CASE STUDY

Vertical Horizon: Using Customer Research to Fuel Hyper-focused Growth

Entering 2011, Mashery and Skytap, two rapidly growing software companies, found themselves in the seemingly enviable position of having a lot of customers in a variety of very different market segments. However, as both businesses discovered, trying to be everything to every customer can ultimately be an inhibitor to efficient growth rather than a stimulant for it.

MASHERY + SKYTAP

When the Swiss Army Knife was first introduced in 1891, the innovative pocket tool de force was designed to help soldiers open canned food, disassemble their rifle, and complete myriad other tasks in the field, doing with one tool what used to require six others. Since then, the multi-pronged gadget has not only become a must-have instrument for Boy Scouts and weekend warriors alike, it's also evolved into a frequently used metaphor.

Take the software industry, for example. When a platform or product is considered relatively horizontal — easily solving multiple problems for a variety of different customer profiles, depending on its use — it's labeled a Swiss Army solution. In other words, it's a generally adaptable product, easily morphing to address a multitude of customer pain points without a complete infrastructure overhaul.

Mashery, a San Francisco-based API management technology and services provider, and Skytap, a Seattle-based cloud automation provider, certainly understand the metaphor.

With versatile products that might be used 10 ways by 10 different customers, Mashery and Skytap

have attracted equally diverse customer rosters since they were founded in 2006. Mashery's users include retailers like Best Buy and Shopping.com, and media corporations like USA TODAY and The New York Times; Skytap's customers range from IBM and Boeing, to Trek Bicycle and Coinstar.

While that sort of market versatility helped fuel both businesses' rapid growth, it also presented some cause for concern as Mashery and Skytap charted their long-term growth plans. "When you have a horizontal solution, it's easy to fall into the trap of selling your service to anyone who is willing to buy it and never deviate from that," says Randi Barshack, Mashery's Vice President of Marketing. "It sounds like a good problem to have, but it's really a counterintuitive strategy for smaller, growing companies."

The reasons are numerous. Most importantly, failing to focus on one particular customer segment can lead to market confusion, misappropriated resources, and a watered down product that fails to resonate with a company's most important customers. To draw another analogy, it's like bringing a dull pocketknife to a gunfight.

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Which is why, entering 2011, Mashery and Skytap recognized the need to continue sharpening their customer and market segment focus. For Mashery, that meant identifying each of the business's top customer segments, and ranking those segments with data analysis and validated hypotheses. For Skytap, it meant executing a voice of the customer initiative to confirm the company's top buyer personas, use cases, and value propositions.

The problem, however, was that while both companies could have implemented those initiatives internally, the time and money needed to execute them efficiently would have been a huge burden on their human and capital resources. Thankfully, they had a secret weapon.

Armed with the research and analytics team from OpenView Venture Partners, the Boston-based venture capital firm that made a capital investment in both companies in 2011 (Skytap in January, Mashery in May), the expansion-stage businesses had an objective partner that could spearhead both initiatives and produce more immediate results at a fraction of the cost. The result? No more worrying about that knife-to-a-gunfight scenario.

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> CEO, Mashery

Managing a Market Mash-up

For Mashery, the problem wasn't growth. It was customer segment focus. Before accepting a venture capital investment from OpenView in 2011 the business had been riding a wave buoyed by customers from a wide swath of industries — healthcare, IT, retail, travel, media, data services, and online services, among others.

While the large net it cast to capture those customers was effective in the early years, Mashery CEO Oren Michels knew it wouldn't be the most efficient means for driving healthy, sustainable growth going forward. The company needed a more focused model that would allow it to better target its most lucrative, high-profile customer segments.

For Mashery, OpenView's customer segmentation process included:

Hypothesis development: Who did Mashery think were its best customers and market segments and why?

Data collection: Analyzing each customer across a variety of characteristics, including their industry, size, revenue, structure, and social influence.

Data analysis: Objectively, which characteristics actually matter when identifying great customers and how do they fit into specific customer segments?

Segment ranking and hypotheses validation: Does the data collected confirm or conflict with the aforementioned hypotheses? And, using that data, how can each of the company's segments be ranked by importance or impact?

Comprehensive review of results: A complete review of customer segmentation research, including a list of Mashery's top 10 customers and both the most and least important segments to target.

Segmentation: Dividing a heterogeneous market into distinct homogeneous segments.
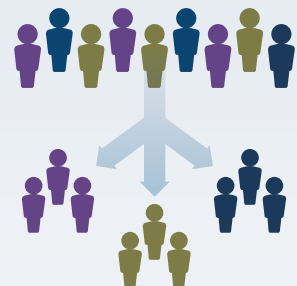
Soon after OpenView and Mashery's investment partnership was made official in May 2011, the two organizations got to work on identifying the qualities that made up its "best" customers. The project started with Tien Anh Nguyen, a Senior Associate at OpenView and the head of research and analytics, bringing his team together to analyze Mashery's current customer base, ranking each customer according to specific, value-based criteria to obtain an objective and comprehensive view of the company's most lucrative customers.

Next, Nguyen and his team, both part of OpenView Labs, the firm's operational consulting arm, identified parallels among Mashery's most valuable customers, grouping them into homogeneous groups or segments based on qualifiers like the products they sold, how they used Mashery's SaaS-based API management platform, and the influence they have in their respective marketplaces. That research eventually led to a series of customer segment hypotheses, which OpenView tested against current customer data and reviewed with Mashery's senior team, fine-tuning each hypothesis based on that team's feedback and insight.

"When we started the project, there were numerous hypotheses being thrown around about what Mashery's 'best' customer really looked like," Nguyen says. "That got the ball rolling, but our goal was to validate those ideas with data and create a composite picture that was rooted in objective analysis."

Ultimately, the initiative yielded a comprehensive report that included a ranking of Mashery's best customers, the top three customer segments that would allow the business to sign more valuable customers faster, and the customer segments it would find least rewarding. OpenView also summarized potential opportunity in new customer segments that could grow the company's current customer base.

With OpenView, Michels says Mashery got everything it could have asked for from an outside consulting firm — and a whole lot more. "OpenView gave us the objective market and customer analysis we needed with the personal touch of a firm that legitimately cares about our future success," he explains. "They delivered recommendations and meaningful data that have influenced almost every component of our organization."

Eyes in the Sky

Skytap has always been a customer- and user experience centric-business. Its cloud-based platform, after all, was designed to enable enterprises and mid-market companies to easily move their IT workloads to the cloud without requiring a disruptive overhaul. Accomplishing that goal, of course, requires an intimate understanding of customer needs and requirements.

As such, it was no surprise that one of the company's first collaborative projects with OpenView was a voice of the customer initiative in the first quarter of 2011. The objective was to better understand how Skytap's customers were using its software, and what input or feedback they might have that could influence the business's sales process, Web content, product features, and value proposition statements.

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Scott Roza, CEO, Skytap

Nguyen started by collaborating with Skytap CEO Scott Roza and his senior management team to set the strategic goals for the initiative. They worked together to craft a questionnaire that would solicit specific, meaningful responses, and develop a list of customers who were most likely to yield the most impactful insight.

From there, Nguyen and his team began scheduling and conducting interviews with Skytap's top customers. After engaging in more than 20 conversations over the course of seven weeks, the easy part of the project was complete. OpenView then worked with Skytap to analyze the data produced from those calls and boil it down to measurable, actionable outputs. In other words, how were customers currently using Skytap's product and which features did they wish it had? Or, what were the most common use cases and how would each customer, in their own words, describe the platform's true value?

"There's a lot of legwork involved in tackling something like this," Nguyen explains. "The customer interviews are a big piece of it, but it's not that simple. You have to ask the right questions about the right things to produce answers and data with purpose. If you don't execute it correctly, it can be a huge waste of everyone's time."

Thankfully, Roza says that OpenView spared him and his team that expense. Although it may be several quarters or years until Skytap sees a quantifiable return on the work Nguyen and the Labs team did, one payoff is obvious: objective customer feedback without presumption. "We've made adjustments in our messaging, product backlog, sales process, and buyer personas that will allow us to better target, sell to, and manage our most lucrative opportunities," Roza says. "There's immense value in that."

For Skytap, OpenView's research framework was a little bit different, largely because it involved more intimate contact with Skytap's customers. But that doesn't mean it was any less intense. Ultimately, over the course of one quarter, OpenView Labs' Research and Analytics team:

- Developed a targeted customer survey questionnaire.

- Scheduled and executed 20 customer interviews by phone.

- Sifted through interview material to uncover key outputs.

- Organized those outputs to determine their order of importance.

- Published an overview of findings related that could help the company refine its buyer personas, use cases, value propositions, ROI, top improvement areas, marketing channels, and sales process.

3 Tips to Keep in Mind When Conducting Voice of the Customer Research:

1. Avoid asking leading questions that could influence a customer's response.

2. Never underestimate the data already residing in existing customer relationship management systems.

3. Always tie voice of the customer research to operational improvements.

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Tien Anh Nguyen
Senior Associate, OpenView Venture Partners

Leaving a Lasting Impression

Mashery's Barshack, who has two decades of experience in marketing, eCommerce, media, and technology, admits that OpenView's creativity and attention to detail are what impressed her the most.

"They took a cold research project that was full of dry numbers and data, and infused it with the kind of creativity that told me they legitimately cared about our market and our business," Barshack says. "It wasn't a data dump or a revenue opportunity for them. They cared about submitting a final recommendation that put us in a great position to deploy our resources and tackle current and future opportunities."

Roza got the same impression. When OpenView embarked on Skytap's voice of the customer project, Roza says he admittedly had unreasonably high expectations. Yet, Nguyen and his team still managed to overdeliver on them. Then again, that didn't really surprise Roza either. After all, if Skytap's collaboration with OpenView did nothing else, it simply confirmed why he chose OpenView in the first place.

"When we were looking at potential investors, we chose OpenView for this exact reason," Roza says. "A lot of venture capital firms talk about their value-add services, but OpenView is one of the few that actually provide them. This was a key project for us and there wasn't a group out there that we trusted more than OpenView's Labs team to handle it."

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