

## CLOUD ([HTTP://VENTUREBEAT.COM/CATEGORY/CLOUD/](http://venturebeat.com/category/cloud/))

Guest

# Check out these playbooks from successful industry cloud startups

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Industry cloud software companies are on the verge of taking off, with several already achieving multibillion-dollar valuations. At Bessemer, we've been fortunate to partner with more than a dozen industry software companies. And we've watched them attack the field in a variety of ways.

Though the industries vary, we've seen a few playbooks that have consistently driven startups to success:

## Replace sleepy incumbents

As with the broader, horizontal software landscape, many industry cloud software success stories involve replacing old-school installed software vendors. The cloud makes it possible to deliver software that is more usable, more functional, cheaper, easier to maintain, accessible from any device and constantly being updated and improved.

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Look, for instance, at DealerTrack (<https://www.dealertrack.com/>). This cloud leader is challenging Reynolds & Reynolds and ADP for dominance in the multibillion-dollar market for auto dealer

software. DealerTrack is replacing these incumbents with web-based and mobile solutions.

DealerTrack is hardly alone. Veeva (<http://www.veeva.com/>) is stealing market share from the likes of Oracle and Cegedim in the life sciences industry. Demandware (<http://www.demandware.com/>) is revolutionizing e-commerce, displacing ATG and IBM WebSphere in the process. Instructure (<http://www.instructure.com/>) is replacing Blackboard in the education world. And Digital Insight is giving way to Q2 (<https://q2ebanking.com/>) in the banking industry.

*The playbook: Find a big incumbent and build a better, cheaper and easier to use cloud replacement.*

## Help customers find new ways to grow

Cloud software can not only help a business run more efficiently, it can also improve a business's relationship with its customers and ultimately drive growth. This is something that was never possible with installed software.

Mindbody (<https://www.mindbodyonline.com/>) has been especially successful at this. Using its software, spas and salons enable clients to book appointments and make payments online easily. This allows businesses to win new clients quickly and keep in touch with loyal ones, as well. No longer scheduling in Excel or with pen and paper, Mindbody's businesses have a newly streamlined process, a basic customer management tool and can unlock new revenue streams.

Others — including TravelClick (<http://www.travelclick.com/en/homepage>), Zillow (<http://www.zillow.com/>), RealPage (<http://www.realpage.com/>), and, most famously, OpenTable

(<http://www.opentable.com/start/home>) — have built tools that not only serve their business customers, but also delight their consumers.

We love this playbook because it frequently creates an arms race in the industry that drives software adoption. Once a restaurant offers online reservations, consumers come to expect online reservations — further accelerating OpenTable penetration.

*The playbook: Make your software drive revenue for your customers through strong consumer-facing features.*

## Attack the SMB market

Not too long ago, small and medium sized businesses (SMBs) were off limits to software companies. It was too expensive to hire field sales teams and still have software affordable enough for this market. And it didn't help that SMBs typically didn't have the necessary internal IT resources to maintain the software.

Today, it's possible to sell software cheaply over the Internet. And as a result, a new wave of industry cloud companies are able to profitably sell to this once excluded demographic.

Fleetmatics (<http://www.fleetmatics.com/>), for example, helps owners of commercial trucking fleets optimize routing and track their drivers. By driving leads through the Internet and by using a low-cost inside sales force, Fleetmatics was able to price at an average of \$40 per month. Thanks to cloud delivery, its small-business customers didn't have to worry about installation and maintenance. Fleetmatics was able to attack a market of small fleets that have never had access to software before.

We think this is a great opportunity because there are few installed incumbents selling software to SMBs. And it's always easier to win when you're playing in an open field.

*The playbook: Build software for SMBs that historically was only*

*available to large enterprises.*

## Tap into data at cloud scale

Customer data used to be siloed in a company's data center. The cloud now makes it possible to aggregate data across users.

Opower (<http://www.opower.com/>), for example, pulls data from 95 utilities and provides recommendations to help reduce energy consumption. By comparing energy usage among 50 million householders, it can provide benchmarks and suggestions for better energy efficiency.

This has resulted in massive behavioral changes — saving enough energy to power the homes of 1 million people for a year. It has also earned the company a valuation of \$700 million in an industry widely thought to never embrace innovation.

We expect to see an increasing number of software businesses utilize shared data to drive insights for their customers. Shared data can be used in a variety of ways, including:

- Anonymous benchmarking, letting users share information about pricing, cost, quality, and other industry standards
- Connecting suppliers and buyers between organizations in marketplaces
- Facilitating shared reviews of vendors and group purchasing
- Using predictive analytics to drive behavioral recommendations

Part of what makes this approach so valuable is that it creates long-term barriers to entry. A new competitor can show up with a shinier toy, but if you have valuable data no one else does, your customers won't leave you.

*The playbook: Use the cloud to aggregate data across customers and draw insights from it in novel ways.*

## Build a platform

When most people think of software, they imagine a standalone product. But cloud connectivity and application programming interfaces (APIs) allow industry cloud software companies to become platforms with an ecosystem of applications around them.

Shopify (<https://www.shopify.com/>) has been incredibly successful at this play, making itself the center of a multi-spoked wheel. Its first platform play was developing a partner network of web design firms to setup and customize stores. The real breakthrough, though, came with its API. Third-party companies quickly learned they could grow their business by connecting to Shopify. Today, two-thirds of Shopify's 140,000 customers use at least one third-party app from their app store.

We love the platform model because, much like the data play, building a platform drives long-term customer lock-in. If your customers rely on you to act as the hub for other critical applications, it becomes extremely difficult for any new competitors to replace you.

*The playbook: Drive value and lock-in by becoming the center of a larger ecosystem of industry applications.*

There's one play that hasn't yet succeeded at IPO scale: mobile-first industry software applications. But we think this is the next big opportunity in the industry cloud. Software used to be confined to knowledge workers at desks. Now it's possible to build mobile applications for workers in the field — opening up software to industries that have never had it before. Companies that successfully tap into these markets will build enormous value in the decade to come.

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**This is the second installment in a three-part series on industry clouds; the final part will be published on VentureBeat tomorrow. In the meantime, check out the first part, and an infographic (http://venturebeat.com/2015/01/29/a-cloud-for-every-industry-real-estate-health-care-beyond/), from Bessemer Venture Partners.**

VB's research team is studying web-personalization... Chime in here, and we'll share the results. (https://www.surveymonkey.com/r/user\_web\_personalization)

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