Think Like a High-Growth Company — How Top Tech CEOs Grow Faster

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Initiatives: Corporate Development for Tech CEOs; Business Performance Management for Tech CEOs

Emerging tech companies often fail due to inconsistent growth. Focusing on earnings, cash flow, talent and revenue isn't enough to overcome these growth challenges. Tech CEOs must balance innovation, product development and customer acquisition across specific growth periods to ensure steady growth.

Overview

Key Findings

- Only 28% of high-tech companies receiving investment capital will ever reach or exceed $100 million in revenue; even fewer will make $250 million.
- Companies whose growth slows for elongated periods of 18 to 36 months seldom recover, losing value, customers, employees and market momentum.
- Anywhere between 42% to 80% of all technology products fail to achieve their intended results and outcomes or connect with the market throughout the growth life cycle.
- Traditional innovation approaches limit innovation effectiveness due to inconsistent execution and stagnant methods of harvesting ideas.

Recommendations

Tech CEOs planning to improve their corporate development, through business expansion, innovation and growth initiatives must:

- Deliver business expansion success by ensuring the correct ratio of activities between product development and customer acquisition.

- Change the operating expenses (opex) profile and how the company's sales and marketing are invested in by understanding how high-growth firms leverage short-term EBITDA reduction to increase spend.
- Reduce tech CEO dependency by delegating tasks, developing corporate resources, and understanding which key performance indicators (KPIs) to look for regarding team utilization and churn.
- Expand innovation efficiency by applying strategies to solve challenges, filtering ideas that drive areas of new growth, minimizing the time spent in "stalled" periods and increasing innovation effectiveness.

Introduction

In the 2022 Gartner Fourth Annual Tech CEO Survey, tech CEOs of organizations with up to $250M in revenue cited new customer acquisition followed by customer retention as their most pressing sales and marketing initiatives for 2022. Revenue growth was cited as the most pressing KPI-related initiative, and operational efficiency and geographic market expansion were noted as the most pressing strategic initiatives for 2022.

Although many initiatives remained similar in importance to those found in the 2022 Gartner Third Annual Tech CEO Survey, attracting and retaining talent showed a year over year increase. There was a slightly greater focus on retaining existing talent over attracting new talent. As might be expected, achieving profitability and a positive cash flow were also high on the list of challenges. [1]

Despite a focus on these core elements, most tech companies' growth will stall over time, and they will inadvertently devalue themselves as a consequence (see Figure 1). There are clear differences between successful high-growth companies and slower-growing companies.

Figure 1. Left to Chance, Tech Companies Will Struggle or Fail

Understanding what separates successful high-growth tech companies from the rest is crucial to understanding what actions need to be taken and when to drive growth consistently and prevent a stall.

Analysis

Successful high-growth technology companies are different in four specific categories:

- **Focus:** They pay attention to the need to change.
- **Opex:** They focus on growth rather than earnings.
- **Delegation:** Top management delegates to enable the company to scale.
- **Scale:** They emphasize innovation.

Know Your Business Triggers and When to Change

Companies have distinct growth spurts and stall periods. The stall periods are indicators that a company is heading toward the “wall” where growth is hard, profits are nearly impossible, and employees are overworked or stressed. The average company will stay in this stage anywhere from 18 to 36 months once the cycle begins. To detect stalls, tech CEOs need to pay attention to the factors outlined in Figure 2.

Figure 2. What to Look for in a Stall

What to Look for in a Stall

	Growth Stage, Stall Periods	Feels Like	Capacity Indicator Employees	EBITDA
1	**Before 1st Wall** $0M–$5M	The business is beginning to work out — your confidence builds.	60%–70% (CEO 150%)	↔
2	**1st Wall** $5M–$10M	There is hesitation to reinvest to grow as the initial investment has not yet paid off.	85%–95%+	↓
3	**Good Times** $20M–$50M	Revenue is growing, earnings are more predictable, employee development is strong and people are happy.	75%	↑
4	**2nd Wall** $75M	Stress is peaking among employees that are failing to keep pace with demand. Revenue fluctuates. The culture is less positive, and turnover increases.	90%+ (some at 100%+)	↓
5	**Search and Restructure** $125M	The core leadership team that started the company lacks skills. Operational process redesign is required. Innovation is needed.	75%+ (leadership at 100%+)	↔
6	**Letting Go** $250M	The executive team is stressed by board requirements. Growth is strong, but cash flow requires continuous innovation across all areas of the business.	80%–85%	↑

Source: Gartner
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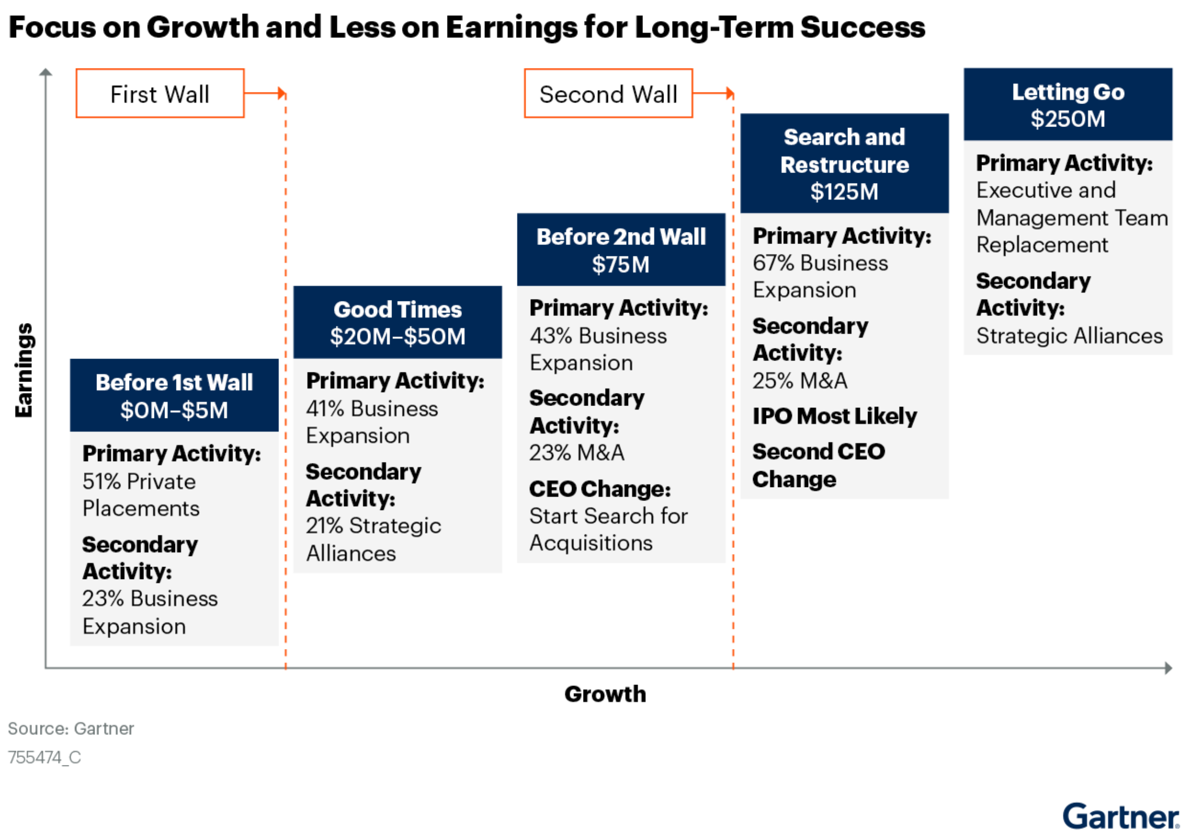
Tech CEOs must know how to anticipate stalls before they hit and how to focus on key activities, depending on their stage of growth. Figure 3 shows the top actions that occur at different stages of growth along with the first and second walls.

Figure 3. Focus on Growth and Less on Earnings for Long-Term Success



Fast-growth companies also treat the balance between product development and customer acquisition differently. New feature functionality in products is not the key to growth and minimizing stalls. Scaling up growth is a critical focus area as initial product market fit (PMF) is achieved. Companies that invest early in sales and marketing and do not overinvest or overdevelop products will grow faster and are more likely to achieve the $100 million milestone. These companies are aggressive spenders in sales and marketing, gaining market share quickly and then scaling and optimizing operations. They are initially aggressive in sales and communications (such as building visibility and awareness). Marketing promotion (such as paid advertising lead generation) comes later when the deal flow needs to expand, but sales resources cannot.

The key for high-growth tech companies is that they put the accelerator down when their key performance indicators (KPIs) match up, and they will rapidly spend for market share. They use KPIs that measure:

- Issues with messaging (such as quality of marketing qualified leads and downloads of free trials)

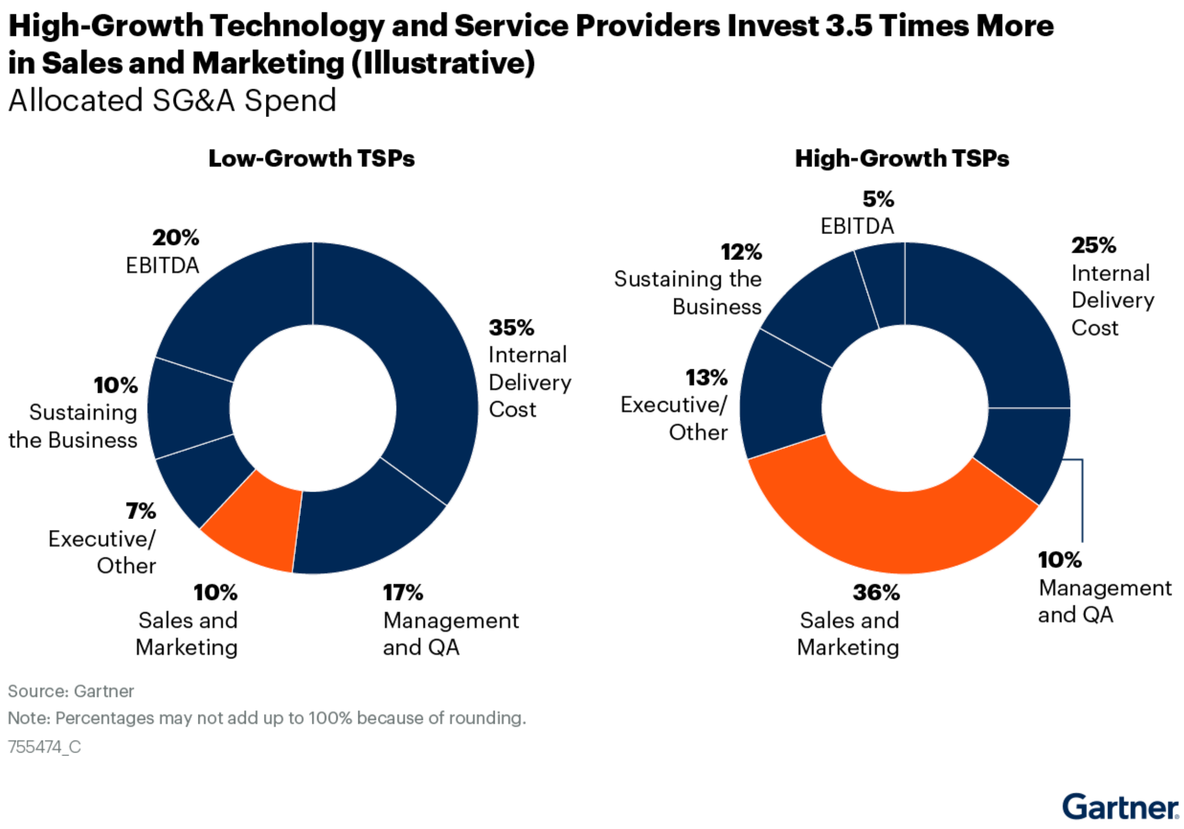
- Opportunities for differentiation in the target customer segments (by a strong emphasis on competitive intelligence leading to shorter sales cycles, improved win/loss ratios, etc.)
- Structured sales processes to enable buyers
- Stall indicators to act quickly to pivot

In order to adapt, tech CEOs wanting a high-growth model need to focus more of their budget, efforts and time on sales and marketing. It is less critical to have continuous product development/announcements than it is to focus on customer acquisition in the early growth stages. Don't spend as much on product. Spend more on sales and marketing.

Focus on Growth and Less on Earnings and Delegate for Long-Term Success

Sales effectiveness and marketing/demand generation are two of the top areas of focus for tech CEOs to focus on during 2022 according to the 2022 Tech CEO Survey. High-growth companies have a different opex profile, investing 3.5 times more than low-growth companies in sales and marketing (see Figure 4). High-growth companies are also prepared to sacrifice short-term profits and cash flow for revenue compound annual growth rates (CAGRs) of 23% to 50% but outperform on long-term earnings due to market access that has been developed.

Figure 4. High-Growth Technology and Service Providers Invest 3.5 Times More in Sales and Marketing



Tech CEOs can limit company growth by not investing early enough in key leadership appointments such as sales and delegating positions that the CEO should delegate to recruited professional leadership as soon as possible. Despite this, attracting talent and increasing direct sales were selected by fewer surveyed tech CEOs in the 2022 Tech CEO Survey as the initiatives that are most important to the overall success of their companies. Long term, this can lead to reduced scale and market access and devaluation of a company. In the 2022 Tech CEO Survey, 58% of respondents were first-time CEOs or Managing Directors and only 35% had held that position before. [1] In previous Tech CEO Surveys, one in three CEOs said they were not comfortable delegating. This materially hampers growth.

Use Outside Capital Early and Twice

More than half of all high-growth tech companies will seek and acquire their first outside investment through private placements as they grow toward $5 million in revenue. In many cases, this is the most expensive round of capital to raise. In many cases, this results in the largest fundraising equity dilution. (Although this does depend on whether it is an Angel round, pre-seed, seed financing or a Series A). For high-growth companies, it is critical to have this capital raise as it allows the company to accelerate the following:

- Achieving product market fit (PMF) after proof of product solution fit (PSF)
- Refining positioning, messaging and go-to-market (GTM) with professional marketing resources
- Building repeatable sales processes that scale and align to buyers
- Enabling measurements of key business performance metrics
- Ensuring key senior management is in place to scale and create growth rather than react to it

When done correctly and with appropriate investors, such as VC or PE firms, this allows high-growth tech trajectory companies the necessary cash to invest in sales, marketing and rapid product development and iteration. This is aimed at building market access and scaling customer growth. It also improves the likelihood that future additional capital raises, for example in the $50 million to $75 million revenue range, will be successful and will have good pre- and post-money valuations.

A second capital raise enables most of the funds to be used for additional market expansion, customer acquisition, and mergers and acquisitions (M&A). In the latter case, it allows strategic moves to be made such as:

- Fueling growth by entering new high-growth markets (buy versus build)
- Addressing missed market opportunities by expanding R&D
- Protecting a market position through talent or technology acquisitions (“aquihires” and “techquisitions”)
- Expanding the available customer base (often known as a “land grab”).

At this stage a “merger of equals” also represents an opportunity for two competitive companies combined to become No. 1 in their chosen market. All such targets need to be clearly aligned to the customer experience (CX) post acquisition to achieve the intended results. The customer is a key stakeholder throughout an M&A transaction.

Outsource Systems and Teams That Are Not Designed to Help Growth

Outsourcing — using virtual/partial resources to augment in-house capabilities — is also critical to rapid and successful growth. Tech CEOs need to continuously evaluate functions and teams that are not designed to grow the firm and whether or not these functions should be in-house or outsourced. Jobs and tasks that have inconsistent demand should also be considered for outsourcing, even including roles such as a virtual/fractional CFO, CIO or CISO. Tech CEOs should ask three critical questions to help decide what should be outsourced to improve scale:

- Does the system or team enable us to grow? Is it directly tied to customer success or revenue attainment?
- How does the function’s cost scale as sales increase? Are the operating costs linear, thus offering no long-term competitive advantage?
- Does the function, system or team have inconsistent demand?
- Can the function, system or team scale fast enough, and can outsourcing fill the gap?

Business Performance Management for Tech CEOs Primer 2022 provides operational guidance and KPIs to help scale and manage the company. The 2022 Tech CEO Survey shows that 42% of respondents have hired external firms for direct sales (inside sales, telesales, sales development, appointment setting). Additionally, 42% have employed external SEO contractors, and 31% have employed external resources for outbound demand generation. Of those employing external companies for direct sales, 79% deemed it successful. [1] Despite this, as sales has a direct influence over revenue success, tech CEOs should only consider outsourcing to bolster resources rather than outsourcing the activity in its entirety.

Deploy RevOps and Build on Growth

RevOps is an end-to-end revenue-oriented operational approach based on shared data, observability and workflow across different aspects of go-to-market functions including marketing, sales, customer success and support. It is an operational organization rapidly gathering pace that can have a material positive effect on growth. The primary aim of RevOps is to accelerate predictable operations and results across the entire customer life cycle with a primary focus on the company's overall revenue generation.

RevOps gets rid of functional organizational silos with one set of organizational KPIs. This can be accomplished by creating a cross-functional team responsible for the design, implementation and enablement of RevOps technology. Key members of a RevOps team should represent marketing, presales, sales, customer success/experience and customer service. If change is tackled early, tech CEOs will be able to benefit from the RevOps approach more rapidly.

The following three elements are key to RevOps for increased revenue production:

1. A centralized approach to revenue and customer operations

2. A communal data layer and set of tools

3. A continuous customer engagement model that is bidirectional

These three factors of the RevOps model enable a series of repeatable activities conducted across go-to-market and customer functions and that are organized into the following elements: strategy, process, workflow, data, analysis and technology. This foundation is designed specifically for companies to connect with their customers in the most cost-effective, hyper personalized way, leveraging omnichannel buyer engagement. See Tech CEOs: Leverage RevOps to Get Ahead and Scale.

Improve Innovation in Order to Scale

High-growth companies understand the importance of focusing on customer experience (CX) and customer acquisition (CA). Differentiation can be achieved by using innovation across the existing products and services. It is not always necessary to add more products to grow. This discipline of innovation over invention is a key trait of high-growth companies because it makes them more customer-centric. Tech CEOs should know:

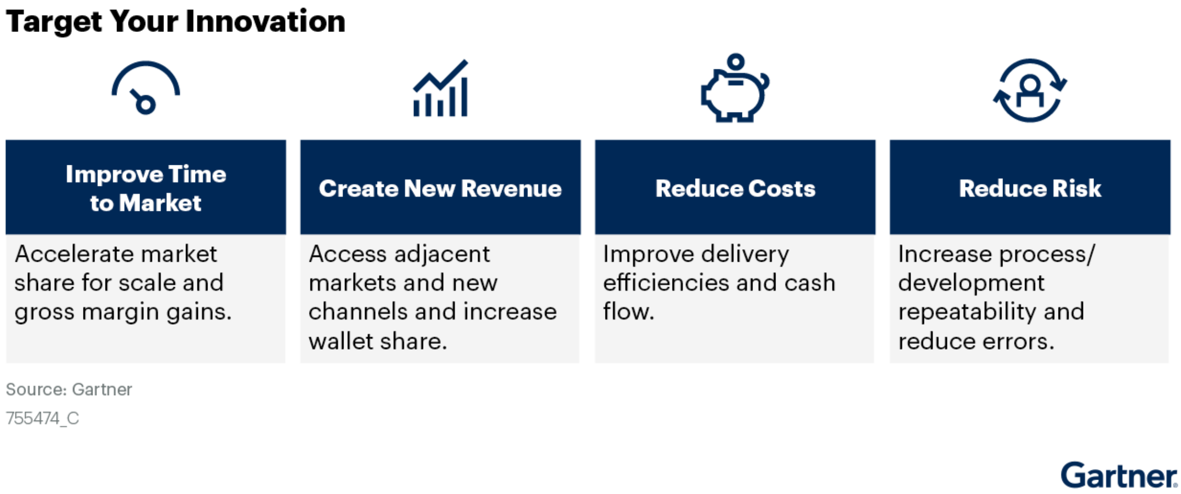
- CX and CA are the focus areas for successful growth via innovation.

- Innovating existing services/products leads to better CX/CA than brand new products, thus allowing for better growth.
- Innovation is not invention, and focusing on the effectiveness and execution of innovation drastically improves success.

Tech CEOs must focus on customer outcomes to differentiate and ensure success. Gartner's research has shown that successful organizations in the future will compete and differentiate primarily on customer experience.

Targeting innovation is key to minimizing stall periods. Tech CEOs should consider four areas of innovation before investing in new products (see Figure 5). Innovation is iterative in nature and not about launching net new products or new stand-alone services. Innovation does not require large-scale investments and should not be complex.

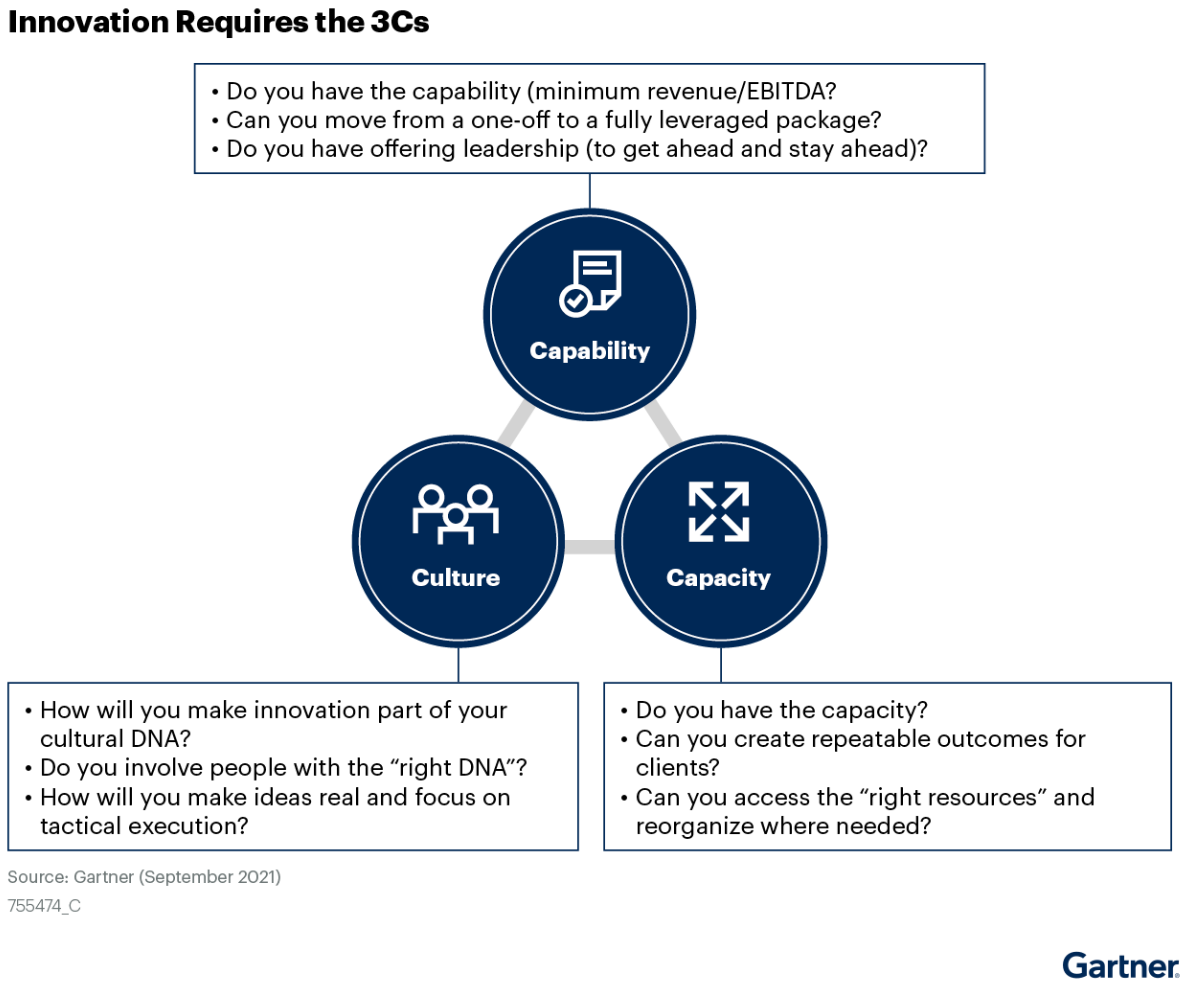
Figure 5. Target Your Innovation



Assess the 3Cs Required to Innovate

Innovation requires the 3Cs — capabilities, capacity and culture — to be successful. Tech CEOs need to assess their 3Cs to innovate and scale like high-growth companies. Many laggard tech companies struggle to focus on the combined impact of these traits, which results in stalls as they focus on hiring one quarter, culture the next, then increasing capabilities another quarter. This lack of integration reduces internal innovation and does not drive innovation effectiveness.

Figure 6. Innovation Requires the 3Cs



Most importantly, high-growth tech companies use the 3Cs as an ongoing continuous measurement set across their company. Tech CEOs should use the items shown in Figure 6 to measure their ability to be innovative and then focus on the effectiveness of each area.

Evidence

[1] 2022 Gartner Fourth Annual Gartner Tech CEO Survey (P-21025)

Results presented are based on Gartner’s annual survey to stay current on tech CEOs’ mission-critical priorities to prioritize and steer research for the 2022 tech CEO research agenda.

The primary research was conducted online from November through December 2021 among 284 respondents in North America (U.S. and Canada), Western Europe (Italy, France, Germany, Spain and the U.K.), Asia/Pacific (Australia, India, New Zealand and Singapore) and Latin America (Brazil). Eligible organizations have been founded in the past 25 years and operate in the high-tech industry (applications/software, cloud, business and technology services, communications services, hardware, IT services, and semiconductors). Such organizations have anticipated annual revenue for fiscal year 2022 of up to $250 million.

All organizations focus on businesses (B2B, B2B2C and B2B2B) or government/nonprofits as their primary customers. Qualified respondents from these organizations have the title of CEO/managing director, founder/owner or COO/C-level executive of operations or equivalent. The survey was developed collaboratively by a team of Gartner analysts who follow these markets, and was reviewed, tested and administered by Gartner's Research Data and Analytics team.

Disclaimer: *Results of this study do not represent "global" findings or the market as a whole, but are averages of results for the targeted countries, industries and company size segments covered in this survey.*

Document Revision History

Think Like a High-Growth Tech Company: Learn How the Top CEOs Grow Faster - 10 September 2019

Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

Quick Answer: How Does My Functional Maturity Compare to Gartner's High Tech CEO Score Maturity Assessment?

How Should High Tech CEO Score Gaps in Maturity Versus Importance Inform My Plans?

The Top Pain Points and Maturity Gaps for Tech CEOs

What Are the Biggest Blind Spots Tech CEOs Should Prioritize to Improve Business Performance?

Tech CEOs: Get Sales Growth Targets Right — Follow the 'Rule of Thirds'

Tool: Tech CEO 'Rule of Thirds' Sales Hiring, Pipeline and Expense Calculator to Attain Growth Goals