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10 Things You Should Know As You Scale Your SaaS

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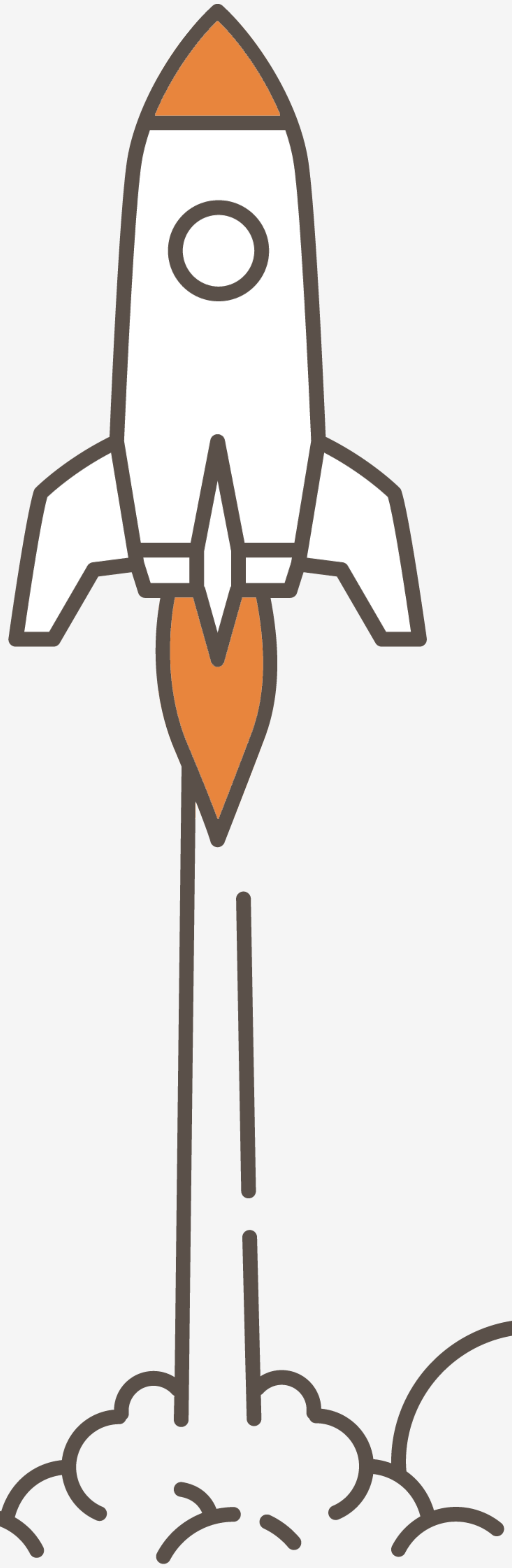

Introduction

In my 20 years of building startups, my first small win and the first time I felt the magic of product-market fit was with a piece of niche invoicing software for .NET developers.

Initially, it didn't sell more than a few copies a month at $98 a pop.

But I raised the price to $300/month, put in a little marketing work and pretty soon, depending on the month, I was generating $2,500-$5,000 a month.

I was still working my full-time job but I was striving to have the freedom to make interesting things. I wanted to own the value of my output.

While I had some income ($50-$100 month) from prior efforts, this was the first time I really saw a path to escaping my day job.

It's difficult to distill all the lessons I've learned since that first win, but I think the ten points below are important ones I think most founders should know (if they haven't learned them already).

If you're a founder who has the sense that they've built a product that people want and are willing to pay for (a.k.a. product-market fit) and are now looking to scale, this guide is for you.

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#1 Don’t scale until you have product-market fit

One of the biggest mistakes I see venture funded companies make is raising huge buckets of money, and then dumping it into marketing *before they have product-market fit.*

They’re driving a bunch of people to a product that few people want and are willing to pay for.

It's not sustainable, and good marketing only makes a suboptimal product fail faster.

Here are are a few ways that I think about product-market fit:

- **Product market fit is not binary, it's a spectrum**. You can have more or less of it as time goes on, or more or less of it across niches.
- **You can have product-market fit with one audience, but not another.** That's where you have to decide whether to keep looking for more customers in the same niche, or do you try to do a land and expand into another vertical?
- **Product-market fit can be tested.** There are a few ways to test if you have p/m fit. One way is to use Sean Ellis' survey. Ask your customers, How disappointed would you be if you could no longer use PRODUCT?" and if more than 40% of people say they would be very disappointed, that’s a pretty good proxy for having product-market fit. In my own experience, this has been proven to be accurate.

Anyone who's ever built something people want knows the feeling when the product clicks. Your traffic can be static or even dropping, and your trials are going up, your churn plummets, and your MRR starts can grow while you are doing little to no marketing.

I’ve experienced this first hand and it’s mind-blowing. I remember at one point turning to my co-founder, pointed to a couple graphs in our dashboard and saying: “This is it. This is what product-market fit looks like.”

#2 New leads are not the only way to grow a business

New leads are not the only way to grow a company. There are actually three ways:

More Leads
The most popular tactic that most founders first think to do is to just drive more leads, traffic, and trials. Widen the funnel and get more people in the gate.

Raise your prices
The second way is to raise your prices. I have another point later about pricing and how big of a lever it is, but this is something that a lot of founders get wrong by charging too little.

Sell more to your existing customers
The third tactic is to sell more to your existing customers. There are some nuanced distinctions between selling to existing customers for one-time sales software vs SaaS businesses. With one-time sales, you're typically selling add-ons (e.g. integrations) whereas for SaaS you're leaning on charging more from customers as they get more value out of your product.

#3 Use pricing as a lever

Pricing can literally define a business. It can change your business from a $250,000 business to a multi-million dollar company.

And, frankly, most founders screw this up.

Some founders want to charge based on how much their product costs to produce. Pricing should be based on the value it provides to the customer.

There are a two different types of levers you can pull for SaaS pricing;

Value-metric is the most common strategy. Take MailChimp as an example. They have a number of subscribers, and the more subscribers you have, the more value you're getting out of the tool. As your subscribers tick up, you jump to higher and higher tiers, and MailChimp makes more money.

Feature-gating can be used if you can't find a good value metric. Simply put, feature gating is having features that are only available to higher tiers. This tactic is not as valuable as having a value-metric as it doesn't scale up the same way that value-metric pricing can.

While value-metric and feature gating can be used in conjunction, it can get complicated very quickly. There are many examples of apps that have both, but in the early days I would encourage you to stick to either a value metric or feature gating unless you see a really clear path for using both.

#4 Understand your funnel

While I could identify many "in-between" types of funnels, at a high level there are two primary SaaS funnels:

High touch - In this model, you are deeply involved in the sales process. Every lead gets a demo and gets hand-held throughout the process. With this approach, it's the big deals that will make your business.

Low touch - Low touch SaaS typically works with a low price point and a large market. It's a volume game where you focus on driving lots of leads into your funnel.

The interesting thing is the best businesses I see are low touch, low priced businesses with large markets *that are also able to land large, enterprise deals.*

When you first start out, you're going to make a bunch of your money from the $10-$30 a month customers.

But you might get a few enterprise deals for $1,000-$3,000 a month who need 100+ seats and custom enterprise features sets that will change your business model. It's an interesting conundrum, should you choose to enter into it.

The businesses that grow really fast tend to have both. I think of it as a barbell strategy with low touch and low-end price point on the one end and the higher touch, higher price point on the other.

If you can effectively build a product that serves both, It's an amazing combination.

#5 **Seek net negative churn**

No matter your funnel type, seek net negative churn.

Negative Churn is just what it sounds like (your churn is negative, meaning revenue grows without adding new customers).

It’s pretty magical to see.

If recurring revenue is the golden ticket of software pricing, then net negative churn is the golden ticket of SaaS.

If you are purely feature gating and people are moving up and down based on the features they use, most of the time you won’t achieve net negative churn, Only when you find that value metric that people are building up over time (storage size with Dropbox or subscribers with MailChimp) are you likely to achieve net negative churn.

I'm not saying you shouldn't build a business without it, because it's difficult to find and it is not always possible. However, try to figure out how to structure your pricing so that you can achieve negative churn at some point.

#6 Double down on marketing that works

Find one marketing approach that works and double down on it, whether it's content marketing, SEO, integration marketing, PPC, display, outbound, or something else. It's especially important to focus on the approach if it can scale and you can automate it (a.k.a. hire someone to handle it).

Be careful of trying a multitude of different marketing approaches all at once. I've seen seven and eight-figure businesses that have just one or two marketing channels that scale really well.

I often find in the early days that the role of the founder is to find one or two channels that work, automate them, and experiment to find that next approach that can help bolster the business's marketing diversity. That way if one tactic gets crushed you have another to rely on.

#7 Surround yourself with people you like

The people who are sitting on either side of you as you build this company will not only be your moral support, but will make or break your startup journey.

My advice is to be careful, especially with early hires, as you'll be in the trenches every day with these folks.

If you're running a small team and find someone extremely talented but they have a chip on their shoulder, they will make the journey painful.

I believe wholeheartedly that you have to be careful about who you surround yourself with, both in your personal and your professional life. For that reason, the people you work with as you build your company will make or break the journey.

#8 Be really careful to avoid burnout

Don't burnout. Easier said than done, right? Early-stage founders hear this often, but they also have to worry about growing their company, making payroll, and a myriad of other things. It's easy to push it aside.

Do what you can to avoid constantly thinking about your business. Take a break and find balance.

Leave behind, or hire out the things that stress you about running your company. For example, when I was growing a couple of my companies, I just stepped away from Twitter for two years. This allowed me to avoid the daily stress of having to deal with social media.

As you scale your startup, avoiding burnout is critical. It can be a brutal and long road to recover from if you don't take precautionary steps to stay healthy and mitigate your stress.

#9 Pick one: competitor pain or customer pain

It's important to know what kind of pain you're going to experience as you grow. There are really two types:

Competitor pain is when a bunch of competitors are constantly chomping at your heels, copying your product, your position, stealing customers, and so on.

Customer pain is when you're in a space with very few competitors, but your customers are challenging. Maybe they're not online as much or they're harder to reach. Perhaps they're less technical so require high-touch support.

Knowing what type of pain you might have as you go into it will help you stay sane throughout the journey. If you know you're going to have customer pain, consider bringing more product focused people onto the team.

It's good to have an idea what you're dealing with before you start, so you can mentally prepare for the journey ahead.

#10 Figure out how to reach existing audiences

I used to think that to grow a startup you needed to find customers one-by-one.

What I realized over time is that it's less about finding individuals and more about finding the communities and audiences, whether it's Internet personalities, Facebook groups, online communities, slack groups, or a complementary piece of software that has thousands of customers already using it.

Look for the audience you want to reach, and figure out not only where they congregate, but who they listen to. It's much easier to reach an already engaged audience than it is to focus on finding people one at a time.

Note: if you're earlier stage, be sure to check out our guide on getting started, "**8 Things You Must Know When Starting Your First SaaS**".

Wrapping up

The work doesn't end once you've reached product-market fit. We hope the strategies listed in this guide — doubling down on what is working, optimizing your pricing, building new revenue opportunities from existing customers, and other tips — will help you take your business to the next level.

I'd love to hear what you learned from this guide and how you are implementing these tips. Keep at it!

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