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Changes Ahead: Understanding Key Pivot Strategies as a Tech CEO

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Initiatives: Corporate Development for Tech CEOs

Tech CEOs often make fundamental (and often disruptive) growth-minded changes to their core business model — referred to as pivots. This research provides tech CEOs with a greater understanding of the types and frequencies of these pivot strategies.

Overview

Key Findings

- Pivots are a necessity for most tech CEOs as they evolve from problem-solution fit to product-market fit and beyond with a prioritization for scale and optimization. However, approaching these with only a tactical perspective prevents tech CEOs from realizing a successful pivot.
- Gartner finds that top-performing companies navigate more pivots than typical or trailing-performance organizations — illustrating the reality that pivots are essential to your success, not a detriment to your success.

Recommendations

As tech CEOs consider the relevance of strategic pivots to support their overall corporate development objectives, they must:

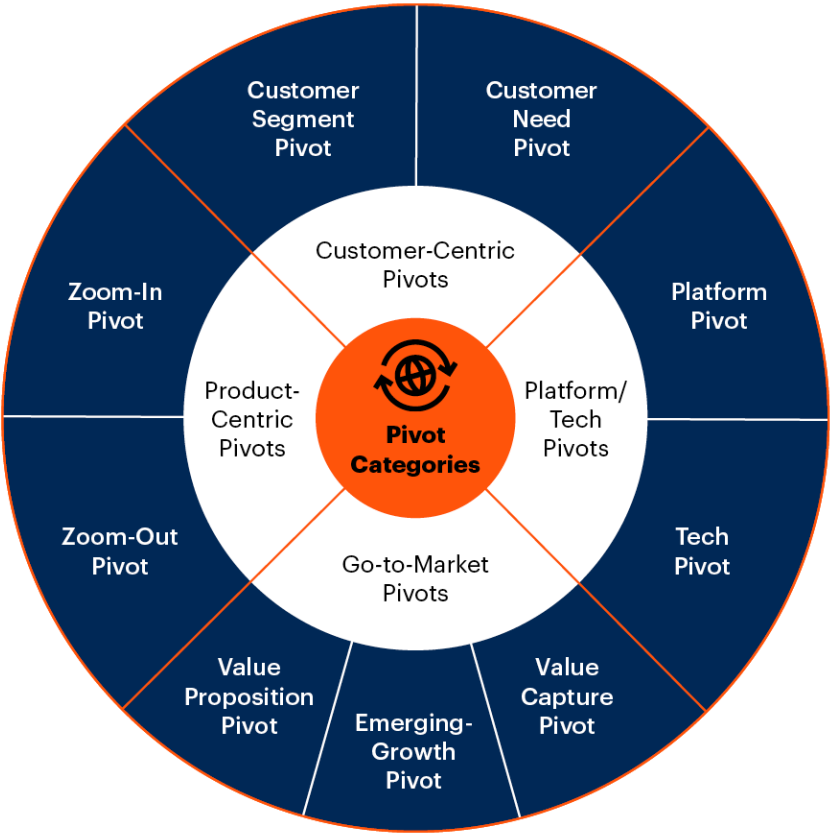
- Approach and navigate pivots by determining the characteristics of the pivot type most relevant to their organization and developing a supporting strategy that provides the greatest likelihood of success through and following the pivot.
- Proactively pursue their corporate growth objectives by selecting the most relevant pivot type across four key categories, including customer-centric, product-centric, go-to-market and platform/technology pivots to overcome growth stalls.

Analysis

Eighty-five percent of tech CEOs will experience at least one pivot in their organization. ¹ Gartner surveyed 222 tech CEOs from organizations with up to \$250 million in revenue regarding their approach to and navigation of such strategic pivots. ¹ This research examined how tech CEOs approach, navigate and transition from strategic pivots across four overarching categories — customer-centric, product-centric, go-to-market and platform/technology pivots (see Figure 1).

Figure 1: Strategic Pivot Categories and Approaches

Strategic Pivot Categories and Approaches



Source: Gartner
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Origins of “Pivots” in Characterizing Significant Change for Tech Providers

The term “pivot” was coined by Eric Reis in a 2009 blog post and further explored in his 2011 book, “The Lean Startup.”² Pivots were always a common part of startup growth journeys, but the term is now leveraged to characterize significant business changes an organization undertakes for growth or continued market relevance. It is important to acknowledge that the term “pivot” is overused today to characterize even the most minor of directional changes in an organization. It is important to first level-set on the definition of a pivot when considering the context and relevance they may have to a tech CEO organization.

Pivots are defined by Gartner as a significant business change that requires an organization to make material modifications to its products/services, go-to-market fundamentals, platforms/technologies or customer-oriented priorities. While it may be tempting to consider a pivot as being a sign of failure or weakness, the strongest-performing organizations identify, analyze and navigate pivots in a manner that increases their long-term organizational success. Gartner finds that the higher-performing an organization is, the more pivots it has navigated (see Note 1: Determination of Top, Typical and Trailing Performers). Top performers average 4.97 pivots, typical performers average 3.71 pivots and trailing performers average 2.94 pivots. The ability to identify and successfully navigate multiple pivots is a sign of strength, not a sign of weakness.

Pivot Descriptions and Examples

Customer-Centric Pivots

Customer-centric pivots originate through the recognition that your present-day product/service offerings have a fundamental misalignment relative to the target market segment or the needs within your established target market segments.

Customer Segment Pivot

The target market segmentation for your product/service offering transitions from the original target market segmentation. This occurs through narrowing or expanding your established target market segmentation or by shifting or refocusing to a completely different target market segmentation. Thirty percent of tech CEOs who pursue a pivot navigate at least one customer segment pivot.¹

Example: UiPath's Customer Segment Pivot



DeskOver was founded in 2005 with a focus of building automation libraries and software development kits for large tech providers. With only 10 employees, it struggled to find product-market fit well into 2012. In 2013, it released its first product focusing on desktop automation and garnered the attention of a large business process outsourcing (BPO) company in India. In 2015, DeskOver rebranded to UiPath and pivoted its focus from tech providers and BPO firms to enterprise customers and has become one of the most highly regarded vendors in the robotic process automation (RPA) market. ³

Customer Need Pivot

Evolving or reprioritizing customer needs drives product/service offerings to transition from initial use cases or jobs to be done to address distinctly different use cases or jobs to be done. The focus in this pivot is the strengthening of the overall problem-solution fit alignment of your product/service offering to support customer problems with a greater relevance toward or urgency for your solutions. Thirty percent of tech CEOs who pursue a pivot navigate at least one customer need pivot. ¹

Example: Curative Navigates a Customer Need Pivot



Curative (itself a pivot from a former venture, TL Biolabs) started in January 2020 focusing on the improvement of sepsis-related illness patient health outcomes. Weeks after its launch, COVID-19 dominated the needs of its customers — specifically the provision of COVID-19 testing. ⁴ At one point, Curative was performing 10% of all COVID-19 tests in the U.S. ⁵ The company continues to focus on COVID-19 testing after pivoting to adapt to the changing needs of its customers in the healthcare sector.

Product-Centric Pivots

Product-centric pivots focus on narrowing or expanding the breadth and/or depth of your product/service offerings.

Zoom-In Pivot

New product/service offerings are created that emphasize focusing on a subset of existing product/service offerings. Resulting new products/services are introduced as a result of a specific subset of existing offerings that are seeing greater traction in the market relative to other parts of your offerings. In short, what was a feature becomes a product — often leading to previously more comprehensive offerings being sunsetted in the market. Thirty percent of tech CEOs who pursue a pivot navigate at least one zoom-in pivot, ¹

Example: Flickr Finds Product-Market Fit Resulting From a Zoom-In Pivot



Flickr provides a good example for a zoom-in pivot. While initially developing a game titled “Neverending” in 2002, Ludicorp created a capability for the game to support photo sharing. When the game development concluded in 2004, Ludicorp focused on the photo sharing feature to create a stand-alone product that ultimately became Flickr, which was acquired by Yahoo ⁶ and is now owned by SmugMug.

Zoom-Out Pivot

Existing products/services are built out or extended through the inclusion of new features/functions or offerings. This strategic change drives what ultimately becomes more of a whole product or comprehensive service offering in the market. Fifty-five percent of tech CEOs who pursue a pivot navigate at least one zoom-out pivot. ¹

Example: Airbnb Emerges From a Zoom-Out Pivot



AirBed & Breakfast officially launched in August 2008 offering short-term stays on air mattresses (air beds) across different properties when consumers were unable to book hotels in peak dates or crowded locations. Recognizing the opportunity to focus on the more holistic demands for leisure and business travelers, Airbnb launched in March of 2009 through a zoom-out pivot. From this date onward, Airbnb took the broader perspective the platform is known for today in offering individual rooms and full properties as an alternative to hotels.

Go-to-Market Pivots

Go-to-market pivots focus on the fundamental value proposition, monetization or growth strategy of your product/service in the market.

Value Proposition Pivot

The value proposition pivot encompasses strategic changes relative to your product/service value proposition resulting from the realization that your offerings are failing to capture the desired mind share or market interest. The foundation of these pivots focuses on significantly adapting your positioning and associated points of emphasis relative to your differentiation in the target market. Forty percent of tech CEOs who pursue a pivot navigate at least one value capture pivot. ¹

Example: A Value Proposition Pivot Moved YouTube From Irrelevant to Irreplaceable



YouTube was initially founded as an online dating service in early 2005 — focusing its target customer segment toward single consumers who would upload videos of themselves describing their ideal partner. YouTube failed to garner the engagement and user-provided content to have any relevance — even when offering to pay users to participate on the site. Only months later, YouTube pivoted with the embrace of the tagline “Your Digital Video Repository” and became the online video-sharing platform we know it as today. This pivot transitioned from single consumers to nontechnologists looking for a simplified way to share video with others. ⁷

Value Capture Pivot

The monetization strategies for existing product/service offerings are adapted with the objective of improving top-line revenue growth and/or margin improvement. Impacts of refined monetization strategies are commonly associated with pricing and packing model adaptations or innovations. Thirty-six percent of tech CEOs who pursue a pivot navigate at least one value capture pivot. ¹

Example: HubSpot Embraces Product-Led Growth Through a Value Capture Pivot



In 2006, HubSpot had one premium or traditional sales-led product offering, which was the HubSpot Marketing Hub. ⁸ In 2014, HubSpot launched the initial CRM offering as a free product with the intent of upselling users to the paid Marketing Hub offering. Shortly after, HubSpot adapted to a freemium product-led growth model characterizing a core pivot to its growth strategy through an emerging-growth pivot. ⁹

Emerging-Growth Pivot

Established product/service offerings are complemented by investments or changes in the overall growth strategy for the organization. Some refer to this as an “engine of growth” pivot.¹⁰ This pivot often complements value capture pivots, but focuses on transitioning toward sustained growth by adapting the strategy in which you acquire and retain customers through product/service stickiness, virality or paid promotion. Thirty-seven percent of tech CEOs that pursue a pivot navigate at least one emerging-growth pivot.¹

Example: An Emerging-Growth Pivot Rapidly Accelerates Market Adoption for Dropbox



Dropbox launched in 2008, but struggled with new user sign-ups in the early days of the platform. The company pivoted to adapt its strategy for both customer acquisition and retention through an in-app referral incentive. This improved the virality of the offering as users shared sign-up offers with friends and improved stickiness of the platform by providing users with additional free space when their referrals signed up for the platform. This pivot led to a dramatic improvement in the company's growth rate as it grew from 100,000 to 4 million users over a 15-month period following its pivot with signup rates increasing by 60%.¹¹

Platform/Technology Pivots

Platform/technology pivots center around scaling niche/point solutions or services toward a platform or ecosystem-oriented strategy or the adoption of new technology platforms/capabilities that underlie existing product/service offerings.

Platform Pivot

A platform pivot involves the transition of existing product/service offerings to support increased scale or prospective partner involvement. This can range from niche service offerings that become a comprehensive service offering or isolated/point solutions that become a larger platform solution or ecosystem that attracts third-party participation. Twenty-four percent of tech CEOs who pursue a pivot navigate at least one platform pivot.¹

Example: Google's Platform Pivot Drives Android to Become a Cornerstone for Modern Computing

android 

The Android operating system provides an illustrative example of a product pivot.¹² When initially created in 2003, Android was intended to serve as a digital camera operating system. However, after pivoting to focus on a smartphone operating system, Google acquired Android in 2007. It then established the Open Handset Alliance, which positioned Android to become the ecosystem we see today across over 3 billion devices.¹³

Technology Pivot

These pivots center around the transitions of products/services to leverage new technologies. Forty-nine percent of tech CEOs who pursue a pivot navigate at least one technology pivot.¹ Technology pivots result from multiple considerations including:

- Responding to market competitors using new technologies
- Adapting to customer needs or requirements that cannot be met through existing technologies
- The desire to improve time-to-market of incremental capabilities
- Prerequisite technology dependencies to introduce future capabilities or enable related strategic pivots
- Improving the underlying cost structure of existing offerings

Example: SAS Embraces a Technology Pivot as Viya Becomes Its Platform of the Future



The data and analytics company SAS (founded in 1976¹⁴) provides a good example of technology pivots. SAS had loyal customer adoption for its platform that operated locally on-premises most often in a traditional client/server architecture. While SAS has made numerous technology pivots over the years since its founding, the most significant is its transition from the last release of its on-premises offering (SAS 9.4) to SAS Viya. SAS Viya launched in 2016¹⁵ as SAS's cloud-native platform offering. Since the launch, SAS has continued to incorporate emerging technologies from numerous open-source projects including its leverage of container-based technologies for platform scalability and performance management.

Evidence

¹ 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 and 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.

² The Lean Startup

³ The Story of UiPath - How Did it Become Romania's First Unicorn? Business Review.

⁴ Pandemic Pivot: How Three Startups Transformed During Covid, Bloomberg.

⁵ COVID-19 Turned a Tiny Start-Up Into a Testing Giant. But Can Its Results be Trusted? Los Angeles Times.

⁶ Flickr Founder Finds Success in Failure — Twice — by Pivoting Quickly, Financial Post.

⁷ YouTube Was Meant to Be a Video-Dating Website, The Guardian.

⁸ Developing a Product Marketing Strategy for a Freemium Product, Product Marketing Alliance.

⁹ Case Study: Product-Led Growth (HubSpot)

¹⁰ Make Investors Sit Up and Notice #11 - 10 Ways to Pivot, Intelliversity.

¹¹ Your Startup Needs to Understand the Engines of Growth, Brandcave.

¹² Android, Encyclopaedia Britannica.

¹³ There Are Over 3 Billion Active Android Devices, The Verge.

¹⁴ Our Story of Redefining Moments at a Glance, SAS

¹⁵ SAS Viya Cloud Software at Center of SAS Analytics Strategy, TechTarget.

Notes

Note 1: Determination of Top, Typical and Trailing Performers

A core part of our research focused on understanding the performance of tech CEO organizations relative to their market competitors. This evaluated eight key attributes, including:

- Revenue Performance — Likelihood of achieving/exceeding current-year revenue plans
- Customer Acquisition — Customer acquisition versus market competitors
- Market Leadership — Product/service market leadership
- Financial Strength — Financial strength to navigate market and economic uncertainty
- Capital Access — Access to incremental capital investments
- Sales Effectiveness — Sales team capacity for anticipated 2023 market demands
- Talent — Possession of required skills and abilities to meet established commitments
- Channel Partners — Established partnerships to support delivery objectives

Top, typical and trailing performer categories were calculated by totaling the scores of those surveyed across all eight of the above categories. The mean and standard deviation of these totals was then calculated. Individual respondent score totals for all eight questions were then compared to the population mean and standard deviation. Top performers were identified to be those scoring at or beyond one standard deviation above the mean. Trailing performers were identified to be those scoring at or below one standard deviation below the mean. Typical performers are those with responses between the upper and lower one-standard-deviation boundaries that define top and trailing performers.

Tech CEOs with the greatest relative performance across these categories were determined to be “top performers” (16.6% of respondents), while those with the lowest relative performance were identified as “trailing performers” (15.8% of respondents). Remaining respondents with performance in the middle of top and trailing performers were identified as “typical performers” (67.6% of respondents).

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