Stick to Your Lane or Expand?
Navigating the Strategic Dilemma in SaaS

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Introduction

Ed Chung, CEO of TechnologyOne, recently declined a $500 million opportunity to expand into manufacturing, citing a lack of expertise and the importance of focus. This decision serves as a springboard for understanding a key challenge in SaaS strategy: how to weigh the potential rewards of vertical expansion against its risks.

Below is a breakdown of common opportunities and pitfalls associated with vertical expansion, and the key questions SaaS companies should consider when looking at vertical expansion.

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The Case for Vertical Expansion

Delivering Great Value Through Complementary Offerings

Vertical expansion enables SaaS companies to address adjacent customer challenges, enhancing their value proposition while fostering deeper customer loyalty. When aligned with core competencies, these expansions create synergistic solutions that strengthen relationships and drive competitive advantage.

Veeva Systems began with CRM solutions tailored for the life sciences industry. Recognizing the need for integrated tools in the sector, Veeva expanded into content management and regulatory compliance with Veeva Vault. This vertical expansion addressed critical customer pain points and reinforced its market leadership by creating a seamless, industry-specific suite of solutions.

Salesforce initially focused on CRM but identified opportunities to provide industry-specific tools. By developing Salesforce Health Cloud, the company expanded its offerings to address the unique needs of healthcare providers, capturing greater market share and becoming a trusted partner in specialized industries.

Building an Ecosystem to Deepen Customer Relationships

Expanding into adjacent verticals allows SaaS companies to construct interconnected ecosystems, meeting diverse customer needs and making their platforms indispensable.

Toast started as a restaurant-focused point-of-sale system. Through vertical expansion, it strategically added services like online ordering, delivery management, and payroll processing. These additions created a comprehensive ecosystem for restaurant operators, fostering customer loyalty and unlocking sustainable revenue streams.

Shopify began as an e-commerce platform but expanded vertically with services like Shopify Payments, fulfillment solutions, and a third-party app marketplace. These enhancements transformed Shopify into a seamless, all-in-one ecosystem for merchants, deepening engagement and ensuring long-term retention.

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Achieving Competitive Differentiation

Strategic vertical expansion allows SaaS companies to differentiate themselves in crowded markets by offering specialized solutions tailored to specific industry needs.

PROCORE®

Procore Technologies began as a construction management platform but expanded its offering to include specialized tools like project financials, quality control, and safety management. These additions allowed Procore to address a broader range of pain points within the construction industry, giving it a competitive edge over general project management solutions.

Clio

Clio initially focused on cloud-based legal practice management software, offering basic case management. Over time, it expanded to include time tracking and billing systems tailored specifically to legal workflows. These additional features reinforced Clio's leadership in legal technology by addressing the unique operational challenges of law firms.

mindbody

Mindbody started as business management software for wellness providers, such as fitness studios. It later expanded its functionality with features like appointment scheduling, integrated payment processing, and a marketplace for client management tools. These enhancements helped Mindbody stand out by meeting the specialized needs of the wellness services industry.

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Navigating Risks in Vertical Expansion

While the potential for growth is immense, SaaS companies must be mindful of the inherent challenges.

Regulatory & Operational Pitfalls

Expanding into regulated or operationally complex industries introduces significant hurdles if expertise or preparation is inadequate.

 zenefits

 INTUIT

Zenefits expanded from HR software into insurance brokerage, a highly regulated vertical. Its failure to navigate compliance requirements in this new industry led to reputational damage and leadership restructuring, demonstrating the risks of entering unfamiliar regulatory environments.

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Dilution of Focus & Overextension

Poorly planned vertical expansion can overextend resources and compromise the value delivered in core markets.

GROUPON™

Groupon diversified into new verticals such as marketplaces (Groupon Goods) and travel services. These expansions, while aligned with its goal of offering more deals, strained its resources and operational focus. Challenges with inventory management and slim margins detracted from Groupon's ability to strengthen its daily deals business.

wework®

WeWork attempted to expand beyond co-working spaces into verticals like residential housing and education. These ventures were poorly aligned with its core strengths and overextended its resources, contributing to operational inefficiencies and financial instability.

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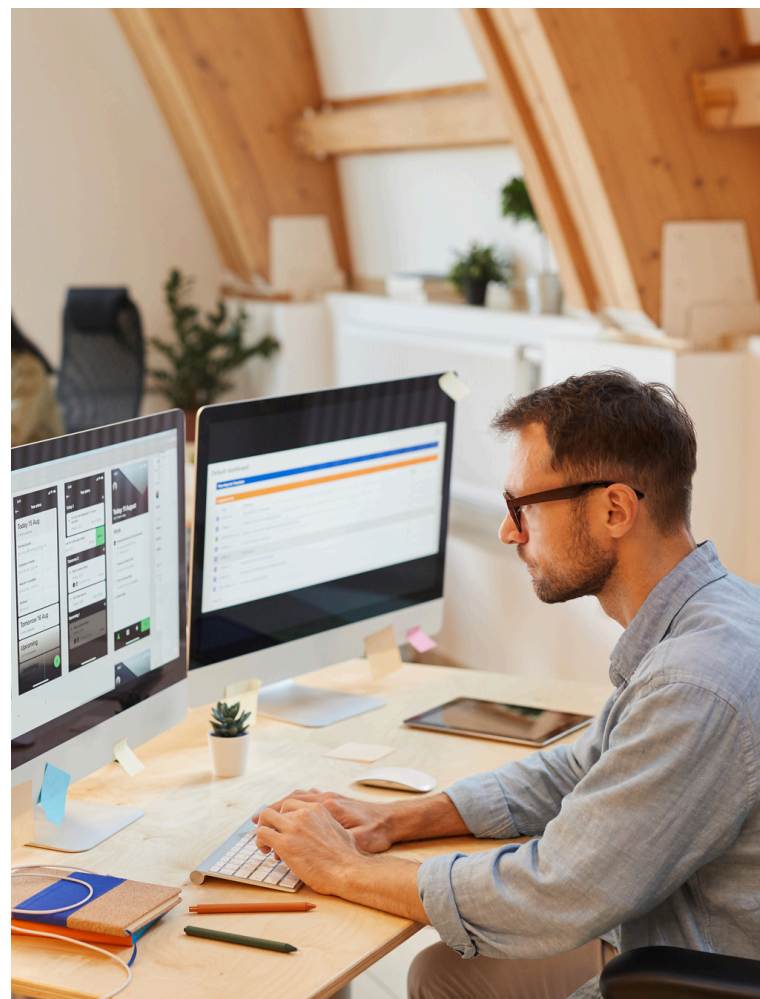
High Upfront Costs & Financial Risks

Expansion often requires significant investment, and failure to achieve product-market fit during either vertical or geographic expansion can pose severe financial risks.

Quibi launched as a short-form streaming service, a vertical expansion into media and entertainment. Despite massive investments in content and marketing, it failed to capture a significant audience, leading to substantial losses and eventual shutdown.

Beepi an online used car marketplace, rapidly scaled into new regions to capture market share but faced high operational costs. Its inability to efficiently manage resources while expanding led to its failure.

Clinkle attempted to expand its mobile payment platform by adding services without first solidifying its core offering. Poor financial management and a lack of clear product-market fit compounded its struggles, resulting in collapse.

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Strategic Takeaways for SaaS Leaders

Vertical expansion is a double-edged sword. Success stories like Veeva Systems and Toast show the value of leveraging core strengths and adopting a phased, customer-driven approach. On the other hand, Zenefits and Groupon illustrate how regulatory missteps and resource strains can derail growth.

Navigating the risks associated with vertical expansion—such as diluted focus or complex regulatory landscapes—requires clarity. This clarity begins with asking the right questions

Is this new vertical aligned with our core competencies?

Companies must assess whether their existing expertise and capabilities translate naturally into the new vertical. Misalignment can strain resources and lead to mediocre execution. For example, does your technology stack, sales team, and domain knowledge give you a clear advantage in solving problems within this space?

Does it solve meaningful problems for our existing or target customers?

Expansion should address real, adjacent challenges that customers care about. Conduct in-depth research to identify pain points, validate demand, and determine whether your solutions will be seen as valuable improvements rather than nice-to-have additions. A vertical move should deepen relationships, not create friction.

Do we have the operational bandwidth and resources to execute effectively?

Vertical expansion demands focus, financial investment, and leadership bandwidth. Companies must consider whether they have the team, capital, and processes in place to deliver successfully while maintaining excellence in their core business. How will this expansion affect existing operations, priorities, and timelines?

Have we accounted for regulatory, cultural, or competitive complexities?

Expanding into a new vertical often introduces unfamiliar regulatory requirements, market dynamics, or cultural barriers. Leaders must anticipate these complexities early and develop strategies to mitigate risks. Do you have a thorough understanding of the industry's compliance landscape, local market expectations, and competitive players?

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Developing an Actionable Plan for Expansion

Equally important is developing a solid, actionable plan. Successful expansion demands deliberate steps: conducting thorough market research, understanding regulatory challenges, and ensuring that leadership bandwidth is not overstretched. Expansion for the sake of growth alone often leads to missteps, but expansion guided by strategic insights can be transformative.

A successful expansion strategy begins with **market validation**—understanding the growth potential, customer needs, and competitive dynamics of the new vertical. Leaders must clearly identify whether the opportunity aligns with their business strengths and address meaningful customer challenges. Without this clarity, expansion risks becoming a costly distraction.

Beyond validation, execution pathways matter. Leaders must determine the most effective way to enter the vertical:

Building In-house works best when companies already possess strong domain expertise and can extend their existing solutions incrementally.

Acquiring a Company accelerates entry and can provide instant credibility, but it requires cultural integration and a clear roadmap for ROI.

Partnerships with established players offer a low-risk way to test the waters, sharing expertise and resources while minimizing upfront investment.

The final element is **operational readiness**. Companies often underestimate the strain vertical expansion can place on leadership focus, product teams, and customer success operations. A phased approach—starting with pilot programs and measured rollouts—can minimize risk, test assumptions, and ensure scalable execution.

Bridging Insight with Action

At Emerging Strategy, we specialize in helping companies address the very challenges outlined above. From validating market opportunities and benchmarking competitors to identifying execution pathways, our services provide SaaS leaders with the clarity needed to make confident decisions. Whether it's assessing a new vertical's growth potential, navigating regulatory complexities, or developing a phased expansion plan, we equip businesses with the actionable insights they need to turn strategy into success.

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