Hubspot: inbound marketing and web 2.0 flashcard

Case 3: HubSpot: Inbound Marketing and Web 2. 0 HubSpot is a dynamic and promising startup that has recently reached its 1, 000 customer milestone. The company, led by founders Brian Halligan and Dharmesh Shah, offers an intuitive and easy-to-use marketing software that acts as a tool for customers to spearhead their ' inbound marketing' campaigns. The company is an evangelist of ' inbound marketing' where companies try to pull prospective customers toward a business and its products through the use of Web 2. 0 tools such as social media and search engine optimization.

With this, HubSpot argues that the rules of marketing have changed and that traditional marketing plays, or ' outbound marketing' where companies traditionally bombards its target market with messages through traditional means like TV or cold-calling to generate interest, is currently broken. Did the " rules of marketing" changed? As mentioned earlier, HubSpot argues that the rules of marketing have changed; however, in my opinion, I think " evolved" would be a better term. To that extent, then yes, I agree that the marketing playbook has evolved. With the emergence and ever-growing presence of the Internet or Web 2. , there is strong competition between different channels of media for the attention of consumers and as a platform to get information, and by the looks of it, Web 2. 0 is winning – according to a 2010 Forrester Research, " the average US online consumer spends as much time online as he or she does watching TV offline" (1). HubSpot has taken notice of this trend and huge market opportunity, and offered a suite of marketing software to initiate and measure ' inbound marketing' strategies for customers. From this trend, I think inbound marketing is indeed the answer to the evolution in the rules of marketing.

As more and more consumers use the Internet to get information, inbound marketing offers an extremely effective and cost-effective way to attract potential customers and generate enough interest to convert leads to sales. Customers, customers, customers Initially, HubSpot's sales force would entertain all leads that come their way given their position as a start-up; however, as the company grew and its customer base grew, the company started filtering leads, establishing algorithm for the leads ranking them by quality and weeding out the bottom 50%.

From this and how the company was presented in the case, it looks like HubSpot is a highly metric-driven company. The approach that HubSpot is a good strategy that focuses on quality and emphasis on long-term growth. However, I think that given the company's position as a start-up, I don't think they can afford to weed out customers yet. As a recommendation, in addition to the free software that they offer such as the Website and Social Media grader, perhaps they can offer a 1 month free trial for their main product – potentially transforming most of the leads to high-quality leads. (1) http://forrester. om/rb/Research/understanding_changing_needs_of_us_online_consumer %2C/q/id/57861/t/2 Should they narrow their target? HubSpot was able to attract a diverse set of customers, from small business owners dubbed as " Owner Ollies" to marketing people dubbed as " Marketing Marys". Further, HubSpot also uses an additional metric to segment its customers, Business-2-Business (B2B) customers and Business-2-Consumer (B2C) customers. As the company continues to grow and mature, HubSpot is wondering if they

should focus exclusively to a particular segment in order to grow faster. Based on my analysis, HubSpot should focus more on Marketing Marys.

As per the tables below, although Marketing Marys have a high acquisition cost and takes 9 months for the company to achieve beak-even point per Marketing Mary customer, profitability in the long run grows at a significantly high rate, out-profiting a Owner Ollie customer by $500 after 18 months and as much as $2000 after 24 months. In order to maximize profitability for Marketing Marys, HubSpot needs to lock them in; hence, long-term contracts would be best to do this. To justify the long-term contracts, HubSpot is to add value-added services to its product for Marketing Marys.

Although I recommend that HubSpot focus more on Marketing Marys, this focus will not be exclusive – the company is to keep its Owner Ollies customers. What I suggest is that HubSpot will focus a significant amount of its resources targeting Marketing Marys, perhaps around 70-80%, while the remaining would be for Owner Ollies, since this particular type of customer has a much simpler and easier acquisition process. Product and Pricing Strategy HubSpots did a great job differentiating its products as it has learned more about its customers.

They offer more features for HubSpot Marketing in order to justify the higher monthly price, as well as the simple and user-friendly features of the HubSpot owner. However, as the company looks to grow further and faster, perhaps differentiating their product further by offering a product for larger customers would help. For it's current pricing strategy, I think the Owner Ollie segment is very price sensitive, and as such, I think HubSpot's current

price for them is good enough, while I think that they can squeeze some more out of a much less price sensitive Marketing Mary segment.

In addition, I think the software-as-a-service pricing model is working for both Marketing Marys and Owner Ollies; however, to avoid the problem of customers cancelling in the first few months after getting the initial value of HubSpot's products, the company should lock them in with an annual contract. In addition, since I think the value of HubSpot's products are intrinsically high in the first few months of usage, perhaps structuring the price such that customers will pay more in the first few months and decrease the monthly payment as customers continue to stay, with a minimum payment cap.

The decreasing pricing strategy can also act as a loyalty reward for loyal customers. Analysis Cost/Profit Analysis | | Owner Ollies | Marketing Marys | | Cost of Acquisition | 1, 000. 00 | 5, 000. 0 | | | | | | Initial Fee | 500. 00 | 500. 00 | | Ongoing Fee / month | 250. 00 | 500. 00 | | Number of months to break even | 2. 0 | 9. 00 | | Profit per month after break even | 250. 00 | 500. 00 | | | | | | Number of customers as per Dec 2008 | 694. 00 | 255. 00 | | Profit per customer after 12 months | 2, 500. 0 | 1, 500. 00 | | Profit per customer after 18 months | 4, 000. 00 | 4, 500. 00 | | Profit per customer after 24 months | 5, 500. 00 | 7, 500. 00 | | Total profit after 12 months | 1, 735, 000. 00 | 382, 500. 0 | | Total profit after 18 months | 2, 776, 000. 00 | 1, 147, 500. 00 | | Total profit after 24 months | 3, 817, 000. 00 | 1, 912, 500. 00 | | | | | | Takeaway | Lower margin, but significantly higher| Much higher margin | | Owner Ollies vs Marketing Marys posts | | | | big profits, especially in the short | | | | term. | | | | Much more profitable in the long-term | | | | assuming

HubSpot can keep them | | | | | | Assume number of customers as per Dec 2008 was acquired at Dec 31, | | | | 2008.

Hence billing for all customers starts at 2009 | | | Pros/Cons Analysis Marketer Marys | | B2B Companies | | | Pros | Have marketing background | Pros | Derives more value from Inbound Marketing, hence B2B | | | | | customers have more justification to buy HubSpot products | | | Relatively fast learner vs Owner Ollies | | Lower churn rate | | | Have more money to spend | | More customers | | | Higher margin | | | | | | | | | Cons | Hard to reach | Cons | Needs more attention, and by extension can potentially have | | | | | higher maintenance cost? Although consulting is paid. | | Higher acquisition cost | | Longer decision-making cycle | | | Longer selling cycle | | | | | | | | | Owner Ollies | | B2C Companies | | | Pros | Significantly high customer base – 73% of HubSpot's customer| Pros | Has good Web 2. experience, less attention needed | | | portfolio | | | | | Much bigger market | | | | | Low acquisition cost | | | | | Easy to sell | | | | | Derives more value from HubSpot products | | | | Cons | High churn rate | Cons | Higher churn rate | | | Low margin | | |