The One Who Defines the Category Wins the Category

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No objective is more important for SaaS founders than early category leadership. Over 75% of the market cap in a software category typically goes to the category leader. VCs know this, so funding disproportionately flows to startups that can lay claim to early category leadership. Perception often becomes reality, as the startup with the most resources to spend on sales and marketing builds the largest subscriber base, which gives it more resources. This virtuous cycle causes most SaaS categories to accrete to a big winner over time.

It's not just VCs who want to back the category leader — it's customers too. The reason is a variation on the old saying that "nobody ever got fired for buying IBM." Nobody ever gets fired for buying the category leader. The category leader wins the easy sales — the order taking — while also-rans must sell hard to win every deal.

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If you've ever sold at a new startup, you know just how hard the early sales are. It takes an enormous amount of convincing to prove the ROI and win the trust of the initial customers. Every deal feels like it was manufactured by hand. These issues dissipate once you are recognized as the category leader. Many customers will automatically order from the category leader once they understand themselves to have the problem that category solves.

The purpose of brand marketing for all SaaS companies, therefore, is the same: to establish category leadership. While marketing is no substitute for a great product with happy customers or a successful sales motion, nothing can amplify the success of those efforts like good marketing. In the case of a new category, this requires proving that the category actually exists. In the case of an existing category, it requires redefining the category around your disruption. In either case, it takes an active marketing strategy to bring the market around to your point of view.

Classic Salesforce ad. Even today, it's all about category leadership.

- **Define your category.**

It makes intuitive sense that the startup that defines a new SaaS category will be perceived as the early category leader. It will thus be the beneficiary of investors, talent and customers all seeking to coalesce around an early leader. Conversely, a startup that allows itself to be placed in a category defined by others will be viewed as a late entrant facing tough headwinds.

It is therefore imperative that you define your category. This is best done in 2–4 clear descriptive words. Avoid flowery language; it needs to be immediately obvious what you do. This is your elevator pitch for an era in which no one has time for an elevator ride anymore. For example, Internal is "No Code Internal Tools"; Product Board is a "Product Management System"; Sendoso is a "Sending Platform" for direct mail, corporate gifts, and customer swag.

Forking existing categories around new verticals or platforms is a viable approach. In 1999, Salesforce could differentiate from CRM leader Siebel by introducing the concept of "Cloud CRM." Today, calling yourself "Cloud CRM" would brand you as a loser to Salesforce, but if for example, you labeled yourself as "CRM for E-commerce," you could then make the case for why e-commerce deserves its own CRM vertical. The new category should underscore your differentiation.

- **If you can't define it, redefine it.**

If you're not creating a new category, you need to redefine the existing one. Don't play by other people's definitions. Yammer adopted this approach a decade ago, when we entered a category led by late-stage startup Jive, who won Gartner's Magic Quadrant every year for "Social Software in the Workplace."

Gartner excluded Yammer from their quadrant because we lacked certain features on their checklist. By contrast, Jive had been dutifully building for years to meet Gartner's requirements so their sales reps could take Gartner's endorsement into Fortune 500 deals. This is how enterprise sales work.

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Initially upset over our exclusion, we soon counted our blessings. If we had been placed in the "Social Software" category, it would have been as a "challenger" or "niche player." Jive's sales reps could have used this to undermine us in every deal. Better not to be mentioned at all. Besides, we weren't interested in developing Gartner features like wikis and blogs for enterprises. Our product was based on the new paradigm of social networking. Gartner's category definition looked to us like a hodgepodge of old technologies.

We advanced our own category definition, Enterprise Social Networking (ESN), a private secure social network for inside your enterprise. This was more intuitive to almost everyone, and it allowed us to ride the media coattails of what was happening in the consumer space. Freed to define our own product roadmap, we could determine what ESN meant. Our north star was user engagement and bottom-up freemium adoption by employees. On-premise competitors deployed by IT struggled with actual usage and could not compete on these dimensions.

Our category definition was validated when Marc Benioff made "The Social Enterprise" the theme of Dreamforce in 2011. Although this introduced a scary new competitor, Salesforce's Chatter, it cemented our view of the category, helping us brush off old definitions and competitors.

Gartner's Magic Quadrant for "Social Software in the Workplace" when Yammer entered the market. This was a crowded category so we redefined it.

- **Categories are how business understands problems.**

Business understands problems by categorizing them, so convincing the world that a new category is valid is tantamount to winning. For example, let's say you're a SaaS company creating tools for product managers. Your argument would go something like this: "Every other team in the company has its own system: Sales has CRM (Salesforce), the Finance team has ERP (Netsuite), Customer Support has CS Ticketing (Zendesk). But Product has been ignored. Product Managers need their own software — a Product Management System. In fact, every company needs a PMS or it will be shortchanging their product managers and ultimately their product." Then, every time you announce a new customer or revenue milestone or a new fundraise or a product release, you will cite it as evidence that PMS is a major new category of business software. As the world buys into this framing and the category takes hold, the sale will switch from an evangelical sale (which is hard and handcrafted) to order-taking (which is easier and repeatable). If you are the definer, it's likely you will be the one taking most of the orders.

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- **Use customer testimony to prove the category.**

Your most powerful weapon in proving out a category is customer testimony. Prospects will naturally be suspicious of any claims you make. Your message is most credible coming from others, especially customers who can testify to their first-hand success with the product. Benioff explains this in his book Behind the Cloud (in particular, see Chapter 3 on marketing). One of Salesforce's most successful ad campaigns showed photos of CEOs with pull quotes about how Salesforce had helped their business become more successful. Benioff was never featured; it was all about the customers. Make sure you get logos, press releases, case studies, and reference accounts, which all serve to reinforce your market leadership.

- **Shape the category requirements to position yourself and de-position competitors.**

Once you've defined the category, you can flesh out the category requirements. This is the time to talk about features. You can position yourself and de-position competitors by explaining what functionality is critical for a product of this type.

Yammer's competitor Jive was run by top enterprise sales executives and was excellent at this. We always knew we were in a bake-off with Jive when the prospect asked us about analytics. Jive had just rolled out an analytics package. Their argument was "if you can't measure it, it doesn't have value." A pretty compelling argument. So we raced to release a good-enough analytics feature and responded, "of course you need to be able to measure it — and we have that — but what you're really trying to measure is employee engagement. Yammer is the only one that employees adopt on their own." And so on it went, both sides looking for their next trump card.

In the end, the deciding factor in our competition was architectural. Yammer was born in the cloud whereas Jive was on-premise. Eventually our viral freemium model swamped them, in both leads and popularity. If you can position yourself around an architectural strength and de-position your competitor around an architectural weakness, it will be very hard for them to respond. Architecture is destiny.

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- **Pick noble fights but keep it positive.**

Going up against a large legacy incumbent is common when you're redefining a category. It's fine to draw sharp contrasts — and even pick fights — as long as you punch up not down, stay product-focused, and keep the tone positive. In the early days of Salesforce's ascent, Benioff obviously drew pleasure from ridiculing Oracle's cost and complexity. When Oracle introduced its "private cloud," an expensive on-premise database, Benioff mocked it by showing a picture of the massive piece of hardware under the headline "Beware the fake cloud." Lighthearted mocking of an incumbent's legacy product is the best tone.

- **When big companies enter your category, treat it as validation.**

Eventually, if you're successful, big companies will stop seeking to discredit your disruption and seek to copy it. When that happens, do not react with spite; welcome them to the category. It's validation of everything you've been saying for years. Elon's reaction to Ford's announcement of a new electric SUV, suspiciously timed to step on his unveiling of the Cybertruck, was a perfect example of this. He congratulated Ford and cited it as progress in moving the world to electric vehicles.

When incumbents adopt your category definition, when they define their agenda to respond to you, instead of your needing to respond to them, don't sweat it — it means you're the new category leader.