THE IMPACT OF ECONOMIC DOWNTURN ON THE SAAS INDUSTRY

Uncovering the realities of the challenging economic conditions on businesses and strategies to weather the storm

everstage

IN PARTNERSHIP WITH

RevOps Co-op

Table of Contents

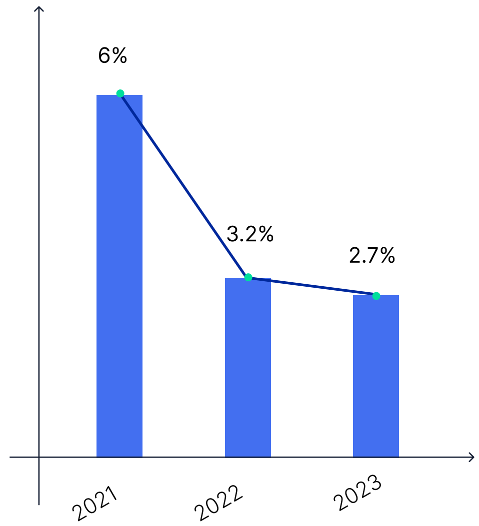
What's going on?

The goal of this survey report is to understand how SaaS companies across the world dealt with, and continue to deal with the challenging economic conditions present today.

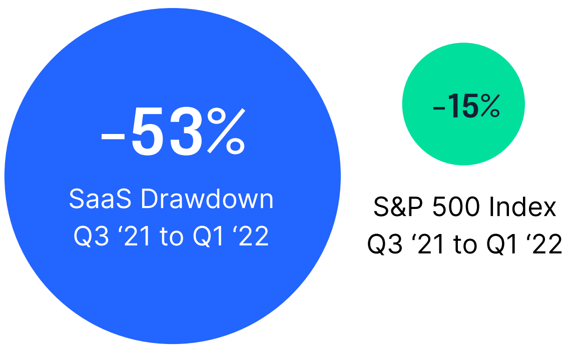
Global markets have been severely impacted, and there are broad, sharp contractions in the economy. As per this report by the IMF, global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. Another report by KPMG is less optimistic, predicting GDP growth in 2023 to moderate to 1.9%, down from 2.7% in 2022.

On a high level, it is clear that SaaS companies are in an uncertain environment. This is underscored by a slowdown in economic growth across industries, and by frequent reports of layoffs, even in major organisations. This feeling is also underscored by the numbers: In this article, Kevin Stoll, VP of Capgemini Invent North America, says that **the SaaS industry drew down by 53% from Q3 of 2021 to Q1 of 2022. For comparison, the benchmark S&P 500 index has experienced a decline of only 15% in this same time.**

Everstage fielded a 21 question survey to accurately measure and understand the impact of the economic downturn on SaaS. This was fielded to the members of the RevOps Co-Op community, and also to people employed in the SaaS industry.



GLOBAL GROWTH
(ACCORDING TO AN OCT 2022 IMF REPORT)



REDUCTION IN MARKET CAP
(ACCORDING TO KEVIN STOLL, VP OF CAPGEMINI)

Key Takeaways

The fact that we are in difficult times is evident. When we started sending out the survey, the market sentiment was evidently poor. There were already reports of layoffs in major organisations. By the time we collected responses, there were even more layoffs.

More layoffs were announced before we compiled the responses into a report, and right now, as I'm writing this sentence, two of the most successful companies in the world have announced that they're shrinking their workforce.

None of this is good news, and while you're observing this from the outside, it is not only easy, but also almost natural to panic. But armed with sufficient data and excessive caution, weathering the storm need not be as difficult as it looks.

With data collected from over a 100 companies in the space, we seem to have a clearer idea of what exactly is happening in the market, and how companies are responding to them. Understanding this can act like a compass, pointing you in the right direction and helping you find your way to safety.

Here are three of our key takeaways from the survey.

1 Temper your expectations

In any business, revenue and profit are the main drivers. But in a downturn, it would help to set realistic targets that are neither impossible, nor overwhelming.

In many cases, a downturn is a time when your objectives are not to thrive, but more to survive. Of course, that doesn't mean you want to just break even, but you do have to accept that your growth is going to slow down. Sales cycles are going to be longer, and you might even see churn.

In this reality, it is helpful to manage your targets accordingly. Setting lower targets, and spending more time to focus on preventing churn will certainly help you get through this period with minimal damage.

2 Keep your reps focused

Your sales reps know we're in a downturn. They're aware of reports of lay-offs across the globe. This can lead to uncertainty, and a sense of panic across your workforce.

Reduced quotas and targets go a little way in allaying their worries. But you will need to do more than that to keep them focused and motivated.

A significant portion of companies have decided to offer special discounts to make the product more enticing, and to make selling a little easier. There are also plans of introducing SPIFs and other similar tactics to provide financial motivation to reps so they can do more business for your organisation. You can consider employing similar measures in your business.

3 Smarter budgeting

Reducing revenue goals and targets might seem a little daunting at first. It can be hard to resist the temptation to still keep the targets high so as to ensure healthy profits, but there's another way you can do that while still keeping your targets realistic. Keeping an eye on your budget, and the expenses your company is making is key to maintaining similar profits despite reduction in revenue.

Most companies that were surveyed reported reduction in marketing and software budgets, and this might be a good place to start.

Cutting down your budget for ads, and slimming your tech stack down to the most essential tools can lead to a lot of savings that can help you tide over the loss in revenue. If required, the money saved here can also be smartly re-invested in other areas (a budget for SPIF, for example) to further boost performance.

The best part: Smart budget cuts, when timed perfectly, can reduce, and sometimes even eliminate the need to layoff your employees.

First things First: Sales Attainment

One of the most obvious and immediate effects of a market recession is the fact that companies are not able to hit their sales targets. There are a couple of reasons why this happens.

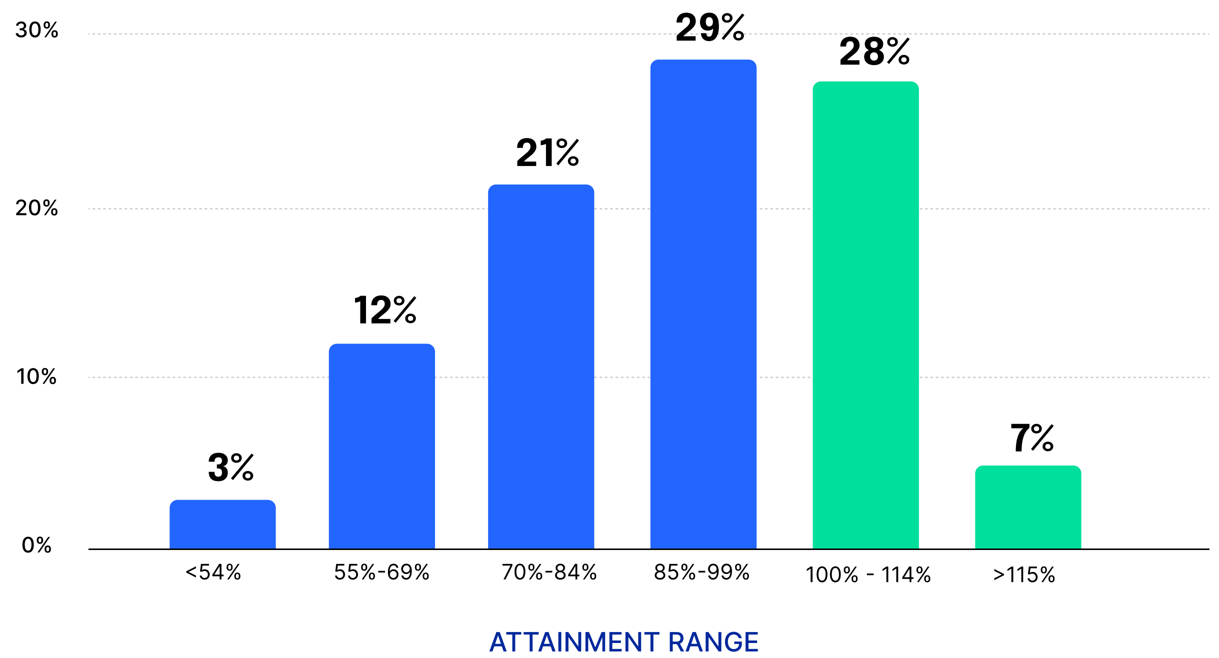
First, consumers may be more cautious with their spending during a recession, leading to a decrease in sales.

Furthermore, businesses may experience supply chain disruptions or other challenges that make it difficult to produce and sell their products or services.

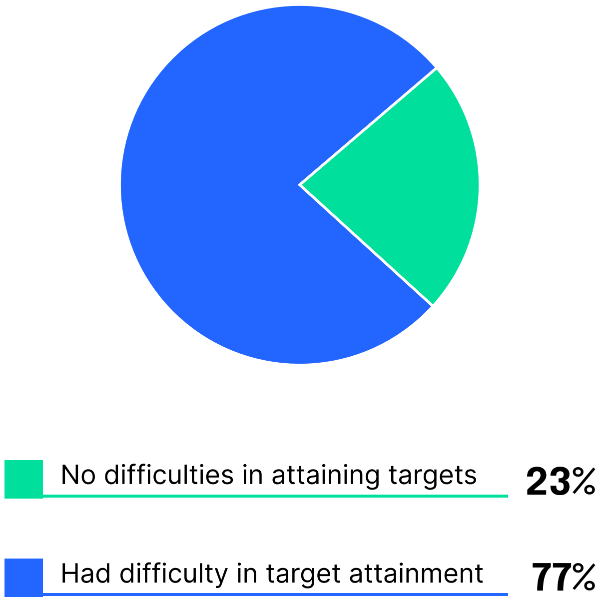
Per our survey, more than two-thirds of companies did not hit their targets during H1 in 2022. Nearly 80% of them also responded that they faced a lot of challenges in achieving their goals.

This clearly points to a downturn in the market, where most companies are not able to bring in as much money as they'd hoped to. Even among those who did, a significant portion reported having to face a lot of difficulties in doing so.

More than two-thirds of SaaS companies surveyed did not hit their targets during H1 in 2022.



Pipeline Challenges: A Deep Dive



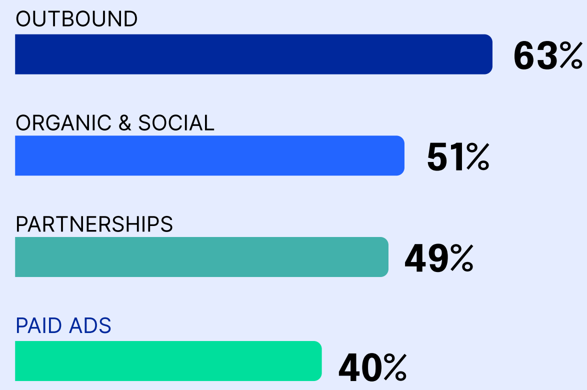
DID YOU HAVE CHALLENGES IN ATTAINING TARGETS?

Now that we understand that companies have faced significant challenges in attaining their targets, it is prudent to dig a little deeper to understand where these challenges were faced.

There are multiple sources from which the pipeline is generated. Unfortunately, there seems to be significant challenges in most, if not all channels.

Outbound Campaigns were the most impacted channel, with 63% of respondents facing significant challenges here.

There was also 51% shortfall from pipeline generated from Organic & Social campaigns, and 49% from Alliances & Partnerships.



WHERE WERE THE CHALLENGES?

As expected, in an economic downturn, most companies make purchases on a need-basis, and there are more stringent approval processes for them as well. This has resulted in a significant shortfall for cold, outbound campaigns.

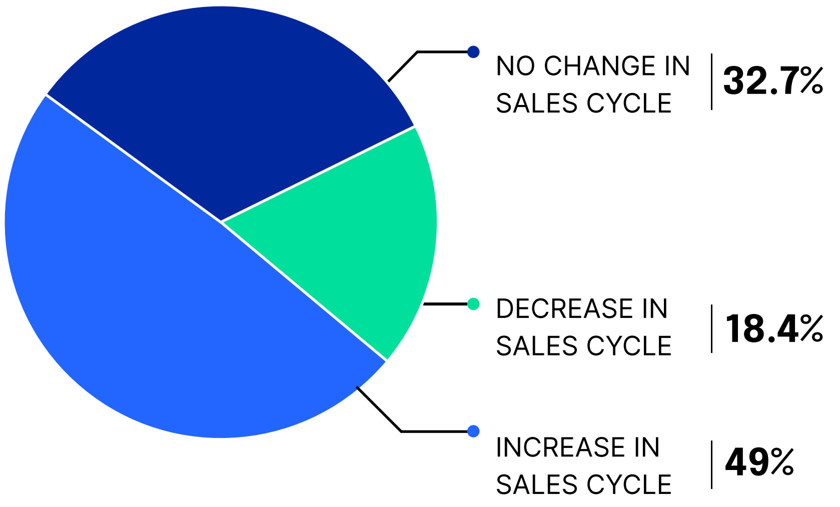
Almost a fourth of the respondents reported that there weren't any significant issues they faced despite the downturn. Paid ads seem to be the least impacted source of pipeline, and it would be prudent for companies to consider this channel.

Impact on Sales Cycles

Per our survey, **almost half of respondents saw an increase in their sales cycle,** of whom 53% of them saw a significant increase of more than 10%.

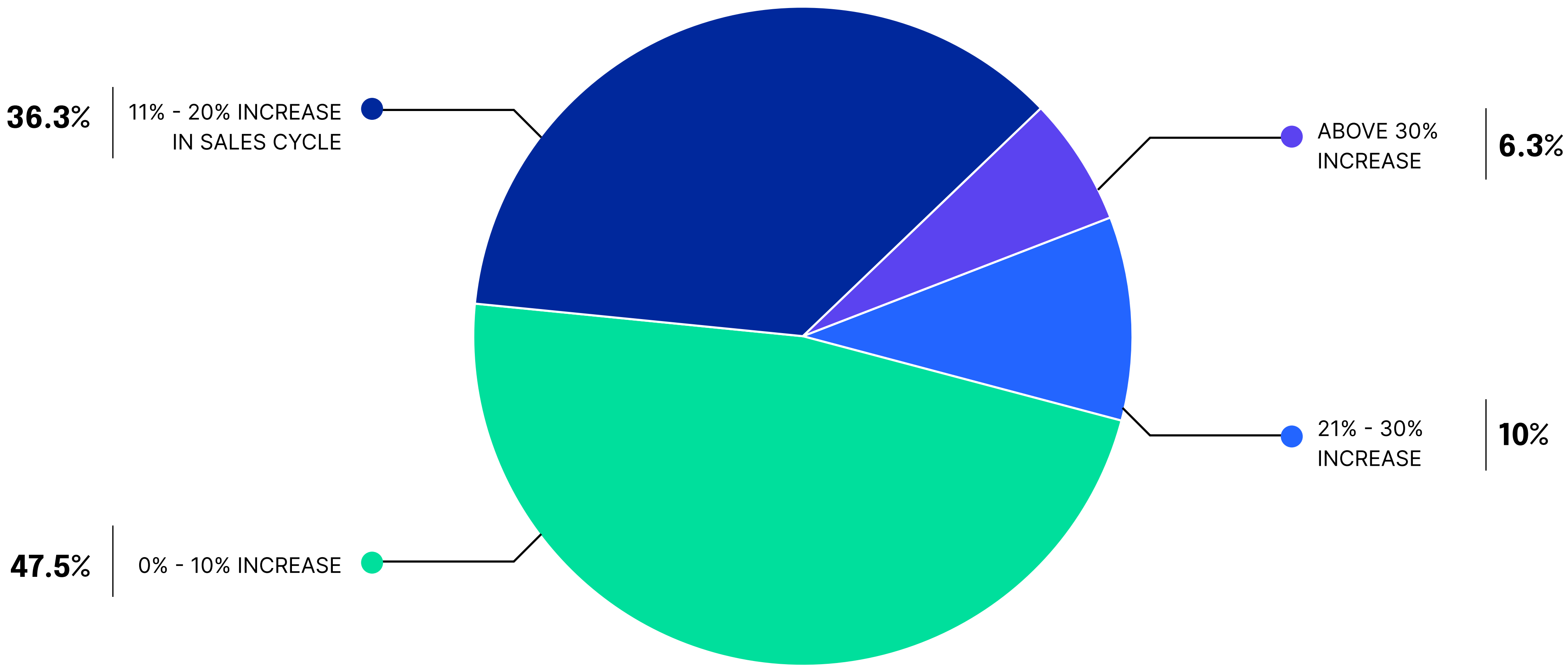
This is a clear indication of difficult times in the market. During a recession, sales cycles slow down because consumers become more cautious with their spending. They take longer to make purchasing decisions, which can lengthen the overall sales cycle.

Businesses also face increased competition and pricing pressure during an economic downturn, which can make it more difficult to close sales. In some cases, a decrease in demand for certain products and services can also impact the sales cycle.



Distribution of Adverse Change In Sales Cycles

> More than half of the companies surveyed saw their sales cycle increase by more than 10%



The Reality of Churn

During a downturn, companies not only take longer to close new deals, but might experience difficulties in retaining existing customers as well.

This is a well known result of recession, and happens mainly because consumers are more likely to switch to cheaper or more affordable alternatives during a recession. Some customers may decide to forgo using tools altogether.

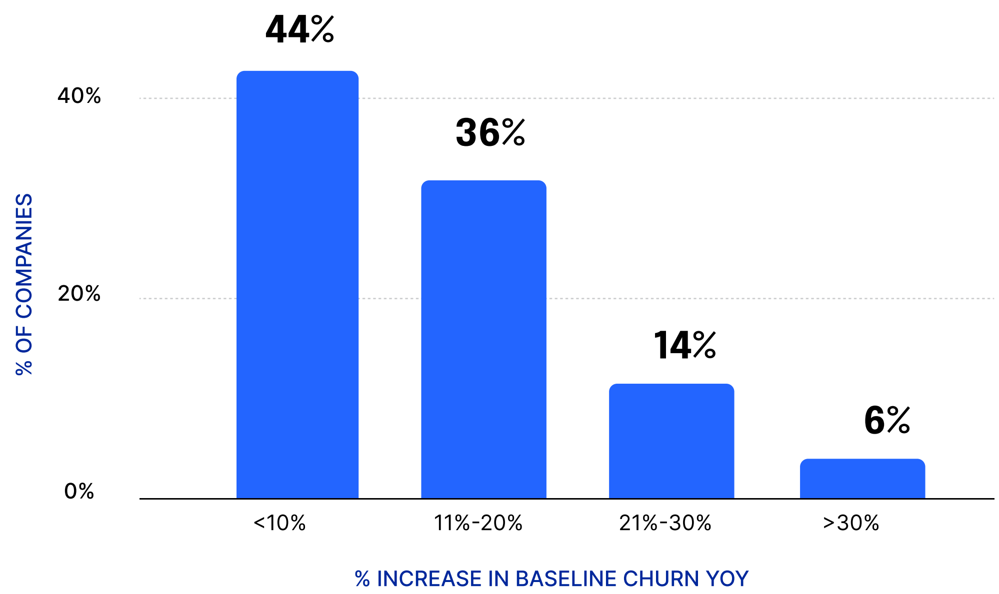
NO INCREASE IN CHURN

49%

SAW AN INCREASE IN CHURN

51%

Even a 10% increase on a 2% monthly churn can cause a 5% net increase in overall yearly logo churn. With a lot of companies experiencing >10% increases, you start to see a ripple effect, leading to an all-hands-on-deck situation to save existing logos from leaving.



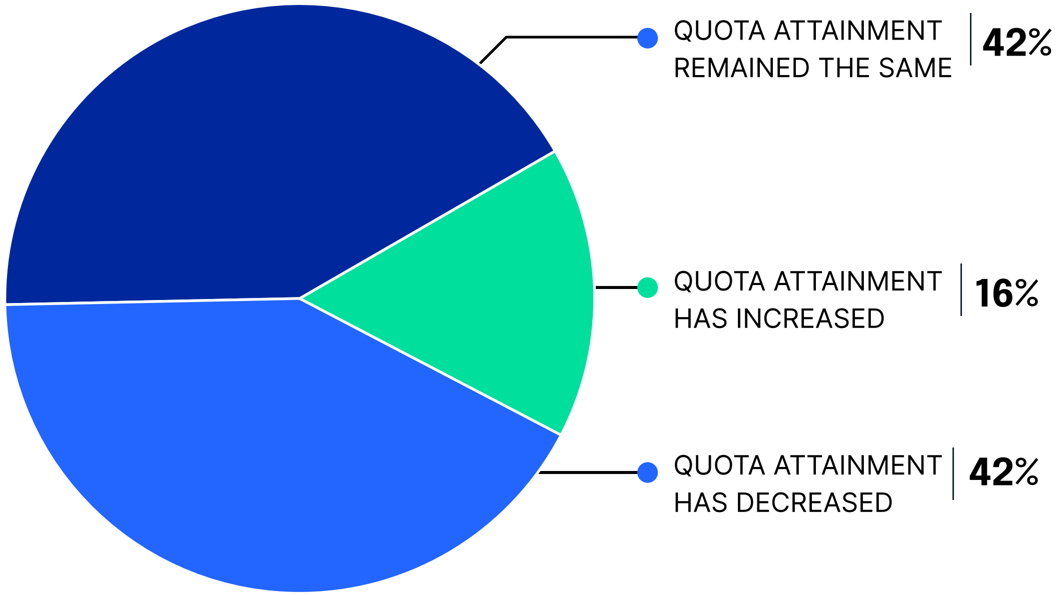
Sales Attainment in Q3’22

Despite 70% of respondents taking special measures to achieve targets, we see that 42% of companies saw their target attainment worsen during the quarter.

A slow down in the market often reflects in target attainment rates of companies. However, companies can take significant steps to mitigate this issue. Usually, this is in the form of special discounts to entice customers into buying their products, or implementing SPIFs to motivate and push sales reps to close more deals.

We see that for 42% of respondents, the target attainment remained the same. A further 16% actually saw an increase in their attainment.

This can be explained with multiple reasons. Firstly, the downturn has been around for a while, and it is likely that a lot of companies pushed their targets lower in order to be more realistic considering market situations. This, coupled with discounts and SPIFs designed to boost sales could result in a satisfying quarter for companies.



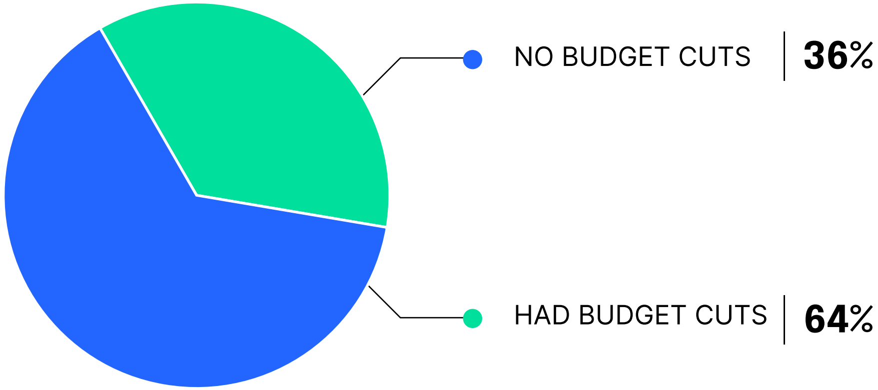
HOW DID QUOTA ATTAINMENT CHANGE IN Q3?

Reduction in Budgets

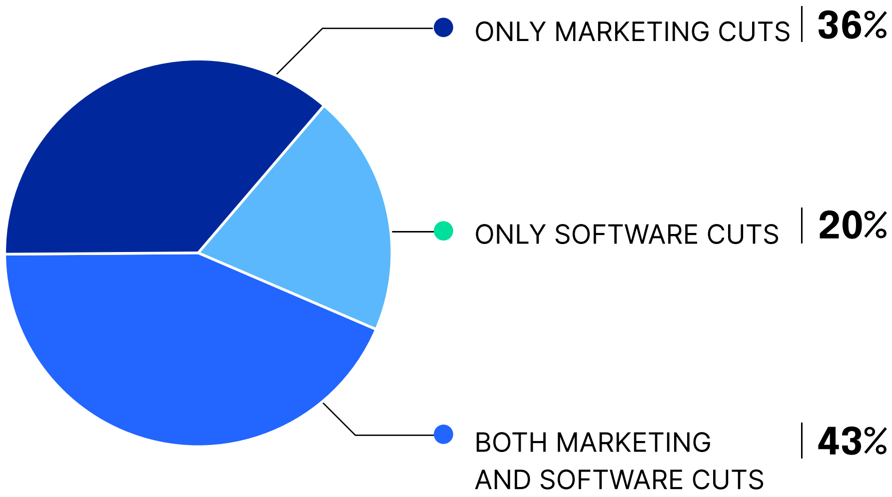
As seen uptill now, most companies face a loss in revenue during these difficult times. One way to manage this is to implement budget cuts, which involve reducing or eliminating certain expenses in order to save money.

Budget cuts are often necessary during a downturn in order to maintain financial stability and avoid financial crises.

Per our survey, **64%** of companies responded saying they had a budget cut. Out of these, 80% of respondents saw their marketing budgets cut. 67% of them also saw their software budgets cut during the year.

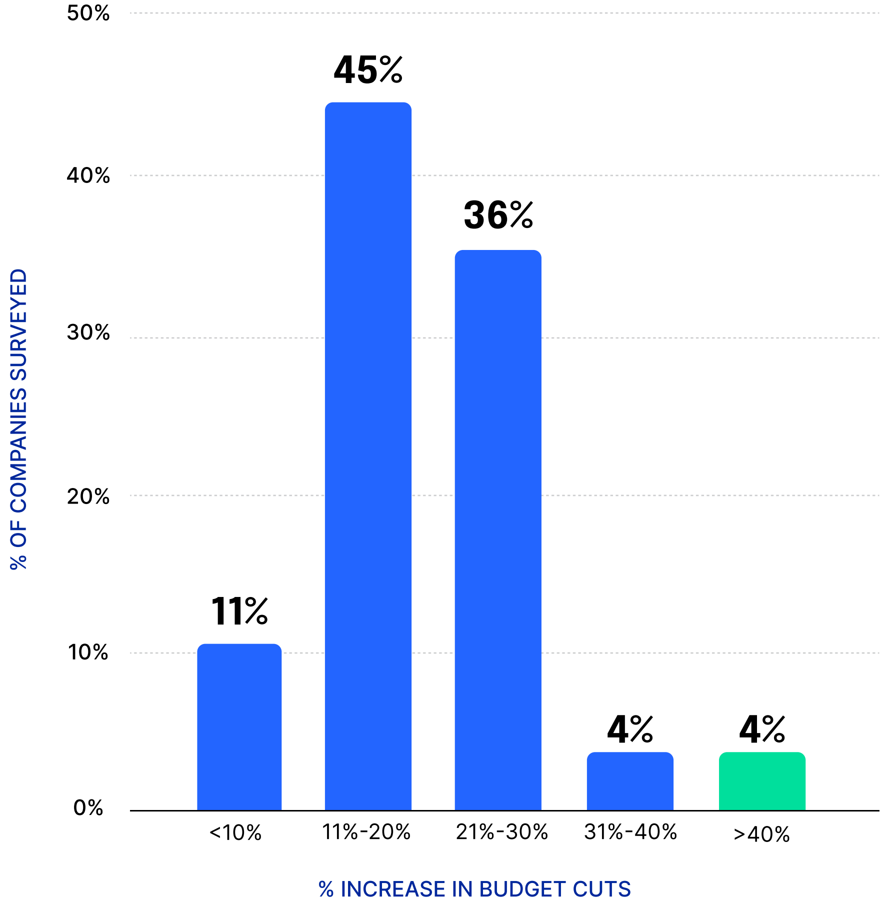


% COMPANIES THAT IMPLEMENTED BUDGET CUTS

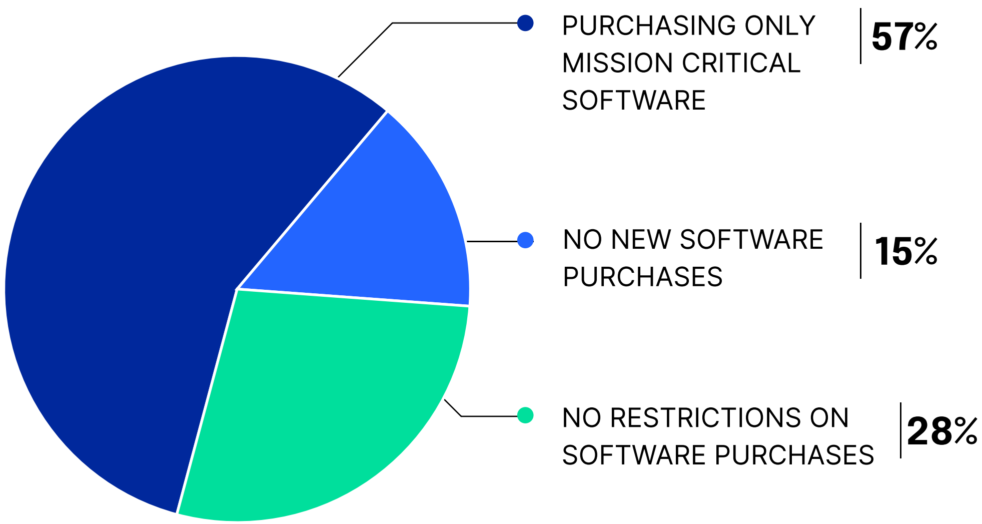


FUNCTIONS THAT FACED BUDGET CUTS

More than half of companies that experienced cuts in their Marketing budgets saw their spends cut down by more than 20%. When it comes to software, about 72% of the companies have decided to either not purchase new software at all, or to purchase only mission-critical software.



RANGE OF BUDGET CUTS



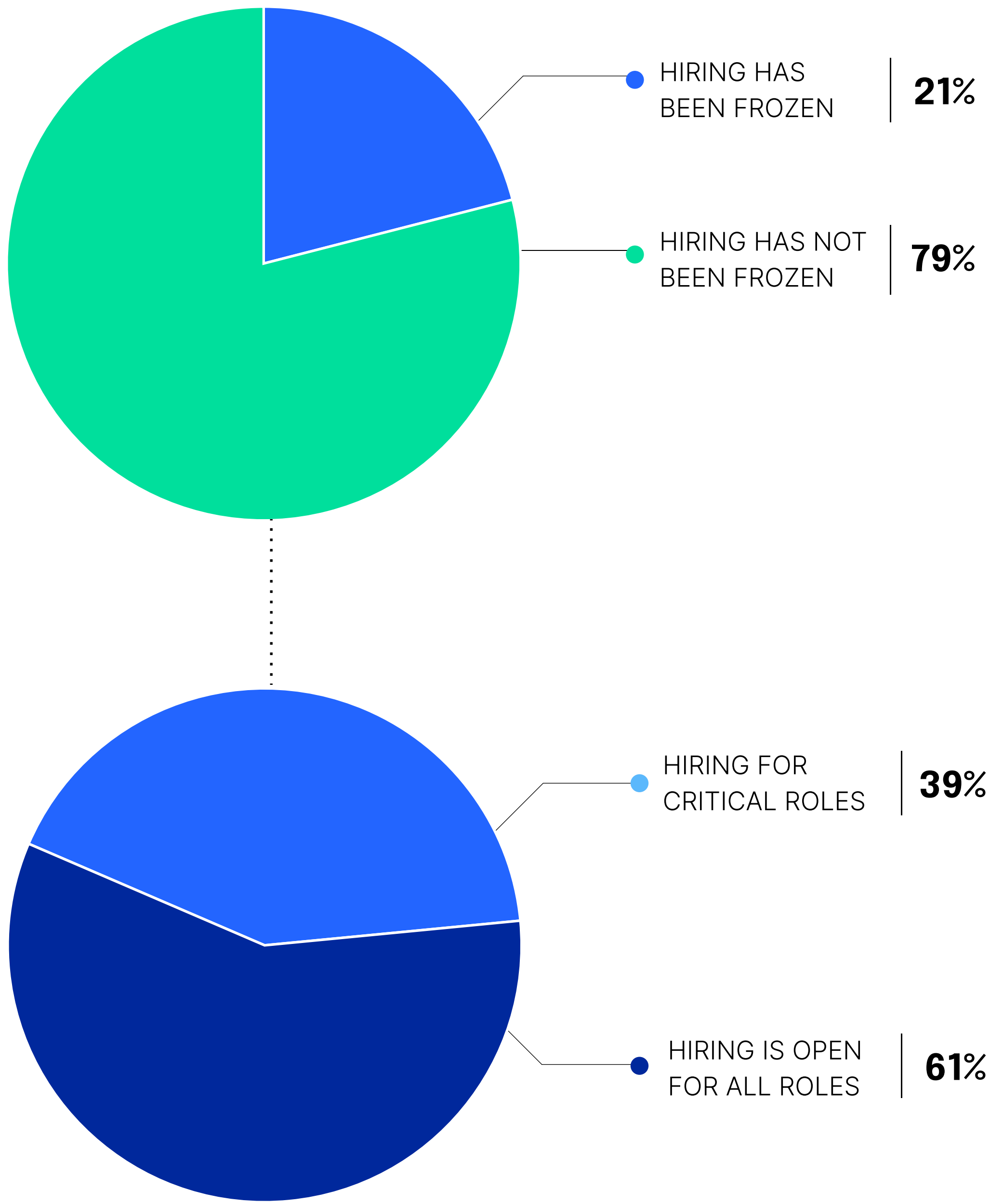
SOFTWARE BUDGET CUT SUMMARY

Hiring During a Downturn

During a recession, many businesses experience a decrease in revenue, which can lead to a need to reduce expenses in order to balance their budgets. One way that businesses may choose to do this is by cutting back on hiring new employees. This can be done through layoffs, in which existing employees are let go, or by simply not filling open positions. Some businesses may choose to freeze hiring altogether until the economic situation improves.

Almost 80% of respondents have stated that hiring is business as usual in their companies. More than 60% of these people also stated that they're hiring for all roles.

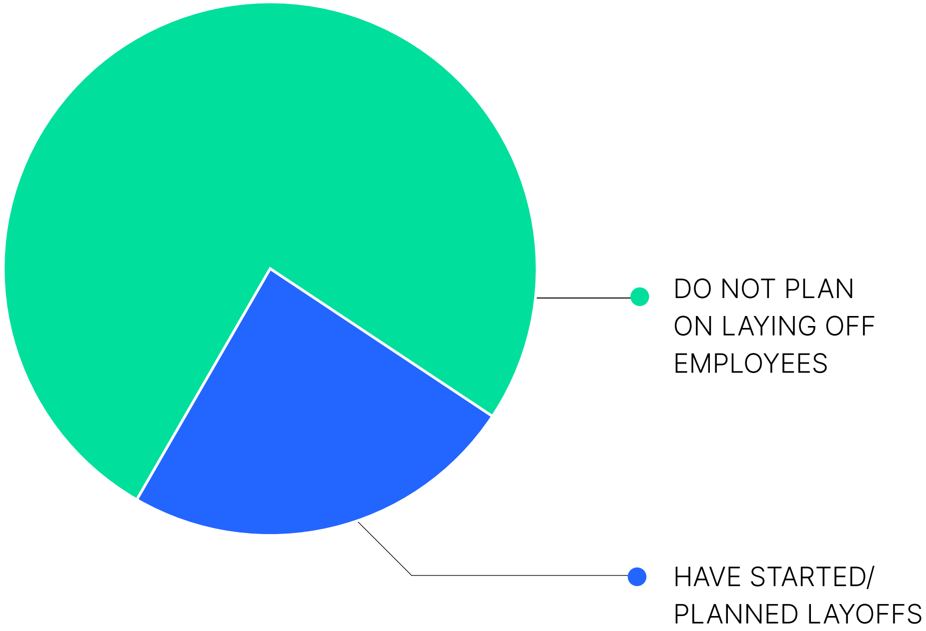
From this, we see that despite the conditions in the market, hiring hasn't been significantly impacted. The market is still good for human resources, and while there has been some impact, it hasn't really been severely impacted.



Layoffs

Layoffs can be a difficult but necessary decision for businesses to make in order to maintain financial stability during a recession. Additionally, layoffs help to align a company's workforce with its reduced revenue, allowing it to continue operating without incurring significant losses. While layoffs are never an easy decision, they can sometimes be necessary in order to keep a business afloat during challenging economic times.

Only 25% of respondents to this survey have said that their company has either started or is planning to start laying off their employees. This is in direct contradiction to the general noise on LinkedIn, as the reality of layoffs isn't as bad for the companies we surveyed.



The low impact on Product & Engineering teams and Customer Success Teams shows that businesses are more focussed on building their product and protecting existing customers from churn. This is a significantly more conservative approach.

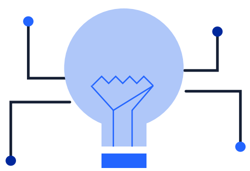
FUNCTIONS MOST AFFECTED BY LAYOFFS

MARKETING

FINANCE & OPERATIONS

SALES

FUNCTIONS LEAST AFFECTED BY LAYOFFS



PRODUCT & ENGINEERING

CUSTOMER SUCCESS

The Road Ahead

Planning for 2023

An economic downturn is often a scary time for businesses, and there is usually a lot of planning required to mitigate the risks that come along with turbulent market conditions. You often see businesses tapering their expectations, offering discounts, and taking other measures to keep a steady ship running.

We asked all our respondents to shed some light on what their plans are for the coming quarter. Here's what we found.

Close 40% of respondents said that they would offer discounts or downgrades upon contract renewal in order to keep their customers. 42% of respondents also planned introduce special incentive plans or SPIFs to motivate their sales teams to attain targets.

Almost a third of the companies have decided to reduce their quota to set more realistic targets considering market conditions.

A clear inference from this is that companies need to be a little conservative with their targets over the next year. The game is now focussed on retaining customers first, and then doing what they can to ensure the best performance during the recession.

About the Research Partners

everstage

Everstage is a leading Sales Compensation Management platform that automates commission processes, and enables sales teams with on-demand access to performance insights. Through its no-code solution, Everstage reduces recurring commissions busywork, and also provides much needed visibility to customer-facing quota bearing teams. With a rating of 4.9 out of 5 in Gartner and G2, Everstage has also been voted the #1 product for implementation, usability, relationship, and results. You can learn more about Everstage here.

The Survey Questionnaire was curated by Anirhudh Sridharan, and the report was compiled and written by Vishal Muralidharan. This report was designed by Malavika Ramachandran.

RevOps Co-op

RevOps Co-op is a community for professionals working in revenue operations, whether as Revenue Operations Managers or Sales Operations, Customer Success, or Marketing Managers.

Founded in 2020 by Matt Volm, RevOps Co-Op currently boasts an over 3500 member strong community, who all now have a network to network, share resources, and learn from the experiences of others in the industry.