



Driven by Insights
Delivered from Experience

SBI Q3 CEO Value Creation Pulse

Closing Out 2024 Strong

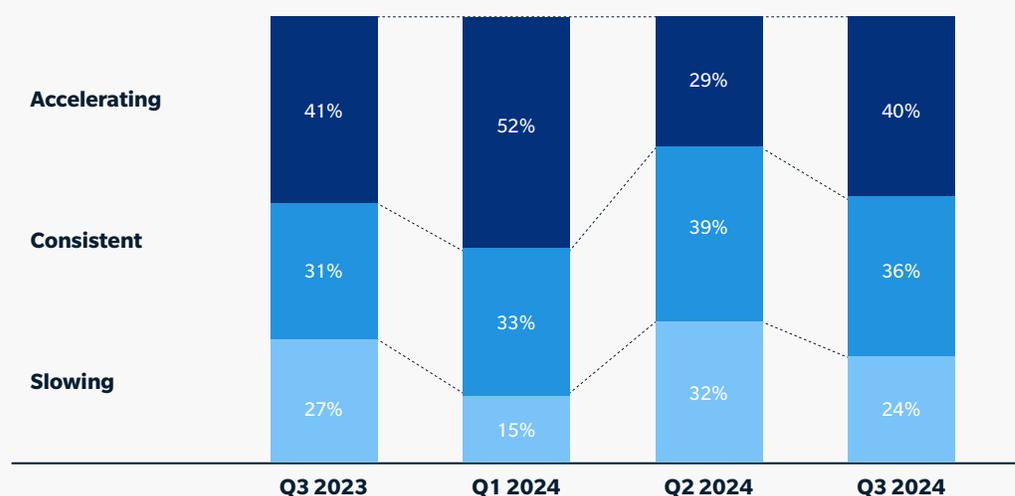
Calendar year 2024 has been a rollercoaster for many businesses. Most started with optimism, reporting strong demand and solid pipelines. Unfortunately, for many this optimism didn't hold, with deals slow to progress, buyer hesitation, and declining go-to-market efficiency. Our surveying of CEOs in Q3 of 2024 reveals a three-way split in how the year is turning out. Some have been able to capitalize on the year's strong start and are expecting to exceed targets, some are doing "just fine" and hitting their targets, and some are finding themselves forecasting both a revenue and earnings miss.

Regardless of which group they fall into, CEOs remain heavily focused on expense management, growing revenue from the base, and tightening up where their commercial teams focus their time. Closing the year out strong while setting up for a fast and productive start to 2024 is about identifying critical areas and executing well on a tight set of bets, instead of spreading investments too widely or making premature adjustments.

Market Indicators Maintain Their Dip Down from Q1 Highs

After a significant surge in positive demand sentiment in Q1, when more than half of CEOs reported demand accelerating, sentiment turned more negative in Q2. Q3 has seen a modest improvement in the portion of CEOs reporting demand acceleration, back up to 40% (which, interestingly, matches sentiment this time last year). Our conversations indicate that this "demand rollercoaster" has in part been a function of keeping pace with ways in which the sectors with high and low demand, whether based on region, industry, or company size, have shifted across the year.

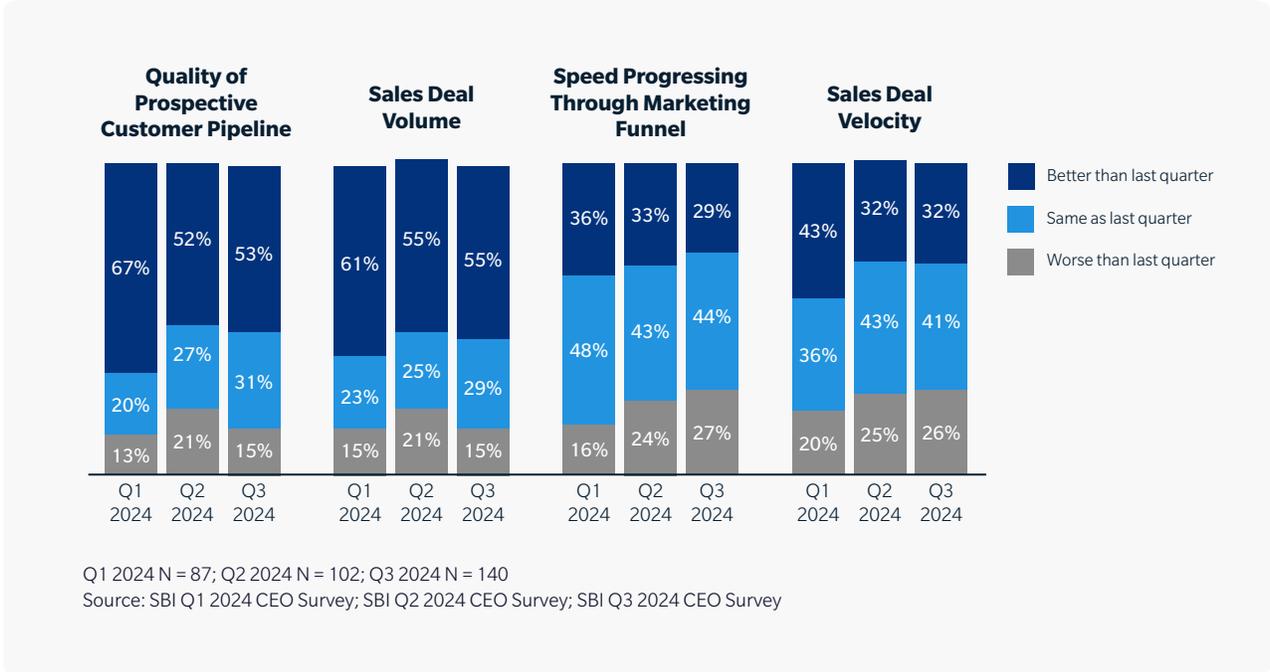
CEO Characterization of Demand



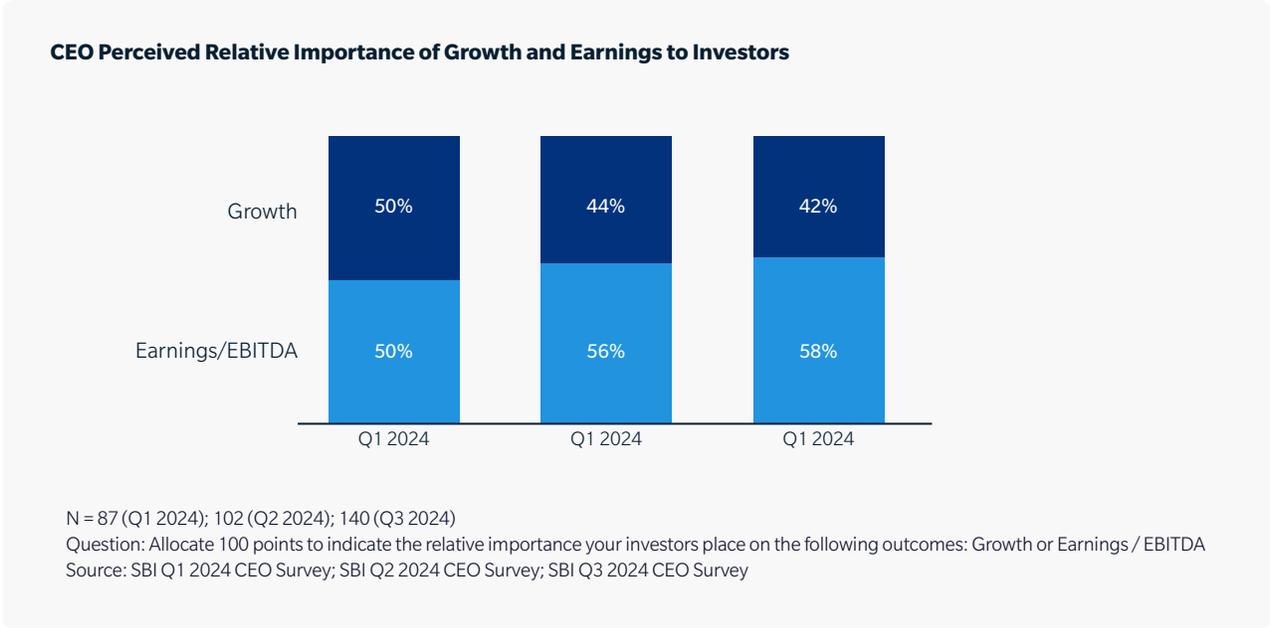
Q3 2023 N = 113; Q1 2024 N = 87; Q2 2024 N = 102; Q3 2024 N = 140

Source: SBI Q3 2023 CEO Survey; SBI Q1 2024 CEO Survey; SBI Q2 2024 CEO Survey; SBI Q3 2024 CEO Survey

Perhaps more important than overall demand, of course, is the ability to capture that demand. Here, too, sentiment has fallen across the board from Q1 highs. In general, sentiment around pipelines and deal volume remain high, with a majority of CEOs reporting them as better than last quarter. However, indicators of velocity continue to be a concern, as an increasing portion of CEOs report funnel progression worsening with each quarter.



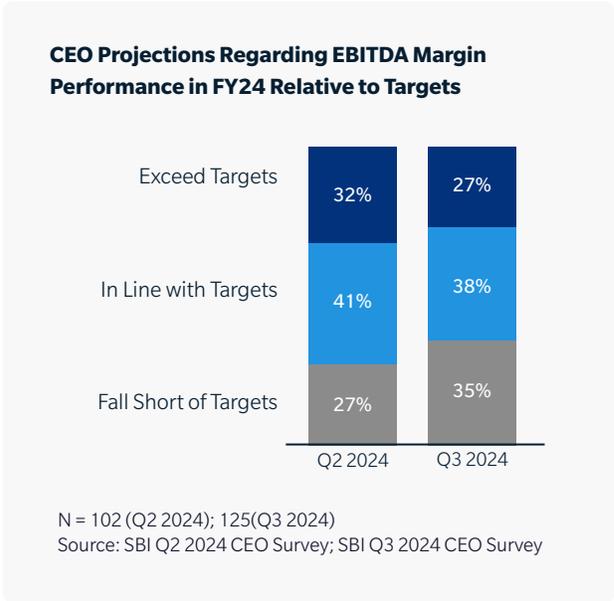
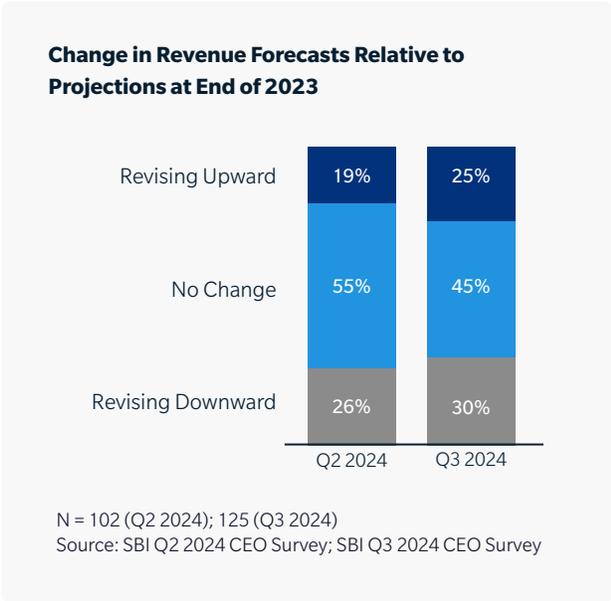
This flattening of market sentiment is deepening a shift among investors and CEOs back toward a heavier emphasis on EBITDA relative to growth. The year started with CEOs seeing investors evenly weighting growth and EBITDA, and widespread optimism that investments would drive growth. As the year has progressed, that optimism is hitting the stark reality of weaker-than-hoped-for demand, and investors are intensifying their push for efficiency to drive valuations.



Some Succeeding, Some Not, in the Wavering Market

As 2024 winds down and CEOs deal with flattening sentiment, a significant and growing portion of companies are revising their revenue forecasts downward. The portion doing so has increased from Q2 2024, when 26% were revising downward, to 30% reporting that they are revising downward in Q3 2024. At the same time, 25% of CEOs report that they are revising their revenue forecasts upward, an increase from 19% in Q2.

The efficiency picture is somewhat worse, with a larger portion (35%) reporting that they expect to fall short of their EBITDA margin targets for the year. This is an increase from 27% with the same expectation in Q2. However, in this case there is no commensurate increase in the portion who expect to exceed targets. Instead, this group declined from 32% in Q2, to 27% in Q3.



Digging deeper into the responses, we find three fairly distinct organizational performance profiles.

- **Expecting to Miss:** About one-fifth (22%) of CEOs in the survey are expecting to miss – they are both revising their revenue forecasts downward, and expecting to fall short of their margin targets.
- **Expecting to Make:** Roughly the same size as the “expecting to miss” group, these CEOs expect to make both their revenue forecast and their EBITDA margin targets for the year. This group has planned and executed right in line with its year-end projections.
- **Expecting to Beat:** More elite in that it only makes up 13% of CEOs reporting, this group expects to beat expectations across the board. They are revising their revenue forecasts upward and at the same time expecting to exceed their EBITDA margin performance targets.

Distribution of Performance to Target for Revenue and EBITDA Margin

Revision to Revenue Forecast	Revising Upward	3%	9%	“Expecting to Beat” 13%
	No Change	10%	“Expecting to Make” 23%	12%
	Revising Downward	“Expecting to Miss” 22%	6%	2%
		Fall Short of Target	Meet Target	Exceed Target

Expected EBITDA Margin Performance

N = 125
Source: SBI Q3 2024 CEO Survey

Worth noting is that CEOs in the Business Services sector are somewhat more likely to be revising their revenue forecasts downward. And nearly 60% of CEOs in Business Services report that they expect to fall short of EBITDA margin targets, compared with 30% in Healthcare, and only 16% in Software.

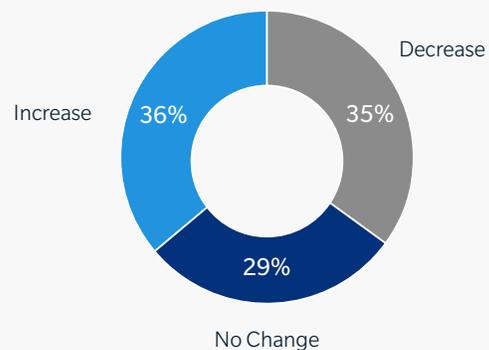
With one quarter remaining in the calendar year, CEOs and commercial leaders find themselves seeking the right strategies to close the year strong. In pursuit of this, they are focusing their attention on three areas:

- Spend management
- Growing from the base
- Refocusing commercial teams

Managing Spend to Close the Year Strong

CEOs are evenly split between expecting to increase operating expenses across the remainder of 2024 (36%) expecting to keep them the same (29%), and expecting to decrease expenses (35%). Perhaps not surprisingly, nearly 60% of CEOs who are revising their revenue forecasts down are also expecting to decrease operating expenses to close out the year. At the same time, those who are revising upward aren't increasing expenses at the same rate. Just under 40% expect a small increase in operating expenses, and the same portion expect no change at all to expenses.

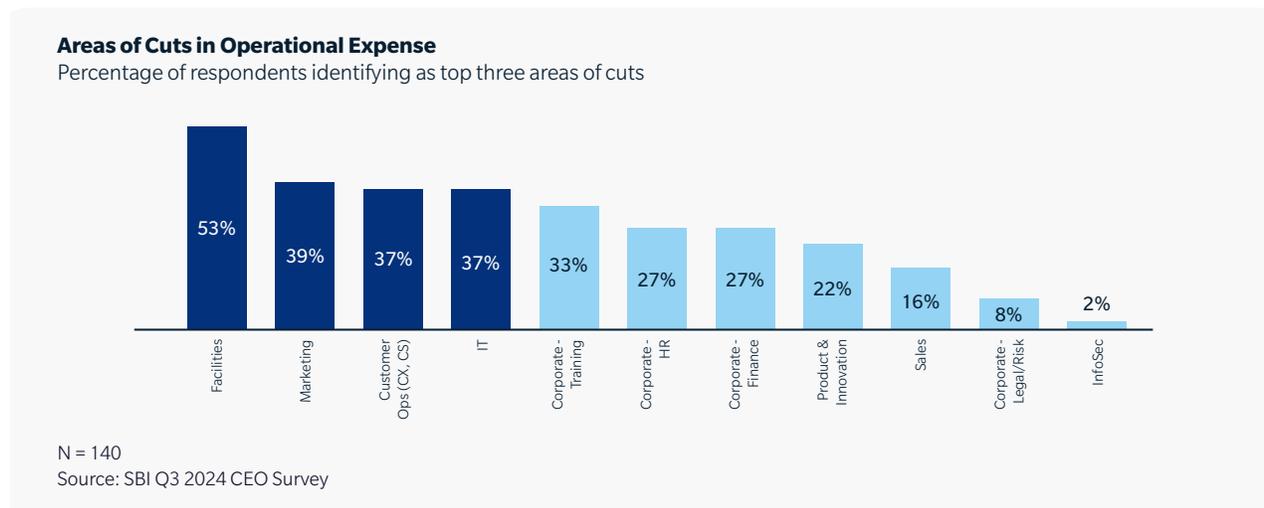
Expectations for OpEx as Percentage of Revenue Across H2 CY24, Compared with H1



N = 140
Source: SBI Q3 2024 CEO Survey

Facilities and Marketing are Targets for Spending Cuts

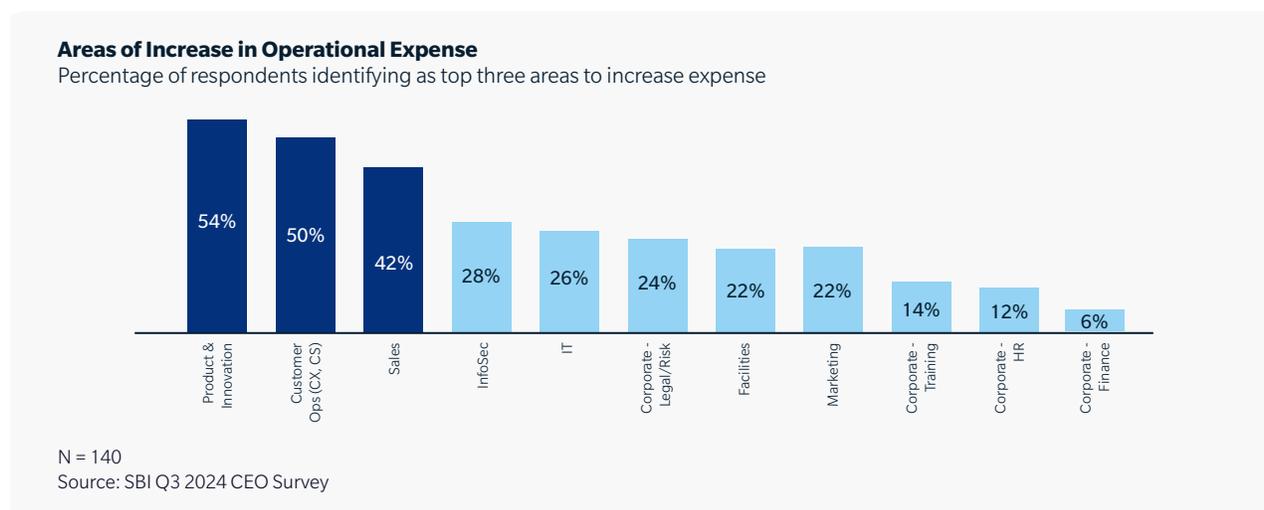
CEOs reducing operational expense are targeting some of the “usual” areas. Despite an increase in conversation around return-to-office, Facilities takes the lead. This is an area where most organizations have already made significant reductions, leaving perhaps not much remaining to have a material impact.



The next most likely areas to see reduction, Marketing and Customer Operations, are of course more concerning. Most of the companies that are cutting are also missing revenue targets for the year. Reducing expense in areas that drive longer-term revenue through pipeline generation and the creation of happy customers who renew and expand their relationships can be temporary “fixes” that create more lasting performance challenges. Often these are areas where it is “easy” to reduce spend quickly; unfortunately, their impact doesn’t ramp up as quickly as it ramps down.

Product and Customer Operations See Boosts in Spending

Those planning to increase expenses to close out the year appear to be decisively investing in the future. Their focus is most often on product and innovation, along with customer operations and sales. These investments suggest CEOs are positioning their organizations for a strong start to 2025 as much as a strong close to 2024. They are ensuring that their current customers are happy while building the products that will expand those relationships and bring more new customers into the fold.



What CEOs and Their GTM Leadership Teams Should Do

Prudent spend management to close the year is nothing new, and companies on both ends of performance-to-target are right to be making thoughtful decisions about resourcing.

For CEOs expecting to miss their targets:

- Have frank and open conversation with your investors and Board now on the trade-offs between reducing spend today and positioning for success in 2025. While there are likely opportunities to reduce spend, investing forward into the 2025 strategy may be just as critical.
- Realign and adjust Marketing resourcing to the overall GTM strategy. Build a dedicated customer marketing strategy to tighten focus and drive cross-sell, up-sell, and advocacy. Commit to focused targeting of top fit/propensity accounts to increase the prospect of bringing in new business before the year closes, and/or set up for early wins in 2025.
- Re-evaluate your revenue technology portfolio, particularly as renewals come up across Q4. Eliminate technical debt and unused “shelfware” that complicate data processes and don’t add value, potentially reclaiming up to 20% of your RevTech budget.

For CEOs expecting to beat targets:

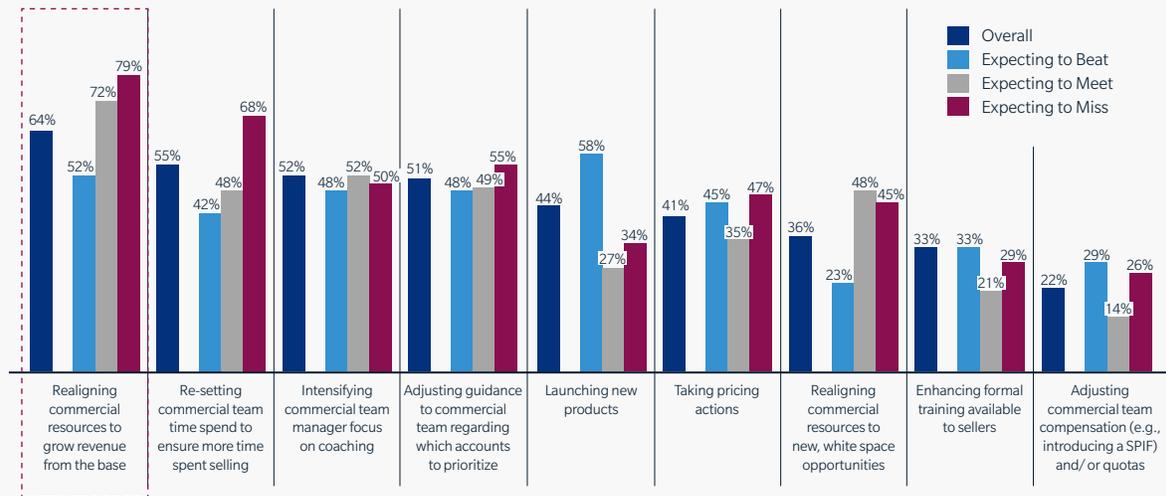
- Pair product innovations with GTM investments to ensure they drive fast revenue capture. Gain alignment on metrics for success and how they will differ from core products and services. Use benchmarks from past and competitor launches to set expectations on team size and the right growth and margin ramps.
- As you drive new investments in Customer Success and customer experience, ensure GTM organization alignment and collaboration to drive efficiency and customer satisfaction. For each selling role, establish clear responsibility for different types of bookings (e.g., renewals, cross-sell/upsell) and weight compensation plans to reflect this emphasis.

Growing from the Base

In addition to pulling cost levers up or down, CEOs and their go-to-market leadership teams can shift their emphasis to improve short-term performance. Here, too, we see a few stark differences between the CEOs expecting to beat targets and those expecting to miss. But before looking into one of those differences, it’s worth looking at where the groups are the same – growing from the base.

For all CEOs one of the top two actions most commonly reported as a heavy focus for the remainder of 2024 is realigning commercial resources to grow revenue from the base. More than half of CEOs expecting to beat targets are focusing there, as are almost all (79%) of those who are expecting to miss revenue and margin targets.

Planned Areas of Emphasis to Increase Chances of Meeting CY2024 Targets
 Percentage reporting as a “heavy focus”



N = 140
 Source: SBI Q3 2024 CEO Survey

This is a strategically sound area of emphasis for all companies in today’s market. Companies frequently respond to missed growth targets with a “fix what’s broken” strategy – incremental investment in net new revenue generation continues to favor new logo acquisition. Indeed, our Q2 surveying of CEOs found that although they anticipate more than 60% of total revenue will come from existing customers, nearly 70% reported placing a larger hiring emphasis on new logo “hunters”, with only 41% focusing on account management and 37% on hybrid “hunter/ farmer” roles.

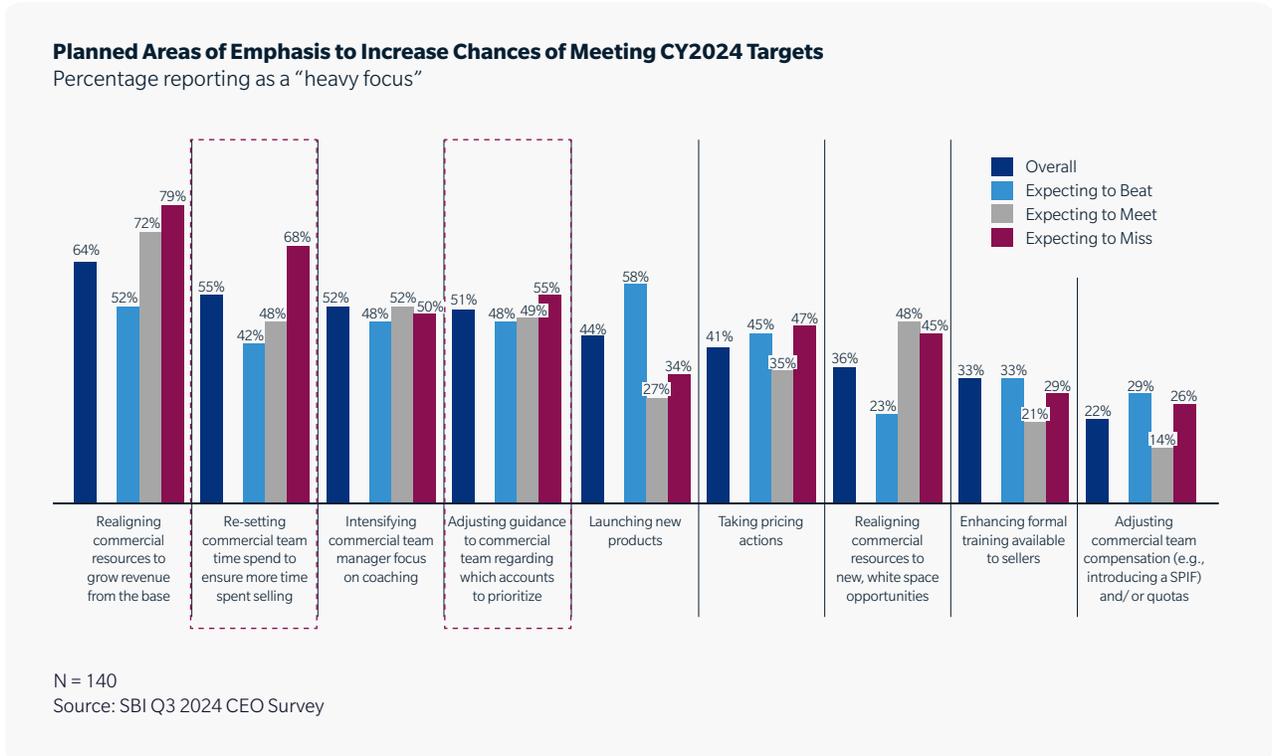
This is often a “backstop” strategy. CEOs and CFOs assume that significant investment in “hunter” roles is necessary for growth should retention and expansion efforts fall short. However, at this point in the year in particular, they are right to place a heavy emphasis on the typically lower-cost-to-acquire retention and expansion revenue from existing customers.

What CEOs and Their GTM Leadership Teams Should Do

- Redirect GTM investments into existing customer channels based on a data-driven analysis of the best expansion opportunities. This includes headcount of course, and also planning, process design, account tracking, and process orchestration between Customer Success and Sales. Determine whitespace (account potential tempered with propensity-to-buy) using the existing customer base to improve account targeting for expansion efforts.
- Reassess sales role designs to determine where expansion bookings are most effectively delivered, whether by CSMs, Account Managers, or pod-based go-to-market models, and revise quotas and compensation metrics for these roles.
- Assess marketing investments in demand generation versus customer marketing channels to balance investment in existing customer growth and optimize the revenue plan.

Refocusing Commercial Team Time Spend

CEOs expecting to miss targets are intensifying their focus on commercial efficiency, looking at how teams spend their time and prioritize accounts.



As the calendar year winds down, every moment counts. Ensuring commercial teams are targeting the highest potential opportunities and spending as much of their time as possible pursuing those opportunities is critical.

When targeting opportunities companies too often plan territories based on low-fidelity firmographic data and frontline intuition. These are often disconnected from true economic potential. This results in precious commercial capacity ultimately being misallocated to lower fit, lower propensity-to-buy business. We routinely find 20-30% of total commercial capacity mapped to poor fit accounts and opportunities. With little time left in the year to make the number or to build momentum for a fast start to the next year, this misallocation is incredibly damaging.

Spending time on the right activities is not about throwing CRM hygiene and reporting out the window in favor of “more time spent selling”. Leadership teams need accurate data and forecasts now more than ever, and commercial teams must do their part. Commercial teams do need guidance from leadership regarding where they should and should not spend their time. Part of that is helping them to prioritize accounts, as discussed above. And part of it is providing deeper support from elsewhere for building future pipelines so the team can focus its energy on closing business further down the funnel.

What CEOs and Their GTM Leadership Teams Should Do

- Identify the strongest fit and highest propensity-to-buy accounts and opportunities. Reduce territory sizes to a focused set of high-value accounts.
- Drive the commercial team to center their time on four things: opportunity prioritization, opportunity planning, time with the customer, and data hygiene. The first two are sometimes overlooked as “non-selling activities” that shouldn’t be bothered with when just driving to close business, but they are critical for increasing the chances of winning deals in the short term. The last is critical for strategic decision-making and forward planning. All are non-negotiable.

Looking Ahead to 2025

The final months of the calendar year bring with them the push-pull of closing the year strong while planning and preparing for a fast start as the year turns. When asked about their current planning assumptions for 2025, CEOs are still expecting double-digit revenue growth, although it is tempered relative to their sentiment this time last year – expecting 11.8% growth on average for 2025, compared with expecting 16.4% growth on average going into 2024. They expect a reduction in the portion of customers that are new – 17.2% on average for 2025, compared with 23% expected going into 2024.

This leads them to place increasing customer lifetime value as one of their top priorities for 2025, along with demand generation, which is their top priority. And they see 2025 as a year to improve their operating discipline through a more intense focus on revenue operations. Perhaps not surprisingly, those who are exceeding their targets are more focused on customer lifetime value for 2025, while those who are missing are more focused on demand generation. Those who are missing targets are also more likely to be focusing on pricing strategies than others, and even more focused there than on improving customer lifetime value.



But first, the focus remains on closing the year strong. Whether they are preparing to beat expectations, or expecting to miss their targets, CEOs and their leadership teams know that there is still opportunity out there to capture. They need to stay focused on the few, targeted big bets that will get them there.

About This Research

SBI surveyed 140 CEOs and senior go-to-market leaders across industries, with a particular emphasis on Software, Business Services, and Healthcare industries. Roughly 65% of respondents came from private equity-sponsored and public companies.

The survey was fielded in September 2024. It covered several aspects of their 2024 plans and assumptions for 2025 planning, including the impact of macroeconomic conditions, trends in customer demand, go-to-market team productivity, and go-to-market strategies.



Driven by Insights
Delivered from Experience

550 Reserve Street
Suite 190
Southlake, Texas, 76092
www.sbigrowth.com