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# **Startup Lift: Everyone Pivots — The Search for a Product-Market Fit**

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## Startup Lift: Everyone Pivots – The Search for a Product-Market Fit

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Initiatives: Corporate Development and Growth Strategy for Tech CEOs

Tech CEOs of top performing software startups experience at least one pivot during the pursuit of product-market fit. For every company like PayPal and Slack, there are countless companies we've never heard of because they failed to either recognize that survival depended on a pivot or act on that recognition.

### Overview

#### Key Findings

- The first challenge of any pivot is recognizing the need for a (radical) change; the second is acting decisively.
- Not every pivot is a fundamental change to the company core – product, strategy and people. A company can only have a single problem that needs to be addressed.

#### Recommendations

Tech CEOs of software startups considering pivoting during their pursuit for a product-market fit (PMF) to support their overall corporate development and growth strategies should:

- Develop the ability to take advantage of change by recognizing what's not working, making necessary adjustments and avoiding stagnation – pivot, specialize and adapt.
- Prioritize pivot investments by evaluating risks associated with a future PMF and feasibility of a go-to-market (GTM) motion (time, cost, reachability and execution skills).

## Introduction

The main driver for tech CEOs of software startups to pivot is being unable to find a PMF (see Note 1). The 2023 Gartner Tech CEO Survey disclosed that 76% of pivots occur in pursuit of a PMF. Finding a PMF requires constant awareness of changes. This includes changes in market forces, the competitive landscape and customer needs; it requires appreciating what change brings and, most critically, developing the ability to adapt in order to take advantage of the change.

Establishing the capacity to address change requires a startup to make pivots as needed to exploit the opportunities and mitigate the risks of today:

- **Pivot to meet market forces:** Take action on leading indicators of market changes.
- **Pivot to disrupt competition:** Address emerging competitive threats.
- **Pivot to meet customer needs:** Uncover blind spots to improve targeting and retention.

## Analysis

### Recognize the Need for a Change

Startup tech CEOs must be attuned to market forces to recognize when a shift becomes imperative. Early-stage startups get fixated on the new idea to the point the product idea pursuit becomes personal, ignoring warning signs and missing the opportunity to build a different product of more value.

### Warning signs

Leading indicators:

- Being one step behind market demand — being reactive to market trends/customer needs instead of focusing on what you do best.
- Constant high product customization/calibration efforts for winning deals.
- Difficulties justifying price and/or inconsistent discounting to remain competitive.
- Customer acquisition efforts are unique per prospect, lacking repeatability.

- Lacking business focus — pursuing more opportunistic opportunities than predictable deal efforts (new ICP and/or buyer persona and/or use case vs. repeatable sales cycle).
- Sales resources are targeting customer problems beyond the product purview to move deals forward.
- High investments in market education — you need to convince the prospects that they have a problem they are not aware of vs. messaging your USP and communicating quantified business outcomes.
- The problems solved and delivered outcomes change among prospects — no consistency between needs and wants in the target segment/customers needs and wants are changing in a common direction.

#### Lagging indicators:

- Customers are not able to regenerate the success/outcomes received during the POC/POV, that is, high dependency on internal execution skills and knowledge vs. automated streamlined productized processes.
- Customer attrition — low usage frequency; customers are not renewing contracts.
- Customer acquisition costs are not sustainable — the ratio of customer lifetime value (CLTV):customer acquisition cost (CAC) is lower than 3 (see Startup Lift: 4 KPIs for Tech CEOs to Monitor SaaS Success When Scaling the Business).
- Services are consistently more than 30% of ARR.
- Your market category no longer exists and/or you are no longer tapping into the customer's existing budget.
- You are not seeing a growth in the number of opportunities through your outbound demand generation and inbound inquiries.
- Your largest client contributes more than 25% of annual revenue.

The above is a partial list of indicators to measure a PMF (see Analyze Product-Market Fit to Discover the Optimal Time to Scale — for Tech CEOs).

## Act Decisively

Drastic pivots like Instagram, PayPal and Slack are the ones we hear about. There are, however, countless startups we've never heard of because they either failed to recognize that survival depended on a pivot made or did not execute the pivot successfully.

Pivots sometimes demand that the core of the company – product, strategy and people, may need to change. It might mean discarding the initial product or pursuing an entirely new market, if not both. This change can require new skills. Pivoting during the early stage means going against the internet “confirmation bias” and starting to “believe what you see vs. see what you believe.” While every pivot decision has an element of intuition, making fast and decisive data-driven decisions is critical for a pivot's success:

- You can get everything right but timing will be the key for success – delaying a decision can significantly decrease market momentum.
- You can only go as far as your capital allows – you need to have enough evidence that the pivot is working, before pitching investors for new funds.

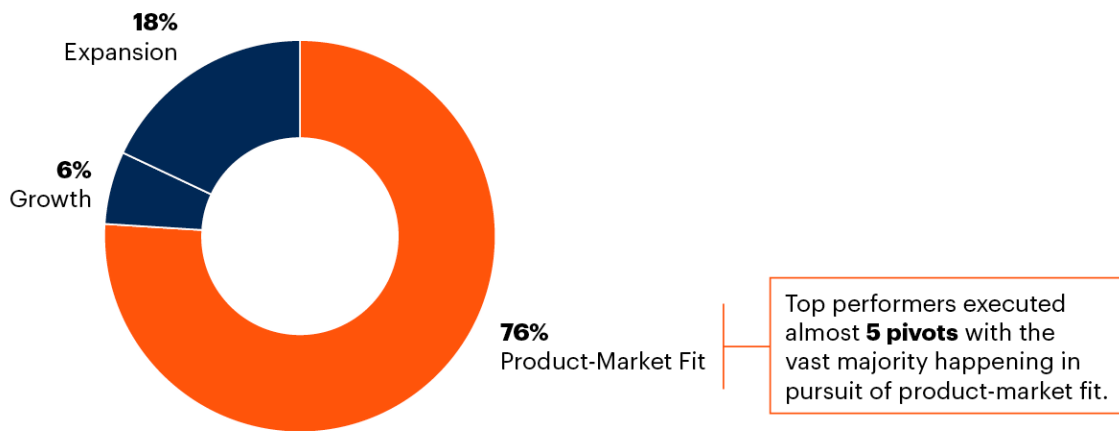
## Pivot, Specialize and Adapt

Usually, it will happen early, or after one or more rounds of funding. Every startup experiences at least one pivot (to some extent) during its journey. The 2023 Gartner Tech CEO Survey disclosed that top performers executed almost five pivots with the vast majority happening in pursuit of a PMF. Figure 1 shows the distribution of pivots in respect to a company stage.

Figure 1. Distribution of Pivots With Respect to Company Stages

**Distribution of Pivots With Respect to Company Stages**

Percentage of Respondents



n = 222 (Based on Avg # of pivots from Startup, Market Fit, Growth stages)

Q: How many times has your company experienced the types of changes you just selected, in total?

Source: 2023 Gartner Tech CEO Survey

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*There is a natural gravity to pivot on product features, but adding more functionality and constantly reacting to market demand will not fix a traction problem in the long term.*

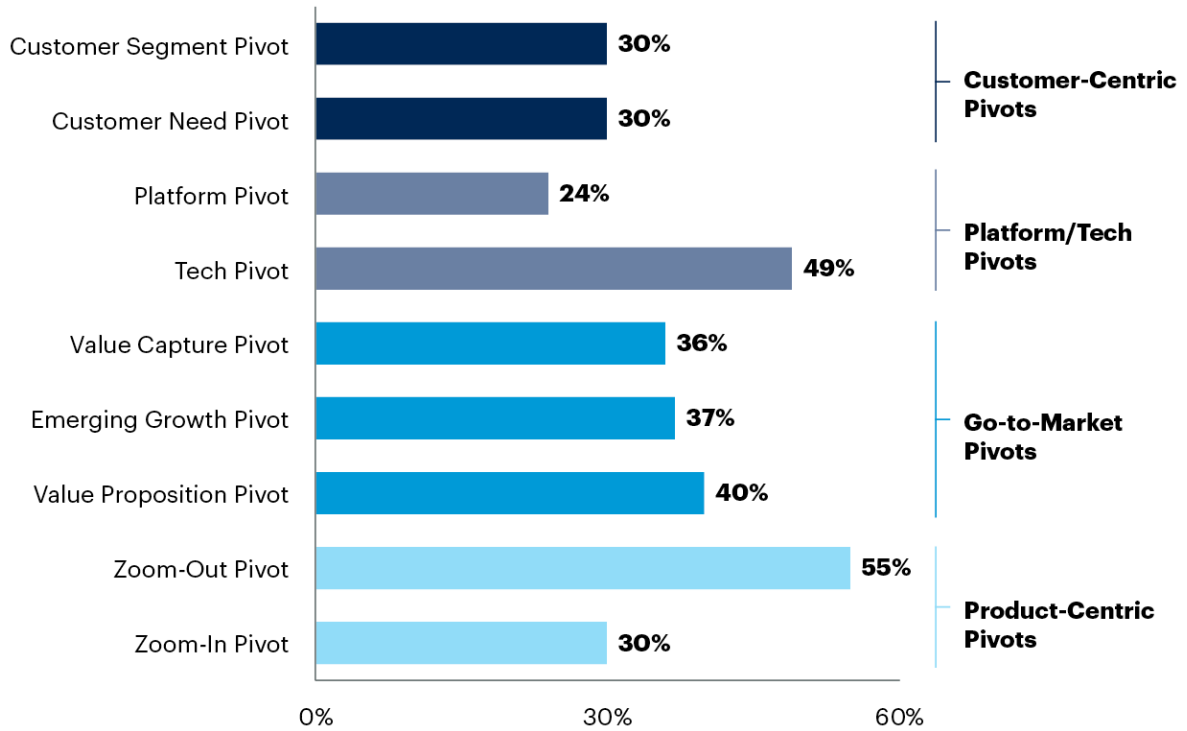
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Not every pivot is a fundamental change. Startups don't always have the need or resources for such a radical shift. In many cases, a company has only a single problem that needs to be addressed. Figure 2 shows the distribution of pivot types across companies that completed pivot execution and the respective percentage of respondents.

Figure 2. Types of Pivots Experienced by Companies

**Types of Pivots Experienced by Companies**

Percentage of Respondents



n = 222; All Tech CEOs Leaders

Q: Has your company experienced any of the below? (Hidden in LIVE)

Source: 2023 Gartner Tech CEO Survey

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For pivot types and execution examples, see [Changes Ahead: Understanding Key Pivot Strategies as a Tech CEO](#).

In many cases, it's not a change in direction but narrowing the focus. Market traction exists, but competition is high and you are not standing out in the crowd. Your discounting varies widely by target market, indicating that you aren't set up correctly to win in some markets. Differentiation can be a key factor in the long-term success of products and is a main factor for buyers during the evaluation phase of a buying journey. Lack of differentiation among vendors continues to be a key reason that technology providers are not shortlisted. Differentiation can be developed. It is easier to differentiate on smaller segments; refine your market position by narrowing your target. Add industry focus to better develop, position and implement solutions to specific needs of users. This has shown to be one of the more effective and sustainable differentiators, and leads to growth by extending this model to adjacent verticals (see Startup Lift: Continuously Refine Positioning to Find the Pivot That Produces Product-Market Fit).

In the face of rapidly shifting customer priorities and expectations, you need to consistently rationalize your business investments. Take an analytical approach to optimize the performance of your pivot decisions. Use a decision framework to provide clarity about how investments will be allocated, whether you are pursuing a promising new strategic direction, investing in marketing to test traction or investing in product development to remain competitive. While continual "feature evolution" is essential to stand out from the competition, gaining market share can come from a new business model. Analyzing current and future customers' values is essential for surfacing new opportunities. Use Tech CEO Tool: Strategic Investment Prioritization Scorecard to assess the risk and value associated with each pivot decision you are considering.

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## Example of Startup Pivot Execution

*Two startups were founded from 2013 through 2014 pursuing the same use case of security threats detection in enterprise network traffic. The core technology/IP consisted of network traffic analysis (NTA) that used machine learning and behavioral analytics to monitor network traffic and develop a baseline of activity. The solutions would discover anomalous activity associated with malware, targeted attacks, insider abuse and risky behavior inside enterprises' networks. Both teams consisted of similar starting points in terms of domain expertise in cybersecurity and data analytics, and approximately the same seed funding.*

## The Market

NTA emerged in the early 2010, which developed to network detection and response (NDR) as we know it today. Like many other segments in enterprise security, this is a fragmented and highly competitive field that was influenced by convergence and vendor consolidation over the past decade. Mature solutions were available at a relatively low price and less sophisticated technology (for example, rule-based vs. machine learning). To remain competitive and meet market demands, vendors were required to add additional capabilities, like investigation, response, hunting, sampling, expanding coverage and visibility beyond the network and more, on top of threat detection.

## Warning Signs

The warning signs that a pivot was needed were plentiful:

- *Being reactive to market trends – depended on adding new functionality for early penetration.*
- *Constantly adding new functionality to win deals – making a minimum viable product (MVP) a moving target.*
- *The market category was getting absorbed in a larger market.*
- *It was getting difficult to justify the price of a sophisticated analytics tool vs. mature and cheaper already available products.*
- *The market was showing early signs of vendor consolidation/technology convergence, making it harder for new entrants.*

## Pivot Decisions

Startup A adapted to market forces by heavily investing in product development, adding capabilities in respect to market demand, that is, continuing the pursuit of initial use cases and reacting to market trends:

- *2017: Adapted to market demands, added investigation capabilities*
- *2019: Continued to adapt, adding automated response*
- *2020: Pivot on GTM strategy and value proposition, adapting to market consolidation trend; repositioning as extended detection and response (XDR) and pursuing acquisition by a border portfolio (see Composable XDR as a Market Expansion Strategy for Tech CEOs and Infographic: Top Trends in Cybersecurity 2022 – Vendor Consolidation)*
- *2021: Acquired by a security information and event management (SIEM) vendor*

*Startup B narrowed focus to financial services and executed multiple pivots from early on. It gradually replaced internal domain expertise from cybersecurity to financial crime, abandoning the initial idea that started the company. During a period of four years, the company reached the PMF.*

- *2015 through 2017: Multiple Pivots:*
    - *Market: Operational technology (OT), financial crime*
    - *Customers: Industrial services, financial services*
    - *Use cases: OT security, ATM security, financial fraud, credit risk, anti-money-laundering (AML)*
  - *2018: Specializing as an AML provider for financial services*
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## Conclusion

We can replace the team and/or pursue a new route to market but we can't change market demands or control the course of its competitive landscape. It is essential to be attuned to market forces to recognize when a shift becomes imperative and not get fixated by a product idea and/or belief to a point growth opportunities are missed. Pivots are not necessarily a fundamental change to the company core and there might be only a single thing that needs to be addressed. In many cases, the solution is narrowing the focus instead of changing it radically.

## Evidence

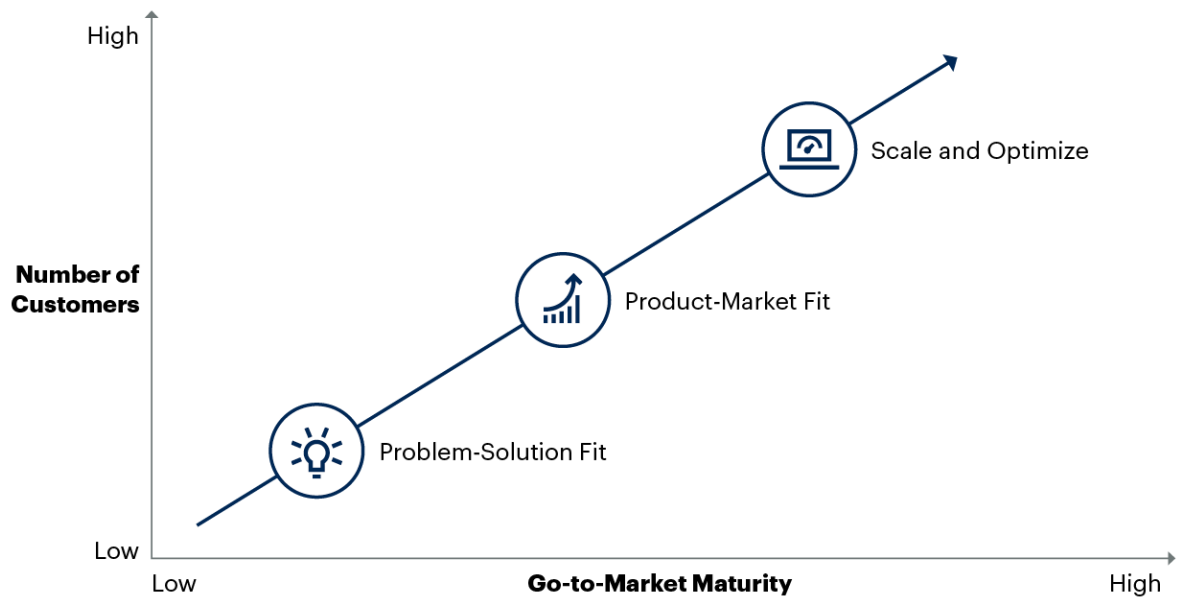
**2023 Gartner Tech CEO Survey:** This survey was conducted to understand the steps taken by tech leaders to deliver growth while being dynamic and resilient; the growth pivots they use to optimize growth; and the ongoing course corrections they make to their products/services to address the external and internal changes required to continue a growth trajectory. The survey was conducted online by an external partner from July through September 2022. In total, 222 respondents were interviewed in their native language across Brazil (n = 29), Canada (n = 20), India (n = 33), the U.K. (n = 49) and the U.S. (n = 91) in technology and service provider organizations. To enable the comparison and contrasting of key trends, quotas were established on key organizational and respondent characteristics. Qualifying organizations operated in technology industries (cloud services [IaaS, PaaS], software [including SaaS], devices and computer infrastructure, and technology and business services), and telecom industries (carriers and communications equipment) with anticipated enterprisewide annual revenue for 2022 of less than \$250 million. Qualified participants had the title of founder/owner/co-owner of the organization, CEO/MD, chief operating officer, chief human resources officer, SVP/EVP/head of HR, or VP and director of HR. Disclaimer: Results of this study do not represent global findings or the market as a whole, but are a simple average of results for the targeted countries, industries and company size segments covered in this survey.

## Note 1: Definitions of Startup Lift Growth Phases

Figure 3 shows startup lift growth phases in terms of number of customers and go-to-market maturity.

**Figure 3: Startup Lift Growth Phases**

## Startup Lift: Growth Phases



Source: Gartner  
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### Problem-Solution Fit

Problem-solution fit is the first major milestone in the development of a new product or service where an initial customer has installed a solution to solve a specific problem and has validated the value proposition.

This phase is all about reaching this first milestone, and includes identifying a compelling need, scoping the opportunity and initial technical feasibility, and then working with initial customers to validate the value proposition. Imperatives of this phase include identifying a detailed/narrow yet scalable target segment and an initial go-to-market strategy, validating the value proposition, defining a minimum viable product candidate, and creating an indicative product roadmap that exploits the opportunity.

### Product-Market Fit

Product-market fit is the milestone in the development of a new product or service when the customer acquisition processes have become repeatable and predictable. This milestone is used to determine when a startup company is ready to scale.

This phase focuses on getting to this critical milestone, a repeatable and predictable sales and marketing process. It spans launching the minimum sellable product, evolving the product capabilities and optimizing the go-to-market strategy. Typical activities include identifying the buying team, developing messaging and demand generation programs, and building a sales process beyond founder-led sales and early customer success initiatives.

## Scale and Optimize

Startups that have achieved product-market fit then need to accelerate growth by investing in sales and marketing, while scaling the business operationally.

During this phase, teams are built out to support a growing customer base, which requires the maturation of internal processes, policies and structure to scale talent, capacity and functional discipline. Focus is on lowering costs of customer acquisition, automating processes and identifying expansion strategies.

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## Recommended by the Author

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

[Changes Ahead: Understanding Key Pivot Strategies as a Tech CEO](#)

[Startup Lift: Top 3 Priorities for Initial Product Launch](#)

[Quick Answer: Startup Lift – Phase 2: Product-Market Fit Imperatives](#)

[Tech CEO Insight: Develop These 4 Attributes to Become a Data-Driven Leader](#)

[Tech CEO Annual Survey: Actions for Tech CEOs for Sustainable Pivots](#)

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