The B2B Institute

How B2B Tech Brands Grow

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Foreword

How B2B Tech Brands Grow

A new theory of marketing is steadily gaining traction. Market-based assets theory, developed by Byron Sharp, Director of the Ehrenberg-Bass Institute for Marketing Science, explains how brands grow by becoming more available to more buyers. Bigger brands are generally easier to buy from and easier to think of compared to smaller brands: we call these factors Mental and Physical Availability. Mental and Physical Availability are two intangible market-based assets that marketers must build to grow their brands.

Mental Availability refers to the brand's likelihood to come to mind (be remembered) across buying occasions, where those occasions can relate to a wide variety of needs/situations. Building up the brand in memory is a function of marketers' media choices, branding quality, and message quality when interacting with prospective customers. Interactions can be exposure to paid and earned media placements, visiting a brand's website, chatting with a sales representative, or even word-of-mouth received from other category buyers. These interactions can establish and reinforce memory structures that improve the brand's chance of being thought of at future purchase occasions (when most brands aren't thought of).

Physical Availability (noting "physical" includes virtual/online trading) reflects a brand's presence and prominence in all the places where buyers buy from the category. Marketers should quantify the relative popularity of different distribution channels, which includes sales teams. There is also product range and functionality to consider, where having options that cover different companies' needs/situations will make the brand more buyable for a diverse marketplace.

Importantly, this theory was built upon generalized patterns observed in buying data over many decades and datasets. Patterns include:

Double Jeopardy Law shows that the major difference between larger and smaller brands is how many customers they have, less so how loyal those customers are. Loyalty can be measured in numerous ways (e.g., being your customers' primary provider, or only provider, how many of your customers stay with you year-to-year, how they allocate spending to you versus other brands in their repertoire), but across these measures, smaller brands generally have fewer customers that are slightly less loyal. This pattern tells us that to grow, a brand's primary focus should be getting many more customers, not having much more loyal customers.

Duplication of Purchase Law shows that brands' customer bases overlap in line with their relative size: many of your customers will also be customers of your larger market share rivals, and fewer will buy from smaller rivals. When we think about this in terms of customer acquisition/defection, it means that most of your new customers will come from/be lost to bigger rivals, and fewer from/to smaller rivals.

Foreword

This law implicates that the category leaders are your biggest threat to brand growth or maintenance. To grow, you must reach out to all category buyers, where most/more of these buyers will buy from and know more about the bigger brands.

Law of Buying Frequencies, or the Negative Binomial Distribution, shows the bulk of all brands' customer bases are made up of "light" customers, with fewer "medium" or "heavy" customers. How to parse out the cut-offs for light/medium/heavy customers will depend on the category, and can be based on number of purchases, number of products/services held, or dollars spent in a specific timeframe, for example. Because light customers are most common and will represent the bulk of newly recruited customers when a brand grows, they are important prospective buyers to reach and to have options suited to their needs (that are profitable, so ideally at a lower cost per contact).

These laws of marketing, among others, provide a map for how growth will happen and how to set objectives accordingly. We recommend investing to build Mental and Physical Availability to support new customer acquisition as the key objective. Without these market-based assets, potential customers are unlikely think of you as an option to buy and won't go to great pains to find out where and how to buy from you (even with the support of procurement teams). Marketing efforts for sustained B2B brand maintenance and growth need to make thinking of you, and buying from you, much easier.

Why this report? We often hear "my brand is different", "my market is different", "my customers are different", which implies "these laws don't apply to me." It is true that, historically, the weight of evidence for the laws favored B2C, and there are real differences in the purchasing processes for B2B and B2C contexts. That being said, in How B2B Brands Grow, we shared evidence showing that B2B and B2C sectors aren't so different: the same patterns are observed for B2B brand buying.

As marketing scientists, we are committed to accumulating evidence, replicating our work across varied conditions, and there are all sorts of B2B industries/categories. Tech is an interesting area to look at because many tech services/solutions have experienced enormous growth, are constantly innovating, and are bought and sold almost entirely online: a trio of traits not common to many markets. To conduct a comprehensive investigation, with support from LinkedIn's B2B Institute, we collected survey data with large samples of (~300) category buyers/decision-makers for three tech categories: cloud computing, business intelligence, and customer relationship management. Do the laws hold for B2B tech brands? Read on to find out!

Dr Nicole Hartnett
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Introduction

In the past decade, the tacit understanding of the B2B Tech organization's pecking order has evolved into a quantifiable codification: product leaders reign supreme, while the marketing department is relegated to the kid's table. Despite marketers' critical role, their contributions have often been dismissed by executive skeptics and their scope of responsibilities have been increasingly gentrified by neighboring functions. Coinciding with this movement (and exacerbating this imbalance), is the growing popularity of Product-Led Growth (PLG), a Go-To-Market (GTM) strategy that theorizes that companies can achieve outsized growth by centering their product as the main driver of customer acquisition, retention, and expansion. While the PLG approach has its merits, the evidence suggests that over-leveraging this strategy to chase short-term gains will often come at the expense of your brand's ability to realize long-term, sustainable growth. If B2B Tech organizations want to go fast, they can let product sit at the head of the table. If B2B Tech organizations want to go far, they need to let brand marketers reclaim their seat at the table.

Every tech leader will have their own definition of what PLG means for their business, but the following chart attempts to summarize PLG's core tenets compared to the traditional Sales-Led way of going to market:

	Product-Led Principles	Sales-Led Principles
Product	The product should be so good, it should sell itself; more R&D investment is required.	While the product is still important, more investment is directed to traditional sales and marketing, including brand advertising.
Marketing	Ads should be designed to generate an immediate lead; product-centric messaging targets a narrow set of customers.	Ads should be designed to build long-term memories among all potential buyers.
Call-To Action (CTA)	"Sign Up For A Free Trial"	"Request Demo" (Led by Sales),
Conversion/Acquisition	Self-Serve	Sales Closes Deal
Onboarding	Digital, In-Product Educational Tutorials	Led By Customer Success

By espousing the efficacy of tactics like free trials, simplified form fields, in-product nudges, PLG sells organizations a funhouse mirror of benefits ranging from lower customer acquisition costs to increased customer retention, ultimately setting expectations of higher revenue and market share growth. But as disciples of the Sagan standard know, "extraordinary claims require extraordinary evidence". Because so many PLG followers were caught flat-footed after the 2022 SaaSacre and still haven't fully recovered since this market correction, it's now more important than ever to investigate the data to evaluate the limitations of PLG theory.

Introduction

We can acknowledge that there's nothing inherently wrong with the PLG approach; it can deliver growth and it is often necessary to get early-stage startups off the ground. However, there comes a time in every brand's life when they need to grow up. It's also important to recognize that there are different types of growth, and not all types of growth are created equal. Growth comes with a price tag. Making investments for growth also means making trade-offs. Some types of growth can be very valuable if funded by a sustainable long-term strategy. Other types of growth can destroy a company's future if it's over-leveraged on expensive short-term strategies that don't scale. The evidence would suggest that PLG is an incomplete strategy at best, giving organizations a false sense of sustainable long-term growth; at worst, it leads companies down a dangerous path towards the PLG trap, preventing them from reaching their next stage of growth.

Validating the PLG strategy may not have mattered in the last few years when Silicon Valley enjoyed zero interest rates and was practically printing money. The favorable macroeconomic conditions and the resulting skyrocketing market valuations made PLG a financially lucrative idea for VC investors to sell and a seductively simple strategy that business leaders so desperately wanted to buy into. However, most evidence that the industry used to justify the efficacy of PLG usually depended on spotlighting early-stage startups during the market's peak, and their growth rates appeared massive only because of their low starting baselines, buoyed by the market aberrations of the past few years.

But now that the flow of easy money has slowed down to an uncertain trickle and SaaS/B2B Tech multiples have fallen off a cliff, does a PLG strategy still hold in this new world in which a "growth at all costs" strategy is no longer favored by tech investors and the profitability of a company's business model is under more scrutiny than ever? Or will PLG be remembered as a well-intentioned but misguided business practice born from the ZIRP era and rendered extinct by the SaaSacre? In the past few months, we have seen the enthusiasm in PLG begin to curdle, with industry experts making some equally compelling anecdotal and quantitative arguments that reveal the shortcomings of a PLG strategy. A few examples include:

- McKinsey's recent analysis revealing how very few PLG companies outperform their counterparts on revenue growth, operating efficiency, and market valuations
- An HBR article co-authored by Oliver Jay, a former executive of PLG pioneers, Asana and Dropbox, warning companies of the danger of the PLG trap
- A blog post by Tomasz Tunguz, a VC investor at Theory Ventures and a LinkedIn Top Voice, which discovered that PLG companies are 5-10% less profitable than sales-led companies

Introduction

So how did we not see this coming? A key thing to remember is that this PLG theory originated from the VC industry, which helps us understand the financial motivations behind this movement. In order for VC investors to make money off of their investments, they are incentivized to lever companies up on specific metrics (like users, subscribers, downloads, etc.) that inflate each of their investment's private valuations. This way, they can flip these companies to the next round of investors at a higher price. What also worked in the VC industry's favor was not necessarily their fortune-telling skills but rather their storytelling skills; venture capitalists are afforded the social and financial capital to shape the reality we live in, at least temporarily before the market shifts. To their credit, VCs have always understood that stories are much more effective than numbers at selling ideas, but without tethering these ideas to data, it's hard to ascertain whether we're just chasing a mirage.

Anyone who understands the Marketing Laws of Growth and is armed with the right data could have seen the limitations of the PLG strategy from a mile away. The savviest brand marketers would have had the answers all along if they were just allowed to have a seat at the table. But now that industry experts are beginning to take off their blindfolds, it's time to look at some fundamental, but often ignored brand metrics that can be more stable predictors of long-term growth than the whims of the market. In this report, based on research conducted with the Ehrenberg-Bass Institute for Marketing Science and the added benefit of hindsight, we're going interrogate the validity of PLG in theory and in practice:

- First, we'll look at some marketing concepts and frameworks that will argue why relying solely on PLG can't lead to sustainable growth **in theory**.
- Then we'll look at the empirical data based in three Marketing Laws of Growth across three B2B Tech categories (Cloud Infrastructure, Business Intelligence, and CRM) to prove why relying solely on PLG tenets cannot lead to sustainable growth **in practice**.
- And finally, we'll outline a roadmap for how marketers can leverage these frameworks and laws to not only reclaim their seat at the table to better influence their cross-functional partners in Product, Sales, Customer Success, and Finance, but also help lead their organizations to a proven path of sustainable growth.

Part 1

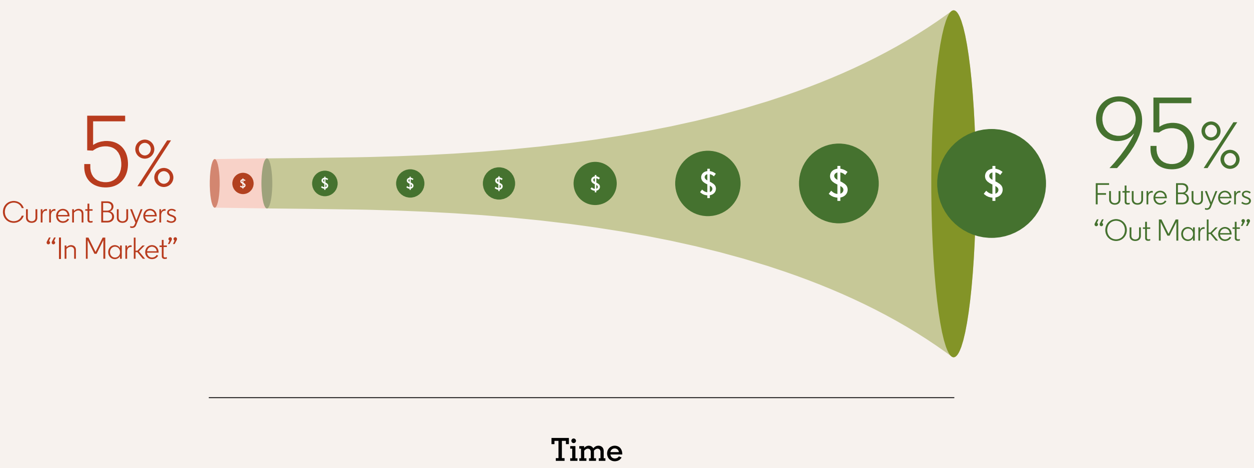
The Limitations Of PLG In Theory

The Limitations Of PLG In Theory

Every brand needs Mental And Physical Availability in order to grow. Strong brands can't have one without the other, but PLG tactics over-index on building Physical Availability. The appeal of this theory is in the shortcut that PLG offers: brands can get away with building Physical Availability without investing in Mental Availability (which is arguably harder to build and track) by using their product as the main vehicle for acquisition, retention, and expansion. But the ease and speed of building Physical Availability cannot replace the efficacy in building Mental Availability for the following reasons:

1) PLG Misses The Forest For The Trees

The 95:5 Rule Prevents Brands From Missing The Forest For The Trees

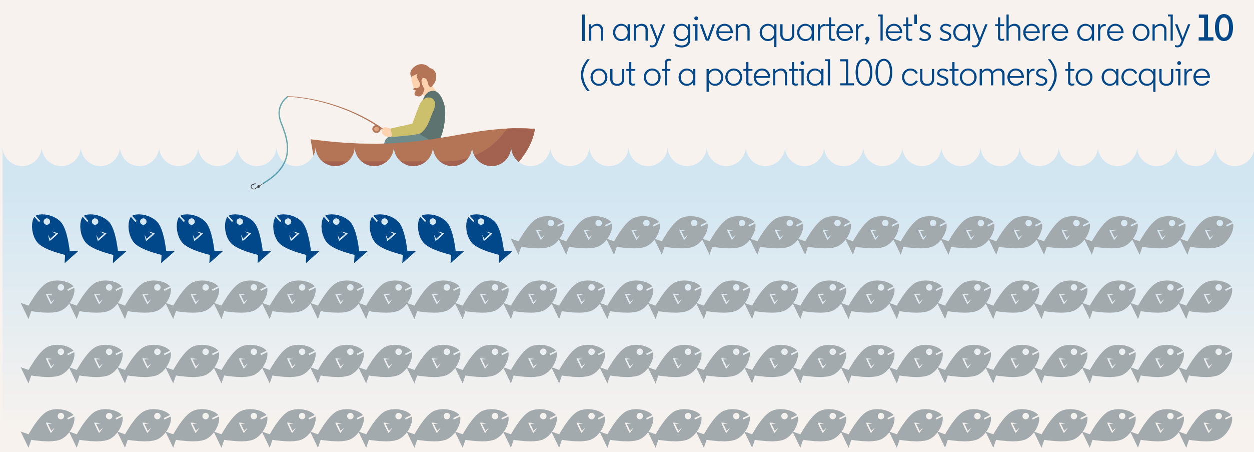


The 95-5 Rule is the key to understanding why Mental Availability is so important. To put it simply, this rule helps us understand that in any given quarter, only a small percentage of organizations are "in-market" to purchase a B2B Tech solution, whether it be Cloud Infrastructure, Business Intelligence, or CRM. That also means that in the same time frame, the majority of organizations are "out-of-market", so it's likely that they will pay no attention, much less have any incentive to click on your brand's PLG-oriented ads offering a free product trial, with an optimized CTA button that takes them to a personalized landing page. While these lead-gen ads are always necessary to acquire the small, but perennial group of in-market customers, over-indexing on these PLG tactics misses the bigger picture.

It's understandable why organizations are attracted to PLG's way of lead-gen marketing. It's easier to measure these results; after all, all these activities are targeting customers who are already going to buy from the category regardless of whether they see your ad or not. For example, the small percentage of organizations who are in-market for a cloud solution are going to make a purchase whether they're exposed to your ad impression. The B2B tech industry's current view of calculating advertising ROI traps itself in a McNamara fallacy, in which easily quantifiable short-term metrics that we measure our lead-gen ads against are inflated and the contribution from brand marketing that builds Mental Availability gets deflated only because its impact is more difficult to measure. But marketing activities that are less easily measured shouldn't be presumed to be any less important.

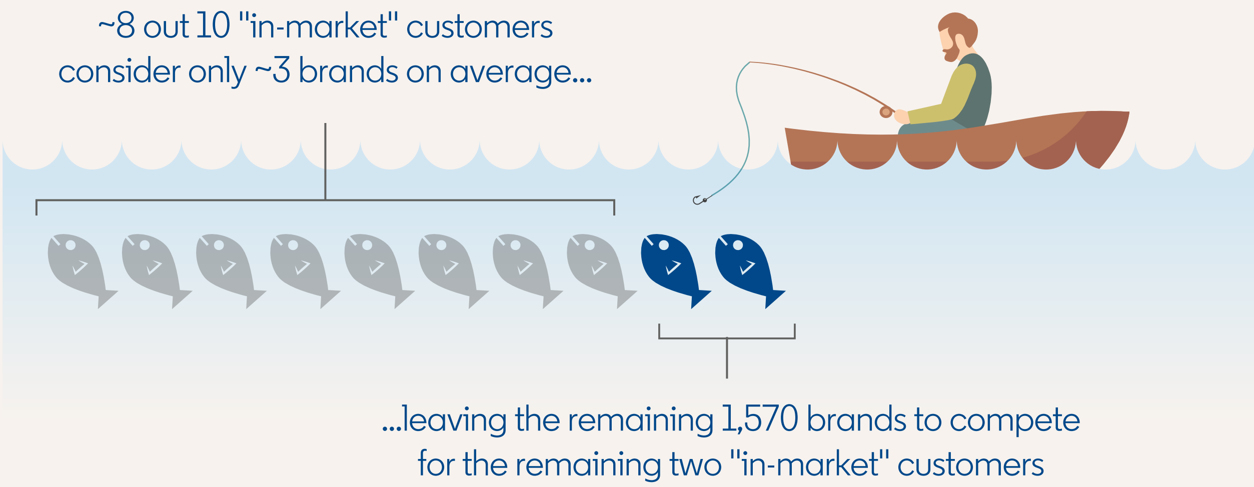
In fact, to illustrate why building Mental Availability among your "out-of-market" buyers is just as important (if not more important than PLG activities that solely target in-market customers), let's use the CRM category as an example. Based on our research, we can assume ~10% of organizations are "in-market" for CRM solutions in a quarter. Over-leveraging PLG tactics, simply because business leaders find them more easily measurable, incentivizes marketers to use lead-gen ads as their main way of converting "in-market" customers into leads. This is not strategic for several reasons.

"In-market" customers represent a smaller size of prize



The 90 “out-of-market” customers in grey not only present the bigger opportunity for marketers to fill their pipelines, but they are the lifeline that sustains a company’s ability to achieve long-term growth.

“In-market” customers rely on memories to guide consideration



While acquiring in-market customers is crucial, waiting until they enter the category to start marketing to them often proves to be too little, too late. That’s because ~80-90% of buyers have a shortlist of brands already in mind before they even enter the category. To make the window of opportunity for brands even narrower, the average shortlist contains only ~3 brands, even though there are 1,573 CRM brands in the U.S. alone to choose from.

That means that of the 10 in-market customers illustrated in the above graphic, 8 of them already have 3 brands in mind, and it’s likely that many are considering the same handful of brands that have the most Mental Availability. If your brand isn’t on the shortlist, that leaves you to compete among the remaining ~1,570 CRM brands for the remaining 2 in-market customers. While these 2 customers are presumably more open to evaluating other brands in their search, they still have memories that are not immune to the gravitational pull of the most Mentally Available brands.

“In-market” customers are harder to influence

92% of the customers with a shortlist end up purchasing one of the 3 brands from their list. If your brand isn’t on your customer’s shortlist, (perhaps because you chose to wait until the last minute to bombard them with lead-gen ads instead of proactively investing in brand marketing to build Mental Availability) your ads only have the potential to switch the mind of only 1 of those 8 in-market customers.

That’s the best-case scenario. But the reality is that most of your competitors are also spending the majority of their marketing budgets fighting to convert this one swayable prospect into a customer. This makes the “in-market” buyers even more expensive to compete for and riskier to bet all your chips on.

To conclude, PLG marketing tactics aren’t sustainable nor scalable because these tactics don’t reach the majority of out-market customers and if your brand has weak Mental Availability, they are not even effective on the small group of in-market customers. Most customers hardly evaluate because reading whitepapers, signing up for free trials, and paying attention to lead-gen ads are frankly quite annoying and distract them from their real jobs. Marketers must remember that their customers’ jobs aren’t solely to buy B2B tech products; brands should help customers “satisfice” better, so the less thinking they have to do, the better. As consumers ourselves, we can recognize our preference to rely on our memories as a heuristic to ease the mental burden of purchasing the right brand. Thus, investing in Mental Availability is crucial because it can serve as your customer’s first filter that picks your brand out of the noise of competitive advertising. In other words, a winning strategy optimizes memories and minimizes evaluation.

2) PLG Is For Today, Mental Availability Is For A Lifetime

"Give a B2B marketer a lead, and you feed them for a day; teach a marketer how to build a brand, and you feed them for a lifetime."

So many PLG tactics, like offering free trials, simplifying form fields for sign-ups, and streamlining onboarding workflows, are focused on removing friction from the buying process. While these tactics help brands build Physical Availability and will likely become table stakes adopted by all brands, the reality is that there's no friction to remove if there's no demand coming your brand's way. A sale cannot happen without Physical Availability, but Physical Availability is often ineffective without Mental Availability driving customers to notice or remember your brand. Thinking you can acquire customers just through your lead-gen ads is like fishing with hooks but no bait. Sure, you might get the occasional prospect to bite out of curiosity, but the majority of customers will ignore you. To increase your chances of attracting and actually reeling in customers, the most experienced marketers understand that you need to use bait, in the form of Mental Availability. At the risk of belaboring this metaphor, we can draw some parallels between fishing and growing a business:

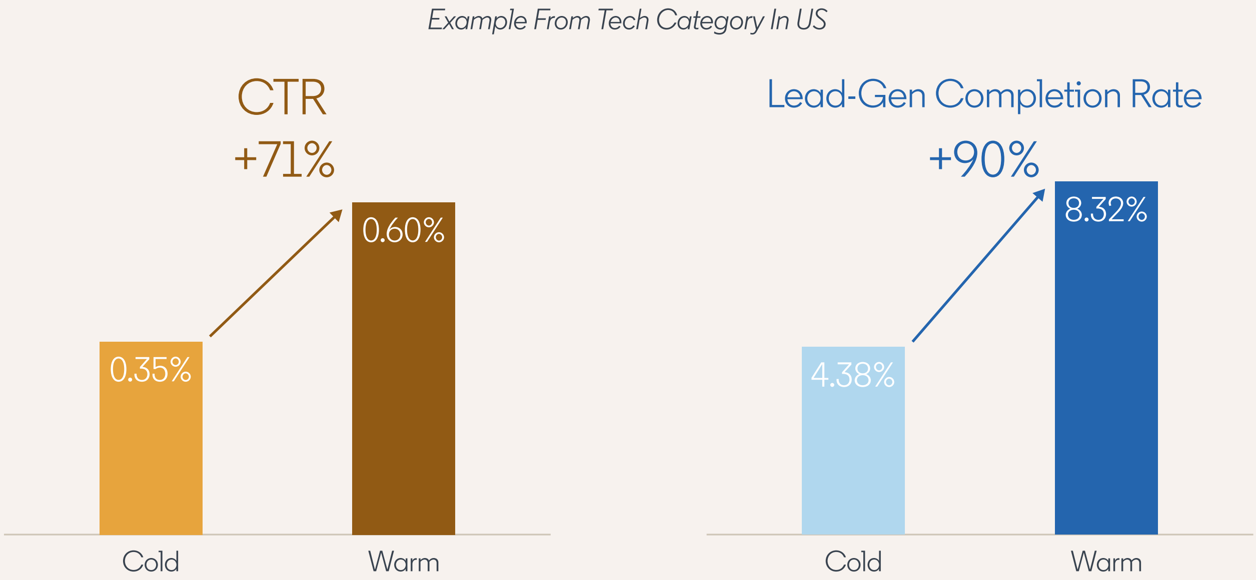
Why You Need Bait To Catch Fish	Why You Need Mental Availability To Catch Customers
Bait appeals to a wide range of fish, increasing the chances you'll actually catch something.	Building a brand's Mental Availability with broad reach and a message that is widely relevant to all potential customers increases your chances of acquiring more customers.
Bait attracts fish far and wide, so you can easily set your rod up and just wait for something to bite.	A brand with strong Mental Availability can rely on pulling more inbound customers, instead of exhausting resources to search for outbound customers. As a result, it doesn't have to spend more than its competitors on expensive short-term "activations".
Bait increases your chances of getting a deep hooked fish, one who is less likely to fall off when you catch it.	Mental Availability increases a buyer's chances of actually buying your product when they enter the market. When a search is guided by memories rather than seeking free trials, it's a stronger signal of intent when they click on your ads, sign up for free trials, or download your white papers. Mentally Available brands attract more profitable prospects versus ones who are just browsing, looking to nibble on a free meal.

Bait Is Especially Helpful When…	Mental Availability Is Especially Helpful When…
the water is murky/muddy.	it's hard to tell who your in-market customers are because of cookie deprecation and looming future legislation around data privacy, which will also make it more expensive to target specific customers.
you're a beginner.	you simply don't have the time or resources to start building the engineering infrastructure required for many PLG tactics (personalized landing pages, in-product nudges, interactive demo content, etc.).
it's cold outside and your next meal depends on catching fish	easy money has dried up, the VC-funded party is about to end and you can no longer afford expensive PLG tactics to buy your customers at the same growth rate your investors expect.

Optimize Your Bait By…	Optimize Your Mental Availability By…
Studying the fish you want to catch, what attracts them to bite, where and when they're active. You can have the best fishing gear, but if you don't understand the fish you're trying to catch, you will likely come up empty-handed.	Studying your customer. You can have the best product out there, and you can have the most optimized sales funnel with the most sophisticated marketing tech stack with seamless onboarding, A/B Tested CTA buttons, and demo content with high production value, but if you don't understand your customer at the end of the day, customers won't bite.
Understanding which lures will attract the most fish. You don't have to have a massive collection of fishing lures to catch as many fish as you can. You just need to know which specific lures will catch their attention.	Understanding which messages will attract the most customers. You don't need to position your brand and develop your ads against every potential benefit that your customer may care about. Just focus on the ones that matter the most to the widest swath of potential customers.
Identifying which features of the bait are most important. Larger fish may be attracted to larger bait, but it's not always about size; sometimes it can be about movement or color of the bait than just size alone.	Identifying which features of your marketing are most important to building Mental Availability. Yes, the size of your budget can help attract more prospects, but that alone won't be enough. It will also depend on how well your ads attract attention and leverage your Distinctive Brand Assets to optimize brand attribution.

Catching Your Customers On LinkedIn

Strong brands have fatter pipelines. Brand marketing delivered against a broad target audience improves demand gen outcomes.



Source: LinkedIn Internal Data, 2021-10-01 – 2022-04-18

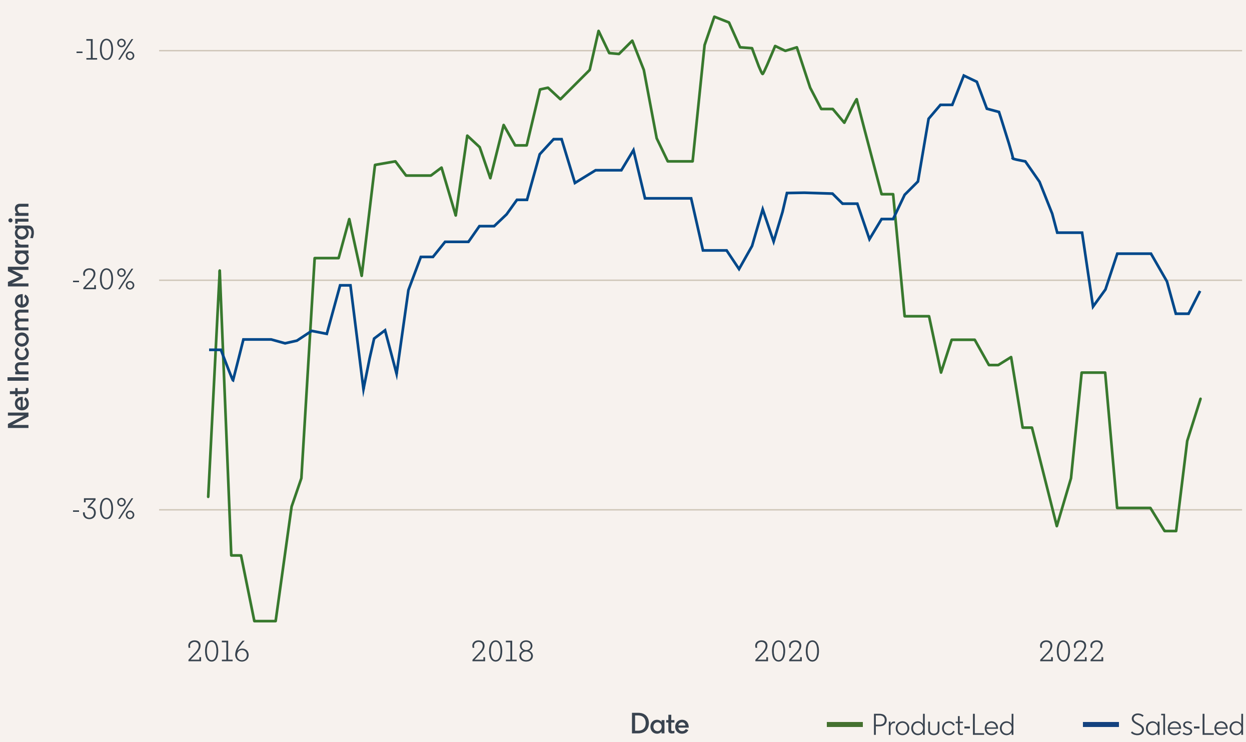
3) PLG Is a Fixed Cost, Mental Availability Is A Compounding Investment

A recent McKinsey study found that very few PLG brands outperform their sales-led counterparts on "revenue growth, operating efficiency, and market valuations". And the few PLG brands that do rise to the top, generating 10 percentage points more in annual revenue growth, are also spending 10 percentage points more in marketing and sales and R&D. But building a sustainable business cannot be a game of Jenga. You can't expect to buy more customers by spending more on lead-gen ads and then be surprised when the whole facade collapses at the slightest change in the macroeconomic climate. A business is not sustainable if it can't deliver output greater than the input.

Tomasz Tunguz, a VC investor at Theory and a Top Voice on LinkedIn did an analysis at the end of 2022 (when profitability overtook growth as the biggest driver of market evaluations) and found that PLG companies were 5-10% less profitable than sales-led companies. PLG companies also spent 9% more points of revenue on R&D and S&M expenses. This suggests two things:

- The best product doesn't necessarily lead to better margins nor better market performance
- But moreover, PLG marketing tactics don't scale as easily as brand-building tactics

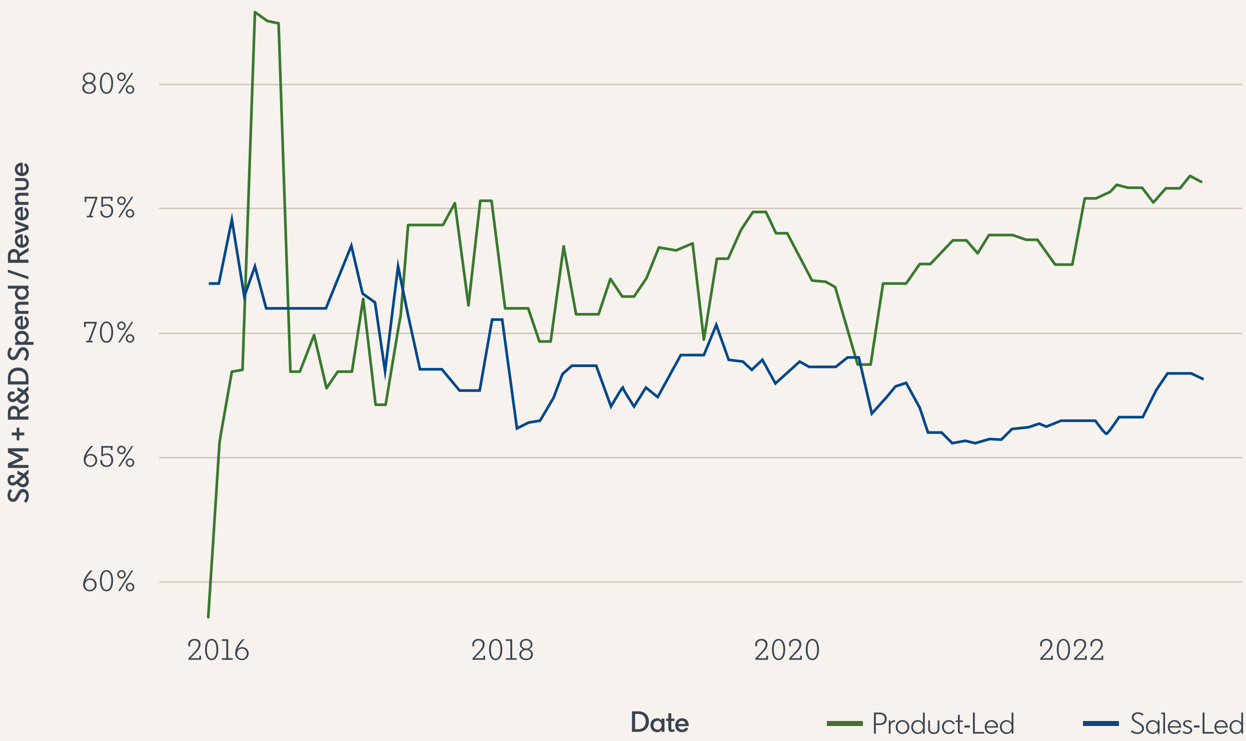
PLG Companies' Profitability Falls Post-Covid



Source: https://tomtunguz.com/plg-less-profitable/

PLG marketing loses efficiency as a business scales because the lead-gen tactics aren't designed to scale beyond the small percentage of "in-market" buyers. On an ideological level, they're designed to capture clicks from "in-market" buyers, but they're not as effective at building lasting memories among the majority of "out-of-market" buyers. Said another way, lead-gen ads can help companies acquire the lowest hanging fruit, but they don't help companies reach further up the tree where future buyers are grown. And because lead-gen ads are meant to deplete your current pipeline, you need ads that build Mental Availability to replenish that pipeline with future buyers.

Are PLG Companies More Expensive to Run?



Source: https://tomtunguz.com/plg-less-profitable/

From a financial perspective, small companies will often have negative cash flows for their first few years, which is understandable because you need to spend cash to grow. But that's only a viable strategy if there is a profitable horizon in sight, in which the company starts earning large enough cash flows that offset the losses during the early stages. If a company continues to only spend their marketing budgets on lead-gen ads to buy their future customers, it becomes increasingly challenging for the company to transition from negative to positive cash flows.

The reason why companies should start investing in their Mental Availability sooner rather than later is that building a brand is not as easy as flipping a switch. If brands wait until their growth starts slowing down to start building these foundational competencies, it is often too little too late. It's a skill that takes years of experimentation and learning to build your marketing department's brand muscle, but it's a worthwhile competitive advantage. Repetition and focused practice build marketing muscle memory that helps your organization advertise more effectively, efficiently, and consistently than your competitors who only invest in lead-gen advertising. If you make the right brand investments that build Mental Availability, you free your organization from relying on expensive "performance marketing" to acquire customers. It also allows you to re-allocate the budget you would have spent at the bottom of the funnel towards brand investments that are more likely to compound over time. It's the strategy that helped Airbnb keep 90% of their traffic direct or unpaid, even when they had to make significant cuts to performance marketing budgets at the height of the pandemic.

Growing a business is a lot like growing muscle; there are many ways to grow a business, just like there are many ways to grow muscle. Each strategy will have its pros and cons.

Product-Led Growth	Brand-Led Growth
Pros Acquiring customers through discounts, promotions, and free trials helps companies achieve outsized growth at the early stages; it's more fun, easier and quicker to see these results.	**Pros** By developing lean marketing muscle without waste and inefficiencies, your brand becomes healthier and more resilient to market conditions, enabling you to deliver healthier and more sustainable growth for your shareholders.
Cons The enormous growth you achieve early on primes the market to expect even more growth, but this growth will eventually plateau and organizations will inevitably be forced to "trim their fat"; it's also harder to tell how much of the growth is high vs low quality.	**Cons** Investing in brand requires careful research and meticulous resource planning with a larger upfront investment and a longer time horizon to see the full potential of your investments.

Remember, running a sustainable business is not a sprint, but a never-ending marathon. Every business can choose whatever strategy best suits its own growth objectives, but it's important to be clear on the tradeoffs we're making when we choose one strategy over the other. Brands must ensure they're leveraging PLG principles on their own volition rather than having them forced through the VC feeding tube, only to later find themselves being sold as foie gras to the next round of investors.

Part 2

The Limitations of PLG In Practice

(The Marketing Laws of Growth)

The Limitations of PLG In Practice (The Marketing Laws of Growth)

Now that we've looked at some concepts and frameworks that show why relying solely on a PLG strategy isn't sustainable in theory, it's time to look at some empirical data to show why relying solely on a PLG strategy isn't sustainable in practice. To be clear, it's not just 20/20 hindsight that shapes this perspective. Any academic who understands the Laws of Growth would have easily seen the limitations of a PLG strategy. Decades of empirical research have shown us that **there is really only one way for brands to grow sustainably, and that is through increasing customer penetration by investing in both Mental Availability and Physical Availability.**

It would be a disservice for any company to ignore these laws that govern the business world, but just like how each new generation thinks they can do things differently from past generations, early-stage startups can sometimes have a blind belief in their own narratives of exceptionalism. Flying high on their early successes and losing sight of the fact that their initial growth was fueled by easy capital, many B2B tech leaders begin to think that they are exempt from the laws that govern every other business, let alone every industry titan that paved the way. Some may have been led to believe that PLG principles can help them grow faster and smarter without having to invest in traditional GTM strategies like sales and marketing. But sometimes the only way to learn a lesson is by learning it the hard way, as many did during the market correction of 2022, which provided an overdue reality check. Nobody can fly for very long without understanding the laws of gravity, just like no brand can sustain growth without understanding the laws of marketing. For early-stage startups, PLG can be a rebellious phase to dabble in, but when it's time to come back down to reality, not many can stick the landing without some scrapes and bruises.

For the companies that reached new market heights during the pandemic but took a nosedive in 2022, it's important to remember the often-misattributed quote, "Success is not final, failure is not fatal, it is the courage to continue that counts". Now that the market has shown us that our products can't be the sole drivers of customer retention, acquisition, and expansion, let's start anew and try growing our brands based on empirical evidence. Let's see what we can learn about our customers, our competitors, and most importantly, our own companies through the following Marketing Laws of Growth.

The Double Jeopardy Law

The Double Jeopardy Law

The PLG Hypothesis: Superior product performance can achieve outsized customer retention. For example:

- *Optimizing Onboarding Workflows* - guided tours, interactive tutorials and navigation tips help users find value in their products early on, reducing the chances of early churn.
- *In-app messaging and notifications* - keep users engaged, and active users are loyal users.
- *Establishing communities* – connecting users together creates a sense of community that fosters loyalty.

The Test: If the PLG strategy can attract and develop more loyal customers, PLG brands should be able to achieve similar or even greater levels of retention than non-PLG brands. Or at the very least, they should have stronger retention rates compared to the category average. Or at the very very least, they should have stronger retention rates compared to other non-PLG brands of the same size.

The Law of Double Jeopardy: Loyalty is a function of penetration, which is why smaller brands are penalized twice: they have fewer customers who are also less loyal compared to those of larger brands. It's the reason why PLG tactics that only focus on increasing a brand's retention are bound to hit a ceiling set by the brand's penetration.

The Implication: B2B tech brands grow primarily by acquiring new customers, not just by trying to retain existing customers.

The Evidence: This law can be observed at any point in time, across all three B2B tech categories in our research. We'll start with the CRM category (which is inclusive of Customer Service and Engagement Management platforms):

CRM

With the most ccursory look at the data to the right, it is obvious that the highlighted PLG companies have retention rates nowhere close to the category leaders; to rub salt in the PLG wound, most of the smaller PLG brands aren't even beating the category average either. The data illustrates how retention is a function of penetration; the higher a brand's penetration, the higher a brand's retention rate tends to be. To further illustrate how this law works, we can look at the metrics between brands of similar size.

For example, near the top of the chart, we have Zendesk (which started out as a PLG brand before being taken private at a heavily discounted valuation) and SAP, a more traditional player that leans on sales and marketing to drive growth. Both brands have similar levels of penetration, which is why we would expect them to have similar levels of retention, regardless of whatever GTM strategy they deploy. And this is the case. Thus, we can see that Zendesk's PLG motions don't help it achieve retention rates higher than what the Law of Double Jeopardy would predict. On the other end of the spectrum, we have two smaller brands (Pegasystems and Jira) with similar penetration levels, but Jira's retention rate is ~30% lower than Pegasystems. There could be many factors at play here, but what's clear is that a PLG strategy does not necessarily guarantee your brand lower churn.

Figure 1: Loyalty Metrics In The CRM Category

CRM	Penetration %	Retention Rate %
Adobe	52	93
Salesforce	47	88
Microsoft Dynamics 365	46	93
Zendesk	20	85
SAP	19	83
HubSpot	13	74
Zoho	6	75
Monday.com	6	57
Freshworks	5	44
Pegasystems	3	67
Jira (Atlassian)	3	47
Twilio	3	50
Category Average	**15**	**66**

Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Customer Relationship and Experience Management Software", n=345 IT decision makers

*PLG companies highlighted in yellow are based on OpenView's PLG index and Bessemer Venture Partners, which uses a PLG definition of "employing a product first freemium, free trial, or open source strategy as a main go-to-market driver".

Cloud Infrastructure

As we can see from the data in Figure 2, PLG darlings Cloudflare and DigitalOcean have retention rates that are nowhere close to the those of the Big 3 hyperscalers (GCP, AWS, Azure); their retention rates are also 10-15% lower than Alibaba, even though their penetration is on-par. Again, the data shows us that focusing on retention rate as your growth objective cannot be a viable strategy. If it were viable, we would expect to see very small brands with comparable retention rates to very big brands, but this isn't observed in any of the data. The big implication is that the Big 3 aren't necessarily winning the category because they have a better product or because they have more loyal customers. In fact, it's the other way around.

Figure 2: Loyalty Metrics In The Cloud Infrastructure Category

Cloud Infrastructure	Penetration %	Retention Rate %
Google (GCP)	41	79
Amazon (AWS)	40	88
Microsoft Azure	38	84
IBM cloud	34	84
Oracle	20	64
Cloudflare	11	56
Alibaba Cloud	10	67
DigitalOcean	10	61
HPE	5	64
Rackspace	3	56
Category Average	**18**	**61**

Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Cloud Infrastructure As A Service", n=318 IT decision makers

The Double Jeopardy Law tells us that these big tech brands are big because they have more customers, not just because they have customers who are more loyal. Their data shows us the path to growth is through penetration; it's simply not enough to drive growth through product loyalty

Thus, smaller brands like Cloudflare and DigitalOcean will not grow substantially by just expecting all existing customers to use their product a bit more, spend a bit more, or stick around for just a bit longer. And they aren't going to increase their retention rates simply by marginally improving the conversion points within their products either; as the Double Jeopardy law dictates, you can't have high loyalty without high penetration.

Because we know that loyalty is a function of customer penetration, the only way for brands like Cloudflare and DigitalOcean to increase their retention rates to the level of the Big 3 hyperscalers is by increasing their customer base sizes to the level of the Big 3.

Business Intelligence

In addition to retention being a function of penetration, a brand's likelihood of fulfilling a larger share of category requirements can be predicted by penetration as well. For this study, this metric is defined by the percentage of a brand's customer base that considers that brand to be their primary provider (if they purchase multiple brands). This is illustrated in the Business Intelligence category data on the following page.

Figure 3: Loyalty Metrics In The Business Intelligence Category

Business Intelligence	Penetration %	Primary Provider %	Retention Rate %
Amazon (AWS)	62	67	95
Microsoft Azure	49	32	83
IBM	46	42	80
Google (GCP)	46	32	86
Oracle Analytics	22	14	74
SAS	17	10	68
Microstrategy	11	6	57
SAP BI Suite	10	3	71
Tableau	6	17	74
Mixpanel	5	0	46
Amplitude	5	0	45
SiSense	4	0	50
Category Average	**21**	**16**	**68**

Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Business Intelligence Software", n=293 IT decision makers

If we look at the overall pattern of the data, we see that brands with higher penetration not only have higher retention rates, but also a higher percentage of customers who consider them to be their primary provider. Amplitude, which has a lower level of customer penetration, also has lower levels of retention and share of category requirements. With none of Amplitude's customers considering it to be their primary Business Intelligence provider, we can conjecture that most Amplitude customers primarily use larger brands for their Business Intelligence needs (which will be proven in the Law of Duplicate Purchase in the next section). This is risky for Amplitude because when its customers re-enter the market for additional Business Intelligence products, they may be more likely to consider its biggest competitors (who have higher mental availability and serve as their primary providers), thus decreasing their loyalty to Amplitude.

Summary

PLG tactics like “product nudges” and “user communities” might be great at increasing retention in theory, but in practice, brands don’t necessarily have low loyalty just because their in-product messaging and notifications are getting ignored, or that they’ve failed to nurture a community of users. Because the Double Jeopardy law shows us that retention is ultimately a function of penetration, the efficacy of PLG tactics will ultimately be capped at the ceiling set by the brand’s penetration levels. While customer loyalty is certainly important, it’s more strategic for B2B Tech brands to focus on acquiring new customers since a rising penetration lifts all loyalty metrics.

This also suggests that the biggest difference between category leaders versus category laggards is predominantly in how many customers they have, not by how loyal those customers are. In other words, low retention is rarely the root cause hindering your brand’s growth. By using this law to benchmark your retention metrics against your competitors, you can now determine whether your retention is at an actual deficit or if your churn is simply a symptom of low penetration. Marketers can also use this law to predict how retention rates will change as a result of changes in penetration; this can guide how marketing resources should be allocated towards activities designed to acquire new customers versus activities designed solely to retain existing customers.

At the end of the day, the only path towards sustainable long-term growth is through increasing customer acquisition. We’ll explore the law that governs customer acquisition in the next section.

The Duplication of Purchase Law

The Duplication of Purchase Law

The PLG Hypothesis: Superior product performance can achieve outsized customer acquisition growth, supported by strong customer loyalty and advocacy. For example:

- *In product virality* – incorporating referral programs and collaboration features that invite other users drives in-product virality, turning your customers into advocates who help you acquire more customers through word-of-mouth and network effects
- *Free trials* – providing users with a clear and immediate value of the product increases the chances of converting users to paying customers
- *Self-Service Onboarding* – a seamless onboarding process that includes simplified forms and intuitive interfaces makes it easier for users to adopt the product.

The Test: If PLG tactics can help brands capture more loyal customers and turn their power-users into brand advocates, we would expect PLG brands to share customers with their competitors at a lower rate than non-PLG brands do.

The Law of Duplicate Purchase: Brands share customers with/acquire customers from all other brands, proportional to competitor share. Thus, a growing brand's new customers are more likely to be acquired from bigger category players, but its defecting customers are also more likely to depart to these bigger players.

The Implication: B2B Tech brands grow by primarily acquiring new customers from category leaders at a higher rate than they lose existing customers; because the category leaders are your main competitors, marketing investments must be competitive.

The Evidence: This law is best observed at a single point in time in which customers purchase multiple brands from a single category, like Business Intelligence.

Business Intelligence

Figure 4: Sharing Of Customers Between Business Intelligence Brands

Subscribers of ...		% Who also subscribed to ...										
Brand	Pen %	AWS	Microsoft	GCP	IBM	Oracle	SAS	Micro	SAP	Tableau	Amplitude	Mixpanel
Amazon (AWS)	62		51	54	45	23	14	12	12	7	7	6
Microsoft Azure	49	64		50	42	29	19	13	11	8	3	6
Google (GCP)	46	73	52		48	31	22	17	13	8	9	8
IBM	46	60	44	48		29	24	15	15	7	7	7
Oracle Analytics	22	64	66	66	63		30	16	20	16	5	13
SAS	17	53	55	61	67	39		22	18	12	10	8
Microstrategy	11	71	58	74	65	32	35		29	23	23	23
SAP BI suite	10	73	53	57	67	43	30	30		13	13	17
Tableau	6	67	67	61	56	56	33	39	22		22	17
Amplitude	5	80	33	80	60	20	33	47	27	27		27
Mixpanel	5	73	60	73	67	53	27	47	33	20	27	
Average		**68**	**52**	**61**	**59**	**34**	**25**	**26**	**21**	**15**	**14**	**14**

Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Business Intelligence Software", n=293 IT decision makers

When we look at the data, we see that a brand's holy grail of customer loyalty/exclusivity is merely a figment of imagination. No brand, no matter how big or small, no matter their GTM strategy, is exempt from the Duplication of Purchase Law. To read the chart above, we'll continue using Amplitude as our PLG example. The data shows that 80% of Amplitude customers also use Google for its Business Intelligence needs, 60% also use IBM, 33% also use SAS, and 27% also use Mixpanel. However, this law doesn't just apply to smaller brands like Amplitude, but also holds true for the largest players in the category. For example, 73% of Google customers also use AWS for its Business Intelligence needs, 48% also use IBM, 22% also use SAS, and 9% also use Amplitude.

The data in the bottom row shows the "Average Sharing" percentage for each brand; for example, on average, 68% of any brand's customer base will also purchase AWS, whereas only 14% of any brand's customer base will purchase Amplitude. This is in line with what the law would predict, based on the difference in each brand's customer penetration. In other words, brands are more likely to share customers with bigger brands and less likely to share customers with smaller brands. That's why a brand like Amplitude shares more customers with a bigger brand like Google than it shares with a smaller brand like Mixpanel. It's also the reason why Google shares more customers with a bigger brand like AWS, than it shares with a smaller brand like Amplitude.

What is evident from the customer data is that a PLG strategy does not prevent a brand's customers from straying to other competitors. Whether the affair is a dalliance, or a long-term commitment depends on the size of your competitor. This is a general pattern, meaning we should always expect a certain level of customer sharing between brands for repertoire markets. So, what's the path to growth for a brand like Amplitude? The data would suggest that the majority of Amplitude's future customers will come from larger brands like Google, Amazon, and Microsoft. Given the extensive resources of these Big 3 hyperscalers, who can reach and support a wide array of current and potential BI customers with brand marketing and full-service account teams, smaller brands cannot afford to compete for those customers by only leveraging lead-gen advertising and self-service onboarding tools. **In the competitive sport of advertising, investing in brand is not an extracurricular activity, but a mandatory pre-requisite for survival.**

The Law of Duplicate Purchase holds true even in categories that are "uniquely" primed for PLG tactics, like the CRM category.

CRM

Figure 5: Sharing Of Customers Between Customer Relationship Management Brands

Subscribers of ...		% Who also subscribed to ...											
Brand	Pen %	Adobe	Salesforce	Microsoft	Oracle	Zendesk	SAP	HubSpot	ServiceNow	Zoho	Monday.com	Freshworks	sugarCRM
Adobe	52		48	53	40	26	21	17	10	6	7	7	7
Salesforce	47	54		50	39	27	24	14	8	4	7	4	6
Microsoft	46	60	51		38	27	24	15	11	6	9	6	7
Oracle	34	62	54	51		28	27	20	9	8	4	5	7
Zendesk	20	69	63	63	49		31	16	19	9	15	6	9
SAP	19	58	58	60	49	32		14	15	8	11	8	5
HubSpot	13	69	51	53	51	24	20		18	13	2	11	13
ServiceNow	7	72	52	68	44	52	40	32		12	16	16	16
Zoho	6	55	35	45	45	30	25	30	15		15	25	15
Monday.com	6	68	58	74	26	53	37	5	21	16		5	5
Freshworks	5	67	33	56	33	22	28	28	22	28	6		33
sugarCRM	5	71	53	65	47	35	18	35	24	18	6	35	
Average		63	50	58	41	32	27	20	16	11	9	12	12

Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Customer Relationship and Experience Management Software", n=345 IT decision makers

For example, because Salesforce has a higher level of penetration than HubSpot, the law would expect that around half of HubSpot customers are also Salesforce customers, while only 14% of Salesforce customers are HubSpot customers. In the same vein, the average CRM brand in this category will share 50% of its customers with Salesforce, but only 20% of its customers with HubSpot.

Further illustrating the relationship between penetration and customer duplication, brands with similar levels of penetration tend to have similar levels of customer overlap with the same competitors. For example, both Salesforce and Microsoft have the same size of penetration, and thus they have similar levels of customer overlap with each other (~50%) and brands like Oracle (38-39%), Zendesk (27%), SAP (24%), etc.

However, there are some instances in which brands deviate from this law, but exceptions can prove the rule. For example, PLG companies like Freshworks and Monday.com have similar levels of customer penetration, yet they don't share customers with competitors at the same rate. Freshworks shares customers with smaller competitors (SugarCRM, HubSpot, Zoho) at a higher rate than Monday.com does. Not all deviations should alarm marketers (especially when analyzing smaller brands that limit us to small sample sizes) but they can highlight how these laws provide a useful measurement framework to evaluate your brand's performance. Over time, you can better understand whether any deviations are one-offs based on dynamics outside your control or whether they're consistent patterns resulting from your brand's strategic choices. While the data won't exactly pinpoint the root cause of these deviations, the law can help marketers identify potential threats and opportunities to investigate, eliminating the need to go down a wild goose chase every time there's an aberration in their brand trackers.

And if you're still not convinced about the replicability of this law across categories, we have one final example of how Cloud IaaS providers also share their customers with competitors in proportion to customer penetration.

Cloud Infrastructure

Figure 6: Sharing Of Customers Between Cloud Infrastructure Brands

Subscribers of ...		% Who also subscribed to ...							
Brand	Pen %	Google	AWS	Microsoft	IBM	Oracle	Cloudflare	Alibaba	DigitalOcean
Google (GCP)	41		41	38	39	20	18	18	12
Amazon (AWS)	40	42		46	39	22	14	16	10
Microsoft Azure	38	41	48		42	25	10	17	10
IBM Cloud	34	48	47	48		32	16	17	15
Oracle	20	41	44	48	54		19	13	11
Cloudflare	11	67	50	33	47	33		22	42
Alibaba	10	77	65	68	58	26	26		26
DigitalOcean	10	48	42	39	52	23	48	26	
Average		**51**	**46**	**45**	**47**	**25**	**22**	**18**	**18**

Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Cloud Infrastructure As A Service", n=318 IT decision makers

Now that we have familiarized ourselves with this law, it should be of no surprise that 41% of Google Cloud customers also use AWS and 42% of AWS customers also use Google Cloud given that they have customer bases of similar size. To hammer this point even further, both brands share 39% of their customer base with IBM as well.

A PLG brand like Cloudflare shares 67% of its customers with Google Cloud and 50% of its customers with AWS, whereas only 12% of Google Cloud customers and 10% of AWS customers also purchase Cloudflare products. The same pattern holds true for another PLG brand, DigitalOcean. The silver lining is that all customers are theoretically up for grabs; no single brand, not even the Big 3 hyperscalers (despite their monopolistic tendencies), has a complete lock on their customers. To grow, these PLG companies must accept a three-pronged challenge: acquire new customers from the hyperscalers, defend existing customers from defecting to those hyper-scalers, and compete for first-time category buyers against these giants. And because these bigger brands enjoy the advantages of a larger customer base, higher advertising budgets, and a more mature sales force, smaller brands must find a strategy to stand out. A PLG strategy may have provided early adopters with a first-mover advantage, but if every brand eventually starts employing the same PLG acquisition tactics, any remaining competitive advantages will yield towards the largest brands.

Summary

Because customers are largely brand polygamists, it will be challenging for any brand to maintain exclusive loyalty among its customers. The Duplication of Purchase Law illustrates how brands tend to share customers with competitors in proportion to that competitor's penetration. By the same logic, brands will grow primarily through acquiring new customers from larger competitors, but their defecting customers are also more likely to switch to those larger competitors. **Contrary to PLG principles, your product cannot be your main vehicle for customer acquisition; in order to achieve long-term growth, you'll need a holistic strategy that acquires customers from your largest competitors at a higher rate than it loses customers to those competitors.** And because customers are predisposed to choose the most Mentally Available brands (supported by large advertising budgets and full-service account teams), it's not realistic to depend on word-of-mouth and self-service tools alone to compete for their customers. Although it is entirely possible for a David to beat a Goliath, relying solely on PLG tactics to win is akin to bringing a knife to a gunfight.

While PLG acquisition tactics like free trials or streamlined onboarding may yield easy wins in the short-term, their capacity to generate sustainable growth is ultimately bounded by The Duplication of Purchase Law. Furthermore, evidence suggests that freemium models are wasted on acquiring net new customers and free trials often distract companies into optimizing for efficiency when the reality is that free-trial customers have significantly lower lifetime values than regular customers. Regardless of their efficacy, these tactics are ultimately not defensible, especially when every competitor eventually adopts the same easily copied PLG tactics. A brand's Mental Availability is much more difficult to copy, hence why it's a more sustainable competitive advantage to cultivate.

The Law of Buying Frequencies

The Law of Buying Frequencies

The PLG Hypothesis: Superior product performance can achieve outsized customer expansion growth. For example:

- *Tiered Subscriptions* - offering tiered subscription plans with more features locked behind higher tiers creates a clear path for customers to expand their usage.
- In-product Recommendations - suggesting relevant features, add-ons, or complementary products based on the customer's usage patterns encourages customers to explore and adopt new features and upgrades.
- Customer Feedback Loops – establishing feedback loops that actively collect customer input on their experience, challenges, and desired improvements can provide valuable insights into how to sell additional features to drive expansion.

The Test: If PLG tactics can increase a customer's lifetime value (CLV) through upselling/cross-selling motions, then these PLG brands should theoretically have customer bases that skew towards heavy buyers compared to non-PLG brands. And if their free trials and product telemetry capabilities help them qualify higher value prospects for their sales teams to pursue, then we should also expect their distribution of customers to skew towards the right.

The Law: The Law of Buying Frequencies states that all brands will have a customer base that is comprised mostly of light buyers and relatively few heavy buyers, following the curve of the Negative Binomial Distribution (NBD) model. In other words, your customer base will look the same as all your competitors.

The Implication: B2B tech brands primarily grow by acquiring more new customers than their competitors, not just through upselling/cross-selling to existing customers. B2B tech brands win by serving their customer base the most profitably.

The Evidence: The law holds true across all three B2B Tech categories we studied, where around 2/3 of a brand's customer base are very light buyers and less than 10% are heavy buyers. For example, when we look at the composition of The Big 3 hyperscalers' customer bases, the shapes of their distributions are all virtually indistinguishable from each other.

Figure 7: Monthly Customer Spend For Google Cloud Platform

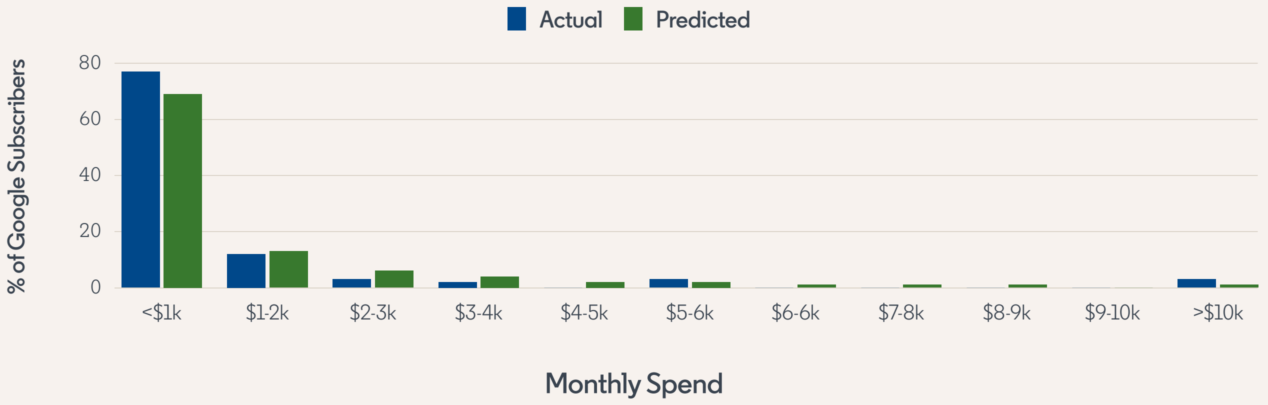


Figure 8: Monthly Customer Spend For AWS

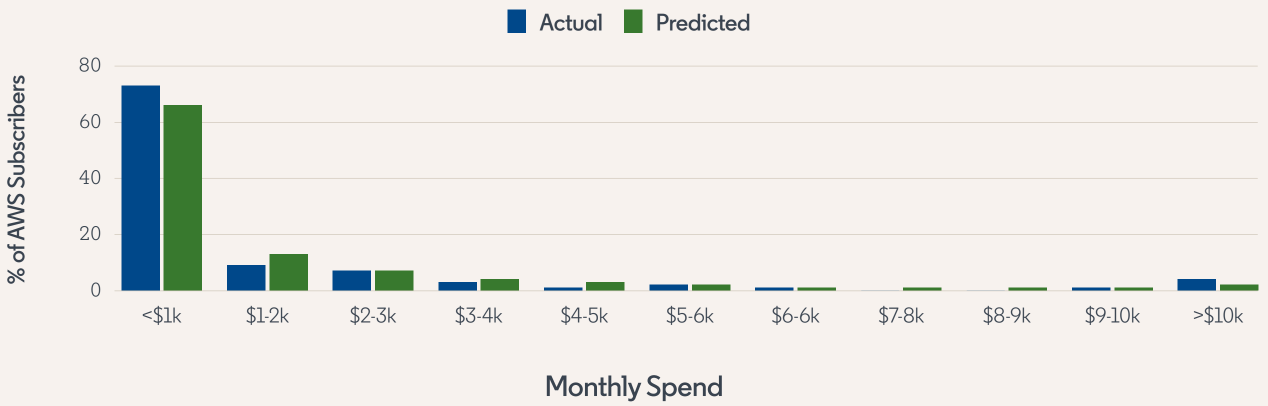
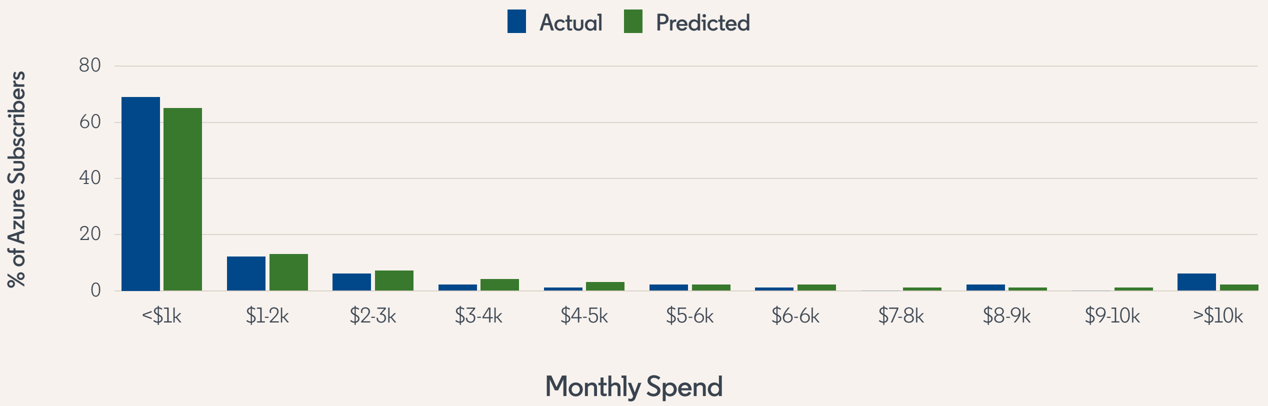


Figure 9: Monthly Customer Spend For Microsoft Azure



Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Cloud Infrastructure As A Service", n=318 IT decision makers

All three hyperscalers have significantly more light buyers than heavy buyers. In other words, these category leaders aren't winning the category because they are acquiring relatively more heavy buyers than light buyers. Instead, they are winning the category simply because they are just acquiring more buyers in general. With a greater quantity of customers in the absolute, comes a greater quantity of heavy buyers in the absolute. This law also suggests that brands aren't likely to capture more heavy buyers without capturing more light buyers as well. There is no defying the NBD model, not even with a PLG strategy. To further prove this point, we can look at the distribution of customers for PLG brands DigitalOcean and Cloudflare below:

Figure 10: Monthly Customer Spend For DigitalOcean

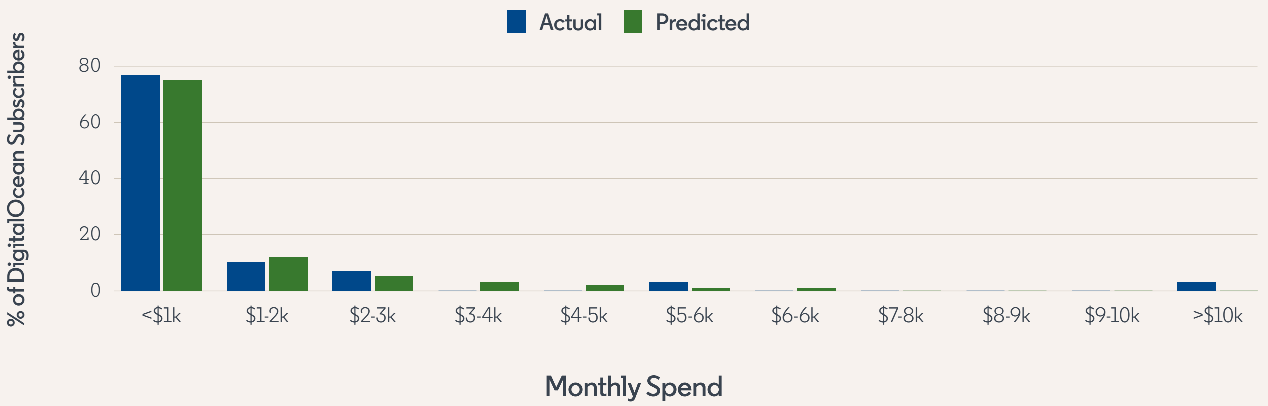
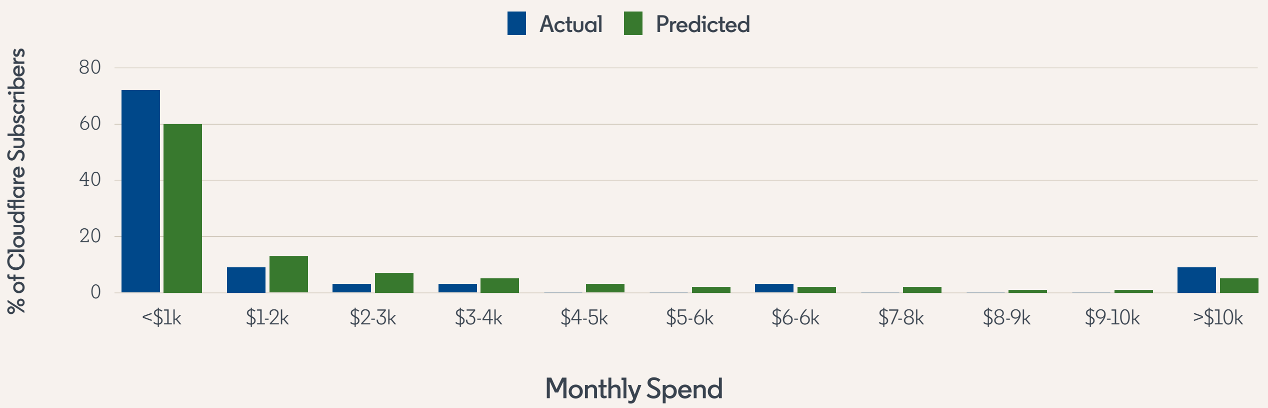


Figure 11: Monthly Customer Spend For Cloudflare



Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Cloud Infrastructure As A Service", n=318 IT decision makers

These PLG brands also appear to have the same customer distributions, with more light buyers than heavy buyers. Even with GTM strategies like free trials that are supposed to filter for "higher value" customers and product nudges that are supposed to upsell/cross-sell to existing customers, PLG brands have customer base compositions that look no different than non-PLG brands. So, what gives?

This law holds true among CRM brands as well. While CRM tools are critical in helping companies manage relationships with their heavy and most loyal customers, that is only half of the equation. To grow, brands also need to reach new customers (who will tend to skew light), which is what advertising is best equipped to do.

Figure 12: Monthly Customer Spend For Microsoft Dynamics

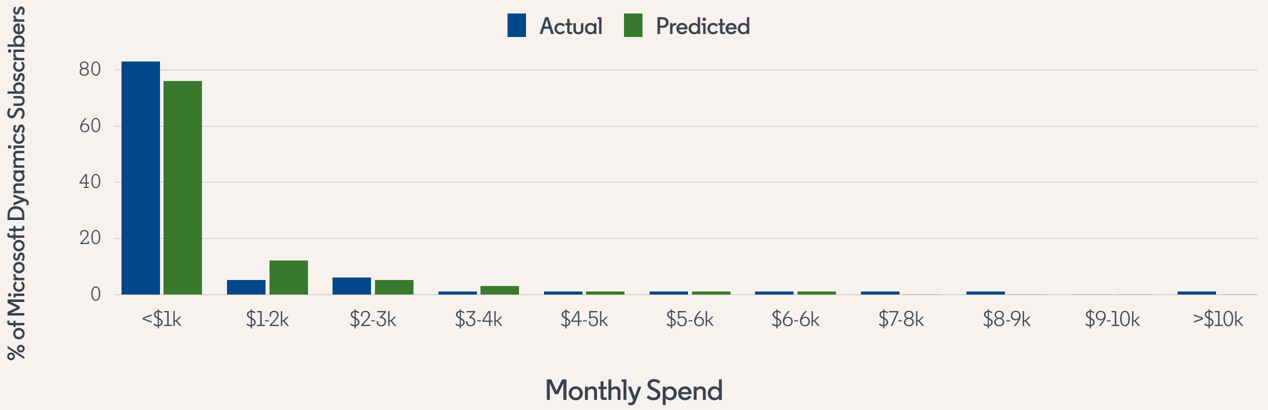


Figure 13: Monthly Customer Spend For Salesforce

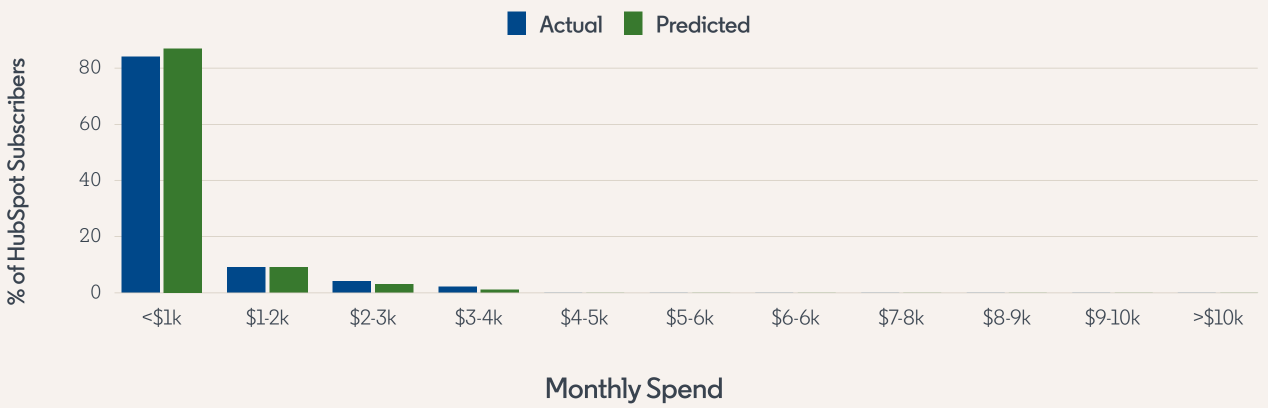
Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Customer Relationship and Experience Management Software", n=345 IT decision makers

Figure 14: Monthly Customer Spend For Adobe

Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Customer Relationship and Experience Management Software", n=345 IT decision makers

For example, the largest CRM brands like Salesforce, Microsoft, and Adobe all have the same distribution of light vs heavy buyers that follows the NBD model. The same pattern applies to smaller CRM brands that employ a PLG strategy:

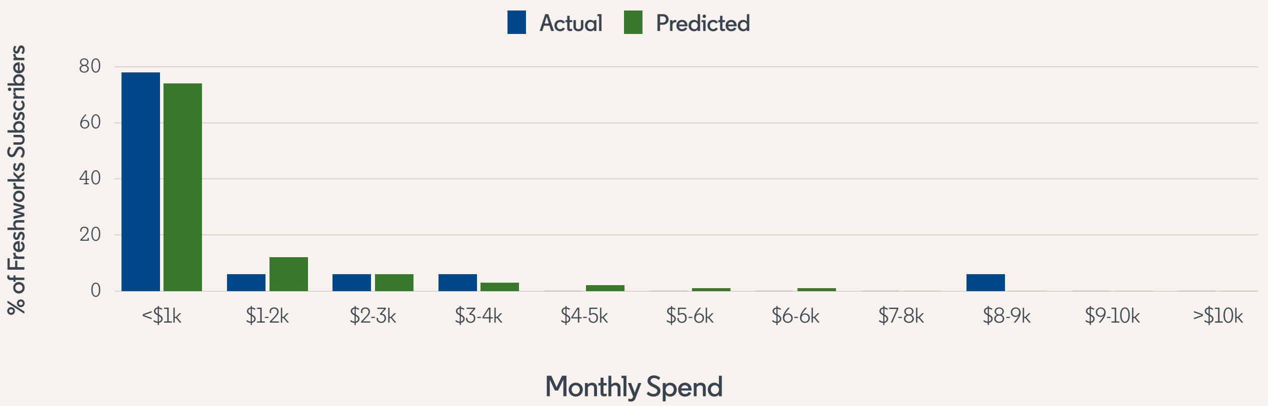
Figure 15: Monthly Customer Spend For HubSpot



Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Customer Relationship and Experience Management Software", n=345 IT decision makers

Figure 16: Monthly Customer Spend For Zendesk

Figure 17: Monthly Customer Spend For Freshworks



Source: Ehrenberg-Bass Institute, "Investigation into Marketing Laws of Growth: Customer Relationship and Experience Management Software", n=345 IT decision makers

As we can see, PLG brands also attract the same proportion of light versus heavy buyers. A supposedly "superior" product doesn't convert a disproportionate number of trial users or freemium customers into heavy brand customers. Putting your product at the center of your acquisition, retention, and expansion strategies doesn't appear to result in a meaningfully different type of customer base. If every brand is expected to have the same distribution of heavy and light buyers as all their competitors, then the key to winning the category is in how a brand acquires more customers and serves them the most profitably.

Summary

PLG brands have the same customer composition as non-PLG brands, indicating that all these purported tactics of freemium/free trials, upselling product nudges, and happier customers aren't yielding a disproportionate amount of high value customers. The Law of Buying Frequencies shows that every brand will always have more light customers than heavy customers. Thus, big brands aren't big because they acquire a disproportionate number of high-value customers; they're big simply because they have a greater number of customers. To grow, you can't just use a fishing spear to target bigger customers; the only sustainable way to catch bigger customers is by casting a wider net.

If we accept that brands will operate under the parameters of the NBD model, then the key to winning the category is in how brands minimize the costs of servicing the light buyers and maximize the revenues from heavy buyers to boost profitability. PLG tactics like free trials and self-service tools are a great way to serve low-value customers, but it's important to set the right expectations and KPIs for these strategies for two reasons. First, the costs of implementing these PLG tactics should not exceed the value they capture. Second, the feedback collected from these free trial users is not always representative of the needs of the wider market; optimizing too much of your product against these early adopters prevents brands from successfully crossing the chasm.

Questions For Further Investigation

Questions For Further Investigation

The name of the game is penetration because the bucket will always be leaky no matter how great your product is. To grow your brand, you must acquire more customers. To acquire more customers sustainably, you can't just rely on Physical Availability; you need to invest in Mental Availability as well. As we see from the research, the Laws of Growth show us how the market tends to favor the brands that are easier to remember and easier to buy than their competitors.

To help you better leverage these concepts (such as The 95/5 Rule and Physical Availability vs Mental Availability) and these Marketing Laws of Growth, below are a list of questions for further investigation to gain greater alignment with your cross-functional partners.

<table>
<tr><th>Function</th><th>Questions For Further Consideration</th></tr>
<tr><td>Marketing</td><td>
Are my ads designed to grow my brand's penetration more effectively than those of my largest competitors?

Messaging: Are my ads designed to be relevant to the widest swath of potential customers? Are they designed to be relevant for both in-market and out-market customers?
Branding: Are my ads well-branded enough to distinguish themselves from the largest competitors? Will even current non-buyers be able to attribute my ads back to my brand?
Media: Is my media plan optimized to reach all potential customers? How do we plan our media to balance our efforts across:

In-market vs out-market customers?
Existing customers vs prospective customers?
Heavy vs Light buyers?

</td></tr>
<tr><td>Sales</td><td>
Coverage Model:

How are your sales force and sales channels set up to effectively allocate your resources between:

servicing heavy buyers vs light buyers
acquiring new customers versus servicing existing customers

If increasing penetration is the key to growth, then:

Where do you deploy your most talented sellers? Your most expensive sellers?
What is the optimal coverage ratio for each segment that will maximize penetration growth?

Sales Forecasting /Setting Target Quotas:

How should we set our quotas for sales teams in relation to the growth we can expect from our self-service segments?
How can these marketing laws inform how we better forecast growth from:

increased revenue from existing customers vs incremental revenue from acquiring new customers?
free trial/freemium users converting to paying customers
light buyers vs heavy buyers?

Incentive Structures/Talent Plan:

How are your sellers compensated and incentivized for their efforts?

Training: How much of their time/training is allocated towards acquiring new customers vs up-selling/cross-selling existing customers?
Compensation: How should bonuses be structured to properly incentivize reps to acquire new customers vs upsell/cross-sell to existing customers?
Promotion: How do you develop a talent pipeline for reps that are skilled at acquiring customers and how do you build a career trajectory to help them up in the organization?

</td></tr>
</table>

Function	Questions For Further Consideration

Product	**Product Strategy**
	
	• How do we decide whether it is more worthwhile to invest an additional dollar on improving the infrastructure for in-product tools that can offer up-selling/cross-selling opportunities, or creating new features that will attract new customers?
	• How should we better leverage competitors as allies who help our customer acquisition efforts while also reducing the threat levels of our rivals to minimize customer defection? For example, how should we think about building product integrations and strategic partnerships with them versus building barriers to entry to keep customers within our ecosystem?
	• Which of our products would be more effective if split apart, so that we don't end up innovating the product towards a compromise that neither satisfies existing customers vs prospects nor heavy vs light buyers?
	
	Product Roadmap
	
	• How do we strategically build a product roadmap that will prioritize new products/features that will:
	    ◦ attract potential customers while still serving the needs of our existing customers
	    ◦ will incentivize heavy buyers to spend more w reduce the cost of service our light buyers?

Customer Success	**Adoption vs Retention:** How can we use these laws to determine at which point do we focus on reducing customer churn and at which point we focus on removing barriers in the customer experience that prevent further penetration?
	
	User Engagement:
	
	• Is the level of resources needed to support free trial users worthwhile?
	    ◦ How do we make sure that the cost of servicing free trial users/light buyers doesn't outpace the growth of light buyers?
	    ◦ How do we design a service model that satisfices our customers without incentivizing costly customer demands that reduce our margin?
	• Which of our try-before-you-buy tools/strategies are more effective for new customers and which ones are better leveraged to up-sell existing customers?
	• Which metrics should we pay attention to that will tell us which customers to cross-sell/upsell to versus ignore?
	
	Talent Plan:
	
	• Are the incentives for CS teams leading to short-term customer behaviors that are sustainable to long-term growth?
	• How should we effectively allocate our teams between:
	    ◦ Light vs heavy buyers
	    ◦ Onboarding new customers vs Renewing Existing customers vs Upselling?
	    ◦ Where should we place our most talented Customer Success people? Which skills are better suited to serve which segments?

Function	Questions For Further Consideration

Finance	**Resource Allocation**
	
	• How do I optimally allocate my budget to achieve acquisition of light buyers while also servicing heavier buyers?
	• What should the KPIs for marketing, sales, and product be so I can measure my return on investment?
	• How competitive are my advertising budgets compared to my competitors? Will they realistically set my brand up for the growth we aim to achieve?
	
	Financial Forecasting:
	
	• How should we evaluate potential acquisition targets based on the level of customer overlap that we share?
	• Based on these laws, how can we make more accurate growth assumptions and set more realistic competitive benchmarks for our:
	    ◦ customer acquisition efforts? How should we evaluate the profitability of the customers acquired from our largest competitors?
	    ◦ customer retention efforts?
	    ◦ up-selling/cross-selling efforts?
	
	Investor Relations:
	
	• For earnings calls, how can we leverage these Marketing laws to tell a growth narrative that:
	    ◦ is centered around customer penetration metrics?
	    ◦ sets more realistic guidance for analysts and investors?
	    ◦ sets a vision for how to service and expand our heavy buyers, while reducing the costs to serve light buyers?

Conclusion: Choosing The Right Strategy

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Depending on your business objective, there's not necessarily just one "right" way to grow your business, but increasing customer penetration through investing in Mental and Physical Availability has been proven to be the most effective strategy if you want to build a sustainable business in the long-term. While this report was written to remind B2B Tech marketers about the importance of investing in their brand's Mental Availability, it's also important to recognize that brand-building is a luxury for most companies. It would be tone-deaf to not acknowledge that this is a privilege that not all companies are in a position to explore, especially in this macroenvironment in which investors want to see positive cash flows and ROI immediately.

Like investing in any financial instrument, investing in your brand requires conviction and courage. Similarly, when it comes to investing in the market, everyone claims they want to invest like the best, like Warren Buffett, but when it comes to brass tacks, not everyone can be Warren Buffet. Not everyone possesses his level of patience, nor does everyone have the fortitude to withstand opposing short-term pressures. While every marketer should prioritize investing in Mental and Physical Availability, you must pick the strategy that's right for you, given your brand's capabilities, constraints, and stage of growth today. But it's never too early to start thinking about the future, so if you are curious to learn how B2B Tech brands can specifically build Mental Availability that drives sustainable growth and are ready to accept this challenge, follow the B2B Institute on LinkedIn for more.

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