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How Companies Are Achieving and Sustaining Commercial Momentum in 2023

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Summary: Despite wavering demand, momentum is still possible in today's market. SBI research shows that commercial momentum is not driven by industry trends, company size, or ownership structures. Instead, companies with high momentum have CEOs and go-to-market (GTM) leadership teams who operate with conviction. They are not overreacting with extreme cost measures; they are pursuing their next growth opportunities with deliberate intent. They are not scattered and misaligned; their leaders are synced, functioning at a high level, and investing intentionally in their commercial teams.

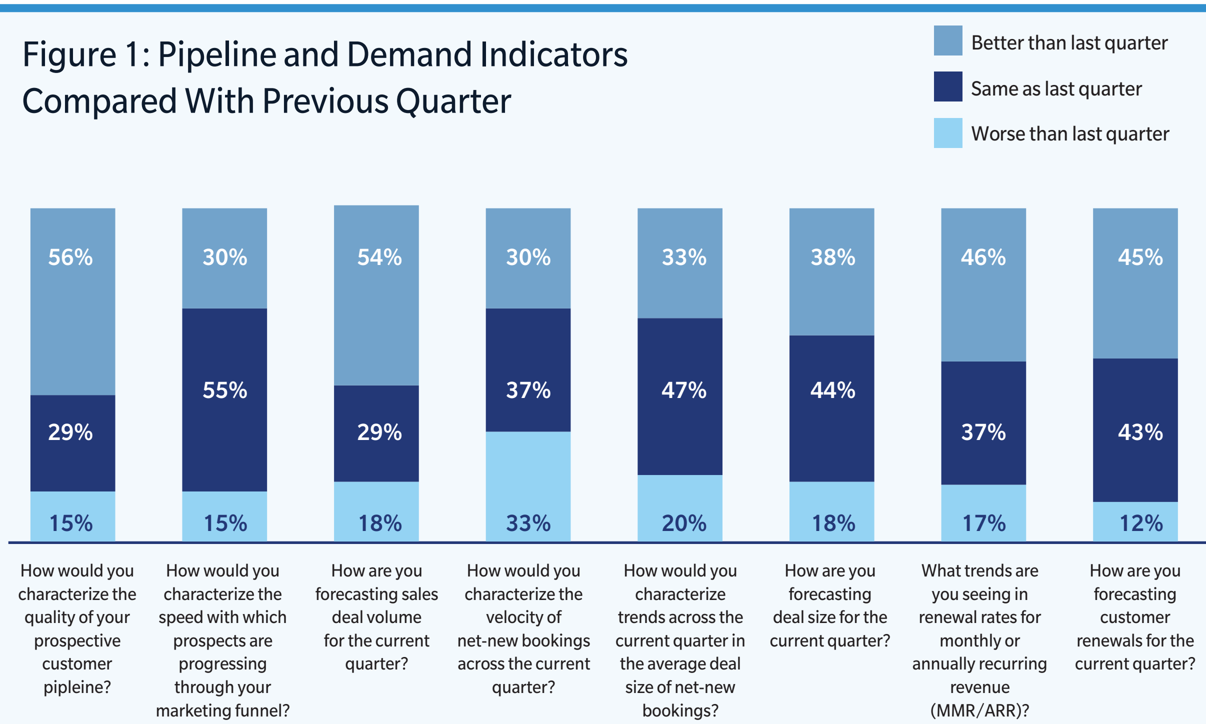
Finding momentum amid the uncertainty

According to prognosticators, the global economy has been on the edge of recession for several quarters. Some have argued that we are in the midst of a series of rolling and industry-specific recessions. Others argue that the threat of recession is overblown. And still others say that recession is indeed, still around the corner.

Regardless of the true nature of the market's future, there is no denying that the growth of most businesses is tapering off. SBI's regular polling of CEOs and GTM leadership has seen a steady increase in the rate of those reporting a slowing of demand, with 18% reporting it in Q2 2022, increasing to 29% in Q4 2022, and again to 35% in Q1 2023.

At the same time, not every business is seeing their demand slow. More than a quarter of CEOs are still reporting demand acceleration in early 2023. And more importantly, many CEOs are reporting solid momentum as the year progresses. For example: 56% see the quality of their prospective customer pipelines as better than last quarter;

Figure 1: Pipeline and Demand Indicators Compared With Previous Quarter



N = 91
Source: SBI Q1 2023 CEO Survey

54% are forecasting sales volume to be better than last quarter; and nearly half are expecting their renewal rates to improve.

Looking across the full set of pipeline and demand indicators detailed in Figure 1, we set out to identify the companies with the highest momentum. We did this by isolating the top quartile based on their average score across all indicators. These companies, which we'll call "high-momentum companies," consistently reported conditions that are better than or the same as last quarter. The remaining companies, or the "low-momentum companies," consistently reported conditions that were on average trending worse than last quarter.

We found that CEOs of low-momentum companies are focusing on protecting any gains they have recently achieved. And those with high momentum, on the other hand, are finding targeted but substantive opportunities to build out from their gains. They are focusing on preparing for a recovery instead of a recession. But they are operating with conviction, placing targeted bets and laying strong foundations for their next growth acceleration.

The following four strategies demonstrate how high-momentum companies are executing differently:

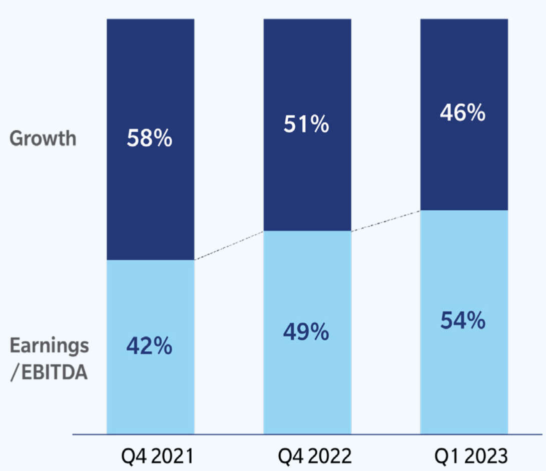
1. Avoiding extreme cost management measures.
2. Placing targeted bets and deliberately laying foundations for their next growth opportunities.
3. Building a strong and highly aligned commercial leadership team.
4. Investing in direct support for their commercial teams.

High-momentum companies are not panicking on expense management

Economic uncertainty creates a natural draw toward belt-tightening measures. Those CEOs who are finding momentum are not ignoring this need, but they are remaining strategic in their approach and continuing to invest in growth.

Figure 2: Relative Importance of Growth and Earnings to investors

CEO Perceptions



N = 102 (Q4 2021 and Q4 2022); 91 (Q1 2023)
Question: Allocate 100 points to indicate the relative importance your investors place on the following outcomes: Growth or Earnings/EBITDA (current year/a year ago).
Source: SBI Q4 2022 CEO Survey; SBI Q1 2023 CEO Survey

The current period of uncertainty has led most CEOs to reduce expenses in some form. Sixty percent report reductions in operating expense already in 2023, with another 18% expecting to do so within the year. With respect to staffing, 47% report having executed incremental hiring freezes, while 34% have implemented more direct reductions in force.

This follows from investors' steady emphasis on earnings over growth at all costs. For the first time, the relative weighting applied to earnings in early 2023 exceeds the relative weighting applied to growth (see Figure 2).

CEOs of high-momentum companies are following a more measured approach to expenses in this environment. They are taking wise and reasonable actions to keep costs down without sacrificing growth. For example, high-momentum companies are only slightly less likely to have undergone or expect reductions in operating expenses; 73% have done so or expect to, compared with 80% of low-momentum companies. But they are also far less likely to have undergone or anticipate a reduction in force (23% compared with 52% of low-momentum companies) or even an incremental hiring freeze (55% compared with 70% of low-momentum companies).

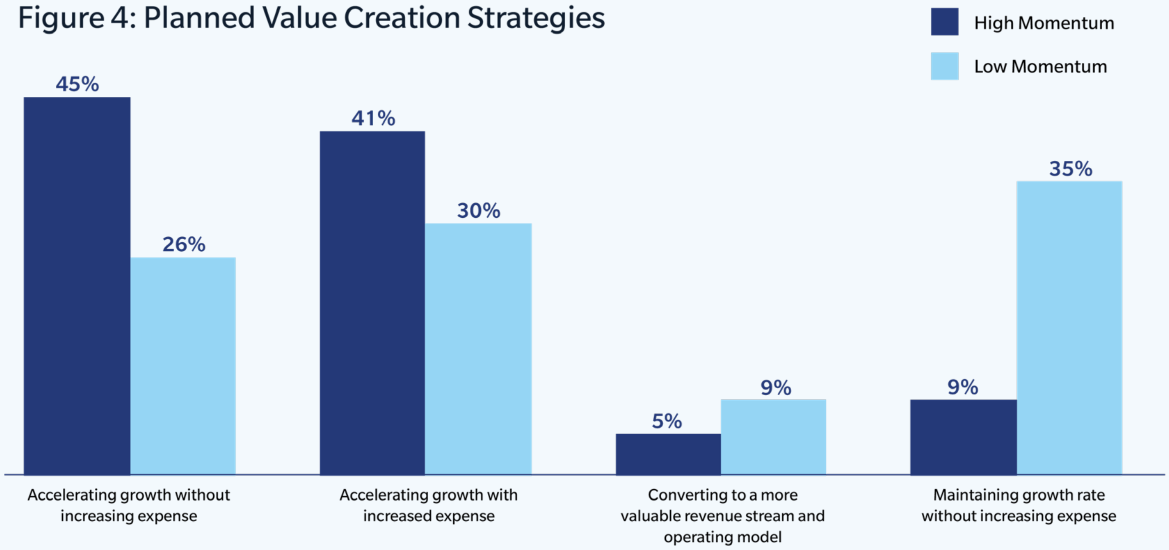
This more measured approach to expense management further translates into the value creation thesis for CEOs of high-momentum companies. For years now, SBI has been helping CEOs apply their value creation models to our Value Creation Compass (see Figure 3). The Value Creation Compass includes four directional quadrants which dictate value creation, defined simply as:

1. **Accelerating growth without increasing expense.** Companies in this quadrant have commercial spend levels that are comparable to peer benchmarks. However, their business is not growing at the expected rate given those investments, requiring substantial productivity gains.
2. **Accelerating growth with increasing expense.** This is the art of the possible for high-growth companies that are focused on extracting breakout growth with increased investments in commercial functions.
3. **Converting to a more valuable revenue stream and operating model.** These companies focus on making a step change in their revenue model to drive future growth and enterprise value creation.
4. **Maintaining growth rate without increasing expense.** Often seen in scenarios where a public company is taken private, this quadrant describes businesses that are commercially overspending, yet achieving substandard growth rates.

Figure 3: SBI's Value Creation Compass

Unsurprisingly, CEOs of high-momentum companies are far more likely to find themselves in the quadrants associated with growth acceleration. Nearly 90% of high-momentum companies are in either of the top-two quadrants; this is compared with 56% of low-momentum companies (see Figure 4). And continuing with the theme of taking a measured, non-panicked approach to expense management, high-momentum companies are evenly distributed between these quadrants: 45% are accelerating growth without increasing expenses versus 41% doing

Figure 4: Planned Value Creation Strategies

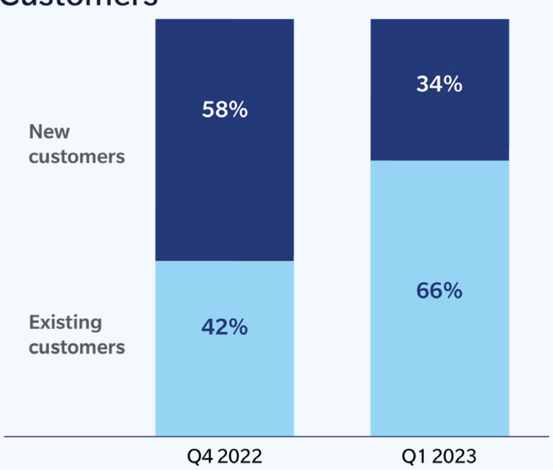


Q2 2022 N = 120; Q4 2022 N = 102; Q1 2023 N = 91
Question: Which of the following quadrants best describes your organization's approach to value creation?
Source: SBI Q2 2022 CEO Survey; SBI Q4 2022 CEO Survey; SBI Q1 2023 CEO Survey

so while also increasing expenses. CEOs of low-momentum companies — by contrast — are just trying to hold on and maintain their growth rates and reduce expenses to ensure they meet investor pressures on earnings.

Companies have to invest in order to grow. Cost measures can often feel strategic but, in reality, be anything but, especially when they constrain growth. CEOs and their go-to-market teams need to focus on how they will create value for investors and manage expenses toward that. Those who are now realizing more positive market signals have been more likely to be making forward investments and less likely to be pursuing "quick relief" cost plays.

Figure 5: Relative Share of Net-New Booking From New vs. Existing Customers



N = 102 (Q4 2022), 91 (Q1 2023)
Question: What percent of net-new bookings do you expect to receive from new vs. existing customers in FY23?
Source: SBI Q4 2022 CEO Survey; SBI Q1 2023 CEO Survey

High-momentum companies are laying foundations to tap new sources of growth

In addition to tight expense management, we've also seen a deepening emphasis in recent quarters on existing customers as the primary source of net-new revenue. Our survey found an increase in net-new bookings from existing customers from an already high 42% in Q4 2022 to 66% in Q1 2023 (see Figure 5).

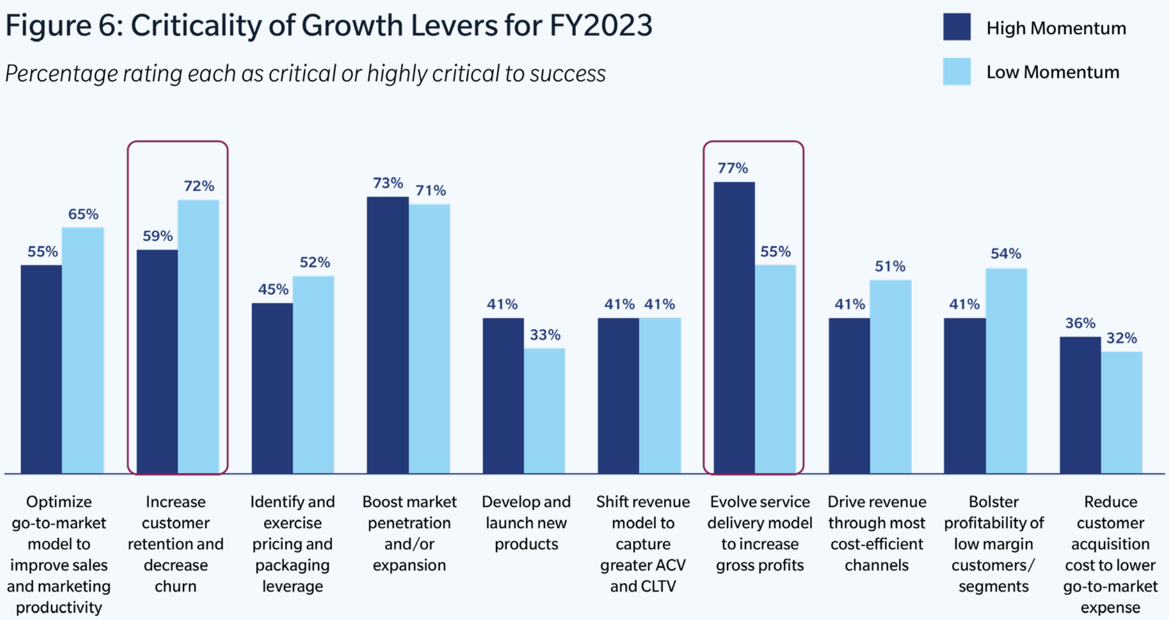
Interestingly, we don't see a significant difference between high- and low-momentum companies in this regard. CEOs of high-momentum companies expect 62% of their net-new bookings to come from existing customers, and low-momentum companies are roughly 10% higher at 68% of net-new bookings.

However, we do see a difference in the degree to which CEOs are emphasizing and investing in their ability to capture revenue from new logo acquisition. For example, high-momentum companies have a higher ratio of headcount that's focused on outbound sales versus inbound customer success. On average, they have 16 sales staff for every one customer success staff; this is compared with 10 sales staff for every one customer success staff in low-momentum companies.

Even more distinctly, we can see this difference in emphasis in the extent to which low-momentum companies are guarding against customer churn versus high-momentum companies that are approaching customers with a forward foot. In particular, when looking at the different levers to drive revenue growth and/or margins, there are two big differences. Low-momentum companies are more likely to guard against customer churn than high-momentum companies (see Figure 6). And conversely, high-momentum companies are disproportionately looking for ways to lower their cost to serve existing customers, in part to divert more resources toward new logo acquisition.

Figure 6: Criticality of Growth Levers for FY2023

Percentage rating each as critical or highly critical to success



N = 91

Source: SBI Q1 2023 CEO Survey

Another signal that high-momentum companies are focusing more on new sources of growth than low-momentum companies is the emphasis each puts on their growth plan. High-momentum companies are nearly four times more likely — at 26% — to be pursuing new innovations as a growth strategy; this is compared with 6% of low-momentum companies (see Figure 7). By contrast, low-momentum companies are more likely to emphasize hedging strategies to limit exposure and agile strategies to shift resources based on conditions.

In short, CEOs at low-momentum companies are following the market, while CEOs at high-momentum companies are looking for angles to lead the market. And CEOs of high-momentum companies have the confidence to match, with more than 90% of them expressing confidence in their growth plans, and in their ability to execute them.

N = 91
Question: Which of the following statements best describes your organization's growth planning?
Source: SBI Q2 2022 CEO Survey; SBI Q4 2022 CEO Survey; SBI Q1 2023 CEO Survey

High-momentum companies have the right leadership teams in place

The best leaders make their greatest contribution when times are hard. They are the ones to make the tough decisions, take bets that can risk their position, and shoulder the burden of enabling their company's growth. CEOs at high-momentum companies have executive teams filled with highly aligned leaders who are prepared to do this hard work, and who are the right fit for their company's needs.

N = 91
Source: SBI Q1 2023 CEO Survey

Our research shows a stark difference between high- and low-momentum companies when it comes to how confident CEOs are in the ability of the GTM leadership teams to drive success. Across the board, CEOs in high-momentum companies are significantly more confident in each leader's ability to drive success (see Figure 8). For high-momentum companies, the most striking of these is the CFO with 73% of CEOs reporting high confidence. In low-momentum companies, barely one-third of CEOs in most cases have confidence in their GTM leadership teams.

In addition to high individual performance, executive teams also need to collaborate and work in sync to drive company performance. This is commonplace for high-momentum companies. Nearly 75% report their teams are highly aligned, communicating regularly about initiatives, and/or managing them jointly. This proportion falls to 55% for low-momentum companies.

In our conversations with CEOs over the past few months, we've discovered that lower confidence in GTM leadership teams is often not an assessment of their capabilities. More often this lack of confidence has to do with how challenging the current environment is, as well as the fact that a certain person may not be the right individual for their company at this moment. It's critical that CEOs have leadership teams that can execute their strategy as it rapidly evolves with the market. Sometimes this requires a little more than a hard conversation and a reset; other times it's a matter of finding new leaders who are better aligned to drive the organization's growth.

High-momentum companies are investing in their people

We discussed above how CEOs of high-momentum companies are significantly less likely to be considering a reduction in force or hiring freeze. In addition to retaining commercial staff, GTM leaders send the strongest signals to their teams through their actions and investments. These signals drive engagement and productivity and represent direct investments in improving commercial team performance. As in other areas, there are clear differences between CEOs of high- and low-momentum companies. Put simply, those who are winning are investing in their teams.

For example, take the investments that CEOs in general are making to mitigate challenges with open headcount or sales employee burnout. CEOs at both high- and low-momentum companies understand the importance of new technologies to reduce administrative burden on sellers: 85% of high-momentum companies have invested here or plan to, and 81% of low-momentum companies have followed suit.

However, the differences show when we look toward "softer" staff support investments. Fifty-five percent of CEOs at high-momentum companies report they have recently invested in improving seller onboarding programs; this is compared with 47% of CEOs at low-momentum companies. While this may seem to be a small difference, considering that a substantial majority of companies expect to increase their headcount in 2023, onboarding will be critical to seller contribution. An even bigger difference emerges with upskilling frontline sales managers, where 50% of high-momentum companies have recently invested, compared only to 40% of low-momentum companies.

Figure 9: Average Number of Sales Reps for Each Sales Manager

High Momentum: 8.1
Sales reps for one sales manager

Low Momentum: 15.4
Sales reps for one sales manager

N = 88
Source: SBI Q1 2023 CEO Survey

This emphasis on manager support is even more stark in the staff burden that's being placed on managers. Sales managers at high-momentum companies have on average eight sales reps reporting to them (see Figure 9). In high-momentum companies that number is nearly doubled, to more than 15 reps for each manager.

It's easy for companies to highlight how highly they value their commercial teams and to reward them and make direct investments to ease their burdens. However, it's harder to strengthen the day-to-day activities and behaviors of frontline managers to drive greater seller engagement and productivity. This is the art of leadership, and many GTM teams are falling short. In an environment where sellers are feeling pressure and sales cycles are expanding and becoming more complex, a higher-touch management approach is critical.

Regain momentum to make 2023 unforgettable

Despite wavering demand, momentum is possible in today's market. Our research finds that it is not driven by industry trends, company size, or ownership structures. Instead the companies with high momentum are those whose CEOs and GTM leadership teams are operating with conviction. They are not overreacting with extreme cost measures; they are pursuing their next growth opportunities with deliberate intent. They are not scattered and misaligned; their leaders are synced, functioning at a high level, and investing intentionally in their commercial teams. This is the roadmap to an unforgettable 2023.

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About this study

SBI surveyed 91 CEOs and senior go-to-market leaders across industries. Roughly 75% of respondents came from organizations with less than $1 billion in annual revenue, and 25% from those with more than $1 billion. There was a similar split of private equity-sponsored and public companies.

The survey was fielded in March 2023. It covered several aspects of their 2023 plans, including the impact of macroeconomic conditions, trends in customer demand, budgeting and headcount plans, go-to-market team productivity, and go-to-market strategies.

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