

Startup Lift: How Tech CEOs of SaaS Startups Quantify the Value of Their Solution

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Many tech CEOs of SaaS startups focus on new technology or product features without clearly identifying a target market and quantifying the economic value that their solution provides to prospects. Use this approach to identify and clarify the value for prospects while pursuing problem-solution fit.

Overview

Key Findings

- Startup SaaS tech CEOs often focus too much on clearly solving a problem for a prospect without quantifying the value associated with that solution.
- Buyers are looking to understand how a solution will benefit their business, but tech CEOs often tout capabilities that don't directly translate to business benefits.
- Understanding the value of a solution relative to the cost of ownership for prospects is critical knowledge for confirming problem-solution fit and preparing to move into the product-market fit phase.

Recommendations

Startup tech CEOs looking to clearly communicate the value of their SaaS solution must:

- Develop a process for estimating the value of their solution to prospects by collecting usage and impact data from every customer, related research, industry benchmarks and/or commonly available metrics.
- Identify specific use cases for their prospective target markets allowing them to calculate the prospective range of value delivered by estimating the impact on cost, productivity, revenue and risk.

- Select the most important use case(s) when moving into the product-market fit phase by identifying the use cases that consistently provide the most value in relation to the estimated total cost of ownership (TCO).

Strategic Planning Assumption

Through 2025, over 70% of SaaS startups will be unable to quantify the value of their solution in the problem-solution fit phase.

Introduction

Companies that are scaling regularly provide an ROI analysis as part of the selling process to help accelerate sales and justify the proposed price of their solutions. Buyers have validated the need for calculating value and TCO (or ROI). It was the top response in the 2020 Gartner Customer Preference Survey when buyers were asked what is the biggest motivator in investigating or adopting new release capabilities in products they were using. ¹ However, startup tech CEOs of SaaS providers often consider quantification of value something to do for scaling but not needed until they have confirmed problem-solution fit (see Note 1).

Confirming that a solution solves a problem is not sufficient to confirm problem-solution fit. The cost of solving a problem must be justified against the business value of solving that problem. The main areas to explore for quantifying the value of a SaaS solution are illustrated in Figure 1 and described below.

Figure 1: The Four Drivers of Solution Value

The Four Drivers of Solution Value



Source: Gartner
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Note that not all of these are applicable in all use cases or for all target market segments:

- **Cost relief** – What expenses is a prospect incurring that it will not need after using your solution?
- **Productivity gains** – What time savings will be realized by the prospect's employees as a result of using your solution?
- **Revenue generation** – What revenue increase will be generated due to applying your solution to their business?
- **Risk mitigation** – What risks will be minimized or avoided by using your solution? These usually manifest as fines, lost revenue or additional use of resources. As elaborated in the details below, risk mitigation can be difficult to quantify.

This note will dive into these four components in more detail and provide guidance for finding or estimating the numbers required to quantify a business case for your early prospects.

Clarifying Terms – Value, ROI, TCO

These terms are often thrown around interchangeably, and they are certainly related but not the same.

Value – In this document refers to the calculated economic value of your solution to a customer.

TCO – This is a calculation of the total cost of using your solution for a customer. It includes the cost (subscription) of the solution; any services/implementation costs they pay; resources they require to implement, support and maintain the solution; and any infrastructure costs they have (usually minimal in SaaS, of course).

ROI – This is the return on investment when considering the value and the TCO. It is often expressed in time periods indicating when the value will pay for the investment. For example, a six-month ROI indicates that six months of savings provided by a solution will cover the expected TCO for a full year of ownership.

Analysis

Cost Relief

This is the most tangible aspect of value as costs saved directly hit the bottom line of your prospect. Unfortunately, cost savings are often not significant enough to warrant the price that most SaaS providers seek for their solution. Regardless, this is a key area to explore and evaluate. There are several potential sources of cost savings:

- **Replacing an existing solution or service** — If they will eliminate or replace an existing product or service (or both) as a result, then that is a hard savings you can articulate. Most products have an ongoing subscription or maintenance associated, and services have a typical annual cost. If the products require other costs to run, such as power, cooling or rented space that will truly be eliminated, those savings should be included as well.
- **Reducing an existing cost** — If your solution will directly lower some operating cost of the business — for example, if it reduces the need for storage and thereby reduces the data storage costs — that is also a hard tangible savings that should be included. Another example is reducing the skill level needed to execute a given task.
- **Avoiding a future cost** — If your solution avoids a future cost that would have been incurred due to growth or expansion of some aspect of the business, that can be clearly stated as a tangible savings as well.

Productivity Gains

Productivity gains are considered very tangible but are “one step removed” from cost relief as companies don’t normally realize direct savings (unless they eliminate jobs/lay people off as a result). Also, productivity gains are often expressed in less than whole numbers so laying off one-half person (for example) is not practical. The value is in allowing those resources to work on more productive or other activities. The argument can also be made that, for a growing company, it will save on new hiring. Productivity gains can usually be aligned using the workflow of processes impacted and by considering the different types of users. The best way to calculate productivity gains is to multiply the following variables to arrive at a savings in the currency of the prospect (see [Tool: Tech CEOs Should Calculate Solution Value to Customers](#)):

1. The number of people currently doing the activity multiplied by the number of hours each of them spends doing it in a year.

2. The percent of time that will be saved for each person, including avoiding rework often associated with manual activity (collectively or individually as appropriate)
3. The fully loaded compensation of each person (including salary and benefits)

The time savings may include the following components:

- Administration — If the SaaS product is replacing a solution or alternative that also had to be administered/managed, there is the possibility that the new solution will require less time.
- Use (doing the work) — This is often the biggest area, and often the main focus of the application is to automate some activity.
- Reporting — Normally an activity has some type of reporting of status or results associated with it. If the solution automates this, then some percent of that work is likely being saved.

Revenue Generation

Revenue generation can be an extremely strong value story but needs to be directly connected to the product and backed up by actual results, benchmarks collected from actual usage and/or strong research from third parties. Revenue impact is often hard to quantify as there are so many internal and external factors that impact revenue. Market disruptions, seasonality and competition are among the key external factors that can influence revenue while product quality, capability, pricing and promotion are among the key internal factors. As best as possible, try to compare before and after effects of your solution considering these variables. For example, rather than looking at revenue growth month over month, look at revenue growth from the same period in the previous year to factor in seasonality.

Revenue impact can be simply represented by a typical percent (0.5%) or range of percentage increase (1% to 2%). However, it can be very challenging to come up with enough situations to support these general claims. Another route is to build the revenue impact from more tangible factors. For example:

- Our solution will generate 20% more leads in your pipeline of similar or better quality than current leads.
- Your current lead volume is 1,000 leads per year.

- Your current lead-to-win ratio is 5% with an average selling price of \$100,000.
- Two hundred additional leads (20% x 1,000) will yield 10 additional won deals (200 x 5%) and \$1,000,000 of incremental revenue (10 x \$100,000).

Building up revenue impact from details provides more credibility and works with more of their actual performance data combined with numbers that are easier to prove and/or find (increased number of leads in this case).

Revenue increases can come from new sales, as well as upsell and cross-sell to existing customers, so consider all of these options.

Risk Mitigation

Risk is a central issue in the fast-growing security solutions market. However, many solutions protect companies from various types of risk, such as fines for noncompliance with privacy laws or specific industry regulations such as those in healthcare or food-related businesses. Risk is different from the other value drivers as the benefits are generally related to things that may or may not happen, whereas productivity or cost relief is something that definitely will happen. Also, the amount of financial exposure in risk scenarios is not always definite.

Regulatory risk is more tangible, but the fines can be astronomical, and it's not practical to price relative to this value. It is practical to communicate this as part of the value of a solution, however. Risk due to security breaches are less deterministic so become less tangible for a specific prospect. This doesn't mean you shouldn't get an understanding of the economic impact of security issues your solution protects, but it does dampen the impact of this on the perceived value relative to pricing. The likelihood for a particular kind of security breach as evidenced by how many are detected and blocked or the increasing amount of successful breaches should be clearly understood to help provide more proof of the value.

There are aspects of risk mitigation that will show up in productivity gains as compliance often comes with audits and the time to prepare can be saved or reduced. Having good, valid data for auditors can reduce the amount of time or issues that need to be managed.

There are also more intangible aspects of risk mitigation that can be called out but are likely challenging to quantify. If your solution is built on a new architecture that will allow more modern capabilities or is built such that you can update it faster, then there is an aspect of "future-proofing" or reduction in the risk of future obsolescence.

Data Sources for Value Calculation

The best data source for any of this value calculation is the prospect or customer. They can provide the most accurate information on their costs, their resources, their salaries, their revenue drivers and their perception of risk. The best approach for getting this data is to build access to this data into agreements with first customers in return for discounts or benefits associated with product plans or co-promotional activities. (See [Startup Lift: Early-Adopter Agreements Must Lead to Value Stories](#)). Building a culture that collects the baseline or current performance metrics (before your solution) and then monitors progress on key metrics as part of account management is the best route to continued understanding and development of your definition of value. Additional validation points come from primary research conducted by analyst firms or industry trade associations or even commissioned by you. Data on salaries or organizations can come from public sources like job boards, company review sites and social business connection sites, such as LinkedIn.

Summary

Value is never absolute and is always relative to a specific prospect situation and use case. However, it's critical to have a sense of the scale of the value when confirming problem-solution fit. Likely you will be considering more than one initial target market segment, and the perceived value should be a key driver of your selection of your ideal customer profile. You are competing with multiple priorities to get the attention and purchase from your target market, so the value must be compelling. Simply solving a problem is not enough to drive growth and success.

Evidence

¹ **2020 Gartner Customer Preference Survey.** This survey was conducted to advise technology and service provider product managers on how to make better decisions about collecting customer feedback, sharing product roadmaps, releasing new versions and establishing pricing models. The research was conducted online from October 2020 through December 2020, among 844 respondents from the following regions:

- Australia (n = 47, 6%)
- Canada (n = 49, 6%)
- France (n = 116, 14%)
- Germany (n = 114, 14%)
- Hong Kong (n = 8, 1%)

- India (n = 125, 15%)
- Singapore (n = 39, 5%)
- The U.K. (n = 134, 16%)
- The U.S. (n = 212, 25%)

Percentages may not add to 100% due to rounding. Interpret small base sizes (n < 30) with caution. To enable the comparing and contrasting of key trends, the following quotas were established on key organizational and respondent characteristics:

- Qualifying organizations operate in high-tech industries and non-high-tech industries (education provider, energy, financial services, government, health payer, healthcare, technology product or services, telecom, insurance, manufacturing, media, natural resources, retail, services, transportation, utilities, or wholesale). These organizations had annual revenue for fiscal year 2019 of more than \$50 million or equivalent.
- Qualified participants have the title of manager or above. Participants are key influencers, members and/or leaders of a group, or solely responsible for renewal decisions related to technology products or services within their companies.

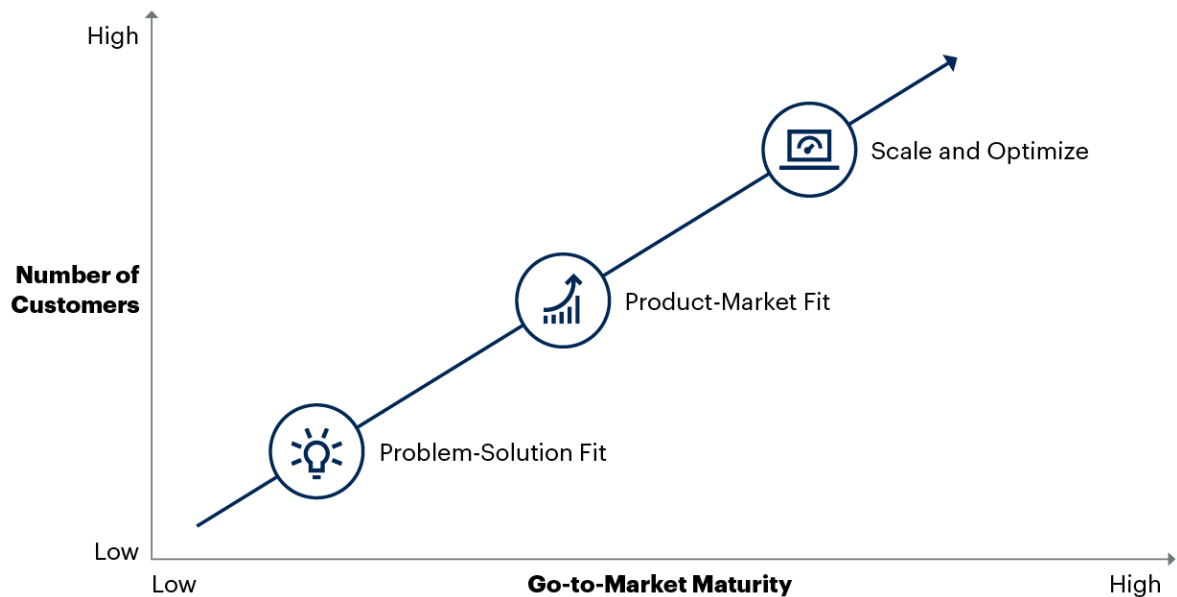
Technology products or services that we have qualified for this survey are application software/SaaS, infrastructure software/platform as a service (PaaS), data center systems, infrastructure as a service (IaaS), Internet of Things (IoT), networking equipment and communications equipment. Minimum licensing and support spend for the primary vendor has been qualified at \$25,000 and above.

Note 1: Definition of Startup Lift Growth Phases

Figure 2 shows startup lift growth phases in terms of number of customers and go-to-market maturity.

Figure 2: Startup Lift: Growth Phases

Startup Lift: Growth Phases



Source: Gartner
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Gartner

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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