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Social Media or Cloud—What's Best?

Commentary

How you categorize your company can lead to its success or demise; misclassified companies risk being ignored by target customers and judged against wrong criteria.

By Elizabeth G. Pontikes

A challenge every software company faces is how to frame its products. Should you follow the latest fad and try to market your company as social media or cloud computing? Or should you position your company in a more staid—and perhaps more descriptive—sector, such as business intelligence?

Of course, this decision partly depends on your products; it would take more than wordsmithing to move from enterprise resource planning (ERP) into financial applications. But, especially in the software industry, a number of market sectors are broad and vaguely defined, giving companies ample opportunities to reposition their offerings. Entering a new sector is one way to signal that your company is keeping pace with cutting-edge trends. How do you evaluate when to move and where to go?

What's in a Name?

It may seem silly to spend a lot of energy trying to determine the right market sector for your company. Even Shakespeare knew that "a rose by any other name would smell as sweet." But just as Romeo's last name made all the difference for him and Juliet, so can your company's market sector drive its success or decline. This doesn't just apply to businesses. Categorization is a basic cognitive process that helps humans make sense of the world and, as a result, it affects our evaluations. So, what category—or market sector—you are in can make a significant difference.

Simply being in a category matters. Studies show that people are more satisfied with a product if they picked it from a set of categorized options—even if the categories were not informative. A menu that separated coffee types by Category A, Category B, and so on led to higher customer satisfaction than one that simply listed the coffees sequentially, according to a 2008 article in the *Journal of Consumer Research*.

The category you are in is equally important. An organization that is misclassified will be judged based on the wrong criteria—and will often come up short. For example, imagine a content management company making a pitch to a business looking for sales force automation software.

A study of public companies shows that when there is a mismatch between a firm's industry and the specialization of the securities analyst covering the firm, the company's stock price suffers, according to a 1999 article in the *American Journal of Sociology*. Firms that are classified in two different genres aren't as highly rated, reports a 2006 article in *Administrative Science Quarterly*. Categorization is supposed to help clarify what your product does; if it adds confusion, then it can make your company worse off.

Classification can help or hurt your business for two main reasons. First, misclassified companies risk being ignored by a target customer base. So if a potential customer is looking for content management software, and your company excels at content management but classifies itself in the business intelligence sector, you risk not being included in the initial search, or the consideration set.

Second, categories define standards that people will use to judge your product. Take the example of an Apple iPad, which pioneered a new category for electronics: the tablet. When judged by the standards of a laptop computer, the iPad falls short. It's hard to type on it, it cannot multitask, and the screen is small. As a laptop computer, it's hard to imagine that anyone would want to purchase an iPad. What people expect from a tablet is much different, and as a tablet, the iPad excels.

Is It Better to Be Clear?

Considering the risks of misclassification, it might be reasonable to assume that your company will be best served by choosing a market sector that is very specific at describing your offerings. Then you will be in the best position to be included in prospective customer consideration sets, and to be judged favorably. In fact, this is the conclusion that many organizational researchers gravitate toward.

But not so fast. We know that in software, a lot of market sectors are vaguely defined. For instance, sectors such as cloud, tools, customer relationship management, enterprise software, and platform refer to a wide range of different types of software. And companies in these sectors have been very successful. So what is going on?

There is actually a tradeoff between choosing a clear or vaguely defined market sector to frame your products. On the one hand, clarity promotes customer understanding, which can increase evaluations, as described above. But on the other hand, vague market sectors allow a company the flexibility to take their products in new directions and explore uncharted territories. In fact, recent research indicates that unlike prospective customers, interested investors may actually prefer businesses that are in vague market sectors

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because they are more likely to be innovative.

Don't Be Mercurial

With the above discussion in mind, it might be tempting to rapidly bounce between market sectors, trying on different identities depending on your short-term goals. Don't. Frequently changing your market sector will confuse both customers and investors, not to mention employees. Choosing a vague sector allows a company flexibility to be innovative while simultaneously maintaining a consistent identity. However, changing your company's sector requires lengthy explanations about the differences between your previous and current directions, why you chose to change, and where you are going in the future. Such instability can make your business seem unreliable.

Overall, it's important to carefully weigh both benefits and risks of choosing a clear or vague sector. Which market sector is right for your company depends not only on your products, but also on your company's age, size, goals, and culture. [SW](#)

Elizabeth Pontikes is an assistant professor of organizations and strategy at the University of Chicago Booth School of Business. She studies organizational knowledge and innovation, technological change, and market categorization. Her work has appeared in American Sociological Review, Management Science, and Research in Organizational Behavior.

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