

## **Target the Right Market**

by Jill Avery and Thomas Steenburgh

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*HBR's fictionalized case studies present dilemmas faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "HubSpot: Inbound Marketing and Web 2.0," by Thomas Steenburgh, Jill Avery, and Naseem Dahod.*

The knock on Jane Tamsen's office door startled her. Vikram, one of Jane's sales directors, poked his head in. "You ready for us?" he asked.

Jane waved him in. Andrew, another of her team members, followed. "Let's hear it," Jane said.

"The data are showing what we've suspected all along," Vikram started. "We're playing in two major markets. The first is small businesses—they have owners who run their own companies, fewer than 20 employees if that. The other is medium-size businesses with 20 to about 100 employees; the purchaser at these places is a senior manager, not the owner."

"I think of them as 'small Sams' and 'medium Marys,'" Andrew added.

“Creative,” Jane said.

Andrew had been one of her first hires at SparkPlace, a two-year-old provider of online-marketing software, and he’d continued to impress her. Founder and CEO Dirk Middleton liked him, too, especially after Andrew coined what would become the company slogan: Marketing is broken. Dirk, who had spent his career in sales, started the business for that very reason. He firmly believed that cold calling and spamming were destroying marketing. Rather than pestering prospective customers with pushy e-mails, companies should, he thought, use blogs and other social media to attract people who were already researching and shopping in the industry. Then those potential customers could give companies permission to market to them. That approach would be not only less annoying to consumers but also more profitable for the companies doing the selling. SparkPlace’s software, available for a monthly fee, was designed to let customers manage and measure the effectiveness of that approach.

Jane had been Dirk’s third employee, and although they didn’t always see eye to eye, they agreed completely about the company’s mission.

“Where does the analysis say we should focus?” Jane asked.

Vikram explained that from a sales perspective the Sams were easier to bring on board: The sales costs were less than \$1,000 for each one, and those businesses were eager for the service. Marys, in contrast, were more expensive to acquire—about \$5,000—but ultimately more valuable as customers because they stayed longer and were willing to pay a higher monthly rate.

“Still,” Andrew said, “the potential with the Sams is greater because we can do a bigger-volume business in that market. Sams outnumber Marys by three to one, and that ratio is growing

because of the tough economy. More and more people are starting their own businesses. Plus, our salespeople can easily identify the decision maker and quickly close the deal. It's the opposite with the Marys. When we show up at a sales call, our competitors are in the waiting room, or at least their business cards are on the Marys' desks. Our people are sick of fighting for time with the Marys. And it's clear no one is having as much success with the Sams as we are."

"They love us," Vikram chimed in. "The feedback is unbelievable."

"OK. Nice work, both of you," Jane said. "At our Friday meeting, let's recommend to the larger group that we refocus efforts on the Sams." Vikram and Andrew started to get up, but she stopped them. "We need to be sure the data back us up. Let's double-check the analysis. Marketing isn't going to like this."

"Will do," Vikram said. "But don't worry. The analysis is clear."

### **Profit vs. Potential**

Standing before her colleagues, Jane saw that everyone was rapt. The Sam/Mary narrative was clearly working. "You can see that our market sizing shows a lot more Sams that we can target as potential customers—1.3 million—compared with less than half a million Marys who have the right profile," Jane said to the group. As she began to wrap up, she eyed Dirk sneaking in and taking a seat at the back. Lately he had been consumed with the company's newest venture, an adjacent software product that helps businesses collaboratively create content. He was in constant meetings with the VCs who had put up the initial capital for SparkPlace.

“In conclusion, that’s why we believe we need to focus our limited resources on the Sams of the world,” she said. Josh, the head of marketing, shifted in his seat. Jane had expected him to be the first with questions.

“I’m not getting the same message you are from the data. The numbers show that the Marys are more profitable for us over their lifetime as customers. On average, each Mary generates \$50K of profit; each Sam generates only \$10K. It seems like a no-brainer to go after the more profitable market,” Josh said.

Jane looked to Vikram. They had agreed he would field questions about the analysis.

“Yes, that’s true. But that’s not the whole picture,” Vikram said. “The Sams produce a much higher return on investment. Each marketing dollar we spend to acquire a Sam gives us \$5 of profit. It’s only \$2 from the Marys.”

“But that’s not the only question we’re asking,” Josh insisted. “You know as well as I do that we can’t make strategic decisions on marketing ROI alone—or *any* one metric for that matter. Maybe the Mary market is smaller, but they’re more committed. They stay longer and require much less hand-holding, which means more profit. Don’t we want those kinds of relationships?”

“We see more potential in the Sams,” Jane interjected. “Yes, they’re not staying long now, but we believe we can bring down their churn rate by paying more attention to them. We can evolve the product to better meet their needs—or try using longer contract terms. We lock them in for only three months now, and many are leaving soon after that.”

“Oh good, we’ll force them to stay longer,” Josh said, shaking his head.

Jane tried another tack, thinking it might prompt Dirk to weigh in. “What about our mission? We want to change the way this business is done. The Marys are already savvy about permission-based marketing. The Sams know little about it, so when they see the results they get from our software, they’ll become immediate converts.”

“And then they cancel their contracts because all the easy wins are won,” Josh said.

Now Dirk did pipe up. “You all know how I feel about the mission. Marketing *is* broken. But our board isn’t going to allow us to leave money on the table. They want growth. Why can’t we go after the Sams *and* the Marys? Make inroads into both markets.”

“That’s what we’ve been doing,” Jane said. “It feels like we’re hedging our bets rather than placing one.”

“But isn’t it possible to serve both markets well?” Dirk asked.

“Dirk, with all due respect, you know that the strategy experts say we can’t be all things to all people,” Josh said. “Our go-to-market strategy will be very different depending on which of these groups we’re trying to target.”

Jane nodded. The company had to pick a strategic direction. It would affect a whole host of decisions over the coming months: what features to add to the software, what adjacent products they might offer, how to price all the services, and so on.

“Well, what does Serge say about all this?” Dirk asked. Serge was their lead developer. Jane shot a look at Andrew and Vikram. Why hadn’t she—or they—thought to get him on board first?

“Um, he’s waiting on direction from us, waiting to see where we net out on this issue,” Jane said. She could see Josh smirking.

“Why isn’t he here?” Dirk pointed to Josh and Jane. “You two need to talk to him, find out where he stands, and then come back to me with a recommendation you’ve both agreed on. I need you two to help me with this, given everything else that’s going on.”

## **Tiebreaker**

Josh and Jane sat across from Serge as he finished writing an e-mail displayed on one of five computer screens on his desk. He pressed send and asked, “So I’m the tiebreaker?”

“We wish it was that easy,” Josh said.

“At this point, we just need your honest input, because we’re at a crossroads,” Jane said.

“Is that what you’re calling your disagreements these days? Crossroads?” Serge teased them.

“Our disagreements are a good thing. They’re productive,” Jane said. And she was being sincere. The pushback she got from Josh—and gave to him—wasn’t always comfortable, but it often led to better decisions.

“Isn’t this your job to figure out?” Serge asked.

“Come on. Just give us the software development perspective,” she said.

“That’s easy: Marys all the way. They’re more experienced, so they really dig into the software. They use all the features and see more potential in what we do. It’s a far more interesting challenge to design for the Marys,” Serge said.

**“You know that we can’t make strategic decisions on marketing ROI alone—or *any* one metric for that matter.”**

Josh raised his fists in the air, jokingly claiming victory.

“Not so fast,” Serge said. “Yes, the Marys make my team’s work more fun, but this isn’t really about that, is it? It’s about what this company is meant to do. Part of the SparkPlace model is to give people simple solutions, right?”

“Right,” Josh agreed. “We make their job easier.” A key component of SparkPlace’s software was to help companies coordinate all of their disparate marketing activities, and Serge’s main challenge in developing the product was to reduce complexity for customers.

“And that’s what the Sams are asking for,” Serge said.

Now it was Jane’s turn to gloat: “Exactly. It’s what Dirk set out to do. We’re not transforming the industry by giving the Marys access to fancy reports.”

Josh rolled his eyes. “This shouldn’t be about any of those things. It’s about growing the business, about how much of the market we can capture. And the Marys are more profitable,” he said.

“But there are many more Sams than Marys to make a profit from,” Jane quickly added.

Serge leaned back in his chair: “Still at that crossroads, I see.”

“You were supposed to *help* us,” Josh said.

“I tried. But this is up to you two. I’m just a programmer.” This was Serge’s common refrain when he didn’t want to get involved in a business discussion. He turned back to one of his screens.

“Let Dirk make the call,” Serge yelled after them as they walked out the door.

“Maybe we should,” Josh said to Jane, making their way toward her office.

“We can’t do that. Dirk asked us to hash it out, and he’s overwhelmed,” Jane replied. “If we go back to him without a recommendation, he’ll send us away, saying that’s what he pays us for.”

“OK then,” Josh said. “Let’s go get a drink.”

Should SparkPlace go after small Sams, medium Marys, or both?

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