Escaping the SaaS Commoditization Trap

Changing Your Brand Narrative

brighttail

Executive Summary

The SaaS market is growing at a frightening rate, which has made it exponentially harder for SaaS companies to differentiate themselves in the marketplace. If SaaS CMOs are already struggling to stand out from their current competitors, what are they going to do when that number grows 2x or even 10x? This whitepaper dives deep into the current landscape of SaaS marketing to explore the factors behind this explosive growth and its implications. It will then go over why traditional positioning strategies aren't working anymore, as well as one simple step you can take to differentiate your SaaS product.

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Being a SaaS CMO Is Harder than Ever

The role of a SaaS CMO is growing increasingly complex and multifaceted.[1] You must now oversee different functions of marketing (product, content, social media), be adept at making data-driven decisions, and react quickly to new industry developments or trends to strategize accordingly.

All this is occurring in the context of a constantly shifting SaaS landscape, which means that concepts or best practices that worked for you in your previous role might not be effective anymore, so you're figuring it out on the fly.

As if the role isn't challenging enough, you must do all this while fighting for buy-in from your internal stakeholders, which can be hard because marketing results can be difficult to measure qualitatively.

In fact, you are often in a lose-lose situation here. If the product is not doing well, marketing takes the blame. If it is, it's because the sales team did well.

You also have less time than ever to start producing results. According to leadership advisory firm Spencer Stuart, the average tenure for CMOs fell to 40 months in 2020, the shortest it has been since 2009.[2]

As icing on the cake, successfully resolving all the challenges mentioned above as a B2B SaaS CMO is now exponentially harder due to a single underlying fact: the SaaS space is being flooded with too many new competitors.

The SaaS Market is Overcrowded

According to a report published by Allied Market Research, the global SaaS market was estimated at $121.33 billion in 2020 and is projected to reach $702.19 billion by 2030, growing at a CAGR of 18.8% from 2021 to 2030.[3] This tracks with the predictions of Forrester, who estimates that there are over 100,000 SaaS apps today and expects that to grow to 1,000,000 by 2027.[4]

A main reason why the SaaS marketplace is exploding is the extremely conducive macro environment we live in now. Currently, it has never been easier to start a SaaS business.

Startup costs are now incredibly low

Besides the well-documented cost savings provided by cloud servers over on-prem servers,[5] there are also various other types of technical and operational advancements. For example, platforms like Docker can accelerate how you build, share, and run modern applications, while apps like Github are a valuable repository of open-source projects that developers can easily refer to.

While not the game-changer that cloud computing is, these smaller advancements compound over time and make it ever cheaper, faster, and easier to build a new SaaS product.

Funding is abundant

It is no secret that private investors love SaaS companies.[6] Even amid a challenging macroeconomic situation,[7] capital invested in the US SaaS market totalled a healthy $48B, while notable investors are still averaging 20 to 30 global VC deals per month. This doesn't even account for new forms of financing like crowdfunding and alternative VCs (like TinySeed or Indie.vc) that can provide just as much money as institutional investors.[8]

Large Pool of Software Developers

Thanks to incredible leaps in collaboration technology, any potential SaaS startup now has access to a global talent pool via platforms like Upwork and Elance. By arbitraging the difference in currency strength, hiring these developers is incredibly cost-efficient as well.

A Crowded Market Leads to Commoditization

With more and more entrants saturating the marketplace, a market standard will inevitably emerge. All companies will try to hit this standard, which leads to greater commoditization pressure on the market.

You have the nimble startups who can quickly copy the market standard that has established and validated product-market fit. You also have the big players with deep pockets who can throw money at a similar product (if not better) while enjoying the benefits of an established brand name.

Even if your product is extremely unique and technical, you're only delaying the inevitability of commoditization. Take the iPhone for example. When it was first released, the intuitive touchscreen interface was considered revolutionary. Fast forward a couple years, touchscreens are now a standard feature in all smartphones.

Take a look at the table below comparing the features of Slack, a famous collaboration SaaS company, and its competitors.

	Slack	Chanty	RocketChat	Flock	Mattermost
Video/Voice Calls	✓	✓	✓	✓	–
Option To Self-Host	–	–	✓	–	✓
Customer Support	✓	✓	✓	✓	✓
Integrations	✓	✓	✓	✓	✓
Customization	–	–	✓	–	✓
Encryption	✓	✓	✓	✓	✓
Price (per user)	**$7.25**	**$3**	**$3**	**$4.50**	**$3.25**

Even though Slack is considered the market leader, you can see that its competitors aren't falling very far behind. They mostly share the same features, and their prices are roughly similar too. This is further evidence that commoditization is happening as we speak.

The Biggest Losers

What happens when SaaS becomes a commodity?

Existing SaaS businesses will start feeling the squeeze. Once customers start viewing SaaS products as **substitutable**, their negotiating power increases and they will turn their focus to pricing since any gains from picking a superior product will be marginal at best. Companies, new and old alike, that realize this will start slashing prices to protect/grow their market share. This will lead to downward pressure on prices in the market, further cutting margins all around.

Even category leaders aren't immune to this. Slack, a category leader in the chat app space, lost market share when Microsoft made Teams (a similar app) free for all Microsoft 365 subscribers.[9] The outcomes for non-category leaders are even worse - commoditization is a big reason why over 90% of SaaS startups fail.[10]

New SaaS businesses will face a Herculean task trying to break into the market. According to McKinsey, even if SaaS businesses continue to grow at a 20% rate annually, there is a 92% percent chance of them closing shop within a few years.[11] That is assuming that they are trying to break into a "product" market.

If we assume that the SaaS market is now a "commodity" market, their chances of success look even bleaker. Most new companies simply lack the resources to compete in a price race to the bottom nor take advantage of market inefficiencies at scale to survive in a commodity market.

In short, there will be an undeniable change in the value perception of SaaS as a product. While their value was previously derived from their systems of differentiation (i.e. features unique to them), their value now is mostly tied to their pricing instead.

Falling into the SaaS Commoditization Trap

As a SaaS CMO, do you rely on the following positioning framework for your product?

> "For **[target audience]**, **[product name]** is a **[category name]** which provides **[main benefit]** unlike **[primary competitor]** which provides **[competitor's main benefit]**."

This is the traditional way of positioning - positioning your products as being "better" than the competition in aspects such as:

- **Quality of customer service**
- **Pricing/Discounts**
- **New and extra features**

Unfortunately, this is a losing proposition. Even if your product is indeed the "best", there's no way you can meaningfully substantiate it against hundreds of similar competitors in a crowded marketplace .

Therein lies the commoditization trap: a situation where companies are differentiating themselves from their competitors in marginal and non-meaningful ways.

Why Is It a Trap?

Because it doesn't work. Period.

Here's why:

No Real Value-Add

You might be the sweetest orange in the world, but what if your customers only like apples? When you're trying to differentiate your product in terms of features, you're competing with thousands of oranges to be the sweetest when you should be providing apples instead.

The Marketplace Is Too Crowded

Most modern buyers (especially in B2B Saas) simply don't have the time to evaluate and compare dozens of products to make a final purchasing decision. Since most products will share roughly the same features in a crowded marketplace, the odds of missing out on something revolutionary is rather slim. As such, there is a very high likelihood that the buyers have already decided on the category leader - any research on possible alternatives is mostly perfunctory and serves only to complete their consideration set.

Unsustainable

In today's Agile environment, your competitors can easily copy your winning features in a few sprint cycles. Are you going to subject your marketing strategy to the whims of your competitors? Is your company going to stop building new features, the point of differentiation your company has staked out? This is a vicious and unsustainable cycle that further serves as an indictment of feature-based differentiation.

Breaking Out of the Commoditization Trap

Marketing or differentiating your product in the B2B SaaS marketing space right now is only daunting… **if you continue playing the same game.**

In simple words, it's time for a new approach to positioning.

With this new approach, not only will you avoid positioning your brand against your competitors in terms of features and benefits, you will also avoid any and all kinds of comparison.

Instead, you develop a story that positions your product against a new enemy - this could either be the status quo or a new change in the world.

With the right narrative, you can show how the status quo leads to ruin and create urgency for your product. When you do this successfully, you can position your brand at the top of the buyer's mind and help them define their solution vision in your favor. Keep in mind that Forrester Research shows that 74% of executive buyers chose the brand who helped them define their solution vision,[12] and you see how powerful this new narrative can be.

Enter the strategic narrative.

Developing A Strategic Narrative

Let's dive deeper into the strategic narrative.

With a strategic narrative, you aren't targeting buyers who know they have a problem and are actively looking for a solution. Besides accounting for a very small slice of the entire pie, these buyers have already made up their mind on the solution. The only way to sway them is via pricing or additional features, which is why companies often fall into the commoditization trap.

The strategic narrative takes an entirely different approach. It recognizes that the biggest opportunity does not lie with the 5% of buyers who are actively in the market. Instead, it seeks to capture the minds and wallets of the 95% who aren't aware that they have a problem or have not made it a priority to be solved.

What are the elements of such a strategic narrative?

Your brand positioning is shifted AWAY from your products and their features
A simple analogy here would be going on a first date. A person who only talks about how great he or she is would be a major turn-off, right? The same goes for your SaaS product. Start focusing on what your customers want, not what you can do for them.

Your brand is no longer positioned AGAINST your competitors
Your competitors have no business being in your narrative. In your narrative, your customer should have a problem that only you can solve, or at the very least, you should be at the top of their minds when they are confronted with this particular problem.

Your brand goals are ALIGNED with your customers
In this narrative, your customers should be seeing you as an ally in their quest to solve their problems. They shouldn't be viewing you as just another company trying to sell them a product.

Case Study:

Liquid Robotics

Let's take a look at a simple case study to help you conceptualize this in practice.

CHALLENGE

Founded in 2007, Liquid Robotics spent nearly a decade developing and commercializing its pioneer Wave Glider platform, a wave-powered, unmanned surface vehicle (USVs) equipped with a variety of sensors and communication technologies to autonomously collect and transmit ocean data. However, multiple competitors entered the space soon after and started vying for market leadership. While Liquid Robotics' competitors were behind technologically, their marketing efforts were not. They were using the same language to present the same visions and solve the same problems.

Unfortunately for Liquid Robotics, this meant that potential new customers had trouble figuring out who the real technology leader was. What they needed was a clear strategy to defend their first-mover advantage and to avoid being seen as a commodity much like their highly-similar competitors.

SOLUTION

Working closely with us, Liquid Robotics created a new strategic narrative to differentiate their product following the five steps below:

They Identified a Big, Unavoidable Change in the World and Raised the Stakes
After a comprehensive audit, we quickly identified a prime opportunity for Liquid Robotics. There was a vast and untapped market for them: customers who are unaware of the countless new applications enabled by Wave Gliders. They mostly live by the motto "don't fix it if it ain't broke".

To overcome this inertia, we suggested highlighting how the world has changed in such a fundamental way that prospects have to change too. Together, we visualized the ocean as the last great frontier, an increasingly scarce and valuable resource, and a highly-contested battlespace. The implication being: if you're not in control of your oceans, you're falling behind your competitors in terms of logistics, sovereign interests, and scientific advancements.

Case Study:

Liquid Robotics

They Named an Enemy

David fought Goliath. Elon Musk is fighting climate change. After establishing a changing world with urgent stakes, our next step was to identify a clear enemy to further draw prospects into this new narrative. What's stopping the military complex or the logistics industry —the heroes of Liquid Robotics' strategic story—from conquering the oceans in this new, changed world? Here, it is the treacherous nature of the ocean and existing technological limitations.

Note that their competitors are never once brought up because the customer shouldn't even be entertaining the possibility of competitors. They should be thinking in terms of the new world you've presented and what is now an old world that no longer works.

They Teased the "Promised Land"

In declaring the old way to be ineffective, the following question naturally follows: how do I win now?

This is where we introduced the "Promised Land" — the state of winning in the new world.

Winning is not having the Wave Glider but the future that's possible thanks to having the Wave Glider.

This "Promised Land" is termed "The Digital Ocean" - a networked ocean connecting billions of sensors, manned and unmanned systems, and satellites for immediate access to information. The possibilities are endless here. Scientists can improve their models to better understand climate change and weather patterns. Nations can affordably patrol their coastlines against illegal fishing, smuggling and trafficking. Businesses can uncover new economic opportunities in places where it was too costly or risky to go before.

Case Study:

Liquid Robotics

They Presented Liquid Robotics as the “Savior”
In every epic narrative, the hero is equipped with a powerful weapon to vanquish their foe, like Harry Potter and the Elder Wand or King Arthur and Excalibur. Similarly, there are obstacles preventing your audience from reaching the Promised Land, which can be overcome with the help of a “magical weapon”.

This is where we highlighted Liquid Robotics’ proprietary Wave Glider as the “magical weapon'' that will get prospects to the Promised Land. For example, the unmanned Wave Glider can lower the cost of enabling a Digital Ocean. The Wave Glider is wave and solar-powered, which makes them uniquely durable and flexible. As a surface vehicle, it is also uniquely positioned to connect subsea sensors and systems with assets in the air and space.

Note the positioning of the Wave Glider - their features are described in terms of how they would enable the Digital Ocean, NOT how much better it is compared to other USVs.

They Presented Proof
While the narrative might be engaging, the final step of this narrative was the most important - presenting evidence that Liquid Robotics has actually led customers to the Promised Land. After all, it’s only natural that customers would be skeptical of such a fantastical narrative. To do so, our team of B2B marketing experts created a wide range of content assets to support Liquid Robotics’ narrative, such as testimonials and case studies.

RESULTS

Thanks to our successful efforts in creating a new strategic narrative, Liquid Robotics managed to differentiate themselves in a crowded space, eventually leading to their acquisition by The Boeing Company.

Conclusion

Whether we like it or not, the SaaS market is maturing and evolving into a commodity market as we speak. To survive in this new world, SaaS CMOs need to market their product accordingly to achieve clear market differentiation. In this case, the conventional method of feature-based differentiation simply doesn't work anymore since it doesn't provide real value and it is unsustainable. Instead, establishing a strategic narrative is a proven way of product differentiation.

If this whitepaper has resonated with you or made an impact, it's because it also contains elements of the strategic narrative we mentioned. See if you can spot them!

If you're a SaaS business facing any of the problems mentioned above, kickstart the transformation of your narrative and differentiate your product with Brighttail, a B2B agency with a successful record of doing just that.

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