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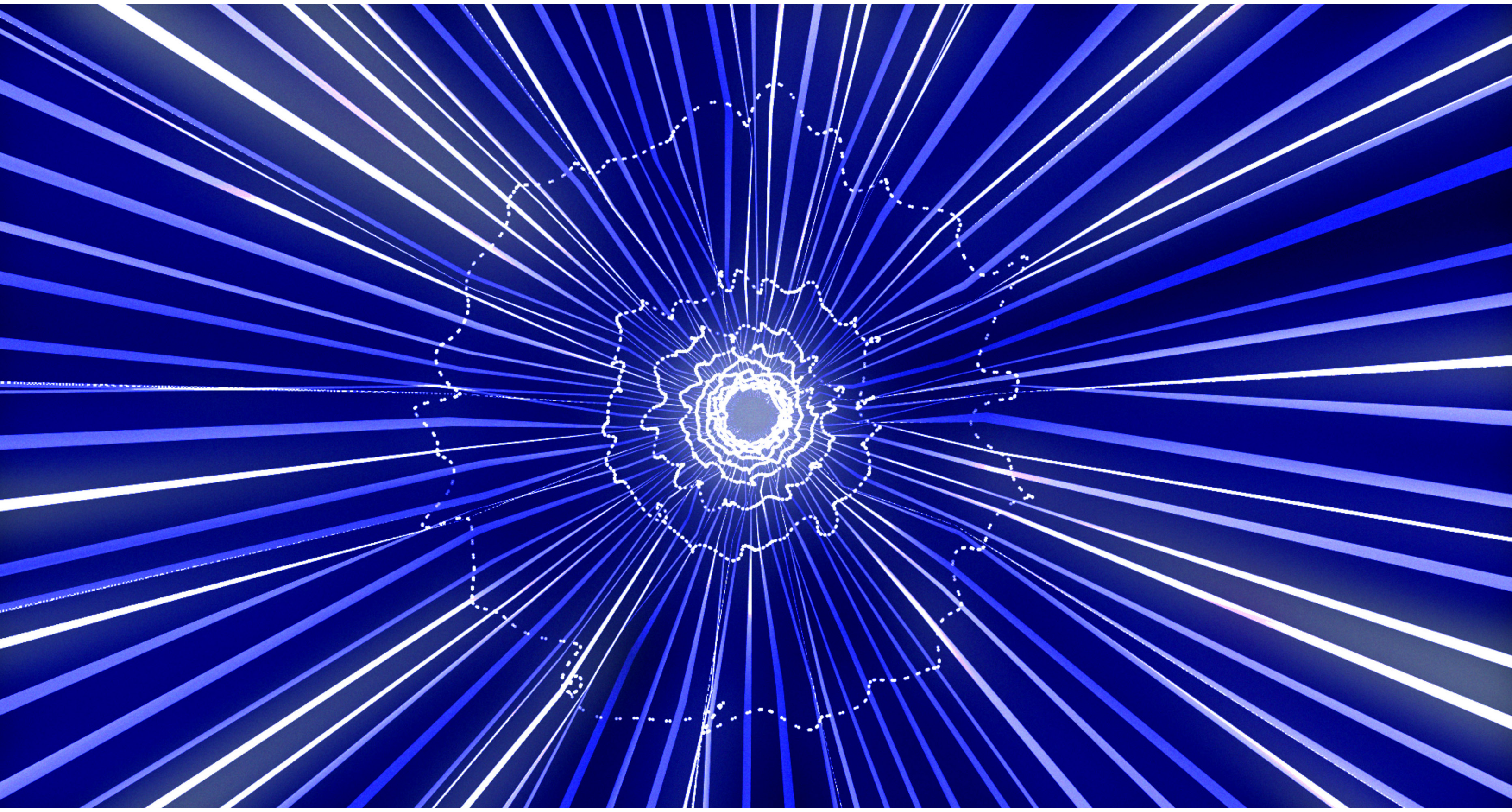
From start-up to centaur: Leadership lessons on scaling

This playbook for founder CEOs on scaling from start-up to standout and beyond borrows lessons from the global B2B software-as-a-service industry.

by Tomas Beerthuis, Claudy Jules, Shahar Markovitch, and Charlotte Seiler



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Scaling is no easy feat. Even companies that develop successful products have a greater than 80 percent chance of failure.[1] Fast-growth companies face constant growing pains, especially at critical inflection points, and investors attribute 65 percent of failures in their portfolios to people and organizational issues.[2] Best-in-class B2B software-as-a-service (SaaS) company innovators can serve as examples to founder CEOs and top teams in any industry, with vital lessons on how to lay the groundwork for scaling and achieve sustainable growth.

This playbook is based on interviews with CEOs and top teams of successful, B2B SaaS centaurs (companies with at least $100 million in annual recurring revenue [ARR]), in-depth analysis of public data, and discussions with relevant experts and industry veterans (see sidebar "The scale-up research methodology"). It focuses on how successful, scaling companies set up their organizations, talent, and operating models, and it explores which elements are needed to achieve rapid and sustainable growth. It considers the growth challenges founder CEOs and management teams face[3] and offers a set of actions to guide them in becoming scaled innovators.

[1] Based on a sample of 3,164 companies with Series A funding between 2011 and 2013, assuming a six-to-eight-year timeline to scale or exit.
[2] Claudy Jules, Alok Kshirsagar, and Kate Lloyd George, "Scaling up: How founder CEOs and teams can go beyond aspiration to ascent," McKinsey, November 9, 2022; "Culture matters: How great startups will thrive in 2020," Forbes, February 11, 2020; Noam Wasserman, *The Founder's Dilemmas: Anticipating and Avoiding the Pitfalls That Can Sink a Startup,* Princeton, NJ: Princeton University Press, 2012.
[3] "Scaling up," November 9, 2022.

The scale-up research methodology

As of mid-2021, the global software-as-a-service (SaaS) market was valued at about $3 trillion, and it will grow to $10 trillion by 2030, according to McKinsey estimates. This rapid expansion is fueled by a steady influx of private capital; software investments increased more than tenfold from $34 billion in 2012 to $374 billion in 2022.[1] According to McKinsey analysis, the median revenue growth rate of 100 publicly traded SaaS companies in the United States—each with revenues above $100 million—was 22 percent as of mid-2021; in the top quartile, growth rates exceeded 40 percent. Although SaaS company valuations and market growth rates declined in 2022 and 2023, signals point to a rebound, and the outlook for the sector remains optimistic.

Global SaaS industry market dynamics are optimally suited to serve as a guide for other founder CEOs in any industry. This article is based on interviews with more than 25 founders, CEOs, and top teams of successful, Israeli-based B2B SaaS centaurs—companies with at least $100 million in annual recurring revenue—and discussions with relevant experts and industry veterans. The insights gleaned from these interviews were supplemented by public data and data from McKinsey's extensive proprietary knowledge and research base, drawing from SaaS company benchmarks, expert discussions, interactions with venture capitalist and growth fund general partners, and McKinsey experience in helping fast-growth companies scale. The insights have also been tested against survivorship bias by comparing them with journeys of founder CEOs, venture capitalists, growth fund general partners, operating partners, and portfolio companies that have stalled in their path to scaling.

[1] Chandra Gnanasambandam, Ari Libarikian, and Cem Turkeli, "The SaaS factor: Six ways to drive growth by building new SaaS businesses," McKinsey, July 19, 2022.

The complexity of scaling

It is unsurprising that most companies don't make it past the start-up phase. Start-up founders and CEOs face challenges at every stage of the journey, with people and organizational issues often posing the highest risks. Those that do grow and mature manage to overcome a variety of organizational challenges along the way.[4] Every successful start-up goes through three growth phases: build and launch, grow, and scale. During each of these phases, however, it is possible for companies to get stuck on their path to growth (Exhibit 1).

For highly successful companies, the first stage of growth was the slowest, taking more than five years to reach $10 million ARR. After this first hurdle, most companies saw rapid growth and reached more than $100 million in about four years. In this phase of rapid growth, revenues and headcount sometimes doubled within a year, organizational structures changed, and cultures evolved.

Companies that struggled to keep up with this rapid growth typically lacked organizational readiness or capacity to scale.

Laying the groundwork: Build, launch, and grow

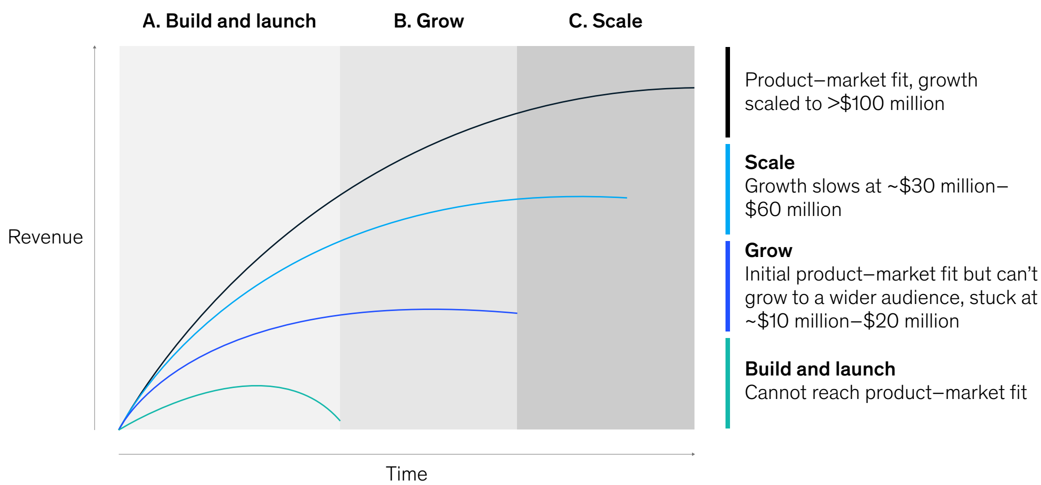
In the earliest stages, companies are focused on building a compelling product with a defined market and a buyer. They are seeking an optimal product–market fit and calibrating their business model to match customer buying patterns. Successful companies are also attentive in these early days to getting the organizational basics and operating model (the bedrock of the company) right. They hire needed talent, put a strong top team in place, create a collaborative culture, define decision-making processes, and choose board members. The bedrock must be solid yet flexible, reliably delivering quality products out of the gate and with the option to explore expansion when the time is right.

[4] Claudy Jules, *Building Better Organizations: How to Fuel Growth and Lead in a Digital Era,* Oakland, CA: Berrett-Koehler Publishers, 2022.

Exhibit 1

Every successful company goes through three growth phases.

Three phases of growth for start-ups,[1] illustrative



[1]On average, the build and launch phase takes five years, while grow and scale phases together are accomplished in about four years.
Source: McKinsey interviews with ~20 centaur B2B software-as-a-service founders

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Build and launch

McKinsey research shows that accurately identifying the best buyer and finding the optimal market for the product are critical for securing product–market fit and exceeding $10 million ARR, even if a company has already gained traction in a particular market. Many start-ups focus the most iterating on the product and overlook iterating on the best buyer or market. Others focus on iterating within only one market, which distracts them from exploring a better fit in other segments.

The best start-ups focus on defining a target market in which they have something distinctive to offer, customers are keen to buy, and the market is large enough to be meaningful. For example, one public mobility company, Via, originally found a product–market fit in B2C. Years later, it expanded its market to include business-to-government (B2G) and quadrupled its revenue growth rate within a year. In another case, a healthtech company had a product that perfectly met users' needs, but it added steps to users' workflows and required customers to pay for it separately to use it in congruence with other systems, so the company struggled to gain traction. In this instance, pivoting to create a product users could integrate more easily into their workflows would have given the company an advantage.

An organizational setup that enables strong market discovery is essential, especially between the product, R&D, design, and marketing teams. In addition, while all successful start-ups iterate between building their product and validating it in the market, there are slight differences in the function (sales, product, or tech) that successful companies choose to focus on most. Each path has different implications for a company (see sidebar "Paths to product–market fit") and requires honing a different set of capabilities to successfully reach the "grow" stage.

Paths to product–market fit

While all successful start-ups iterate between building their product and validating it in the marketplace, the path they choose to take is dependent on their goals and capabilities. Three paths are most prevalent, each having a particular focus: sales-first, product-first (or "lean start-up"), and tech-first.

Sales-first companies quickly sell their proposition to a broad group of customers and build their product based on these sales. They tend to be more opportunistic in their target market but must be careful to prevent tech or product debt, which results from prioritizing the delivery of a product over the functionality of it. They also optimize their sales, marketing, and customer success functions early.

Product-first companies iterate with customers via minimum viable products to validate and generate demand. These companies tend to start with medium or small businesses as customers to generate enough demand to iterate on the product propositions.

Tech-first companies start by building deep technical capabilities and find growth through novel technology. They rely on their technological superiority compared with the competition and balance tech innovation with customer iteration. Talent with excellent R&D skills is critical for these companies to stay ahead of competitors.

Regardless of the path, high-performing scale-ups optimize their operating models for their growth; they scale quickly, rapidly expand into new industries or geographies, and aim to disrupt an industry. Many start-ups may think the lean approach to finding product–market fit is the most straightforward route, but depending on a company's goals, another path may be more suitable. Each path has a distinct operating model, with specific talent, culture, and ways of working to enable success.

Grow
When a company reaches $10 million ARR, it shifts from finding its product–market fit to aggressively growing. At this point, many companies will initiate a new funding round to finance their growth; many will see their revenue and headcount double each year. This stage requires organizations to be strategic about two growth engines: product and go-to-market strategy.

Product. A great product—one that is differentiated in the market, delivers significant value, and has a distinctive experience—is a critical growth engine, especially for B2B companies. Strong products are easier to sell, and they allow companies to explore better business models, such as premium pricing structures. They also help maintain a loyal consumer base, gather new referrals through word-of-mouth and earned media, and attract talent, including highly skilled sales and product professionals who want to join companies that sell quality products. At this stage, companies should aim to create a product that satisfies the needs of many businesses rather than catering to one; too narrow a scope can become a constraint to scale later.

Go to market. Beyond a great product, the most important growth engine is the go-to-market strategy. McKinsey analysis shows that successful companies invested in building a team that could triple their sales year after year, allowing them to achieve $100 million in sales in just two to four years after product–market fit. The most successful start-ups invested heavily in building a repeatable sales model, establishing a sales force and sales management function with clear roles and responsibilities, and incorporating tools to support processes and track progress.

Two approaches for hiring a sales leader were the most popular. First, many experienced founders preferred hiring an experienced leader early on who has managed an organization with ten times the sales and could guide hypergrowth. Founders in these cases were careful to retain these leaders. One founder at data aggregation company Similarweb said, “You need to find a leader who has the experience but can [also] do much more hands-on work than they’re used to.” Finding this type of talent can be difficult, however.

Alternatively, some founders hired a leader with experience that matched the stage of the company. As a result, they sometimes had to rehire leaders as they grew. In each approach, it’s important for founders to be deliberate and creative about their talent search. Even serial founders acknowledged that finding the right sales leader is difficult; several noted that even the perfect sales leader has a 50-50 chance of success.

Scale and continuously grow and evolve

Once the bedrock for growth is established, accelerating to scale is the next challenge. As companies start to grow rapidly, some major initiatives—called growth boosters—spur moments of growth to propel the company to the next level. Boosters can help companies avoid getting stuck and continue growing past $100 million ARR.

Using boosters to scale
Multiple strategies help companies grow faster, but managing them can be complex and affect scalability. Bold moves can transform average performance into top-quartile performance. Founder CEOs needn’t limit themselves to one booster, despite the popular belief that laser focus on one product is the safest route. Instead, they can implement multiple strategies to experience faster growth and momentum. Seven boosters can accelerate growth in the scaling phase, especially when coupled with organizational adaptations.

Going upmarket. Going upmarket is a lucrative growth opportunity, but it can be tricky to do well. Many CEOs recalled losing all requests for proposals (RFPs) they answered in the first year. Going upmarket requires extensive changes across a company and a collective effort, according to start-up leaders. They needed to not only strengthen processes such as sales cycles and RFP responses but also adjust their company positioning and value proposition to appeal to larger enterprises. Additionally, leaders spent time hiring legal, compliance, and cyber specialists and upskilling talent to sharpen sales capabilities. For example, to change positioning and go upmarket, payroll solutions provider Papaya Global rebranded, focused on building strong brand marketing, changed its go-to-market mindset, identified and targeted a new customer base, and chose not to work with clients that wouldn't be a good fit culturally. A round of funding helped enable these changes and bolstered other functions, such as R&D, needed to support going upmarket.

Expanding to new markets. Expanding to new markets and geographies introduces significant complexity, additional costs, and growing pains. However, this step can help companies reach ample untapped opportunities if done well. The CEO of retail management solutions company Trax remarked, "Expand only when your organization is ready; organizational pressures will increase rapidly." As such, start-ups should be deliberate about when to expand and thoroughly consider the team needed to succeed and their geographic footprint. They should understand the organizational complexities of expanding to a different geography—including cultural, structural, and time zone differences—and adjust the operating model to match these nuances. Hiring a sizable team to support the expansion and investing in local leadership and teams with a strong network and expertise in the area are also important. McKinsey research saw that headcounts for junior staffers and more senior leaders doubled for start-ups that successfully expanded into new markets.

Expanding to multiproduct offerings. Expanding product lines can drive sales, attract new customers, and open a company to new markets. Successful companies approached creating new product offerings as though they were building a "start-up within a start-up." Some founders even support new product lines with dedicated business units and profit-and-loss (P&L) functions, tailored go-to-market campaigns, talent with new product expertise, and sales capabilities. Companies seeking to expand their product offerings will also need strong processes in place to support new product teams; then they must develop structured and efficient processes to promote, package, and launch new products. For example, one company achieved multiproduct expansion by giving the new product a separate P&L statement from the original product. Each cofounder oversaw their own start-up within the start-up, which maximized their focus on and ownership of these new products. This type of structure helped foster rapid innovation, agility, and organic growth.

Focusing on customer success. For many start-ups laser-focused on rapid growth, customer relationships may be an afterthought—until start-ups notice signs of churn. This tends to be the most underused booster, but interviews with start-ups revealed that fostering customer relationships and building strong customer success practices are drivers of growth and should be prioritized early on. Founders who reported having mature customer relationships perceived them as a competitive advantage because they could rapidly onboard new customers, provide customers with the full value of the product, create cross-sell and upsell opportunities, and reduce churn.

One company fostered a customer-centric culture by focusing on transparent communication, frequent contact, and continuous high-quality delivery of services. They retained client management agents for many years, which strengthened customer relationships and loyalty. In doing so, the company achieved significant growth with clients who stayed with them for an average of five to ten years, even without long-term contracts.

Marketing and demand generation. Marketing is a complex function with many domains and capabilities required, including creative, demand generation, digital marketing channels, and events. At a certain scale, it's hard to maintain a rapid growth rate without a strong marketing function that works to accelerate sales. Most of the interviewed start-ups did not have significant brand marketing or a world-class marketing function until they reached advanced scaling phases.

Some companies doubled down on building a strong marketing-led, demand-generation function—through search engine marketing, search engine optimization, and social media marketing—that allowed them to reach more consumers and improve the efficiency of their sales force as they scaled. Hiring the right talent led by a strong chief marketing officer and building out a specialized marketing team are imperative.

M&A. M&A should not be a tool reserved for legacy companies only. All the start-ups included in this research regarded M&A as a strategic driver of growth—and quite early on in some cases. More than half of the researched companies had gone through one or more acquisitions, and in some cases, they instantly doubled their revenues. One CEO advised, "Tech companies should develop the M&A muscle early. If you don't create the right DNA to enable M&A, you won't have it when you need it."

Successful founders operated using structured M&A playbooks that included standard practices for dealmaking, culture-fit guidelines to help identify potential companies, and strategic integration rules. A focus on talent is also essential; after mergers, companies should devote a team to lead the cultural integration and circumvent attrition as much as possible.

Forming an ecosystem. Some start-ups orchestrated ecosystems, which are partnerships, alliances, and communities that help generate demand and can create a strong flywheel effect if done well. Three types of ecosystems were most common among the researched start-ups: cooperative competition with bigger platforms that can provide a marketplace for a product, user or developer communities that can generate demand and referrals based on a targeted platform or product, and system integrators that tailor an offering to a partner to expand go-to-market channels and partnerships.

Building an ecosystem can be difficult, and a distinctive offering must be at the heart of it to attract platforms, communities, and integrators. Ideally, a bigger platform invests in the start-up, helping it grow and maintaining an alliance. Some late-stage start-ups enlisted channel partners to sell their product. This type of ecosystem requires companies to align their incentives and business models around the partner, which is difficult for early-stage start-ups to do.

Fostering the foundation

Five core areas underpin every growth stage and can either propel or hinder success: talent, culture, planning and decision making, the CEO and top team, and the board and investor management. Sustaining continuous growth requires companies to appropriately nurture each of these areas.

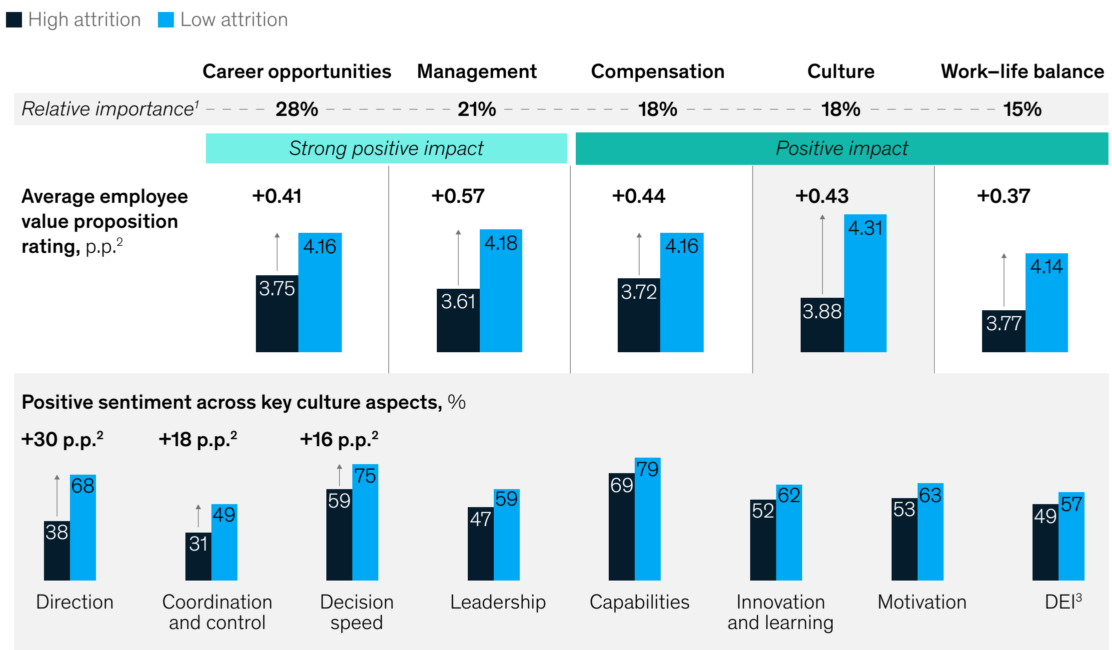
Talent. Founders confirmed that many clichés about hiring actually work. For example, they "hired slow and fired fast" and developed thorough recruitment processes. Many founders said they want to surround themselves with people who were "smarter or more experienced" than themselves. Importantly, successful start-ups were deliberate about their hiring practices: they deeply considered candidates' cultural fit before hiring—sometimes leaving roles open for months to find the right person. They structured their recruiting strategy to involve the CEO in interviewing, especially for critical roles, and hired for immediate needs rather than future ones. Last, they cast a wide net when searching for the best talent, sourcing from investors, board members, and executive search firms.

Culture. Culture can be elusive; most founders saw it as a main driver of success, but many struggled to say how exactly it contributes to enterprise value. Interviewed founders reported that their focus on culture led to better ways of working and a stronger workforce. They said their success hinged on having a carefully curated culture nourished by the entire organization.[5] McKinsey analysis shows that organizations that provide a strong employee value proposition focused on talent development—including clear career progression and skills development opportunities—and supportive senior leadership have less attrition, which is essential for scaling (Exhibit 2).

[5] *Building Better Organizations,* 2022.

Exhibit 2

Culture can be a superpower; organizations with lower attrition have better employee value propositions.



[1]Random Forest feature importance: a machine learning technique that represents the relative contribution of each feature in the decision-making process; higher percentages suggest greater importance, and lower percentages suggest less significance.
[2]Percentage points.
[3]Diversity, equity, and inclusion.
Source: About 30,000 public professional profiles from 13 companies (only aggregated, nonpersonally identifiable data is being shared, and it is carefully handled by McKinsey Org Science and Analytics, the only team approved by McKinsey Legal to access public data from top professional profiles and review sites such as LinkedIn, Glassdoor, and more than 50 other sources)

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Successful start-ups bolstered their culture by building it around their current employees, rather than on textbook definitions of attributes. For example, data compliance company Own weaved its employees’ expressed values into its value statement, allowing employees to truly live their values at work. Effective leaders also reward and recognize their employees’ achievements, foster opportunities for growth, and use incentives appropriately, especially during moments of change or growth. Additionally, it’s important for fast-growing companies to prioritize clearly communicating the company’s strategic vision and goals to create a shared sense of purpose.

When it came to maintaining their organization’s health as the company scaled, founder CEOs prioritized fostering innovation and learning in addition to motivating their employees. Fostering innovation and learning creates an environment in which employees can adapt, change, and continually experiment with new strategies to improve performance and sustain growth over the years. Ensuring employees have these skill sets is especially important to helping companies constantly refresh their plans as they grow to maintain momentum. Motivation helps fast-growth companies seize every opportunity and helps workers cultivate their talents and ensure they’re in the right place to propel their company forward to maximize performance.

Planning and decision making. Structured strategies aren’t just for large companies. Almost all start-ups interviewed had vital planning and decision-making practices, which they coupled with a clear, targeted strategy on how to succeed in their market. Strong planning and decision making require leadership to set and communicate clear goals and use analytics capabilities to inform and make decisions. Being mindful of biases, ensuring accountability, and listening to input from relevant stakeholders (from board members to team managers) also support fast, effective decision making.

One customer retention solutions company, Yotpo, made small decisions quickly by basing them on data-driven insights and changes in market trends and unit economics. They also shortened decision-making cycles by building a culture with a shared mentality in which everyone was working toward the same goal.

The CEO and top team. Founders and CEOs are a major, driving force behind every start-up. Therefore, it is critical that founders and CEOs manage their personal capacity during the intense journey of building and scaling. Successful start-up leaders manage and maximize their bandwidth by building a strong top team, purposefully investing time in the most important areas, and creating mechanisms for support.

Healthy teams and effective leadership are imperative for driving sustainable performance and value. Moreover, 95 percent of investors consider the top team's credibility and experience to be the most important nonfinancial indicator of performance, and organizations with strong leadership teams can outperform competitors' earnings twofold.[6] But building a cohesive team is not easy, and the team that launched and expanded the start-up is not always the right team to move it to the next phase of growth. CEOs could regularly assess the leadership team's capabilities and effectiveness to determine who is ready to take on additional responsibility, who can scale with the organization, and who should stay within their current scope.

[6] Organizations in the top quartile on leadership effectiveness outperform others, earning twice as much annually (EBITDA); The Conference Board and McKinsey State of Human Capital Survey, 2012; McKinsey Leadership Development Survey 2016; McKinsey Organizational Health Index; Michael Bazigos, Chris Gagnon, and Bill Schaninger, "Leadership in context," *McKinsey Quarterly,* January 1, 2016; Marla M. Capozzi, Sacha Ghai, John Kelleher, and Kurt Strovink, "CEO alpha: A new approach to generating private equity outperformance," McKinsey, March 17, 2023; McKinsey analysis.

Healthy teams and effective leadership are imperative for driving sustainable performance and value.

The board and investor management. Choosing a board deliberately is important for start-ups to effectively scale and continue to grow. Board relationships are like marriages, and it's important to choose wisely based on who will be a good fit for the long haul. Several founders and CEOs discussed the consequences of having investors or board members who have motivations and goals that didn't match the company's. As a result, too much time, focus, and energy were dedicated to stakeholder management, which decreased leaders' available bandwidth for decision making.

Start-ups can avoid these roadblocks by choosing board members with complementary expertise and knowledge. Successful companies considered how the board could best help the company and what its involvement would look like. They also looked for potential members with extensive networks who could bring new opportunities and tested investors' priorities through a cultural lens to ensure their motives aligned with the overall goals and strategy of the company.

Conversely, investors pursue companies with healthy cultures and clear operating models, two attributes that typically enhance value. In fact, according to McKinsey analysis of organizational health, top-quartile companies were 45 percent more profitable (in EBITDA) than bottom-quartile companies.[7] Last, companies should be wary not to expand their board too much. Doing so can take significant time to manage—in some cases, McKinsey research found, up to 25 percent of the CEO's time.

Founder CEOs with a clear-eyed vision for their growth journey find themselves well positioned to achieve scaled innovation. The journey can be difficult—but it is possible. Founder CEOs of fast-growth companies and their investors should view organizational scaling as something within their grasp. But a deliberate approach is crucial, requiring founders to develop strong practices to succeed and excel during each growth phase. Approaches should encompass companies' scaling strategy as well as their talent and organizational decisions to execute critical moments of growth effectively.

[7] McKinsey Organizational Health Index.

Tomas Beerthuis is an associate partner in McKinsey's Tel Aviv office, where **Shahar Markovitch** is a partner; **Claudy Jules** is a partner in the Washington, DC, office; and **Charlotte Seiler** is an associate partner in the New York City office.

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