



SAAS

MARKETING FOR CEOS

○ HOW TO GO TO THE ○

TOP OF THE MARKET

— *and stay there* —

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If you are a SaaS company **CEO,**

you know your company is riding a wave of industry demand. According to **Gartner**, the market for SaaS applications will grow from \$20 billion in 2013 to \$33 billion in 2016, with a compound annual growth rate of 19.5%. A **Compass** study shows that SaaS is growing nearly 3X as fast as software as a whole, and that 72% of all SaaS startups are at least partially funded.

SAAS APPLICATIONS MARKET GROWTH

2013

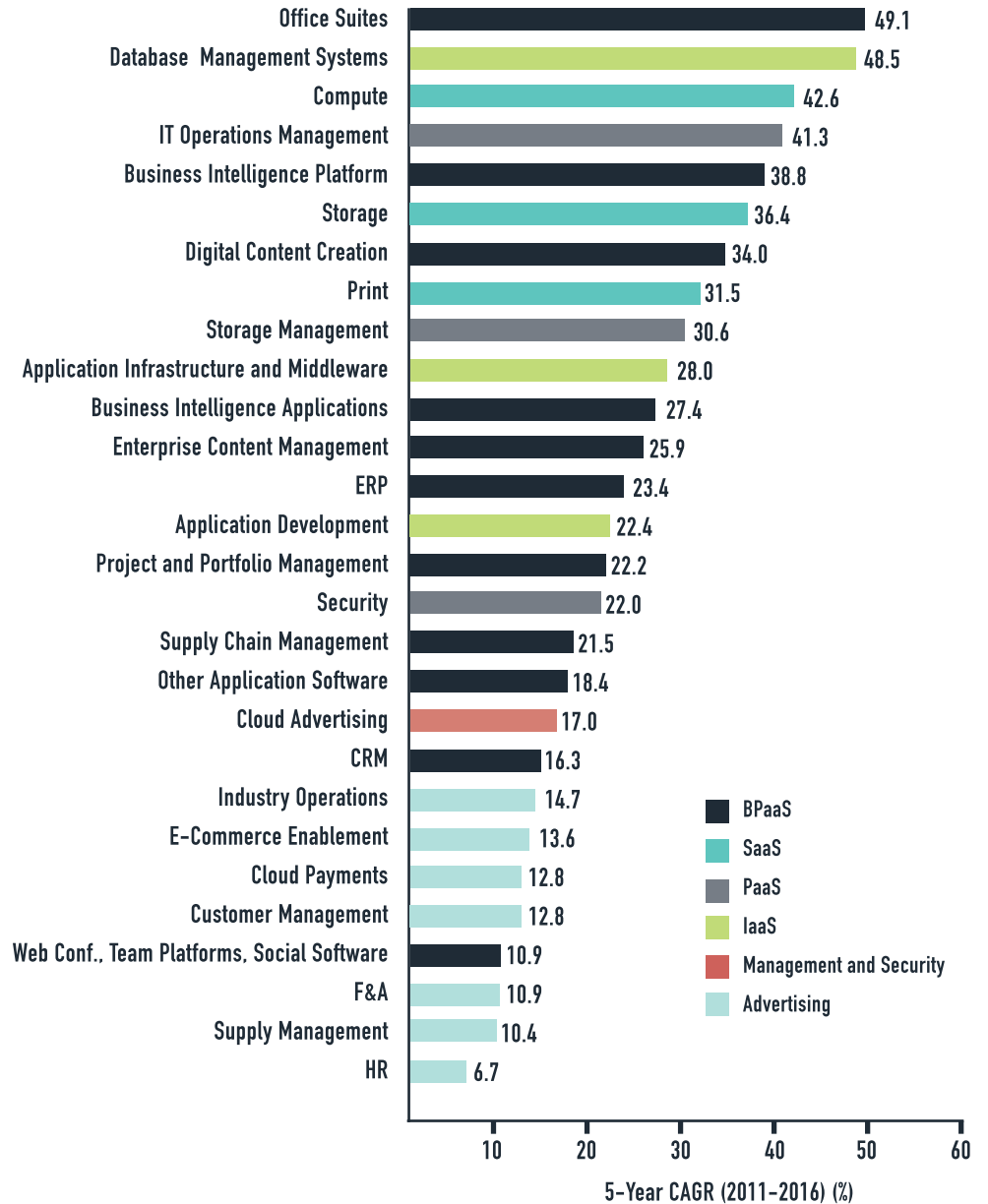
20
BILLION

2016

33
BILLION

COMPOUND ANNUAL
GROWTH RATE OF
19.5%

PUBLIC CLOUD SERVICES SUBSEGMENT CAGRS, 2011-2016



Source: Gartner (February 2013)

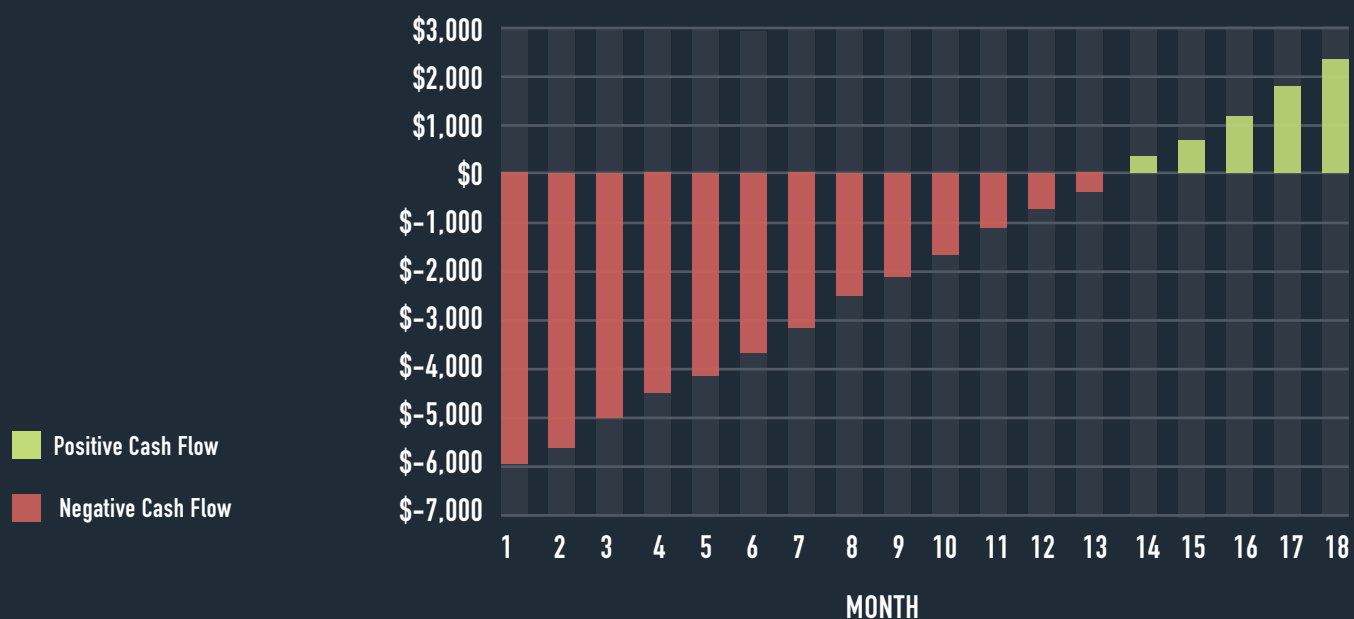
According to Gartner, Office Suites (49.1%), Business Intelligence (38.8%), Digital Content Creation (34%) and Content Management (25.9%) applications lead the way in compound annual growth rates. Other growing services include ERP, Project and Portfolio Management, CRM, Supply Chain and Collaboration Suites. Only 40% of the Enterprise CRM market is SaaS based, so there is room for additional growth in these sectors. For most SaaS founders, the problem isn't opportunity; it's time. From startup to break-even, your company is under the gun to grow monthly recurring revenues fast enough to offset (and pay back) customer acquisition costs and churn before the funding well runs dry. David Skok calls this deficit the "cash flow gap."

The success or failure of early stage SaaS companies depends on their ability to:

- ACQUIRE NEW CUSTOMERS QUICKLY AND COST EFFECTIVELY
- RETAIN CUSTOMERS OVER THE LONG HAUL
- UPSELL CUSTOMERS TO INCREASE LTV OVER TIME

As Skok says, "SaaS, and other recurring revenue businesses are different because the revenue for the service comes over an extended period of time (the customer lifetime). If a customer is happy with the service, they will stick around for a long time, and the profit that can be made from that customer will increase considerably. On the other hand if a customer is unhappy, they will churn quickly, and the business will likely lose money on the investment that they made to acquire that customer."

SINGLE CUSTOMER - CUMULATIVE CASH FLOW





The Story of Shopify

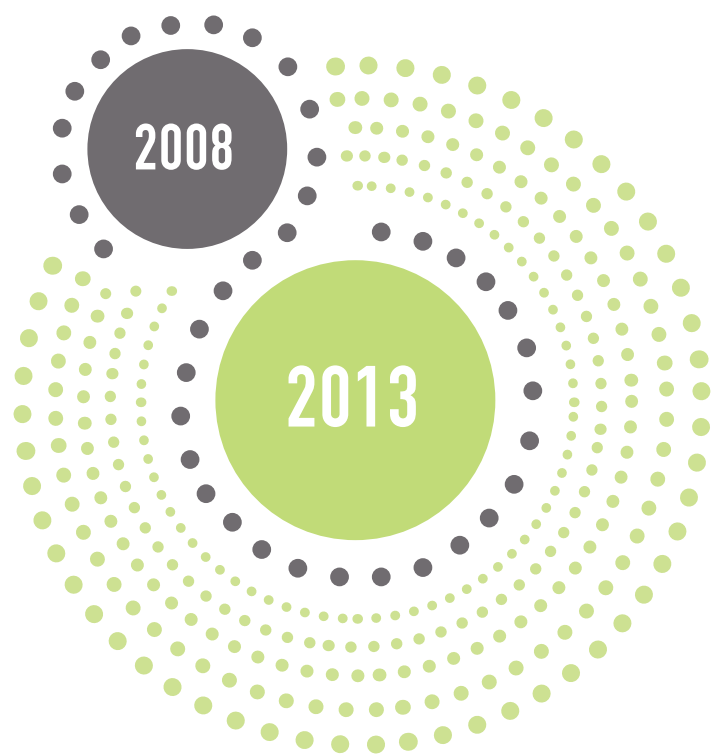


In 2004 Tobias Lütke and his friend Scott Lake founded **Shopify**. They didn't set out to create a SaaS company. Instead they were eager to solve a problem. They couldn't find an easy to use, flexible e-commerce solution for their high-end snowboard business in Ottawa, Ontario. The pair was frustrated by shopping carts that didn't allow custom design and integration with other business systems, so why not build one from scratch? An experienced programmer in his own right, Tobias embarked on a **journey** to reinvent the online store industry.

After a lot of hard work and \$450,000 in family and angel funding, Shopify was launched in 2006.

The journey wasn't easy over the next two years, with Lake leaving and no profits, but the company finally showed a profit in 2008 and in 2010 secured \$7 million in Series A funding and grew to 40 employees. Following additional rounds of \$15 million in Series B funding in 2011 and \$100 million in Series C funding in 2013, Shopify was off to the races, and the company has since grown to more than 400 employees. In 2014 Shopify claims to have over 100,000 online stores using the software including big brands like Budweiser, GE, Tesla, Evernote and Amnesty International. The company anticipates over **\$1.5 billion in sales** this year, more than doubling its revenues from last year.

GROWTH OF WORKERS FROM 2008 - 2013



WHILE IT TOOK

8

YEARS

TO BUILD THE SHOPIFY EMPIRE, WITH SOME DIFFICULT CHALLENGES TO OVERCOME, TOBIAS LÜTKE AND HIS TEAM HAVE LED THE WAY FOR THOUSANDS OF SAAS STARTUPS SEEKING A SLICE OF THE ANTICIPATED **\$33 BILLION** PIE.

There are many lessons to be learned from the Shopify story, but one thing they have done better than nearly any other SaaS company is marketing. In many ways they invented SaaS marketing, and they continue to reach and nurture customers with innovative approaches.



Going to Market



KNOW YOUR CUSTOMER

Tobias Lütke knew right away who his customers were – himself, both as a small business owner and as a website designer/developer. ***He was designing Shopify to meet his own needs, and he knew that other SMB owners and website professionals were looking for a better e-commerce solution that would:***

- ALLOW THEM TO SET UP AN ONLINE STORE IN MINUTES
- EASILY DESIGN A GREAT LOOKING SITE THAT WOULD APPEAL TO CUSTOMERS
- MANAGE PRODUCTS, PRICING, TAXES AND SHIPPING WITH EASE
- SET UP PAYMENT GATEWAYS WITHOUT THE USUAL HASSLE
- FOCUS ON THEIR PRODUCTS AND CUSTOMER SERVICE, NOT THE STORE ITSELF

When you aren't your own best customer, what can you do to gather requirements and develop a marketing strategy?

Start with a **buyer persona analysis**, where your team conducts interviews or surveys with existing or potential customers to find out what their needs are and how they shop for solutions. The outcome is a positioning statement and messaging strategy that addresses buyer “pain points” and a plan for creating both products and marketing content that will make them happy.

The next step for Tobias Lütke was creating a product that would exceed his customers' wildest dreams.

At the top of the “pain point” list were flexibility in site design and integration with third party applications. Lütke scrapped the rule book on website development and built his own modern software architecture using a brand new programming language called **Ruby on Rails**. This enabled him to create an easy to use and supportive environment for building online shopping carts that business owners could use without web design skills. For the first time, a small business could afford to create its own website using a content management system built around a fully functional e-commerce platform and do it quickly and cheaply. For


designers, he created an easy-to-use modular programming toolkit called “Liquid” that helped them create great looking storefronts without programming skills. Shopify took off because early users loved it and became loyal fans.

The Shopify team didn't stop there. They have been listening to their customers and adding value to the product since 2006. In 2009 they launched the Shopify App Store, an online marketplace for custom apps developed by freelance programmers using Shopify's open API. This sparked a cottage industry for small shops adding value to the Shopify shopping cart by integrating it with all kinds of web-based business applications and custom features. We take this kind of app development for granted now, but it was a novel approach in 2009.

The App Store did more than provide new business for independent programmers, it created an army of brand advocates and resellers that galvanized Shopify's own sales and marketing efforts. In 2010 Shopify launched a Theme Store for designers. Then in 2013, they added an integrated payment system for VISA, Mastercard, American Express, Bitcoin and PayPal that replaces third party payment gateways. Now they have a card reader POS system for iPads, and the company continues to drive both new business and customer retention through innovation.

CREATE A COMPANY YOUR EMPLOYEES WILL LOVE

Tobias Lütke attributes much of the success Shopify has enjoyed to **company culture**.

 **This is the most important topic for any startup. A company's success starts and ends with a great product. I firmly believe that the only way to get a great product is to have a company that is having fun. Your product is a manifestation of the sum total of its contributors. If your corporate culture is nondescript you will end up with nondescript software."**

In addition to the usual games and other diversions now common to software companies, Shopify employees all receive stock options and participate in a unique bonus pool called "Unicorn" that allows them to reward each other based on outstanding performance. They stay current and connected through daily stand up meetings to review progress and ask questions. "One of the most important questions that we ask during an interview is 'What do you do for fun?' In short, we look for independent, creative, fun loving and resourceful people. If we come across one then we go ahead and make them an offer... My goal is that every single employee, at the end of their careers, will say that working on Shopify was one of the best times of their lives."

SUPPORT YOUR CUSTOMERS AT ALL COSTS

Shopify understood from Day 1 that financial success depends on customer lifetime value. Tobias and his team have been blogging since 2006, and their blog posts have always focused on helping their customers sell their products and improve their stores. ***They understand that their audience includes both small business owners and website designers and developers, so blog topics include:***

- HOW TO START A BUSINESS
- HOW TO SELL ONLINE
- E-COMMERCE TRENDS
- E-COMMERCE INSPIRATION
- PHYSICAL RETAIL
- SHOPIFY UPDATES

Shopify added developer forums, e-guides and a customer site showcase bundled under its customer support resource, [eCommerce University](#). If you have questions or problems, live support by phone or chat are available 24/7.

By providing a wealth of online resources for building a business as well as product help, Shopify keeps buyers engaged and happy, which is the key to customer retention and LTV.

The Shopify website is simple & easy to use.

The value proposition is clearly stated: “everything you need to sell anywhere.” If you aren’t a Shopify user, there is really only one thing to do. Sign up for a 14-day free trial. If you are a customer, there are plenty of resources available to help you set up your store and start selling online or offline. It’s easy to find what you are looking for and how to get help. The **responsive website design** works equally well on desktops, tablets and smartphones. After all, the Shopify product itself is built to create e-commerce enabled websites that adhere to these principles, so why wouldn’t the brand website be true to its own core values?

During a free trial, you are encouraged to get your hands dirty using Shopify and launch your store so that you can start making money. Shopify nurtures you with emails offering helpful advice, tips and resources for making your own store attractive and valuable to your customers. If you ignore your store, you are gently reminded that you are just a few steps away from selling your products online. If you are having trouble getting started, Shopify has an **Experts marketplace** where you can go to find some help for hire. If your free trial runs out without a purchase, you’ll get some additional inquiries, but they don’t hound you into submission. The message is always about “how can we help you succeed?”

MARKETING TAKEAWAYS

- GET TO KNOW YOUR CUSTOMERS, THEN BUILD PRODUCTS THEY WILL LOVE
- BUILD A GREAT COMPANY THAT BOTH EMPLOYEES AND CUSTOMERS ADMIRE
- GET THE DEVELOPER COMMUNITY INVOLVED IN DESIGNING, TESTING AND IMPROVING YOUR PRODUCT
- THINK ABOUT YOUR CUSTOMERS AND DESIGN YOUR WEBSITE AND SUPPORT FRAMEWORK TO MEET THEIR NEEDS



Getting to the Top of the Market





Shopify has always faced **STIFF COMPETITION** in the e-commerce space.

Secure shopping cart solutions have been available since the 1990s, many of them using free open source code as an add-on to a website (like ZenCart) and others providing proprietary enterprise-level online stores (like Magento). More recently, a variety of web-based and mobile e-commerce apps (like Squarespace and Mobify) target the rapidly expanding mobile market.

How did Shopify penetrate this competitive field and climb to the top?

In 2006 no one had heard of Growth Hacking, but they had heard of word of mouth marketing, search engine optimization and social media marketing, which is where growth hacking happens most commonly.

Web designers and developers loved the easy-to-use toolkit that helped them deliver e-commerce websites in days rather than weeks. They started talking about Shopify in their forums and blogs and recommended it to their friends. With a strong support network, Shopify helped freelancers and small design shops build their businesses. Designers, developers and marketers can now apply to become a **Shopify Expert**, a reviewed resource where they can market their services to Shopify customers. Freelancers and agencies can also become **Partners** and earn money reselling Shopify. In the early days, through word of mouth marketing and by leveraging their developer network, Shopify generated brand awareness and advocacy without a large advertising budget.

INBOUND MARKETING (CONTENT, SEO AND SOCIAL MEDIA)

Shopify also understands how to find and attract buyers online. Shopify marketers write blogs 2-3 times per week and post updates on [Twitter](#), [Facebook](#), [YouTube](#), [LinkedIn](#), [Instagram](#), [Google+](#) and [Pinterest](#) frequently. They tell stories in blogs and social media, stories about their customers' successes. Their content strategy is all about helping small business owners and freelancers start and grow their businesses. ***Riding a tide of entrepreneurship in the U.S. and abroad, the company's online visibility has grown dramatically in recent years.***

- OVER 240,000 VISITS PER MONTH VIA ORGANIC SEARCH
- OVER 20,000 VISITS PER MONTH VIA PAID SEARCH
- 3.7 MILLION TOTAL BACKLINKS
- SHOPIFY MORE THAN DOUBLES THEIR COMPETITORS IN SEARCH METRICS

In recent years, getting to the top of the search engines has become more challenging than ever. Google has made changes to its search algorithms that reward high quality, highly shared content and penalize attempts to game the system. According to Kelsey Jones, Editor of [Search Engine Journal](#),



Amazing content is the only thing that is Google update-proof. Google will never penalize useful, unique content that the user is actually looking for. Instead of spending your time on trying to beat Google algorithms, you should be focusing on asking yourself what your ideal end user really wants. After all, that's what Google is doing."

SHOPIFY SPENDS APPROXIMATELY

\$220,000 PER MONTH

IN PAID SEARCH ADVERTISING, BUT THE BULK OF THEIR ORGANIC TRAFFIC COMES FROM BLOGGING AND THE POPULARITY OF THEIR WEBSITE SUPPORT RESOURCES.

Shopify ranks #1 on Google organic results for phrases like:

- BEST SHOPPING CART SOFTWARE
- E-COMMERCE WEBSITE
- CREATING AN ONLINE STORE
- HOW TO CREATE AN ONLINE SHOP

Shopify also targets small business owners and web designers with display and text ads on over 8,000 free web resource sites like Mike's Marketing Tools and Pattern8.com.

Using Facebook **Custom Audiences**, Shopify targets thousands of new website visitors by finding Facebook “lookalikes” from their current contact list. This strategy led to a 2X reduction in cost per lead compared to conventional social media advertising.



PROMOTIONAL CAMPAIGNS

In 2010, Tobias Lütke got together with his buddy **Tim Ferriss** to promote a **Build-a-Business** competition for entrepreneurs. They offered \$100,000 to the company with highest gross revenues garnered using the Shopify platform during a 6 month period. The winner that year was **DODOcase.com**, a maker of cases for iPads and iPhones. Overall, the competition had over 1300 entrants, raised over \$3.5 million in revenues for the participants and generated a tremendous amount of buzz and support from well known thought leaders like Tim Ferriss, **Gary Vaynerchuk** and **Seth Godin**.

The 2010 competition was so successful, Shopify has done it again every year since.

The 2014 version features mentoring from the likes of **Sir Richard Branson**, **Daymond John**, **Marie Forleo** and Ferriss.

MARKETING TAKEAWAYS

- OPEN YOUR BUSINESS TO VARS AND DEVELOPER COMMUNITIES
- CREATE AN ARMY OF BRAND ADVOCATES - AND SUPPORT THEM
- PUBLISH HELPFUL CONTENT THAT WILL ENABLE YOUR CUSTOMERS TO SUCCEED
- SHARE CONTENT (YOURS AND OTHERS') ON SOCIAL MEDIA AND BLOGS
- USE EVERY TOOL IN THE ONLINE MARKETING TOOLBOX TO DOMINATE THE SEARCH ENGINES FOR QUERIES YOUR CUSTOMERS ARE LIKELY TO USE
- BRAINSTORM NOVEL PROMOTIONAL CAMPAIGNS THAT REWARD YOUR CUSTOMERS AND YOUR BRAND
- LEVERAGE PERSONAL RELATIONSHIPS WITH THOUGHT LEADERS AND INFLUENCERS



Stay on Top of the Market



This is where all of Shopify's efforts in building user and developer communities, providing excellent customer support and giving sage advice (and financial rewards) to entrepreneurs pay off. That ongoing investment keeps customers happy and, moving forward, reduces churn, increases social sharing and drives new business.

Shopify has become the most capable shopping cart solution for small business through its open app development architecture and marketplace fueled by freelancers and agencies.

While large retail brands may go to more scalable platforms like Magento, Shopify knows its customer base is at the opposite end of the spectrum, and entrepreneurs prefer Shopify.

MARKETING TAKEAWAYS

- NEVER SKIMP ON CUSTOMER SERVICE. IT'S YOUR ONLY PATH TO THE FUTURE.
- LEVERAGE YOUR RESELLERS AND DEVELOPERS TO CONTINUALLY IMPROVE THE PRODUCT
- KNOW YOUR CUSTOMER BASE AND KEEP THEM HAPPY



How Much to Budget for SaaS Marketing?



Most executives think of marketing as an expense, a necessary evil to gain brand awareness and drive revenues. It should be clear that Shopify, and other successful SaaS companies, consider marketing to be an investment, one that pays off in monthly recurring revenues, reduced churn and increased customer lifetime value. The question for many is “how and when should I expect positive ROI on marketing investment?”

Getting to positive ROI requires strategic thinking, careful planning and execution and means for measuring KPIs. **Today this is done by combining online and offline marketing methods with marketing technology like *HubSpot* that enables measuring every facet including:**

- WEB SITE TRAFFIC AND SOURCE ATTRIBUTION
- LEAD GENERATION AND CUSTOMER CONVERSION
- FREE TRIAL TRACKING AND ENGAGEMENT VIA MARKETING AUTOMATION
- CONTENT MARKETING, CREATION AND DISTRIBUTION
- CUSTOMER SERVICE ENGAGEMENT AND CUSTOMER SATISFACTION
- ADVERTISING EFFECTIVENESS AND CONVERSION RATE OPTIMIZATION
- CAMPAIGN PLANNING AND ROI
- SALES AND MARKETING ALIGNMENT, CRM AND REVENUES

Technology is an important part of the investment, but talent is vital. You will need creative thinkers, writers, designers and developers.

You will need experts in each aspect of online and offline marketing, and you will need time and money to develop brand advocate networks like developer and user communities. You will face hard choices when it comes to finding and hiring your own talent versus finding reliable agencies to do the work for you. Some of the best inbound marketing agencies are listed [here](#).

How much will this cost in the early stages? According to Cloud Strategist, **Justin Pirie**, here's what you should be thinking about.

"It's long been said, that a great Customer Acquisition Cost (CAC), i.e. how much it costs to acquire a customer, is \$1.00 spent for every \$1.00 of revenue received in the first 12 months of that customer or less... That's for the best performing SaaS businesses. I've seen plenty worse, seldom better in early stages, even if the leads are inbound."

"...you'll grow at the rate which you spend dollars acquiring customers – at roughly 60 cents on the dollar marketing, 20 cents on the dollar selling."

"If you're looking for data– you should check out the **Pacific Crest SaaS survey."**

"If you're looking to grow \$2m recognisable ARR I would say \$1.2m on marketing would be your starting point, depending on how much marketing handles the sale and what percentage of your leads are inbound."

"Most people don't realise how expensive it is to grow a SaaS business in terms of marketing and sales. But once you've got the revenue and assuming you haven't got horrible churn – it's a great business to be in."



Justin Pirie paints an accurate picture of the costs and outcomes of SaaS marketing.

It's a myth that your product will sell itself and that modern online marketing is far less expensive than traditional advertising. The question is how effective will your investment be and how well will you be able to measure its success? Today's tools and strategies, in many ways pioneered by successful SaaS companies like Shopify, require a rare combination of creative imagination and technical expertise. The winners in the race to the top of the market, with staying power, will be companies that invest early and often.



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