Ten lessons from a decade of vertical software investing

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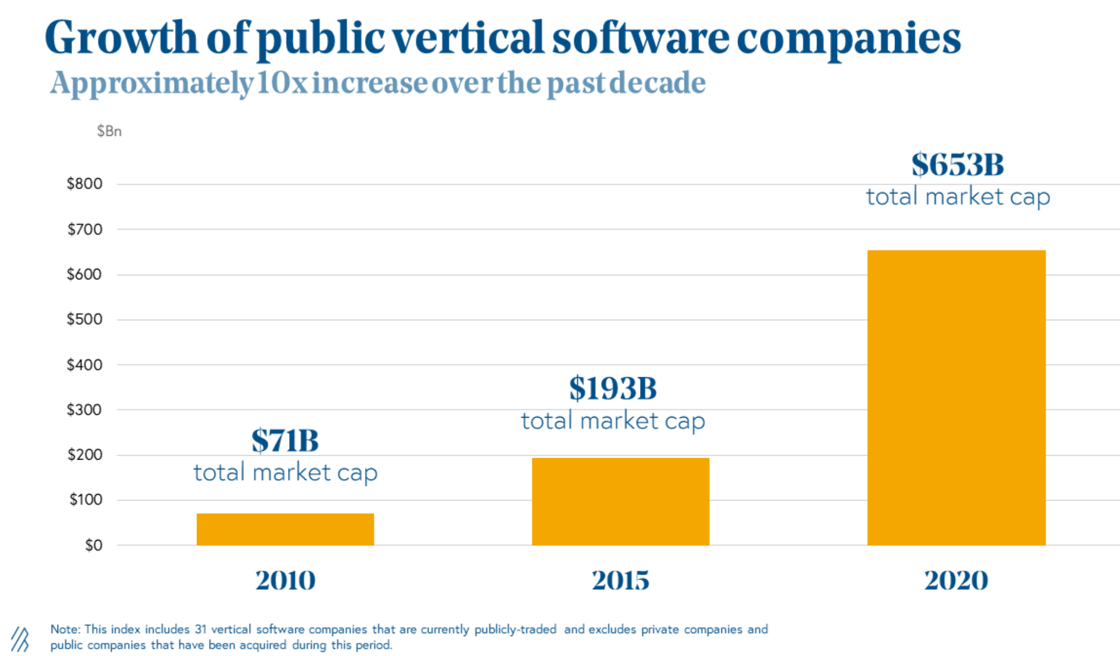
Ten years ago, we made our first vertical software investment— a [Series A investment in Shopify](). In the decade that followed, we had the fortune of partnering with over 30 vertical software companies, many of whom have proven to redefine their industries.

Today, every industry runs on software, making the vertical software opportunity more valuable than ever before. In the past decade, we've watched the market cap of public vertical software companies explode from $70 billion to $650 billion.



With the benefit of watching from the sidelines, we've tried to capture ten years of lessons on how to build industry-defining vertical software companies.

Lesson 1: The most successful vertical software companies have followed three paths to market leadership – address a new or underserved market, unseat sleepy incumbents, or replace custom-built systems.

One or two vendors dominate most vertical markets. For an aspiring vertical software business, market leadership is the prize. There is not much value in being a distant third. Over the past decade, we've seen three successful paths to market leadership:

Three paths to market leadership

1. Address a new or underserved market	2. Unseat sleepy incumbents	3. Replace custom-built systems
PROCORE	toast	MAMBU

1. Address a new or underserved market: Many of the most valuable vertical software companies have been built in new markets or market segments that have lacked access to software. These greenfield verticals can be goldmines of opportunity, especially when a technological, regulatory, or demographic catalyst gives new entrants an unfair advantage.

Procore's* founder, Tooey Courtemanche, realized that the construction industry was woefully underserved by existing software products. He took advantage of new SaaS technologies and mobile connectivity on the job site to build an elegant way for the construction industry to collaborate in the cloud. Procore has grown to dominate construction software, creating a multi-billion company in the process.

A similar story unfolded in the online retail market in the late 2000s when Shopify* leveraged new cloud technologies to build a simple and elegant webstore solution for the booming SMB e-commerce market. In healthcare, Epic Systems rode the wave of new EMR laws to drive adoption in hospital systems. ServiceTitan* built a multi-billion dollar company by serving a new generation of business owners who were fed up with running their plumbing or HVAC businesses on pen and paper. And in banking, nCino's* founders saw an opportunity to digitize the analog loan origination process, creating a new software category in the process.

2. Unseat sleepy incumbents: Existing market leaders have big advantages. However, time and time again, we've seen exceptional founders leverage a platform shift to unseat incumbents. This is often driven by a technology catalyst that gives new entrants an unfair advantage.

We saw our portfolio company Toast* pull this off in the restaurant point of sale (POS) market. Many thought this market would be forever dominated by NCR and Micros. But, Toast's founders saw an opportunity to leverage Android to build a radically better POS. With cheaper and better hardware, constantly improving cloud software, and fully integrated payment processing, Toast has built a superior product over the past eight years. Its cheaper pricing and stronger value proposition has helped them carve a path to market leadership.

3. Replace custom-built systems: If you were to look under the hood of a large company in any vertical, you would find dozens of customized on-premise applications. Vertical software founders can replace these custom-built systems with modern cloud applications.

We've seen our portfolio company Mambu* serve the core banking software market with this approach. Most financial services companies are built on top of homegrown software or customized software from legacy providers. Today, banks and lenders are under pressure to deliver an amazing consumer experience and launch new products. Their old school core systems just can't keep up.

Mambu's founders saw an opportunity to build a cloud-first, API-driven, configurable core platform better suited to the evolving digital finance landscape. A decade later, innovative financial companies are overwhelmingly choosing to build new financial products on Mambu.

Lesson 2: As these paths to market leadership become more competitive, founders are innovating across three new vertical software models – developer platforms, consumer-facing applications, and B2B marketplaces.

In recent years, we've seen a wave of startups focus on new paths to market leadership that haven't been as ubiquitous in the past. We expect to see these new types of vertical software companies grow to multi-billion dollar companies in the decade to come.

1. Developer platforms: In 2013, Bessemer published The Eight Laws of Developer Platforms, a set of best practices for developer-oriented software companies, an emerging category at the time. In the seven years since the category's growth has exceeded our wildest expectations.

With every industry hiring developers and digitizing their business, we're seeing the emergence of vertically-focused developer platforms.

In financial services, APIs like Plaid, Stripe, Adyen, Marqeta, Alloy*, and Privacy facilitate payments, data sharing, and other payments-specific capabilities.

In retail, "headless" e-commerce platforms and API-driven tools like TaxJar and Shippo* are giving developers more control over the retail experience.

In healthcare, developer platforms are emerging to facilitate patient data exchange and coordinate pharmacy deliveries. We're starting to see developer platforms emerge in other verticals like travel, education, and telecom.

Looking ahead, we expect to see the rise of vertically-focused developer platforms as even the most traditional industries increase their investment in software and IT. For further reading on developer platforms, read Ethan Kurzweil's newest laws on this unique type of software model.

Laws of Developer Platforms

1. Pricing power stems from granular and metered units of measure
2. Product must have natural upsell triggers
3. Platform taps into existing budget
4. Tools are frictionless as consumer products
5. Authentic evangelism drives adoption and sales
6. Network effects come from community, collaboration, and data
7. Platforms help customers focus on product differentiation and competitive advantage
8. Platforms empower all to contribute to product development, freeing up precious developer time

2. Consumer-facing software: Most vertical software companies built their businesses by solving problems for internal business users, often overlooking consumer end-users in the process.

Today's consumers expect a delightful user experience not only within social media apps, but also in their interactions with their bank, their landscaper, or their favorite restaurant. As a result, we're seeing the growth of B2B2C vertical software companies that focus on the interaction between a company and its end-consumers.

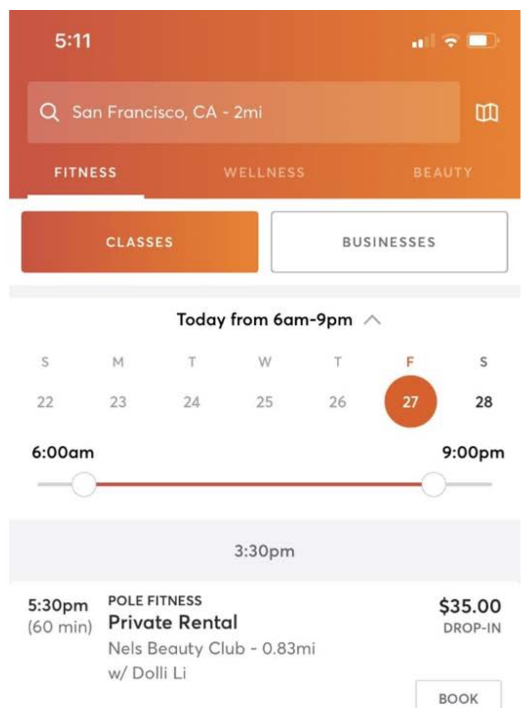
Take Blend as an example. The founders of Blend realized that traditional mortgage software companies like Ellie Mae were focused on the business users and not the actual consumers getting mortgages. By building a delightful consumer mortgage experience, Blend created a new market for banks to deliver digital experiences to their consumers.

The beauty of a B2B2C approach is that it unlocks additional ways to monetize the consumer. For example, Blend has layered on a digital insurance brokerage solution that helps homeowners find insurance during the mortgage process.

Other B2B2C monetization opportunities include:

- Consumer marketplaces – Mindbody* sells software to gyms and yoga studios to help them run their business. As it built market leadership, Mindbody built a consumer-facing mobile application and API platform to help consumers discover all available inventory in the Mindbody customer base. This ultimately provided our portfolio company Mindbody with powerful OpenTable-style network effects.
- Consumer lending – ServiceTitan has partnered with a lender to make it easy for its home services companies to provide financing for their end-consumers when they are making a big purchase. The consumer gets instant access to a loan, ServiceTitan's customer closes a sale, and ServiceTitan earns a commission for facilitating the transaction.
- Booking fees – Some B2B2C vertical software companies are finding ways to monetize the consumer instead of the merchant. FareHarbor is a provider of software to the activity and tour operator market. While many of its competitors charged operators a subscription, FareHarbor decided to give away their software for free. The company instead earned revenue by charging the consumer a transaction fee. This disruptive pricing model gave FareHarbor an advantage over more expensive competitors.

Mindbody leveraged its B2B product to build a B2C fitness class booking app



3. B2B marketplaces: B2B commerce in many vertical markets remains offline, opaque, and intermediary-driven, with orders and payments flowing by email, fax, and paper check. But recently, we're seeing a new generation of founders building B2B marketplaces that bring this spend online.

Several trends are unlocking this opportunity:

- A new generation of business owners who prefer transacting online.
- API-based payments platforms make it easy for B2B marketplaces to offer workflow applications for free and then monetize through payment processing (or other integrated financial products like factoring).
- Modern software architecture has made it easier to build product catalogs with accurate data and avoid the bad data problems that have plagued B2B marketplaces in the past.

These are not straightforward software products. In certain verticals with non-standard products or transactions, B2B marketplaces often require a services layer on top of the core software platform. Our portfolio company ACV Auctions*, a used car auction marketplace for car dealers, offers an in-person inspection service to assure buyers that a car's condition is accurately represented.

B2B marketplaces can be tricky to build, but at scale, they benefit from powerful network effects and can become valuable businesses. In his B2B Marketplaces Roadmap, Kent Bennett outlines why we expect a new generation of thriving B2B marketplaces.

B2B Marketplaces: Good, Better, Best Framework

	GOOD	BETTER	BEST
GMV scale	$10-50B (e.g., dental supplies, beauty supplies)	$50-100B (e.g., airplane parts, furniture)	$100B+ (e.g., restaurant supplies, building products, trucking)
Monetization opportunity	1-2%	2-5%	5%+
GTM efficiency	Direct sales with efficient payback	Buyers bring on sellers OR sellers bring on buyers	Buyers bring on sellers AND sellers bring on buyers

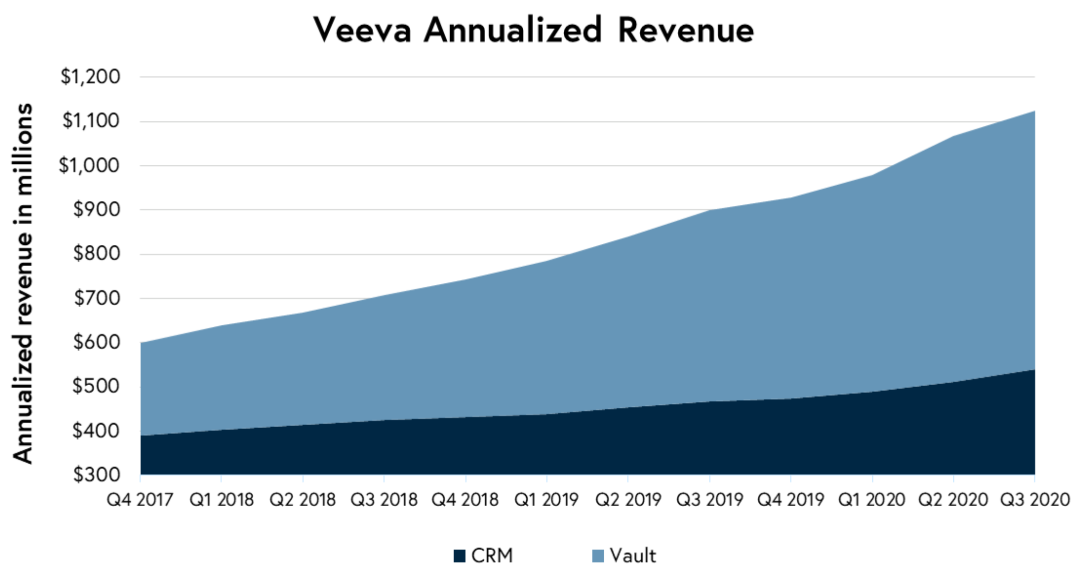
Lesson 3: The very best vertical software companies build a layer cake of new products that consistently drive growth.

There is one thing that separates the good from the truly great in vertical software—the "layer cake."

To put this in perspective, look at Veeva, the leader in software for the life sciences industry. Veeva got its start by selling CRM software for pharma sales reps. Before the company hit market saturation in the CRM market, Veeva's founder started to work on the company's next act. In 2012, Veeva launched Veeva Vault, a new product line serving not only the sales function but also the research and clinical operations functions.

While Veeva's CRM product continues to grow at an impressive 10-15% annual growth rate, Vault has driven the majority of the company's recent growth. Year after year, Vault has steadily expanded in breadth with dozens of products. Thanks to this layer cake strategy, the company has sustained a revenue growth rate of about 30% over nearly a decade.

Today, Veeva is approaching $1 billion in revenue and showing no signs of slowing.



The key lesson from the Veeva experience is that vertical software CEOs need to start thinking about their "next act" years before their core product starts to slow. It can take two to three years to launch a new product and grow it to meaningful scale.

When it comes to building new products to cross-sell into an existing customer base, we've seen a few tactics used successfully:

- **Ask your customers.** Leverage customer advisory boards, on-site visits, surveys, and feedback from your sales team. Don't just ask for product ideas but try to understand your customer's business problems and design software to solve them.

- **Follow the P&L.** Look at your customer's P&L from top to bottom to identify the biggest drivers of revenue and cost. Develop products that drive revenue or reduce expenses for your customers.
- **Draw inspiration from the competition.** Analyze what other software your customers are buying. Attack the most vulnerable competitors with a better, cheaper, and/or fully integrated alternative.
- **Study other verticals.** As you design your layer cake, draw inspiration from what market leaders in other verticals have been able to cross-sell—especially the integrated services we'll discuss later.

In the early days, it can be tempting to work on many products concurrently, but focus is key. The most important lesson we've learned from watching portfolio companies on this journey is that it requires ruthless prioritization. As a resource-constrained startup, limit yourself to one "next act" at a time until you've built a mature multi-product muscle.

However, once you get to $100M+ of ARR, you no longer have the luxury of being hyper-focused. You're now dealing with the complexity of a multi-product company selling into multiple market segments.

Instead of trying to manage by committee, Veeva has a product owner and GTM owner for each of its products and market segments. These two owners are together held accountable for the performance of their individual layer of the cake. Decentralizing ownership and driving accountability is the only way to manage multi-product complexity at scale.

Lesson 4: Many verticals are logo constrained and demand a move up-market to sustain growth.

Vertical software companies often get their start focused on the SMB or mid-market—selling four or five-figure deals. In some verticals, there are enough customers to build a massive business in this market segment– especially if you can deliver a great layer cake (Shopify or Toast are good examples). However, in many verticals, there are too few logos to build a big SMB/mid-market vertical software business. The only way to sustain high rates of growth is to move upmarket.

The commercial lending software company nCino began by catering to the small banks and credit unions willing to work with a startup. These were initially five-figure deals. As the product matured and nCino built a reputation in the industry, the company began to move up-market with six-figure deals to larger banks. Today, nCino has over 20 customers paying over $1 million per year, including some of the largest national banks in America.

In nCino's case, there were only about five thousand banks in the US. Without six-figure deals, our portfolio company would have never achieved IPO scale.

The march up-market can also be dangerous—hijacking a company's product roadmap, distracting the team, and exposing the company to new risks. Adam Fisher recently discussed best practices to make the ascent upmarket.

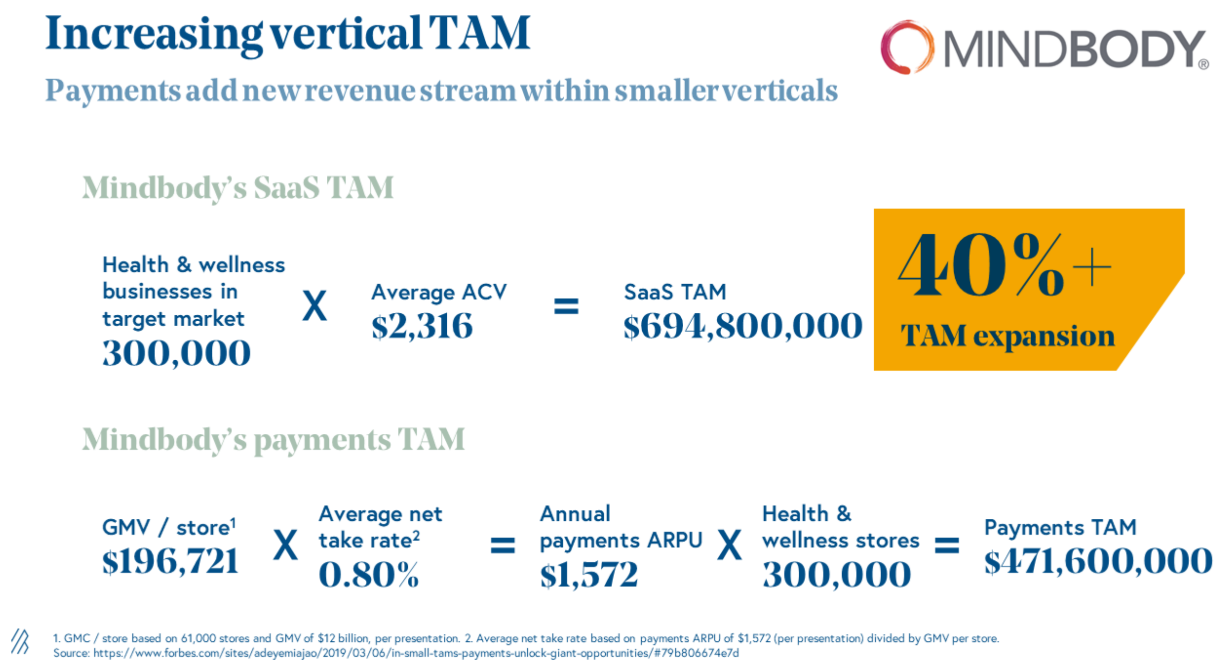
As Adam explains, there are a few winning strategies we've observed over the years:

- Follow the fastest-growing customers
- Let product lead the way (not sales)
- Don't fork the product (ever) or GTM engine (initially)
- Don't forfeit the low end

If you start on the march up-market, you will need to be thoughtful about adapting for the enterprise. You'll need to mature the product, harness an enterprise sales motion, reposition your marketing efforts, and build an implementation/success team to drive customer adoption. It can be hard to learn enterprise on the job and your best bet will be to hire team members with enterprise experience.

Lesson 5: Some of the most lucrative layer cake opportunities are integrated services like payment processing. They are easy to cross-sell and feel free to your customers.

Market-leading vertical software companies have the luxury of adding "integrated services" like payment processing to their layer cake. You can replace a generic third-party service with your own vertical-specific offering that is typically cheaper, better, and more integrated. These integrated services can also meaningfully increase your TAM.



The beauty of this approach is that you're not asking customers to reach into their pockets and buy more software. Instead, you're replacing something that customers are already paying for which makes the cross-sell feel "free" and lowers sales friction.

Over the past few years, we have seen an explosion in these kinds of integrated services including:

- Consumer Payment Processing – By far the most common and valuable integrated service is consumer payment processing. In our portfolio, we saw many of our vertical software companies including Shopify, Mindbody, Toast, ServiceTitan, Clio*, and Brightwheel* earn up to half their revenue from payment processing.
- Business Payment Processing – B2B commerce is still manual and offline. Trillions of dollars in B2B payments still flow via paper check. New payments APIs are enabling vertical SaaS companies to digitize B2B spend. Restaurant365*, as an example, is helping its restaurant customers digitally process invoices and pay their vendors. Companies like GHX, Textura,

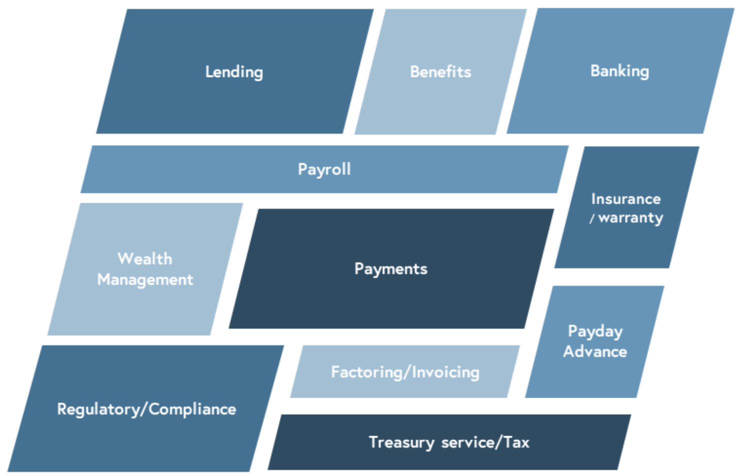
and Fintech have reached an impressive scale by automating AP and facilitating digital payments.

- **Payroll** – Like payment processing, payroll is a commodity service dominated by generic payroll providers like ADP. Vertical software companies are in a good position to build fully integrated payroll processing solutions like ServiceTitan is doing in the home services vertical.
- **Card Issuing** – The arrival of card issuing platforms like Stripe, Privacy, Marqeta, and Galileo have made it easier for vertical software companies to issue debit cards. This is a lucrative monetization opportunity because software company keeps a big chunk of interchange revenue any time the card is used. As an example, Toast's integrated payroll service offers restaurant workers access to their wages on a Toast-issued debit card. Any time the employees spend the cash on their card, Toast receives interchange revenue on that spend.
- **Lending** – Vertical software companies like Shopify are starting to source and underwrite business loans. Integrated payments are particularly well suited given their visibility into cash flows and their ability to sweep funds.
- **Communication** – No one loves their phone company. Vertical software businesses can replace commodity third-party phone service with an integrated VOIP offering. Weave* has had success in the dental, veterinary, and medical verticals by bundling VOIP phone service with software tools to provide a much more valuable end-to-end customer communication platform.
- **Managed Services** – Managed services are a dirty word in the software business. They are typically low margin, hard to scale, and deliver low-value non-recurring revenue. But there is a rare breed of high margin, recurring, and scalable tech-enabled services that can be an attractive addition to a software business. Athenahealth and DocuTap* rode the wave of increasing complexity in medical billing by also delivering an outsourced billing and collections service.

Until recently, most of the focus in vertical software was on consumer payment processing. We are still in the early innings of other integrated services. We've covered the most popular in this piece. Additional services like embedded banking, insurance, and group purchasing are still nascent. Given their financial impact, we expect these services to become an increasingly important aspect of vertical software monetization in the years to come.

If you're building an integrated financial services business, Bessemer's fintech partner [Charles Birnbaum]() would love to hear from you.

Payments are just the beginning



Lesson 6: Monetizing data remains one of the most under-exploited opportunities in vertical software.

"Capturing valuable data" is a bit of a cliché in the technology world. But over the years, we've seen a handful of companies develop clever ways to monetize their data. We think this is one of the most challenging but under-served opportunities for vertical software companies to grow revenue and build a moat of defensibility.

Four paths to monetizing data

1. Moving data	2. Selling data	3. Benchmarking data	4. Leveraging data

Monetization can occur in a few different ways:

- **Moving data:** Among the most valuable vertical software businesses are data networks which facilitate the flow of information between industry stakeholders. In the insurance world, Vertafore has built a $5 billion+ business by integrating with insurance carriers to provide agents with access to pricing and quotes. Vertafore benefits from strong barriers to entry. To compete, a new entrant would need to build and maintain 100+ carrier integrations. Similarly, in the travel industry, Amadeus, Sabre, and Travelport generate billions in revenue by moving data across airlines, agents, and hotels.
- **Selling data:** Many of the most valuable vertical technology companies have found ways to capture proprietary data sets. IMS Health, acquired for $16 billion, sells proprietary medical data to pharmaceutical companies. If your software enables you to capture data that is unique and valuable, consider monetizing it as a subscription data service. As an example, VTS* is taking advantage of its commercial real estate software footprint to gather and sell real estate market data under a new VTS Data product.
- **Benchmarking data:** Cloud deployment gives vertical software companies visibility into data across their entire user base. This was not possible in the on-premise software world. Guidewire, a publicly-traded provider of software to insurance companies, has harnessed the power of benchmarking. Users can see anonymized operational metrics benchmarked across similar Guidewire customers. Benchmarking is difficult to execute but remains one of the biggest under-served opportunities in vertical software.
- **Leveraging data:** Vertical software companies can use data to improve the quality of their product. As an example, 2U* provides online education services in partnership with leading universities and corporations. By constantly assessing student outcomes and product

engagement data, 2U can continuously improve its service offering. At 2U, performance data drives product quality.

In some cases, this data feedback loop is automated using machine learning. For example, Disco* uses computer vision and machine learning to extract data from corpuses of legal documents. As Disco collects more data, its e-discovery products become more powerful.

Lesson 7: Vertical software lends itself well to M&A but should be used cautiously.

Acquisitions can be used to accelerate the vertical software layer cake. Given your vertical focus, you are in a good position to buy a product and cross-sell to your customer base. M&A can also help you consolidate the market and get to the coveted market leadership position. For these reasons, vertical software companies tend to be more acquisitive than horizontal players.

However, the majority of acquisitions are value destructive and M&A should be used cautiously. The best acquisitions have a very clear and immediate financial ROI. The worst are often rationalized using strategic value and optimistic future growth assumptions.

Most successful software acquisitions fall into one of two buckets:

1. **Acquiring a new product to cross-sell:** As you design your layer cake, it can be more attractive to buy rather than build. RealPage, a $6 billion real estate software business, has been wildly successful at acquiring products and cross-selling these products to its large customer base. To assess ROI, make sure that the revenue from the acquisition * your expected exit multiple exceeds the acquisition price by a healthy margin.

2. **Consolidating market share:** In some markets, you have fierce competitors fighting for every deal. Both companies suffer from higher sales costs, higher churn, and lower win rates. If competitors can join forces, as we saw at VTS*, it can be a value-maximizing event for all shareholders. Freed from bruising competition, VTS has been able to improve its financial performance, raise capital at attractive terms, and refocus its

energy on product innovation. To assess ROI, make sure that the value of your stake in the combined business exceeds the value of your stake in the standalone company.

Even when the ROI is attractive, acquisitions can destroy value due to weak post-merger integration. Any acquisition needs to have a thoughtful post-close game plan across three areas:

1. **Product –** Acquisitions struggle when the acquired product is poorly integrated. Before closing the deal, figure out what you will do with the product from a technology and product roadmap perspective.
2. **Customers –** Acquisitions fail when they disappoint customers. This is especially true in a market consolidation play where you are migrating customers over to your software. Before closing the deal, figure out how you will deliver the news to customers, how you will mitigate churn, and how you will handle the customer migration.
3. **People –** Executives often get excited about a deal but the people who are doing the day-to-day work may not be fully committed. Before closing the deal, you need to figure out the roles and get buy-in from both your team and the target's teams.

Find a trusted leader who will be accountable for building the plan and then owning the post-merger execution. Because the failure rate in M&A is high, make sure to start small. You will learn a lot from your first few deals, some of them will fail, and it will hurt less if the stakes are small.

Lesson 8: Smart vertical software CEOs (re)position their business for multiple exit paths.

Not all software companies are destined to IPO. As a CEO, you need to periodically assess your business and decide what is the right exit path.

IPO: The IPO path requires hyper-growth at scale. You need to be at $100 million+ of ARR and growing over 30%. You need a massive TAM that can support a plan that gets you to hundreds of millions in ARR after the IPO.

For most companies, this starts as the goal but proves to be a tall order. Less than 20 vertical software companies have gone public in the past decade. Most simply do not have the growth rate or market size to support this strategy.

If it becomes clear that you're not on the IPO path, you need to recalibrate. There is nothing worse than burning lots of capital in a reckless attempt to maintain hyper-growth.

Strategic: Once you're off the IPO path, your best bet is to position your business for acquisition by a strategic acquirer. This involves a few key steps:

1. **Identify buyers.** The most likely strategic acquirers are software companies that are already active in your vertical. Identify the publicly traded and PE-backed leaders in your market.

2. **Build relationships with senior executives.** Build personal relationships with the individuals who are most likely to champion an acquisition. Acquisitions are made by people, not by companies. This is typically a business line executive, not corporate development.

3. **Emphasize your strategic value.** Strategic value goes beyond financial value. It is driven primarily by competitive dynamics. Answer the question: "If they buy you, how do you help the acquirer beat their competitors? How do you help them earn more money from their customers?"

Invest time in these relationships. Articulate the strategic value. Wait for one of them to lean in. Once they do, use the inbound interest to catalyze conversations with other strategic and PE buyers to create a competitive dynamic.

Private Equity: Your other exit option is an acquisition by a private equity firm. Because a strategic acquisition is not always on the table, you should be positioning for a PE exit while cultivating your strategic options.

PE buyers are exclusively motivated by financial value and look at a specific set of metrics in a software business. To maximize value in a PE exit, you need to optimize for the following metrics:

1. **Attain as much growth and profitability as possible:** The sum of a company's revenue growth and FCF margin should be as high as possible (ideally above 40 which is often called the "rule of 40"). A company should be cash-flow positive as most PE buyers won't touch businesses that are burning cash.
2. **Achieve high gross and net dollar retention:** Gross retention should ideally be above 90% and your net retention should be above 120%. PE buyers and the lenders that fuel them are focused on gross dollar retention because it gives them confidence in the stability of your revenue.
3. **Demonstrate attractive sales economics:** Your CAC payback should ideally be under 24 months and driven by a scalable sales engine. You can demonstrate scalability by showing 80%+ of your ramped reps attaining 80%+ of their quota.
4. **Maintain high gross margins:** Ideally above 80%. PE buyers want to achieve high levels of profitability when growth slows which is largely driven by your gross margin.
5. **Unlock future growth vectors:** PE buyers will pay a higher price if they are confident in future growth. Show ways that your business can sustain growth during their five-year holding period.

If you've positioned your business well, you can engage both strategic and PE buyers. By attracting as many potential bidders as possible, you can drive attractive auction dynamics and get top dollar in a competitive sale process.

PE Exit Criteria	
ARR	$20M+
ARR Growth % + FCF Margin %*	40%+
TAM	$100M+
FCF	Cash Flow Positive
Gross Margin	80%+
Gross Retention	90%+
Net Retention	100%+

** PE firms differ in their strategy and criteria. To attract the largest number of prospective buyers and the highest valuation, it helps to be a "rule of 40" company (ARR growth % + FCF margin % is greater than 40) and to be cash flow breakeven at a minimum as many buyers categorically won't touch companies burning cash. The goal is to position your business as a high-growth company operating at breakeven or a low-growth company that is highly profitable. We find that a lot of venture-backed companies that struggle to grow also struggle to develop the financial discipline to drive profitability. Unfortunately, this kind of modest grower running at breakeven will attract the lowest interest among PE buyers.*

Lesson 9: Once market leadership is established, enduring vertical software companies focus on deepening their competitive moats.

Market leaders press their advantages to become dominant players in their industry. This is why Veeva has 70%+ market share in the pharmaceutical industry, why Ellie Mae processes

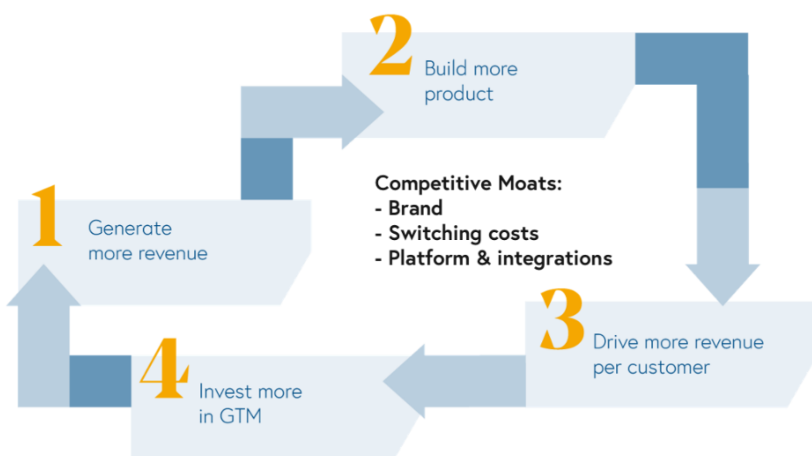
50%+ of all mortgage loans in the US, and why Guidewire and Duck Creek are the undisputed leaders in insurance software.

If you ever find yourself in the fortunate position of being a market leader, don't wait for the next generation to take your throne. Over the years, we've watched vertical software companies use the following strategies to fortify their competitive positions:

1. **Take advantage of scale:** As a market leader, you have more revenue than the competition, enabling you to invest more in product and GTM than your competitors. This is a virtuous feedback loop. Use the revenue to build your layer cake and become the one-stop-shop for customers. Outmaneuver or commoditize adjacent point solutions before they can become real threats. Use your large GTM engine to outsell and out-market your competition. Amplify your brand to win over risk-averse customers who want to buy from the market leader, rather than an upstart.
2. **Increase your switching costs:** Your deepest competitive moat may be making it painful for your customers to switch (even if new entrants have better products or lower prices). We've seen a few smart approaches to driving higher switching costs:
   - **Capture customer data.** Migrating data is painful and the stakes are high if the migration fails. Once an insurance agency has all their customer data in Vlocity,* they're reluctant to switch CRMs.
   - **Encourage third-party integrations**. If your customers have gone through the trouble of integrating your software with their ERP system, it becomes much more difficult to make a switch. Across our vertical software portfolio, companies like Procore* with robust third-party integrations have much higher retention than those without.
   - **Extend across multiple departments.** Instead of a single team making the switching decision, they now need to get buy-in from multiple departments. This is how healthcare software companies like Epic and Cerner stay so deeply entrenched in a hospital despite their shortcomings.
3. **Build a platform**: As we'll talk about in our last lesson, vertical software companies can enable their customers to collaborate with other companies in their industry. This may be the deepest moat in software– by becoming the platform upon which the entire industry does its work, you can unlock powerful network effects.

In the early innings of your company's life, it's all about growth and customer acquisition. But once you've reached a market leadership position, draw inspiration from vertical leaders and work to deepen your competitive moats.

Virtuous flywheel of market leadership



Lesson 10: Great vertical software companies are powerful tools for their customers. The very best are platforms for an entire industry.

Most vertical software companies are used by a single team or a single company. But, there are a small number of extraordinary companies that are used to collaborate industry-wide. These software companies become the fabric for their entire industry. They enjoy powerful network effects and grow to be the most valuable companies in vertical software.

Vertical software companies as platforms

Adobe	Bloomberg	shopify
$220B+ value	$60B+ value	$130B+ value

Adobe achieved something similar in the design industry with its Creative Cloud and has grown to $200 billion+ of value in the process. Bloomberg has become the trading and messaging platform for the most important players on Wall Street and is said to be worth over $80 billion. These companies have become "table stakes" for all companies in their industry.

Shopify* has taken a slightly different approach to building an industry platform. Shopify has focused on the collaboration between its customers and third-party services providers. It has built a $100 billion+ platform by enabling an ecosystem of third-party application developers, website designers, and shipping/fulfillment providers.

There is no easy way to get there. The first step is to build a product that is useful enough to be used internally. As the "single-player" product starts to get widespread adoption, building collaboration functionality makes it possible to switch on "multiplayer" mode.

This is the path that [Procore] is taking in the construction industry. Procore is making it possible for all the key stakeholders in a construction project to collaborate. It is making it easy to build third-party applications that integrate with Procore. The company's long-term vision is for the entire construction process to be run on Procore. Its prize is to be the dominant platform for the $10 trillion-dollar global construction industry.

With a decade of investing in vertical software companies under our belts, we have grown increasingly enthusiastic about the future potential for vertical software. If you're a founder building a software company and are raising capital or have questions about this white paper, please reach out at brian@bvp.com.

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Appendix

*Indicates a Bessemer portfolio company

Publicly Traded Vertical Software Companies: 2U (NAS: TWOU), Allscripts Healthcare Solutions (NAS: MDRX), Amadeus IT Group (XMAD: AMS), Amdocs (NAS: DOX), AppFolio (NAS: APPF), Aspen Technology (NAS: AZPN), Autodesk (NAS: ADSK), BigCommerce (NAS: BIGC), Black Knight (US) (NYS: BKI), Blackbaud (NAS: BLKB), CDK Global (NAS: CDK), Cerner (NAS: CERN), Constellation Software (TSE: CSU), CoStar Group (NAS: CSGP), Duck Creek Technologies (NAS: DCT), Envestnet (NYS: ENV), Fidelity National Information Services (NYS: FIS), Fiserv (NAS:

FISV), Guidewire Software (NYS: GWRE), Jack Henry and Associates (NAS: JKHY), Ncino (NAS: NCNO), Q2 Holdings (NYS: QTWO), RealPage (NAS: RP), Sabre Corporation (NAS: SABR), Shopify (TSE: SHOP), Temenos (SWX: TEMN), Trimble (NAS: TRMB), Tyler Technologies (NYS: TYL), Veeva Systems (NYS: VEEV), Verisk Analytics (NAS: VRSK)

Vertical Software IPOs in Last Decade: Shopify, Mindbody, Appfolio, 2U, Instructure, nCino, Duck Creek, Demandware, RealPage, Fleetmatics, Guidewire, Veeva, Q2, CDK, BigCommerce, Sabre.

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