Stanford eCorner

How to Be a Category King [Entire Talk]

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Al Ramadan and Dave Peterson, co-founding partners of the category-design firm Play Bigger Advisors, share the science behind the strategies that innovators use to create and dominate product markets. They also discuss the marketing concepts for building a brand and identity, and for inspiring customers to see the world as you've framed it.

Transcript

(applause) - Thanks so much Tina. It's a real pleasure and an honor to be back here at Stanford. I spent a wonderful summer here in 1995. That's before a number of you were born. And I really do consider sort of Stanford as my alma mater. So thanks for having us. Me, I'm Al, that's Dave. And the good looking bald guy here is Christopher and he's the third partner of Play Bigger. And we are category designers. And we're gonna talk a lot about category design today as a discipline.

But our hunch is that in this room today there's a number of category designers. Many of you as entrepreneurs are probably category designers you just don't know it just yet. And so we wanna start with sort of a simple thought. Which is that essentially every product or company that we really love exists because of one thing. And that one thing is a legendary entrepreneur created a great product, a great company, and a great category. All at the same time. And we call this the magic triangle. It's this thing that enduring companies really do. Which is to have a product, product design, capability and discipline, a company design piece, and a category design piece. Here are the three pillars of what we call enduring companies.

And many of you are already studying a number of these particular disciplines right now. Especially in the computer science faculty. So agile development is very much something that plays in the product design side of the house. Growth hacking is something that happens definitely on the company design side. In the sense of sales and marketing distribution. And so you're already sort of learning capabilities in those two buckets. But we're here to talk to you about the third pillar of building an enduring company which is called category design. And one of our favorite category designers ^is a fellow by the name of Clarence Birdseye. ^And Clarence was born in the 20's in the United States. And in his earlier years he spent time up in the northern states.

And he had this observation which was the Eskimo's would fish, they would bring the fish out of the water, drop it onto the ice, ice water bond, flash freezes the fish, and then they would take those fish back to their homes. And they would consume those fish over a period of a week, a month, or a year. So long as they stayed frozen. When you defrost it if you liked, that fish, it was as fresh as it was when it started. So that was his insight. That was the thing that he kind of figured out. And of course in the 20's, there wasn't the plethora of opportunity to have fresh foods as we do today. If you live near a farm, you probably went to a market, and that was cool. You got fresh foods. If you didn't, you probably ate canned foods.

And so, Clarence kind of railed this whole point of view around fresh. And he got out and started to talk about the value of fresh foods. And if you think about it, that was the product side, that was the product design piece. He invented flash freezing. It was related to vegetables in that particular case. And he then had to convince all the trucking companies in the United States that they needed to take this frozen food from the farms essentially to the supermarkets. And then he also had to convince the

supermarkets that they should put freezers in. And of course we walk into the supermarkets today and this is what we see. This is called a frozen food isle. In it, you have frozen vegetables which is what Birdseye is famous for.

But you've got pretty much everything else. And so he was a genius at doing product design, company design, and category design to the extent that we all now experience it basically 100 years later. And there's a plethora of foods that are available. And if you look at, you probably can't read the numbers. But I just tell you, this is the lifetime value of this category is probably about a trillion dollars already. And so when you become the leader in a particular category, you do create a ton of value. And so, one of the things that we did, and when I say we, it was more me than Dave. Was to really, and that's because I do math and Dave doesn't do math. He does the genius on the marketing side. We did a bunch of research here around this whole notion of category.

It's new, and it's something that's really topical at the moment. And we invested quite a lot of time and energy and Clarence was one of the examples on the qualitative side of the research. We interviewed more than 100 of the great leaders of technology companies in the United States. We did a whole bunch of reviews around that. Which led to what Dave's gonna talk about in a little bit which is what we call the Category Design Playbook. Which is how do you do category design? If it's a new discipline, what are the things that you need to do to ultimately become what we call the category king? And then on other side, we did a bunch of quantitative research. And this quantitative research looked at every single company founded since 2000, U.S. based with VC backing. And if you do that, you'll find that there's about 8,000 companies that fall into that bucket. Of which about 850 plus or minus are involved in an M&Atransaction.

That's their exit if you like. That's the way they create the value. 75 of them actually make it being public companies. And so these are the two aspects we wanna talk to you today is sort of some our findings related to this research. And we wanna start by giving you sort of what we would call is the Cliff Notes of category design. ^And there's five things we wanna talk to you about. The first one is, the technology industry is very much a winner take all industry. And in fact, in our research which we did. It was called a time to market research. It's available playbigger.com/research.

If you wanna have a look at it. It was about 18 months ago that we first sort of discovered this. That if you take a look at the market cap of the category kings, relative to everybody else in that field of 8,000 companies. There are 35 category kings, ^and they represent 76% of the market cap ^of the text base. ^And if you're the category king, that is the one that leads in the space, you take 76% of the market cap of the category. Think frozen foods, lifetime value 100 years. It's not market share, market cap. So 76% goes to the winner. In this particular research might be a little difficult to see, but there are three cohorts, three euros as we call them. And it's pretty much between 71, 72, and 79 in the middle cohort facebook existence.

So it distorts it a little bit. But 76%, so remember that. The winner takes all, it's 76%. The second thing is is that, we discovered that categories themselves actually have a natural life cycle. And the natural life cycle looks like this. We call it the category life cycle model. And on the X axis, the horizontal axis here you've got time. And what you're looking at in that graphic there is about 15 years, plus or minus. And I'll show you some little bit more detail on the timing here. But it's plus or minus 15 years, and on the Y axis the vertical axis, it's the market cap of that entire category.

So think every single company in the CRM category for example, add up the market caps of all those companies. That is the category value. And what happens is, categories in the first phase kind of, this is probably duh, but it starts out really slow and it takes a while for a category to really pick up. Then in the middle phase it accelerates really quickly and then it'll drop off once the category becomes really mature. Nothing super exciting in that graphic. You've probably seen something like that before in the form of a bell curve. But if you relate it over time it looks like this. The exciting thing was a guy called Paul Borowski wrote a book. And he talks about the number of what he calls providers, explodes in the early phase of a category and then ultimately drops off over time. And if you think about what's happening here, it makes sense that in the early stage lots of competition, not a lot of value in the category itself.

In the middle phase competitors are dropping off, the category's really taking off and in the end phase one company takes 76% of the market share. That's what we call the category life cycle model. ^The third thing we wanted to do ^was we looked at those 75 companies that did go public and we wanted to know was there something related to age in those public companies. And it turns out that companies that go public when they're somewhere between six and 10 years of age are the ones that create all of the value. This is the cohort from 2,000 onwards. And we've looked back, already started to look back through to the 80's and it seems to halt. And Harvard Business Review just ran a big study on this, actually based off of our research that's in the lastest version of the Harvard Business Review. And here's what we found. This is what we call a 6-10 Law, and it is on the X axis again. You've got the years and then we've bend all of the companies into years.

So all of the companies, at for example age seven are created that amount of value in billions. And the way that we measured that was the day after they went public we looked at what their price was, we looked at it what it is today, so the value created since public offering is what you're looking at. And so you can see that companies that go public too early pretty much crater. Companies that go public too late are kind of yearners right? That there's nothing really happening out there. But

this middle spot this sweet spot as we call it in the Harvard Business Review is where all of the action is. And it started getting us to think well okay, so if age is the determinant, we also did something else you'll see in the Harvard Business Review, which is we tried to look at it based on the amount of money the company raised, and there is no correlation. So it's fascinating there's no correlation as it relates to the amount of money you raised as a company. Yet there is a relation as it relates to age. And it started us thinking about well what could possible be driving that phenomenon? ^And it turns out that the phenomenon is when you ^lay these two charts over the top of each other, ^what you see is that the middle section is developed phase of the category life cycle curve is where all of the value gets created. And it makes sense.

These are all the actual companies underneath that graphic that you can see. And it makes sense. And George Lee who is from Goldman Sacks sat down with us one time. Took a look at this. For those of you don't know George, he's the head investment banker there. So he does this for a living. And he said, "That makes complete sense. "That makes complete sense." And the reason is, because public investors are looking for two things. They're looking for growth. And they're looking for a margin expansion or profitability.

And if you think about it, during that middle phase what's happening? Companies are growing really fast. The category's kind of exploding and what else is happening? Number of competitors is disappearing, it's dropping. So pricing pressure goes off. You can then increase your prices, ultimately increase your margins. So that's why this is happening. And the final thing is just on the category science is that categories aren't static. They tend to have these technology cliffs that companies can fall off. In this particular case, this axis at the bottom is about 35 years, what you're looking at. It's the CRM category which stands for Customer Relationship Management. It's a very well known category in technology.

And the current king of the CRM category is? (mumbling heard off screen) Right, sales force. But it didn't start out like that. It actually started out as contact management. You folks weren't alive when this started. Many of you weren't at least. We used to write paper cards they were called filofax. I can see some of the folks in the audience smiling already. We used to take these paper cards and we'd write your name and address on them and we'd put 'em in a file, there was a circular file. And when I wanted to call you I would look up your name in the file and I would call you on a landline, that's how it went. Now I know that's ridiculous for most of you in the room right now.

But that's how it started. And then when the PC revolution came, what happened was a couple of companies, Act was one of them and Goldmine was the other. Essentially automated your contacts. I know this doesn't sound dramatic for you folks in the room 'cause you do it every day naturally on your iPhone's. But they automated it, you then took all your filofax, put it into your PC and there were your contacts. That was the contact management category. Relatively small, but it was the start of this journey. What then happened was, people say, "Well gee, if I've got my contacts "in the computer, whenever I talk to somebody, "why don't I just put notes associated with that "so that I know what's going on with my customers." And ultimately the sales force automation phase of this story started develop and then ultimately Customer Relationship Management as a function took that plus a number of other things that you had to do with your customer. Customer Support Fields, support all of those things, bundled it all together. A guy called Siebel, Thomas Siebel.

Put your hands up if you've heard Thomas Siebel's name. All right, so he was the guy in the middle of this part. And he drove this thing. His problem was. Anyone know what Thomas Siebel's problem was? I'll tell you what his problem was. They had on premise software. It meant that the installations took a long time and were really hard to do. And actually most of them actually never even happened. So along comes this guy called Marc Benioff, and says, "Hey, we're gonna do all that in the cloud." And he ate their lunch completely. And so CRM in the cloud as we think of it today does not have OnPrem software.

And you may not believe this, but OnPrem software was not even a term that anyone invented. You know who invented that? Mark Benioff. Why? 'Cause that was the bad thing over there called OnPrem software. Cloud software was the good thing. And that's your finder's part of the category design things that Dave's gonna be talking about. That's a lot of what you've got to do. You gotta position yourself. And of course we think there's another era of innovation coming here which we call Mobile CRM. And it's kind of an irony also here in the history of Microsoft and Apple. If you think about it in the early 90's and the late 80's, Gates was the greatest category designer of all time.

He created this PC operating system category. Blew up, did an incredible job with the Intel consortium, took over the world basically. And then he invented something called Front Office. There wasn't a Front Office until he invented it and created a set of software tools that you needed as a person in the "Front Office." And that was called Microsoft Office. And then if you go to Front Office. What else have you got, a back office. And so he created software for the back office. And this blue line represents the value investors had in the categories that they developed. Gates went away and Microsoft went nigh' nigh'. Along comes Apple, 98, the "Second coming of Jobs." And he introduces digital music, completely revolutionizes that industry.

iPhones and iPads and you know that story. And again that yellow line up here represents what's happened with Apple's stocks still. So it shows you that when you're a great category designer when you build product company and category together, you can create immense value. And if you're not creating these categories, and you're not in tune with how this plays

out over time, you're gonna end up like the blue line. Okay, so that's the category science. I'm gonna quickly take you through some brain science. This is some really advanced stuff that's being done in this part of the world. About why we make the decisions we do when we're making purchase decisions because in the end businesses ultimately get driven by purchase decisions or choices to use something in the case of Facebook, that's usage. And the first thing is to know is that you might think this is not true, but it is. Which is companies don't live in space.

They don't live over there or down the road. They actually live here in between your ears. They live in your mind. And we've only got certain capacity inside of this CPU up here. And so we need ways to organize all of these companies. And it's called a container. And that container is actually a category. And so, my friend rang me the other day and said, "Hey listen I know there's some snow "coming to Tahoe, I'm flying in from Australia. "I need to get from San Francisco to Tahoe. "What should I do?" My answer was go rent a SUV.

What's an SUV? It's a category right? I didn't tell him which particular type of car, I just gave him a bucket and said, "Go get one of those. "Go ask for one of those." And categories work because it's kind of the way our brain works. We'd like to have a filing system. We wanna put all of the different brands, and products, and companies into that filing system. And ultimately it's the way people discover products and services. Is via this concept of a category. And categories actually manifest everywhere. You may not have thought about it like this. When you walk into a supermarket that's what you see. What is the sign above the isle? They're category definitions.

It's all the soaps, detergents, right? So it's a way of organizing. And if you think for one second that this is a random assortment of products on shelves. And that the store's not organized for a particular way, you're crazy. The milk's always at the back of these places right? Why? You gotta move past all the other categories to get there 'cause they know that's one of the things you're coming in. So categories have been an organizing principle time and memorial. And they're also true in the text base. This is a famous LUMA chart for Big Data Landscape 2015. It makes my head hurt just looking at it. But what are those boxes? Those boxes are categories. Someone has gone through all of the companies in the Big Data space and said, "Hey, that's one of these companies, "that's one of those companies." And when people start to think about, well what do I need for my business, they start to think about, "Okay I need one of those boxes." And then they'll start to choose underneath that, the company.

And so, let's talk about what happens in our natural world today. We get more than 10,000 marketing messages every single day. We are swamped with stuff coming at us and we're very much in an overstimulated society right now. And so, you can't make a decision about any one of those boxes quickly. You just can't. And so what happens is our brain uses a short cut system. It starts narrowing down and speeding up the way in which we make these decisions. And the research here calls them cognitive biases. Many of you have probably already heard of them. But it's not about logic, it's actually about instincts.

And I wanna talk to you about three really important biases that you should know as a category designer. And the first one is the anchoring effect. If I said to you, "Hey listen, "you wanna buy my car?" And you said, "Sure." And I said, "Well it's $5,000." That's an anchoring statement. It's not 50, it's not two, it's five and now we're negotiating on the margin. That's what great category designers do. They get out into the market, they anchor the conversation around what we call their point of view. The world now comes to you. It's a $5,000 thing, it's a 50 or a million dollar thing. The second thing is groupthink. You folks live in this world every day.

When you turn on your social machines, what's happening? You're getting groupthink back to you. If Dave likes a certain beer or he likes a certain type of snowboard, it's more than likely I'm gonna like that snowboard or that beer too because he's a buddy of mine and I respect him. And that's why Facebook and advertising on Facebook is going off the charts right? It's because groupthink and the ability to influence those people in your circle is actually more powerful than anything else other than word of mouth in person. Then the final thing is, once you make a decision to purchase something, it's called choice supportive bias. Once I buy a particular brand, I end up kind of loving that brand forever. And even though it might not be better and someone markets me a better feature, I don't care. I'm in love with this thing. And so these things play a very important role as you go to market. And category designers actually use these brain shortcuts as part of the category design process to lead people to purchase decisions or usage. So it turns out if you go back to that slide which had the 6-10 Law, it turns out that the category growth actually is determined by how fast our brains can change.

And if you peel back underneath that 6-10 Law and you said, "Hey what are the consumer "companies do compared to the enterprise companies?" The answer if the consumer companies are all down the six year end of the spectrum. The enterprise company's at the 10. Because it's one thing to say, "Hey, would you like to learn how to use "Pinterest or Facebook." It's not a huge decision for you. It's an incredible capability. It's another thing if I'm the IT director of Wells Fargo and you said, "Hey I've got a new computer, "you wanna try it out and run your system?" This just takes longer. And so how quickly we can convince someone that they should use this or buy that, is actually the determinant of how fast these companies grow. Especially in this uncertain world. And in our belief that's why conditioning the mind is actually your number one priority as an entrepreneur and as a CEO. This is your job. In addition to product design, yup, that's hard, you gotta get the product market fit and there's a

whole bunch of techniques you're using to do that.

In addition to company designs, sales, distribution, culture, and all of the other things that you need to build a great company, you also have to build a great category. Because if you don't and you're not the category king, you'll be fighting over the scraps. You'll be fighting over the 26% that's left for number two through number 10. So, with that in mind, I'd like to invite my partner Dave up who's gonna start to talk to you about conditioning the mind and the new discipline of what we call Category Design. - All right, thanks Al. I'm Dave. Thank you for having us today. So Al mentioned we have done the research and we created a playbook. And I'd say we didn't really create the playbook. This playbook is something that we have been researching and studying through our 20 year careers as operators.

This playbook merged from certainly all the research and the hundreds of companies we spoke with. For many of the different things that we're working on. And obviously all the clients we've ever worked with. And it was sort of, we thought it would be fun today if we could sort of unlock some of the secrets that these category kings were using to become the kings of their category and these enduring companies that we all read about. So one of the most common things when you think about these category kings and the development of categories we all enjoy today is these designers take us on a journey. And one of the things is kind of a trick. I think most of the time you don't hear about the king or the leader of the category until it springs on you. First time you see Pinterest, it's millions of people are using it. First time you hear about Uber, there's Uber vehicles all over the city. So you kinda hear about it late.

And you feel it late. But the reality, these journey's are hard. They don't happen overnight. There's teams of people working very very hard to kind of bring what they see in their heads and turn it into a great product and a great company. In one of the companies that we did a lot of research on, we wanted to kinda unlock the kings. You know, what happened? What's the story behind the story? This is not our graphics but it's a great thing. You can Google the Airbnb story. Hear what happened. And one of the big aha's for me, and I didn't realize this is did anybody know where the air in airbnb came from? - [Voiceover] Air mattress. - [Dave] Yeah, three of them.

Right, and they rented them for 80 bucks. And what else, where'd the breakfast come from? - [Voiceover] Bed and breakfast. - [Dave] Right, and they advertised three beds and breakfast for $80. And three people showed up and that insight led to a very long path, to what we now consider a brand new alternative in our life. That alternative is another thing as Al said. Another place to go. Another choice when you go visit or actually now, when you go live in another city. In somebody elses home or somebody elses room. And that's Airbnb and they created this category of private hospitality. It started with three air mattresses.

Long journey. So what we wanted to do is share a little bit about that journey. Again, we'll try to pull all this into the next 20 minutes. But believe me, if you were an entrepreneur and you ever walk down this path, it could take years, in some cases decades to really see the fruits of all this labor. So when you look at categories, the one thing, again they all have in common is they start with an insight. That aha moment. And I'm guessing many of you have already had that aha moment. And you're staying up late at night or talking to your friends, or maybe not telling any of your friends. Right, you don't want them to know. And that aha moment actually Ann Mira-Ko our partner over at Floodgate.

She calls that the technology or market insight. And it starts there. And once you have that aha, and you basically haven't slept and you've been kinda using all your classwork to fill in all the blanks on how to create a great company or a great product. One of the toughest things to do is answer one of the most simple questions. Which is, this insight I have, what problem does it solve? And I can I explain this problem? And have people understand it, like I was explaining it to a five year old. And it's an interesting question. We have seen companies and worked with companies that have been wrestling with this question for years. The problem with answering this question is a whole bunch of other questions come up. I've had this insight. Is my insight solving a problem that's an existing problem with a really crappy answer? Which is in this case, if you think about Uber.

You know, taxi's could get you from point A to point B. But they kinda smelled funny, and they were unreliable, and unsafe. Or am I trying to convince people of a brand new problem they didn't even know they had. Now I think Airbnb is a good example. I don't think anybody thought there was a crisis in the hospitality industry and we needed to stay in somebody elses home. I don't think there's a big dilemma there. But they convinced us, they conditioned us to understand there's another alternative. And the list of problems go on and on and on and on. And these could keep entrepreneurs up at night. But understanding the problem is the first step because as soon as you ask what the problem is, the second question is what is your secret sauce for solving that problem? What is the answer? And again, is it a market insight? Did something happen? Broadband back in the day opened up social media and today marketplaces can be literally invented overnight, connecting supply and demand.

Did something happen in the market that allowed you to take advantage and capitalize and create a new company or a new product? Or again, is it that tech insight. We did a lot of work around Diane Green and what happened at VMware. And

she's very humble. She would say, we just accidentally created the whole virtualization category. I don't believe that, they're way too smart. But there was a technology there they didn't understand what problem it was solving. And so my guess is, if you're in this room, there's probably a lot of plutonium creators. A lot of answers, a lot of products get created without a full understanding of where the problem is. There's old cliche technology looking for a problem. I'd say this, if you don't remember anything else that AI and I talk about, and you're running around with your new product or your new tech insight, take one second, slow down, and think about the problem you're trying to solve with that technology.

And believe me, people will understand what you see a lot better and they'll understand the value of your product. If you just slow down and understand that problem statement first. So we thought we'd have a little fun. Again, we do a lot of research and I'm kind of a category geek, so I'm always thinking about whenever I see a company. I saw a new company today, it was called, it was on demand gasoline, what was it called? Fill it or something like that. Yeah Fill, is there really a category for people need gas delivered. That's the first question I asked him. What problem is that, I know I'm out of gas or low on gas but how big could that possibly be? But anyway, every time I look at a company I think about problem they're solving. So here's a couple of well known insights. Well known problems.

And they were solved. And the people who solved them are also extremely well known. They built legendary enduring companies in huge categories. And you'll probably recognize some of them. Louder guitar that was Les Paul. I want to surf in cold water longer, that was Jack O'Neill. Invented the wet suit. Which turned into a life style brand. I already talked about stinky taxi's. The bottom one though here, this one sort of emerged.

It was right in front of my face every time I went shopping and was driving in my car. I didn't even realize it was a problem being solved which is just because I'm tired, doesn't mean I'm thirsty. Anybody have a guess what company's behind that? 5-hour energy. Just because I'm tired doesn't mean I'm thirsty. And if you read the story about how 5-hour energy emerged, it was pretty classic. I'm tired, I don't wanna drink coffee. I don't wanna drink a giant can of yuck. Right? Red Bull or nitrous powered Gatorade or any of that crap that you don't even know what you're drinking. In fact, I don't know what's in this 5-hour energy either. I actually, I had one right before I stepped up here.

So that explains a lot. But it's a pretty amazing product insight. But it also led to a new category. And how do you know it's a new category? One of the tells is it's not stocked next to energy drinks. It's called an energy shot. And they put it at point of sale right before you leave the Safeway. And they put it right next to the cigarettes in gas stations. It's a new category. It doesn't live next to energy drinks, or coca-cola, and coffee. A lot of insights there.

I hope those questions maybe will help you see the world through a different lens. But once you understand the problem in your answer, you gotta think of your name. And one of our favorite questions to ask is if you solve the problem that's been keeping you up at night perfectly, what category are you in? Are you a Sea Panda or are you a Killer Whale? I would rather be a killer whale. But if you think about category names, I think category naming has got a bad name. A lot of three letter acronyms, right? And about sections inside of press releases. Nobody even knows where they come from, random bs generators, all that kind of stuff. But there is a science and a psychology behind this name. AI mentioned the name of the game was this cognitive bias. How can you create a new space, a new drawer in the kitchen, a new file in the file server in your head to go to to understand the value or what problem I'm solving with a particular product. That's what this category naming world does.

It gives you a new place, an energy shot. There's a lot of intuitive work going around the name and why it's important and it needs to be functionally intuitive for users so they know exactly how often they're gonna use your product every day. It has to be functionally intuitive for budgeting for CFO's. If it looks like something that lives in the budget that's a good thing. Especially in the B to B space. But naming is a lot of art and a lot of science. And AI mentioned earlier on the CRM curve, these evolutions. And Mark Benioff is the master. He truly was. And I was around, I'm gonna date myself too.

When Mark Benioff in sales force came out and started talking about something called an ASP. And I remember I was working at Mercury Interactive. And we were making a lot of money testing failed Siebel implementations. That was our business it was great. Siebel 7's coming, you're gonna buy a lot of mercury because you had to test that stuff and it really didn't work that well. And Mark came out and he didn't say "I have a better sales force automation "tool than Tom Siebel." And if you have seen CRM as sort of a funnel in a date base. There's not a lot of depth in it. Instead he said I have something new. It's called an application service provider, ASP. Didn't even say cloud.

It was a new delivery mechanism for software. And then he also had to do the hard, talk about Clarence Birdseye. He was out there convincing Wall Street about something called software as a service. People are gonna buy software differently. Before you had to buy software in a perpetual license or a perpetual license of Siebel could cost you$25,000,000 up front, U.S. cash. Where Mark Benioff came out with salesforce.com and it was almost coin operated. Put some money in and out comes your CRM. So think about that. He went from ASP a new delivery category, SAS a new model, a new revenue model, and then ultimately that led to the cloud.

And we'll talk more about what Mark did to really really stick it to all the folks in this world called On Premise which he did invent that term. It was not called On Premise before Benioff came out and started sharing with the world a new alternative to software. And you can't talk about category design without mentioning Steve Jobs. And again, if you remember Al's chart, we saw what happened when Microsoft took their foot off the pedal. And what happened when Steve came back to work. In one of the great case studies we admire is what happened when Apple, and in particular Steve Jobs, launched the iPad. And I don't know if you remember, do you remember when Microsoft had that PC tablet thing? It didn't work that well. Newtons were early. A lot of failed attempts at this kind of thing in between a phone and a computer. But when Steve Jobs launched the iPad, he stood on stage and he said "There's a new category, a new place.

"Something that's not a phone, "and something that's not a computer. "And it needs to be in your life." Creates more engagement than your Mac, your computer. And it does a lot, it has a lot more horsepower than your phone. He put that in our heads and made it okay to buy four or five billion dollars worth of stuff. It was not a coincidence. He didn't say I got a brand new device and it's so much better than anything you've seen before. So you got your name, you got your problem, you got your plutonium. Now, how do you share with the world who else is participating in your category? One of the most common questions we hear, is there ever such thing as a category of one? It doesn't exist. Because there's always an ecosystem. There's always a supply chain.

There's always people, processes, and technologies required beyond your capabilities in your own company to fulfill the category promise. To solve the problem. No one company can solve that problem. And so a blueprint in an ecosystem is a way call it your mall map. It tells you everything inside the category you need to solve and where we fit within that answer. And one of the best examples of this was what happened, I think it was last month at F8. Where Mark Zuckerberg released the new ecosystem in blueprint for Facebook and the world of social media and communications. And what this blueprint does is it has a huge psychological impact. Remember Al mentioned all those biases, anchoring effect. This is the new world right? And he let us inside his head.

We didn't have to guess where we're going anymore. He said, this is exactly where we're going. We're here now, and there's a whole bunch of new stuff on Facebook that you're gonna enjoy. Five years from now you're gonna see enhancements to all the stuff you're already enjoying today through video and messaging. And in the future, reach under your chairs and you're gonna find your new virtual reality set. We're gonna live in a virtual world. Augmented reality. He shared the world his vision, his category. And now he's gonna shepherd us along. And the feeling you have when you see this is enlistment.

And that's what category designers do, they enlist you in a cause. So, every category designer, specifically the category kings that we know and those entrepreneurs who are kinda locked in our minds has a point of view. And a point of view is often mistaken for messaging, or marketing, or even positioning. And it's all of those, but it's more and it's bigger than that. A point of view establishes what you stand for. It establishes what you stand against. It attracts the people you wanna attract into your business, into your ecosystem, into your category. And it repels the people you don't want to do business with. And the point of view is built around a framework. It's been around for a long long time, framing the problem.

Painting clear ramifications for not solving that problem. Sharing the vision for the future. And outlining the business outcomes and what to do now. So has anybody ever stayed up late and seen an infomercial? Like the Zoomba, that thing that crawls around on your floor and sweeps up everything. Have you ever noticed how infomercials start? Black and white, right? That's always the problem, they frame the problem up front and then it turns to vibrant colors. The vision for the future. And then operators are standing by. This framework is also, and I would say it used to be used in politics, now they just yell at each other. But it used to be used really well in politics. And I admired it, and we've all experienced people could truly frame problems and own the agenda.

And many of you may be studying this too if you're working in the world of debate. All you have to do is Google agenda setting theory. And there's this whole notion of how you can get into the brain by framing the problem in such a way that you must have the answer. So the point of view starts with that story, but that's not the whole story I guess around a point of view. It's just one piece of it. The second piece is a point of view has to make you feel a certain way. There's a famous saying, "Nobody will ever remember what you say, "but they'll always remember how you feel." So you recognize these logos? One is Southwest Airlines, the other is United. So raise your hand if you think Southwest Airlines has a point of view. A lot of hands are up. So how do you know? 'Cause you feel it.

They like you. They don't hate you for flying with them. You could do things like change your flight or maybe take a bag with you and not get charged. They smile. You can feel welcomed in their category and in their brand. They have a point of view. And you could argue whether the flights are a little bit cheaper right? That's the better words. They're not gonna get you there any faster. But that's why they have unfair competitive advantage over companies like United. They have a point of view, it makes you feel a certain way.

Apple versus Microsoft, same thing. I was in the Apple store on a Monday at 2 o'clock in the afternoon. There was a still a

big line up to the genius bar and people look like they're having a good time standing in line at an Apple store. And then I think it was in the Stanford mall, and then you look right across, there's that empty Microsoft store. All those guys wearing t-shirts, kinda wondering what happened. It's different, point of view versus better products. There's also characters right? Larry Ellison, you can have your own opinions but everybody knows Larry Ellison, he was on Oprah Winfrey. There's a book written about Larry Ellison that said that the title of the book was, "The Difference Between God and Larry Ellison: "God Doesn't Think He's Larry Ellison." That's a famous category designer right there. Mark Benioff, when he started he was nuts. He was hanging around with the Dalai Lama.

Everybody thought he was nuts. There's no way you can have a no software software agenda. Impossible. But yet, now he's a philanthropic leader, a visionary. He brings a lot of good to this world. So these characters are part of the point of view too. And when you think about these companies, this big idea you have, these tech insights, think about the whole story that we told about you. Because this is where AI mentioned these companies and categories that live inside your head. Create a story and stick in that head. And create your co-founders, your founders, the people we admire.

They're all part of the same act. And of course we mentioned this before, but the ultimate point of view that we admire the most is the no software software agenda that Mark Benioff launched. It's absurd to think that you can tell the world no software when you're a software company. But it's kind of hard to compete with. Especially if you're On Premise software. So the last piece we wanna talk about is this notion of a lightening strike. How do you know you're involved or on the back end or on the targets of a category designer? You're gonna feel it. They hit the world with something called a lightening strike. And these lightening strikes are purposely built to move the mind. To condition the mind, to set the anchors.

To convince you that the purchase you made it was a great position. To convince you that there's a king that you need to run towards that king and follow the crowd. It's on purpose. They target you, they hit you, and they influence every influencer around you. And every time you see a Tech Crunch article or every time you read a big profile on Fortune magazine, or you start to hear about the big buzz around these companies. I don't know if they're all doing it on purpose, but there is a fair number of these category designers are out there purposely targeting you to make you excited about their point of view, their story, their products, their tech insights. This is a little bit inside baseball, but once you get into these bigger companies or even a small startup that starts to grow, what happens is companies start to form silos. These functional silos. Sales, marketing, products, channels. They operate independently of each other.

We've all worked with those companies where the sales person is selling something, and the marketing teams are marketing something, and the CEO is saying something completely different on the earnings call. Well lightening strikes are used by category designers to line the company for one and one campaign. One and one point of view. One visionary statement. And we see it all the time. You just might not realize these are lightening strikes. And they are. Dockercon, if you're in the app world, you know dockercon. They're pulling everybody in, their enlisting people to join their cause. It's almost religious.

Has anybody went to one of their events? It's quite a performance they put on. A lot of respect for these guys. Virtual reality. I think Mark Zuckerberg did his best Oprah Winfrey and handed out the VR kits. And it literally forced people to see what he could see through the Virtual Reality kits. And then has anybody been in San Fransisco during sales force or dream force? It's not that much fun right? Try to get a hotel. Right, yeah, yeah. There's this hotel I remember, it's right across the street from me. It's usually like $99, you wouldn't even go in there and there's like 750 bucks a night during Dreamforce. And they had such capacity they brought in a cruise ship and parked it off the Embarca-dero right? And again, it was this feeling, remember the groupthink? When you 150,000 people come in to dreamforce to listen to Mark Benioff and the entire ecosystem speak about the future of cloud, that's the king and that's on purpose.

So maybe, again, some of the thoughts we had around this journey is if you're at a Dreamforce, or if you're at a big conference, or if you see that news, or you read about that pr, maybe you're just Ubering around in an Uber, this will give you a different lens on the world. It might give you a different way to look at the world as all these categories that are around us, or more importantly, if you have that big tech insight or if have that big market insight, these are some tools that you could use to apply to making sure people understand what you see. And then the last thing is, AI and I, would like to invite you to join us on our category design journey. If you liked or are interested to hear more about anything that we just talked about. There's about 230 pages coming out on this in a book that's being released on June 14th. And we'd love it if you'd grab it, took a read, and send us an email, let us know what you think. So with that, AI come on up. - Just one thing on this, I showed you the Three Muskateers photo with me Chris, and Dave. There's one other Muskateer, his name is Kevin Maney. He's a Newsweek writer and actually, Kevin was the one who helped us write this.

So on that point, let's have some questions. I bet there's some questions in this room. So put your hand up, we'll try and get a mike to you and we'll try and repeat the questions for the folks who are looking from the web, Tina. - [Voiceover] So I'll start off. So if you are in a category, do you have to be the one who designs it in order to win it? Or can there be a category that's designed by someone else and you come in and eat their lunch? - A lot of examples of both actually. - Repeat the question. -

Oh sorry, the question is, if you're in a category, do you need be the person who designed it to win it? Our short answer is yes. If you're in a existing category fighting for market share market cap, and you didn't invent it, you better ask yourself who did. Somebody else created that category. But what actually happens a lot, and I don't if you remember the earlier days of social business when companies like Jive and Yammer were coming out.

They're pretty hot companies. One went public, one got acquired by Microsoft for over a billion dollars. They paved the road for companies like Slack and Atlassian. Who are now taking all their work and turning it into, and probably monetizing even a bigger category around whatever ends up being called collaboration. So there's a lot of steps in the road, this journey we talked about. But I think the most important take away is if you didn't design it you should ask yourself who did. And then maybe start to look at the bigger picture and say, "Is the problem we're solving the full category? "Or is it one piece of a bigger problem?" So that's how we look at it. - Any other questions? - [Voiceover] What are some of the new categories that you are seeing emerge right now? - What are some of the new categories we're seeing emerge right now? There's literally dozens of them. We meet with probably 40 or 50 companies each year. The one I think that's most topical and we actually talked about this in one of the other Stanford courses, is this question of what's the front office now? And it's an incredible battle that's unfolding.

You've got drop box in one particular case. Which is if you like the file system, you've got Slack which is the company that's redefining how we work as a team. Collaboration of Atlassians. another one specifically targeting the technology. We think that the front office is being redefined in front of us right now. And it's a giant battle that's happening. And some of the players are Google with all of the G drive and the Google docs. Microsoft Office, and he has three companies in that space. Including Skype and their file sharing system. So that's one that's a really hot one.

Another one, as a sort of a super category is Big Data in and of itself. We showed you the slide with Big Data for example. There's about 40 categories in that sort of super category that are unfolding right now. And the way that Big Data and certainly the vertical applications of using Big Data is another one. Another one we talked about in a recent newsletter is this machine learning and some of the applications in machine learning. And one company that we work with, actually Stanford students who graduated last year. A company called Clear Metal. Metal, if I can say it as an American. And Clear Metal sort of revolutionizing how shipping happens and shipping containers. And so that's a vertical application machine learning.

We've got another company in the HR space that's doing the same thing. But as you see in all of these charts, there's just this incredible explosion. And what normally happens as we said in that category in the model is, it's starts out with product market fit. A dozen companies start to get into the fight, and ultimately the category definition and the things you expect from that category to deliver become clearer somewhere in that two to four year range. And then one of those companies becomes that though later and ultimately rides off with all the money. Yes sir. - [Voiceover] I have a question. If you're a new company and you have some things happen to your customers and things like that to maybe press releases to get known, would you, from that lightening strike point of view, would you hold off on that until you had like a whole handful of them? - So the question is if you're a young company and you're wanting to communicate to the world through press releases or whatever else, how does the lightening strike model apply to that? I think Dave's the master of that, so won't you answer that. - I don't know if I'm the master. I think the answer is in the earliest stages of a company there's a lot of work to be done to get what they call product market fit.

We've probably all heard that before. And there's a lot of iterations. A lot of ideas, a lot of problems that were testing used cases, you're testing with customers. And as well as growing your company. Right, that company design happens a lot too. And I think it's very fair to let that take it's due course and operate, and learn, and not necessarily declare you have the answer if you don't absolutely know you have that problem pegged. You know exactly how you're tech or market insight solves that problem. Because sometimes if you go out a little too early you might set the table for somebody else. But again, you kinda go back to that balance on that triangle. That's why that triangle matters so much.

So I don't know if there's a magic rule at what time. But any time you feel like you really have seen the same used case come through and the same problem being solved with your technology, it's a pretty good indication you probably have at least cornered a thought on what to call that category and what to name it. - And I'll just point to the company Clear Metal as an example. These three guys out of a garage basically came up with this machine learning algorithm to figure out where to put shipping containers. And so, that early and they're talking to in that particular case in enterprise, we definitely helped them with category design and bedded into the product and the company as it was evolving. So it is absolutely something you should be doing in the early days. It will inform how your press release sounds. It'll inform what your website looks like. In that particular case we coined a sort of a soft toss at the category called predictive logistics. We're not quite sure if that's the right name for it just yet.

But they're out evangelizing that, and if it spins from there then we think they'll get there. Yes ma'am. - [Voiceover] Thank you for your time, really insightful. So I'm curious, what kind of category do you belong to and how did you design such a category? - So the question was, what kind of category do we belong to and how did we design it? Do you wanna tell that story Dave? (Dave laughs) - That's a great question. It's right there. The category that we belong to and we're designing is category

design. And there's a longer story. And it started for me, 20 years ago. Because we always looked at solving marketing at that time, problems differently. through point of views and lightening strikes.

But it didn't really coalesce into the full kind of discipline until the last probably five years. And that's where we did all the research and we started realizing all of our gut, you know, operator instincts. You know when we're athletes on the field, how to pattern. On a sad day it's like, "Wow, I do the same thing "in every company I've ever worked for." On a good day it's "Wow, this is a play "that we don't see a lot of other companies running." And so there's a pretty long story in there but a lot of it came from our operator days. And then certainly the research and then the three years it took us to get all that out of our heads and into our blueprint and our playbook. And got it codified and locked up. So I don't know what version of that is, but that's mine. - That's good, there's a bunch of other questions here. Yes sir. - [Voiceover] How did the three of you meet, and more importantly, how did your relationship come to this three of you creating this company being able to work together? - How did the three of us meet and how did the company come together? It's a great story.

I was the CMO of a company called Macromedia. Put your hands up if you've heard Macromedia in the audience. All right, and that's good. Well I was the CMO of that company. And Dave and Christopher, the two other founders of Play Bigger were actually marketing consultants to Macromedia at the time. And that's how we got to know each other. And we created this category called Rich Internet Applications. It go co-opted by pretty much every major company in the text base out there. And we had a point of view called Experience Matters. That great experience is a great business.

And if you was a designer or a developer or delivering a great experience, it's gonna be a good thing for your customers. So that's how it sort of all started. We all went off in our own directions, as always happens in business. We then sold Macromedia Adobe, Dave and Chris were doing something inside Mercury Interactive. Dave then spun out and was the CMO somewhere. As we came back together about five, actually over five years ago now. And we decided that there was a lot here that we had in our gut and intuition that needed to come out. And we had to put this, what we now call category design, we did not call it category design back then, into play. And we decided that we'd put a company together called Play Bigger, and ultimately that's how it all started. Any other questions from the floor? - Great, well this was totally inspiring and very educational.

Please join me in welcoming and thank you. - Thank you so much. (applause)