

Olin Thompson

Advancing the business of software

Vertical Focus – By the Numbers

By Olin Thompson

Vertical, vertical, vertical. Software companies, service providers and even hardware companies are making public statements about their vertical strategy, focusing their efforts on a specific type of industry, for example banks, or steel mills or bakeries. However, for many of them, the word vertical is an empty statement with little real action behind it. Often, their vertical strategy is more “press release-ware” or “PowerPoint-ware”. For others, the question remains, why vertical. For both, let us look at why a vertical strategy is a good strategy, looking at the numbers.

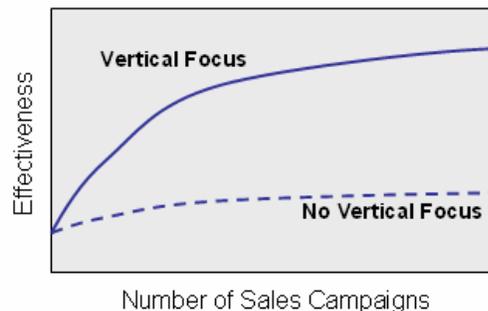
Of course, every company wants to look at the numbers that count the most, revenue and expenses. Increasing revenue and decreasing costs are the results of an effective vertical strategy.

Effectiveness – Experience Counts

The benefits of a vertical strategy are immense. For example, a vertical strategy can open new doors to where there may be less competition. Brand recognition is easier to establish in a specific industry. Members of a specific industry give more credibility to their peers, making references, case studies, and media more effective. Fewer product management trade-offs exist when a product is aimed at a specific market. On the revenue side, customers are often willing to pay a little more for an industry specific program supported by people with industry specific experience.

A major benefit of a vertical strategy is effectiveness in sales and marketing. With every sales campaign, win or lose, we gain experience and knowledge. We learn about our product, we learn about the prospect’s industry, business and people. This experience and knowledge are available in all later sales campaign. The question is how much can we benefit from what we have learned.

Sales and Marketing Effectiveness



Taking an extreme position, with no vertical focus, no two sales campaigns involve the same industry. What we learn about our products may help, but only in a generic, non-industry way. We derive limited or no value from what we learn about this campaign’s industry, business and people.

When we win with no vertical focus, we have a potential reference but one which has limited value. A savings and loan is not a great reference for a steel mill or a sporting goods retailer is not a great reference for a ski resort.

However, with a vertical focus, each sales campaign contributes to our base of knowledge that will help us with future campaigns. Product knowledge reveals how our product can better serves specific needs, or how best to present a product feature.

Industry knowledge becomes the basis for future discussions, examples and war stories. For example, many industries have their own vocabulary that everyone in the industry uses instinctively. Specific government regulations are part of many industry scenes, so much so that people just assume a certain level on understanding.

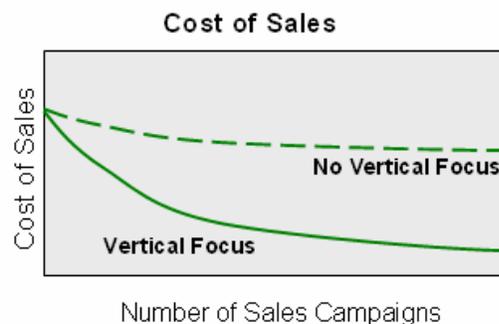
What we learn about a company and its people contributes to our understanding of the personality of the industry. Most industries have a “personality” which is common throughout the industry. Some are very conservative; some are aggressive in their spending.

When we win with a vertical focus, each new customer has the potential to become a reference for all future prospects. A ski resort wants to talk to a ski resort, an apple juice processor to an apple juice processor. The closer we can match what the prospect thinks he is, the more credible the reference.

When we have a vertical strategy and we engage to win a prospect within that vertical, we have an advantage. If we have no vertical focus, the tables are turned. It is very rare to find a vertical marketplace or a specific deal without at least one vertically focused vendor. If we don't have vertical focus, we will be at a disadvantage in every sales campaign because it will be extremely rare for us not to be facing a vertically focused competitor.

More Effective Means Lower Cost

When we become more effective, we increase our ability to win deals. Our win rate goes up because we are doing a better job and we are selling to prospects where we already know their industry, needs and issues. We have increased credibility with the prospect and we can add value from the point of our first call. With experience, we can do a better job of setting traps for our competition. We can set the bar high, so only we can pass the test.



What an effective sales and marketing effort means is a lower cost of sales. We take less time learning the needs of a specific prospect, and less time preparing for sales events and can spend more time on the higher impact sales efforts. With better references, we need less time and travel to bring the prospect to the point of closure.

With tightly focused marketing programs, we can spend less to get the prospects that have the highest odds of leading to business. With industry case studies, white papers, slide sets and brochures we actually can spend less time and money selling the prospect. The prospect sees less risk in our solution because they have proof it works in companies like theirs.

About the Author

Olin Thompson has over 25 years experience as a corporate executive in the application software industry. As a consultant, he provides business strategy, sales, and marketing guidance to application software providers. For more details, see www.olinthompson.com

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