The Problems With Martech, and Why Martech is Actually for Engineers

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9-11 minutes

Since I spent some time in VC land and have a background in marketing, a lot of people ask me about martech, or technology built for the marketers. Are these good businesses? Which tools should they use/are on the rise?

In short, I hate martech, and think martech will decline as a category, and most martech businesses will not be very successful. I think there are a few reasons for this that are not well understood, but if you understand them, it can unlock some martech opportunities that are still quite large for entrepreneurs, and help marketers understand which technologies to bet on vs. bring in house. The main misunderstanding is that successful martech is actually for engineers, not marketers. Let's talk about why that's the case.

Martech is a Response to Engineering Constraints
A controversial opinion I have stated before is that the marketing function in technology companies is usually a response to engineering constraints. If you don't have enough engineers to build a system to manage bidding for performance marketing, you hire a marketer. If you don't have engineers that can work on SEO, you hire a marketer. If you can't build a great email system, you hire a marketer. Most key marketing roles are manual tasks that can better be solved with engineering. The smartest marketers, realizing this, started automating a lot of their work through third party tools, and if they could, even better, first party tools. This is how martech exploded over the last decade. Marketers actually had important, if not critically under-weighted, responsibilities for the company. For example, I was in charge of getting new people to try ordering online at Grubhub, and to keep them coming back once they did. My team used a lot of martech tools to do that.

Engineering Constraints Are Being Laxed
While hiring engineers inside companies to solve these problems is still extremely competitive, engineering constraints are (slowly) being laxed across every technology company I meet. Startups and technology companies today have many more engineers working on more functions (due to improvements on engineering technology) than we had at Grubhub during similar stages of our company.

These engineering constraints being laxed means martech companies have to compete with the engineers at the company for the best way to solve a marketing problem. And besides there being more engineers in a company to work on these problems, engineers are now more likely to want to work on these problems or reject these tools as best practices. Growth teams have emerged to work on a lot of the traditional marketing problems marketing teams bought software for: email, SEO, landing page optimization, onboarding, etc.

Martech now finds itself in a more competitive environment since "build" in the "build or buy" equation is more likely than it used to be. Also, if engineers inside a company do decide to build instead of buy a solution, a lot of times what they build is more effective than what the martech provider can offer. This is not to say engineers inside tech

companies are better than engineers inside martech companies; engineers inside tech companies simply have unfair advantages. Not only can engineers building the solution for their company build directly to the needs of their company instead of adapt some generic solution; they can also more easily integrate with the data needed for these tools to make the right decisions. It is notoriously difficult, for example, for many martech tools to integrate conversion data, and certainly much harder for lifetime value data. This is much more easily done with an in-house built tool.

Platforms Also Limit Martech's Reach

Martech companies face the squeeze from the other side of the integration as well. Usually, martech companies integrate into some other system: advertising companies like Google and Facebook, adtech companies like exchanges and demand side platforms, email service providers and email clients, etc. What happened is these martech companies built value added features on top of a platform to deliver extra value to customers. What is happening now is those platforms are either integrating those best features themselves, so you don't need the martech company for it anymore, or deleting the access that enables it, because the platform doesn't actually want that level of transparency.

Where Can Martech Be Successful?

So these companies have the platforms stealing their features or cutting off the access that makes them possible on one side, and engineers at the companies of their clients building deeper integrations themselves. So, if most martech solutions have a disadvantage to competing with in-house engineering solutions, or the platforms starts competing with them, what type of martech tools have an advantage?

Option 1: Leverage Data Network Effects

One key example where martech thrives is when the external data becomes more important than the internal data. If a martech tool can be gathering data from multiple companies, and create a data network effect from this aggregation, thereby helping all companies improve in a way they could not on their own, they are very defensible. Sift Science is a great example of this. By being used as a fraud provider across thousands of companies, they have data any individual company won't have in determining if a transaction is fraudulent or not.

Option 2: Manage Pain

Similarly, integrations with a bunch of key operators or vendors are very defensible in martech. Litmus is a classic example historically. Email providers have notoriously finicky rules around what renders in their systems and how, and they are not very transparent. Engineers and designers hate coding for email, and it's hard for them to remember all the rules for all the different types of email clients. Litmus allowed you to preview what your emails looked like across all major clients to spot errors before you send the email, and generally became an all-encompassing email QA tool. No engineer internally wants to build that, and they will never be as good as Litmus at doing it because Litmus has been doing it for billions of emails, so it has seen many more cases, and has better integrations with email providers. Another example of removing engineering pain is Heap Analytics, which auto-tags events, removing one of the most painful parts of setting up a new analytics vendor.

Option 3: Leverage Cross Side Network Effects

A more modern example is the customer data platform companies Segment and mParticle. These companies integrate with hundreds of other companies marketers use for various purposes: web analytics, conversion tracking for performance marketing, crash reporting, et al. Integrating these companies saves engineers time because they integrate once, and any other solutions they need can now be enabled instantly. These integrations not only help marketing, but product, and engineering as well. These companies have created a cross side network effect between customers and other technology providers.

Data platform companies are hard to rip out once you integrate because they are so integrated in all of your processes.

The Real Answer: Change the Target Customer
Okay, so all of these are great options, but they actually share one thing in common: they have really shifted the target customer to the engineer instead of the marketer. Sure, the marketer may be the person requesting the solution, but the solution is chosen because the engineers like it. Many things an engineer has to do are painful, and as much as engineers like to solve their own problems, if you show value to them, they will appreciate it. So I am very bullish on engtech companies masquerading as martech. Other examples of this besides the ones above are data visualization platforms like Mode and Periscope.

Bonus Option: Pick the Right Marketing Customer
One other strategy that is very successful for martech companies is to build targeted solutions for the types of companies where marketing is more central to the organization's success. While marketing is ebbing in importance in most tech companies, one area it is thriving is in ecommerce companies, whose main playbooks are logistical on product delivery, and where brand + performance marketing drive all sales. The product is something delivered offline, so the product and engineering teams are more subservient to marketing than in other functions, and because the product is delivered offline, these teams usually have less engineers than other companies. Narvar is a great example for ecommerce tracking. Buffer is a great example for social media marketing. Canva is a great tool to help design creative for marketing campaigns and social media posts.

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Martech is a very challenging space for an entrepreneur. If you are going to tackle it, there are distinct strategies like data network effects, pain management and maintenance, and cross side network effects that make it more possible to build a sustainable business. Approaching the right customers, either in role (engineering) or space (ecommerce) also make the road easier. If you have any other tips on building a great martech business, feel free to leave them in the comments.

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