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PRODUCT-MARKET FIT REPORT

by  High Alpha

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Table of Contents

Summary

1

How do start-up CEOs find product-market fit (and fast)?

2

It takes more time to validate a market than most start-ups plan for

3

Customer conversations are king

4

There is no shortage of ways to measure product-market fit

5

Responsibility for product-market fit sits on the CEOs shoulders, but she needs a great product manager

6

Looking ahead: High Alpha's product-market fit research

7

Summary

Product-market fit (PMF) is the key that unlocks a start-up's growth. Therefore, finding PMF is the most important job for a start-up founder or founding team. This report was created to help those founders benchmark their own progress against others on the same exact journey.

It's still early days of product-market fit (PMF) research. So far, our survey has uncovered:

- 1. Only 56%** of start-up CEOs believe they have product-market fit. And only one third of early start-ups (less than one year old) believe they have PMF
- 2. 19%** of CEOs believe their start-up should achieve PMF within 12 months, but it actually takes most start-ups 16 to 18 months on average.
- 3. Churn, ARR, and Repeatable Sales** are the most common metrics used to determine PMF.
- 4. 86%** of start-up CEOs anticipate that 2023 will be harder or remain the same in finding PMF due to the uncertainty in the market and shrinking budgets in new tech

How do start-up CEOs find product-market fit (and fast)?

Start-up CEOs face a bleak reality. 90% of start-ups fail, according to a survey of 3,200 companies by [Startup Genome](#).

Researchers point to “tackling interesting problems” rather than those “serving a market need” as the root cause of start-up demise.

It’s no surprise that start-ups obsess over finding product-market fit (PMF) — preferably as quickly as possible. But no one feels this pressure more than the CEO of a brand-new start-up. Without a strong customer base, seasoned product, and full sales pipeline, it’s easy to feel like a castaway lost at sea.

To make matters worse, until you find PMF, you face ongoing pressure from your board. To them, it’s “the thing that matters most” — until you find it — and then it doesn’t matter anymore.

For the unfamiliar, PMF is when a product satisfies a strong market demand. In plain words, the product solves a problem, and customers buy it consistently to solve that problem. Bonus points if they also share the product with their peers. So, what can a start-up CEO do to find PMF (and quickly)?

In the fall of 2022, start-up veteran and repeat founder [R.J. Talyor joined High Alpha](#) to answer this question. His team — appropriately named Product-Market Fit — focuses on helping us standardize the measurement of PMF so that our co-founders can find it as quickly as possible.

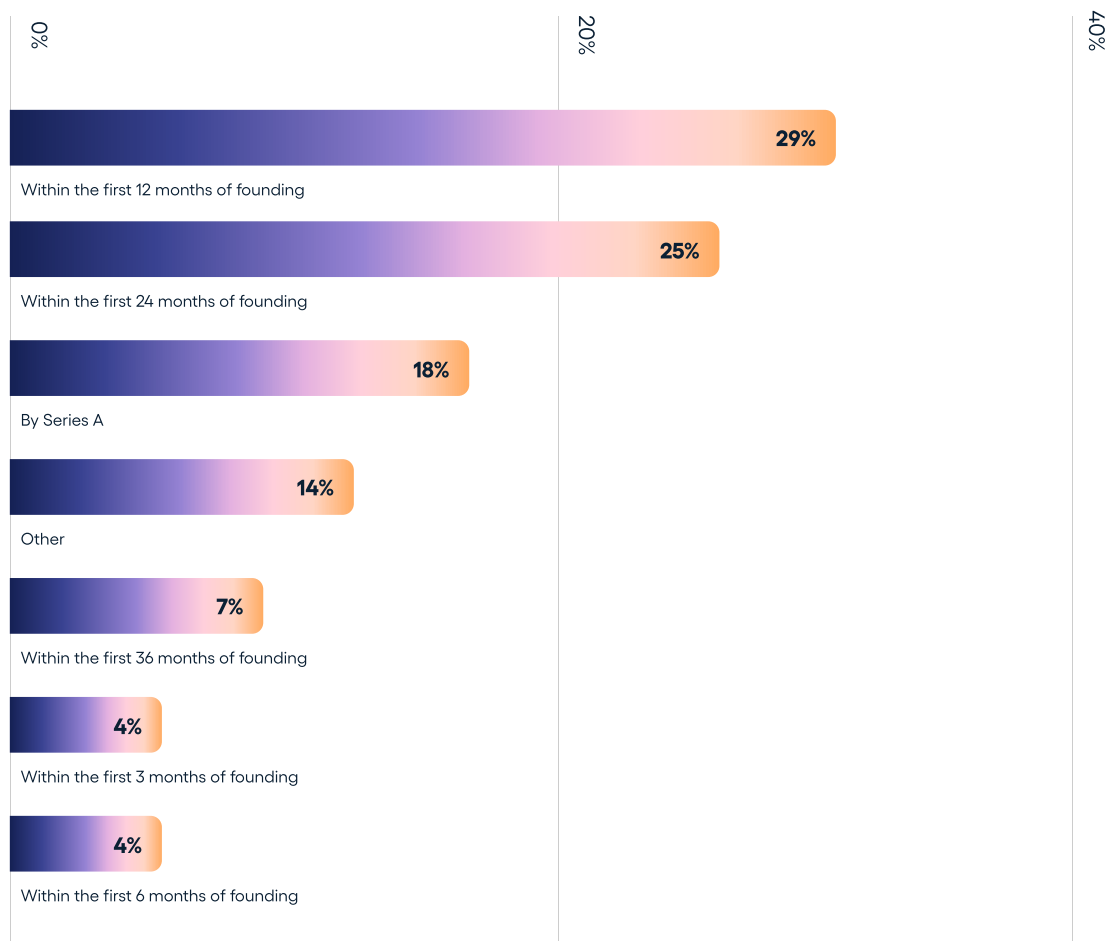
R.J. and his team went directly to the source to better understand how founders and CEOs think about PMF. They surveyed CEOs to see how they perceive the fickle and muddy benchmark for success. When surveyed, 55% of start-up CEOs believed they have product-market fit. A sixth (15%) said they did not, and a surprising third (31%) wasn’t sure.

By examining start-ups that found PMF and those that failed, they set out to distinguish the pattern of common mistakes that, if avoided, will increase the chances of success. Project Horizon is a breakdown of their key learnings thus far.

It takes more time to validate a market than most start-ups plan for

Our research found that 29% of CEOs believe their start-up should achieve PMF within 12 months.

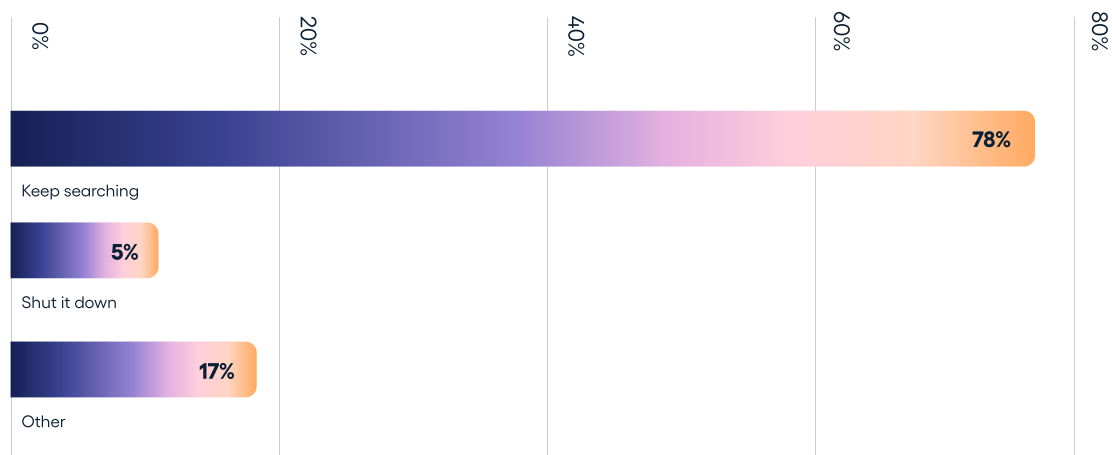
How fast should a start-up achieve product-market fit?



High Alpha Product-Market Fit Survey Result

According to [Startup Genome](#), this underestimation creates the pressure to scale prematurely, and premature scaling will lead to your start-up's untimely death.

What if a company doesn't find PMF in the first 12 months?



High Alpha Product-Market Fit Survey Result

Brand new start-ups have longer sales cycles and a lower volume of feedback. This requires you to allow more time for your PMF journey.

So, how much time does it actually take? **1.5 years is the average.**

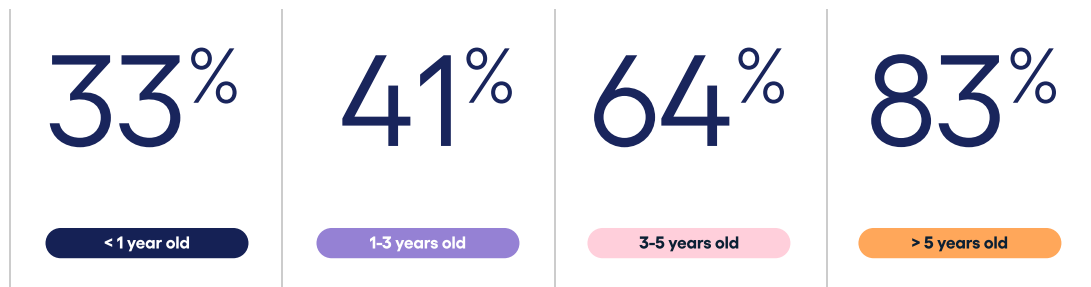
“The average time to PMF is 18 months. This doesn’t even include the time it takes to build the v1. So expect to put in at least two years before you get to the feeling of ‘This is working!’”

Lenny Rachitsky, Angel Investor and former product leader at Airbnb

And when we bucket our survey respondents by company age, we observed that as a company grows older, they’re more confident they have product-market fit.

CEOs need to be realistic about the time needed to achieve PMF and over communicate this expectation to their stakeholders. Acting otherwise would be the nail in your start-up's coffin.

Confidence in product-market fit by company age



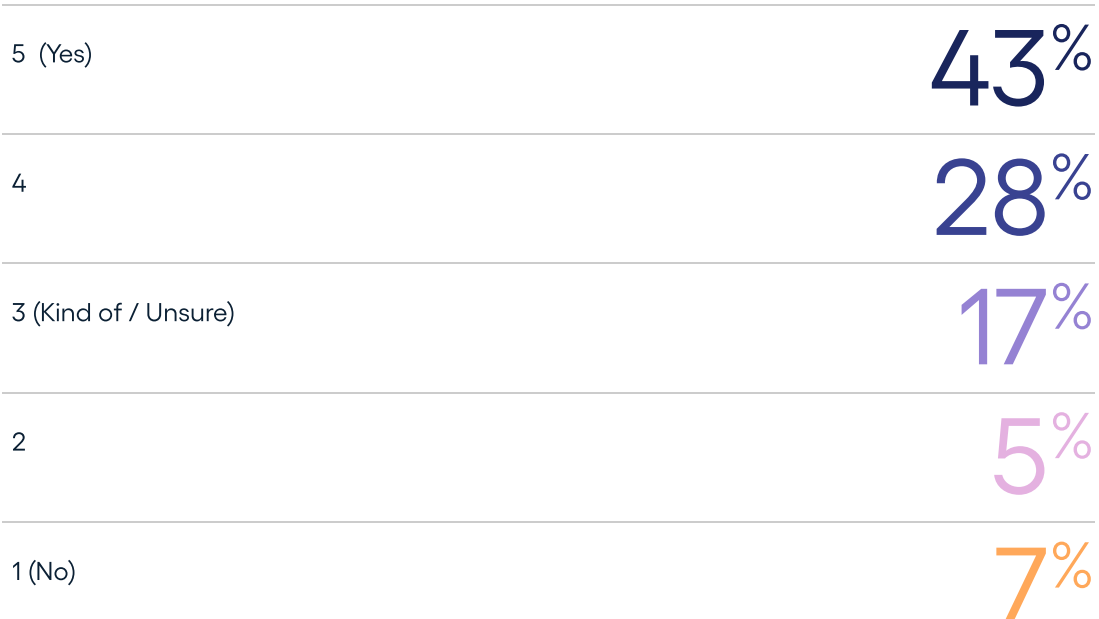
High Alpha Product Market Fit Survey Result

Customer conversations are king

Does our first takeaway make you feel impatient? Believe it or not, you don't need to wait for a product to start selling.


In fact, selling before you have a product is a great way to accelerate your path to PMF and prevent premature scaling as long as you understand your ideal customer profile (ICP). However, only 73% of CEOs have this documented.

Do you have a document or artifact that accurately and comprehensively describes your ICP (ideal customer profile) or target persona?



High Alpha Product-Market Fit Survey Result

At High Alpha, we encourage our pre-launch CEOs to [sell their idea before they even have a product](#).



“What the market wants and what they’ll pay for is discovered by doing, not by guessing. Founders who prioritize sales early find answers to these questions early. It isn’t rocket science.”

Egan Montgomery, Director of Go-To-Market at High Alpha

For example, take your pricing and packaging. Some founders spend hours on pricing and packaging, obsessing over every little detail. The pursuit is noble, but the market will always blow it up.

Successful founders spend less time on the work upfront. They put together something defensible and then show it to as many prospects as possible. They work with the market to edit and improve their model.

Can you guess which founder arrives at market-ready pricing and packaging first? The one who talked to their customer.

There is no shortage of ways to measure product-market fit

Type “how to measure product-market fit?” into Google, and you’ll find contradicting answers

When we surveyed start-up CEOs, we also found no shortage of opinions. Some CEOs pointed to metrics like active users (35%) and ARR (57%). On the flip side, almost half (43%) simply relied on “a gut feeling.”

What metric(s) do you use to determine product-market fit?

Repeatable sales	59%
ARR/MRR	57%
Churn/Renewal/NRR	45%
Your gut. You know when you know	43%
NPS or other survey	36%
Number of users	35%
Referrals	35%
Revenue	33%
Site traffic	9%
Product ratings / reviews (G2, Capterra, etc.)	7%
List size	5%
Tier 1 press mentions	5%
Valuation	5%

But when asked what metric was most important, **28% said Churn/NRR**, and **21% responded ARR/MRR**, and **18% pointed to repeatability**.

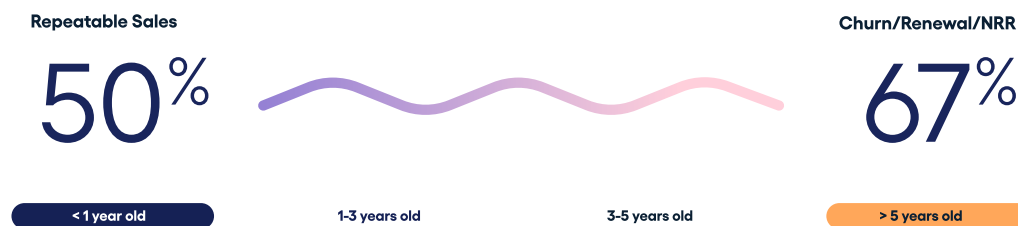
What metric is the most important in determining product-market fit for your company?

Churn/Renewal/NRR	28%
ARR/MRR	21%
Repeatability of the sales process	17%
Number of users	9%
Revenue	7%
Your gut (You know when you know)	5%

High Alpha Product-Market Fit Survey Result

When we spliced the data by the age of the start-up, it's no surprise that early-age start-ups focus on repeatable sales as their most important metric, while older companies emphasize churn/renewal/NRR.

Most important metric in determining product-market fit by company age



High Alpha Product Market Fit Survey Result

The reality is that PMF cannot be simplified into one single KPI across all stages of the start-up growth.

So, what should you measure?

Product strategy consultant and founder Mason Adair simplifies the mess of measures into [six clusters](#): Acquisition, Revenue & Customers, Retention & Reinvestment, Referrals, Separation Anxiety, and Intuition.

Acquisition: You showcase a strong ability to sell the product and see less product-related objections. If your sales processes are too long, this is a sign that you have a PMF issue.

Revenue & Customers: Hitting a high threshold of customers in your market.

Retention & Reinvestment: Fred Wilson rightfully points out, “If you can’t retain a healthy percentage of your users past 90 days, you don’t have product-market fit.”

Referrals: Users who love your product enough to put their reputation on the line and tell others about it is a strong signal.

Separation Anxiety: People would be extremely upset if you no longer existed.

Intuition: To quote Eric Ries, “If you have to ask whether you have PMF, the answer is simple: you don’t”. Sometimes you just feel it.

By developing KPIs that allow you to monitor your performance across these clusters, you’ll leave with a robust picture of where you stand on your journey to PMF. Here’s the [scorecard](#) he created to help with measurement.

Responsibility for product-market fit sits on the CEOs shoulders, but she needs a great product manager

All of the founding team members have a part to play in finding PMF, but it's ultimately on the CEO to drive the business there. 42% of respondents said the product is the most important factor in achieving PMF, whereas only 28% think it's the team and 26% thinks it's the market.

Who is responsible for achieving PMF?

CEO & the founding team	61%
The founding team	21%
CEO	16%
Other	2%

High Alpha Product-Market Fit Survey Result

Who is most responsible for achieving PMF?

CEO	50%
The founding team	48%
Other	2%

High Alpha Product-Market Fit Survey Result

What is the most important factor in achieving PMF?

The product	42%
The team	28%
The market	26%
Other	4%

High Alpha Product-Market Fit Survey Result

Eric Tobias, Partner at High Alpha and PMF evangelist, shared, “Every B2B SaaS business needs engineers and salespeople, but what about other roles, such as product management? Timing of this hire can make a huge difference in the speed to market of a start-up which has downstream effects on ARR growth, funding, and overall trajectory.

The ultimate success (or failure) of a product has everything to do with hiring a great product leader. And yet, most start-up CEOs fail to establish the proper structure to make that product leader successful.” [Read the full blog post here.](#)

Looking ahead: High Alpha's product-market fit research

High Alpha is still in the early days of PMF research. Our PMF team is excited to continue to collect data, create benchmarks, and share insights with startup CEOs to keep them on the right track toward PMF.

As we continue this effort, we'd love to keep you in the loop. If you're a CEO or product leader at a SaaS company, [stay up to date on the latest](#) with High Alpha, our portfolio companies, and the future of PMF.

About High Alpha

We built the first venture studio by combining company building with venture funding to conceive, launch, and scale B2B SaaS companies. Since our founding in 2015, we've launched over 30 companies—and counting—and invested in over 60 world-class founders. Our driving principles are intentionally in conflict with each other acting as a forcing function for us to uncover innovative ideas and produce better outcomes.

Learn more at highalpha.com