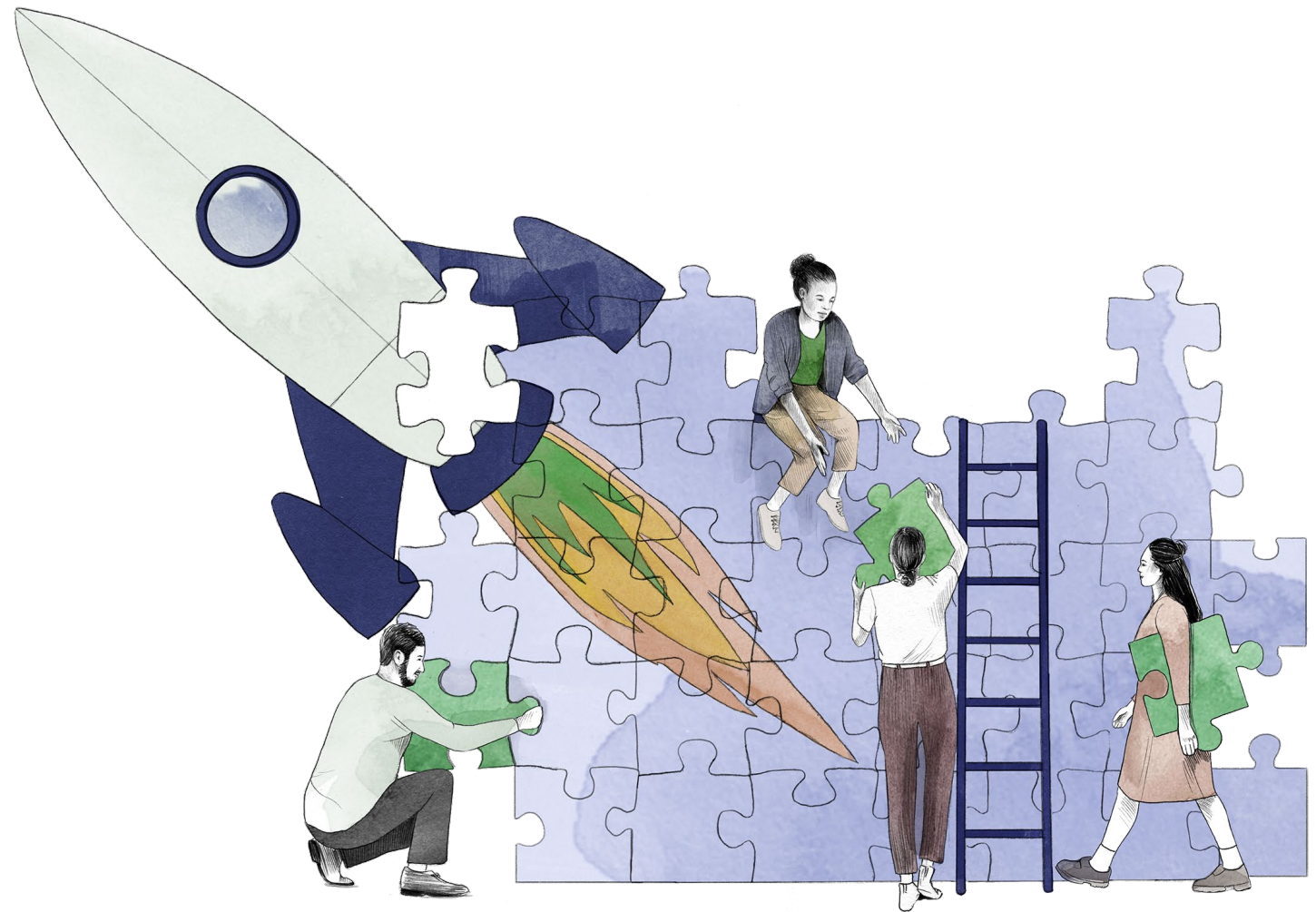


Product-Led Growth in 2023

Topline Growth and Operational Efficiency

August 2023



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1

Introduction



About the Research

Every year, the ICONIQ Growth Analytics team analyzes the **financial and operating metrics from ICONIQ Growth's portfolio and a selection of public companies** to understand the data behind scaling B2B SaaS companies.

In addition to our core study, we are also excited to introduce three brand new companion reports this year that focus on niche areas of the SaaS ecosystem

- The Rise of Vertical SaaS
- Product-Led Growth in 2023
- Scaling from \$0 to \$50M

If you're not on our mailing list and are interested in receiving these studies directly, please [let us know here](#).

Focus of this report

Companion Reports

Vertical SaaS

Product-Led Growth

Early-Stage

Tools & Reference Materials

Board Reporting Template

The SaaS Glossary


Interactive Dashboard
Portfolio Only

Scorecard Overviews

The Enterprise Five

The Resiliency Rubric

The Authors

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Follow our research

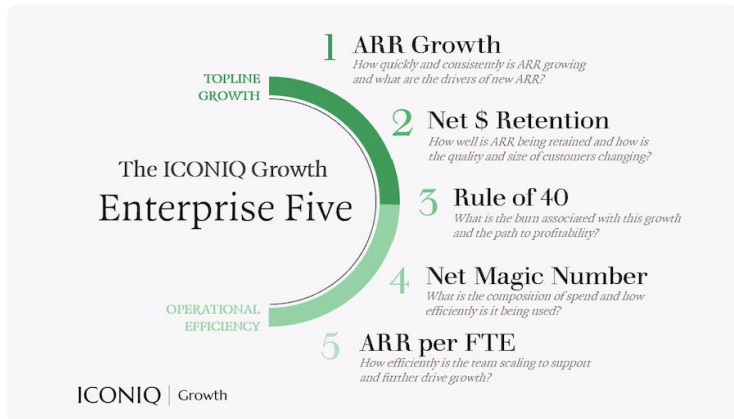


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	Overview & Data Sources	10
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	The ICONIQ Growth Enterprise 5	14
Best in Class Performance	Drivers of Growth	15
	Efficiency	20

Companies Included

This analysis is a companion report to our Topline Growth & Efficiency research which summarizes quarterly operating and financial data from 96 B2B SaaS companies.

All ICONIQ Growth portfolio companies were included where data was available, and an additional 13 select public companies were included based on our IPO performance criteria.¹

Specific pages in this study related to *product-led growth* include data from 20 ICONIQ Growth product-led growth companies shown here.

¹ See our IPO performance criteria in The Methodology section

² Pluralsight went public in 2018 and has since been purchased

³ Select ICONIQ Growth companies included in the analysis are not shown here due to privacy of investment. See a full list of portfolio companies in the Appendix.

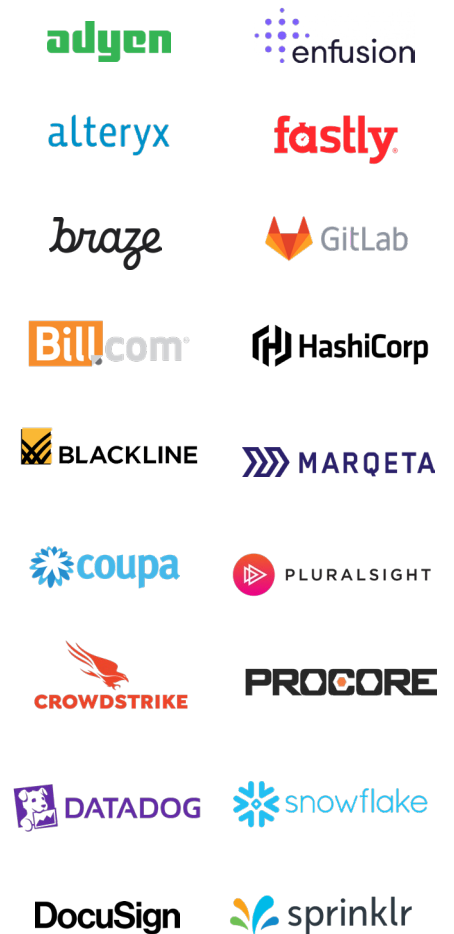
Trademarks are the property of their respective owners. None of the companies illustrated have endorsed or recommended the services of ICONIQ

ICONIQ Growth Portfolio Companies³

Private



Public or Acquired²


















Select Public Companies¹



INTRODUCTION





What is product-led growth?

Product-led growth is a GTM strategy where the product itself acts as the primary driver of acquisition, retention, and expansion

	Sales-led Growth (SLG)		Focus of this report
	Top-down SLG	Bottom-up SLG	Product-led Growth (PLG)
Awareness	 Marketing targets potential buyers (typically executive-level budget owners) and makes them aware of the product	 Marketing targets potential users and makes them aware of the product	 Marketing targets potential users and makes them aware of the product
Consideration	 Sales and company executives educate the buyer on the product to identify need and use cases	 User educates themselves on the product to understand need and use cases	 User educates themselves on the product to understand need and use cases
Purchase	 Sales and company executives drive the purchase decision	 User signs up for the product without human-touch	 User signs up for the product without human-touch
Retention & Expansion	 Sales or other GTM employee drives adoption , retention and expansion	 Sales or other GTM employee drives adoption , retention and expansion	 User onboards without human touch and the product drives adoption, retention, and expansion
Advocacy	 CS and/or account managers drive user, engagement and advocacy via support, community forums, etc.	 CS and/or account managers drive user, engagement and advocacy via support, community forums, etc.	 The product drives user engagement and advocacy, and users are enabled to create communities and forums

Bottom-up motions can be “product-led”, wherein the end-user can sign up for a freemium product with a touchless onboarding. However, **if the product doesn’t drive expansion and a go-to-market employee still needs to be involved, this is not product-led growth.**²

*Revenue Leader
Collaboration & Workflow, PLG
Late-stage (\$250M+ ARR)*

Sales Marketing CS / AM End-user

METHODOLOGY

Overview & Data Sources¹

This analysis summarizes quarterly operating and financial data from the included SaaS companies. All views are aggregated or anonymized to protect the data privacy of individual companies.

Using this proprietary dataset, we seek to answer key questions on how SaaS companies can scale quickly and efficiently and explore what we believe to be early indicators and drivers of long-term success.

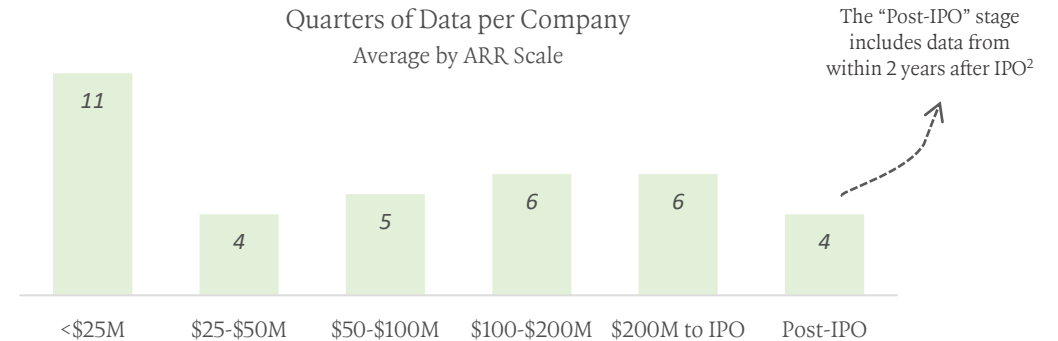
Unless otherwise indicated, references to “SaaS companies” only reflect trends observed with the companies included in the dataset.

¹ The conclusions of this study represent the views of the ICONIQ Growth Portfolio Analytics team and are not intended to serve as an analysis of the value, viability or health of any individual company or group of companies, and should not be used to make any decision about whether to invest in any company or group of companies, including through a private fund

² Select public companies included do not publicize ARR data, so we have grouped all company data from within 2 years after IPO into a “Post-IPO” stage

N-sizes

Each datapoint (n) represents a single fiscal quarter of data per company. A given company’s quarterly datapoints can be included multiple times in aggregated views (for example, by ARR Scale) where we have more historical data:

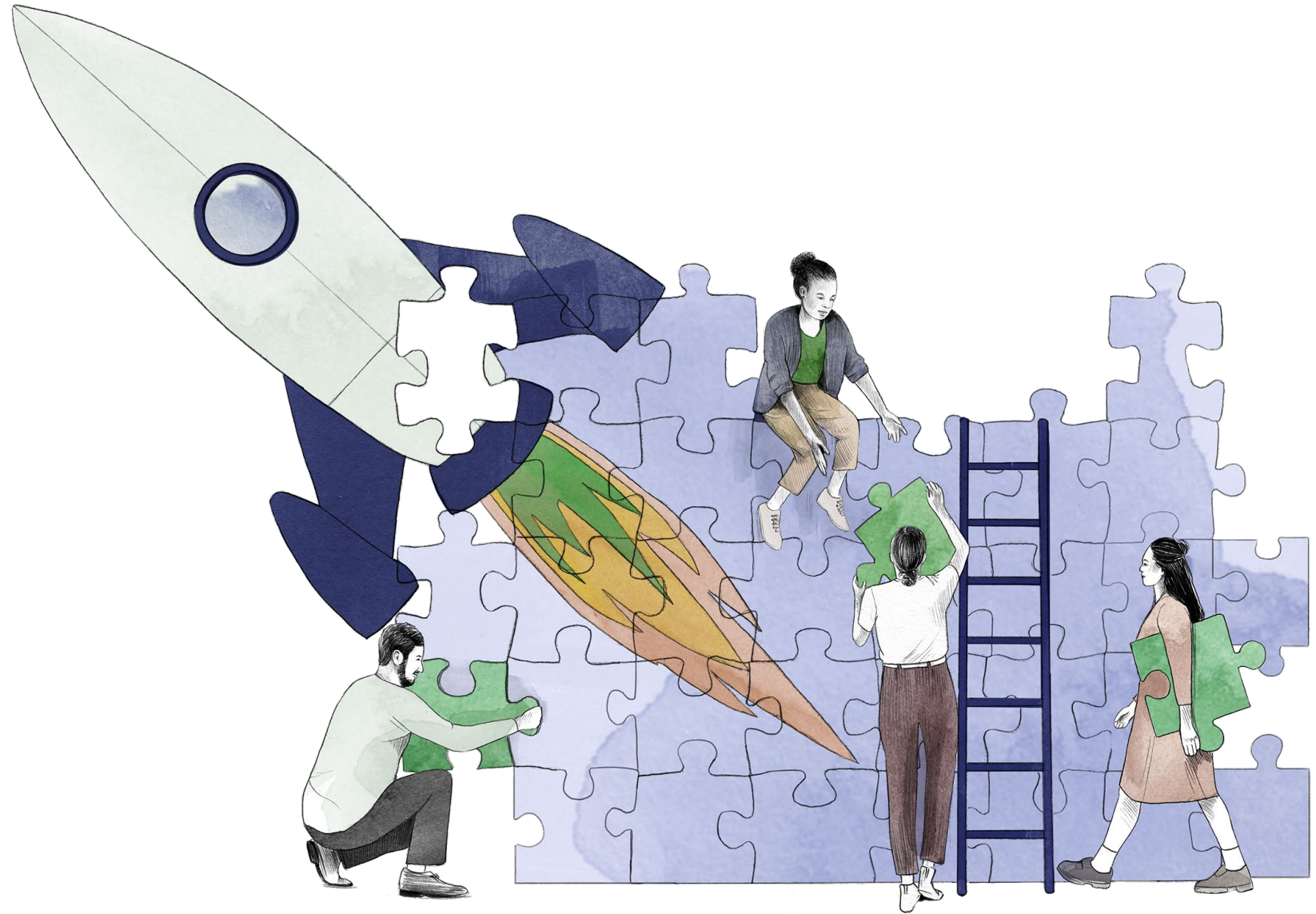


Public Companies

The dataset includes 13 public companies that are not (and have not previously been) ICONIQ Growth portfolio companies. All data was collected from public filings information. Top IPO performers are top quartile in two or more of the following:

1. Indication of Success of IPO: *Forward Revenue Multiple at IPO*
2. Indication of Success Post-IPO: *Current Forward Revenue Multiple*
3. Indication of Value Creation: *Ratio of Change in Stock Price Since Day 1 Close vs. Market (S&P)*

2 Executive Summary



Benchmarking SaaS Performance in 2023

About This Year's Report¹

We believe the **last few years of unprecedented growth and favorable tailwinds have been anomalous for SaaS businesses**. Rather than relying on benchmarks exclusively based on 2023 or even the last few years, we believe that the leadership teams of SaaS businesses should be utilizing **aggregate metrics over a longer historical period** to calibrate to realistic standards of performance.

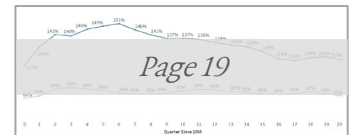
We are proud to have compiled over **a decade's worth of quarterly financial and operating data from private and public SaaS companies** in this year's research, which we believe can serve as an objective way to measure "best in class" performance and to identify drivers of operational success.

We recognize, however, that **today's reality means targets are much harder to achieve than in previous years**. Based on how 1H 2023 has trended, we expect software businesses will continue to face challenges this year. In the following pages, we have provided commentary on the nuances we expect to see in 2023 and beyond, as well as guidance on how companies can pursue growth both more efficiently and resiliently, especially in an era of efficient growth.

Executive Summary

Drivers of Growth

- PLG SaaS companies with top performance in ARR growth scale more quickly than their SLG counterparts, growing 200%+ YoY for the first two years after reaching \$10M ARR
 - Expansion starts to contribute more than 50% of gross new ARR as early as ~\$50M ARR for PLG companies
 - Logo churn makes up ~75% of gross churn for PLG companies with >\$100M ARR
- PLG companies tend to see both **higher and more volatile net dollar retention**, with top quartile PLG companies achieving **120-140% net dollar retention and 85%+ gross dollar retention**



Efficiency

- PLG companies typically have **gross margins as high as ~80% due to the low costs of customer onboarding and support inherent in PLG models**
- Usually also requiring less S&M investment than sales-led companies, PLG companies have **higher sales efficiency metrics** with top quartile net magic number close to 2x
- PLG SaaS companies typically see a LTV/CAC ratio of 3-9x depending on scale and a **median CAC payback period of <10 months after reaching >\$200M ARR**
- Top quartile PLG companies generally achieve profitability faster than sales-led companies, usually **within 3-5 years after reaching \$10M ARR**
- As PLG companies mature and invest in GTM to drive revenue growth, R&D starts to make up an increasingly smaller proportion of total operating spend and headcount, while **S&M makes up an increasingly larger proportion of spend and headcount**
- **Marketing spend comprises ~55-70% of total GTM spend but only ~25-35% of total GTM headcount** for PLG companies



THE ICONIQ GROWTH Enterprise Five

ICONIQ Growth standards across five key metrics we believe are highly representative of a PLG SaaS company's overall growth and efficiency:

- 1 **YoY ARR Growth**
(EOP ARR – prior year EOP ARR) / prior year EOP ARR
- 2 **Net \$ Retention**
1+ (expansion ARR - gross churn ARR) / average (BOP ARR + EOP ARR)
- 3 **Rule of 40**
YoY ARR growth + FCF margin²
- 4 **Net Magic Number**
Current Q net new ARR / prior Q S&M OpEx³
- 5 **ARR per FTE**
EOP ARR / EOP FTEs

Product-Led Growth Median & Top Quartile Performance by ARR Scale¹

Median Top Quartile

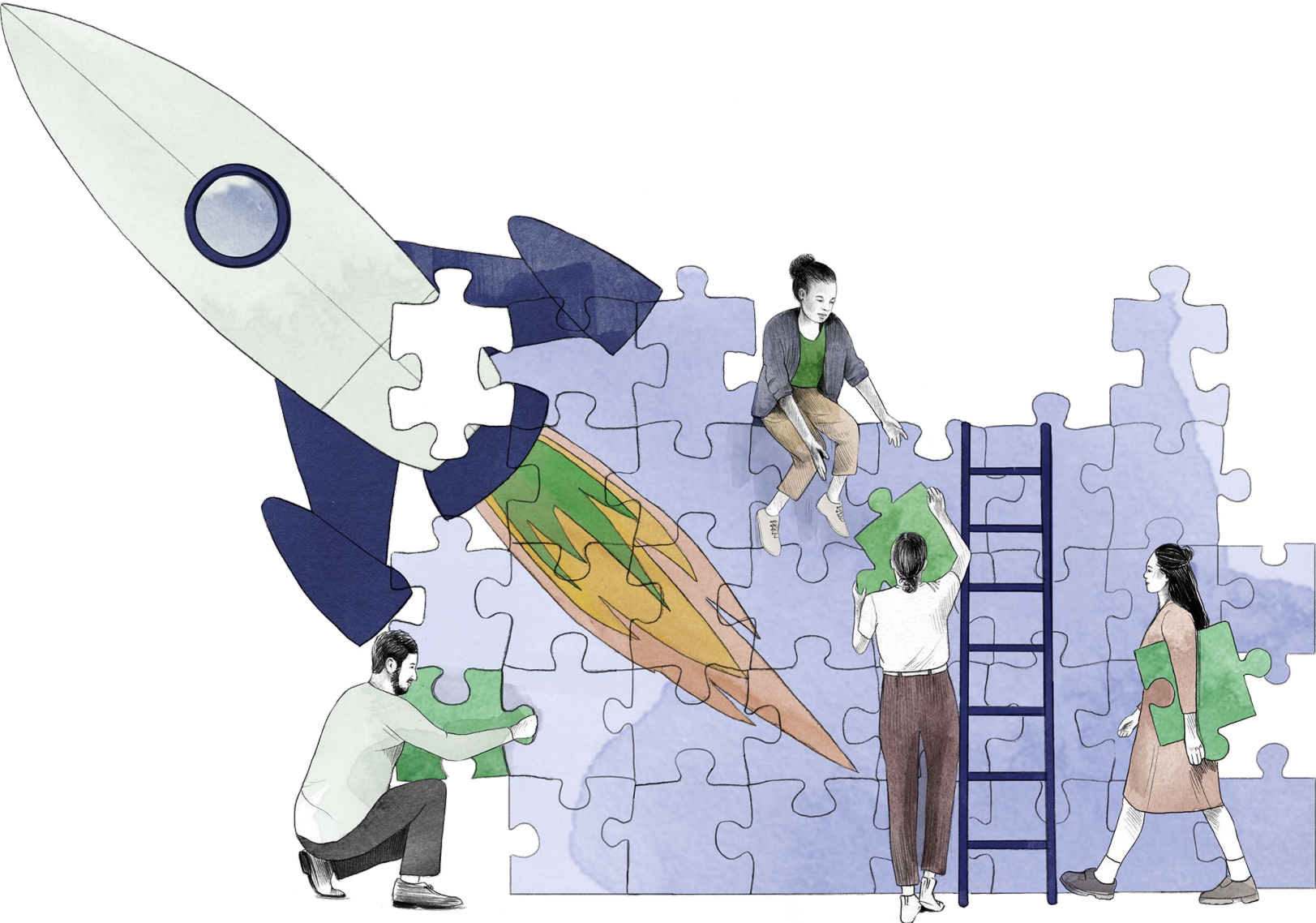
- ▼ >10% lower than all SaaS companies
- ◃ <10% lower than all SaaS companies
- Consistent with all SaaS companies
- ▲ <10% greater than all SaaS companies
- ▲ >10% greater than all SaaS companies

	<\$25M	\$25-\$50M	\$50-\$100M	\$100-\$200M	\$200M to IPO
1 YoY ARR Growth <i>(EOP ARR – prior year EOP ARR) / prior year EOP ARR</i>	270% ▲ 480%	135% ▲ 195%	65% ▼ 110%	50% ● 85%	45% ▲ 90%
2 Net \$ Retention <i>1+ (expansion ARR - gross churn ARR) / average (BOP ARR + EOP ARR)</i>	105% ● 120%	120% ▲ 140%	110% ● 125%	110% ● 120%	110% ● 115%
3 Rule of 40 <i>YoY ARR growth + FCF margin²</i>	Less Relevant	Less Relevant	Low N-Size	35% ▲ 70%	50% ▲ 90%
4 Net Magic Number <i>Current Q net new ARR / prior Q S&M OpEx³</i>	2.3x ▲ 3.5x	1.0x ▲ 2.9x	0.9x ● 1.8x	0.9x ▲ 1.9x	0.7x ▲ 1.8x
5 ARR per FTE <i>EOP ARR / EOP FTEs</i>	\$75K ▼ \$95K	\$130K ▼ \$170K	\$160K ▼ \$210K	\$235K ▲ \$315K	\$260K ▲ \$275K

Given the current environment, we expect that **median benchmarks shown here will be more realistic for PLG companies to target in 2023**, but have included top quartile as reference for “best in class” performance regardless of time period¹. Arrows indicate PLG Benchmarks relative to all SaaS companies – more detail can be found in our [Topline Growth & Operational Efficiency report](#).

¹ Quarterly operating and financial data from the PLG companies included (2012-2023); ² Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin
³ Quarter of S&M OpEx utilized in magic number calculations should depend on your company's sales cycle; ⁴ Within 2 fiscal years after IPO

Drivers of Growth

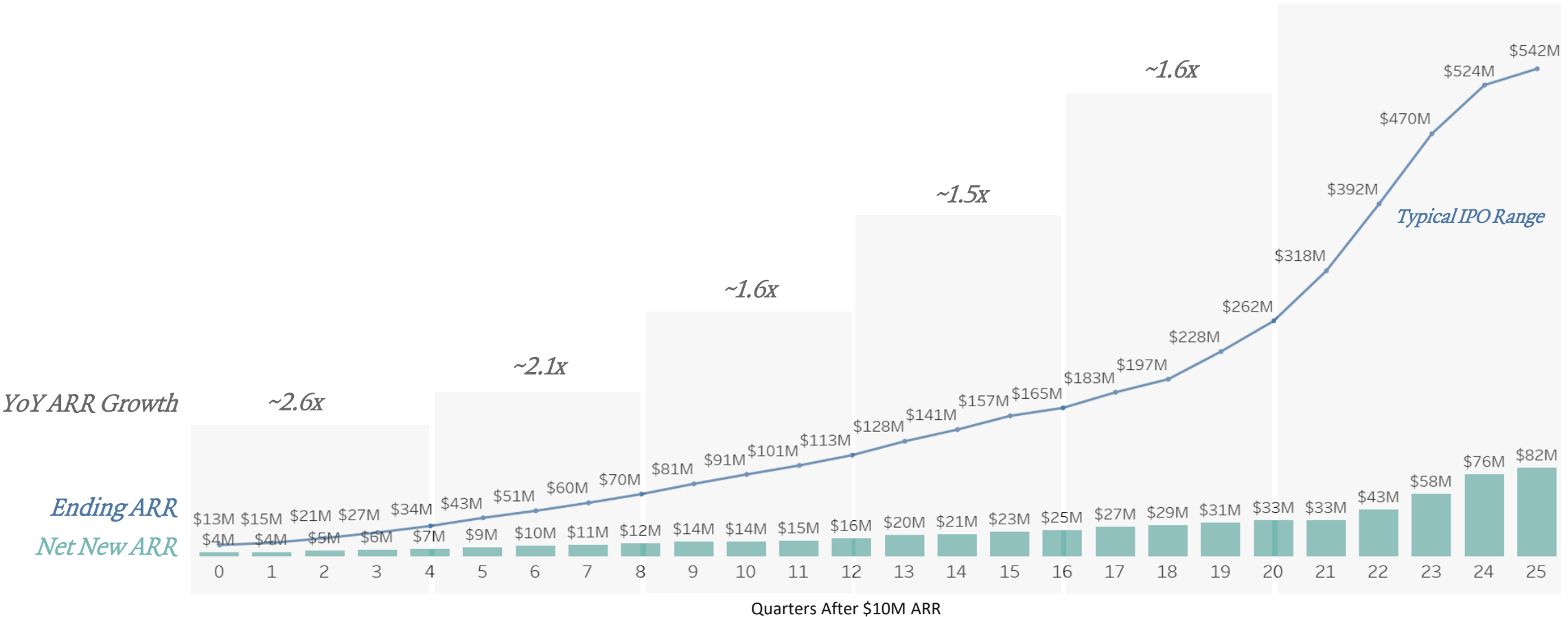


Topline Health | ARR Growth since \$10M

Top quartile PLG SaaS companies scale more quickly than their SLG counterparts, growing 200%+ YoY for the first two years after reaching \$10M ARR

Top Quartile ARR Growth from \$10M to IPO¹

Rolling Top Quartile EOP ARR and Net New ARR By Quarter after \$10M ARR; PLG Companies



N-size

6 5 7 6 6 6 6 6 7 7 8 10 10 10 10 10 11 11 12 11 11 11 9 10 9 8

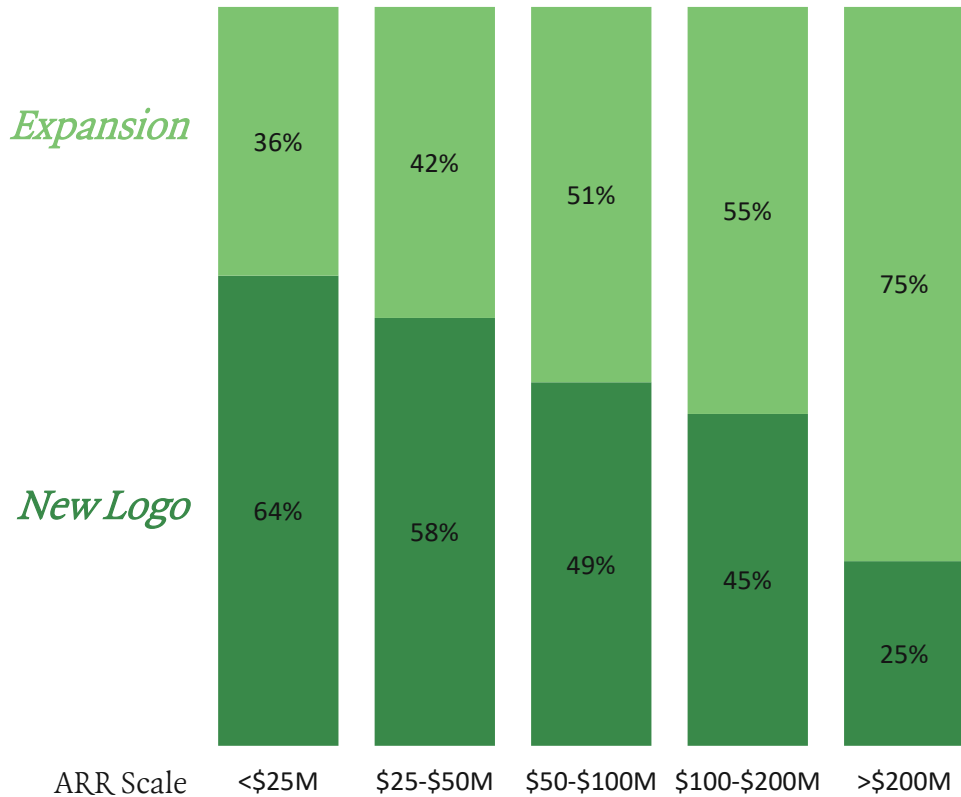
¹ Quarterly operating and financial data from the PLG companies included

Topline Health | Drivers of ARR Growth by Scale

New logos are the primary driver of ARR growth until PLG companies reach ~\$50M ARR, at which point expansion starts to contribute more than 50% of gross new ARR

Average Gross New ARR Distribution¹

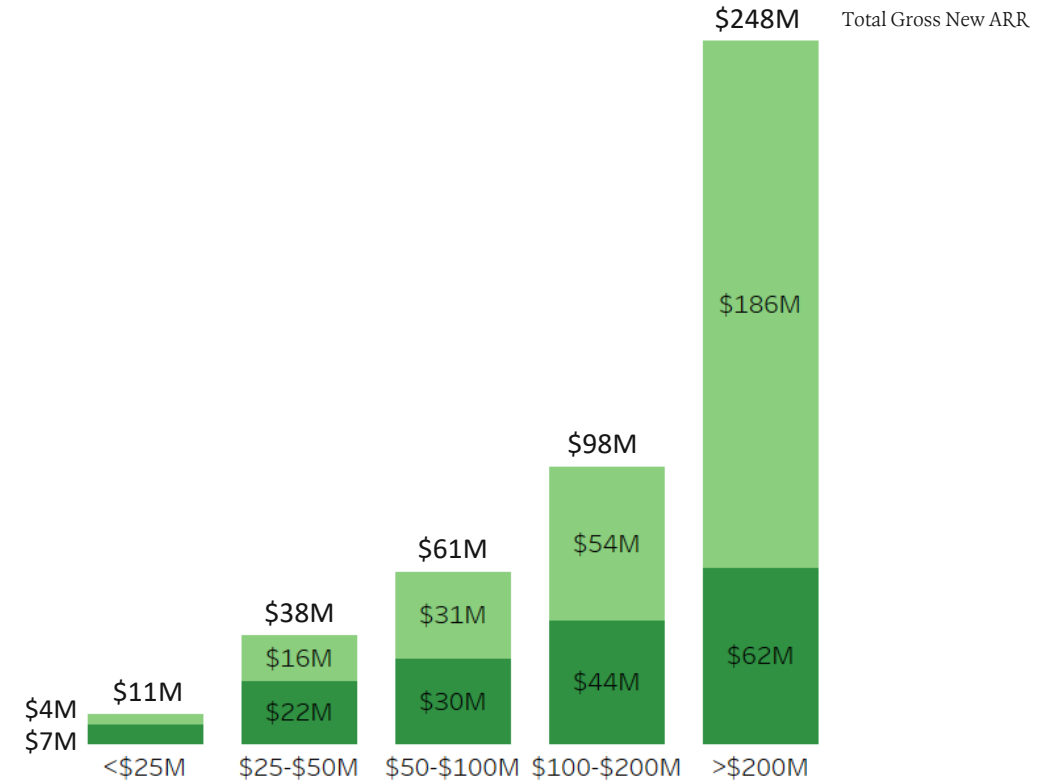
Average % of Gross New ARR by Type and ARR Scale
PLG Companies



Product-led growth products onboard users without human touch and **the product itself drives adoption, retention, and expansion.** As PLG companies scale past \$200M ARR, expansion makes up 75% of gross new ARR, compared to ~60% for sales-led growth companies.

Average Gross New ARR (\$)¹

Average Annual Gross New ARR by Type and ARR Scale
PLG Companies



N-size 35 18 32 34 39

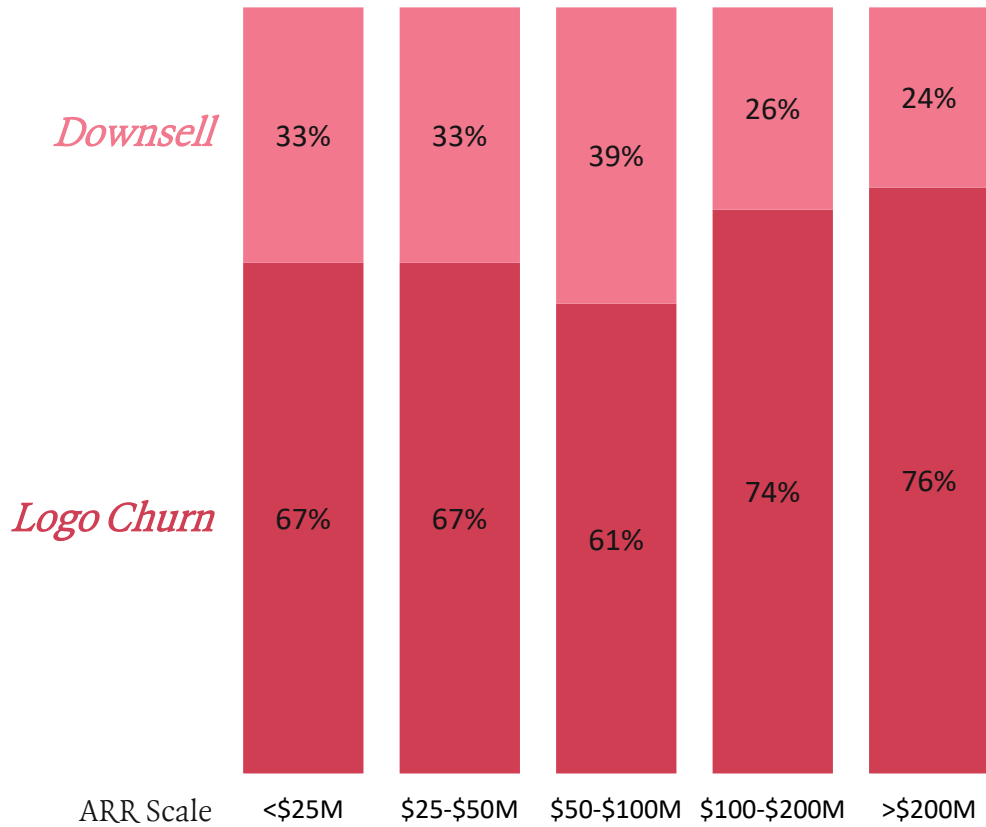
¹ Quarterly operating and financial data from the PLG companies included

Topline Health | Drivers of Churn by Scale

For PLG companies, logo churn is the biggest driver of gross churn, likely driven by the sales motions' focus on land-and-expand and self-serve

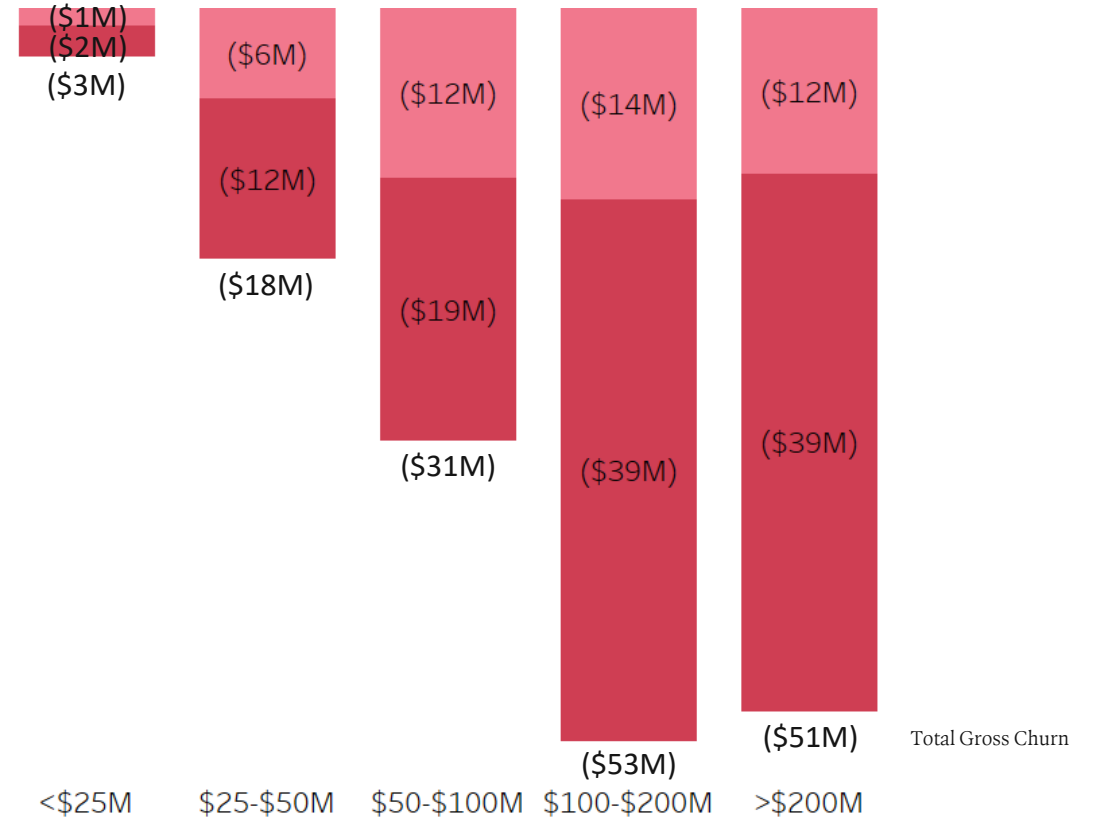
Average Gross Churn Distribution¹

Average % of Gross Churn by Type and ARR Scale
PLG Companies



Average Annualized Gross Churn (\$)¹

Average Annual Gross Churn by Type and ARR Scale
PLG Companies



N-size: 16, 6, 15, 21, 9

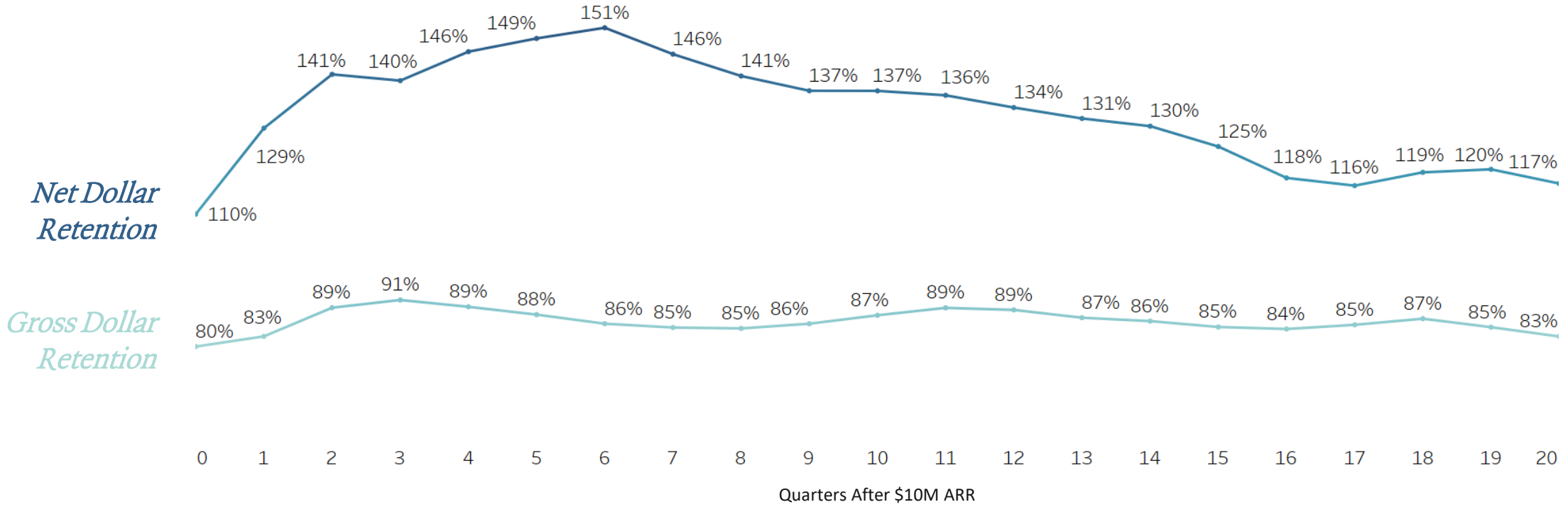
¹ Quarterly operating and financial data from the PLG companies included

Topline Health | ARR Retention

PLG companies tend to see both higher and more volatile net dollar retention, with top quartile PLG companies achieving 120-140% net dollar retention and 85%+ gross dollar retention as they scale past \$10M ARR

Top Quartile ARR Retention¹

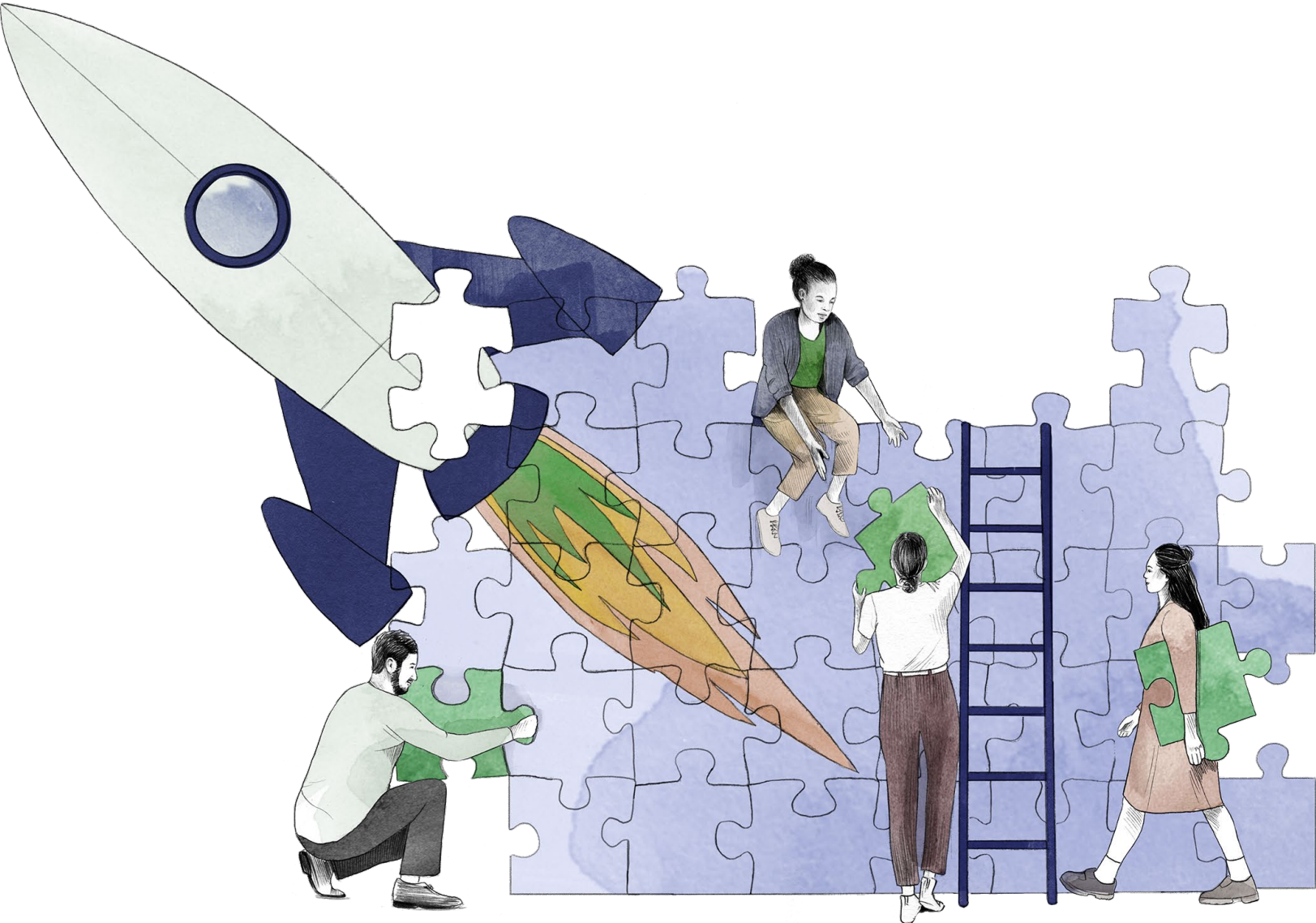
Rolling Top Quartile Annualized Net and Gross ARR Retention by Quarters after \$10M ARR; PLG Companies



N-size: 2, 3, 4, 4, 3, 3, 3, 4, 5, 5, 4, 7, 7, 6, 5, 6, 4, 4, 5, 4, 4

¹ Quarterly operating and financial data from the PLG companies included

Efficiency

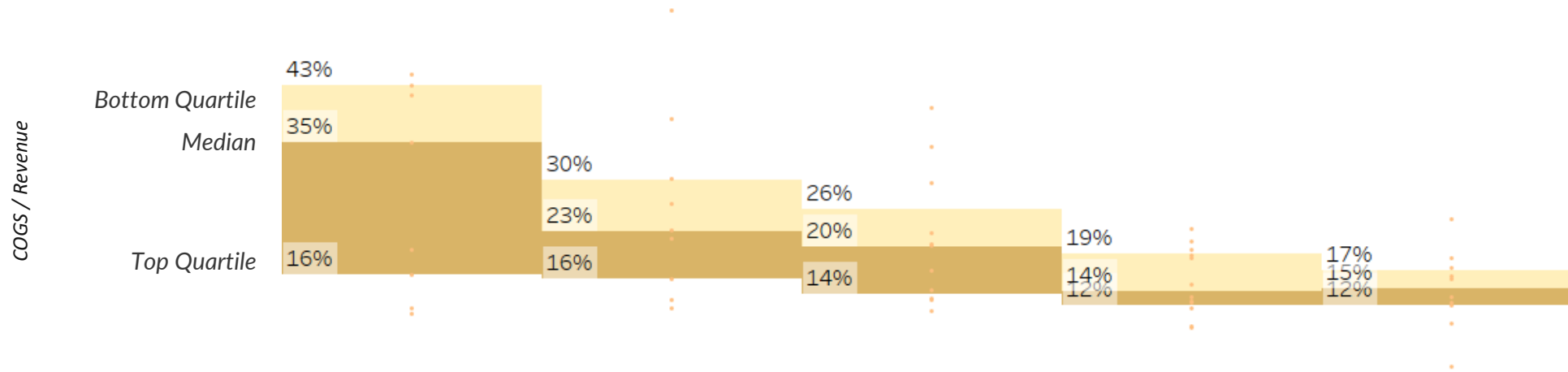


Unit Economics | COGS as a % of Revenue by Scale

PLG companies typically see higher gross margins compared to sales-led companies, with median gross margins of ~80%+ after reaching ~\$50M ARR

COGS as a % of Revenue¹

Top, Median, and Bottom Quartile by ARR Scale; PLG Companies



ARR Scale

<\$25M

\$25-\$50M

\$50-\$100M

\$100-\$200M

>\$200M to IPO

Top Quartile Gross Profit Margin

84%

84%

86%

88%

88%

Median Gross Profit Margin

65%

77%

80%

86%

85%

N-size

55

33

54

71

33

¹ Quarterly operating and financial data from the PLG companies included

Unit Economics | Magic Number

Usually requiring lower S&M investment, PLG companies tend to have higher sales efficiency metrics compared to sales-led growth companies with top quartile net magic number closer to 2x

Top Quartile Net Magic Number¹

Net New ARR / Prior Quarter S&M OpEx² by ARR Scale



¹ Quarterly operating and financial data from the PLG companies included

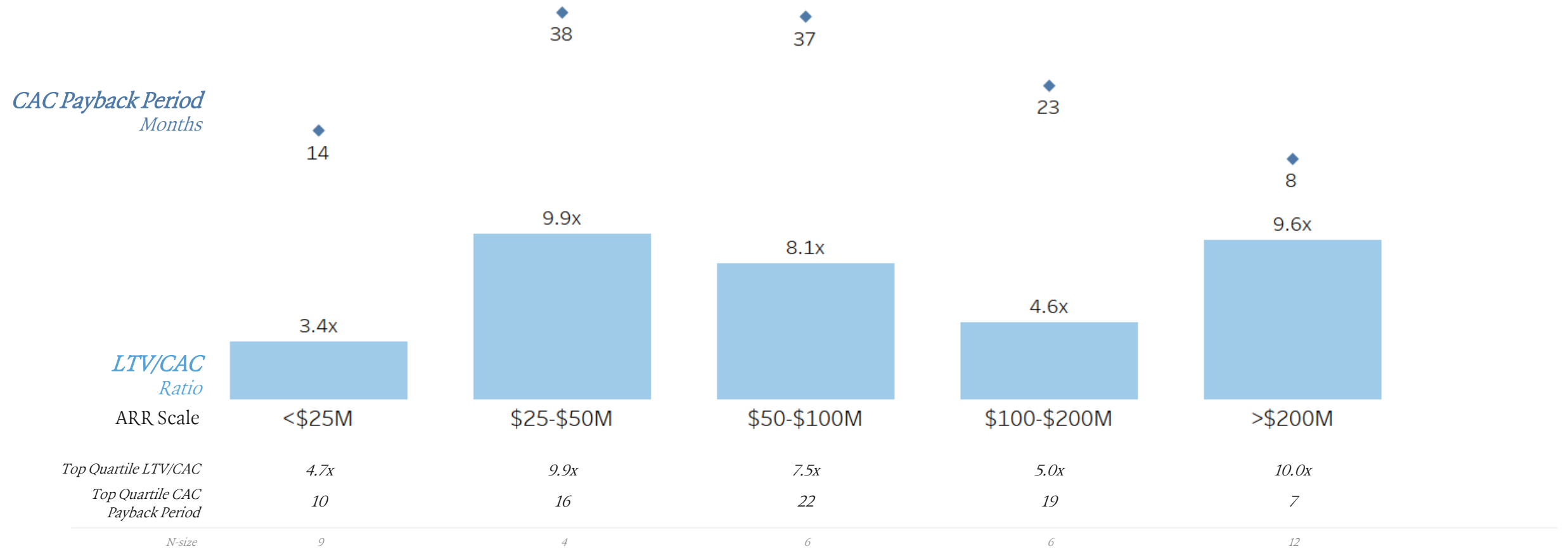
² Quarter of S&M OpEx utilized in magic number calculations should depend on a given company's sales cycle

Unit Economics | LTV / CAC by Scale

PLG SaaS companies typically see a LTV/CAC ratio of 3-9x as they scale to \$200M and find significant leverage post \$200M with median CAC payback period dropping to less than 10 months

Median LTV/CAC and CAC Payback Period^{1,2}

By ARR Scale; PLG Companies

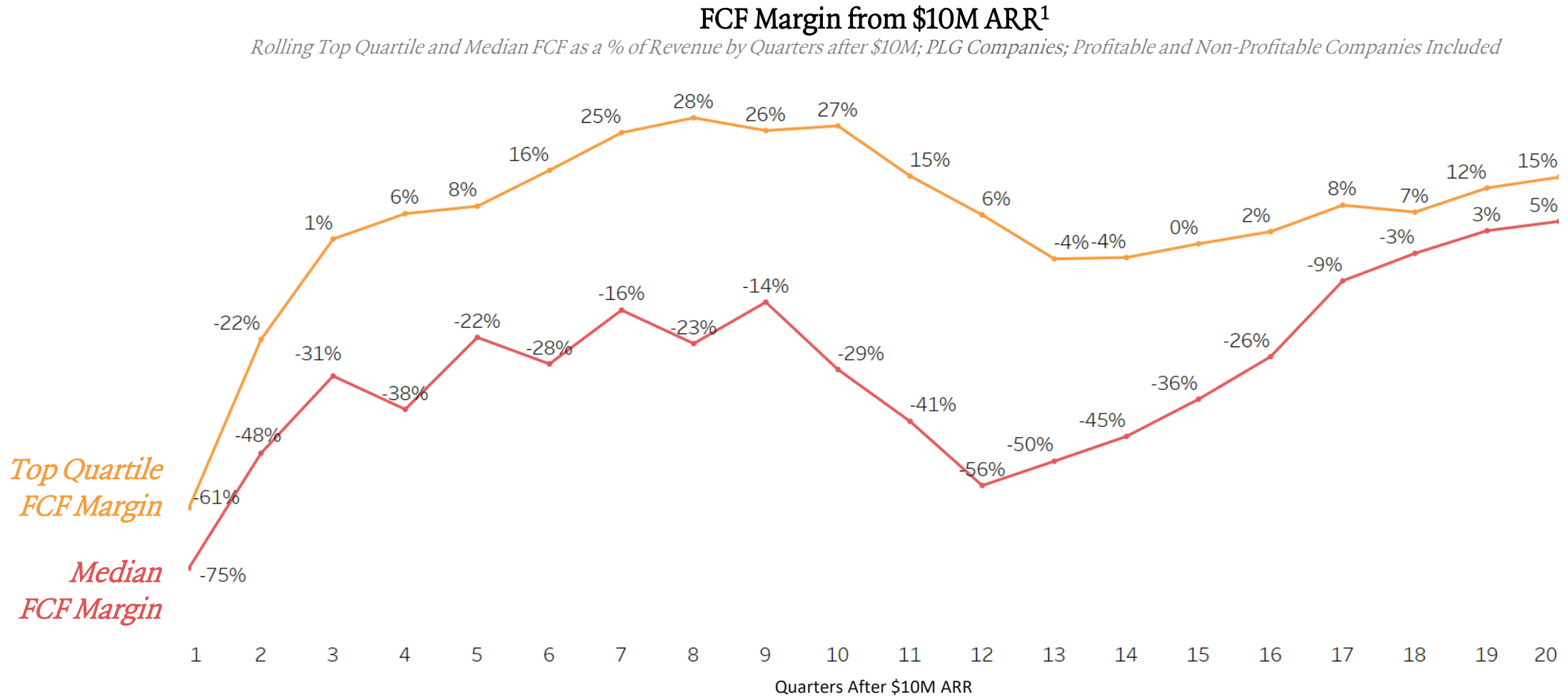


¹ Quarterly operating and financial data from the PLG companies included

² LTV = Customer Lifetime Value; CAC = Customer Acquisition Cost; CAC Payback Period = CAC / (New MRR x Gross Margin)

Efficiency | FCF Margins

PLG companies typically achieve profitability much earlier than sales-led companies with top-performing companies breaking-even 3-5 years after reaching \$10M ARR



N-size

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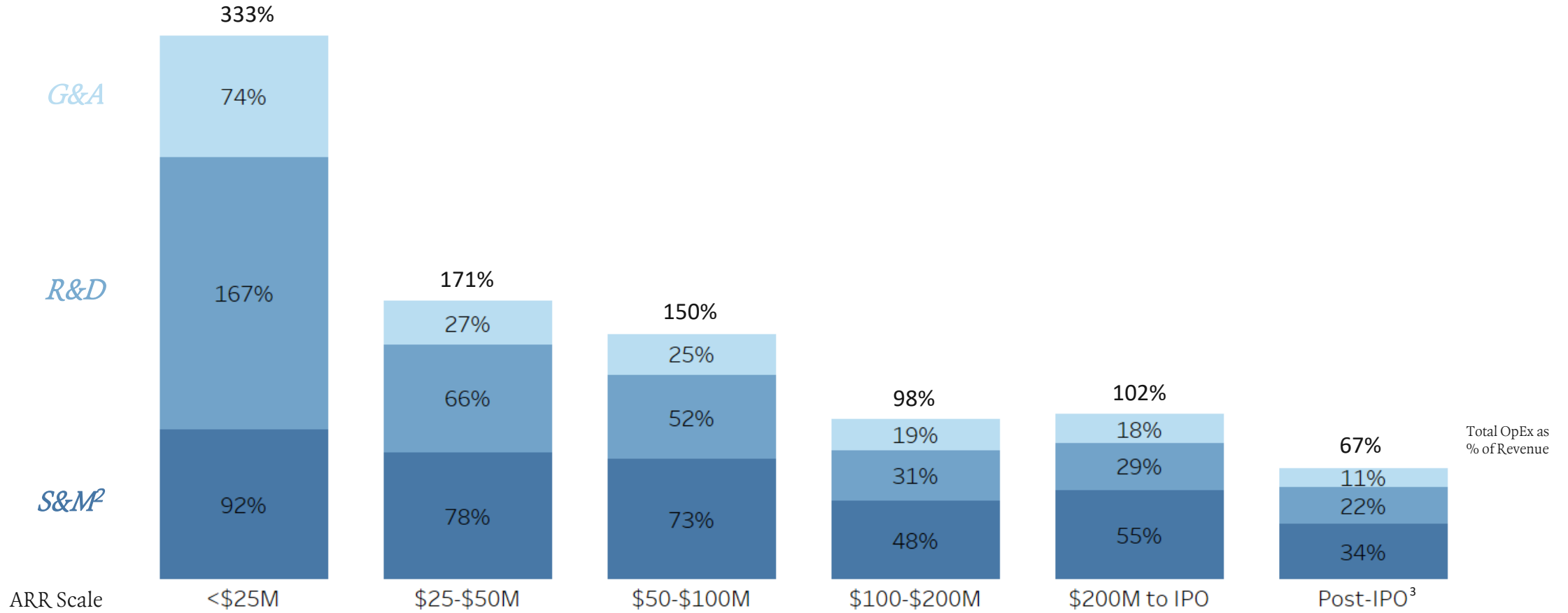
10

¹ Quarterly operating and financial data from the PLG companies included

Cost Allocation | OpEx as a % of Revenue by Scale

PLG companies typically also see revenue outpace total spend earlier than sales-led companies, with most companies finding significant leverage after reaching \$100M in ARR

OpEx as a % of Revenue by Type¹
Average by Type and ARR Scale; PLG Companies



N-size

51

32

35

66

59

36

¹ Quarterly operating and financial data from the PLG companies included

² Total Sales & Marketing OpEx includes Customer Success

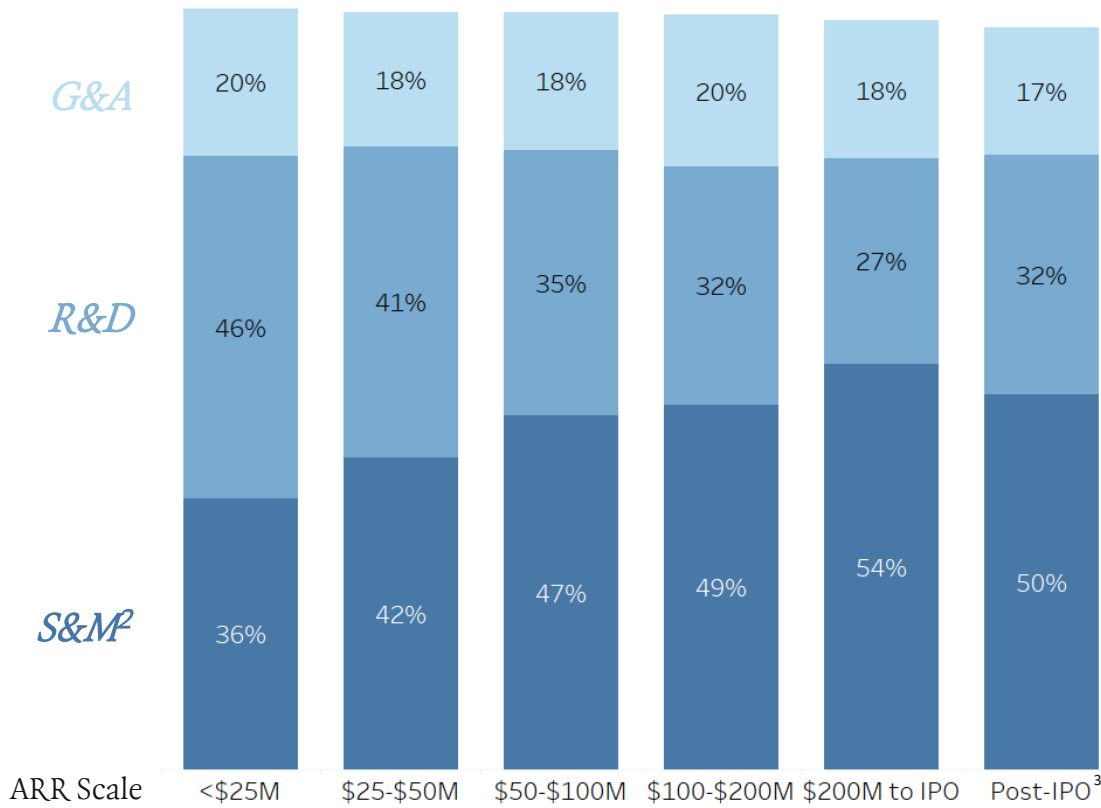
³ "Post-IPO" includes data within 2 fiscal years after IPO

Cost Allocation | OpEx Distribution by Scale

As PLG companies mature and invest in GTM to drive revenue growth, R&D starts to make up an increasingly smaller proportion of total operating spend, while S&M spend starts to increase proportionally

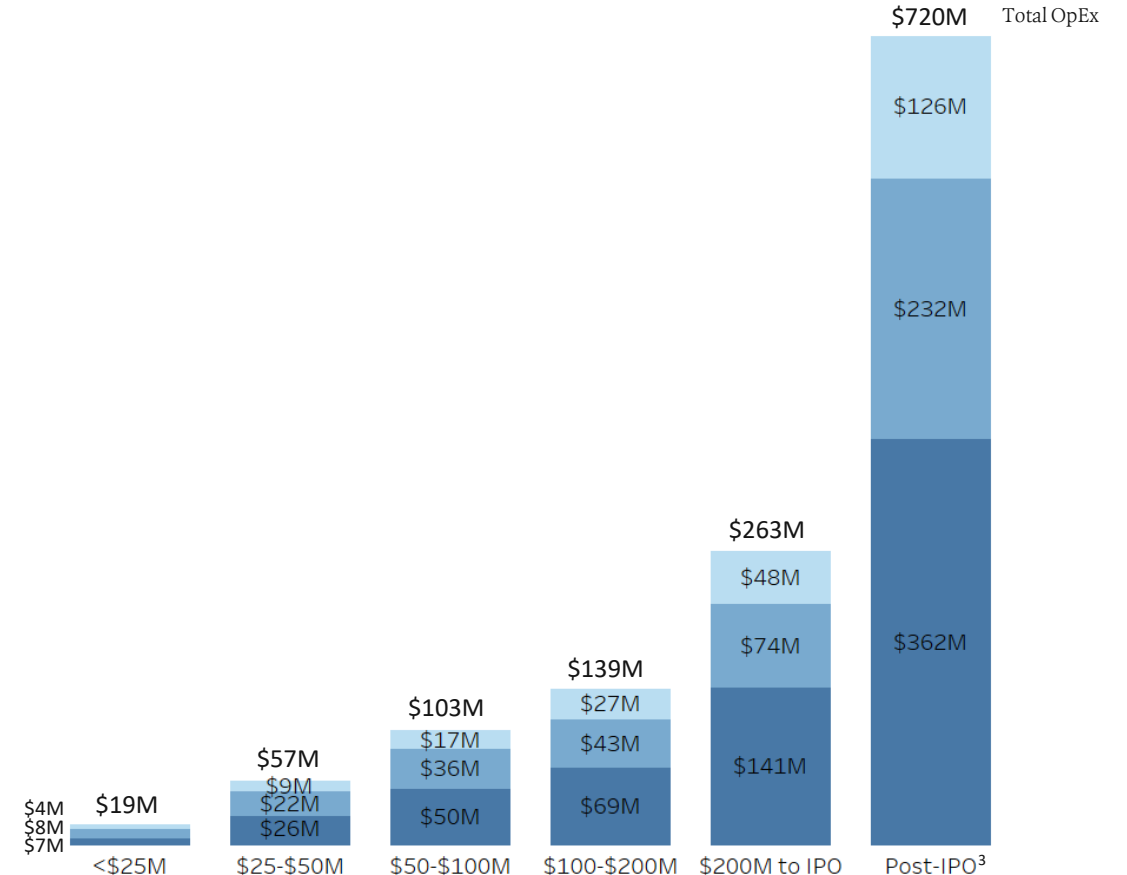
OpEx Distribution¹

Average % of OpEx by Type and ARR Scale; PLG Companies



Annualized OpEx (\$)¹

Average OpEx by Type and ARR Scale; PLG Companies



N-size: 52, 32, 35, 66, 59, 36

¹ Quarterly operating and financial data from the PLG companies included

² Total Sales & Marketing OpEx includes Customer Success

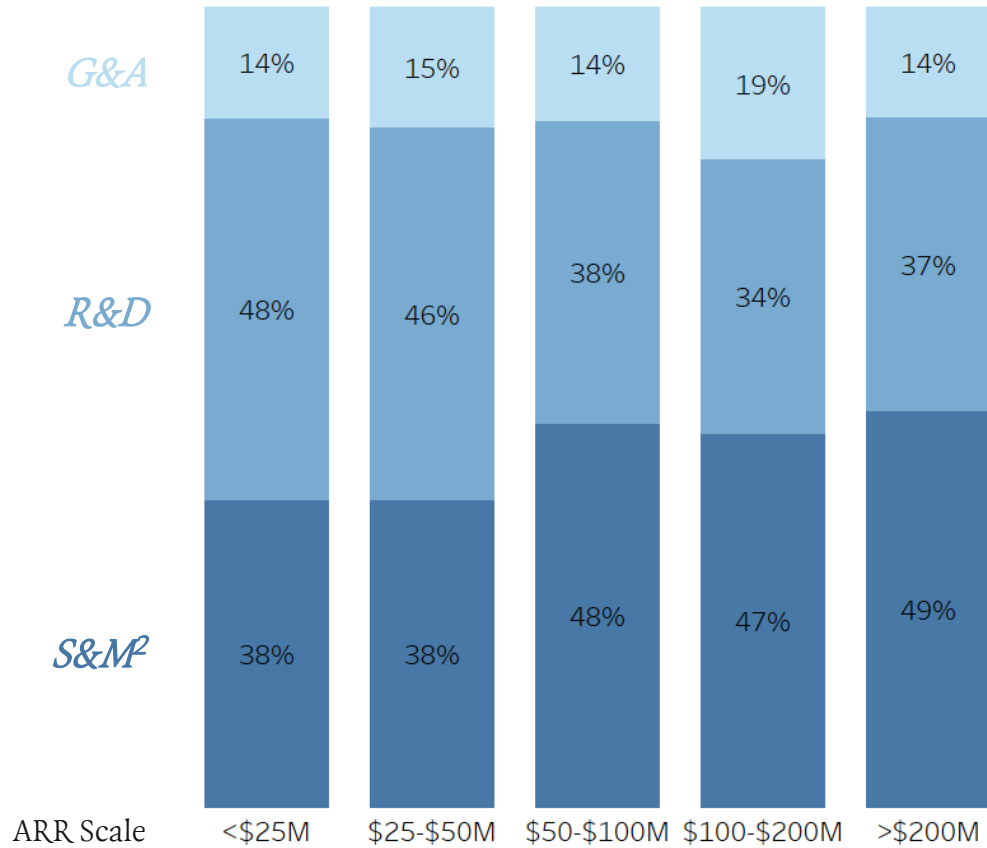
³ "Post-IPO" includes data within 2 fiscal years after IPO

Cost Allocation | Headcount Distribution

Similarly, R&D also comprises a smaller proportion of total headcount as PLG companies invest in go-to-market excellence leading up to IPO

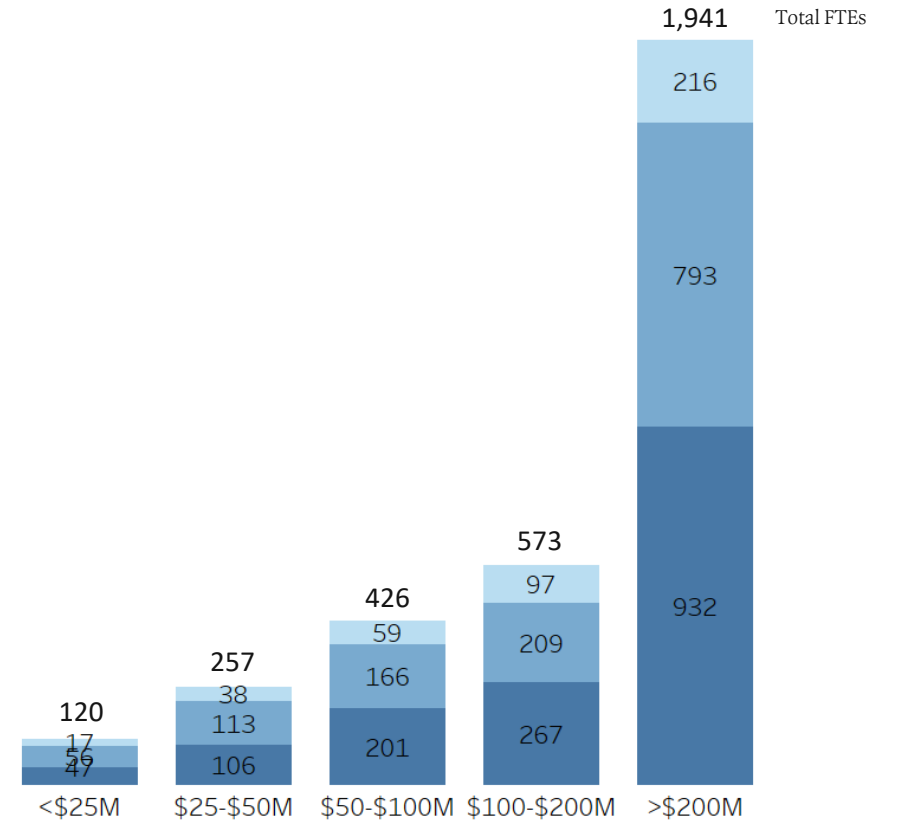
FTE Distribution¹

Average % of Headcount by Type and ARR Scale; PLG Companies



Number of FTEs¹

Average Headcount by Type and ARR Scale; PLG Companies



N-size

22

15

18

29

47

22

15

18

29

47

¹ Quarterly operating and financial data from the early-stage companies included

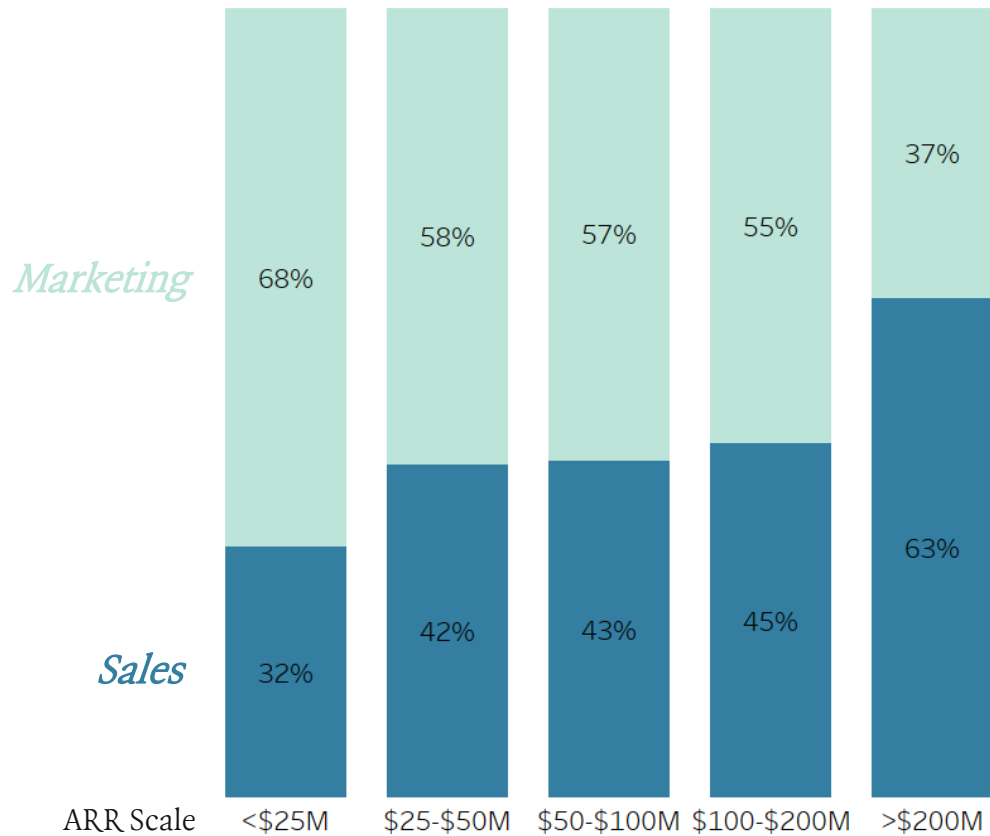
² Total Sales & Marketing OpEx includes Customer Success

Cost Allocation | GTM Spend

Marketing spend typically comprises the biggest portion of S&M spend for PLG companies on a \$ basis; however, marketing headcount usually only comprises ~25-35% of total GTM headcount

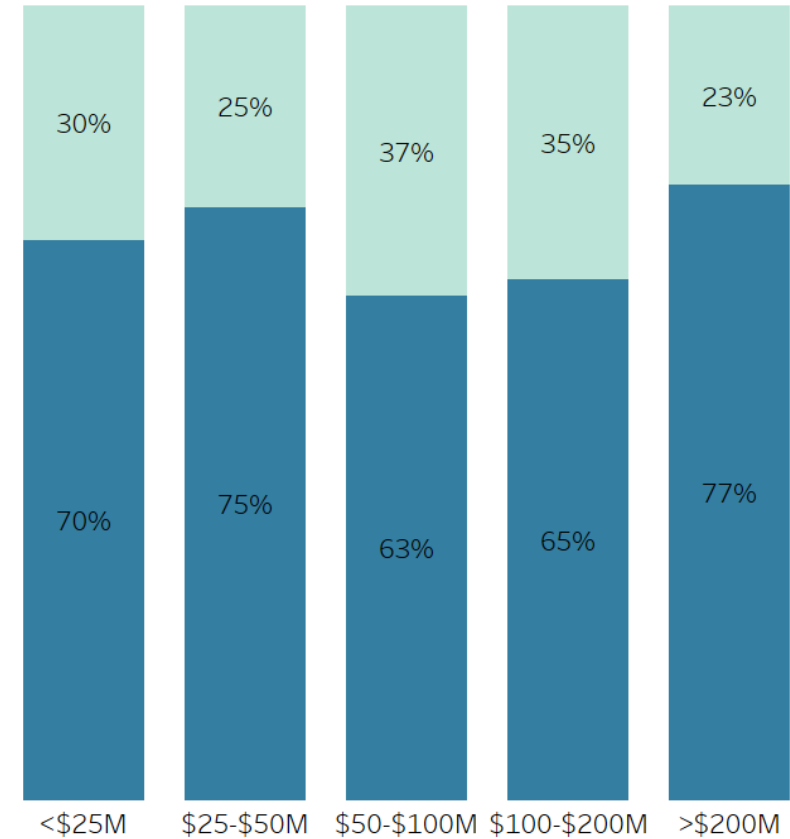
S&M OpEx Distribution¹

Average % of S&M OpEx by Type and ARR Scale; PLG Companies



S&M Headcount Distribution¹

Average % of S&M Headcount by Type and ARR Scale; PLG Companies



N-size 14 13 15 28 24

9 12 13 28 29

¹ Quarterly operating and financial data from the PLG companies included

Appendix

Supplemental Materials



For more research, please visit the ICONIQ Growth insights page

Companion Reports

Vertical SaaS

Product-Led Growth

Scaling to \$10M

Tools & Reference Materials

Board Reporting Template

The SaaS Glossary

Interactive Dashboard
Portfolio Only

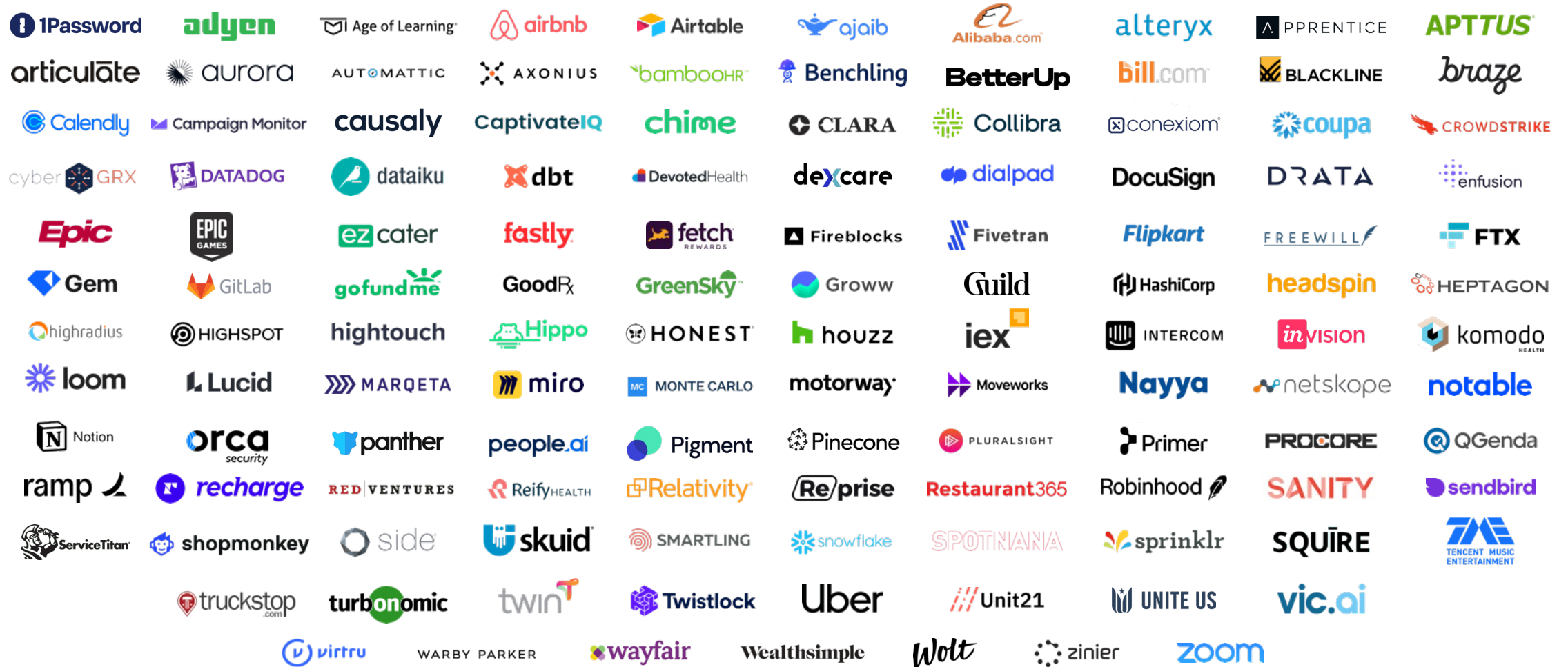
2023 Report & Scorecard Overviews

The New Era of Efficient Growth

The Enterprise Five

The Resiliency Rubric

A global portfolio of category-defining businesses



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Technology matters. Strategy matters. People matter most.



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