

How to tell you are losing product market fit (and how to get it back)

There are plenty of resources to help founders obtain product market fit: that sweet spot where a product has the vision, customer engagement and scalability to meet the needs of a well-defined target market, generating strong demand and sustainable growth.

Temps de lecture : minute

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However, product market fit can be an elusive companion for a founder. So much effort is poured into seeking it, but what can be found can also be lost. By the time a founder realises their hard-won product market fit is at risk, it's often too late - with the business up a certain malodorous creek without a paddle, or any idea of how to row backwards.

It's rare to see resources to help founders know when they might be losing product market fit, so I thought I'd lean on my experiences over the last 12 years of investing in B2B Software companies to identify the signs, and what founders can do to fix the situation.

Why do companies lose product market fit

The pressures that contribute to the destruction of product market fit typically arrive as a company reaches £2m - £10m in revenues. The business is no longer flying under-the-radar: it's small, but people know about you, and have thoughts on what kind of business you should be.

It doesn't take long for customers to go from wanting your product, to wanting *you to build your product for them*. Before you know it, you are building modules and integrating into new systems to win that new contract, diluting your initial focus. Opportunities in new markets can create further distractions, while a growing sales team can perform poorly, damaging customer engagement. Finally, a new competitor or product might have started to put your business in the shade.

Once you start to lose product market fit, things can start unravelling quickly. Chasing short term tactical wins at the expense of your long-term vision dilutes your mission, objectives and strategy. This creates confusion inside and outside the business: who should marketing promote your product to? Who are your product and technical teams building your product for over the long-term?

Finally, losing product market fit kills gross margin, and scalability with it. Those new product requirements, bespoke modules and launches in new geographies all add up. This can smash your gross margin to bits – getting it back will be a painful struggle.

Signs you are losing product market fit

Hindsight is a wonderful thing, and it's all too easy to look back and reflect on how you let your market fit slip away. Catch it early by keeping attentive to three signs:

Firstly, people within your business start to have different version of your company's mission, direction and priorities. As this slips, your people pull in different directions – and inefficiencies mount.

Secondly, Customers find it harder to understand your offering. They become harder to find, and take longer to land. And finally, more of your people are working on client requirements than on your original vision.

Creating sales momentum becomes impossible if you must keep adding more developers to deal with mounting customer requirements.

How to get product market fit back

While it's far harder to get product market fit back than it is to find it, all is not lost. If it happens, remember the three S's:

Stop. If you've lost product market fit you can't sell your way out of trouble. Selling will have become too expensive, and trying to will only make things worse. There's no choice but to stop, rearrange the deck chairs and start again. Chances are this will mean, at best, a period of stagnation. It could even mean backtracking to find a new path forwards.

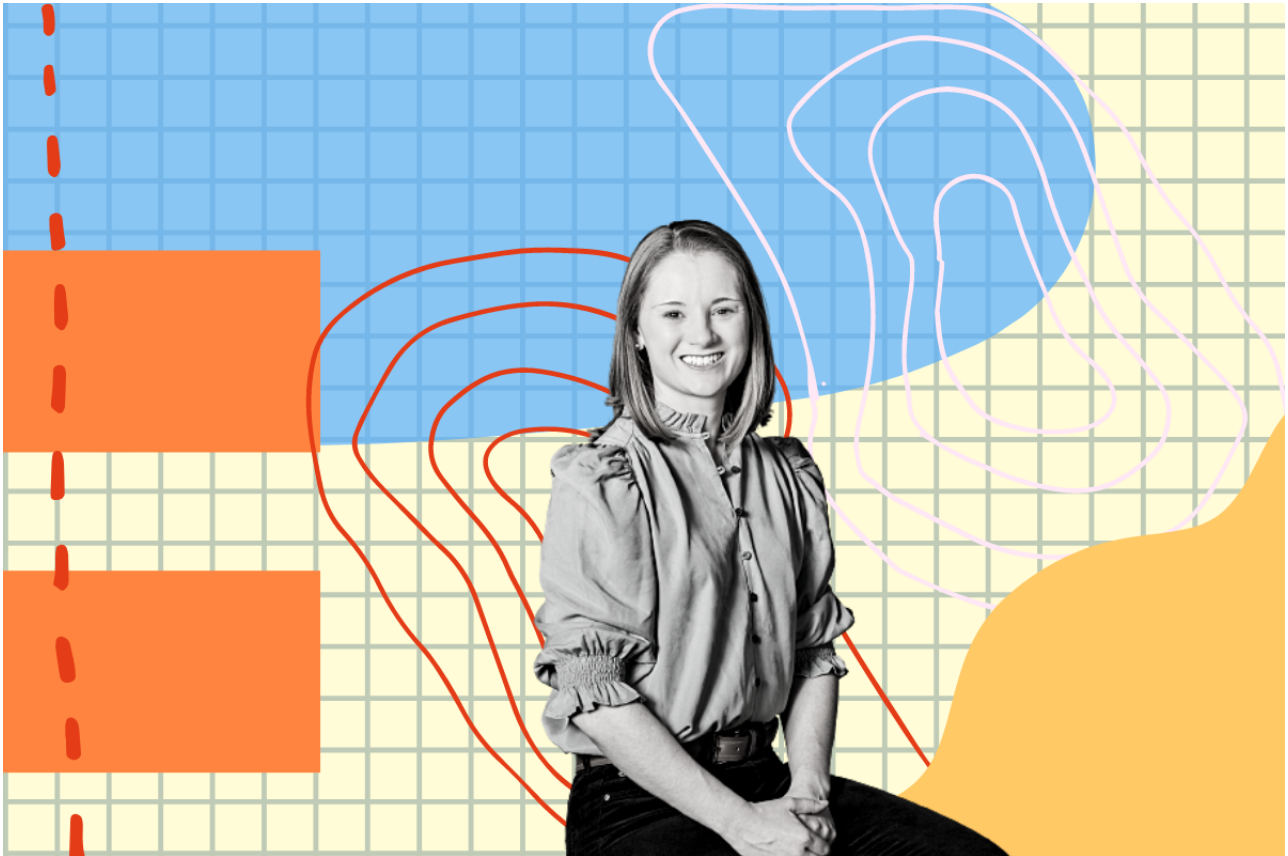
Simplify. Focus on what you do well, and do more of it. A start-up's biggest advantage is its ability to focus and go deep into solving a specific challenge. Sit down with your leadership team and decide what you're going to focus on - and what you're going to drop.

Survive. Protect cash at all costs. This will require painful decisions, including reduction in headcount. This is often tough but necessary: loss of growth and efficiency makes it almost impossible to raise more funding. The only time you're out of the game is if you don't exist - so do everything you can to survive.

Product market fit is an exciting challenge to find in the first place, and it's easy to lose. How to protect it is one of the most important lessons in a founder's journey, and will make the difference between a business that shapes the future and one that never, quite, reaches its potential.

If you have a growing business with great product market fit and think, one day, you might like my support in keeping it - get in touch to tell me about it. You can reach me on edwardk@octopusventures.com.

Edward Keelan is a Partner at Octopus Ventures.



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Article écrit par Edward Keelan