

REPORT REPRINT

Slack, Dropbox, LoopUp: Go-to-market approaches for communications and collaboration SaaS

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We take a look at how the SaaS business model has influenced the go-to-market strategies of three companies disrupting the business communications and collaboration space.

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Factors made possible by cloud computing, including pricing, scalability and innovations in user experience, have proven disruptive across a number of software categories. Examples range from enterprise resource planning and customer relationship management to business communications and collaboration. The flexibility that SaaS provides as a delivery mechanism for business applications is enabling emerging players to challenge incumbent providers, redefining the competitive landscape.

In this report, we take a look at three SaaS providers disrupting the business communications and collaboration space: Slack, Dropbox and LoopUp. We look at factors that have influenced their business strategies, paying special attention to their go-to-market approaches.

THE 451 TAKE

The companies profiled in this report are good examples of the impact that cloud computing is having in the workplace, changing the ways in which employees collaborate and communicate with each other. They also illustrate key trends that 451 Research expects will shape the digital transformation agenda over the next 10 years. These trends include the growing influence that employees have in the tools they use, and the relevance of a friction-free user experience for the end user and across all touchpoints in the sales cycle. The go-to-market approaches of Slack, Dropbox and LoopUp resulted from careful planning, paying close attention to customer feedback, and (sometimes) trial and error. We do not believe their experiences can be boiled down to a step-by-step formula that can be easily replicated. However, they show how cloud computing is disrupting sales organizations, and provide guidelines that can help other companies define their own SaaS strategies.

451 Research contends that knowledge workers are becoming increasingly self-sufficient in terms of technology, with workers relying less on their employer to supply the tools they need and instead seeking out and adopting a set of preferred devices and applications to do their work and conduct their personal lives.

This trend is particularly relevant for business communications and team collaboration technologies, as can be seen from the companies included in this report. Slack and Dropbox are two companies that represent well-known case studies for viral adoption and organic growth of cloud-based software applications. Another relevant commonality they share with LoopUp is product development focused on a friction-free end-user experience, which further contributes to organic growth.

DROPBOX: TOP-DOWN COMPLEMENTS BOTTOM-UP ADOPTION

Dropbox started out as a consumer product, and its presence in the workplace was initially perceived as shadow IT. The company has sought to turn this around, shifting its position from a free consumer app to a platform for enterprise productivity and team collaboration.

The provider of file sharing and cloud storage solutions was founded in 2007. It is headquartered in San Francisco and has nearly 1,500 employees. The company is privately held and venture-backed. The latest reported statistics show Dropbox has 500 million end users and 200,000 business customers. In January it announced the achievement of a \$1bn annual revenue run rate.

Unlike the other companies profiled in this report, Dropbox started out as a consumer product. Four years ago it shifted its strategy to also target the enterprise segment. The company developed new revenue and business models, which led to a major transformation in its product and go-to-market strategies.

A major part of its strategy was hiring more people from enterprise providers, such as Microsoft, Salesforce, VMware and Vodafone, to bring enterprise know-how into the company. While its sales organization and compensation structure are similar to other enterprise software vendors, its go-to-market strategy is influenced by its popularity as a consumer app.

The company launched Dropbox Business in November 2013. It provides enterprise-grade features such as centralized IT management and admin controls, single sign-on, and Active Directory integration. It also features integrations with major enterprise mobility management and security providers. Dropbox Business plans start at \$12.50 per user per month; a 30-day trial is available.

In January the company launched two more enterprise features: Smart Sync, which allows users to save space by storing files only in the cloud without any hard drive backup, and Paper, a collaborative workspace that helps teams create and share ideas of all kinds in a single space. In October it announced a new feature called Dropbox Showcase, which is available for Dropbox Professional and Dropbox Business Advanced users and above. The feature aims to bring together 'everything business professionals need' to connect with their clients, and allows them to share content, track client engagement and 'maximize the impact of their work.'

A key challenge for Dropbox was gaining credibility with IT decision-makers. The company has been skillful in leveraging its consumer base and viral adoption to gain traction in the enterprise. To feed its sales pipeline, it pays close attention to user adoption and use cases, including collaboration inside and outside the organization. Prior to a deployment, it looks at the potential impact on internal networks.

With Dropbox Business, the company aims to help organizations address the risks that the use of consumer apps in the workplace entails. These include a lack of corporate control and added risks with mobile devices, which might be lost or stolen. Furthermore, Dropbox contends that its popularity as a consumer app makes its value proposition more compelling, since employees tend to prefer the technology they use outside of work.

LOOPUP: TEAM INCENTIVES ALIGN INDIVIDUAL EFFORTS

LoopUp has developed a 'pod' sales organization, where each pod is made up of business development associates, sales executives and account managers. Members are incented solely as a team to align individual efforts toward a common goal.

LoopUp provides a SaaS conference call and remote meeting solution for the enterprise. It was founded in 2003 and went public in August 2016, the first UK technology IPO post-Brexit. The company is based in London and currently has 130 employees.

LoopUp competes in a crowded space with large conferencing providers such as AT&T, BlueJeans, BT, Arkadin, WebEx (Cisco), Citrix, Skype for Business (Microsoft) and Zoom Video Communications. Despite intense competition, it has experienced above-average growth rates in terms of revenue and gross profits. It reported a 39% growth in revenue in 2016 and a 38% CAGR in the last three years. Its revenue for 2016 was £13.6m (\$18.24m), with a gross profit of £10.3m; this grew to £8.65m in the first half of 2017, with a gross profit of £6.65m. It also boasts a lower annual churn rate (5.5%) than its competition.

In addition to product differentiation, the company believes a key factor in its success has been its sales approach, which can be described as unconventional, and even contrary to standard industry practices. SaaS businesses are typically organized in silos, with separate teams for different functions. In contrast, LoopUp works with teams of six people – which the company calls 'pods' – that are responsible for lead generation, sales and customer care. Each pod works as a mini company, emulating the environment of a startup. They are responsible for the revenue growth in new LoopUp customers in their first year.

Compensation is a key factor in the company's sales approach. Rather than providing bonus incentives on an individual basis, pods are compensated solely as a team, based on new recurring revenue growth brought into the business. The company believes this helps align individual efforts toward a common goal, motivating team members to consistently put their best foot forward. For example, instead of booking meetings for meetings' sake or inappropriately 'hogging' hot opportunities, team members are motivated to do the right thing and take actions in the best interest of the company.

Another key factor is the company's recruitment, hiring and onboarding process. Rather than hiring experienced and expensive sales people, LoopUp recruits new or recent graduates and trains them. This is not just a financial decision; the company believes it is a more effective approach for its value proposition, with team members working with common messages and methods.

The company initially hired experienced salespeople with strong track records in enterprise collaboration. They were strongly influenced by legacy industry statements focused on technology and product features, rather than LoopUp's user experience (UX), which is how the founding team articulates the company's value proposition. LoopUp believes this can be explained by the fact that it is not selling a new technology; rather, it is putting forward a disruptive product philosophy in an established space.

Other factors influencing its go-to-market approach are pricing and target market, in tandem with its product strategy. Unlike the other software companies profiled in this report, its target market is not made up of early adopters; instead, the company targets the mainstream majority of frequent conference callers. This group tends to be risk-averse when it comes to remote meetings, due to their comfort levels with software, as well as that of their guests. This explains why they tend to stick with dial-in access and emailing slides for their meetings; however, it also comes with a lack of visibility and control of the meeting, resulting in frustration and lost time and productivity.

LoopUp's UX and product strategy are based on ease of use. The company believes the UX requires participants and meeting organizers to be able to coordinate and join remote meetings hassle-free and without the need for training. The UX is enabled with the product features it provides for hosts, such as one-click screen sharing, integration with productivity tools such as Outlook, the ability to mute background noise and call-start alerts to let hosts know when guests join. For guests, the system provides a clickable link to join the conference by having LoopUp call out to them on a phone of their choice without having to dial in, and the ability to join from any device without the need for plug-ins. The company claims new users only use dial-in access for 25% of their calls, and rely on LoopUp's UX 75% of the time.

LoopUp believes all of these factors contribute to a more effective sales process that results in a low churn rate, predictable recurring revenue growth, lower acquisition costs and higher profitability per customer than the industry average.

SLACK: ORGANIC GROWTH FUELS ENTERPRISE ADOPTION

Slack is hailed as the fastest-growing SaaS startup and a benchmark for the consumerization of enterprise technology. In its first three years, it saw remarkable growth, driven by organic adoption. Slack became a \$1.1bn company without a formal sales and marketing organization.

Slack offers an integrated messaging and workflow platform for the enterprise. It was founded in 2013 and is based in San Francisco. It currently has more than 800 employees across seven offices. The company is privately held and venture-backed, having raised \$841m to date. Its most recent round in September raised \$250m, led by SoftBank and Accel, boosting its valuation to \$5.1bn. The latest reported statistics show that it has six million daily active users with more than 1.5 million paid users and 50,000 paid teams.

Slack's organic growth was initially linked to SMBs, as well as teams in large organizations. The company states that in the past year it has shifted to larger deals. Its customer base now includes companies like Oracle (with 36,000 users), IBM (30,000 users), Capital One (25,000 users) and other large enterprises such as Adobe, Autodesk, Liberty Mutual and NBC. It claims that across its product offerings, it has an established footprint in 43% of the Fortune 100.

In January the company launched Enterprise Grid, the enterprise version of its messaging platform. The platform was developed from the ground up with completely new architecture. It seeks to address the requirements of large, complex organizations with 500-500,000 users. Slack was already present in large organizations, but the company contends that these require a fundamentally different set of tools to help people communicate within and across teams.

The launch of Enterprise Grid was an important milestone for Slack that shows it is steadily consolidating its position among large enterprises. In addition to a brand-new platform, the company also revamped its market strategy to incorporate a more conventional, targeted and systematic enterprise sales approach. Its early success is tied to viral organic growth and a business model based on self-service and conversion. Slack expects word of mouth will continue to drive growth, but its sales organization is playing an increasingly relevant role when it comes to large enterprises.

CONCLUSIONS

Our main conclusion is that the three companies in this report have developed a go-to-market approach that is significantly different from traditional enterprise software sales. However, their approaches include elements that have become standard practices for SaaS providers. These include a freemium pricing tier and a low-touch, self-service sales model that fuels bottom-up adoption and organic growth of technology in the enterprise. These companies have been successful with this formula; however, they have also incorporated elements from traditional IT software sales in order to target large enterprises.

Dropbox and Slack both have top-down sales organizations that work in tandem with their bottom-up approaches. We believe this reflects an evolution into more mature organizations and their efforts to address customer requirements to cement their positions in the enterprise. LoopUp also incorporates elements from traditional IT software sales, and has developed its own variation that is aligned with its product and business strategies.