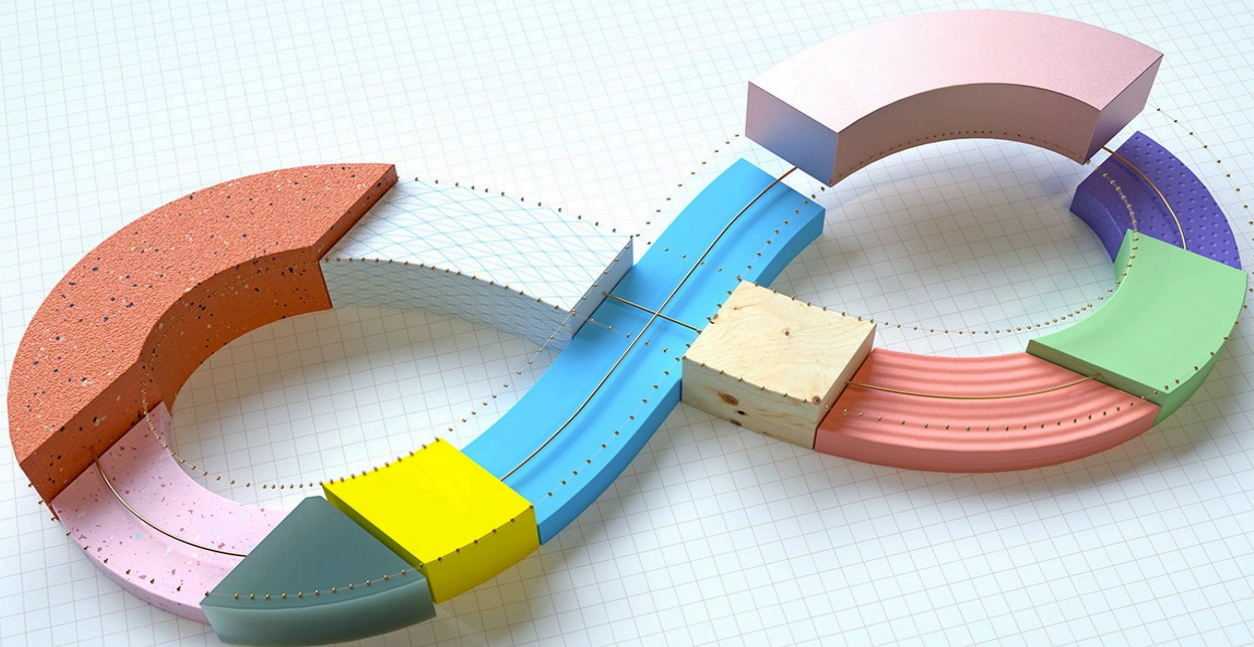


Technology, Media & Telecommunications Practice

From product-led growth to product-led sales: Beyond the PLG hype

It's touted as a panacea for tech companies, but a product-led growth strategy often has to be complemented by elements of a more traditional enterprise model to succeed.

by Mina Alaghband, Nina Panagiotidou, Paul Roche, and Jeremy Schneider



Ever since software-as-a-service (SaaS) innovators, including Atlassian and Slack, pioneered the product-led growth (PLG) model, the strategy has often been viewed as the “holy grail” for achieving efficient growth and above-average returns. Many tech companies, from other SaaS natives to established enterprise software providers to consumer product brands, have embraced this model. By giving customers control from the get-go, with the product at the center of customer acquisition, retention, and expansion, the theory goes, companies can scale their businesses with lower sales costs, greater product virality, and higher net retention.

However, succeeding with PLG is far from a simple proposition. Our research suggests that only a few companies that use it actually achieve outsize performance, and they do so by increasingly developing a hybrid motion known as product-led sales (PLS). This innovative approach combines elements of PLG with the more traditional enterprise model of sales-led growth (SLG), in which a salesperson sells the software in a long sales cycle, typically to a senior executive. Our research further shows that the companies that implement PLS most effectively can enjoy sizeable boosts in both revenue growth and valuation ratios.

What it means to be a product-led company

As the moniker suggests, being a product-led company means giving the product itself a critical role in acquiring, growing, and retaining customers. While certain characteristics, such as the time to value (TTV) and inherent virality, determine the extent to which companies can shift to a product-led approach, all B2B software companies can adopt some aspects of this model in their go-to-market (GTM) motion by investing in the following elements:

- *Digital as a demand-generation engine.* A well-designed, engaging website with the following attributes is the primary driver of digital demand: interactive, use-case-based product demos; personalized landing pages with value propositions specific to different personas and roles; and simplified trial or live demo sign-ups. Combined with effective SEO strategies, content distribution, and digital advertising, the website can enable a scalable reach that is very challenging to achieve with traditional B2B marketing methods.
- *Seamless access to the product and TTV.* Allowing customers to experience the product before they purchase it is an essential ingredient for product-led companies. Try-before-you-buy tools such as trials and “freemium” offers make the research and evaluation stage of the buying process come alive. This can be complemented by simple, self-serve onboarding featuring in-product nudges and encouragement to help users quickly realize the value with limited or no implementation.
- *Innovative sales techniques enhanced with product and usage analytics.* Try-before-you-buy tools coupled with product analytics can help sales teams implement innovative data-driven strategies to increase conversions by understanding user behavior, segmenting users, and delivering personalized, product-led experiences accordingly. The most advanced companies in this field incorporate product usage insights into lead scoring and qualification models. This helps sales teams focus on product qualified accounts (PQAs)—sales leads that have already experienced the product’s value through trials or freemium offerings and are more likely to convert than traditional marketing qualified leads.

- *Cross-functional growth teams with an experimental mindset.* Helping to fuel this seamless customer experience are company growth teams focused on constantly making incremental improvements in key conversion points to improve metrics such as user engagement, adoption, free-to-paid conversion, and TTV. These autonomous and empowered teams of about seven to nine individuals typically include a mix of product managers (PMs), data scientists, demand-generation specialists, content creators, designers, and marketing strategists. These teams are often led by PMs, whose role and incentives for customer acquisition and monetization are more prominent in a product-led approach. Growth teams embrace a culture of iterative improvement through experimentation and data-centric decision making. These experiments are crucial to optimizing product-led experiences, such as refining product demo content, implementing different onboarding flows or messaging to improve activation, and modifying call-to-action buttons or form fields to simplify sign-up processes.

Only a select few have mastered the product-led model

The common perception among software executives and investors is that product-led companies outperform their sales-led peers in revenue growth, operating efficiency, and market valuations. And while this is true in some cases, our recent analysis of 107 publicly listed B2B SaaS providers shows that most companies adopting product-led motions are not enjoying any boost. Although the product-led companies enjoy higher revenue growth rates than their sales-led peers on average, just a select subset of outperformers account for most of that disparity (Exhibit 1).

The stark differences between the few product-led outperformers and the rest of the product-led pack as well as more traditional, sales-led companies exist across a range of important SaaS metrics.

The product-led high-performing subset, for instance, spends ten percentage points more in marketing and sales and R&D expenses combined than high-performing, sales-led companies do. They also generate ten percentage points more in annual recurring revenue growth and are able to achieve valuation ratios that are 50 percent higher. Moreover, our research found that average-performing, product-led businesses spend significantly more on operating expenses than their average-performing, sales-led peers, yet fare only marginally better on key performance metrics (Exhibit 2).

A new hybrid approach combines the best of both worlds: product-led sales

The software sector had, for many years, generally believed that a clear distinction existed between the PLG and SLG target markets. Many industry participants and observers were convinced that the pure PLG approach worked best with small and medium-size businesses (SMBs) or particularly tech-savvy buyers, while SLG was the only way to build a scalable business serving enterprise customers. More recently, however, there has been a debate over which model is more likely to lead to strong, sustainable, and efficient growth.

Our experience and research strongly refute the notion of such a sharp dividing line in the two models' applicability. Product-led motions exist on a broad spectrum, enabling most, if not all, B2B software companies to embrace this approach to one degree or another. The lines between PLG and SLG are already starting to blur; pure-play PLG

companies are hiring sales teams to cater to large enterprises, while more traditional, SLG-driven companies are investing in product-led experiences to help their sales teams prove the value of the product and appeal to a new class of SMB customers.

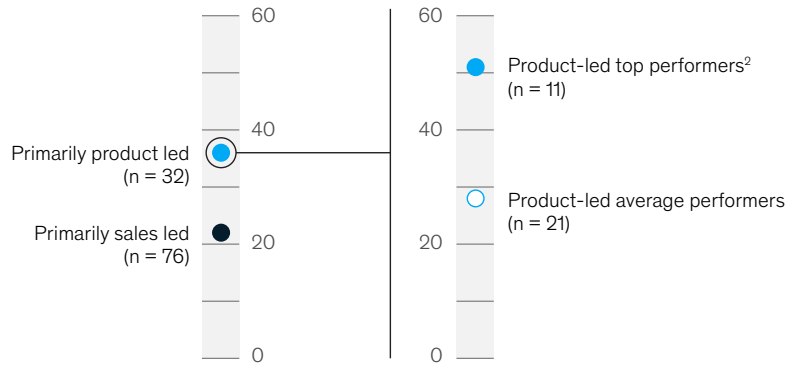
This emerging hybrid approach of PLS combines the best of innovative, bottom-up (PLG) and top-down (SLG) techniques to maximize conversion and value at each stage of the customer journey. PLS recognizes the importance of leveraging the product as a primary driver of demand generation while combining it with traditional sales efforts to support customer acquisition. It converts the lead that a self-serve offering has generated into a sales opportunity and attaches a sales rep to close a large contract for an enterprise-level solution.

In the hybrid model, different product- and sales-led tools and tactics are simultaneously used for different personas. One might target C-level buyers, for instance, with a live demo (a traditional SLG component) to give an overview of the product's value proposition, but it might make more sense to offer the ultimate end users of the product a trial so they can appreciate the product's value by actually using it. A product-led company's senior executive summed up this approach by noting, "Our success comes by simultaneously going bottom-up with individual developers and top-down with technology executives." Our research shows that optimizing PLS—whether from a PLG or SLG starting point—makes the difference between the leaders and the laggards in product-led performance.

Exhibit 1

While product-led companies fare better than their sales-led peers on average, only a select few outperform the competition.

Annual recurring revenue growth, Q4 2021–Q4 2022, by area of focus,¹ %



¹Primary focus of the company based on 5 factors: (1) demand generation (inbound vs outbound focus), (2) primary call to action (trial/"freemium" vs demo), (3) pricing strategy (simple with free alternatives vs paid only/complex pricing), (4) conversion strategy (self-serve/assisted vs purely sales led), and (5) onboarding experience (digital/assisted by customer success manager vs led entirely by customer success manager).
²Twice the annual recurring revenue growth + free cash flow ≥80%.

The growing appeal of product-led sales

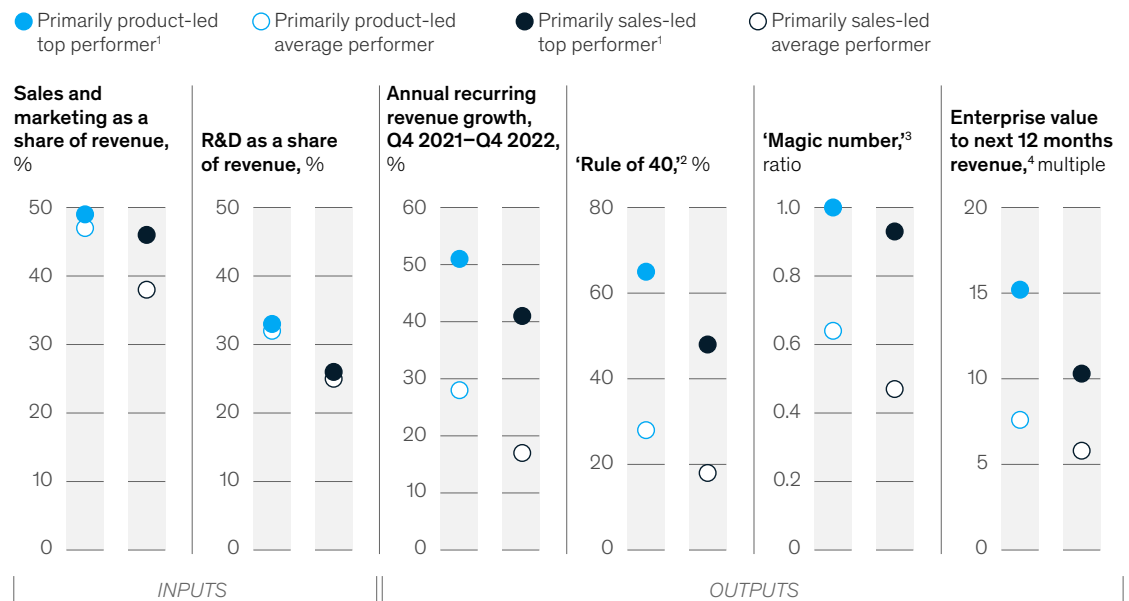
There are two main reasons for the growing appeal of PLS to traditionally SLG-driven enterprises. First, it offers them an effective way to cost-efficiently expand their presence with SMB customers. Contract values in that market segment are

generally lower, but with the fixed costs of sales forces not budging, larger SaaS companies have little choice but to leverage self-serve purchase options and minimize human interaction in the sales process. Equally important, PLS helps these incumbent players respond to the evolving expectations of enterprise customers and their

Exhibit 2

Top product-led companies outperform both their average peers and more traditional, sales-led players across a range of performance metrics.

Performance metrics comparison



Note: Primarily product-led top performers, n = 11; primarily product-led average performers, n = 21; primarily sales-led top performers, n = 14; primarily sales-led average performers, n = 62.

¹Twice the annual recurring revenue growth + free cash flow ≥80%.

²This popular operating performance metric says that the combination of a software company's growth rate and free cash flow rate should be ≥40%.

³A sales efficiency metric that measures the amount of annual revenue growth generated by every dollar spent on sales and marketing.

⁴As of Jan 2, 2023.

Source: SaaS Radar; McKinsey analysis

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increasing need to see and experience the product's value before committing to a large contract. As software budgets face potential trimming amid the current economic uncertainties, proving the value of the product is more crucial than ever.

At the same time, more and more PLG companies are realizing that an exclusively self-serve approach is incapable of sustaining a company's growth trajectory. To keep up the pace, they have to figure out how to turn smaller subscriptions with a small number of users, which typically solves one team's needs, into enterprise contracts that cater to thousands of users and provide an enterprise-wide solution. Fulfilling that ambition requires having a sales team to help potential buyers navigate the complex enterprise sales process. By combining their strong self-serve motion with a top-down sales approach, existing try-before-you-buy users (trial or freemium) become the primary funnel for the new sales team. It's unsurprising, then, that most public, once-pure PLG B2B companies have now deployed their own sales teams.

The hybrid approach of PLS also aligns with customer preferences. The average customer is influenced by both product-led buying factors (for example, free trials, transparent pricing) and sales-led factors (for example, interaction with the sales team, expertise) in the same buying decision. In our recent survey of 625 SaaS buyers across five different software categories—from cybersecurity to infrastructure software, 65 percent of buyers said they strongly prefer both sales- and product-led experiences when buying a solution.

Making product-led sales work

Implementing such an integrated motion requires a more coordinated and cross-functional approach to

managing end-to-end customer journeys. In a traditional SLG approach, for example, the sales team owns a significant portion of the end-to-end customer journey. This includes outreach, discovery calls, live demos, and negotiations.

By contrast, a hybrid PLS approach requires different functions to take ownership of different parts of the customer journey. Marketing is responsible for overseeing the top of the funnel to generate demand, and product teams optimize the testing stage to demonstrate the value to potential customers. Once trial or freemium users are activated and convinced of the product's worth, the sales team can then try to convert these users into paying customers. Moreover, the lines of ownership between functions become blurred as they share responsibility for critical experiences. For instance, marketing and product teams collaborate to nurture customers during the trial experience.

As companies adopt a more product-led motion, it's important to redesign teams to be more cross-functional and multidisciplinary. Those who worked on different stages across the customer journey should be included—product marketers, digital marketers, PMs, designers, engineers, sales and customer success teams—as they all share a joint mandate, rituals, and forms of collaboration. These agile growth teams also require the introduction of new roles, such as growth engineers, who identify opportunities to increase product virality, improve conversion rates, reduce churn, and increase customer lifetime value. A vital part of this realignment is creating more robust feedback loops among the different teams and optimizing internal processes for this new motion, for example, lead handoffs.

In this new hybrid PLS approach, the main challenge for product teams is to adopt a mindset focused on usage and a form of monetization that is

lacking in a traditional SLG motion. Minimizing friction during a trial or freemium to convert users to paid customers and closely monitoring usage to drive adoption and expansion is critical. For their part, sales teams in an integrated model also have to learn—and be motivated—to change their traditional ways of working and their definition of preliminary success. Whereas enterprise sales are conditioned to value landing the biggest possible deal at the outset, product-led sales focus more on simply landing. They learn to measure engagement, prove a product’s value, and drive expansion and upselling. To ensure a smooth transition to a hybrid model, companies can provide new sales playbooks and tools, realigned incentives, and training to the teams, emphasizing their updated role in this reimagined customer journey.

As companies work to perfect the integrated model, it is essential to avoid a one-size-fits-all mindset. For example, while 59 percent of enterprise infrastructure buyers we surveyed prioritized the need for a free trial, just 10 percent prioritized a proof of value or pilot. However, when it comes to cybersecurity software, the trend was reversed, with vendor-assisted proof of value or pilot being the top buying factor among respondents. Being flexible and choosing the specific approach based on customer preferences and priorities can help companies reap the most rewards from the hybrid model.

To facilitate such an integrated end-to-end approach, PLS requires the introduction of new tools and models into the tech stack:

- *Customer data platform*: to act as a single source of truth about customer data, such as firmographics, purchase history, and browsing behavior

- *Product analytics and telemetry*: to track and better understand users’ specific actions within the product, mining signals such as frequency of use, the number of application elements a customer has created and shared, and the amount of data shared with other application users
- *PQL/PQA scoring and qualification models*: to identify and prioritize product qualified leads (PQLs), individual “activated” users who have already interacted with the product through a free plan, and PQAs, accounts that have multiple “activated” users, through the use of advanced lead scoring and qualifying algorithms that combine product analytics data with account intelligence and marketing behavior
- *In-product guidance and engagement*: to create step-by-step guidance, how-to guides and support for users, enabling a smoother self-serve onboarding experience and increasing adoption of new features
- *Integration of product, marketing, and sales tech stack*: to bring together multiple siloed data flows and gain full visibility into how well firms are faring at various conversion points in the customer acquisition journey so they know where to focus their efforts

Starting the journey toward a product-led sales approach

While building a comprehensive, integrated GTM motion takes at least a year, quick wins can be achieved on the path to this transformation. Enterprise software companies have found success by building product-led experiences in increments, starting small, experimenting continuously, and expanding rapidly—much like the most effective

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product-led sales motions. The following steps can help guide that journey.

Start by designing the new customer journey.

Teams can launch this transformation by working to understand the various user and buyer personas, mapping them out in a flow chart, identifying friction points within the journey, and defining potential touchpoints. Being clear about hand-offs and routing between functions is essential.

Build out new, product-led experiences in

increments. The next step should be deciding on key product-led experiences to build and assessing the current status of the assets that can be improved, such as web pages, product demos, try-before-you-buy models, and any encouragement and guidance tools inside the product. At this point, teams can begin to revamp the journey and assets by testing and iterating, measuring effectiveness, and making incremental improvements. For example, one can start by building out a sandboxed trial in a simple read-only format with preloaded data, and use the learnings to develop a full-feature trial later.

Create an initial growth pod with decision-making

power. The cross-functional growth team, or growth pod, will need the runway to act quickly and decisively, with full decision-making power and sufficient autonomy. Acting as pioneers, the growth pod will lead a fundamental organizational shift within the company, not just a realignment of the sales team. From a change management standpoint, this means most functions will need to alter the way they operate in one way or another. Designing early and truly open feedback loops

among functions will be critical to the success of this transition.

Provide sufficient budget to learn at speed.

A limited budget tends to lead to slow learning and, ultimately, failure. Shifting to a more product-led motion is a systematic change and cannot be achieved as a side project. The first months are an investment into learning and need to be seen as such—and funded accordingly. Companies that have had the most success have ring-fenced their budget to drive reach and growth in defined regions and test and learn at speed. Initial funding will be key to ensuring that growth teams can succeed early. In the process, they can prove the value of the new approach and ensure buy-in from different stakeholders across the company, which is especially important given that a new product-led motion requires more cross-functional organization and strategy.

For those who execute well, an integrated hybrid go-to-market motion that combines the best product- and sales-led elements can create differentiated returns. As start-ups continue to go upmarket and traditional incumbents evaluate capturing SMB customers, companies may have to consider the merits of embracing the product-led sales model—or potentially face the risk of disruption. Today's differentiating factors may eventually become table stakes in the battle to win and engage customers and achieve above-average growth in enterprise software and many other sectors.

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