SBI Driven by Insights Delivered from Experience

No Regret Strategies for Uncertain Times

Recent polling of CEOs indicate they are heading down a path of regret and growth setbacks. Here we share how CEOs and go-to-market leadership teams can be ready for whatever the market brings.

Wait and See is **Not** a Growth Strategy

Despite mixed indicators from week to week and month to month, general market sentiment is shifting towards a likely recession in 2023. Yet despite their "confidence," prognosticators and market analysts can't confidently speak about a likely recession's timing, severity, or relative impact across industries. Our message? Don't overcorrect, don't follow the irrationality of media and market cycles, and most importantly don't make abrupt, disruptive decisions. Instead, take a series of "no regrets" actions to improve productivity, refocus commercial capacity and develop a bullet-proof fact base from which to make quick but highly informed decisions.

The media, public markets and even the U.S. Federal Reserve have created a tidal wave of uncertainty. Prognosticators have once again emerged from the woodwork offering outlooks for 2023. If you look for projections of when markets will "bottom," you're likely to find March, June, October, and even January of 2024. The impact on investors is undeniable. Many are questioning valuations and scrutinizing growth and margin expectations heading into a new year. This uncertainty is also creating hesitation among executive teams, who fear making the wrong bets that end up challenging profitability and creating a need for fast and deep cost cutting. This is further complicated by continued steady customer demand, as well as talent shortfalls and growth strategies that require investment. Executive heads are spinning as they hope to allay Board and investor concerns, instead of focusing on their teams and operations.

> If I didn't watch CNBC in the morning ... the word 'recession' wouldn't be in my vocabulary, just looking at our data."
>
> **— Scott Kirby, United CEO**

In this environment, two clear camps are emerging among executive leaders. One camp is the eternal optimists. They are sitting on the sideline, reacting to their business conditions and demand. They hope for positive news week-by-week, and believe their current approach will weather the storm. This may be the case for those with strong foundations, a clear growth strategy and momentum. Realistically few can make this claim, and the many who can't are losing valuable time to stress-proof their growth.

Not surprisingly, in the other camp are those starting to tightly manage the P&L, pre-emptively building a forcefield around their earnings, believing that growth will stall out. The hope is that newly launched territories and compensation plans in early 2023 will allow them to get by, and they can turn their attention to cost takeout.

Recession readiness should not be about "placing bets" on which way the market will turn and how it will impact your organization. Instead, the smart money lies in recognizing immediate efficiencies within the go-to-market system, allowing firms to easily (even if temporarily) adjust their value creation model to maintain, if not accelerate, growth through a recession. These bets also fuel rapid recovery, minimizing the need to re-tool and re-build for growth as markets improve.

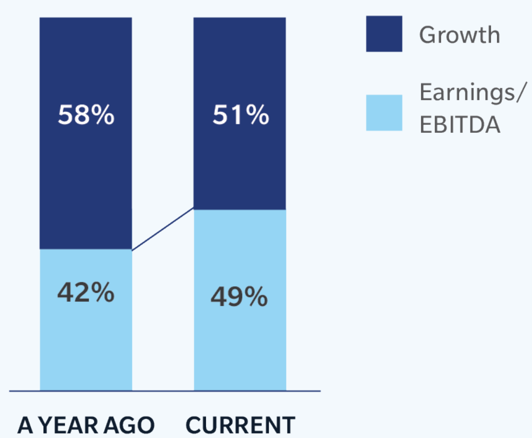
Our experience shows a number of common actions when companies fear declining demand. While they are common, these actions most often end in regret for the growth setbacks that follow. And our recent polling of CEOs and their leadership teams indicates they are heading back down this path. In this whitepaper, we cover the four most common of those regretted actions, and ways CEOs and their go-to-market leadership teams can avoid them.

Four Actions to Avoid While Waiting for A Recession

Don't plan for cost-takeout without first being clear about your growth plan.

CEOs are seeing a shift in investor priorities, with more emphasis on earnings now, and less on growth, compared with a year ago. This is naturally leading them to develop plans for expense reduction and cost-takeout. Managing earnings is more controllable than growing. So with investor prioritization shifting, and cost levers easier to pull, growth leaders often over-commit to bottom line management.

CEO Perception of Investor Weighting of Growth and EBITDA



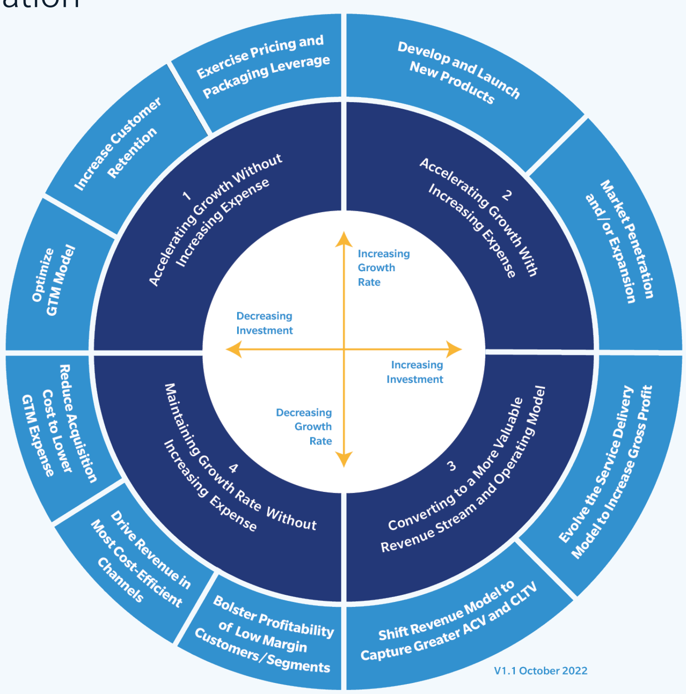
N = 120
Source: SBI Fall 2022 CEO Survey

In our view, cost management plans typically lack clarity on which growth bets teams will defend, or how they will reallocate expenses to maintain – or even accelerate – growth in the face of recession. "Everyone has the playbook on how to quickly take out 5-10% of the operating expense. We've all had to do that recently. What separates the winners and losers is knowing where to redirect investment to capture revenue when things go sideways," mentioned a long-time private equity operating partner in one of our interviews.

It's too easy, particularly in an environment where the market direction remains uncertain, for leadership teams to over-index on earnings. Our advice? First be declarative about your value creation strategy. For many businesses this will mean shifting your value creation thesis, even if temporarily, to factor both top and bottom-line objectives through a downturn.

- Get absolute clarity among your executive team and board on your value creation strategy for the near-term.
- Align on the growth levers that must be protected, and even further invested in, to at least maintain growth rates. Use the SBI Value Creation Compass as a guide for where to focus based on your expected growth and investment posture.
- Ensure tight leadership team alignment on expense reduction and protection priorities.
- Articulate your plan for improving commercial productivity.

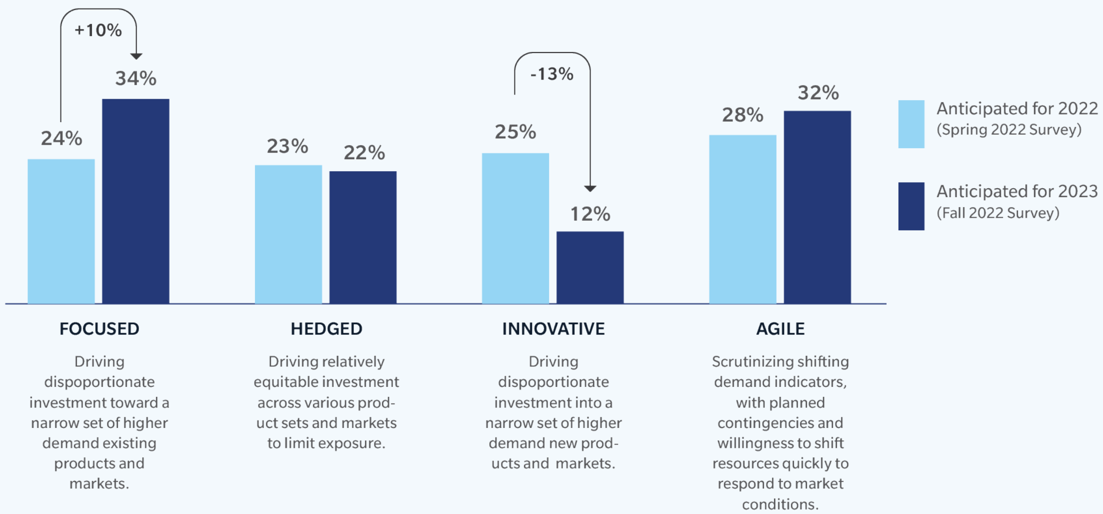
Value Creation Compass



Don’t mistake agility for a real strategy.

Businesses that fare best through periods of uncertainty are those that drive growth teams toward highly focused growth bets. SBI research shows that CEOs are slowly shifting their growth approach from more risky innovative ones (i.e., committing to new products and markets) to more focused models (i.e., committing to narrow sets of proven, existing products and markets). In our estimation, this shift is happening too slowly.

Comparison of Growth Approaches, 2022 vs 2023 Plans



N = 102 (Fall 2022 Survey); 120 (Spring 2022 Survey)
Source: SBI Fall 2022 CEO Survey; SBI Spring 2022 CEO Survey

Further, too many CEOs (roughly one-third) are using an agile growth approach (i.e., a reactive posture, rapidly shifting based on market conditions). While agility may feel like a safe bet, it’s often more indicative of CEOs operating on their back foot, slowing decision-making, and obscuring focus. In our one-on-one CEO interviews and SBI’s CEO Growth Advisory Board meetings, we found that those who committed to a focused growth plan through 2020’s market uncertainty far outpaced the growth of those who elected to adopt a more agile growth posture. “Reflecting on the last two years, the winning CEOs in our portfolio had absolute clarity on growth bets and the operational discipline to see those bets through,” stated a senior operating partner in our interviews. “The commercial engine works better with focus and clarity for the near term. Now isn’t a time for experimentation and agility. The winners will have a growth plan to edge out their competition and drive ruthless execution.”

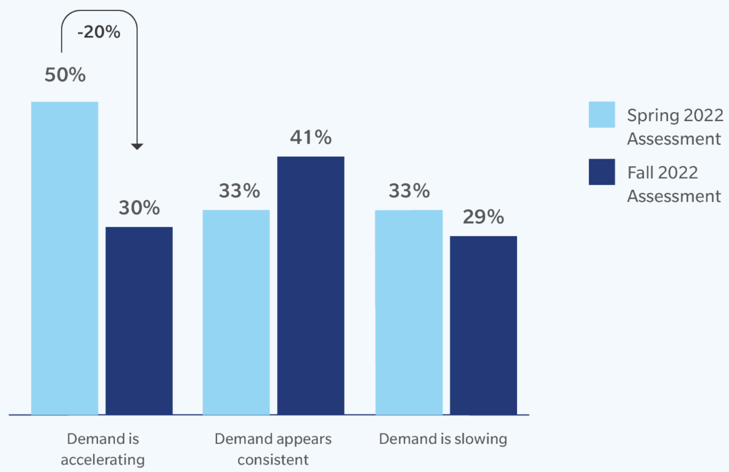
Instead of “waiting and seeing,” it is time for focus and clarity.

- High-quality, reliable commercial data is the cornerstone of developing a focused plan. Now is the time for data cleaning and enrichment. Doing so will enable an understanding of market segment health, continuous assessment of demand indicators, and rapid shifting of commercial resources from less productive markets, accounts, and products to healthier ones.
- Identify your most promising growth bets and your backup plays, and build your go-to-market engine around those bets.
- Consolidate growth lever investments, redirecting away from high-risk and high-effort levers.

Don’t lose your pipeline to protect unproductive sellers.

Only 30% of CEOs see demand accelerating into 2023, and just about as many see it slowing. This represents a significant shift from earlier in the year, when half saw it accelerating and only 18% were expecting or experiencing a decline.

Assessment of Demand for Late 2022 into 2023



N = 102 (Fall 2022 Survey); 120 (Spring 2022 Survey)
Source: SBI Fall 2022 CEO Survey; SBI Spring 2022 CEO Survey

Go-to-market leadership typically looks to expense reductions in marketing, sales enablement, and customer operations in times of slowing demand. Their thinking is that the revenue impacts of these activities are not direct enough and that the cost of replacing sellers (both opportunity costs and actual costs) is too high. Perhaps not surprisingly, 46% of CEOs expect marketing budgets to be flat or negative in 2023, and 51% expect the same for customer operations. By contrast, only 29% expect flat to negative budgets for sales in 2023.

Simply put, these expense reductions fail to solve for commercial capacity and have a dramatically negative impact on sales productivity. And they can have serious consequences when demand accelerates, with cold and empty pipelines unable to quickly re-engage customers who are ready to buy. What’s the bigger risk: having enough sales capacity to prosecute demand or getting that demand in the first place?

While budget adjustments may be unavoidable, protect sufficient expenses to keep customers and prospects engaged through the demand declines. Successful go-to-market teams help and guide customers, at scale, through challenging times.

- Evolve positioning and campaign messaging to reflect customer sentiment (e.g., cost sensitivity, productivity needs).
- Focus on driving qualified opportunities with higher win rates and shorter sales cycles via more targeted ABM. Shift expense away from marketing TOFU with long cycles and low win rates.
- Identify buyer stall points. Prioritize ease in both the customer’s internal buying process and their “buying from you” processes.
- Focus seller enablement on value-based conversations, with an eye toward shifting buyers from the “wait and see” status quo and/or lower-priced alternatives. Denominate value in a manner that reflects your customer’s current pain points.

Don't focus on headcount without first focusing on the basics.

There is always resistance to cutting quota-carrying headcount in downturns. This sentiment is even stronger after two years of tight labor markets when most organizations have been consistently facing 10-20% open territories, and boards and leadership teams have been clamoring for added headcount to continue to prop up growth. So, it only makes sense that shedding commercial headcount is met with great resistance.

The key oversight many growth leaders make, however, is that headcount isn't always the best way to think about commercial capacity. It's the most convenient, but also the most expensive. In reality, headcount is often a crude and ultimately non-strategic way to think about sales capacity.

While it's not exciting, a back-to-basics approach rules supreme in these moments. Where are your sellers spending their time? Does your team really know? Are they chasing the right business, or chasing their own desperation? Again, how do you know?

Make headcount decisions with the right information. Growth leaders may ultimately be able to increase productive capacity through a re-org event.

- Tighten your ICP and qualification criteria for a re-focused growth strategy and market.
- Look deeply at time allocation, reduce corrupt time, and drive managers to coach on trade-offs.
- Shift sales allocation to base expansion, prioritizing velocity over lengthy new logo pursuit.
- Clean data and invest in pipeline analytics, allowing you to shift capacity to what is moving and away from what is not. Be persistent as market dynamics change.
- Relatedly, put your arms tightly around your best talent.

You Have Time.
Use It.

The worst, but sadly the most natural, thing CEOs and their go-to-market leadership teams can do right now is follow the lead of prognosticators who have never run a business. Market conditions are certainly changing, particularly compared to the heady times we have experienced these past two years.

There are two critical things to remember as you set and execute your growth strategies for 2023.

You have time. Buyers are still buying, organizations are still hiring and investing, markets are still moving. Don't go on the defensive earlier than you need to.

Be sensible. Instead of going on the defensive now, get smart and get ready. Use the time to decide on your plays with a solid fact base underlying them, and a go-to-market team primed to execute them. Evolve your value creation and growth strategy now. Take a series of "no regrets" actions now.

AUTHORS

Bryan Kurey
Head of Research
bryan.kurey@sbigrowth.com

Nick Toman
President and Partner, Research and Advisory Services
nick.toman@sbigrowth.com

Why SBI?

Driven by insights and delivered from experience, SBI continues to help clients grow their revenue, margin, and enterprise value in ways never before possible.

Working with us, go-to-market leaders can expect confidence and trust with experienced partners every step of the way. We engage and support our clients as an extension of their team, both guiding and working side-by-side to deliver relatable, practical strategies that work for today and tomorrow.

Connect with SBI today and talk to us about how we can help you on your **growth journey**.

CONTACT US: Research@sbigrowth.com

SBI
Growth Advisory

Driven by Insights
Delivered from Experience

2021 McKinney Avenue
Suite 550
Dallas, TX 75201
www.sbigrowth.com