How David Sacks built the first bottom-up playbook for enterprise

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10-13 minutes

> *"The PayPal experience didn't really prepare me for sales and go-to-market. When we launched Yammer, we had a naive idea that if the product worked then someone would pull out their corporate credit card and just buy it."*

In a competitive tech landscape where differentiation is key, David Sacks is a category creator in more ways than one. As the Founder and CEO of Yammer, he defined the category of "enterprise social networks" when most were focused on building "consumer social networks". While large companies were applying a "top-down" sales approach, he developed a "bottom-up" strategy that's become the default for early stage SaaS companies. His contrarian approach paid off: Yammer was acquired by Microsoft for $1.2 billion in 2012. He's currently the Founder and Managing Partner of Craft Ventures, a firm investing in market-defining products.

I recently sat down with Sacks at SaaS School, an invite-only program for entrepreneurs to learn from leading experts at the fastest growing software companies. His lessons on the early days of Yammer provide a go-to-market playbook for early-stage B2B founders:

- Taking a consumer approach to enterprise
- Product positioning through category-creation
- Generating repeatable and non-associated revenue (e.g. "crossing the penny gap")
- Building a strong sales organization

There's no one-size-fits-all approach to building a SaaS business. However, an understanding of best practices and winning strategies will help you avoid common mistakes, leaving more time for winning customers and finding product-market fit.

SaaS companies like Slack, Dropbox, and Zoom have applied specific strategies to win customers — tactics that resemble those of consumer companies rather than enterprise firms. They've leveraged brand and virality to expand within workplaces and win both market share and mindshare.

When Sacks started Yammer in 2008, there were key differences between consumer and enterprise companies and how they approached go-to-market strategy:

Consumer founders believed	Enterprise founders believed
Cloud is the future	Cloud is insecure; on-premise is what buyers want.
Users adopt software	IT installs software.
Product > Sales	Sales > Product
Engagement matters	Renewals matter.
Measuring and A/B testing is valuable	We can't measure what's happening behind the customer's firewall.
Rapid release cycle is the best way to build	Shipping frequently creates too much change management. A new version once/year is all they can handle.
Freemium leads to revenue growth.	Free means it doesn't have value.
Virality is the ultimate freemium tactic.	Virality - what's that? Sounds like a disease.

Sacks and his team at Yammer took an early bet on blurring these lines:

> "*A decade ago there was a really sharp divide between consumer and enterprise, these spaces were highly compartmentalized. We brought a lot of consumer thinking and consumer tactics to enterprise*...*Gradually over the last decade or so, the barriers have really come down, to the point where I think most founders see this consumerized approach as probably the best way to develop enterprise software.*"

Individuals and startups like to use tools that are category leaders, while angel investors and venture capitalists like to invest in them. This presents a problem if you're building a late-entry product that isn't mature enough to compete with leaders or has several top-tier competitors. New companies trying to unseat incumbents frequently fall short and risk being categorized as a "niche player" or "challenger" on competitor quadrants.

The solution is in positioning: don't compete head on with a category leading incumbent, create your own category.

Sacks took this approach at Yammer, pioneering the enterprise social network (ESN) category:

> "*Social networking was very top of mind. The idea for Yammer came from the starting point, 'What if we took this consumer idea of social networking and made it a secure Enterprise version?'*"

Category creation and becoming a "category king" allows new companies to bypass rivals and build in an uncontested space. Rather than competing in a crowded market, category kings create their own. HubSpot created inbound marketing. Drift introduced conversational marketing. These categories shift the conversation from *participating* to *defining*.

> "*The whole purpose of category creation is to brand yourself as the leader of something. Everyone wants to buy the category leader. It's very important that you create a category that you can actually win.*"

Creating a new category is just one part of the equation; the other is evangelizing it. Marketing strategies like content marketing, PR, and events are essential for explaining your new category and why it matters:

> "*No one cares about your features. You have to talk about the larger problem that you're solving and how the world will be different if what you're doing works. Explain the change*

> *that you're bringing about in the world and why that's important.*"

Yammer's early days of evangelizing ESN involved community initiatives like events. Taking a page from the Salesforce playbook, they hosted their own Dreamforce-eque event called YamJam and took events on the road. They invited their successful users to speak on panels and testify to the success they were having with Yammer. These were the early stages of building a movement.

As Sacks writes, "the one who defines the category, wins the category".

There's a key milestone for every company: crossing the penny gap. This is when a startup "makes its first bonafide sales". Often, first sales comes from family, friends, or an affiliated business (e.g. startups from your Y Combinator batch). Alternatively, a "sale" might come with a statement of work. Unfortunately, as Sacks notes, these sales don't count when it comes to earning that first $0.01:

> "*There are some caveats to this idea of the first penny. It has to be totally unaffiliated revenue. It cannot be a friend, it cannot be a classmate... It doesn't cross the penny gap until you know it's completely repeatable.*"

Crossing the penny gap and earning your first repeatable and unaffiliated sale requires iIterating on your MVP and creating the first version of your product that a customer will buy. Unfortunately, this process takes time. Sacks refers to this period as "The Wilderness Period":

> "*You try to sell your minimum viable product, encounter objections you hadn't anticipated, race to code the new requirements (the new MVP), and repeat. The Wilderness Period can take two months, two years, or forever.*"

Escaping the Wilderness Period and finally crossing the Penny Gap, requires clearly reverse-engineering your buyer and concisely answering the following questions about your product:

- What immediate pain do you solve?
- Who exactly is the buyer?
- What is the sales motion?
- How does the team and its belief system need to evolve?

Questions for Escaping the Wilderness Period	Solutions for Crossing the Penny Gap
What immediate pain do you solve?	Have a suite of features, or a single feature, that solves an immediate pain point. Your product should be a pain killer, not a vitamin.
Who exactly is the buyer?	Determine your ideal customer profile and understand them: their industry, role, and placement in the org chart. Determine if they're the buyer or influence buying decisions.
What is the sales motion?	Develop a strategy for getting in front of the buyer, charting a journey from the entry point into a company to closing the sale. Include all key touch points including emails, sales pitches, demos, and case studies.
How does the team and its belief system need to evolve?	Ensure you have the right talent at the table to build a successful sales organization, particularly as a product-driven company. Let customer objections guide how you refine both your sales pitch and key product features.

Founders who opt for a more consumer and mostly self-serve approach to enterprise can neglect the need to build a robust sales organization. Sacks notes this is a mistake:

"We launched Yammer, we had this somewhat naive idea that if the product worked, if it took off, that enterprise would simply pull out their corporate credit card and just buy it, that we would never need to build a sales department. The central learning of Yammer, from a company building standpoint, is that we had to get good at sales."

Choose your lead generation model. SaaS companies typically choose between two product pricing strategies to fill their lead funnels: free-trials or a freemium model. David discusses the difference between the two and how to decide which one is right for your business in his SaaS School talk and in a blog post.

A freemium model uses a *functionality-based paywall* and has its pros and cons:

Freemium	
Pros	**Cons**
• High virality potential • Higher # of users at the top of the funnel	• Reduced urgency to buy • Competes with the premium version of your product • Requires constant iteration and product management (time, focus, money) • Paid marketing is hard to measure • Higher attrition

A free trial uses a *time-based paywall* and also has its advantages and disadvantages:

Free Trial	
Pros	**Cons**
• Increased urgency to buy • One and done (set it and forget it) • Paid marketing is easy to measure • Lower attrition	• Low virality potential • Lower # of users at the top of the funnel

Though a freemium model is what was implemented at Yammer, Sacks generally recommends a free trial model to SaaS founders. While both are valid product pricing strategies for generating leads, startups still need a strong sales process in place to close leads.

Decide on a bottom-up strategy. While free leads can fill the funnel and generate virality, they generally don't self-close. That's where your sales strategy comes into play.

A bottom-up sales strategy for go-to-market can take two forms:

- **Start by selling to startups and small businesses**. Work your way up the market and gradually go after larger and larger customers.

- **Go after enterprises, with strategic precision**. In this case, skip the C-Suite, locating end-users and line of business owners within the company.

Yammer opted to do both:

"*We sold to small businesses and would sell to enterprises. We basically would go anywhere our freemium leads would take us and since we were taking off virally inside both enterprises and small businesses, we would do both.*"

Make the first sales calls; then build a team quickly. Before making your first sales hire, it's crucial for founders to know the hesitations their potential customers have about their product:

> “*Founders should do the initial sales because it's really important to hear the objections yourself. But, I think that very soon after that, it's a good idea to hire some sales talent. It will help you grow and scale faster.*”

Make your sales team successful. Equip your sales team with the resources it needs to succeed. Sacks says this includes sales operations, sales enablement, and a customer success team.

Sales Support Functions

Sales Support Functions	**Responsibility**
Sales Operations	This team fine-tunes your tech stack, including your CRM (e.g. Salesforce), assists with lead routing, and optimizes the entire sales funnel for peak performance.
Sales Enablement	This team creates and matches content to prospective buyers. This includes surfacing customer stories and creating key sales assets like white papers and case studies.
Customer Success	This team ensures that your customer stays successful and doesn’t churn. This includes customer support, fielding questions and feedback, and anything else that helps them get the most out of your product.

Determine your buyer. Enterprise sales presents a challenge because there are a variety of stakeholders with complex requirements. To get started, it’s key to know precisely who your buyer is.

Sacks suggests asking these four questions to determine who your buyer is:

1. Who's my end user?
2. Who's the business owner?
3. Who's the technology owner?
4. Who's the budget owner?

> “*In a small business or a start-up, it's all the same person, it's the founder. That's the beauty of starting at the very low end of the market.*”

This does not hold true for enterprise sales, where multiple people are generally involved:

> *“In the enterprise, those four people can all be different. The end user could be an average employee. The business owner could be a VP of Sales or Marketing. The technology owner could be IT. The budget owner could be the CFO. That's what makes that sale very complicated.*”

Closing an enterprise deal requires you to convince all four of these stakeholders of the value of your product and how it will change their business. This is a tough feat. The solution? Find the lowest person on the org chart who might have all four attributes of the end user, business owner, technology owner, and budget owner. Sacks describes this as the “lowest atomic unit in the enterprise”. Then, sell to that person.

Overall, building a strong sales organization is a key part of an enterprise go-to market strategy that wins customers and creates product advocates on your route to product-market fit.

Watch the full discussion at SaaS School with David Sacks here for extra insights on how startup marketing is like the SATs and why every SaaS startup founder needs to read Chapter 3 of Marc Benioff’s book *Behind the Cloud*.

As always, I'd love to hear your questions, thoughts and comments on Twitter.