

Key Findings

June 2004

The Advantage of Being Second

I saw a quote the other day from the CEO of a new hosted CRM company that really got me thinking. Describing his company's introduction he optimistically quipped, "The second mouse gets the cheese." What he meant was that now that the category is defined it should be relatively easy for his company to gain market share. But in my experience things rarely work that way, in fact, things tend to go in the other direction — the strongest early brands only get stronger. The way to combat that tendency in the market is to be different, to diversify.

In my world I have discovered that diversification is instinctive in children. I have been running the experiment and collecting data for more than a dozen years now and it looks to me like the second child is a natural born brand manager. Whatever numero uno does, number two will find a way to play a riff that's differentiating enough to ensure he gets noticed. Sometimes the effort is a conscious decision, sometimes it's pure instinct. The phenomenon is easier to see in siblings of the same gender otherwise what really is kid brand differentiation might sometimes be mistaken for a boy vs. girl thing. It's a great strategy and kids know this without ever being taught, why do we forget it when we grow up?

Who's Number Two?

In business we see too many examples of copy cat positioning when a diversification strategy is called for and I am not simply referring to the technology or the CRM markets. About ten years ago there was an absolute market frenzy over premium beer, remember that? One brewer, Samuel Adams, seized on the idea of using only two row barley, imported hops, and pure water and nothing else and soon imitators were as thick as lizards on a warm rock. What's incredible is that all the imitators spread the same message effectively proselytizing for Sam Adams instead of themselves. In the end the market consolidated around the brewer that first articulated the vision. The other guys were practically giving away their suds by the time it was all over. Through it all no one challenged the leader with an alternate strategy and no strong second brand emerged.

Perhaps the best example of a well executed second brand strategy I have ever seen happened in the CRM market over the last few years and was executed by salesforce.com (SFDC). While every other CRM vendor was competing head to head over who had the best CRM suite, SFDC played a riff. Where all the other CRM vendors offered a client-

server architecture and applications that were expensive and required a lot of effort to install, SFDC offered a Web based product that was configurable but not customizable and that showed fast results that were economical to get — things customers really cared about.

The marketing attack saw no Super Bowl ads; it was PR driven and leveraged a provocative tag line — “No software” and, most importantly, it cleverly positioned the company as everything un-Siebel. It worked like a charm. Today SFDC stands alone as arguably the second most important brand in CRM, behind Siebel, or as the most important brand in hosted CRM, the category it pioneered. For its efforts SFDC will have an IPO soon and the company has many good ideas ahead of it. Everyone else who tried to out muscle Siebel is hanging on with a few percentage points of the enterprise CRM market. And the hosted vendors that tried to copy cat the original are looking for niches to exploit.

A Better Strategy

So, back to the second mouse getting the cheese. I'd say it's the wrong metaphor and the wrong strategy. To be clear, it's not that the second mouse can't get the cheese, it's that the second mouse needs to be very lucky and hope the first mouse makes a misstep. Rather than depend on luck, the second mouse needs to be a keen observer of the market, asking hard questions like: What is it the first mouse is not doing well or ignoring? Is there another niche in the market that is opening up as a result of what numero uno is doing? How do I exploit this knowledge? These are questions that should force us to look outside of the box but all too often the answers come from within the cozy confines of the space we already know and the second mouse settles for a strategy of being ten percent less expensive or proclaiming it offers higher performance — with limited success.

The hosted CRM market is not very old and there are still only a handful of entrants. There is room in the market for more competitors if each will only concentrate on figuring out how to do something different. If you are the CEO and can't figure out how, just ask your second child.

###

