IGM Session

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Sales Strategies for Startups in a Downturn: Avoid These Common Mistakes

Article

In today's market, startups are facing a challenging economic climate where profitability is preferred over growth. As a result, companies are forced to make big changes to budgets, staffing, and sales strategies. However, maintaining revenue while the CFO is cutting costs by 5%-20% is not an easy task for anyone, and doing more of the same won't get you there. In this article, we will discuss the common sales mistakes startups make when the economy is in decline.

One of the biggest mistakes startups make is raising pricing. In today's market, VCs are looking for a clear path to profitability, and startups may be tempted to increase pricing to improve margins. However, this is a temporary workaround at best and can erode customer trust over the long run. It can also result in fewer renewals when there is less budget available. Therefore, startups should not raise prices in a competitive market.

The biggest gains can be found with strategic selling to address the specific pain points of your buyer. In a downturn, your entire sales team must be able to speak to executive priorities, opening the door to higher-level contacts. These C-suite conversations engage buyers who are closest to the financial case for change and the strategic needs of the board. More CxO conversations are key in late-stage deals to align on the business case, including both hard and soft benefits. It's also imperative to tie your solution to key use cases, and where possible, help your customer rationalize spend.

Startups and their buyers are both facing the same pressure to hit revenue and cost-saving targets. Starting a deal cycle at the end of a budget cycle is likely to cause deals to stall or be delayed by several quarters, so it's important to know precisely when companies are executing fiscal year budgets and key decision periods. In addition, buyers and champions are not immune to layoffs and job migrations, so be prepared with a backup plan: Develop multiple champions and run more than one motion with one line of business.

The biggest message for 2023 is: Make real change to meet your buyer's needs. Use the macroeconomic backdrop to make the necessary sales productivity improvements that drive long-term sustainable growth, and engage at higher levels, more strategically by consistently attaching your solutions to business outcomes. A CRO who knows what to do differently will shield their companies and teammates from the worst and be positioned to emerge with strong customer advocacy and fuel for growth.

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In conclusion, startups must find ways to get more from less in a down market. Holding tight to traditional sales incentives and levers won't yield the step change that is needed to win. Instead, startups need to be more strategic in their sales approach by focusing on their buyer's pain points, reaching higher-level buyers.

Agenda

Burn rate

- The rate at which a company is spending its available cash
- *"The startup's high burn rate made investors hesitant to invest further."*

Capital

- The total amount of money or assets that a company owns
- *"The company raised $1 million in capital from investors to fund their growth."*

Equity

- The ownership interest in a company, often represented by shares of stock
- *"The founders each own 25% equity in the company."*

Liquidation

- The process of selling off all of a company's assets to pay off its debts
- *"After failing to secure additional funding, the company had to go through a liquidation process."*

Recession

- A period of economic decline, typically characterized by a decrease in GDP and employment rates
- *"The startup struggled to stay afloat during the recession and eventually had to shut down."*

Runway

- The amount of time a company has until it runs out of cash, based on its current burn rate
- *"The startup has a runway of six months before it needs to secure additional funding."*

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Valuation

- The process of determining the worth of a company, often used in fundraising or mergers and acquisitions

- *"The company's high valuation made it an attractive investment opportunity for venture capitalists."*

Venture capitalist

- An investor who provides funding to startups and early-stage companies in exchange for equity

- *"The startup raised $5 million in funding from a venture capitalist to fuel its growth."*

Bootstrapping

- Building a company without external funding, relying on personal finances or revenue generated by the business

- *"The founder decided to bootstrap the company instead of seeking venture capital to maintain control over the business."*

Pivot

- The act of changing a company's business model or strategy to adapt to changing market conditions

- *"The startup realized that their original product wasn't gaining traction and decided to pivot to a new market."*

Discussion

1. What do you think is the most important sales strategy for startups during an economic downturn?

2. Can you think of any examples of companies that successfully pivoted their sales approach during a recession? What lessons can we learn from them?

3. How can startups balance the need to cut costs during an economic downturn with the need to maintain high-quality customer service and sales practices?

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