asking yourself, “Am I creating or harvesting demand?” It’s also not enough to look at your market, label the competitors, and assume that you’re in a bloody red ocean.

Within your market, some segments could be in a red ocean while others are in blue oceans. One of my clients in the business intelligence (BI) software space knew the enterprise side of the BI market was a bloody red ocean. So, they strategically focused on small- and medium-sized businesses where they could operate in a blue ocean. Same market, different ocean strategy.

Now, drill down into the market segment that you’re targeting. It might not be as competitive as you think.

When it comes to product-led growth, why does this matter?

Growing a business in a blue or red ocean requires a different approach. Here’s what matters:

Blue Ocean

If you’re in a blue ocean and creating demand, your product may have a steep learning curve. Before you can make the sale, you need to educate your market on why your new way of doing something is better.

Take Salesforce. When they first launched, the sales team had to educate potential customers on why a cloud-based CRM made sense. The sales team met a lot of resistance from companies that, among other objections, worried about their data being lost or stolen.

Had Salesforce started with a no-touch, product-led model, it would have been hard, if not impossible, to combat those objections. As a result, most people wouldn't buy the product. You don't become a market behemoth by selling products nobody can understand. For this reason, most companies leverage a sales or marketing-driven go-to-market strategy in a blue ocean.

That said, if you have a simple application like Spotify that can help users experience the value of your product almost immediately, you can still lead with a product-led growth model.

Takeaway: If you're in a blue ocean and have a quick time-to-value in your product, use a product-led model. However, if your product is complex, start with a sales or marketing-led go-to-market strategy to educate your audience and create demand. Still, ask yourself "when," not "if," you're going to launch a product-led arm of the business.

Red Ocean

In a red ocean, prospects already know how your product can help them, and a product-led model is advantageous—it can widen your funnel, decrease your CAC, and help you expand globally in a fraction of the time.

A product-led growth model also helps you convert "non-customers"—people who typically won't reach out to request pricing or sign up for a demo request. But these non-customers are willing to try your product and, if it's right for them, buy it

This trend—though not a rule—is common among the hundreds of B2B SaaS businesses I've analyzed:

- Blue Ocean businesses lead with a Sales or Marketing-Led GTM.
- Red Ocean businesses lead with a Product-Led GTM.

Take live-chat software as an example: When it first came to market, most companies started with traditional sales-led GTM strategies. Once the category matured, it became almost impossible to find a live-chat application without a product-led model. As Pankaj Prasad, the former CEO of Talkable, argues, "Product-led is the only distribution model worth undertaking once the market is mature."

Takeaway: If you're in a red ocean, use a product-led model to widen your funnel, decrease your CAC, *and expand globally. You need to grow as fast and profitably as possible.*

Questions to ask yourself when deciding between a blue or red ocean:

1. Am I creating or capturing existing demand?
2. Does the product have a quick time-to-value?
3. Will a product, sales, or marketing-led GTM suit my business the best?

Chapter 4: Audience: Do you have a top-down or bottom-up selling strategy?

To get their product into the hands of buyers, most businesses employ a top-down or bottom-up selling strategy.

Both strategies involve a very different marketing and selling approach, so you need to know which strategy works best with a product-led growth model.

For now, let's dive into the differences between the two selling strategies.

What is a top-down selling strategy?

Companies that use the top-down selling strategy: SAP, Oracle, and IBM.

When using a top-down selling strategy, your sales team targets key decision makers and executives. This is a well-known strategy in the B2B sales world. These sales typically include large products that are implemented throughout an entire business.

One reason the top-down sales strategy exists is because businesses want uniformity. Decision makers like to keep their businesses organized and allocate resources efficiently. It doesn't make sense to use a different CRM for each local sales team when you can use one for everyone.

If you're selling large deals, top-down systems are essential. Typically, the larger the sale, the more service and training a customer requires. Take SAP. When sold, new customers require additional training and resources to put the product to good use. It's not unheard of for enterprise software purchases to take 12–16 months for the internal team to understand how to get value out of the software.

With a top-down selling strategy, you'll typically make the sale to the decision makers at the top of the organization. But the real selling has just begun. Now, you have to convince internal teams to use your software.

What is a bottom-up selling strategy?

Companies that use the top-down selling strategy: Slack, DocuSign, and Atlassian.

Bottom-up selling strategies are widely used in the consumer market. Take Facebook, Twitter, or Evernote: each created a product that could easily be used in minutes. Unlike the top-down selling strategy, where it might take months or years to close a sale (and another year to understand how to use the product), bottom-up selling strategies demand quick adoption and simplicity. To make this a reality, bottom-up selling strategies use free-trial or freemium models.

Slack is a perfect example of a bottom-up marketing approach. The product spreads organically, typically starting with one user who invites a colleague—then an entire team—to join. Product use reaches a tipping point where the team manager invests in Slack because it has become invaluable. This strategy of leading with value took Slack from $0 to a $4 billion valuation in three years.

For a bottom-up selling strategy to be successful, the product needs a quick time-to-value. If people can't see the value in using your product quickly, few will upgrade. In that scenario, you need to revamp your product's user experience or revert to a top-down selling strategy.

What are the pros and cons of top-down and bottom-up selling strategies?

When deciding between a top-down and bottom-up selling strategy, take your go-to-market strategy into consideration. Executing on a top-down selling strategy pairs well with a sales-led go-to-market strategy. Using a bottom-up selling strategy works almost exclusively with a product-led go-to-market strategy.

As we go through each selling strategy, pay attention to which model resembles your business.

Benefits of Top-Down Selling Strategy

1. High ACV: Employing a top-down selling strategy almost always results in bigger contracts. If you're just starting out, this can be a great way to boost your monthly recurring revenue fast.

2. Additional Services: Top-down selling strategies often benefit from selling additional training and services. Selling these services isn't a guarantee but is often needed with large product rollouts.

3. Low Customer Churn: Given that implementing product rollouts is expensive and time-consuming, most customers are reluctant to change products. As long as your product solves the customer's pain points adequately, you can usually count on these customers to continue paying for your product.

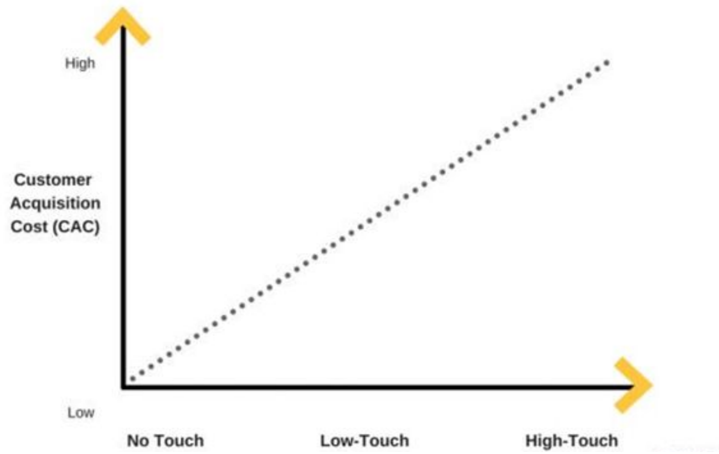
In fact, if you're selling to the enterprise, you often deal with a significantly lower churn rate than other market segments, according to Brianne Kimmel:

Segment	Monthly Customer Churn %	Annual Customer Churn %
SMB	3-7%	31%-58%
Mid-Market	1-2%	11%-22%
Enterprise	0.5-1%	6%-10%

Disadvantages of Top-Down

1. Poor revenue distribution: Relationships are the growth engine of top-down selling. Often, your sales team will target "whales." Although I think it's rude to reference buyers as whales, it's what a lot of sales teams use to refer to big buyers. When it comes to top-down selling, you have to be okay with a large percentage of total revenue coming from one place. Losing one contract can result in a sharp (and often unpredicted) decline in revenue.

2. High CAC: Given the sheer number of hours it takes to build relationships with key decision makers, your CAC will be substantial with a top-down selling strategy. As we can see in the graph below, it's no surprise that high-touch sales is a leading indicator of CAC.



3. Long Sales Cycles: In addition to a high CAC, the sales cycle typically takes a long time to finalize.

Remember: Once the contract has been signed, the sale has just begun. Afterward, you need to convince people at the bottom to use the application. While this is not necessarily a disadvantage, some middle management will work against the product.

To recap, here is a high-level overview of a top-down selling strategy:

Benefits	Disadvantages
Lower churn	Long sales cycle
Selling additional service	High CAC
Large sale value	Bad revenue distribution

Benefits of a Bottom-Up Selling Strategy

Your product is your main growth engine for a bottom-up selling strategy. Your product is responsible for onboarding users, showcasing its value, and even upgrading users. In many organizations with a bottom-up selling strategy, you don't even need to talk to someone for them to buy your product. Netflix and Spotify are perfect examples.

In the B2B space, most products employ a low-touch, bottom-up sales model where the sales reps target users who take specific actions in the product. Those uses are known as Product Qualified Leads (PQLs). We'll dive into PQLs later.

These are the top six benefits of a bottom-up selling strategy:

1. Wider top-of–funnel: A free-trial or freemium model opens the funnel to people earlier in their customer journey. This is powerful because instead of potential prospects filling out your competitor's demo request, they're spending time evaluating your product.

2. Lower CAC: Since there's minimal interaction with the sales team, the CAC is often significantly lower with a bottom-up selling strategy. Another benefit of the bottom-up selling strategy is that middle management is often rooting for you to win because they introduced the product to the company.

3. Predictable sales figures: With a bottom-up selling strategy, you can see how many free-trial and freemium users are in your funnel and what percentage of them will upgrade in a month's time. Compare this to the top-down selling strategy, where it's almost impossible to predict when a deal will close.

4. Revenue diversity: The bottom-up selling strategy often has a much smaller deal size. This means you can attract a broader market and profitably service more customers than competitors with a top-down selling strategy. Your revenue is also divided among many customers.

5. Scale globally fast: While competitors are busy setting up expensive offices throughout the world, you can hone your onboarding to help more users across the world succeed quickly and cheaply.

Case Study

Andrew Bieda of Landingi, for example, is a master at rapid global scale with a free trial and paid acquisition channels like Facebook and Google. Andrew's team looks for markets with optimal CPC, signup acquisition costs, and trial-to-paid conversion rates, allowing them to pursue new markets where he can profitably acquire new customers and avoid ones that are oversaturated with competition.

6. Fast sales cycles: By having users onboard themselves, you can significantly reduce your prospect's time to value and sales cycle.

All in all, a bottom-up selling strategy has some incredible advantages that can help you scale your business faster, but it's not without its challenges.

Disadvantages of Bottom-Up

The main disadvantages are financial.

1. Contract size: For one, the contract size is often significantly smaller than the top-down selling strategy. This means you need a greater number of sales to make ends meet. As we mentioned in the benefits section, this can also be a blessing in disguise—losing one customer won't cripple your business.

2. Non-paying customers: If you launch a freemium product and don't know what you're doing, you could easily wind up with a significant portion of non-paying customers. This often happens when a product gives away too much for free and users have no reason to upgrade—the free plan suits their everyday needs. This can be corrected, but it is extremely hard to get someone to pay for something they've been using for free.

3. Significant investment: Non-paying customers are a drain on resources. Customer support can become overwhelmed, and sales wastes time on users who are satisfied with the free product, among other resource drains.

4. Expertise shortage: Finding someone who's exceptional at launching and optimizing a free-trial or freemium product is exceedingly rare. These people are in demand because so many businesses are trying to adopt a bottom-up selling strategy.

If you have the resources, hire a product-led growth expert or consultant to help launch and optimize your free-trial or freemium model. It may be expensive upfront, but they can save you hundreds of hours and millions in sales.

If you don't have the resources, expect to spend lots of time experimenting and trying to figure out what works.

To recap, here's high-level overview of the benefits and disadvantages of a bottom-up selling strategy:

Bottom-Up Benefits	Bottom-Up Disadvantages
Low-touch	Smaller contract size
Lower CAC	Significant investment
Faster sales cycles	Non-paying customers
Predictability in sales figures	Expertise drain

What selling strategy is right for you?

To make a decision on which selling strategy is right for your business, it's helpful to think about magnets. As a kid, one of my favorite pastimes was trying to make the positive ends of two magnets touch each other. If you've done this before, you know that the magnets repel each other.

I bring this story up because your selling strategy has to be inline with your go-to-market strategy. If your product has a freemium model and a top-down selling strategy, the two approaches will repel each other. However, if you align your product-led growth model with your selling strategy, you'll have unmatchable synergy.

That strategic alignment (unlike magnets) is not science, but here's how product-led growth models fit with selling strategies:

Product-Led Growth Model	Selling Strategy	Outcome
Freemium	Top-Down	Unsuccessful
Freemium	Bottom-Up	Successful
Free Trial	Top-Down	Mixed Results
Free Trial	Bottom-Up	Successful

Freemium and top-down selling. The freemium model rarely works with a top-down selling strategy for a few reasons. First, you're expecting decision makers and executives to understand how to use your product. Most decision makers won't be everyday users of the product, so it doesn't make sense to onboard them in the first place.

Freemium or free trial and bottom-up selling. If you go with a bottom-up selling strategy that attracts middle management and teams, you are helping your potential buyers use the product, experience meaningful value, and make the case to purchase your solution to upper management.

Free trial and top-down selling. Having a free trial with a top-down selling strategy is a grey area. When I was previously working at a B2B SaaS startup, we employed a top-down selling strategy and a free trial. But after people signed up, there was no onboarding, no helpful emails, and no support. The experience was bad.

When we suggested changes to the engineering team, we were shut down. The Chief Technology Officer wanted to treat the free trial as a pseudo demo request. This scenario might sound unusual, but it's very common. If a company employs a top-down selling strategy, they have the systems and expertise in place to convert demo requests into customers. Teams have demo request goals, and a free trial cannibalizes demo requests.

In this example, it didn't take long until the company removed the free trial option from the website. It was a shame, really. It could have worked, but everyone was so focused on hitting their short-term revenue targets for the quarter that the free trial just got in the way.

If you've caught yourself in this situation—where management directly opposes supporting and improving the free-trial experience—it's generally a fool's errand to try to fix the situation unless you're an executive or can show some incredible (and rapid) results.

That said, I have helped other top-down sellers transition to a free trial and, later, introduce a bottom-up selling strategy to complement their free trial. To be successful, you need executive buy-in and realistic expectations when the free trial launches.

To recap, when it comes to proving product value, top-down selling puts the burden on the sales team. A bottom-up approach lets the prospective customer discover the product's value on their own.

Questions to ask yourself when deciding between a top-down or bottom-up selling approach:

1. Are you currently targeting people who can easily use your product and experience the value of the product?

2. What is your ACV for each customer? Is it high enough to justify a low- or high-touch sales model?

Unfortunately, none of this matters unless your potential customer is motivated to buy.

Chapter 5: Time-to-value: How fast can you showcase value?

To create a successful product-led business, you need a quick time-to-value.

This is because your new users need to quickly be able to experience a key outcome in your product without any assistance. If your users require extensive hand holding to even see a glimpse of value in your product, most users will never return to your product after signing up.

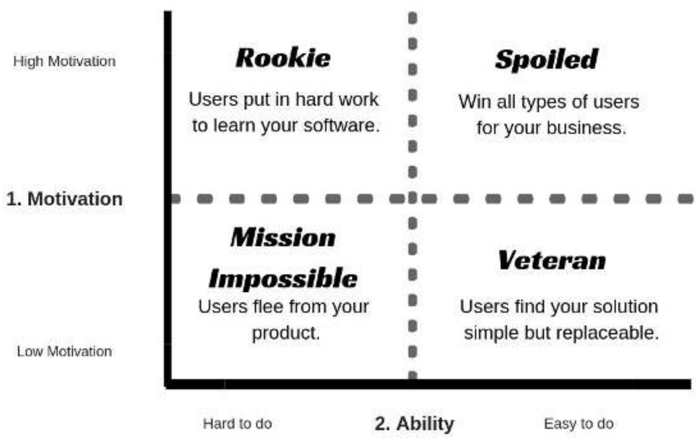
This isn't just my opinion. Intercom claims that 40-60% of new users will never come back after initially signing up.

To help pinpoint your product's time-to-value, it's important to analyze your existing user base.

Regardless of your product or industry, these are the four types of users that will sign up for your product:

- **User 1: Mission Impossible.** Your user has low motivation and finds it hard, if not impossible, to use your product.
- **User 2: Rookie.** Your user has high motivation but finds it incredibly difficult to use your product. This scenario is often a luxury for companies. It often pops up when employees are forced to use your software or have no alternative solutions.
- **User 3: Veteran.** Your user has low motivation but finds it easy to use your product. This means your user will accomplish the target behavior easily but could flee at any sign of friction—or hunger. Who knows?!
- **User 4: Spoiled.** This is the outcome to optimize for. Your user has high motivation and finds it straightforward to use your product. This means that you'll be able to help the greatest amount of people in your Total Addressable Market (TAM).

In the graph below, I challenge you to identify the top two most typical users who sign up for your product.



Now, **what users are you most familiar with?**

If Users 1-3 are most common, you need to work on improving your time-to-value. (If all you have is spoiled users, bravo.)

One of the best parts about time-to-value is that there are so many things that you can do to improve it, such as:

Want to improve user motivation? Hire a great copywriter.

Want to improve the number of people completing their account setup? Eliminate the unnecessary steps in your onboarding.

Contrast this with deciding which ocean your business is competing in, time-to-value is in your control to influence.

Because time-to-value is in our control, I'll dive deep in Part II to show you how you can improve it.

In the meantime, I'd recommend asking yourself these questions to help narrow down whether a free trial, freemium, or demo model will work best for you:

1. How motivated are your users when they sign up for your product?
2. Is your product easy for your target audience to use?
3. Are people able to experience the core value of the product without any hand-holding?

Chapter 6: Deciding Your Product-Led Growth Model with the MOAT Framework

By now, you should have a much better idea around whether a sales or product-led growth model will work best for your business.

If you're confident that product-led growth is right for your business, you need to decide between a free trial and freemium model.

Having helped 100's of business owners make this difficult decision, I created a heuristic framework to help you.

All you need to do is answer a series of questions to see whether a free trial or freemium model will make the most sense for your business.

While answering each question below, I encourage you to keep a tally of the free trial and freemium points so that you can score which model your business has a higher propensity towards.

If you have an executive team, I recommend working through each of these questions with everyone to improve the accuracy of the heuristic model.

Stage 1 - Market Strategy

1. Is your product highly differentiated?
    a. Yes - Free Trial point
    b. No - Freemium point
2. Do you have an expensive solution, in comparison to your market?
    a. Yes - Free Trial point
    b. No - Freemium point
3. Do buyers in your market have limited options?
    a. Yes - Free Trial point
    b. No - Freemium point
4. Do you have the best product in the market and charge the least for it?
    a. Yes - Freemium point
    b. No - Free Trial point

Stage 2 - Ocean Conditions

1. Are you in a hyper-competitive industry?
    a. Yes - Freemium point
    b. No - Free Trial point
2. Are you creating a new category for your business?
    a. Yes - Free Trial point

    b. No - Freemium point

Stage 3 - Audience

1. How big is your Total Addressable Market (TAM)?
    a. 50M+ - Freemium point
    b. 0 -50M - Free Trial point
2. Are you currently targeting people who can easily use your product and experience the value of the product?
    a. Yes - Freemium point
    b. No - Free Trial point
3. What is your Annual Contract Value (ACV) for each customer?
    a. 10-1M+ ARR - Free Trial point
    b. Under 10K ARR - Freemium point
4. Do you currently employ a top-down marketing strategy?
    a. Yes - Free Trial point
    b. No - Freemium point
5. How much will it cost to sustain a large segment of free customers?
    a. High - Free Trial point
    b. Low - Freemium point

Stage 4 - Time-to-value

1. Are people able to experience the core value of the product without any hand-holding?
    a. Yes - Freemium point
    b. No - Free Trial point

Free Trial vs Freemium Scorecard

Freemium Points	Free Trial Points
[ ] / 12	[ ] / 12

What model does your business have a higher propensity towards?

One thing to note is that you can answer these same questions at a different stage in your business and get completely different results. I've build this heuristic framework to adapt as your business grows.

If you have a landslide of points for freemium or a free trial, it can be easy for you and your team to make a decision on which model to choose.

However, what happens if it's a close tie? Or a deadlock?

If you're smack in the middle, it can often mean that you should consider a hybrid strategy.

Below I outline three of the most common hybrid models you can use for your business.

Hybrid Model #1: Launch a new product

When you're an established business and want to de-risk your business, launching a new product-led arm of the business is a solid option.

This allows you to experiment with a product-led model, build the in-house expertise, and vet if the model will work without disrupting your cash cow products.

It's a strategy that has been one of the most effective to date. At Vidyard, we tested this strategy by launching GoVideo and refining our freemium go-to-market strategy. It was far from perfect when we launched, but we were able to improve it—and acquire 100,000s of new users in the process. This, in turn, helped the business prove that the model was effective and build a small in-house team that knew how to bring a freemium product to market.

Hybrid Model #2: Go freemium, with a trial

If you have a product with lots of features, this strategy can work great. As long as your freemium version is valuable, you can layer on free-trial upgrades within the freemium product.

HubSpot has been doing this successfully for a while now. When you sign up for the free marketing and sales tools, you get immediate value from the product. But, as you get more value from the free product, they tempt you with free-trial landing pages for blocked features. This is great because it allows the user to experience the new feature for a limited amount of time before upgrading. For HubSpot's sales team, it's also convenient: It acts as a "hand raiser" to cue them to reach out and ensure the user succeeds with the new feature.

Hybrid Model #3: Go free trial, follow with freemium

If you don't convert at the end of Nudge.ai's 30-day free trial, you're prompted to use their free tool. This freemium product sits in Gmail and gives you useful information on each contact in your inbox. In addition to providing value, it's an inexpensive form of advertising and keeps their solution top-of-mind.

There are other ways you can slice and dice hybrid models, too, but these three are the most common.

Now, I'm curious. Do you think a free trial, freemium, demo, or hybrid offer will work best for your business? Why?