SaaS Growth Report: Bootstrapped vs VC-backed

How does financing approach impact growth?

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Executive Summary

Welcome to the second edition of the ChartMogul SaaS Growth Report, in partnership with Dealroom. In this report, we analyze and compare the growth metrics of bootstrapped vs VC-backed SaaS companies from around the world. We also share the latest growth trends and benchmarks based on data from over 2,500 SaaS businesses. Five insights stood out in our research:

1. **Bootstrapped companies with $1M-30M ARR are quicker to adapt but VC-backed grow faster.** Used to operating with fewer resources, bootstrappers adapt more quickly to market volatility and stabilize growth sooner than VC-backed companies.

2. **The economic downturn hit VC-backed startups below $1M ARR the hardest.** This showcases the vulnerability to capital availability. Bootstrappers are not immune to economic headwinds but over time they have maintained more consistent growth rates than VC-backed companies.

3. **Net Revenue Retention stabilizes with VC-backed companies with $1M-30M ARR ahead of bootstrappers.** Acquiring new customers is difficult. With new business slowing down, all SaaS companies pivoted their strategies to leverage expansion as a growth driver during the recession.

4. **New Business picks up slightly but companies with $1M-30M ARR still struggle to reignite growth.** Bootstrapped companies rely on their revenue for growth. Given their frugality, bootstrappers quickly adapted following a strong slowdown, and even decrease, in new business. In contrast, VC-backed companies have used cash reserves to survive post-pandemic, but with investments stalling, they also struggle to reignite growth.

5. **All SaaS startups below $1M ARR retain customers equally across funding models.** However, recently, a decline in customer retention rates was seen particularly in VC-backed startups, signaling the challenges of retention these companies face while trying to scale.

This report would not have been possible without the contribution of our partner Dealroom and my colleagues. A special thanks to Bianca, Koen, Toni, Rachel, Thomas, Orla and Yoram for making this report happen.

Sincerely,
Sofia Faustino

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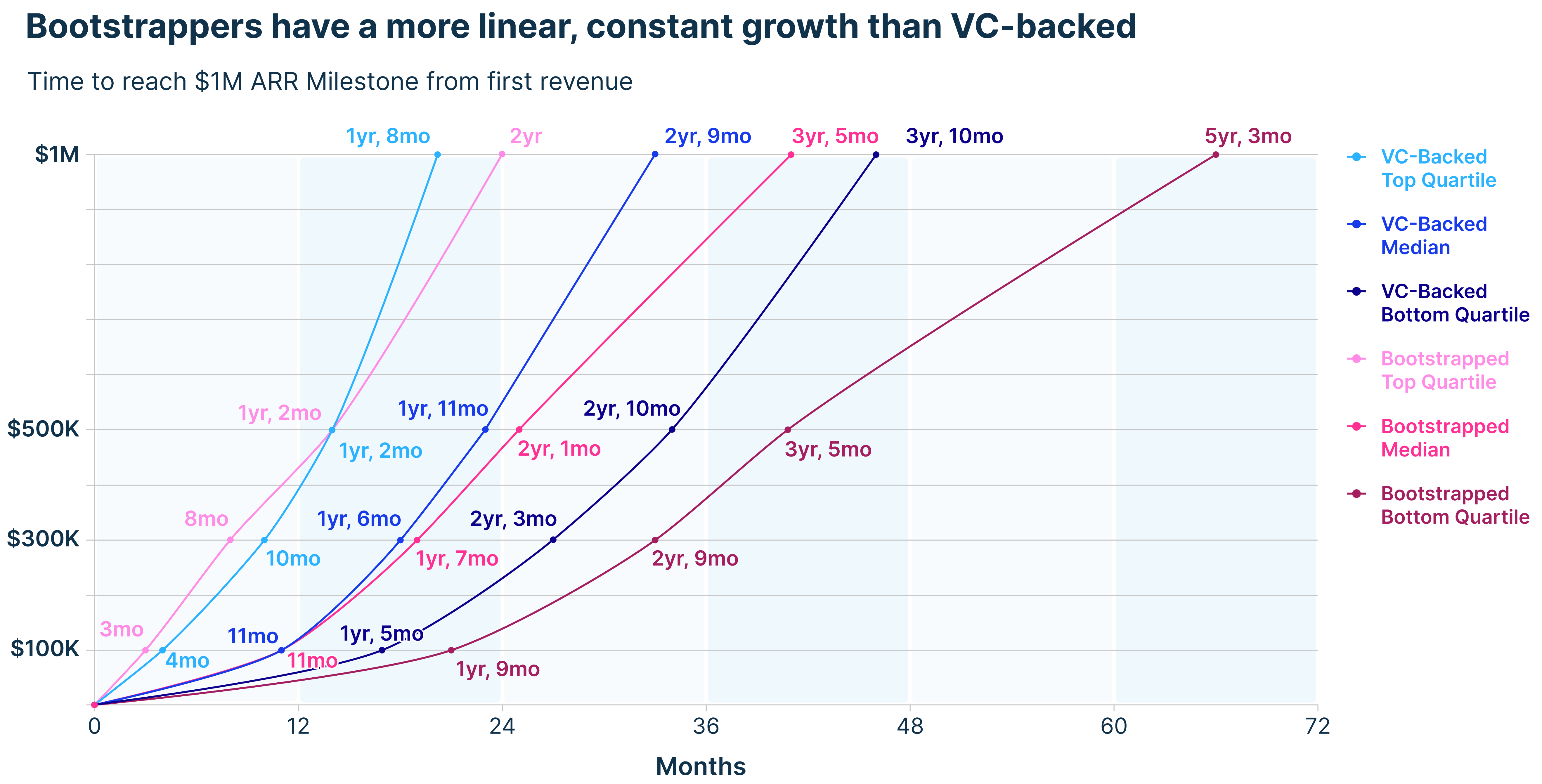
Growth milestones

Top quartile bootstrapped companies reach $1M ARR in two years, only four months slower than VC-backed businesses.



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Growth milestones

In contrast, median VC-backed and bootstrapped companies are able to reach the 300K mark at similar times. But, from that milestone until $1M ARR, VC-backed companies hold a growth advantage, reaching the $1M ARR mark in under 3 years compared to over 3 years for bootstrappers. The gap widens significantly at the bottom quartile, highlighting the challenges faced by lower-performing bootstrappers in accelerating growth without external funding.

Overall, bootstrapped companies exhibit more linear and consistent growth patterns across quartiles compared to VC-backed companies. VC-backed companies benefit from external funding, however, funding alone does not explain the exponential growth.

The data showcases that external funding correlates to growth but this is not the only factor that causes VC-backed SaaS companies to outpace bootstrappers.

In this time-to-ARR milestone comparison chart we can see that there isn't a lot of difference in performance between VC-backed and bootstrapped companies up to around $500K in ARR. Beyond that milestone the VC-backed companies generally start to pull away over time. The additional capital, combined with greater expectations on these companies to deliver outsized results likely play a big part in this divergence. But the reason for the branching is also partly self-fulfilling, it is after all much easier for fast growing companies to raise VC capital.

Nick Franklin, CEO and Founder, ChartMogul

Chapter 1

ARR growth

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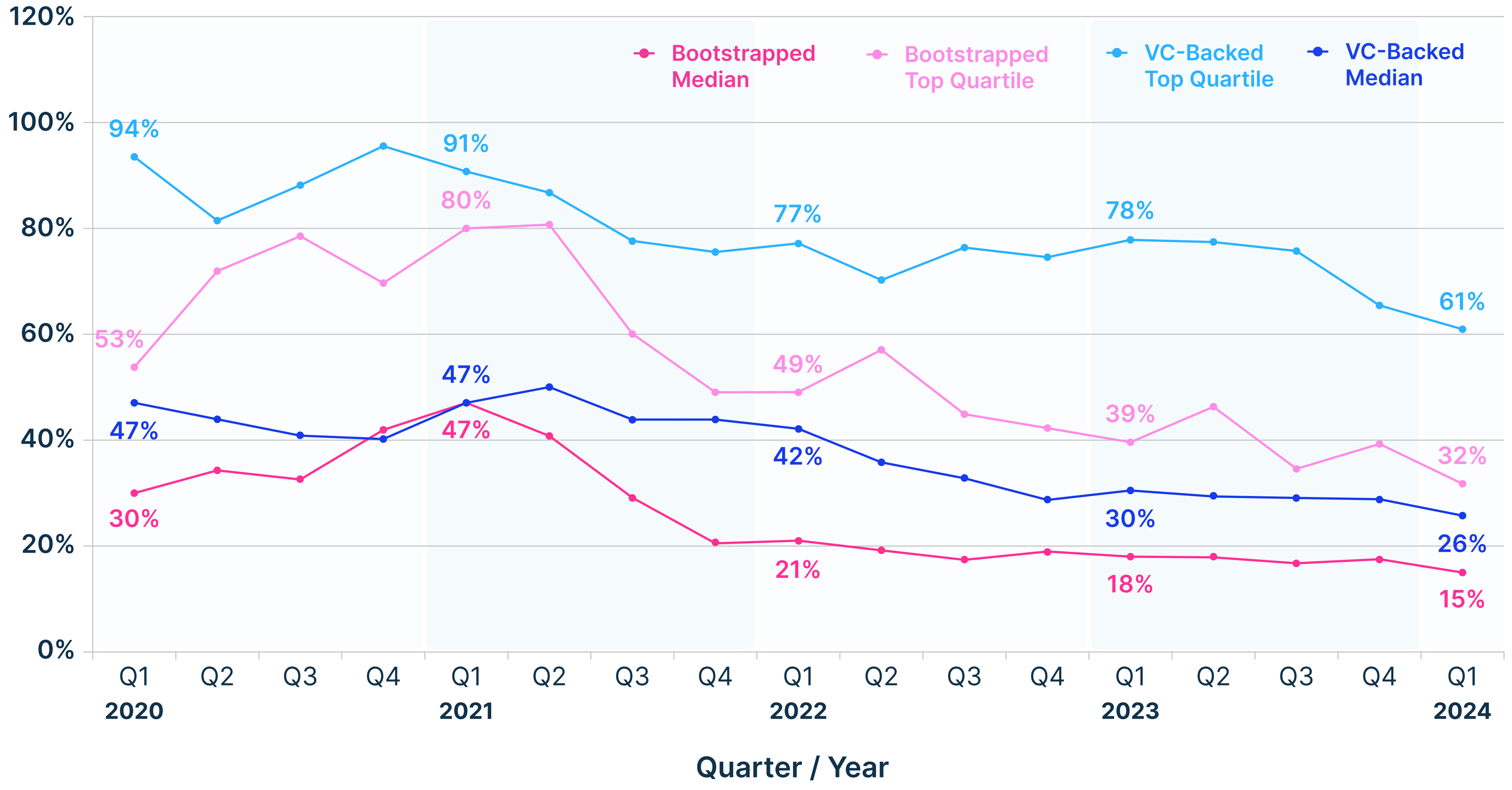
$1M–30M ARR

Bootstrapped companies are quicker to adapt but VC-backed grow faster

ARR growth (year-over-year) for companies with $1-30M ARR



Throughout 2020, all SaaS businesses enjoyed high growth rates. Bootstrapped companies thrived just as much as VC-backed ones. However, in 2021, growth slowed significantly. Bootstrapped companies were hit sooner, with median growth dropping 27 percentage points in less than a year. Since late 2021, growth has stabilized, dropping only 5 percentage points until Q1 2024.

However, Q1 2024, marked the lowest growth rate for bootstrapped SaaS businesses. For the top quartile bootstrapped companies, the slowdown was even more noticeable.

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$1M–30M ARR

In contrast, VC-backed companies experienced a more gradual slowdown, with a 21 percentage point drop until the end of 2022. Median growth has flattened since then. Top quartile VC-backed companies' growth was stable from mid-2022, likely due to access to cash reserves.

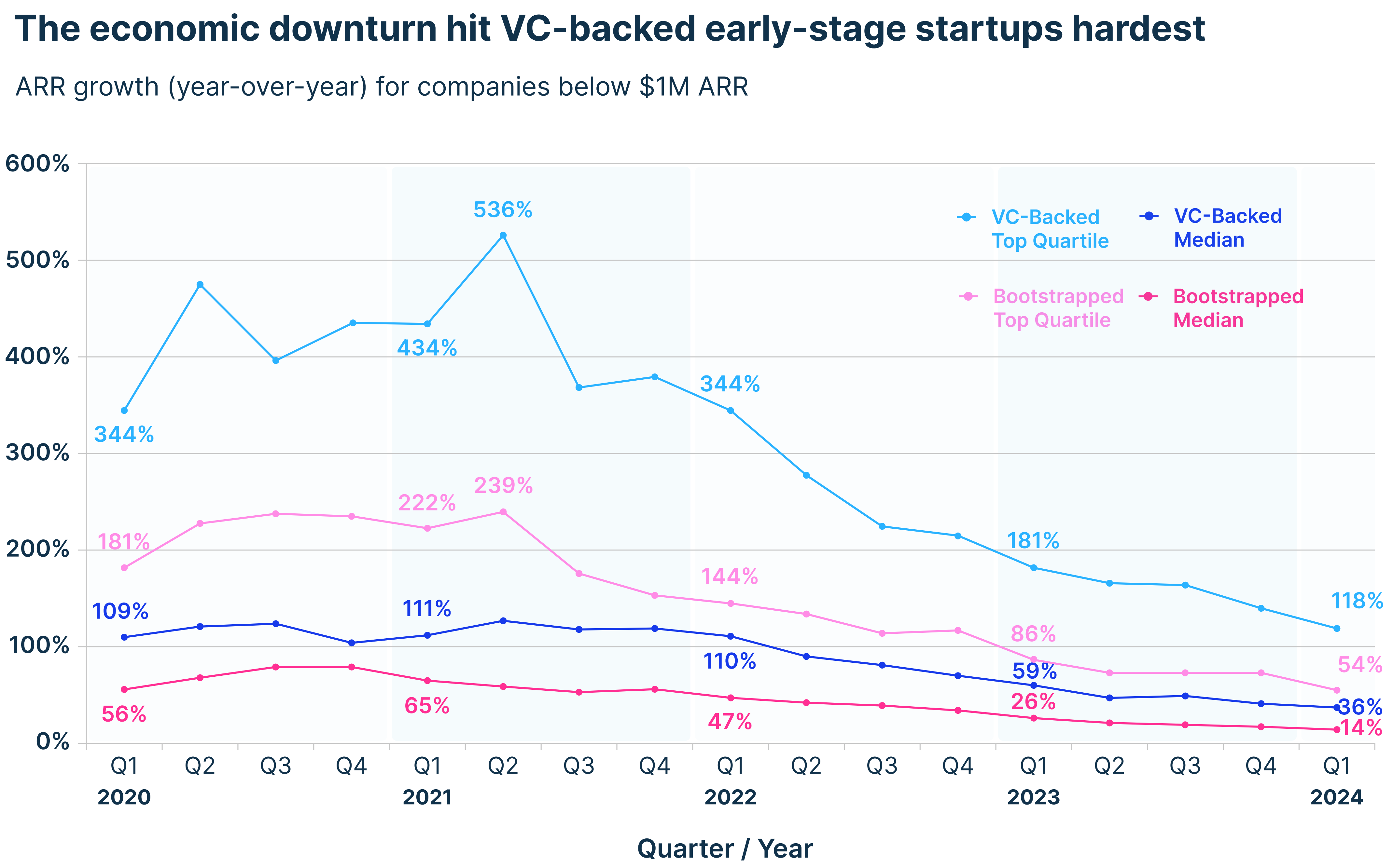
However, as funding dried up, even top performers saw growth drop by 15 percentage points from Q3 2023 to Q1 2024, hitting an all-time low. VC-backed companies grow quicker than companies that are bootstrapped.

However, bootstrappers, used to operating with fewer resources, adapted more quickly to market volatility, stabilizing growth sooner than VC-backed firms. This demonstrates the resilience of bootstrapped companies, which lack the financial safety net of their VC-backed counterparts.

Combining funding and revenue data for early-stage startups is the holy grail of venture benchmarking. This collab between ChartMogul and Dealroom finally makes the picture complete. It shines a light on long-held assumptions, and maybe busts a few myths. Venture capital accelerates time to revenue. It helps startups scale bigger and faster, particularly post-Seed. But the best bootrapped startups perform substantially better than the median venture-backed startup. Many startups on the venture track could learn from their profitable bootstrapped peers.

Yoram Wijngaarde, Founder and CEO, Dealroom.co

Below $1M ARR



Bootstrapped companies below $1M ARR have historically lagged behind VC-backed ones in growth, but the recent slowdown has hit VC-backed firms harder.

Q1 2024 marked the lowest growth rate for all SaaS companies, with VC-backed startups seeing a peak of 126% growth in Q2 2021, dropping by 90 percentage points since. Bootstrapped companies saw median ARR growth slow by 60 percentage points from Q4 2020 to Q1 2024.

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Below $1M ARR

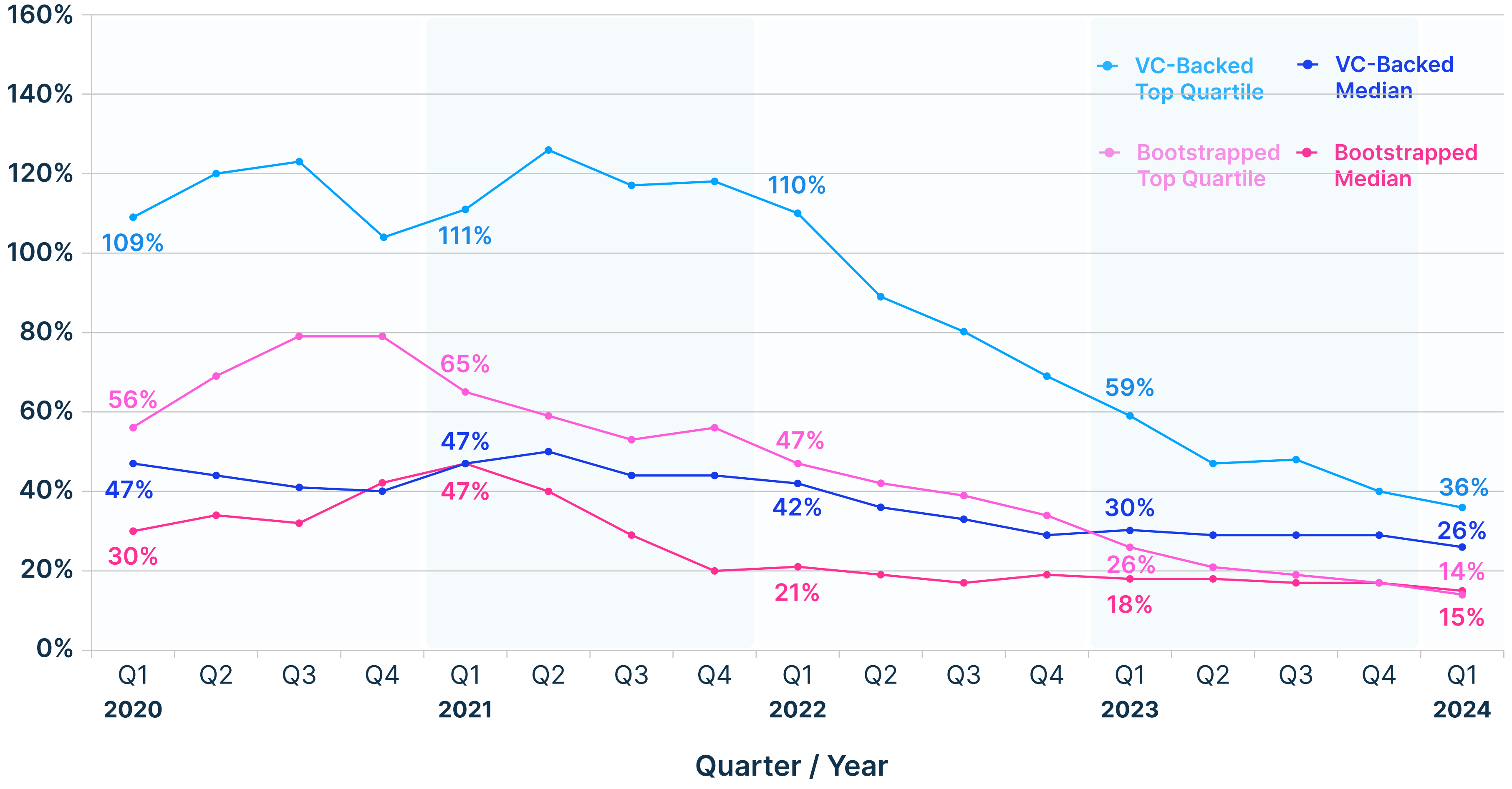
The economic impact was most pronounced in the top quartile from the second half of 2021 until Q1 2024. VC-backed startups experienced a minimum of 300 percentage point decline, while bootstrapped startups saw a 180 percentage point drop. Early-stage startups face vulnerability in recessions regardless of funding structure, but VC-backed companies are more noticeably affected.

VC-backed businesses thrive in good times with accessible capital but are more exposed during downturns. Bootstrapped companies, while not immune to recession, grow at more moderate, sustainable rates without relying on external funding.

Growth for all SaaS companies below $1M ARR has slowed so much that they're now growing at similar rates to those above $1M ARR. For the last three quarters, bootstrapped companies have had almost identical median growth rates in the last three quarters. 2020 and 2021 saw a growth boom but these were abnormal times for growth and VC-investment. Now, growth rates are lower than ever. It is a challenging market that made all SaaS businesses adapt to the new normal.

Below $1M ARR SaaS companies are now growing at similar rates to larger busi

Median ARR growth (year-over-year) for companies of both ARR ranges



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Chapter 2

New business growth

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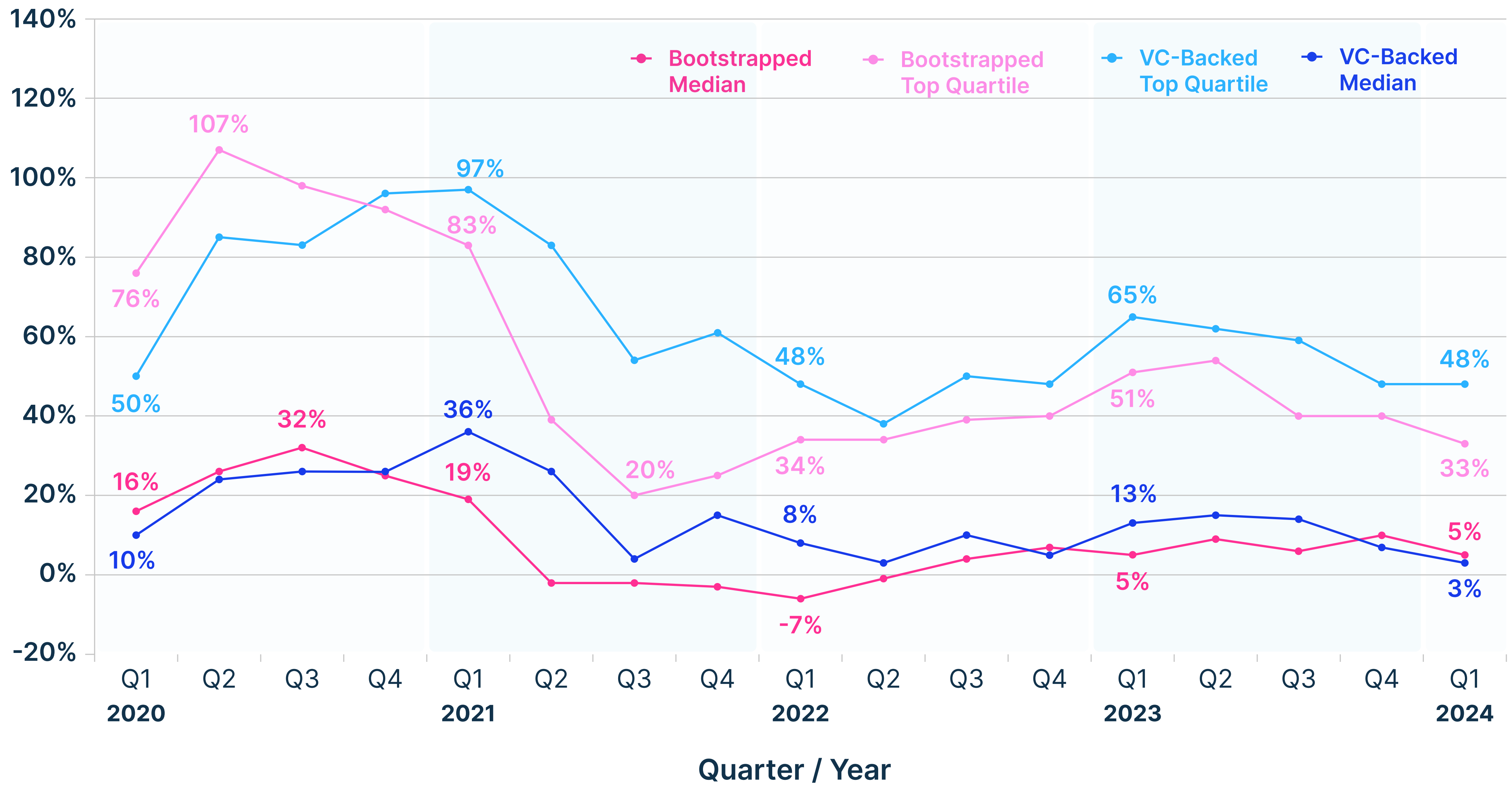
$1M–30M ARR

New Business picks up slightly but all SaaS companies still struggle to reignite

New business ARR growth (year-over-year) for companies with $1-30M ARR



Until the end of 2020, new business for both VC-backed and bootstrapped SaaS companies was growing fast. Bootstrapped companies felt the slowdown first, with new business growth turning negative from early 2021 to early 2022.

Since then, new business has picked up modestly. VC-backed companies followed a similar trend but never saw negative growth rates. Since late 2022, all SaaS companies have experienced similar new business growth rates at both median and top quartile levels.

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$1M-30M ARR

SaaS businesses still need to triple, triple, double, double their growth in their first years. The only way you can do it is with more efficient sales, meaning you have to find your niche market to make this growth happen. With customers at Loyee.ai, we see that VC-backed startups are way more rigid when finding their ideal customer, persona, and signals of who to go after. This way, they are more likely to say “no” to prospects who don’t fit, or don’t promise that growth. Bootstrapped businesses are less targeted with their sales efforts, saying too often “yes” to prospects that hinder them from growing. They pursue short-term revenue wins rather than betting on future growth. If you are VC-backed or bootstrapped, your risk appetite for betting on specific markets might differ, but you should always know who to go after and why. Hone into the companies that benefit most from what you offer already NOW.

Dr. Desiree-Jessica Pely, CEO & Founder, Loyee.ai

Bootstrapped companies rely solely on revenue for growth, forcing them to be frugal and adapt quickly when new business slows. VC-backed companies used cash reserves to survive post-pandemic, but with investments stalling, they also struggle to reignite growth.

The current environment has made all SaaS companies focus more on efficiency. While it remains to be seen if VC-backed companies will revert to high spending when investments pick up, bootstrapped startups, needing to stay cautious, showed during the pandemic that careful money management aids survival.

Below $1M ARR

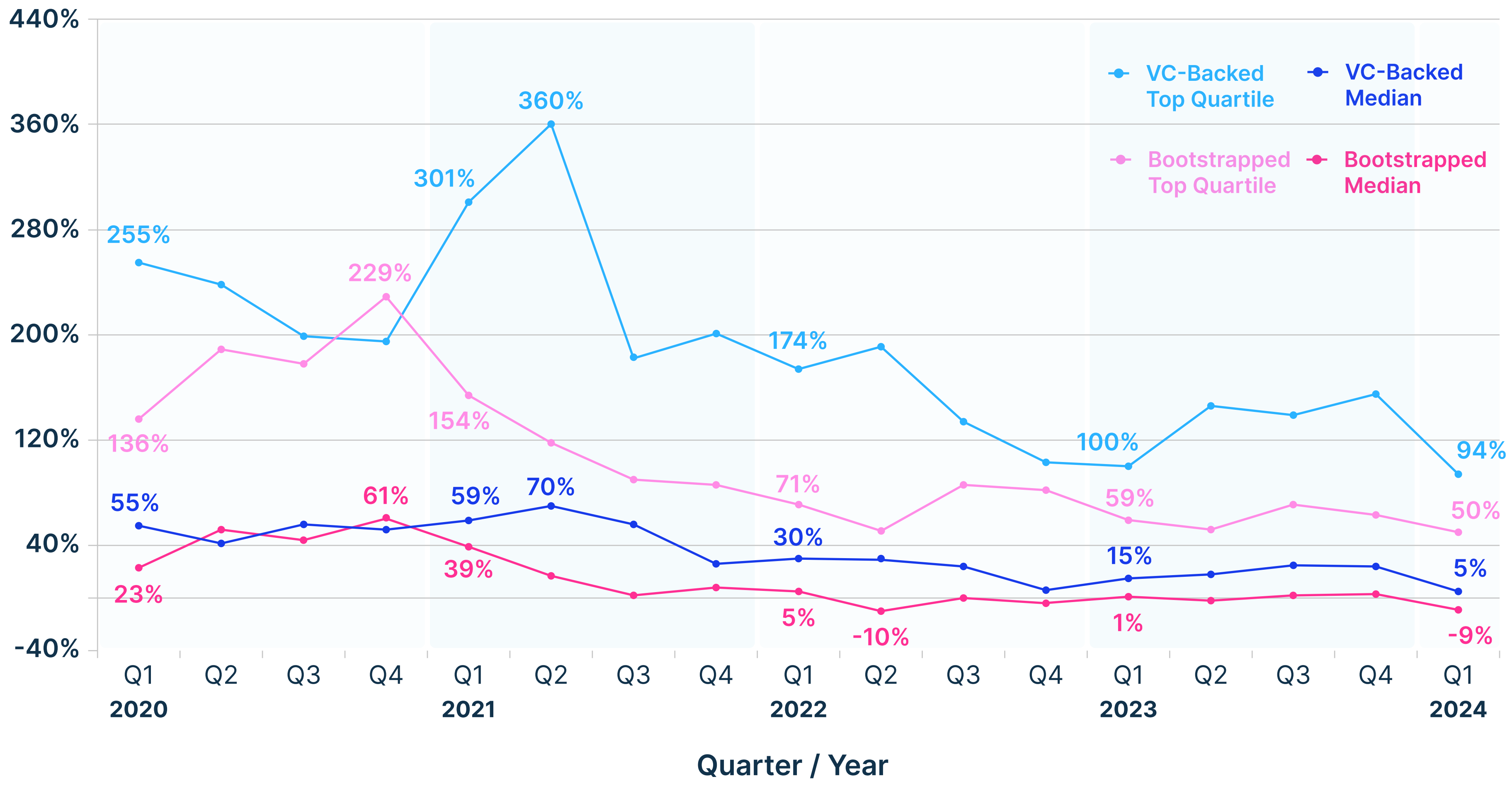
In early 2020, median new business ARR growth rates for VC-backed and bootstrapped companies were similar, sometimes with bootstrapped companies surpassing VC-backed ones. This trend shifted significantly in the recent quarters. In the long term, both VC-backed and bootstrapped companies are equally affected by the challenging environment for new business acquisition.

Bootstrapped companies saw new business drop 50 percentage points from Q4 2020 to Q3 2021, peaking at 8% year-over-year growth in late 2021 before hitting negative values within the next four quarters. Q1 2024 marked the second-lowest growth rate at -9%.

VC-backed companies saw new business growth slow starting in Q2 2021, dropping 50 percentage points over two quarters. While Q1 2024 saw the lowest new business growth rate of the last four years at 5%, mid-2023 was hinting at a modest acceleration. VC-backed companies can spend more on acquiring new business compared to bootstrapped. They can invest in a larger sales force and sophisticated tactics. However, this advantage diminished in the last couple of years while customer acquisition became more challenging.

New business growth stalls for VC-backed while bootstrappers hit negative values

New business ARR growth (year-over-year) for companies below $1M ARR



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Chapter 3

Customer retention

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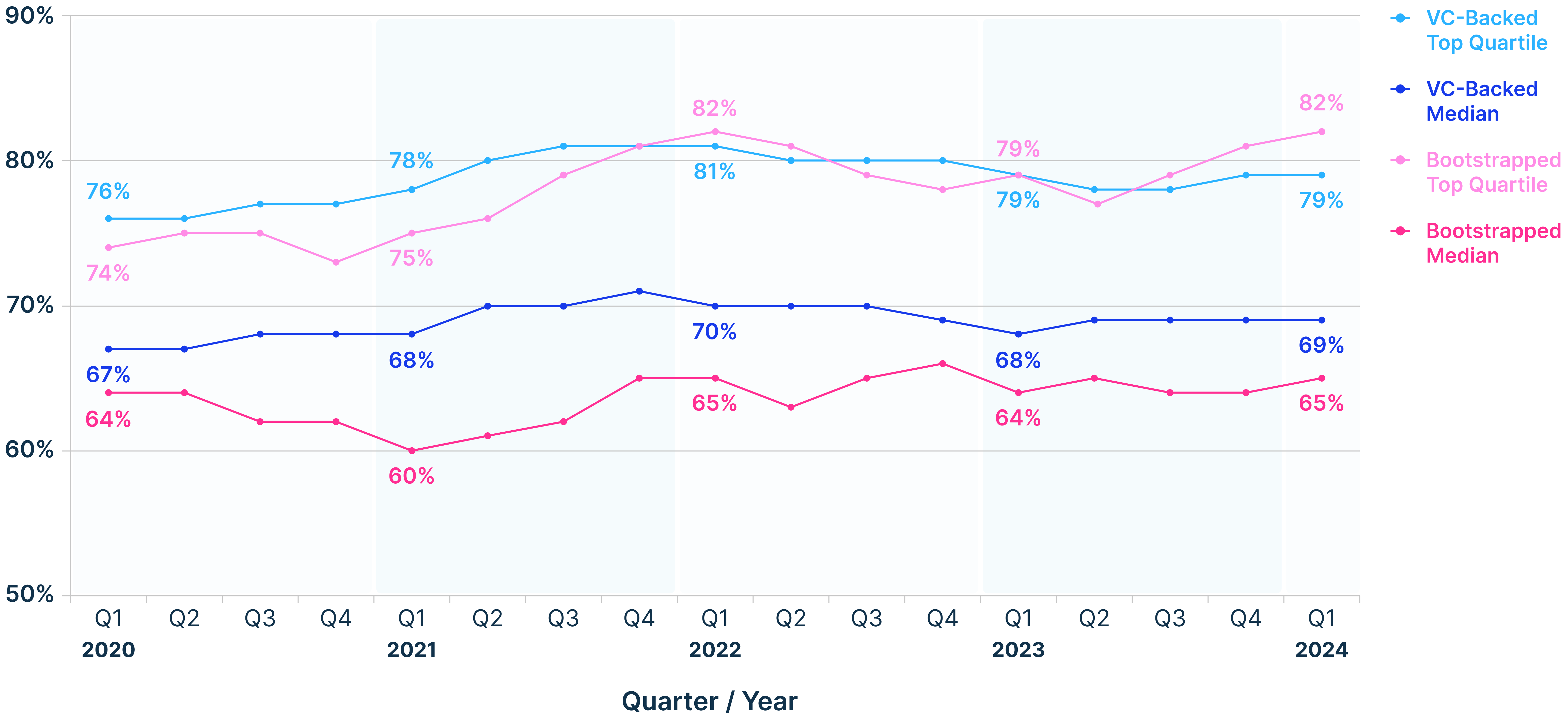
Customer retention remains steady with VC-backed outperforming bootstrappers

Customer Retention Rates (year-over-year) for companies with $1-30M ARR



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$1M–30M ARR

Customer retention remains steady with VC-backed companies outperforming bootstrapped ones.

From Q1 2020 to Q4 2021, VC-backed companies improved their customer retention rates by 6 percentage points. Bootstrapped companies saw a decrease of 6 percentage points during the first quarter of 2020 but recovered quickly by Q4 2021. Since mid-2022, retention rates for both types have evolved similarly, with bootstrapped companies' median retention rates 5% lower than VC-backed. For the top quartile, customer retention rates have been almost identical.

High customer retention in SaaS needs an excellent product, a strong customer success team, and the right pricing model. Median VC-backed companies generally perform better in this regard than bootstrapped ones. However, the top quartile indicates that bootstrapped companies can retain customers as effectively as their VC-backed counterparts, even without capital investments.

Within the SaaStock community over the last year we have been seeing growth for bootstrapped companies but they have a lower NRR than the venture backed SaaS companies and struggling to solve in many cases, hence lower overall rate of growth than VC backed SaaS.

Alexander Theuma, Founder and CEO, SaaStock

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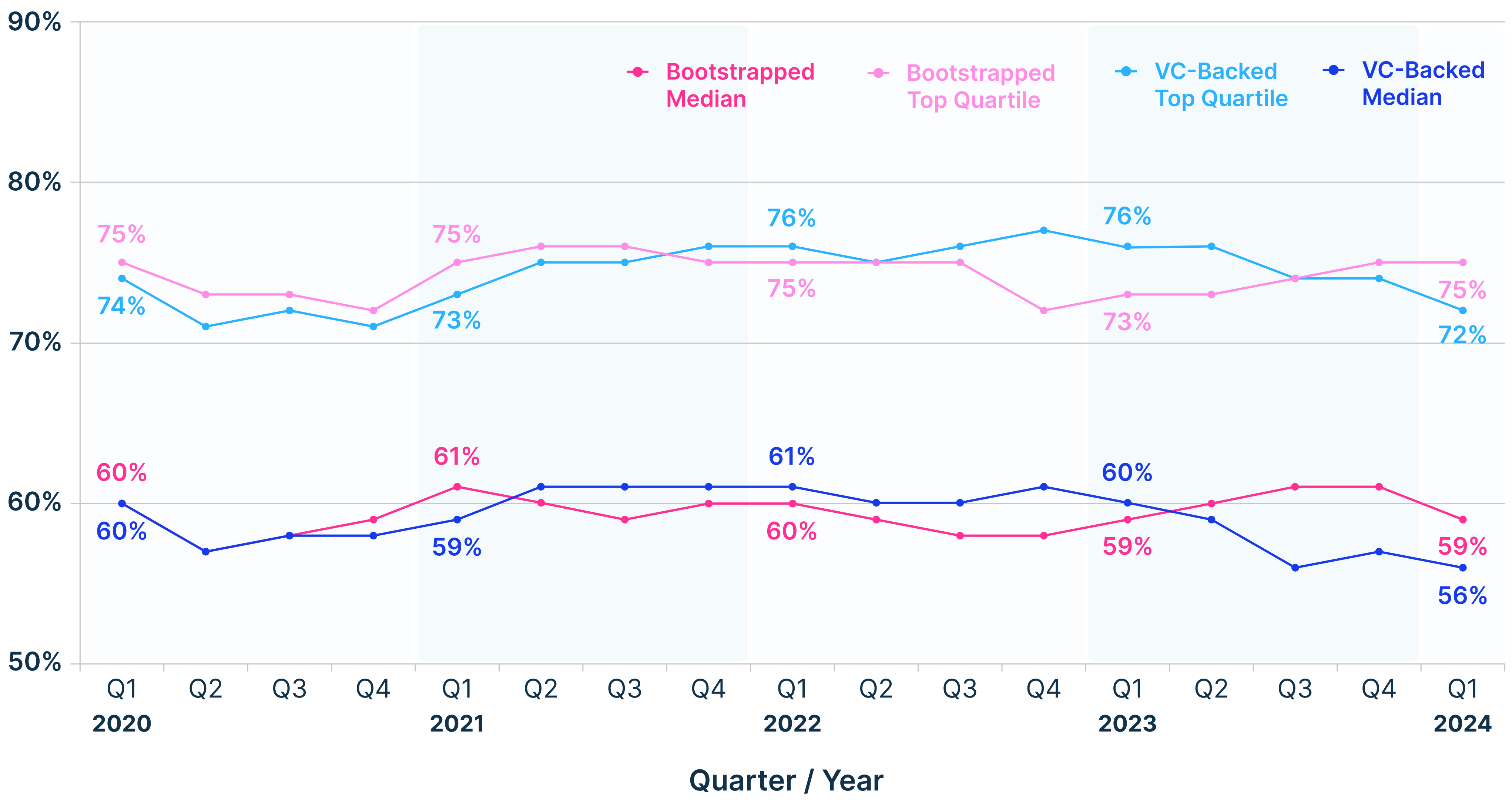
Below $1M ARR

SaaS startups retain customers equally across funding models

Customer Retention Rates (year-over-year) for companies below $1M ARR



Maintaining high customer retention is challenging for early-stage SaaS startups working to establish product-market fit. For most quarters, median and top-quartile customer retention rates have evolved similarly across SaaS companies, regardless of funding model.

However, since the end of 2022, the median and top-quartile retention rates have slowed by around 5 percentage points for VC-backed startups. This decline, coupled with a slowdown in new business ARR, highlights the challenges early-stage SaaS startups face in maintaining high customer retention while trying to grow.

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Chapter 4

Net revenue retention

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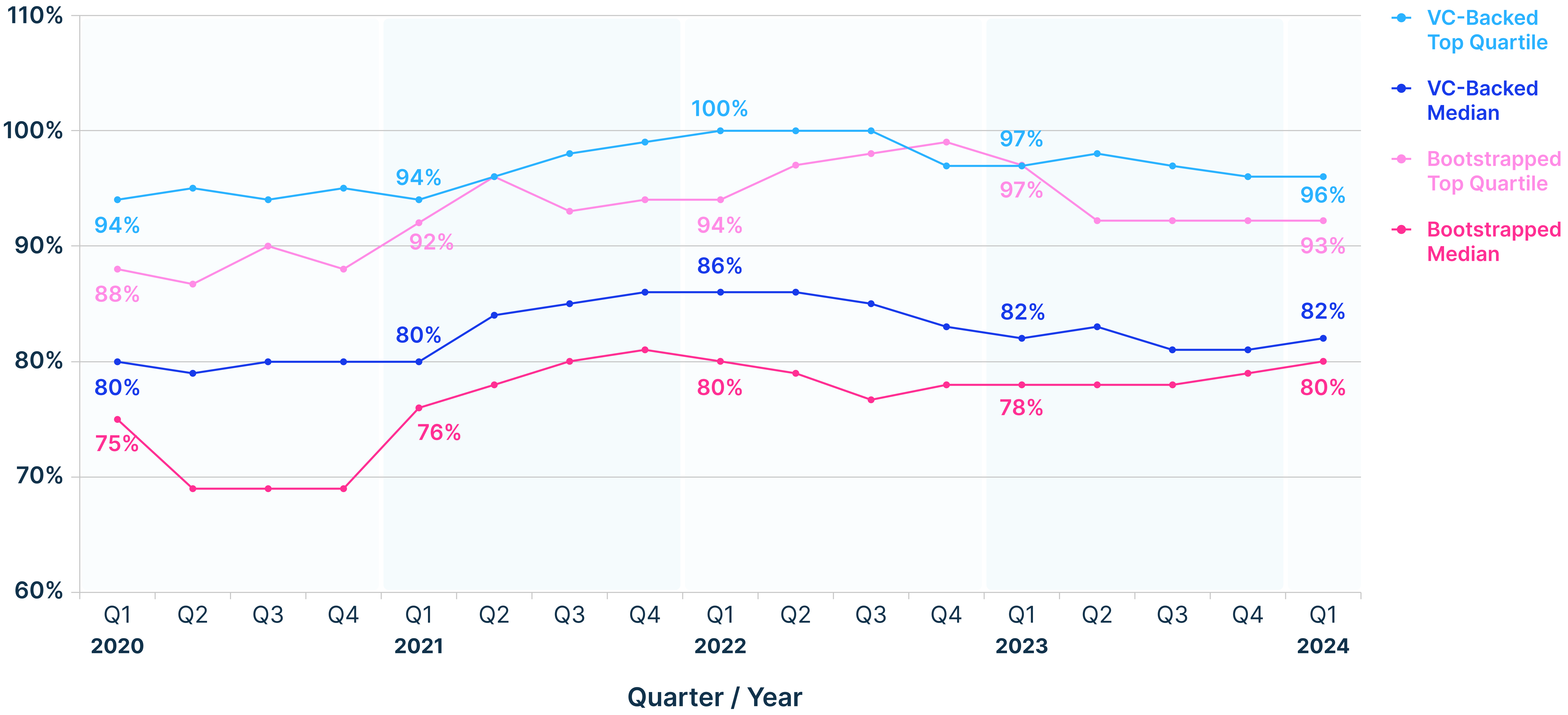
Net Revenue Retention stabilizes with VC-backed companies ahead of bootstrappers

Net Revenue Retention Rates (year-over-year) for companies with $1-30M ARR



$1M–30M ARR

Net Revenue Retention stabilizes with VC-backed companies ahead of bootstrappers. After the decline in 2020, the median Net Revenue Retention (NRR) for bootstrapped companies improved by 10 percentage points from Q4 2020 to Q3 2021. VC-backed companies improved their NRR by 7 percentage points from early to late 2021. While no similar improvements have been observed since then, the median NRR for bootstrapped companies is now more similar to VC-backed companies.

The top quartile for both bootstrapped and VC-backed companies reached around 100% NRR during 2022 but slightly declined ever since. Currently, VC-backed companies are performing better.

With new business declining, both bootstrapped and VC-backed companies rely more on expansion growth. Acquiring new customers is costly, so all SaaS companies pivoted their strategies to leverage expansion as a growth driver during the recession.

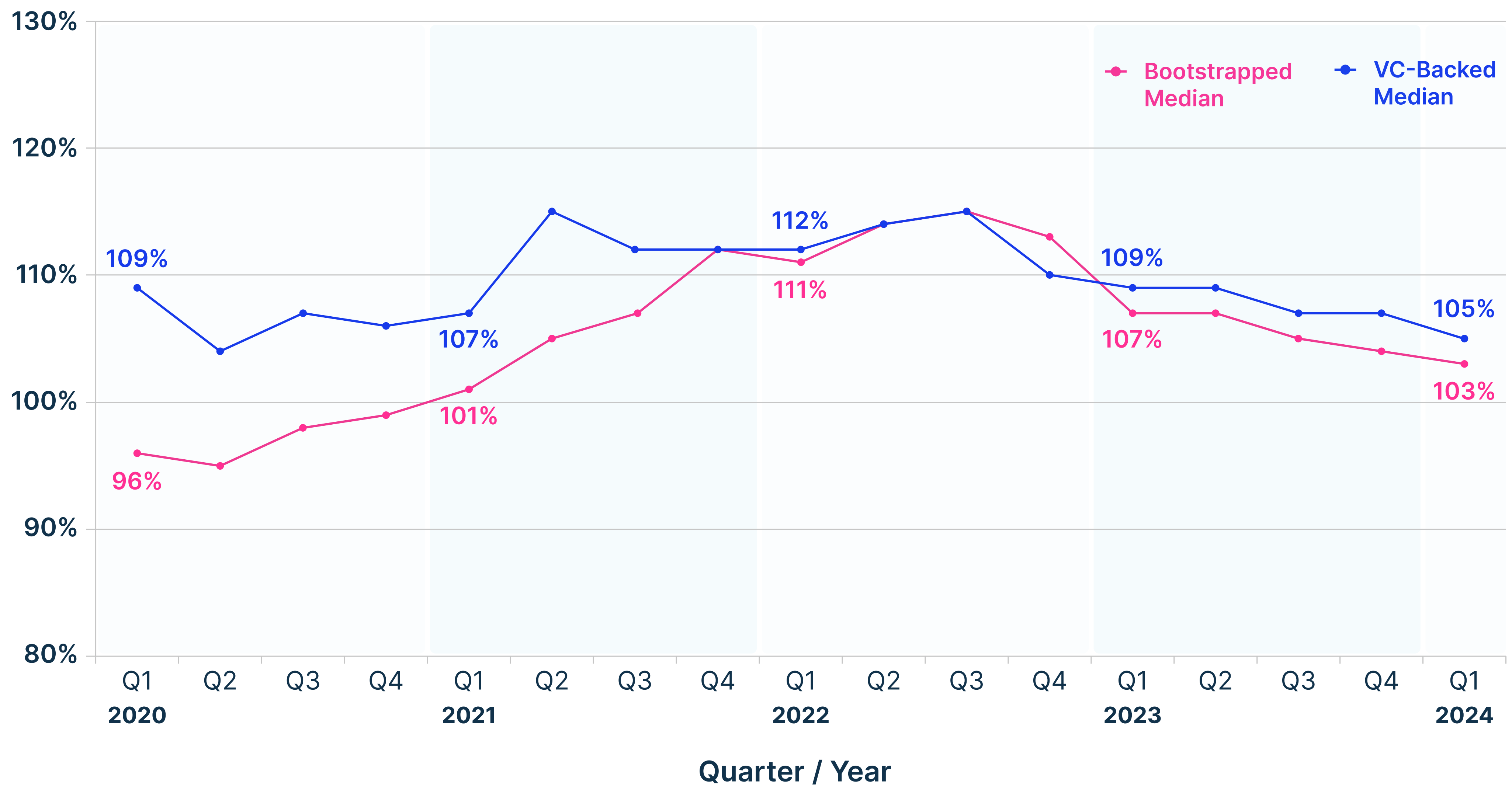
Net revenue retention shows VC and bootstrapped companies doing essentially the same numbers. I personally wouldn't trade 70% of my business for 200 basis points on NRR. Revenue overall is obviously getting crunched for everyone but from the peak to today there is a 4.5x drop in ARR growth and 4.4x for bootstrapped companies, so SaaS sucks just as much whether you're bootstrapped or VC backed! Overall, I'm not really surprised by this data as it just confirms that over the long term, if you want to run a profitable SaaS business, being bootstrapped is far more profitable for founders than going the venture route.

Liam Martin, Co-founder and CMO, Time Doctor

$1M–30M ARR

NRR over 100% is consistently achieved by top decile of all SaaS companies

Net Revenue Retention Rates (year-over-year) for top decile of companies with $1-30M ARR



NRR over 100% is generally achievable consistently, only by the top decile of SaaS business, whether they received external funding or not. From Q4 2021 until Q1 2024, NRR for bootstrapped and VC-backed companies has followed a similar pattern, peaking in Q3 2022.

Maintaining NRR of over 100% is significant, typically reserved for top-performing SaaS companies. From Q4 2021 to Q1 2024, NRR trends for both bootstrapped and VC-backed companies peaked in Q3 2022 but have since declined. Bootstrapped companies saw a 5-point drop, and VC-backed firms experienced a 6-point decline. This suggests that the top-tier SaaS businesses, regardless of their funding model, have faced some headwinds in maintaining those high expansion metrics in more recent quarters.

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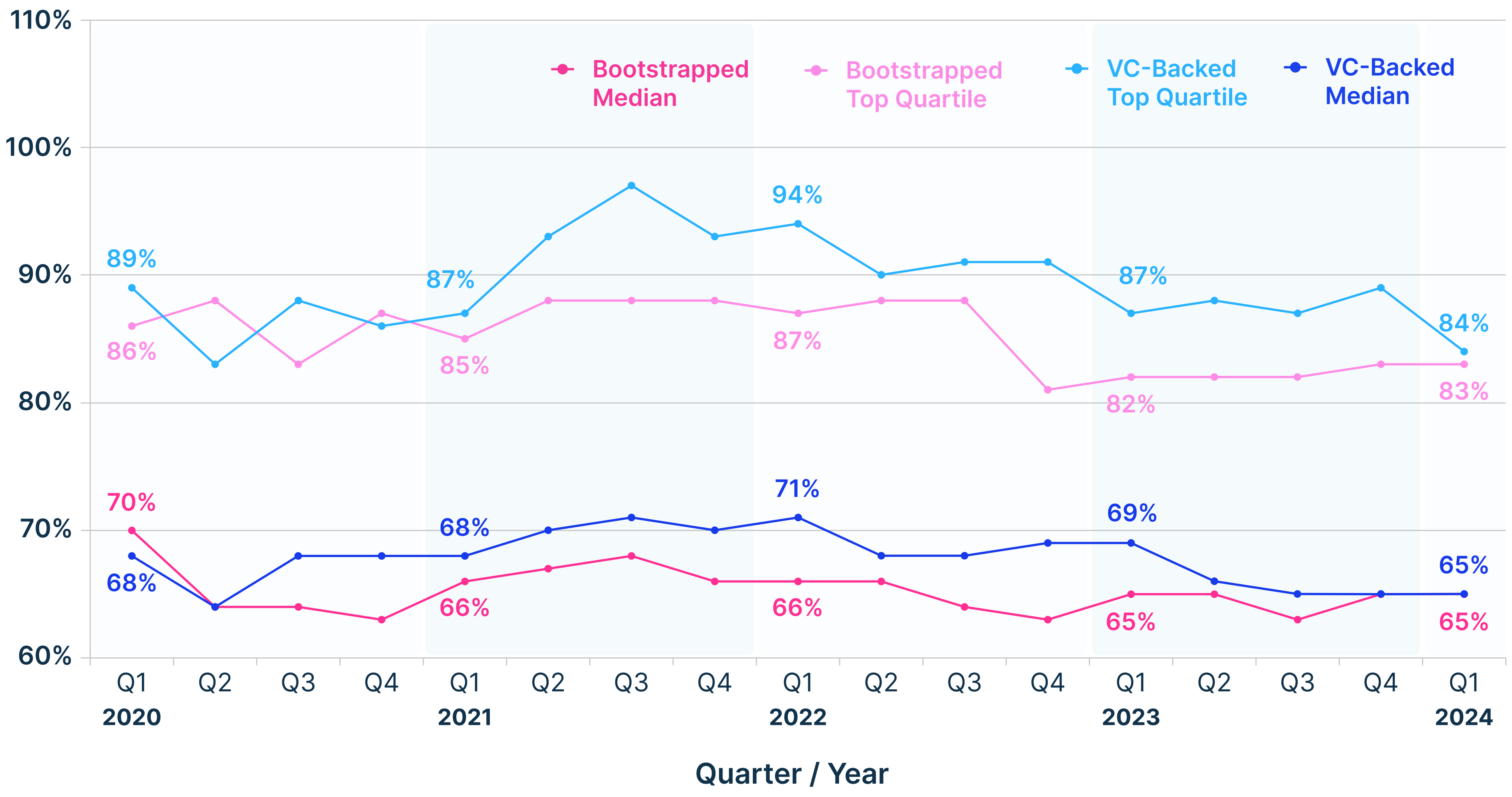
Below $1M ARR

VC-backed SaaS had small NRR advantage, now rates are nearly equal to bootstrappers

Net Revenue Retention Rates (year-over-year) for companies below $1M ARR



VC-backed SaaS companies typically have slightly higher net revenue retention (NRR) rates than bootstrapped ones. In contrast, customer retention rates are similar among all SaaS companies below $1M ARR, suggesting that customer loyalty doesn't differ much if a company is funded or not. However, net revenue retention data shows that VC-backed startups are able to generate more revenue from their existing customer base through effective upselling and cross-selling strategies.

Since early 2023, the gap between median NRR for VC-backed versus bootstrapped startups has narrowed and NRR is practically the same for all SaaS. With funding drying up, there may be a correlation between funding levels and the ability to deploy expansion-related growth strategies.

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Chapter 5

New business, expansion and reactivation

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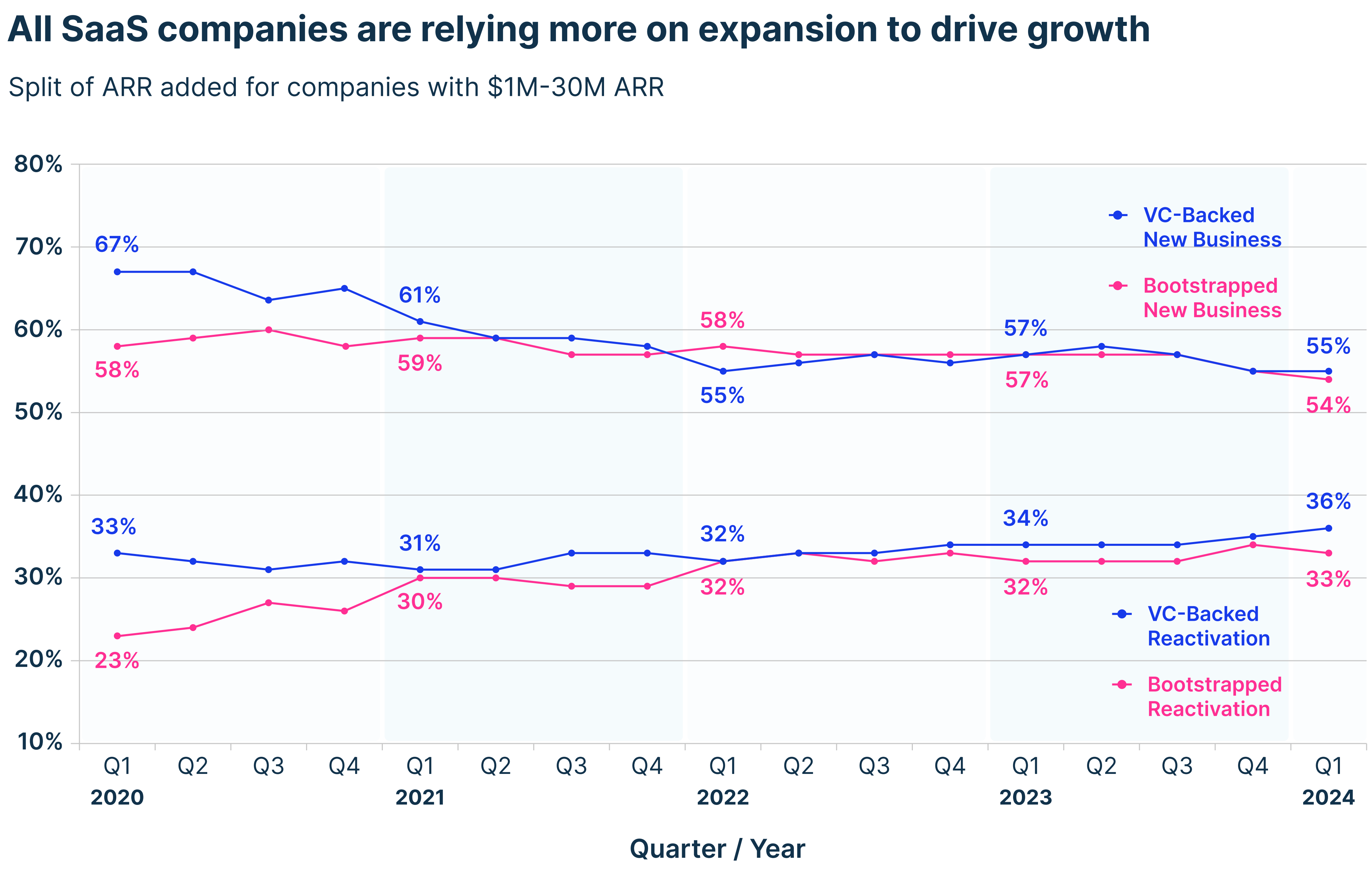
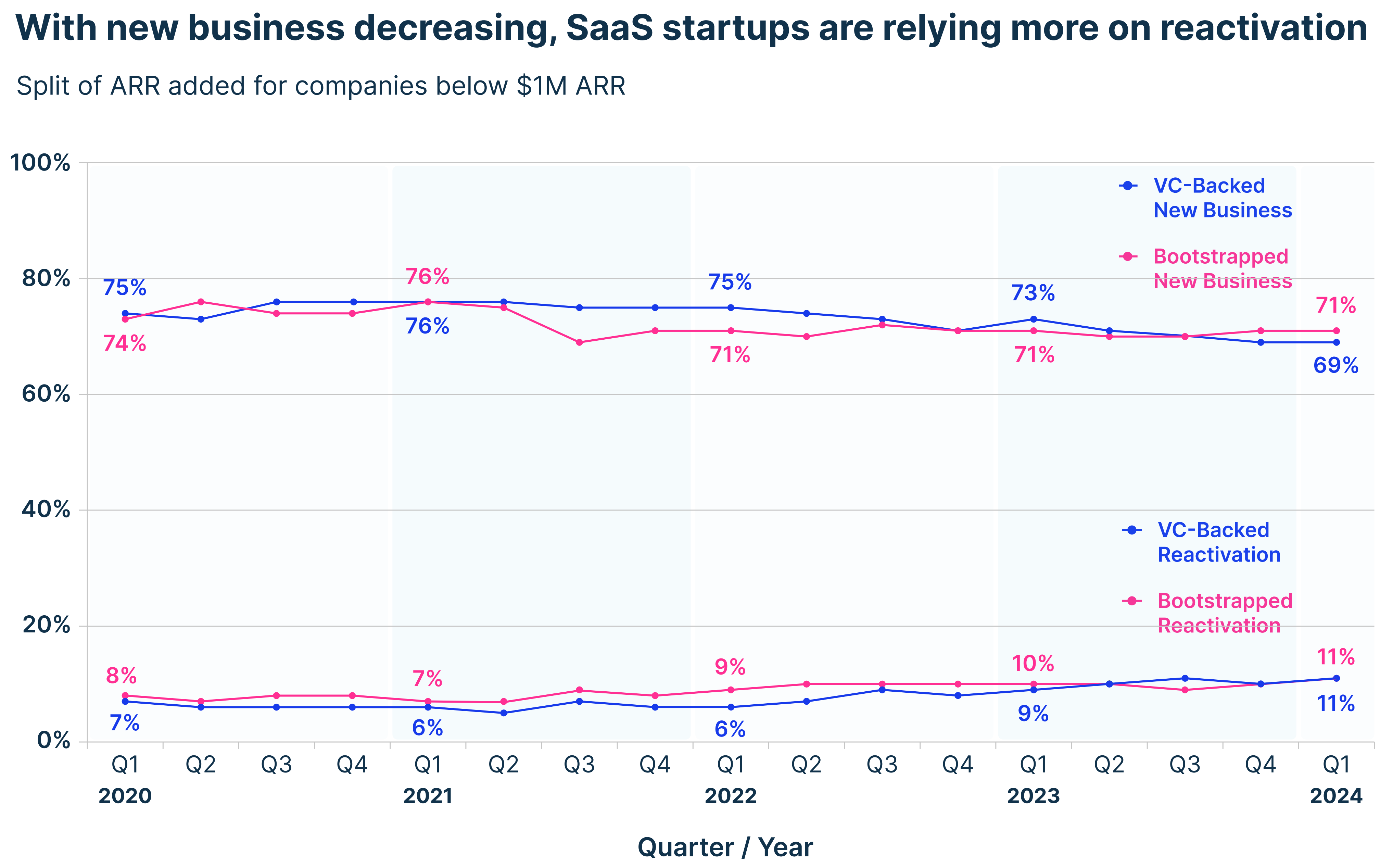
$1M–30M ARR



In the last four years, the proportion of ARR from new business for bootstrapped companies went from 67% to 55%. For VC-backed companies, this proportion changed from 58% in Q1 2020 to 54% in Q1 2024. Reactivation has been constant for both, oscillating between 10-11%.

Initially, bootstrapped companies relied more on new business than VC-backed companies. However, early 2021 marked a similar trajectory for both types of SaaS businesses. Since then, the proportion of ARR from new business has declined, and the values are now practically identical. With the slowdown of new business growth rates, both VC-backed and bootstrapped companies are increasingly relying on expansion to drive growth.

$1M–30M ARR



For bootstrapped the split of ARR added has slightly shifted, but it was VC-backed companies that have felt the change the most over the course of 4 years. Affected by the slowdown in new business growth, the proportion gained from new business ARR has decreased.

While revenue gained by expansion has remained steady, VC-backed companies saw the proportion of reactivation revenue increase.

Over the past couple of years, ARR from reactivation has risen by 5 percentage points, reaching 11% of total ARR added. The data indicates that currently, VC-backed companies are relying more on reactivation as a growth driver.

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Methodology and Glossary

We analyzed anonymized and aggregated data from ChartMogul to calculate all aggregates. For milestone research, we used data across all time periods.

We partnered with Dealroom to classify our data into bootstrapped and VC-backed companies. A company has been categorized as VC-backed if it raised a venture capital round or is supported by a venture capital firm, corporate venture firm, or accelerator. A company has been categorized as bootstrapped if it has not accepted any external funding.

ARR: Annual Run Rate (MRR × 12)

MRR: Monthly Recurring Revenue

CRR: Customer Retention Rate

NRR: Net Revenue Retention Rate (also known as NDR, Net Dollar Retention)

ARR added: Sum of New Business ARR, Expansion ARR and Reactivation ARR

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