PRODUCT · LED GROWTH COLLECTIVE

State of product-led growth

2019

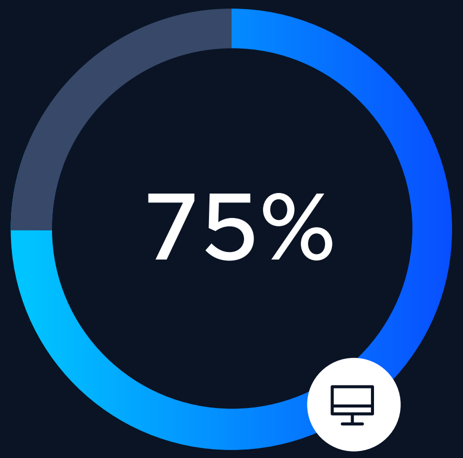
We compiled the following benchmark report to provide our community members with a holistic, quantitative understanding of the current state of product-led growth.

In addition to data collected from our recent survey of over 400 SaaS businesses, the information in this report has been aggregated from the following sources:

Appcues, Bain & Company, BetterCloud, Blissfully, Churn Buster, Content Marketing Institute, Forrester, G2 Crowd, Heinz Marketing, KeyBanc Capital Markets, McKinsey, Mixpanel, OpenView, Pitchbook, SixteenVentures, SmartBrief, Tomasz Tunguz, and Topo.

We hope you find the following report a useful guide on your company's journey to product-led growth.

User expectations have evolved



Nearly 75% of B2B buyers say they would prefer to buy through an app or website, rather than a salesperson.

(SOURCE: FORRESTER)

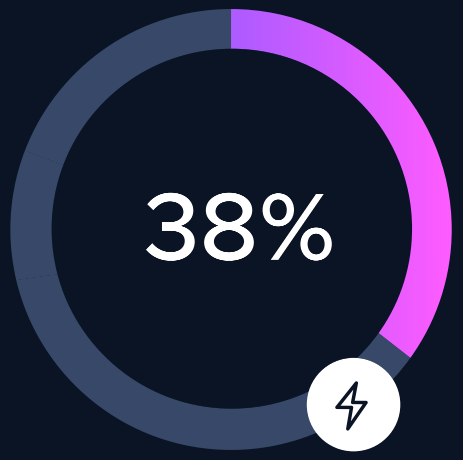
Over 60% of the buying experience now happens before a buyer engages with a vendor.

(SOURCE: TOPO)

Companies with a strong focus on product experiences outperformed their peers on the S&P 500 **by 219% over the last 10 years.**

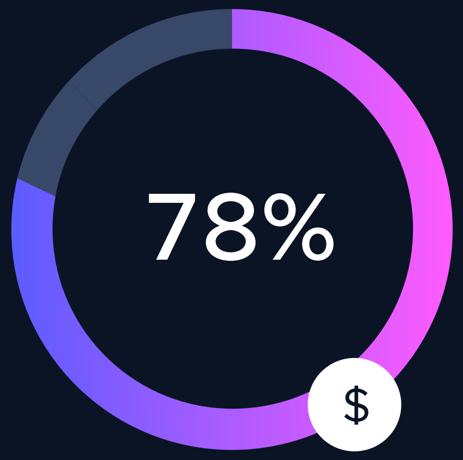
(SOURCE: MCKINSEY)

The digital transformation continues



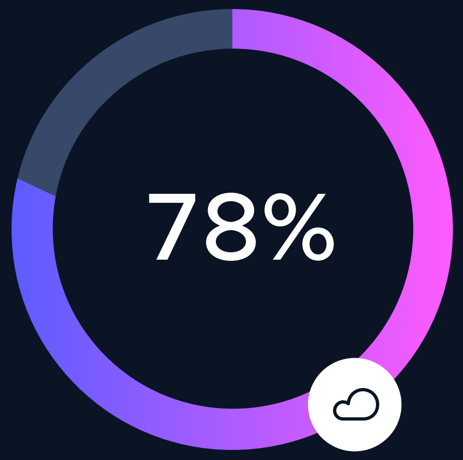
38% of companies are currently running almost entirely on SaaS.

(SOURCE: TOPO)



The average company spent $343,000 on SaaS in 2018—a 78% increase from the year before.

(SOURCE: BLISSFULLY)



By 2022, 78% of companies will be using SaaS exclusively.

(SOURCE: TOPO)

SaaS is taking over the world.

Acquisition

Free trials remain the most popular product-led growth strategy—47% of businesses acquire new customers through a free trial, while only 17% use a freemium model.

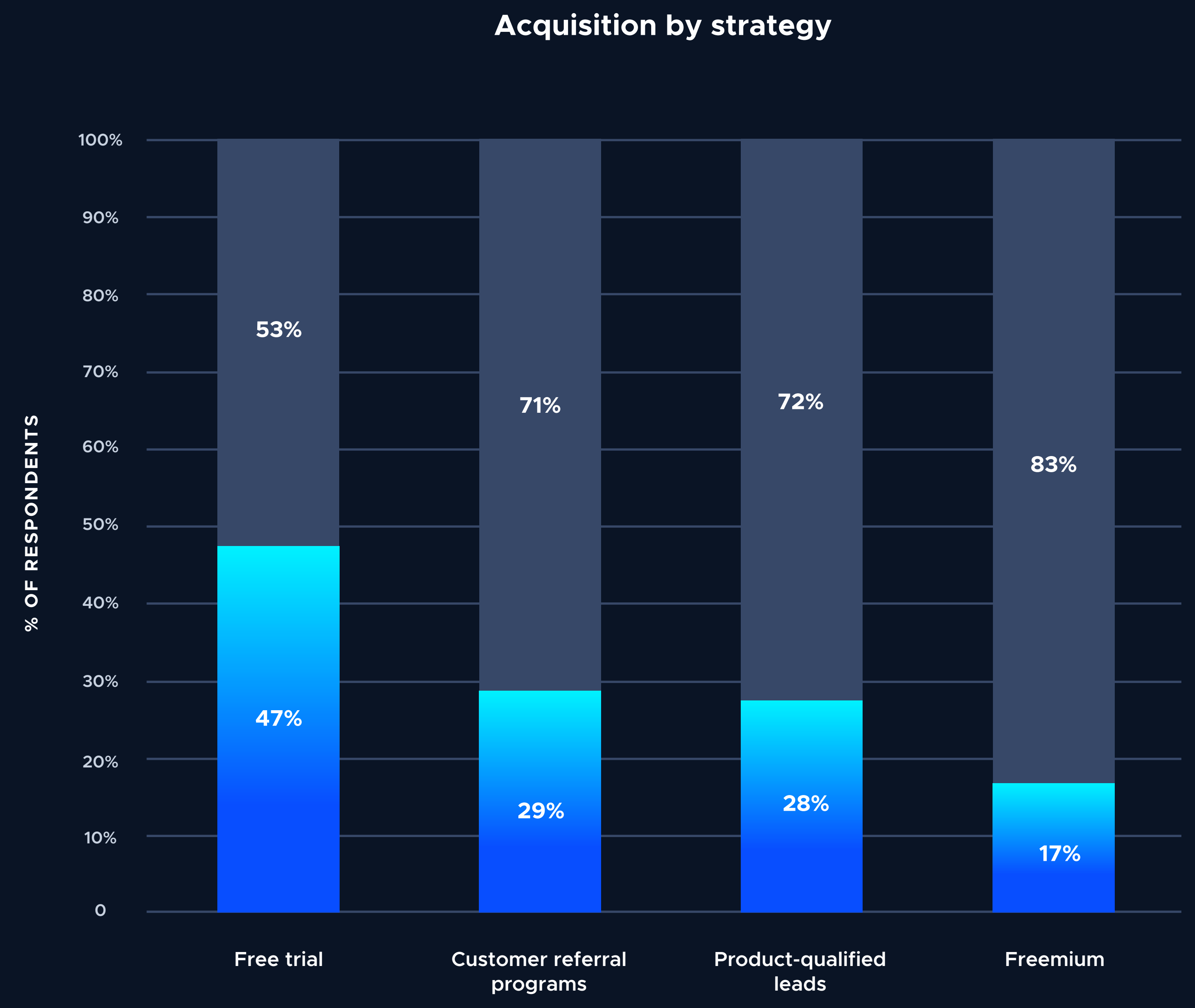
47% of businesses (almost half) offer a free trial to acquire new customers.

(SOURCE: OPENVIEW)

Why this matters

In order to convert free trial or freemium users to paying customers, it's essential that products deliver on the value promised swiftly and effectively.

Focus on removing friction and reducing new users' time to value with streamlined user onboarding, in-product support, and assisted sales.



Customer acquisition cost (CAC)

The most successful SaaS companies report a CAC payback period of 6 to 12 months (or less, in rare instances).

However, for most companies, it takes 12 to 18 months on average to recover CAC, after factoring in gross margins and acquisition costs.

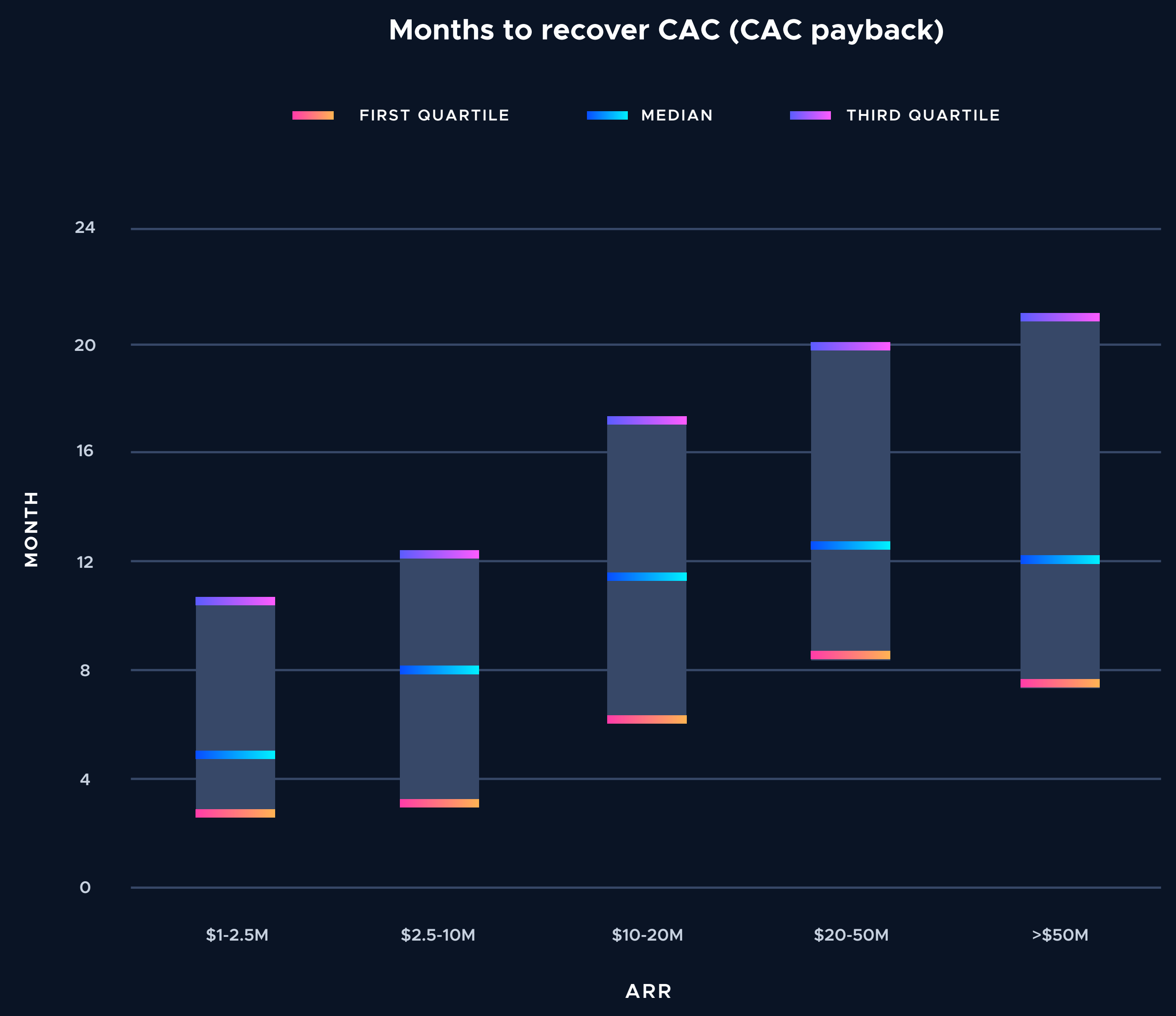
Best-in-class companies have a CAC payback of 6-12 months with rare exceptions of <6 months.

(SOURCE: OPENVIEW)

Why this matters

For healthy economics, customer lifetime value should always exceed the cost of acquisition for any customer segment.

Scaling through your product (rather than hiring) can lower CAC significantly in the long-term.



Activation

Less than half (44.3%) of SaaS businesses currently measure their product's activation rate.

Of these companies, 36.9% report an activation rate of less than 20%.

(SOURCE: 2019 APPCUES SURVEY)

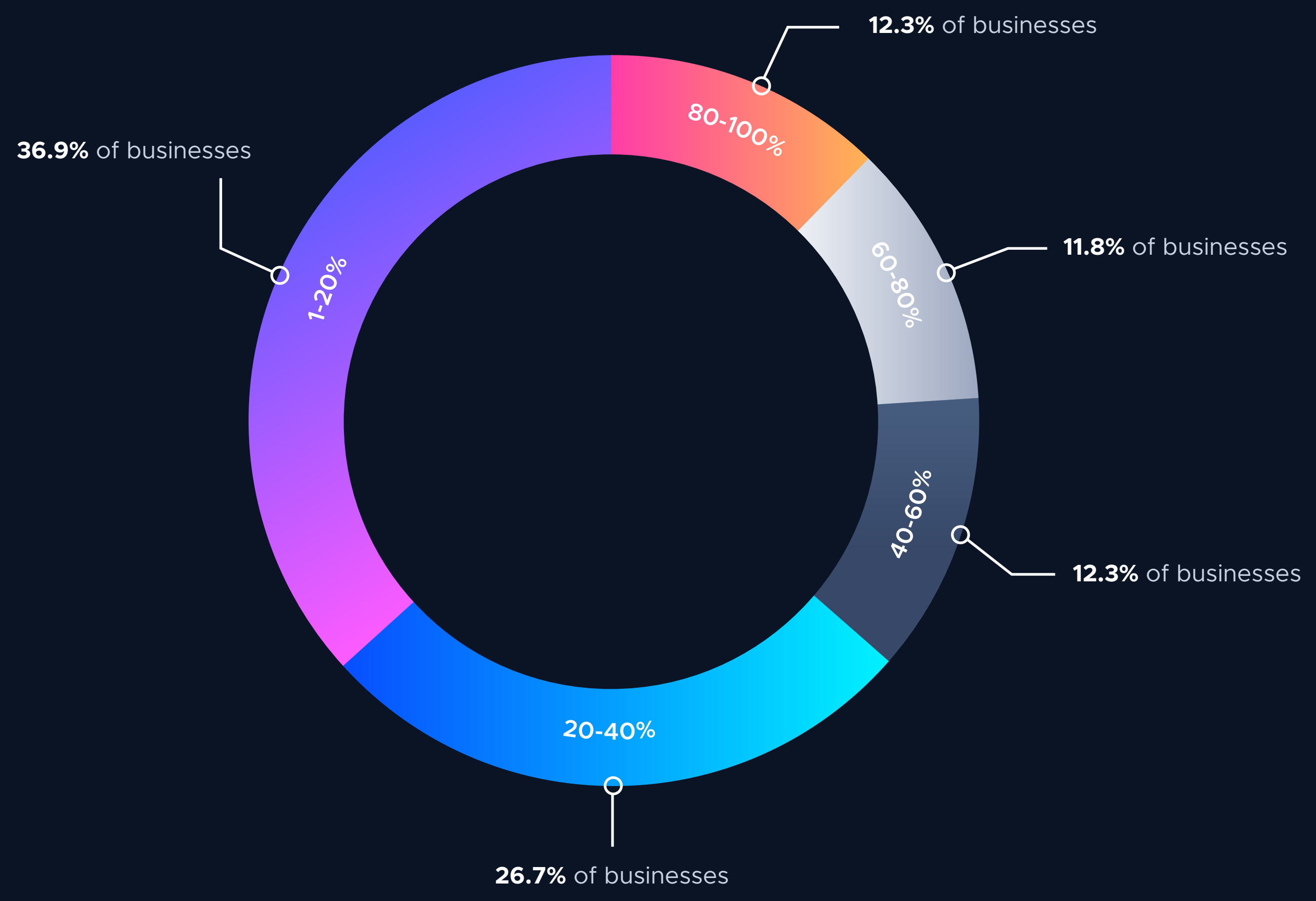
Why this matters

Activation takes place when a user first achieves the value promised by the product (calculated as % of activated users out of total acquired users).

If your activation rate is low, that means users aren't experiencing value from your product. Users who don't experience value inevitably churn.

SaaS activation rates

Source: 2019 Appcues survey of over 400 SaaS businesses.



Free-to-paid conversion

SaaS companies with a free trial report a median free-to-paid unassisted conversion rate of 4%.

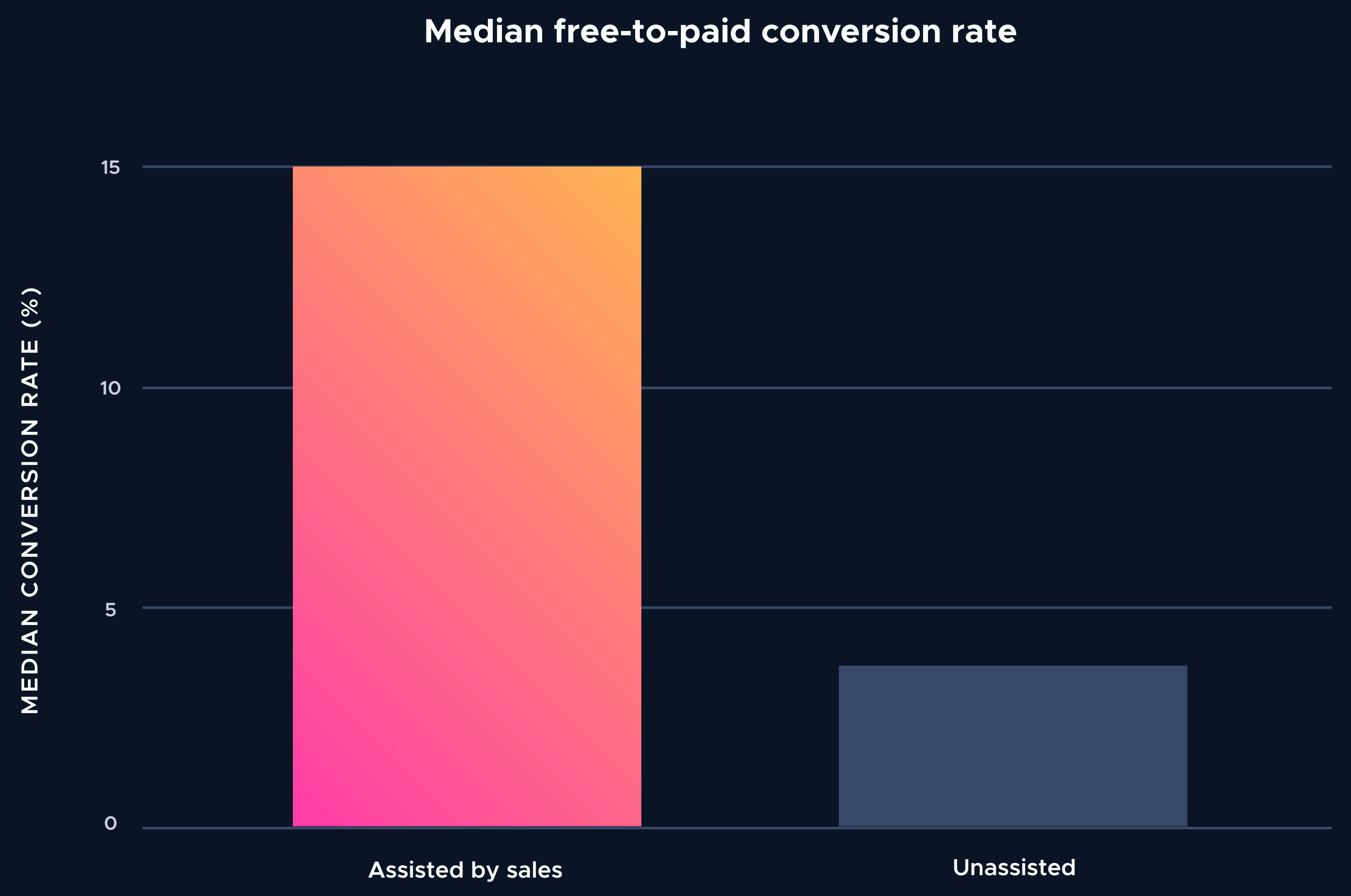
The conversion rate jumps to 15.5% when free trialers are assisted by sales.

(SOURCE: REDPOINT)

Why this matters

Low free-to-paid conversion rates can be a sign of friction or ineffective messaging within the free trial experience.

Assisted sales shouldn't be a bandaid for a bad product experience. A product that converts without human help will convert even better with it. Focus on optimizing your unassisted conversion rate and high-touch conversions will benefit, too.



3x conversion rate increase with sales

15% of assisted leads convert to customers

Adoption

The average employee uses over 8 apps at work.

(SOURCE: BLISSFULLY)

But SaaS products have a median “stickiness” of 9.4%—in other words, only 2.8 days of activity per user per month.

(SOURCE: MIXPANEL)

Moreover, 55% of business report that their average user uses less than half of available features.

(SOURCE: APPCUES SURVEY)

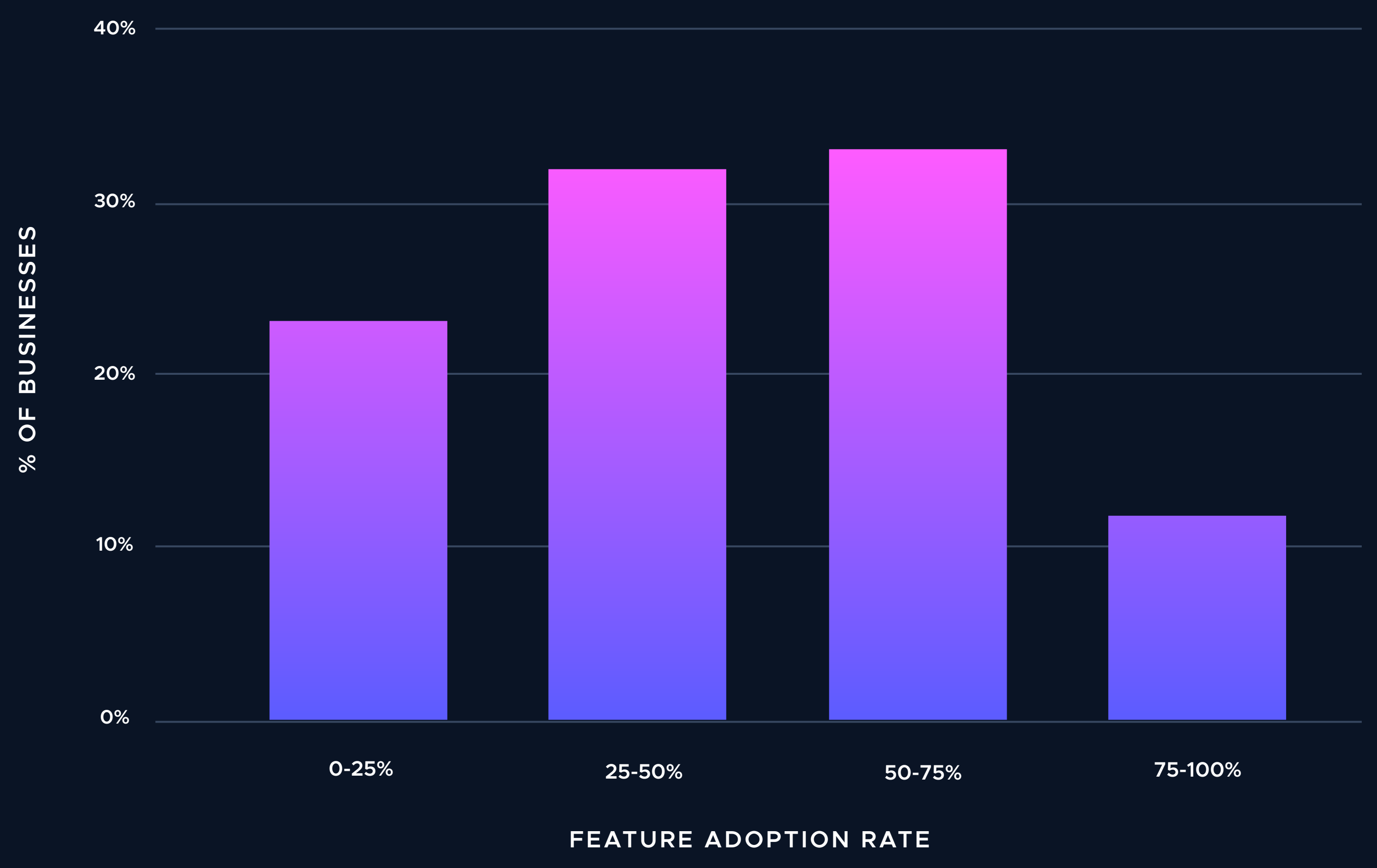
Why this matters

If users aren’t using the features you build, that’s time and resources wasted.

Low stickiness and adoption rates could mean that your product team is focused on the wrong things—or that you need to do more to point users in the right direction.

Feature adoption rate

Source: 2019 Appcues survey of over 400 SaaS businesses.



Expansion

On average, SaaS companies get 34% of new ARR from expansions and upsells—but that number is heavily skewed by the biggest players.

Companies with an ARR of $5M-$10M have a median 20% reliance on expansion revenue.

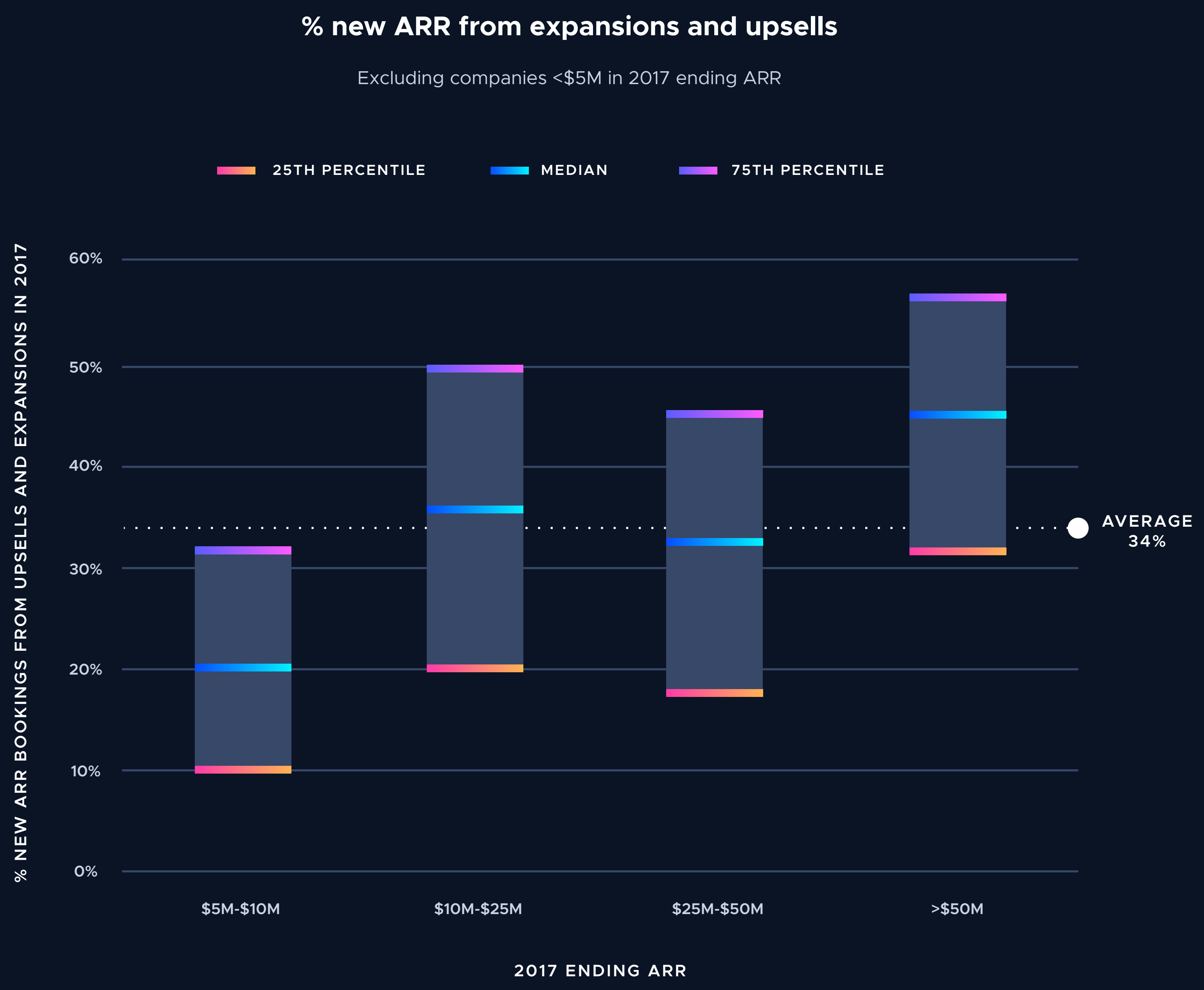
(SOURCE: KEY)

Why this matters

It's recommended that at least 30% of your revenue should come from expansions or upsells to offset the effects of churn.

(SOURCE: PRICE INTELLIGENTLY)

Indeed, the most profitable SaaS companies (>$50M) have the highest rate of expansion revenue, while the smallest companies have the lowest.



Endorsement

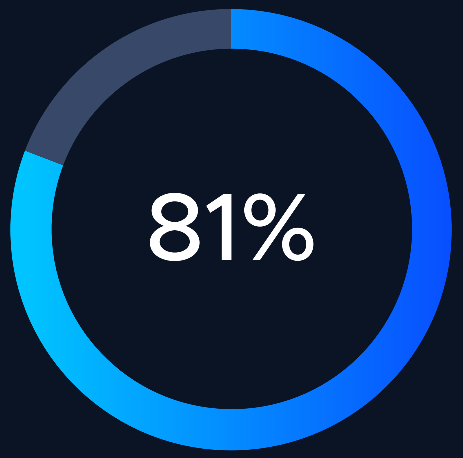
55% of SaaS businesses report that only 10% of their customers leave positive reviews on public platforms.

(SOURCE: 2019 APPCUES SURVEY)

Why this matters

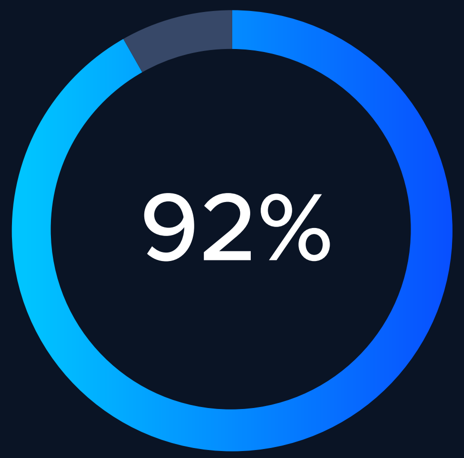
Social proof is real. People are used to researching products before they buy—and as powerful as a case study or expertly crafted blog post can be, nothing beats a user review on a third-party platform.

If you're short on 5-star reviews, consider having your CS team ask for feedback the next time they have a positive customer interaction.



81% of B2B buyers do their own research before talking to a vendor

(SOURCE: CONTENT MARKETING INSTITUTE)



92% of B2B buyers are more likely to purchase a product after reading a trusted review

(SOURCE: G2 CROWD)

Retention

The median SaaS retention rate at the end of an 8-week period is around 18%.

Top-performing companies retain a little over one-third of new and existing users at the end of the same period.

(SOURCE: MIXPANEL)

Yet only 18% of companies prioritize retention over acquisition.

(SOURCE: CHURNBUSTER)

Why this matters

It's 2X cheaper to upsell to an existing customer than it is to acquire a new one—and over 3X cheaper to generate expansion revenue than new customer CAC.

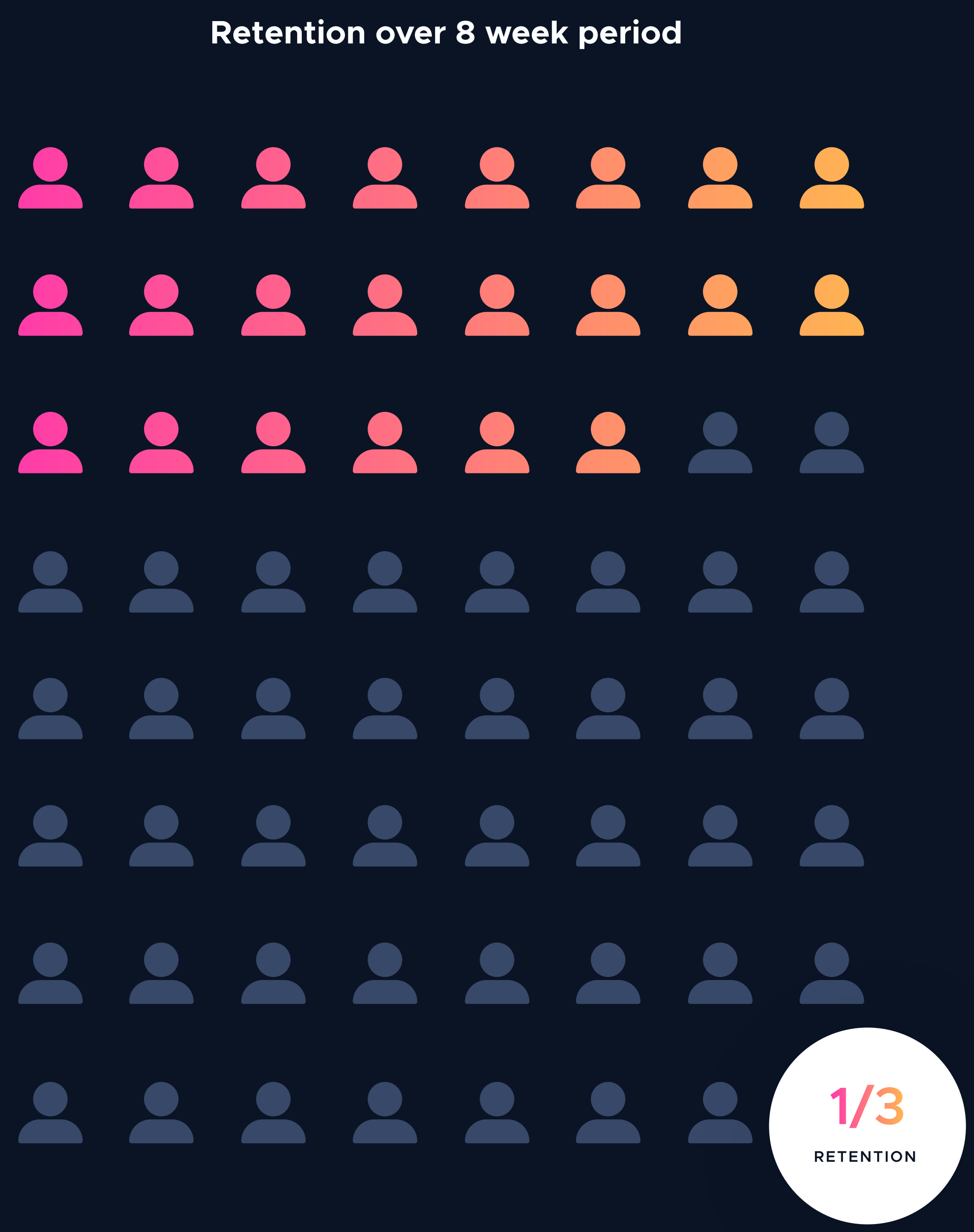
(SOURCE: KEY)

And it's almost 8X cheaper to retain an existing account than it is to acquire a net new customer.

(SOURCE: KEY)

In fact, improving retention rates by just 5% can increase profits by a whopping 25 to 95%.

(SOURCE: BAIN)



Churn

The median rate of customer churn was 21% in 2017—2X the rate in 2016.

Median gross revenue churn during the same period was 13.2% overall—up from ~8% the year before.

Companies with large contract sizes (>$100K) fared better—11.1% median gross dollar churn—while those with small contract sizes (<$5K) had a median gross dollar churn rate of 19.6%.

(SOURCE: KEY)

Why this matters

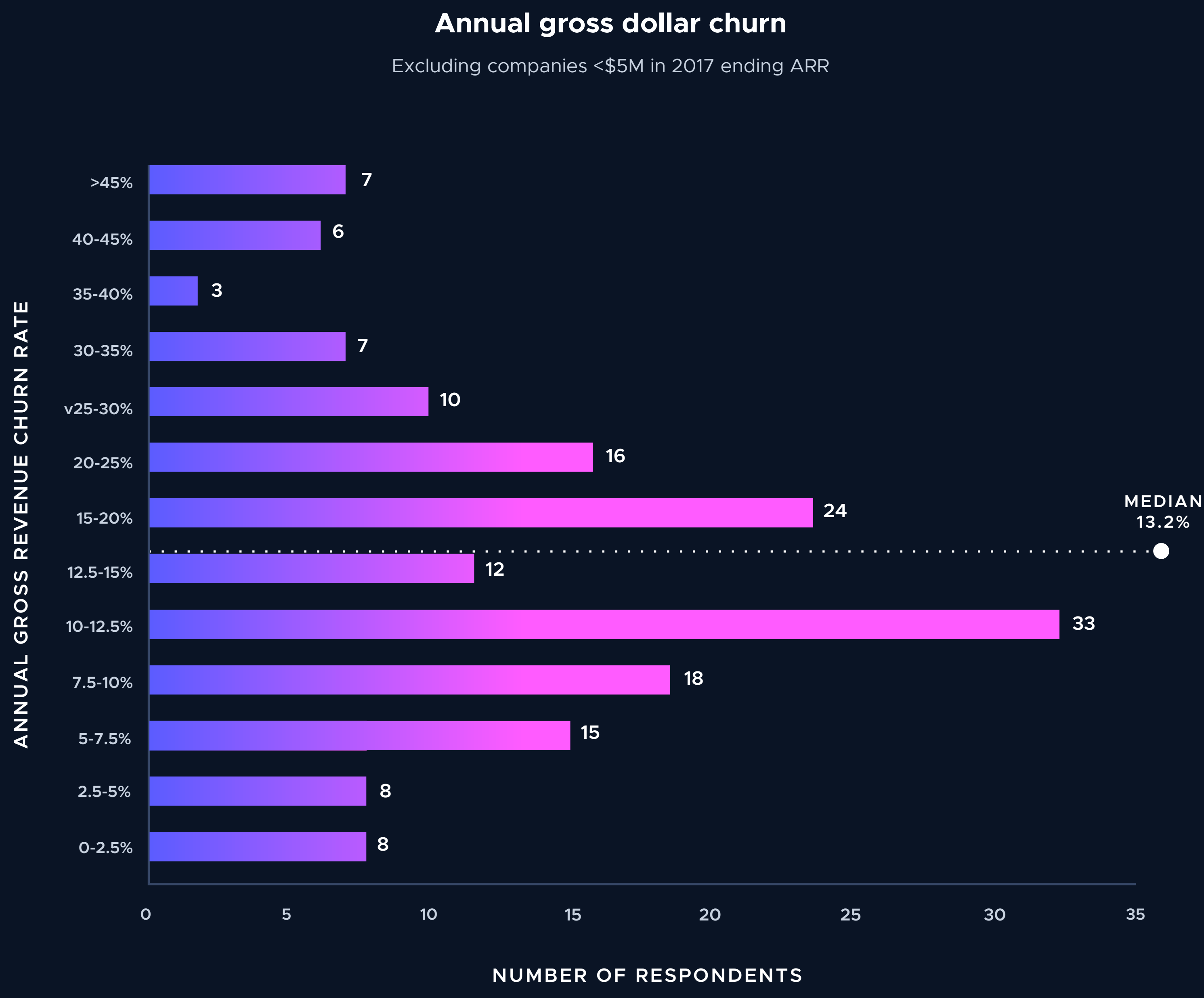
SaaS competition is heating up and churn rates are rising.

But gross churn is only part of the story, and doesn't account for expansion or upsell revenue. While the median gross churn rate was 13.2%, the median net churn rate was -1.7%.

In other words, the same companies that lost 13.2% of gross revenue actually increased profits by 1.7%.

(SOURCE: KEY)

The secret to improving your net churn rate and staying competitive isn't acquisition—it's retention and expansion.



Product-led growth

Product-led companies perform better on all key valuation drivers—revenue growth, gross margin, and Rule of 40—than their non-product-led SaaS counterparts in the 1H 2018 IPO cohort.

The median revenue multiple for PLG companies is 29% higher than non-PLG SaaS businesses.

(SOURCE: OPENVIEW)

Why this matters

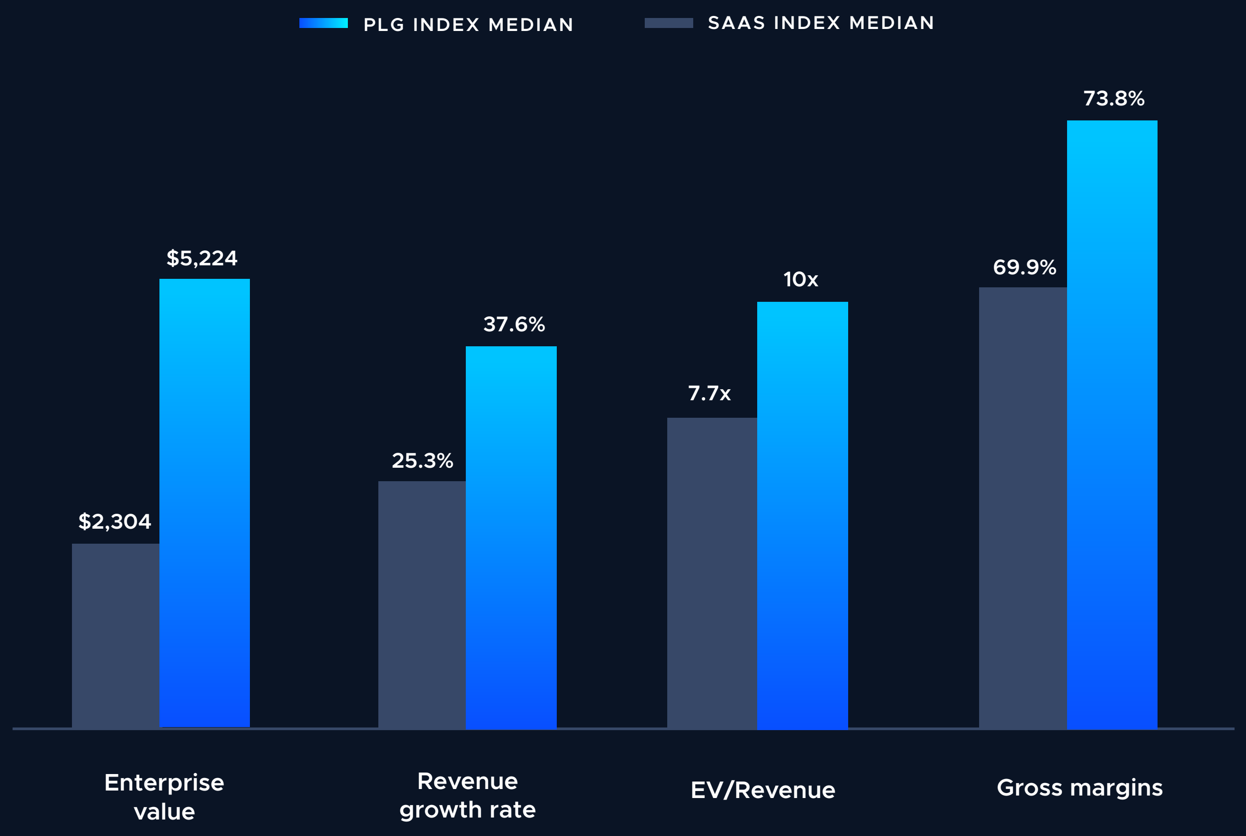
Companies that lead with their product are able to scale rapidly and sustainably.

Public market investors have recognized that a product-led strategy is the key to future growth and product-led companies are now valued almost 50% higher on average than their competitors.

(SOURCE: OPENVIEW)

PLG companies are outperforming the SaaS market

Data sourced from Pitchbook on 8/10/2018. Market data as of 6/3/2018.



This report was compiled by the Product-Led Growth Collective—a community-driven resource, made for growth-minded folks, by growth-minded folks.

LEARN MORE

Special thanks again to the following sources:

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