

How to Nail the “Land and Expand” Model to Drive Subscription Growth

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Subscription Growth Levers

As more and more companies enter the Subscription Economy®, we’re learning more and more about which growth levers work—and which ones don’t.

It’s well understood that subscription businesses grow via the “Land and Expand” (L&E) model. The objective is to acquire a new subscriber or account, retain them, and monetize the relationship. In fact, data from the Subscribed Institute has shown that, on average, 70-80% of the revenue of a successful high-growth subscription business should come from existing customers.

What’s not as well understood is how to pull off this complex feat of growth across multiple dimensions simultaneously. To understand what companies having success with the model have in common, the Boston Consulting Group (BCG) and the Subscribed Institute partnered to analyze Subscription Economy data¹. Working together, we used that robust dataset to uncover both the challenges and the opportunities for businesses looking for sustainable growth in their subscription businesses by catalyzing the L&E model.

We compared a cohort of successful B2B software-as-a-service (SaaS) companies with other kinds of subscription companies, including media, telco, companies that sell hardware, etc. The successful B2B SaaS companies are doing a demonstrably better job at the “expand” part of the L&E model, which is crucial to sustainable growth, especially in subscription businesses, where the model has the most power.

BCG’s Value Science team has identified revenue growth and stability as two primary drivers of valuations for SaaS companies. It’s that rare combination—sustainable growth—that’s really attractive to investors and we set out to deconstruct the drivers of growth and stability in subscription businesses.

So let’s dig a bit deeper into the data.

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1. SaaS companies are better than Hardware + Software players at 4D-Expand

Our research shows that enterprise SaaS companies in our database get almost 1.7x the ARR growth of the Hardware + Software (HW + SW) companies and that most of that growth advantage is from better retention and what we call “4D revenue expansion.” The term 4D expansion means expanding revenue across four dimensions: upselling, cross-selling, growing volume, and capturing price increases.

A classic example of **upselling** is moving customers to higher-value tiers within a good-better-best suite of services.

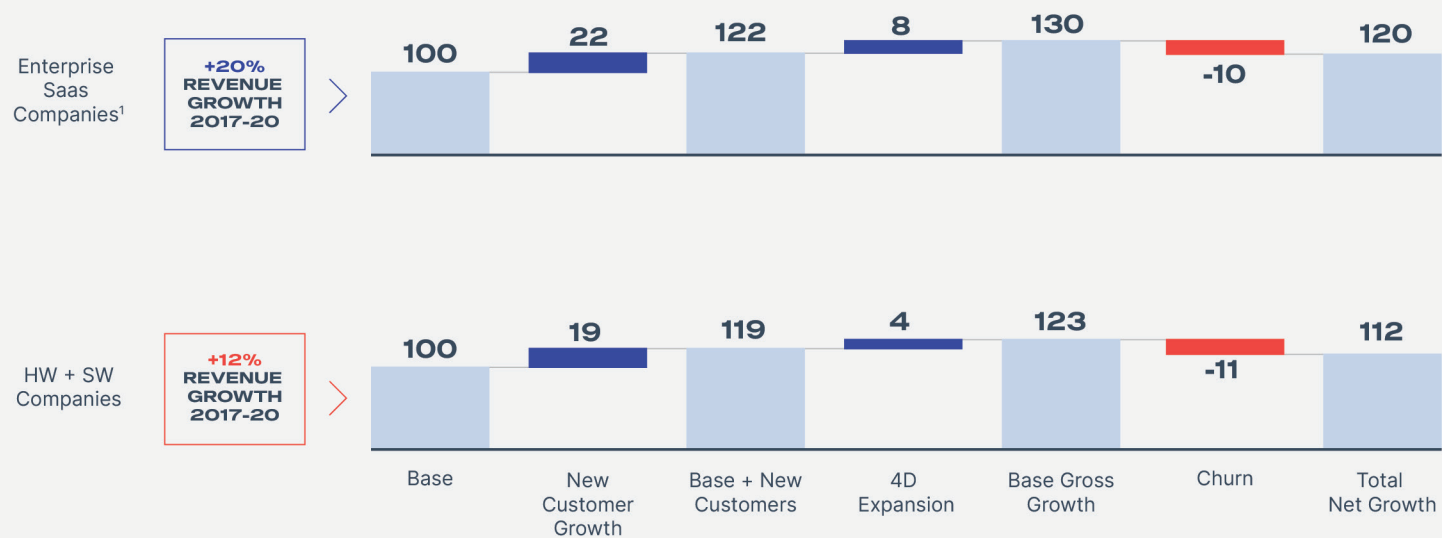
Cross-selling includes leading the customer to complementary products and services in adjacent areas.

Volume increases often come from higher adoption rates within a department as well as within the entire enterprise (more business units, more geographies, and so on).

Price increases can take many forms, including year-on-year escalators built into contracts and a mix of value-added incentives a buyer can use to partially offset nominal price increases. The bottom line here is “it takes a village” to create sustainable growth, and retaining your village (your existing customer base) is the best source for organic expansion.



SAAS COMPANY GROWTH 8% HIGHER, LARGELY DRIVEN BY BETTER 4-D EXPANSION AND RETENTION



¹ Outliers excluded from analysis: Tenants with <\$1M ARR, >95th & <5th percentile of tenants by YoY ARR growth, tenants with >80% ARR growth (i.e., inorganic or early start-up growth) Source: Subscribed Institute ARR data set (2017-2020), BCG analysis

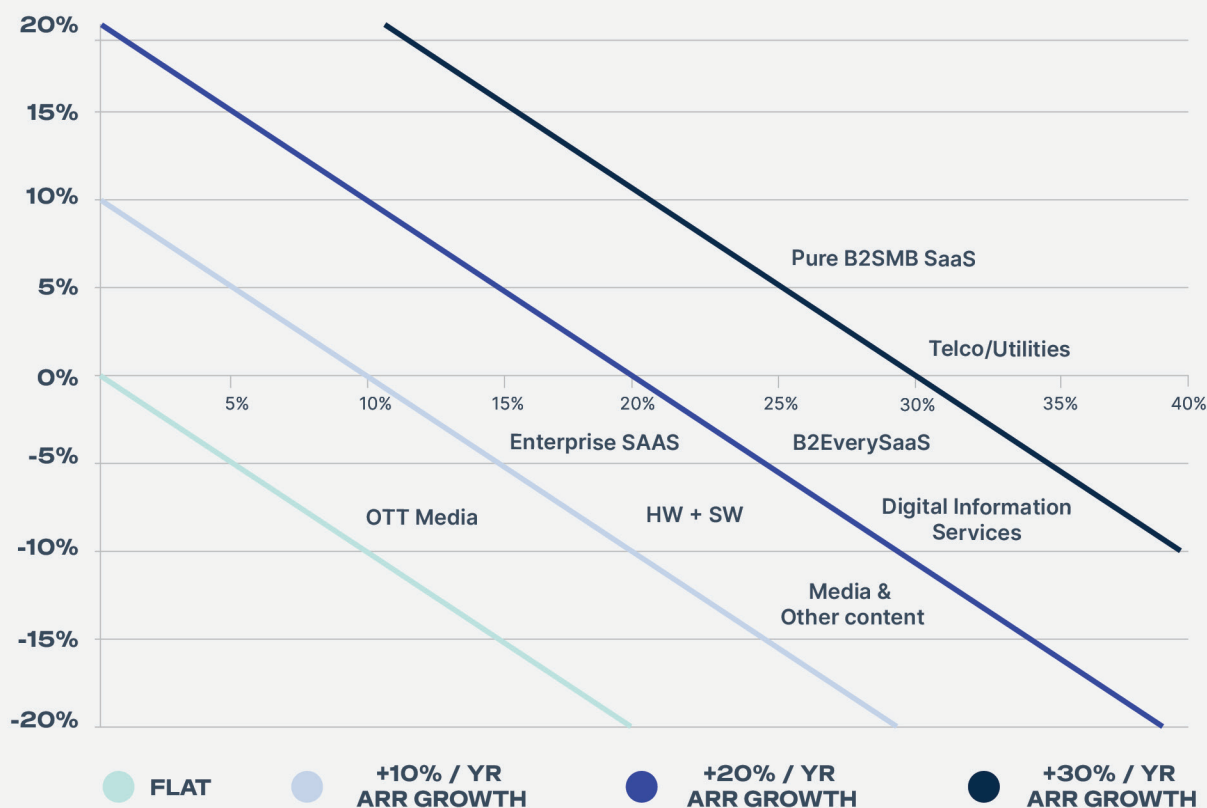
2. SaaS companies are stronger than non-SaaS at escaping the “leaky bucket” trap

We all know it's more expensive to get a dollar in the door from a new customer than it is to get a dollar in the door from an existing customer. And while both the groups in our study are doing a really great job on the “land” part of the equation, the non-SaaS companies falling short on “expand,” especially when you consider net retention. That means while these companies may be growing fast from a customer-acquisition standpoint, that revenue can be more expensive and their overall revenue growth may underperform because they're likely not investing enough in retaining and expanding their existing customer base. We call this the “leaky bucket syndrome,” and while SaaS companies have room for improvement in this area, they're definitely outpacing non-SaaS.

Bottom line? If you're landing a bunch of new accounts, but you're not taking care of them, you'll soon be waving goodbye to them—as well as to that amazing growth they represented—as they leave.



INDUSTRY VIEW: SAAS PLAYERS ARE STRONGER THAN NON-SAAS AT ESCAPING THE “LEAKY BUCKET” TRAP



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3. SaaS: Land, expand, and retain performance improves with increase in ARR size

When looking at just SaaS companies, we found that ARR size can be considered a proxy for a company’s maturity at pricing and recurring revenue management. Those with higher ARR were stronger at acquiring new customers and upselling to their existing base. Higher ARR players were also stronger at net expansion compared to <\$50M ARR companies.



SAAS: LAND, EXPAND, AND RETAIN PERFORMANCE IMPROVES WITH INCREASE IN ARR SIZE



- SaaS companies with higher ARR stronger at acquiring new customers and upselling to existing base
- Higher ARR players stronger at net expansion compared to <\$50M ARR companies
- ARR size can be considered a proxy for company’s maturity at pricing and recurring revenue management

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4. Hardware + Software: Strong retention performance, but “leaky bucket” in mid-size ARR players

Despite decent “land” performance, most non-SaaS companies show relatively lower new customer growth rates, lower retention rates, and lower expansion rates than SaaS. Our research shows that high churn and downsell rates are particular problems for mid-size (\$10M-\$50M) Hardware + Software players.



HW+SW: STRONG RETENTION PERFORMANCE BUT “LEAKY BUCKET” IN MID-SIZE ARR PLAYERS



- HW+SW companies show relatively lower new customer growth rates than SaaS
- High churn and downsell rates observed for mid-size (\$10M-\$50M) players
- Despite good land performance, low retention and expansion resulting in leaky bucket for most ARR sizes

Note: Outliers excluded from analysis: Tenants with <\$1M ARR, >95th & <5th percentile of tenants by YoY ARR growth, tenants with >80% ARR growth (i.e., inorganic or early start-up growth) Source: Subscribed Institute ARR data set (2017-2020), BCG analysis, ARR: Annual recurring revenue, interactive dashboard available on Tableau

Best Practices to Improve L&E

Though we've shown SaaS is doing better at nailing the "expand" part of the L&E equation, we think it's important to point out that this is actually pretty hard to do and not a lot of companies, even in SaaS, do it really well. And like many things in the Subscription Economy®, it's not a switch you can flip today. It's about iterating and experimenting, and, yes, making those investments in people and processes that support the less "sexy" part of L&E—net retention or the "expand" part—which is crucial to achieving the kind of growth subscriptions companies want and need to succeed.

Here are some steps you can take:

Improve your analytics

If you don't have a robust analytics system to capture critical data around retention and churn, you won't have customer insights you need to predict behavior and make better decisions.

Measure the return on your new customer acquisition investments

One of the trickiest questions for a fast-growing company is when to shift their attention and investments from new customers to their base. While you always want to invest in new relationships, a good understanding of Customer Lifetime Value (LTV)—and especially the ratio of LTV to Customer Acquisition Costs (LTV / CAC)—helps you prioritize your land-and-expand investments.

Beware of the shiny-object syndrome

Yes, it's thrilling to watch your new customer numbers go up and up and up, especially when you're a startup. But what we see from the research is that spending all your money on getting customers in the door isn't sustainable—and it can even backfire. By investing in and staying focused on retaining the accounts you have, you'll have a much more sustainable growth path than chasing after new customers.

Invest in packaging and pricing to empower the expand motion

Once you have your data analytics strategy buttoned up, you'll want to leverage that to proactively offer pricing and packaging tiers that meet your customers' needs. Again, this gets down to people and processes: you've got to invest in building these "muscles" to plug up the holes in your leaky bucket.

Conclusion

Land and expand is a long-term strategy that takes patience, people, and processes. But as our research shows, it's the surest way to create the type of sustainable growth you crave for your company.

Our research shows that successful enterprise SaaS companies, especially in subscription businesses, invest more in the “expand” part of the L&E model, which gives them the leverage to create sustainable growth and rock-solid stability. Here's why: As a company grows, two things happen: the amount of greenfield opportunities starts to decline and you have a broader portfolio of solutions to bring to your customers. It's at this critical juncture that you have the opportunity to start actively managing the expand lever.

This approach isn't easy, and the growth doesn't happen overnight. But the businesses willing to invest in their net-retention strategies help drive valuation, attract investors, and have the best opportunity to thrive.

¹ The research was conducted by Boston Consulting Group in collaboration with the Subscribed Institute, Zuora's dedicated think tank focused on the most critical business problems of the Subscription Economy. The dataset was derived from Zuora's Subscription Economy Index™ (SEI) database. The SEI consists of anonymized and aggregated, system-generated activity on the Zuora billing service, and metrics derived from it are meant to be indicative of subscription-based business in the broader economy.

The initial data extract included at least three years of consecutive operations for approximately 550 companies across a wide range of industries. The analysis focused on approximately 30 metrics along the land and expand process. For the research published in this article, we focused on a subset of companies annual recurring revenue (ARR) of more than \$1 million.



The Subscribed Institute

The Subscribed Institute is a dedicated think tank focused on the Subscription Economy. The Institute supports its 1000+ business executives across 500+ global companies with critical data, thought leadership, and connections. Research provided by the Institute helps business leaders and their organizations to maximize the opportunities of the Subscription Economy.

More at www.subscribedinstitute.com



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