

Vertical Marketing--What Is A Vertical?



Featured Author - Olin Thompson - December 9, 2004

Introduction

What is vertical marketing? Vertical marketing is product and promotion efforts targeted at specific industries. Many benefits are derived from vertical marketing. These include messages that are better received, credibility, marketing budgets that go farther, less competition, etc. A common mistake is the failure to understand the verticals you choose to target. The definition of a vertical is not what the vendor thinks; it is what the prospects think.

Vertical Marketing Motivation The benefits of vertical marketing are immense. For example, vertical marketing 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 opportunities more powerful. Trade publications are interested in industry specific stories that target the magazines' focus. Numerous opportunities exist by targeting traditional marketing methods at specific industries and niche markets. 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.

Definition of a Vertical

Vendors often define vertical markets as groups of customers who provide development and marketing efficiencies, for example, a set of customers having the same product needs are often defined as a vertical. A good example is the market for manufacturing software. That market is usually subdivided into process and discrete. While this is meaningful from a product function point of view, it may not be very meaningful relative to marketing.

End users do not think in terms of verticals. They do see themselves as a member of a group, and the definition of that group (see below) is what vendors need to identify as their vertical market. If you ask end users how they define their group, they might say they read the same magazines and attend the same industry events.

To understand how customers see themselves, I suggest the "cocktail party test". If you are at a cocktail party in your neighborhood and you ask people what they do, they will give you an answer that is understandable in the setting of a mixed audience. For example, they may say that they work for a manufacturing company. (Note, do you ever hear the words process or discrete in answer to this question? No, these terms were defined by the software industry and rarely used by end users). Now change the setting. At a meeting of manufacturing companies, they will still give an answer that is understandable to the audience. For example, the same person may say he is a food manufacturer at the manufacturing event. Change the setting again to a food event, and he may say he works for a bakery. Change the setting to a bakery event and he may say bread. Change it again to a bread event and he may say ready-to-eat organic craft breads.

Which one of these answers is correct? Which defines their vertical market? The answer is "all the above." Our cocktail party customer sees his company as belonging to all these groups. How does the vendor use this information to make its marketing more successful? Trade-offs exist. If your target is "ready-to-eat organic craft breads" your market will be small and your success rate very high with minimal competition. If you target "manufacturing" you have a huge market with lots of competition and success may be difficult.

Trade-Offs, Effectiveness versus Efficiency

The basic trade-off is between effectiveness and efficiency. Although many measurements can indicate effectiveness, in the final analysis it can only be measured in terms of the number of deals signed or revenue. The indications of effectiveness can include the number of leads, the number of mentions in target publications, etc., and these are good indicators and often help identify weak points or areas for improvement. Measuring effectiveness against the true goal of any business has to be done by looking at revenue, in this case how many deals are signed within the target verticals.



Efficiency is measured using resources expended (budget, people, etc.) against the results. Another way to evaluate efficiency is "how little do we need to spend to get the results we want?" To run efficient programs, most companies want to address the larger market to minimize their cost per target company.

As we increase the size of the target market (from bread to bakery to food) we lower the cost per contact. However, we also decrease the power of the message. A case study discussing a ready-to-eat organic craft bread company will have a much greater impact on our cocktail party customer than one which talks about a soup company (food) or an auto manufacturer (manufacturing).

Our discussions have focused on marketing but we also need to include sales activities. Marketing addresses groups of customers. We have some control, but not total control, of who sees the messages. Sales target is a single opportunity in which we have complete control over our messages. Therefore, we can sell at a different level than we address in marketing. Marketing typically focuses on a higher level of market definition (bakery or food) while sales delivers a more targeted message, bread or even ready to eat, organic craft breads.

Summary

Vertical marketing is a very important concept for software vendors. The standard advice from consultants and analysts is "go vertical". It can mean the difference between success and failure. However, how you define your vertical markets can make a big difference. Too many vendors define their markets relative to how they think, not relative to how the target customers think. The only way to understand how the target customers think is to ask them. Then select your definition of verticals to balance effectiveness with efficiency.

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.

He can be reached at OT@olinthompson.com.

