

Executive Insights:

How Small Marketing Teams Are Leading Innovation & Adoption Trends Within Marketing Automation



Q&A With
Raghu Raghavan, CEO
Act-On Software



One of the brightest starts within the rapidly growing marketing automation space has been **Act-On Software**, a provider of integrated, cloud-based marketing platforms. The Portland, OR-based company experienced 400% year-over-year growth in Q3 2011, passing the 500th customer mark with the addition of 164 new customers.

Act-On has big plans to expand various components of its business model, including a greater international presence to serve the rapidly growing European market.

While players in the automation space have traditionally been segregated as serving enterprise level or small- to medium-size businesses (SMBs), Act-On is catering to a new market segment — the **small marketing team**, or SMT. The small marketing team may be part of a larger enterprise that requires specific treatment of campaigns and programs.

This new breed of marketing automation users has blurred the lines between enterprise-level and SMB organizations, providing vendors with the opportunity to capitalize on this growing need for operational efficiency.

DemandGen Report Editor Andrew Gaffney recently sat down with **Raghu Raghavan**, CEO of Act-On Software, for an in-depth discussion regarding current and developing marketing automation trends, as well as the company's rapid growth in 2011.

Raghavan, the product visionary and driving force behind Act-On Software, is a seasoned entrepreneur who led the initial design of the company's service and the development of its core technology and infrastructure.

Previously, he was the Co-Founder and CTO of **Responsys, Inc.** (NASDAQ: MKTG), the long-time market leader in on-demand email and lifecycle marketing solutions for high-end retailers. Accel, Foundation Capital, Redpoint Ventures and Sigma Partners backed the company, which went public in April 2011.



Q • *Act-On has been at the forefront of serving the SMB market, which has recently seen a lot of increased activity from your competitors in the marketing automation space. How will Act-On continue to differentiate its positioning with this market? Are you concerned about the threat of increased competition?*

A • While the competition may be seemingly increased, we're actually seeing a different trend. We're seeing the competition actually sharpen and reduce. Maybe it's the way we're positioning our product and the way we're marketing, but I think we don't run in to many companies in competitive deals. **We typically see four companies: Eloqua, Marketo, Pardot and ourselves (competing for market share).** We're finding that in every deal we're in, these are the names that pop up. The competition is something we don't directly worry about. We do look at our competitors and see if they've done something that changes the balance of power, but I wouldn't say we worry about the competition.

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What's more interesting about the space is that all of the marketing automation players right now basically occupy about **5-10% of the actual available market**. What we're seeing is a lot of people that are experienced in email marketing are starting to take their marketing to the next level. However, they find that these fantastic email marketing vendors have not actually evolved to suit their needs, and that's why they are starting to look at marketing automation vendors.

Once you take that bigger market into play, this is a giant market, so it's really not one where the existing competitors should be worried about each other. They should be worried about serving the mass of customers out there well. In fact, in half our deals, we don't see competition. I bet if you talked to Marketo, they'd tell you the same thing. It's evidence of how big this market really is.



Investor interest in the automation space has heated up significantly in 2011. How has Act-On positioned itself among other vendors in the market?



We've had a really interesting year with respect to our positioning in the last month or so. We used to look at this market as being enterprise, mid-market and SMB. Eloqua was clearly the enterprise player and it used to be the case that the positioning was such that if we found ourselves in a deal with Eloqua, one of us was probably in the wrong segment. But what has actually happened as of late is we realize that our market is not SMB but what I would call SMT, or small marketing teams.

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The distinction is this: we don't restrict ourselves to small businesses, really. Because we find that **departments of large companies** behave exactly the same as small companies. If the marketing team has 10 people roughly, regardless of whether they're working for a small business or they're a department of a larger company, they represent our ideal target.

There are a couple of things that make SMTs different than SMBs. They may be small but their ambition is not small and the kinds of programs they run aren't small. These small marketing teams are trying to do a lot, which means the system can't be limited in scope. It's got to have the full functionality that a Fortune 500 system would have. Small marketing teams also don't have a lot of IT support, which means that if they need to do something, they can't go to a specialist to help them get it done. They want to be able to use a system directly and easily, the same way they use Facebook. There's not a lot of patience for training, learning and implementation.

There is a great deal of focus on the user experience that marketers are looking for. This is a huge, ongoing objective for us, and it's a huge struggle. We interact very closely with our existing customer base, so they give us ideas and we run our ideas by them for their feedback.

We recently passed 500 customers. We were looking at where we were in November 2010, when we had 75 customers. What we're doing is working — the focus on the small marketing teams is definitely working, because I'm starting to see some really nice names show up on our list of customers. But they are not corporate central marketing or IT guys; it's more field people.

Q • *Act-On has seen significant growth since its 2009 inception. Most recently, the company added 164 new customers in Q3 2011 and increased annual recurring revenues by more than 400% compared to 2010. The company also closed \$10 million in Series C funding. Can you discuss the company's overall growth metrics and forward-looking expectations?*

A • The funding is still in the bank. We've been extremely cash efficient. We actually passed Marketo in the number of customers added in Q3. We don't try to benchmark these things because clearly their price point is much higher than ours.

There are three different tracks of our growth plan for the next couple of years. In 2012 our revenue will triple from where it is today. One of the things we've always been concerned about is what happens after the sale. We've gotten all these customers; we want to keep them happy and we don't want to lose them. Our policy is that a customer can give us 30 days notice and leave us with no penalty, which is unique in the space. That said, it's really on us to perform. The after sales care is a big deal. It was pretty easy when we had 75 customers, but it's different now that we have 500 customers. We expect to have 700 customers by the end of December, and then by the end of Q1 2012, we'll have 1,000 customers. So the growth is there. Now the real question is: can we support our customers?

We hired the person that ran **customer support for WebEx**. He joined WebEx when the company was doing about \$50 million in revenue and he led customer support all the way through to when the company was earning \$500 million in revenue. So he truly understands how to deal with customers at scale. We'll also have **125 total employees** by the end of 2012.

In 2012 and 2013, we want to make sure that we support the customers and keep them as happy as they are right now. Our **churn is currently less than 10%**. I was hoping, when I modeled the business, we'd be at 12% churn on an annual basis, but we're actually at **7% or- 8%** right now. That's a big deal. We have to keep that up because once churn gets past a point, then you're basically dropping things on the top, things are coming off the bottom and it becomes an unsustainable business.

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- *BtoB behavioral data is increasingly driving the way marketers message to and engage with prospects. Can you speak to how*
- *Act-On's services cater to this growing trend?*



● Act-On eats its own dog food. Our marketers use Act-On, and only Act-On, ● to drive leads, qualify them and get sales to follow up with them. That helps tremendously to keep us honest, because we don't sell anything that we don't use ourselves and endorse. The structure of the behavioral database is the single biggest early innovation that we put in place, technically speaking. The idea that we could **capture behavioral data** quickly and spot trends in behavior was really cutting-edge.

The initial set of behaviors in the system were email sent, email clicked on, email opened, forms viewed, form submitted, email link to white papers, click throughs, etc., and then we'd monitor when white papers were downloaded off a web site.

The biggest behavioral component that marketers asked us early on to get into the system was **webinar behavior**. Users wanted the ability to flag registrants that actually attended. As we built the system, more behaviors popped up. A client came to us asking to load behavior into it because they touched customers using other tools and wanted to leverage that data. So we were clued to the fact that customers were going to be coming with behaviors that we didn't already have in our system, so we opened up the API to do that.

The one behavior that all customers are asking for now is the prospect behavior on a web site. I thought this was yesterday's problem, but it is not. **Behavioral data off our web site is growing**, the web site behavior seems to be a lot more significant than everything else. People want to know about who visited the pricing pages, how many browsing sessions, and if these visitors came back twice.



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Q • *Social media is a hot topic of conversation for both BtoB marketing and sales enablement. Act-On has been offering social functionality for some time now — can you share any anecdotal social customer use stories?*

A • Customers are asking us to look at the blend of social media behavior and behavior in other channels in an effort to figure out who did what. So if you just step back for a second and look at the old days of [email] marketing, how every link had a forward-to-a-friend button, well, with social media, when people put out content with the like button, marketers think of it very much as forward-to-a-friend. They basically want to know “in my social media channel who are the people that are promoting me? Who are the people that I’m engaged with in social media that have influential networks?”

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Anecdotally, Twitter seems to be a channel where people love to vent. The number of people that tweet, “Hey! This is fantastic!” is often matched by people complaining about the lousy systems they are forced to use. So social media can definitely cut both ways, and marketing automation tools must help sort all of this out.

Q • *Act-On recently debuted its Hot Prospects solution. Can you explain the reasoning behind the launch and how it has been received?*

A • Sales people need marketing directly at their fingertips. When sales guys get qualified leads thrown over the wall by marketing, they want to know all the details. So the first set of tools that we rolled out enabled a sales person to review all the marketing touch points before actually contacting a prospect. We also gave the sales person the option to say, “This prospect is not ready for me,” and throw the prospect back to marketing for more nurturing, all from inside the salesforce.com portal.

So once all of that proved successful people started saying, “Well, that’s great! Now, let’s get to the next level.”

Hot Prospects helps sales people prioritize their time, by sorting their prospects based on who is most likely to be receptive to a sales call right now. It is based on analyzing behavioral cues. We don’t charge extra for it — it’s part of the platform, and has been very well-received. It’s part of our increasing push to make sales people use marketing

tools and technologies as part of their daily jobs. You'll likely see new applications from us that make support people more productive because really, anyone who talks to the customer — whether it's a marketing person or a sales person in a customer support position — they all need to be working from the same base of information.

Q • *The integration of different marketing functionality is a key component of Act-On's software. Are you seeing this is a key focus for customers and prospects?*

A • Totally, completely. I'll give you an analogy. If you bought a PC 10 or 15 years ago, you'd call a store and they'd tell you what motherboard was in there and what processor, and you could buy the RAM and you could take the screwdriver, take the case off and jam it in there, right? Now you buy laptops. In fact, the last four laptops I bought I can't even get the battery out. They're all made by Apple. I don't have the time to be gluing stuff together and seeing if it works.

That's really what this is all about. People are sick and tired of being forced to log into five different systems, download a spreadsheet from this, upload it into that. If it was a process that was mechanical, why doesn't the software do all of that for me automatically? If you really look at the way we integrate with WebEx, to collect the trending information, all WebEx gives you is the ability to download a spreadsheet. How annoying can that be for a marketer to log in to WebEx every 15 minutes — "Oh, is my spreadsheet ready?" Additionally, many marketers don't know what to do with it. So the idea of automation is just around utilizing computers to do things that people now must do manually.

In January, we'll announce our **integration with Citrix GoToWebinar**. We have already announced our integration with Microsoft Dynamics because that's something we're starting to see pop up more and more. The one thing we don't do is integration for one specific customer. That's something we completely avoid. So any integration we do has to be platform-wide and has to have the expectation that there will be multiple prospects and customers using it.

We've announced the **integration with InsideSales**, a provider of lead response management dialing technology. So in addition to Hot Prospects, you can grab your top 50 hot prospects, you can push the InsideSales dialer from Act-On and it will just start making phone calls for you till you get a live connection.

So ongoing integration is something that every vendor should do. I don't think you, as the user of the system, have the time or the patience to integrate stuff. Your vendor should be doing this for you.

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About ActOn

Act-On Software's cloud-based integrated marketing platform is rapidly becoming the foundation for successful marketing departments in organizations of all sizes. Act-On's highly intuitive user interface, complete online marketing tool set and affordable pricing starting at just \$500/month have enabled the adoption of marketing automation technologies without dedicated IT support.