The Battery Guide to Breaking Into the Enterprise Market

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INTRODUCTION:

Making the Right Match

Partnerships between large, established companies and innovative startups can be fruitful for both parties. When the right enterprise and startup connect, the bigger company taps into exciting new technological solutions, while the startup benefits from street cred that comes with landing a big customer and a stable source of revenue.

But these partnerships can be tricky to pull off. Startups and Fortune 500 companies are very different beasts. Startups live by the motto "move fast and break things." Big companies may want to harness that kind of innovative spirit, but they still need to navigate many layers of management and get things approved.

At Battery, we've worked with hundreds of portfolio companies to help them strategize and figure out how to land big customers; how to work more smoothly with a larger partner's processes; and how to use a big client's feedback to refine their product without getting sidetracked on custom fixes that don't scale. We've seen the pitfalls that can doom a promising startup-enterprise partnership. And we've seen how such partnerships, handled well, can unlock tremendous innovation that benefits both sides.

In this whitepaper, you'll find advice for both parties in a startup-enterprise deal. We've organized the articles to address the enterprise audience first, then startups. Whichever side of the table you're on, we hope this advice can help build better, more productive, more innovative partnerships.

Let's get to work!

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How to Navigate Enterprise Organizations: A Primer for Startups

The power base within enterprise organizations—and with it, the way vendors sell into these enterprises—is shifting. Much of this is attributable to the consumerization of IT: Workers now bring the expectations of user-friendly consumer tech to the tools they use at work. They won't put up with clunky, tough-to-use products when they know that user-friendly, intuitive alternatives exist.

This trend has unlocked new budgets inside organizations for solutions tailored more for individual employees, as opposed to large groups or company-wide rollouts. Now, employees are no longer limited to using rudimentary, legacy tools like Excel spreadsheets; many can opt for new cloud-based and/or open-source tools to help them work more productively and effectively.

This shift has prompted many startups selling enterprise software to pursue what's called a product-led-growth (PLG) strategy. This basically means that if you make a product that's appealing enough, you can gain adoption at the grassroots level, turning individual employees into evangelists and relying less on formal (and often expensive) sales-and-marketing programs to drive your company's growth, at least in the initial stages. It seems to make sense, given current tech-buying trends.

But behind the PLG hype is a little-known truth: Even the most successful product-led strategies can hit roadblocks today inside enterprises. Despite the proliferation of easy-to-adopt technology tools and more buying autonomy for some individual employees and small groups, enterprises are still not free-for-alls when it comes to technology sales. In many cases, oversight from powerful IT, security and legal departments—particularly in the current work-from-home environment—is still important, and this can trip up startups who don't understand these dynamics.

Simply put, enterprise organizations still make decisions based on inputs from multiple groups. Just try to sell a workplace-collaboration product without getting the blessing of the enterprise's cybersecurity team, for example, or expand your reach inside an account where a PLG competitor has been busy managing up the management chain, in addition to selling across small groups. You won't get far.

Some technologies still require an all-or-nothing deployment. For example, as the value of big data—and the need to comply with new regulations—grows, many new data solutions, particularly those working as official systems of record, need to be chosen and championed by the C-Suite. There might be less oversight of more-niche data products, such as tools for data visualization, where authorization to the underlying data is handled elsewhere and executives would be fine with employees choosing the best tool for their specific job. Other products, like the ServiceNow platform used by large companies to manage IT services, would also likely be difficult to implement on a piecemeal basis.

Still, a great UI, one hallmark of products sold through a PLG strategy, really does matter at enterprises. Recently I heard a Fortune 500 company CISO compare two solutions, noting that the product from the Battery portfolio company he ultimately selected was chosen for its great UI. In his words, the competitor's product "looked like a third grader built the interface… why would I pay for that?"

The bottom line is that selling into enterprises looks different depending on how your product is actually adopted by internal groups, and by whom. To succeed, you need to understand the power dynamics informing buying decisions today, which remain very important. That starts with answering two big questions.

1 Question 1: To whom are you selling?

If you're selling into a cost center like IT, HR, legal, and so on, you should first recognize that cost centers are where the majority of technology is procured inside an organization. That's a good thing, by and large. That said, it does mean that annual budgets, shifting priorities and, likely, a legacy process or tech stack may create some switching costs for your target users.

The second challenge: Cost centers don't expand the company's top line. Your solution might be great, but you still have to sharpen your pencil and prove why your buyer needs your widget over hundreds of other competing priorities. Even if your technology is an open-source or SaaS solution, that doesn't necessarily mean an individual contributor can simply swipe a credit card because they like your software. In most organizations, this employee will need to jump through a lot of hoops before they can adopt a new tool. You'll need to enable security, compliance, collaboration and more to get budget-approved dollars.

This isn't always true, but it's true more often than you might suppose. In a recent conversation with Goldman Sachs, we asked how easy it is for a developer there to adopt a new software testing tool, a market defined by PLG companies such as Slack, Atlassian's Bitbucket, HashiCorp's Vault or Selenium. Without missing a beat, the Goldman executives replied that systems are

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actually heavily locked down—this despite everyone believing in the current bottoms-up market for software tools.

Selling into a cost center in a top-down manner means you are enabling a spreadsheet jockey to be leaner, more compliant, more efficient and so on. Founders should focus on landing the head of the department they're targeting, but your sales department will need to engage the rest of the team to fully close the sale, so everyone's on board with the purchase.

If you're product-led, you'll want to frame your value proposition as 'we make your life easier' in some way. It's relatively easy to identify the right buyer persona, but to land the sale, you'll need to arm those buyers to answer questions they'll encounter from legal, procurement, management and so on.

If you're selling into a product group, the buy decision likely will be based on a cost-benefit analysis. The phrase "I could build that in a weekend" has been uttered more than once. The group will need to know what it would cost them to build a solution from scratch, not just in terms of actual dollars, but in terms of time, speed to market and ongoing maintenance—and then compare that to the cost of simply buying your tool. Your job is to help them do this math.

When selling to a product group, your target buyer is the product manager or engineering leader. To win over this buyer, you'll need to ensure you're aligned with their product schedule. You'll also need to remove technical barriers to adoption, such as APIs, excessive documentation and so on, to avoid an engineers' rebellion. You'll also need to build a financial model that scales with the customer.

2 Question 2: Are you ready to sell to the enterprise?

Whether you're selling to a product group or a cost center, enterprises will have certain expectations based on the stage of your company.

If you're a seed stage or Series A company, an enterprise is betting on your domain expertise and agile team of technical all-stars. Ultimately, they're betting on the founders. In exchange, they expect support—and will want you to prioritize building out features they need.

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One strategy is to sell to early adopters. You can build a nice business selling to other venture-backed businesses, who don't have legacy tech stacks and are nimbler. You can also sell into the mid-market at this stage. You should track two key metrics at this stage: time to deployment/usage and how many new customer logos you're adding. A mid-size enterprise or digital-first organization is likely a better fit than a bigger enterprise, but the leadership team (i.e., not commissioned salespeople) should spend enough time in sales conversations with big, regulated titans to understand when you've got your product that's acceptable to them. Whoever your customer is, at this stage you should expect to spend significant effort building credibility, even if your founders have a long track record.

If you're a Series B or C company, the risk in continuing to focus on venture-backed startups is that your mid- to late-stage company hasn't yet built its enterprise muscles. Make sure you have a list of recognizable enterprise customers who have cleared security, procurement and other hurdles. You should start to think about adding some product features that you'd consider nice-to-haves, so you're building beyond the bare-bones essentials. Corporates will expect to find a relatively full-featured product from a company at this stage—and a team capable of managing enterprise sales and offering the support they expect from major IT vendors.

Whatever stage your company is in, remember that all enterprises are political, and you have to touch multiple constituencies to sell.

Navigating the enterprise organization can be tricky for startups. Your culture is so different from your customer's culture, you can run into a lot of unexpected hurdles if you don't understand how your buyers' minds work and what political issues they're dealing with. But if you approach an enterprise in the right way, you may land that big account that could help take your company to the next level.

> **"The competitor's product looked like a third grader built the interface…why would I pay for that?"**

The Lion and the Mouse: What Makes Startup-Large Company Partnerships Thrive

Aesop's fable "The Lion and the Mouse" teaches us that little friends ultimately may prove to be great friends. In the fable, a lion captures and then releases a mouse on the rodent's claim that someday he may return the favor. Later, the lion gets stuck in a hunter's net—but he is saved when his friend the mouse chews through the rope.

I see an analogy with large companies partnering with small technology startups: Small companies, though sometimes lacking in the types of processes and experience that mark large-company projects, can prove to be great friends by looking at big-company problems with new technology, innovative business models and a fresh perspective.

Across the Battery Ventures portfolio, it is common to see mega corporations reach business agreements with very small, seed-stage companies. In fact, most seed-stage companies approaching their next round of funding have several customers with big names. So what makes this type of lion/mouse relationship successful?

To answer that question, it is worth defining how these relationships often work. The most common type of tie-up is a customer/vendor relationship—with the small company selling to the big one. For an early- or seed-stage company, the sales engagement with a large company should entail more than just an exchange of money. It may also include input on early product definition, running a proof-of-concept at scale, and willingness to be a reference. A second type of relationship is based on selling together: A startup benefits from the large company providing access to new customers. In the case of a seed-stage company, however, this is difficult to execute and more challenging to support the pre- and post-sales activity. For this reason, let's assume the startup is selling to the Fortune 500 company.

Depending on whether you are the lion or the mouse, the next logical question is, what makes this type of relationship thrive? And what causes it to fail?

> **"It is common to see mega corporations reach business agreements with very small, seed-stage companies."**

If you are the lion (i.e. a Fortune 500 company), factors leading to success include:

A product's role in the greater ecosystem: The proposed solution likely will fit into a complex system and rarely is a simple, 'push-button' deployment. The company needs to have a plan to finance the deployment and support. If not, it could fail.

Being nimble: A startup has a unique ability to quickly incorporate technical feedback and critical feature requirements into a product. The vendor should ask the right 'why' questions to prioritize critical vs. nice-to-have features across the early set of customers.

Being committed: Being nimble does not mean a startup should make massive changes to its business plan or product just because a mega-company partner makes the request. If a startup acts this way, they likely will be distracted by the next customer to come along, too.

If you are the mouse (i.e. a startup), look for:

Locality of decision making: When a seed-stage company is selling to an organization with tens of thousands of people, it is critical to work directly with a person possessing the authority to spend money, and who is close enough to the problem being solved to understand the benefit of moving early. If you don't, these relationships often break down.

Opportunity on a non-critical path: Large companies judge partnership opportunities by weighing risk vs. reward. For example, a shoe company may innovate on a smartphone app because the impact of the app having a bug has limited downside for the company; it may just not work when tracking an athlete's morning jog. The same company will be more conservative about innovating around its global supply chain, where miscues cause severe financial impact.

Finding the right partner, lion or mouse, with which to work is the foundation to a successful relationship. However, the secondary lesson from the fable is that sometimes it is better to let the mouse go away and come back to help in the future, when it is bigger, older and wiser.

How Startups Can Land a Big-Fish Client—Without Missing the Other Fish in the Sea

The story of early-stage startups selling to global titans can sometimes read like Hemingway's The Old Man and the Sea: The unlucky fisherman Santiago returns to port exhausted after battling a huge marlin, with almost nothing to show for his efforts.

If you're a fledgling software startup catering to businesses, landing a "big fish" customer can be similarly frustrating. Snaring that customer isn't just a huge feat for your company—in the early days, it can be everything. That first large customer brings your startup much-needed credibility that can help lure future customers and new investors. Perhaps even more important, the big-fish deal likely provides crucial revenue and cash flow your young company desperately needs. Given how important such partnerships are, it's tempting–and often expected–for early-stage startups to focus on just a few critical customers, at least in the early days, and customize products for them.

But is this always a good thing? How, exactly, do you avoid creating a super-tailored product that lands that critical big customer, but could limit its broader appeal? Here are three questions I believe every business software-startup executive should consider before committing to a product roadmap focused on one big-fish customer, instead of a broader pool.

1 How do you balance catching whales vs. minnows?

First, you should remember that one company's whale could be another company's minnow. In other words, it's important to think about how closely your product affects a targeted customer's core business in evaluating how to approach the sales opportunity.

If you are selling the next great piece of networking equipment, for instance, a company like Comcast—which runs giant cable-TV, phone and Internet networks—is one of the largest whales for you. There will be long sales cycles, complex and costly integrations, and high post-sales support in dealing with this key customer. On the other hand, if you're trying to sell Comcast a marketing automation tool, this customer might look like any enterprise that sells to consumers.

One of the key metrics to consider when targeting customers, and balancing your efforts going after both big and small buyers, is to create a sales pipeline of easily repeatable enterprise deals. One early-stage tech company with which I've worked recently highlights this. The company received considerable interest after using the same pitch with a global financial institution and a mid-market consumer product company. The consumer-product company could articulate a 'simple' single problem statement and make a decision with the people in the room. The mega-bank, however, had concerns about support, dozens of potential (and ambiguous) use cases, and no single decision maker. Considering the number of roadblocks that could stall a sale at the bank, the portfolio company was wise to come up with an easily replicable sales process and limit the number of whales in its sale pipeline; it could pursue, probably successfully, many more mid-market deals with the same time and resources that would have gone into closing a deal at the bank.

For most areas of emerging technology, there is a small set of whales that work well with startups. If most of your sales come from these large accounts, that may be a warning sign that your product is not accessible to the average enterprise. My advice is to spend a measured amount of time on these companies. Guide your sales team toward repeatable sales opportunities with metrics and compensation to fill the sales funnel with mid-market accounts.

2 Does your product strategy open up new waters to fish in?

For product executives, the conversations with (and subsequent features implemented for) a small, targeted set of strategic accounts can lead to more sales opportunities down the road. So in this way, building relationships with these potential buyers can be just as valuable for gathering product and market intelligence as they are for near-term revenue.

Consider a company like file-sharing giant Box, which discovered big enterprises valued specific product features that low/no-paying consumers did not. In the end, Box successfully built a richer product-feature set that CIOs at bigger companies could endorse for enterprise adoption. Box became an enabling technology that an enterprise would pay for, rather than a 'shadow' IT problem to be stopped.

Conversely, development teams at startups often make crucial, early design decisions based on their own experiences, yet may not be aware of how these decisions will impact product adoption (or not) by strategic accounts. Consider some comments I heard recently from a group CTO of a major bank, who was speaking at a private meeting I attended. He was asked to opine on a common, critical decision many startups face early on: the company's choice of a cloud-computing provider. He noted that if a company's goal is to grow in the U.S. and be acquired, it might make sense to focus on using a single, outsourced cloud provider like Amazon Web Services. That choice can help a company get its product to market faster in a company's preferred geographic region.

It's critical, however, to consider how such early decisions could impact a startup's first big enterprise, 'whale' customer, as well as enterprise customer 100. In the cloud-computing example above, if the company's goal is to grow into countries outside the U.S. or sectors outside an initial, core market, building a rigid and narrow product only with one cloud provider could disqualify you from an opportunity.

3 Does the boat you're building let you fish in the big leagues?

As a startup, your product exists within a greater ecosystem of companies and technologies. Customizing for a large customer, to a point, can actually connect your company to broader sales channels within that ecosystem over time, and help boost revenue.

When trying to catch your first few whale customers, use the early engagements with large companies to understand your blind spots—both in business model and technology. Even if the deal falls through, your product roadmap should be significantly more robust.

Imagine a large customer is demanding that you integrate into a platform such as Salesforce. On the one hand, integration could erode your company's perceived value since customers stop accessing your product via your website and go in through a third party instead. On the other hand, this integration can open doors to more customers by leveraging the partner company's sales and marketing engine and remove a potential sales objection by some customers (e.g., you appear to be endorsed, in a way, by a big established company like Salesforce.) Big-fish customers can help create momentum by demanding integrations with the larger ecosystem companies and enable a pivot in product strategy.

As the leader of your startup, it's up to you to decide how broadly you want to cast your sales net, and what your target catch-of-the day is. There's nothing wrong with going after one or two big fish—and it's usually advisable—as long as those resulting sales align with your company's product vision, open new markets, broaden your customer base, or present you with a new sales channel. And remember: The sea is filled with lots of mid-sized fish, too, who may be easy to catch—and just as satisfying to snare.

> **"Remember that one company's whale could be another company's minnow. In other words, it's important to think about how closely your product affects a targeted customer's core business in evaluating how to approach the sales opportunity."**

How (and Why) to Build an Authentic Community Around Your Product

Exciting changes are afoot in the enterprise-tech market. Power is shifting from the handful of traditional 'top-down' buyers to millions of end users. With the consumerization of IT, we now expect the software we use at work to be just as easy and even delightful to use as the consumer tech we use in our off-hours.

Simultaneously, customer acquisition through traditional digital-marketing channels has gotten more and more expensive. Taken together, these two factors have shifted many enterprise-tech players towards a product-led growth (PLG) strategy. Essentially, the strategy involves creating a product that's designed to go viral, individual by individual—turning your customers into your marketing team.

Product-led growth starts with designing an extraordinary product—which is easier said than done. Making sure your product actually delivers a world-class experience, and meets or exceeds user expectations, requires something else: building an authentic community around the problem(s) your product seeks to solve. Done right, this type of "community-led growth" can turn your users into ardent brand ambassadors.

Indeed, PLG and community-led growth are tightly coupled: Crowdsourcing product input, code and usability positions your PLG strategy well and naturally improves your product. But it also naturally creates a community of like-minded people with a vested interest in that product's success—people who then may become part of your marketing, adoption and GTM engine.

Authentic community is the key

If your goal is to break into an enterprise, not through a big purchase order but through individual champions, then you're targeting the end users of your product. That means it can be just as important to connect to a star developer, or a VP of engineering, as to a CTO. You're appealing to individual champions who will spread the word about your product. These power users understand the particular challenges their organizations face. They have an action-oriented mindset. And they're typically willing to give you feedback on your product. They can be the core of a community built around your product or brand, which can ultimately deepen your connection to existing users, and reach out to new users.

Some of the most powerful potential champions are people who self-identify deeply with their work. Designers, for example, bring a design mentality to everything they do. Engineers are always problem-solvers. They don't turn those parts of their brains off when they leave work.

Communities that engage users in providing product feedback, or even contributing bits of code, can be particularly powerful. Once people are engaged in making something, they have a vested interest in seeing it succeed. Imagine if the brewery down the street from you asked for customer feedback on its new logo design. If the brewery used your favorite design, you might share it on your social media, or mention it to friends. The same is true for beta testers of a software product—if they've exerted a real influence on a product, they'll feel more ownership of it.

Challenges in building strong user communities

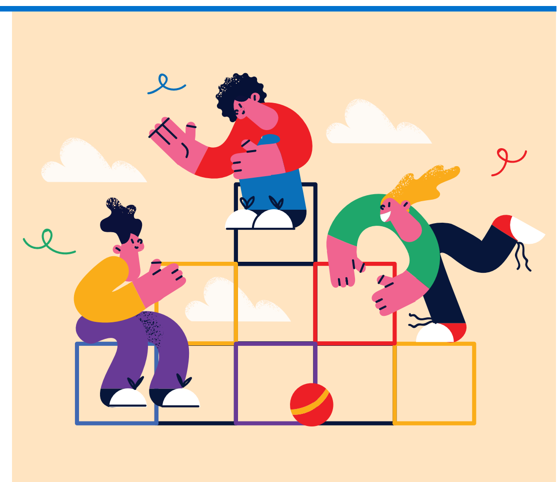
The main challenge companies face in building communities is striking the right balance in terms of defining the community's mission without limiting it too much. You want to guide the community towards the activities and topics that will be most useful to your product development and marketing, without making the community feel inauthentic or overly 'sales-y.'

Take **Docker**, an open-source platform for developing, shipping and running applications. Docker enabled engineers to separate applications from infrastructure so they can deliver software more rapidly. At one time, Docker was super-popular—but the platform tied its open-source community too strongly to its monetization plan, and put up too many walls for users. Ultimately, Google open-sourced an alternative solution called Kubernetes that has gained significant mindshare.

Early-stage companies should also be aware that if a community really takes off, it can raise expectations, especially if there's money involved. The crowd-sourced video game **Star Citizen**, for example, raised $2 million in a 2012 Kickstarter campaign and then went truly viral. In some ways, that's the dream scenario: a community of supporters who all become evangelists, doing tons of free marketing. But Star Citizen ended up raising way more money than it ever intended to raise—$350 million to date, ranking among the top crowdfunded projects of all time. Yet its production cycle is endlessly delayed into the future. It might now be impossible for the final product to live up to the expectations created by that viral spread.

A third challenge we've seen is focus. If the product, and hence the community, isn't organized around a clear focus, the product team can become distracted by features or use cases that don't generate revenue.

Best practices for community building



Your goal should be to define what the community wants to achieve, but not how they'll achieve it. In other words, the community is united around a shared problem—like making engineering more efficient—instead of focusing only on the shared solution that is your product. For example, Salesforce has created a community called **Trailhead**, where users can learn sales skills and build towards new careers. Users are pursuing their own goals,

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but Salesforce becomes the standard platform that they utilize. Similarly, our portfolio company Pendo* sponsors **ProductCraft**, a thriving community for everyone working on digital products. Most of these folks also use Pendo, but that's not required for participation.

You should also aim to separate community-building goals from your explicit sales goals. Many companies today are creating a Chief Community Officer role to oversee their open-source communities. This role should ideally not be part of a sales or marketing team. Your community needs to stay authentically open-source in spirit in order to keep users engaged.

An open API is ideal for seeding a community. This allows other developers to create an ecosystem around your product. You want to be the center of the customer-relationship universe, or the product management universe, or whatever universe you're targeting.

Two compelling examples of open API communities are cryptocurrencies and Salesforce. Amid all the buzz about crypto valuations for Bitcoin, Ethereum and DeFi, among others, many overlook that these are thriving communities built on many of the building blocks of a strong, authentic community. These are decentralized, open, technical integrations. The authenticity fosters some of the biggest believers in blockchain technology and an army of supporters that will propel the movement for years to come. Salesforce has created a powerful combination of community plus strong API integrations to become the center of the universe for all things sales. Other next-gen APIs that led with communities are Auth0, Airbnb , Notion, MongoDB, Netlify and Cloudinary.

Ultimately, a strong community of users can not only help your product go viral; it can be invaluable to your long-term growth. Engaged users may share your product with their friends and colleagues. But even better, they're also smart people who spend a lot of time thinking about the core problems you're trying to solve. They may come up with pain points or new feature ideas that you'd never have thought of. A strong community can actually help show you where your company could go for years into the future.

> **"Making sure your product actually delivers a world-class experience requires building an authentic community around the problem(s) your product seeks to solve."**

Proving Product-Market Fit

Just like your business can't run without cash, your product won't succeed unless it genuinely fits your target market. Product-market fit is particularly essential for enterprise-software companies transitioning from an idea to a minimum viable product (MVP) and beyond.

Who determines product-market fit?

Customers. Enterprise software customers usually feel overworked and under-resourced. They're jerry-rigging solutions to urgent problems right and left. A product that truly fits this market will remove the need for so many workarounds.

It's one thing to recognize how crucial product-market fit is. Knowing that you've achieved it is quite another. We compared notes with Brian Crofts, chief product officer of Pendo, a cloud-based platform that provides software organizations the insight and tools they need to launch and improve digital products. We also considered the many smart articles written about this topic and reflected on our own experience at Battery. This quiz will help you determine where your startup is on the product-market fit spectrum.

How do you know if you have product-market fit? Take the quiz.

1 Do you have multiple customers buying your product for similar use-cases?

a. Yes, every customer tells us the same story.
This is the goal you're shooting for. Hearing the same story from multiple customers proves that you're meeting a real need that a lot of customers have.

b. No, our customers all seem to value different aspects of our product.
This is a common problem our team finds during diligence of early-stage companies. It's a red flag worth paying close attention to. Are any themes emerging? Which aspects of your product are really valuable to customers, and which are incidental points?

While different customer-value stories can be instructive in the early stages, ultimately you need a consistent storyline to emerge—one that proves you're addressing a big pain-point for your customers.

c. I don't know.
You should know! Founders should be asking customers why they're buying the product at the point of sale, and then following up consistently. Their answers about why the product is valuable may have changed after they've had a chance to use it. Stay open to surprises in their answers—the actual value they're finding may differ from what you're trying to sell. Those differences can spell opportunity for product, sales and marketing or both.

Take accounting software QuickBooks. In the early days of building that product, the team was surprised to find that small business owners were using it. "This happens all the time—you're looking at the data, you're OK with being surprised. You might notice some outliers and think: maybe there's another customer segment here we can serve," says Crofts, who worked on QuickBooks in those early days before taking on the role at Pendo. Heeding that feedback enabled QuickBooks to serve the many SMB customers they have today.

2 Do you have customers in different industries?

a. Yes, our customers represent all sorts of organizations.
This shows you've got great potential for scale. But see Question 1: You still want to make sure that you're solving the same kind of problem for all these different types of customers.

b. No, we're pretty industry specific.
This is not necessarily a problem. But if you're indeed building a vertical company and not a horizontal company, you need to know that—and you need to be solving a big, urgent problem within your target industry. Within a narrower market, your product should be an absolute must-have.

Our portfolio company MX offers a great example. Their software enables financial institutions and fintechs to put their users' data on center stage, leveraging this data to expand and transform their customer relationships. MX is building a product that banks, credit unions and fintechs can adopt, as it's difficult to build/sustain such technology internally.

3 Once you've got your foot in the door, are you expanding to multiple teams or departments within a company?

a. Yes, our users become evangelists and talk us up to their colleagues.
Great! This is not only good news from a sales perspective, it's a sign that you're solving an urgent problem for customers. For product-led companies, it is the most efficient way to hit enterprise scale and efficiency is critical to this company-building approach. People don't recommend 'just-OK products' to each other. They talk about transformative, life-saving products.

Important caveat: Don't get too hooked on referrals as your only method of lead-gen. Your sales team should keep advancing a robust, multi-channel strategy.

b. No, we tend to have just one or a handful of customers within a big organization.
This is a warning sign that your product-market fit could be better. You're not getting the traction

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you should be with customers if they're not becoming brand advocates for you. This scenario also leaves the door open for a senior exec (think CIO) to come in and say: "We are standardizing on X tool, because it does 90% of Y… and we get it from a big player for free." Don't get standardized out of existence.

Crofts thinks product-market fit is almost like love at first sight. At least one customer or persona should absolutely love your product. "At Pendo," he says, "people have said, 'It's like you read my mind about what the next step is and you're already there, anticipating my needs. It's kind of like, 'You had me at hello.' I think every product I've worked on that's been successful at least has evoked that kind of love."

4 Can your buyer articulate why your product makes their life easier?

a. Yes, our buyers know exactly why they need us.
This is another sign that you're nailing that use case with customers. If they know why it's making their life easier, they're likely to be loyal, long-term users.

b. No, our customers like our product, but they're not chatty about it.
A sale is a sale, of course. But if users aren't articulating what they love about your product, that could be a sign they're lukewarm on it, and the product-market fit could be better. Worse, they could churn off the product.

It could also be a sign that there's a hidden or secondary use-case for your product that you're unaware of. Drill down in your user surveys to try to figure out what's going on. Understanding your customer, Crofts says, requires both quantitative and qualitative analysis. You need to analyze the data—time on site, number of visits, net-promoter score, and all those other metrics (you are collecting this data, right?)—and you also need to tap into how customers feel about the product.

A product that achieved true market fit should meet the 40% rule: "When you talk to customers, you want at least 40% or above saying that they would be very disappointed if you took the product away from them," Croft says.

Answer key:

Mostly A's: You're doing great! You've really nailed a key pain point for your core customer. Now it's all about scaling—making sure your customers keep recommending you and digging deeper to find out how you can make their experience even better. Remember to keep an eye out for surprises in your data or your customer surveys, so you're open to opportunities to serve new customer personas or solve new problems for your core customers. "When we go out and visit customers and we debrief, I always ask the team two simple questions," Crofts says. "What surprises did you see, and what pain did you see?"

Mostly B's/C's: You haven't nailed it yet. Maybe your product isn't solving an urgent enough problem, or maybe you haven't zeroed in on your ideal customer. Focus on finding that one customer or one customer persona who absolutely loves your product and can't live without it, and then build from there. Many companies have "a mediocre product but they have people using it, and they just go, go, go, and they never stop to ask: Does anybody love it?" says Crofts. Finding that one perfect customer can not only help guide your product development, it can also motivate your startup team to new heights.

"That one person, that one story can fuel a team for weeks," Crofts says.

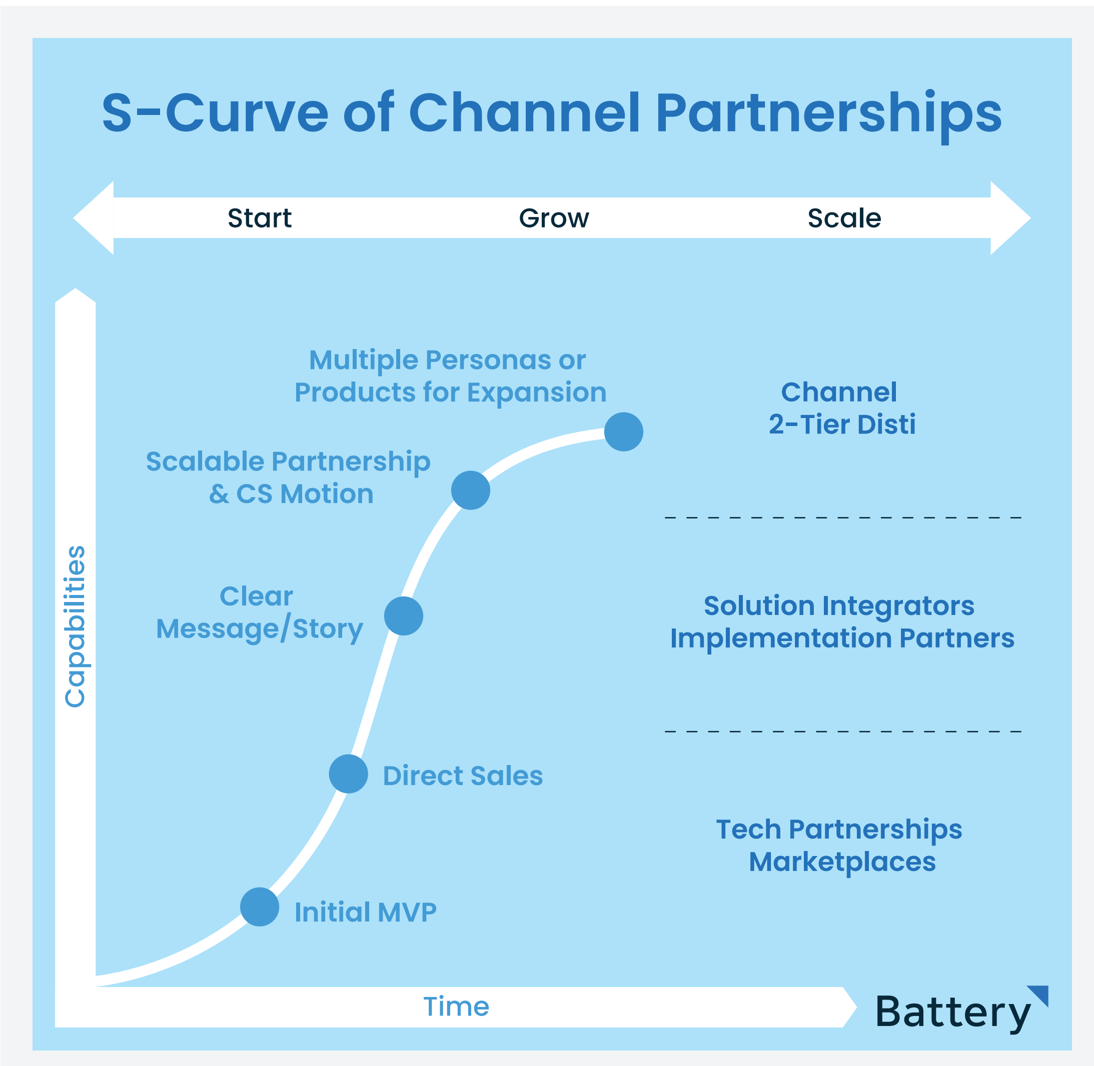
> **"This happens all the time–you're looking at the data, you're OK with being surprised. You might notice some outliers and think: maybe there's another customer segment here we can serve."**

How Startups Should Think About Partnerships and Channels

When founders strike out to build the next great company, most assume they'll adopt a direct sales model. But it's worth thinking about partnerships and channels, too.

Utilizing partnerships and channels can enable effective go-to-market activity. It can also improve your product's scalability, increase customer engagement and ultimately provide the highest levels of service. Channels exist across all verticals in our economy—channel companies take a cut of revenues in exchange for providing smaller companies with a route to market.

Whether you're in the early innings of your startup journey, defining a brand-new market, or strategically scaling up the S-curve towards an IPO, you should stay mindful of the critical points to developing the right partner and channel motions. As the diagram below indicates, companies in the early "ferment" stage benefit most from base-level technical partnerships/integrations. At the "takeoff" stage, companies should move to co-selling with technical partners. At the "maturity" stage, the team and product are likely ready for broader go-to-market partnerships with solutions-integration (SI) providers, information-technology outsourcing (ITO) and distributors (disti for short). We'll define these terms more below.



Two reasons cloud startups should engage with channels

With the transition to cloud-based software, the world of technology channels is being turned upside down. Channels are hungrier than ever to engage with promising startups. The value to startups in return isn't always obvious, but there are two big reasons to engage channels:

- **Efficient scale.** No matter how easy your product is to consume, large corporate accounts will transition into an enterprise sale. To manage sales costs, it's frequently beneficial to work with a channel organization that has long, trusted relationships.
- **Entering new markets.** As the company expands to new geographies or verticals such as the federal government, channels can provide specialized knowledge (regulatory, accounting, etc.) and access that would take quarters to hire for (or years to build).

What are Channels?

Channels come in four broad categories, each with their own characteristics and sub-categories:

1. **Marketplaces:** An online storefront used to distribute and bill cloud-based software, like Salesforce Marketplace. Primarily these services serve as fulfillment platforms (vs. discovery). Marketplaces offer a good way to achieve scale in combination with high velocity or traditional enterprise sales motions.

2. **Partnerships:** An agreement between two or more organizations to reach the market together, either through technical integration or leveraging for solution completeness (solutions integration, or SI for short). Examples of channel partners include Accenture, Deloitte, or smaller design or development agencies.

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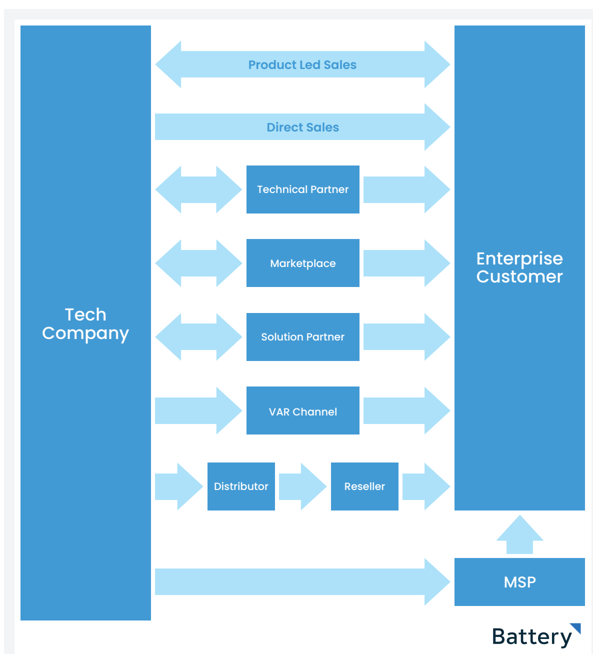
3

Resellers: A purpose-built sales organization(s) focused on third-party products. Resellers tendto be regional or national champions that focus on specific technology practice areas, e.g.security. Instead of a vendor building the relationship and trust, they work through these organizations with established enterprise relationships. A few examples of Value-Added Resellers (VARs) include Trace3, Evotek and Ahead.

One layer removed is a distributor, or disti. Distributors sell a third-party technology through a proprietary network of hundreds or thousands of VARs. An example is Ingram Micro.

4

ITOs / MSPs: Information technology outsourcing (ITOs) and managed-service providers (MSPs) run technology on an enterprise's behalf. For example, instead of running a security-operation center it is common for enterprises to hire an MSP. They buy/build a platform, handle staffing, etc. so that the enterprise doesn't have to. Under this model, the MSP or ITO selects the underlying technologies to deliver the service. As the diagram below illustrates, the tech company sells to the MSP (who is their customer), and the MSP runs the software on behalf of the enterprise.



> **"A key to success across the partner landscape is understanding the current landscape of vendors and the gap(s) you can fill. It will keep you from chasing the wrong partners."**

Choose Your Channel Sales Path Wisely—But Also Know You Don't Have to Choose Exclusively

As companies transition into scaling (vs. proving themselves), many routes to market make sense. The three channels described above are non-exclusive. For example, a reseller may do all the legwork to sell the technology and the enterprise receives it through a cloud marketplace.

That said, beware of one downside of a channel: You become one or more steps removed from customers and their feedback. For that reason, early-stage companies should focus on channels that allow them to hear how the customer is using the product, if there are product features and requirements that are not being met, and other forms of competitive intelligence.

Building a Sustainable Channel Program

Before starting down the engagement path, it's critical to understand how the channel functions. Channel companies are first and foremost fulfillment engines. They take a cut of the revenue, which means they don't get paid for looking busy. To start building these relationships, sales organizations need to feed the partners deals. Said another way, channels are not market makers in your startup's early days. As they see a path to repeatable revenue, they will invest in training your team. The magic is when the balance shifts, the relationship becomes self-supporting and mutually reinforcing, and deals start feeding themselves.

Building a successful channel program happens in four steps:

1. **Selecting a partner**
2. **Bringing deals to the table, which incentivizes the channel to build a program**
3. **Innovating on deal structure**
4. **Sustaining the relationship**

It's tempting for startups to approach integration and solutions partners with only their own perspective in mind: "We offer an incredible new SaaS solution that disrupts X or enhances Y. Why not use it?"

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The reality from a partner's point-of-view is very different. Channel partners have ingrained processes and solutions. Operating in markets that necessitate growth and retention of business, they repeat known solutions and have trained hundreds or thousands of people on how to sell, integrate, or sell the vision of specific solutions. They're not going to disrupt a working sales process lightly.

Six Pointers for Building Successful Channel Sales Programs

1. **"No" is the 2nd best answer.** Beware of "happy ears"—hearing what you want to hear when talking to prospective partners or customers. It's fine to evaluate opportunities honestly and understand if a partnership truly works right now. It will save endless cycles of false starts, and you typically don't have multiple attempts to get the ball rolling.

2. **Find that internal case study and champion.** Many solutions/integration partners have diverse sales/solutions teams. Find that low-hanging fruit opportunity that will create a clear, decisive win. You can then use that success as your internal case study to expand the partnership.

3. **Don't be afraid to walk away or pause.** Educating, supporting, and training partners can be cumbersome, and large SIs can eat up endless cycles just in evaluating the value you get. If mutually beneficial projects are already happening between you, slow your efforts and re-engage when you have new internal case studies that enable you to expand.

4. **Metrics, metrics, metrics.** Understand how your partners influence ARR/contracts and tie revenue to partners both direct and indirect. That entails also understanding the metrics for your partners. What's their contribution margin? Are they getting 2x or 10x your services on your technology? What percent of tech spend does your company represent across other vendors utilized in solutions? Metrics like these help you prove you're providing meaningful value to SIs, encouraging them to scale your solution. Just as importantly, these metrics provide another lens on how you're pricing your value to the market.

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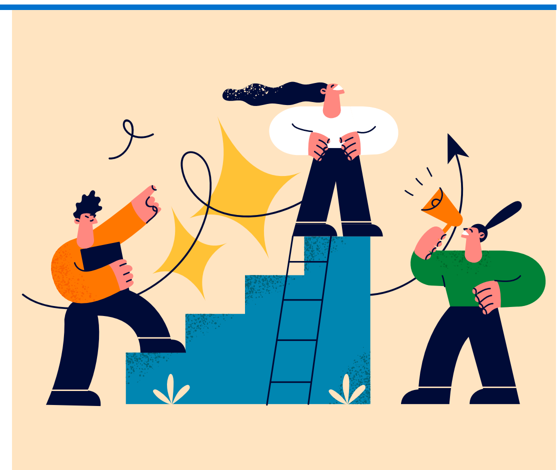
5 **Play for a win-win.** It's a cliché but it's true. You expect your partners to drive business to your startup with new opportunities and expanding existing customers. In turn, your partners need to know you're providing value back and pulling them into the right discussions. The balance will likely never be 50/50, but it isn't a healthy relationship if it's 95/5. If you have the right partners don't be afraid to leverage them. They provide credibility and can expand your discussions rather than diminish them.

6 **Stay open to unsexy technical-partner integrations.** Don't just chase the shiny technical integrations; sometimes "unsexy" integrations offer the most meaningful value. It is imperative you understand the "why" driving a particular integration. Say a potential partner wants your product to integrate with Salesforce Marketing Cloud. That's fantastic, but what's the intent of the integration? Does it power new personalization experiences, automate email workflows, provide insights on customer data? Each reason can send you down a different path and enable you to start with the right MVP that hits 80% of the right feature points, rather than spending all your time over-designing a solution on day one.

Additional Points to Consider as Your Channel Program Grows



As your channel program grows, make sure you know the goals of your partnership programs. Are you trying to accelerate sales or build strategic value? If partnerships live within the sales organization, you can start to hunt specific partners that satisfy the quota goals a quarter ahead—all while pursuing the strategic opportunities that take more time but can really bring you to the next level.

To scale effectively, think of your partners as customers given they can bring meaningful revenue but might not hold the ARR directly. Ensure you have a path to support their needs with customer success, sales engineers, marketing, and enablement to get the most out of your efforts.

CONCLUSION:

The More Things Change...

Now more than ever, companies see the need to digitize more aspects of their businesses, faster. Startups that can meet these needs are poised to benefit.

Some of these changes may, at the margins, ease some of the potential problems that can crop up in enterprise-startup partnerships. If big companies are able to make procurement decisions faster, and are willing to listen to their employees' on-the-ground needs and buy products to suit, some startups may have a slightly easier time landing these big customers.

But ultimately, the core challenge of a partnership like this won't change: startups and established companies are different. They have different needs and different internal processes. Some early-stage startups may simply not be ready to work with a Fortune 500 company. Some Fortune 500 companies may simply not be prepared to deal with the challenges that come with a partnership with a very early-stage startup.

And yet it remains crucial for both parties to innovate with both speed and discipline. We believe that one of the best ways large companies can access innovative technologies is by partnering with exciting new startups; and one of the best ways startups can scale is by learning to work with Fortune 500 companies as partners and customers. We hope the advice in this whitepaper can help companies on both sides of this equation overcome some of these difficulties and learn to work together more productively.

Feel free to contact me directly if you want to talk about any of this.

Best wishes,

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