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www.aarf.asia,**Email** : editor@aarf.asia, editoraarf@gmail.com

A TALE OF TWO FLASHY STORAGES – LESSONS IN AUDIENCE SEGMENTATION AND TARGETING

Bharath Ram Srinivasan

Kelley School of Business – Indiana University.

ABSTRACT

Pure Storage and Nimble Storage are two highly successful enterprise data storage companies to emerge in the last decade. But the similarity between the two stops there. The two companies took completely different routes to market as they started off in the marketplace. While Pure targeted the high end of the market Nimble targeted the mid to lower end of the market. This case study discusses the importance of audience segmentation and of pursuing marketing tactics relevant to the target segment the companies operate in. It is also important to have the right type of measure to evaluate the success of marketing tactics and a process in place to continuously evaluate these tactics. Companies that successfully manage to adopt all of these continue to grow over time and become dominant in their markets regardless of broader macro-economic conditions.

KEYWORDS

High growth startup, market segmentation, crowded market, scalable business, customer engagement

TEXT OF THE CASE STUDY

As a marketer at a high growth start-up, you have numerous challenges to deal with – your company is unknown in the market, your products are new, you may have to create a need and awareness for your products, and many others. One key consideration for the marketer early on in the lifecycle even just as the initial product is taking shape is in determining the target market segment for the product offering. There are numerous ways to go to market but the resources available are limited and therefore knowing one's target market will help refine further downstream tactics. The 4Ps of marketing calls out for Product, Place, Price,and

Promotion but all of that is governed by the target market segment. For some products, this could mean targeting the top end of the market while for another this could be in the bottom end or somewhere in the middle. In this case study, we are specifically going to focus on two storage startups that started at almost the same time but targeting different segments of the market and how they went about with their tactics.

Nimble Storage and Pure Storage are two Silicon Valley data storage startup companies that launched their products to their market around 2010-11 time frame. Both the companies focused on the emerging flash storage segment of the market. In this history of the evolution of data storage, the early 2000s saw the demise of tape-based storage and led to disk-based storage taking prominence. The advancements in the flash technology and the widespread adoption of flash in smartphone devices led to more mainstream adoption of flash technologies. Enterprise datacentres were considering flash as a solution to speeding up their applications and other workloads and these two storage startup companies wanted to ride that emerging trend and lead the market in its adoption. While Pure started off with an all-flash offering right at its launch, Nimble started off with a much more conservative hybrid flash approach perhaps due to its belief that the all-flash adoption might be more gradual. In the hybrid flash approach there is a combination of flash and disk being used to deliver the storage solution but in the all-flash approach, there is flash technology being completely used to deliver the storage solution. A good analogy for this is the comparison to the automobile industry. Tesla started off with an all-electric car whereas GM made a more measured transition to a Volt which was its electric hybrid before it made its first all-electric Volt product.

Cost considerations can help define the target segments for the marketer. An expensive product is going to be more affordable for that market segment that has a larger sized wallet. Whenever we are talking about new technological advancements it is going to be more expensive at the start and as it becomes more mainstream with volume the costs start dropping. We’ve seen this with televisions, mobile phones, computers and every technical advancement you can think of. It was the same with the all-flash storage marketplace. Early on when Pure and Nimble were starting off in the market the technology was still nascent, although the all-flash storage costs were coming down it wasn’t quite mainstream yet. As a result an all-flash storage offering was going to be more expensive than a hybrid offering that would use a combination of flash and disk. This meant that Nimble had a lower price point of entry in the market compared to an all-flash offering from Pure but a hybrid offering was not going to match up the raw performance of an all-flash offering from a sheer hardware comparison standpoint. Nimble started off targeting the mid-market segment where there was a need for a product that had an improved performance compared to the prior generation of disk based storage products and at the same time met their application and workload demands at an attractive price point. Pure on the other hand targeted the largest enterprises in the world who had a need for the highest performance and were willing to pay the premium price point for it.

For every segment in the market there are certain tactics that the marketers could adopt in general such as building a brand which helps companies to command higher margins and market share in the long run regardless of the segment they start off with. But there has to be others that the marketer executes specific to their segment. These segment specific tactics provides a better chance for the marketer to get through their message to the target audience. For instance if your product is targeted at senior level executives at large enterprises you would do better off targeting publications or events that senior level executives come to versus a generic publication or event. Along the same lines the marketers at Pure and Nimble stuck to their target markets and hardly ran into each other in the early days as the enterprise and mid-market customers went to different venues to perform their research. For instance while Pure focused on high-end events to bring in their enterprise audience Nimble focused on mass market events. This meant different costs per lead for each of the models. While a premium event such as box seats to a sporting event could cost hundreds or thousands of dollars per lead it still helped Pure marketers to engage their target audience. Nimble marketers on the other hand needed to drive more volume on the mid-market where there were lot more prospects for it to bring in. They had to do this at a lower cost per lead. Ultimately the CMOs of companies targeting both segments would do well for their businesses if they focused on the cost per dollar in revenue generated. Focusing on cost per lead is a more short sighted approach and may not drive the desired outcome which is revenue. Since cost per dollar in revenue could have a longer time frame depending on the sales cycle of a given product a more short term measure to track health of marketing driven demand is to measure the cost per opportunity generated as opportunities get created relatively sooner.

While entry into any market segment is hard there are varying barriers to entry depending on the target market segment. Often the top end of the market is where you have the most challenge in displacing the incumbent. The midmarket and the SMB market tend to be much more crowded in terms of offerings and has a slightly lower barrier to entry. This is the reason most start-upschoose the midmarket or SMBmarket as the entry point for their products. Another reason why Nimble might have started off with the mid-market.

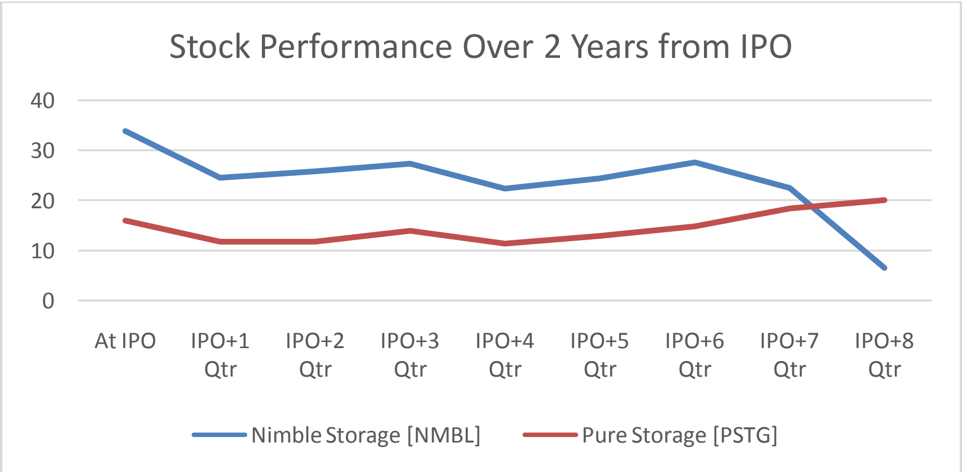
As a couple of years went by both companies grew well in their respective market segments. Nimble chose to go to the public market earlier compared to Pure which continued to raise more money in the private market. Just for comparison when Nimble went public in 2013 it had raised about $99M in venture capital compared to Pure which went public only in 2015 and had raised about $531M in venture capital by then. When the companies went to public market both companies had impressive growth trajectory and profit margins. Table 1 summarizes this for the two companies at the time they went public.

Table 1: Snapshot of Pure Storage and Nimble Storage Financials At IPO

	Pure Storage	**Nimble Storage**
First Product Launch Date	May 2012	August 2010
Total Funding Prior to IPO	$530.9M	$98.8M
Funding Rounds Prior to IPO	8	5
Number of Customers at IPO	1,100	1,750
Total Gross Margin at IPO	60%	62%
IPO Date	Oct. 7, 2015	Dec. 13, 2013
Annual Revenue at IPO	$174.5M	$53.8M

Meanwhile the flash storage adoption into enterprise marketplace continued to grow at a fast pace. The demand grew and helped by that trend the overall cost of building for an all-flash storage product also started dropping. There were now more players in the storage market than the market needed a lot more newer start-ups and legacy players starting to ship an all-flash version of their storage products. Entry into the public markets meant that Pure and Nimble show consistent growth and one way to drive growth is to expand on the markets currently served. Both companies started building newer versions of products that would allow them to more effectively expand into additional market segments either horizontally or vertically. This is a typical play for startups where the starting point could be a certain market segment but as momentum picks up in that segment the startup should quickly find ways to increase the Total Available Market (TAM) that the company’s products can serve. Startups that don’t manage to do this hit a point of saturation in their growth. Amazon is the poster child of a startup that managed its market expansion really well over the years. It started off selling books but over the years it has expanded into several different segments and today has one of the largest TAM served by any given company in the entire marketplace. Coming back to our storage marketplace Nimble came out with all-flash storage product that directly competed with Pure's offering while Pure came up with all-flash offerings that were much more price competitive in the mid-market space that was being served by Nimble early on. To both the company's benefit the market was still large enough for these two to continue to grow their respective businesses while now serving identical segments. The crowding of vendors in the flash storage market however started hurting the newer breed of startups that came up with offerings similar to Pure and Nimble but much later than the two. There were also growing at a slower pace and were burning much more capital. When any market starts overcrowding two things are bound to happen – (1) it is going to get much harder for newer players to expand or raise further capital in public markets and (2) there is going to be some consolidation among even the stronger players in the market to drive future growth and margins. Due to these forces in play in the flash storage market a number of startups went belly up as they hadn't hit the run rate expected by public markets and private capital dried up. The valuation of storage companies listed in the public markets had also fallen anticipating some blood bath before things settle down. This is illustrated inthe chart (figure 1) that tracks the stock performance of Nimble and Pure over the course of two years post their respective IPOs. As evident in the chart when Nimble went to the public the market was red hot for flash storage offerings and this provided a big boost to Nimble stock price at IPO but over the years as more and more vendors started offering flash based storage products the market started overcrowding and the valuations started falling for all storage companies. For instance when Pure went public almost two years after Nimble the market valuations had already started dropping.

Figure 1: Pure Storage and Nimble Storage Stock Performance Post IPO



Legacy vendors in the marketplace had to make quick acquisitions in order to survive this ensuing trend towards all-flash storage in the datacentres. EMC which was one of the biggest player in the storage market sold itself to Dell. NetApp which was the largest pure storage play vendor made some acquisition on it end as well as rationalizing its business. HPE which was the other major player in the storage market had to act quickly and it struck a deal to purchase Nimble and add to its portfolio. Pure chose to remain as the only other standalone storage player in the marketplace other than NetApp. Only time will tell whether Pure gets to benefit through this move in the long run. However, it continues to deliver solid growth for the time being although the profitability is still not where the market would like it to be.

Both Nimble and Pure offer interesting lessons for budding entrepreneurs. They both exemplified characteristics expected from a high growth enterprise technology startup. Savvy entrepreneurs and marketers would do well by defining a target market segment for their product and the early set of tactics tailored to that segment. Another key ingredient to success is being able to measure the results of tactics being employed in the target segment. Having the right KPIs and tracking cost per dollar in revenue will help build a scalable business that will continue to grow regardless of broader market conditions.

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