

Six Winning Strategies for HubSpot's Emerging Markets



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HubSpot and The Challenge:

Implement a sustainable go-to-market strategy in the emerging markets of Brazil and India

Challenges

Trade agreements, investment risks, and policy concerns related to their business in the emerging markets

Identifying and implementing a viable go-to-market strategy

Purpose

Evaluate HubSpot's LTV:CAC ratio in the Brazilian and Indian emerging markets

Optimize the cost and pricing structure by increasing the LTV:CAC ratio to 4 times or greater

Propose internal and external strategies based on the data-driven insights



Six Winning Strategies for HubSpot's Emerging Markets

Methodology:

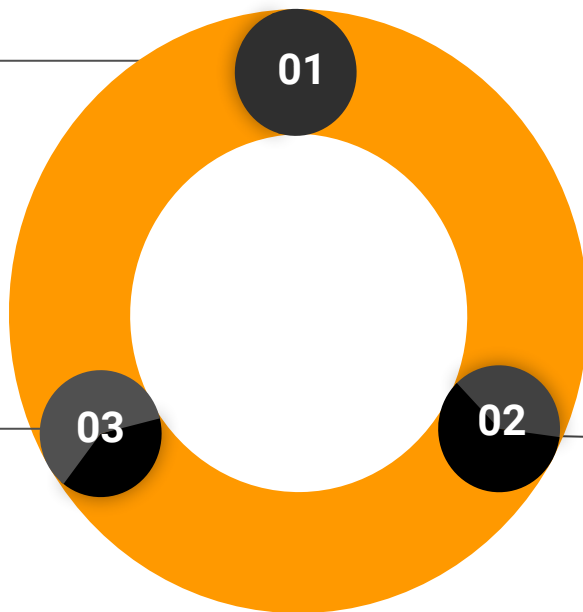
The path to building our six strategies

Data Preparation

Data cleaning and wrangling, descriptive statistics, industry and company size segmentation.

Strategy Formulation

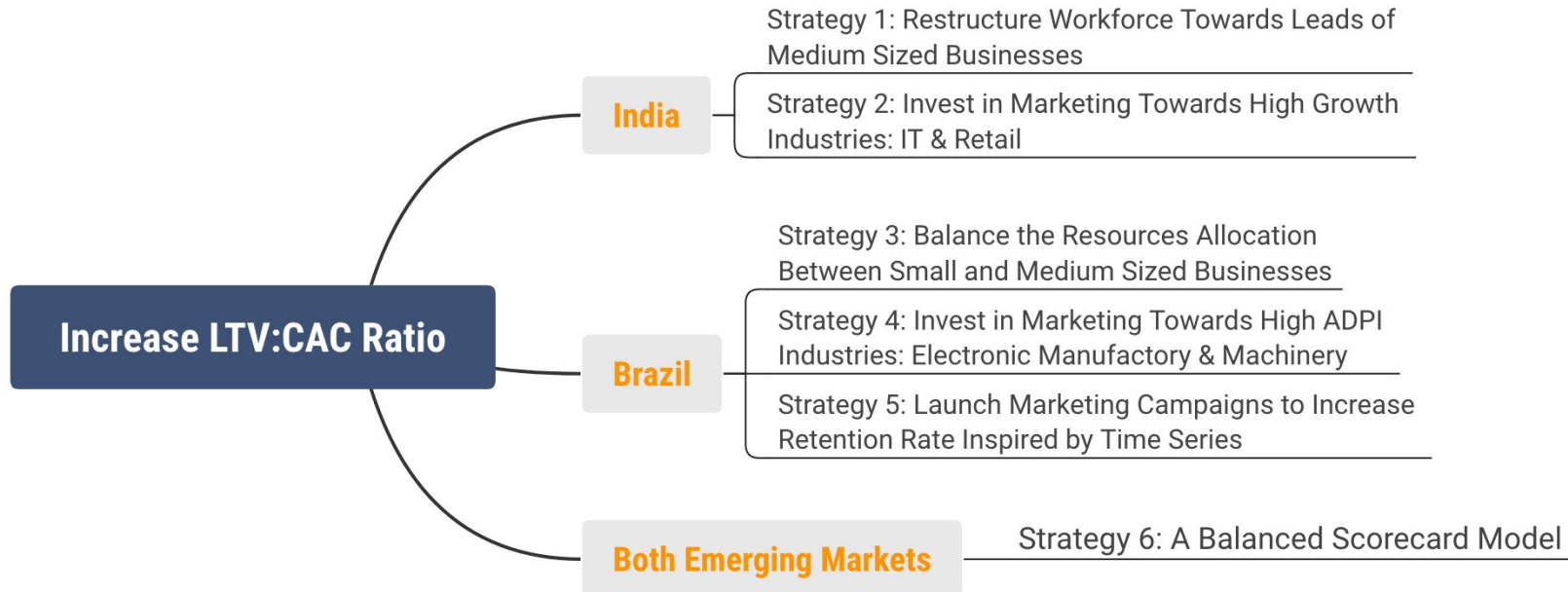
Secondary research that supplements our graphs. Implementation of a Balanced Scorecard Model for Brazil and India.



Data Analysis

Calculate HubSpot's current LTV:CAC ratio, exploratory data analysis in Tableau and R, correlation, time series, and decision tree models.

The Roadmap

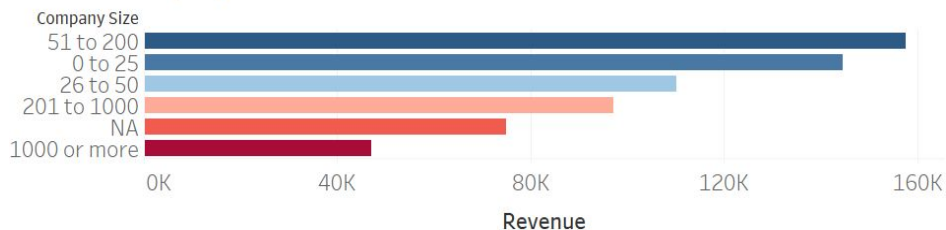


Strategy 1: Analysis

Indian Market Company Size

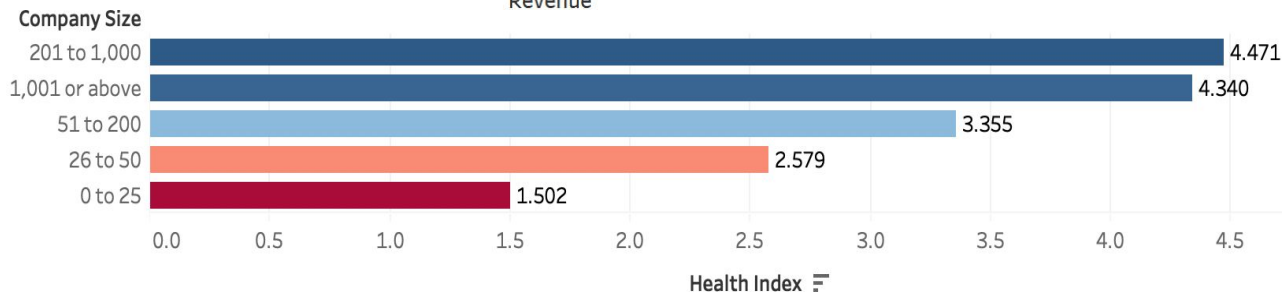
Source of Current Revenue

Hubspot is receiving most of the revenue from companies with less than 200 employees



Health Index Comparison:

Target Customer



Growth in India

- 15% growth of new businesses registered rate in India
- Medium-sized businesses to contribute 47% of India's GDP by 2020

Strategy 1: Recommendations

India Market Company Size

Focus Compensation Reward towards High Health Indices

1. Increase bonus for acquiring companies with 51 to 200 & 201 to 1000 employees
2. Restructure compensation breakdown from 50:50 to 70:30 base salary to commission ratio

Increasing Marketing Budget in Indian Market

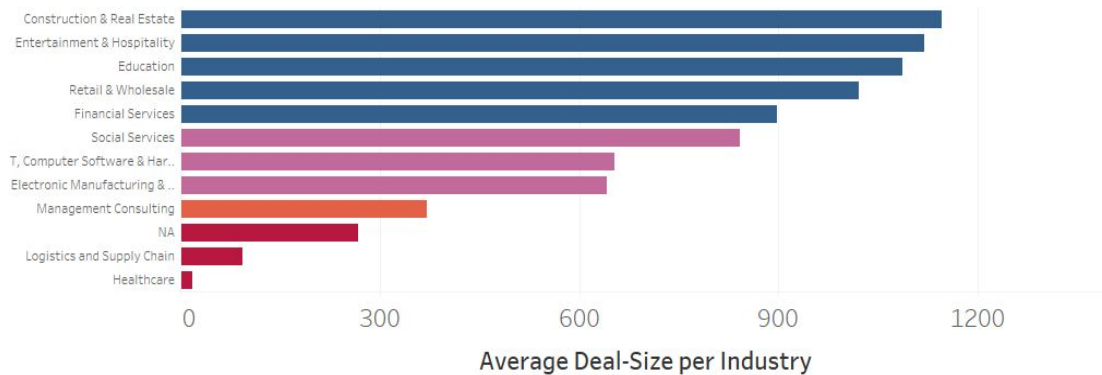
1. Online campaigns (discount to invite partners/referrals or long-term contracts)
2. Adjust headcount of sales reps to medium-sized businesses for retention and customer acquisition

Strategy 2: Analysis

India Market Industry Evaluation

Construction & Real Estate Industry provides Hubspot the highest ADPI.

IT, Computer Software & Hardware industry does not perform as highly despite the larger proportion of customers.



HIGHEST PERFORMING ADPI INDUSTRIES

1. Construction/Real Estate
2. Entertainment
3. Education
4. Retail
5. Financial Services

LOWEST PERFORMING ADPI INDUSTRIES

1. IT, Computer Software, & Hardware
2. Electronic Manufacturing
3. Management Consulting
4. Logistics and Supply Chain
5. Healthcare

Process:

Categorize Data



Calculate ADPI



Prioritize Segment

Strategy 2: Recommendations

India Market Industry Evaluation

WHAT DOES THE INDIAN MARKET LOOK LIKE?

FAST GROWING ECONOMY

MASS DIGITAL ADOPTION

POOR MARKETING IN STARTUPS

WHO IS THE CUSTOMER BASE?

80% *IT, Software & Hardware*

High Growth Industries: IT & Retail

Retention

Retention through Personalization

1. Weekly personal check-in prioritizing customers in IT and Retail
2. Regularly training customers on utilizing the product for business

Acquisition

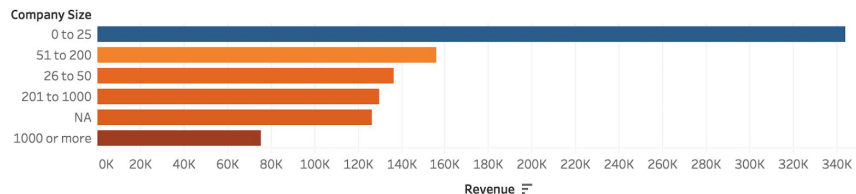
Tailor message for priority industries

1. Bridge towards digitalization
2. Affordable solution for sustained growth for IT startups

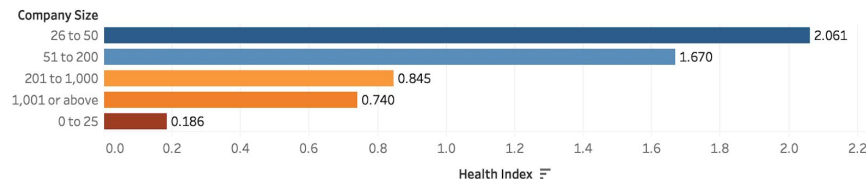
Strategy 3: Analysis

Brazil Market Company Size

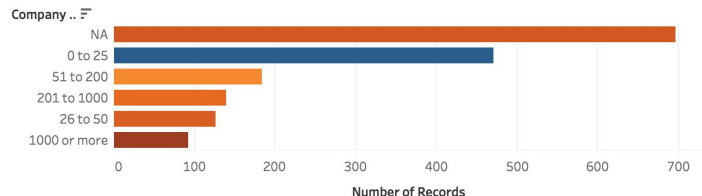
Sum of Revenue by Company Sizes in Brazil



LTV:CAC by Company Sizes in Brazil



Sum of Customers by Company Size in Brazil



Small-Sized Companies (0-25 employees):

- Generated the majority of the revenue and has the largest customer base
- However, the health index (LTV:CAC ratio) ranked the lowest
- CAC across company sizes does not vary much, so the main reason is the lowest customer lifetime value

Medium-Sized Companies (26-200 employees):

- 26 to 50 employees have the highest LTV:CAC ratio, and 51 to 200 employees ranked second
- Customer base of medium-sized companies is smaller than that of companies with 0-25 employees

Operation Dilemma:

- Source misallocation of revenue and customer base

Strategy 3: Recommendations

Brazil Market Company Size

Medium-Sized Companies

Adjust Commission Structure

- Higher commissions placed on medium-sized companies
- Incentivize through promotions for achieving targets

Value Added Services

- Tailor service features to address personalized customer needs and assists businesses with marketing strategies
- Introduce team collaboration modules and project management tools

Small-Sized Companies

Cross Selling

- Cross-sell a broader suite of products to the same customers to decrease CAC and churn rates
- Offer new products while augmenting the value of the existing products

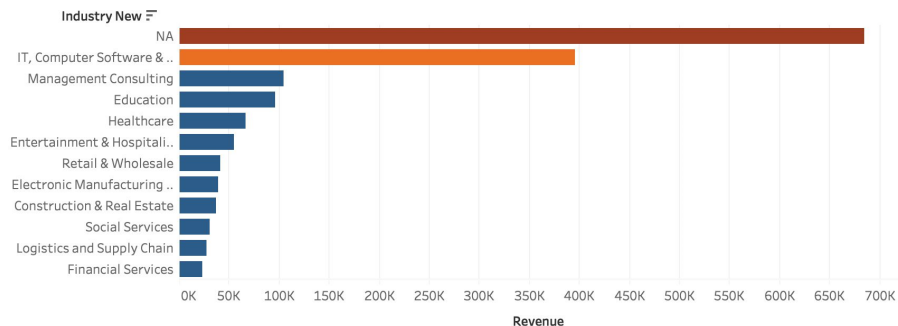
Engagement Enhancements

- Offer frequent training programs
- Have customers practised and expert for HubSpot's products and service

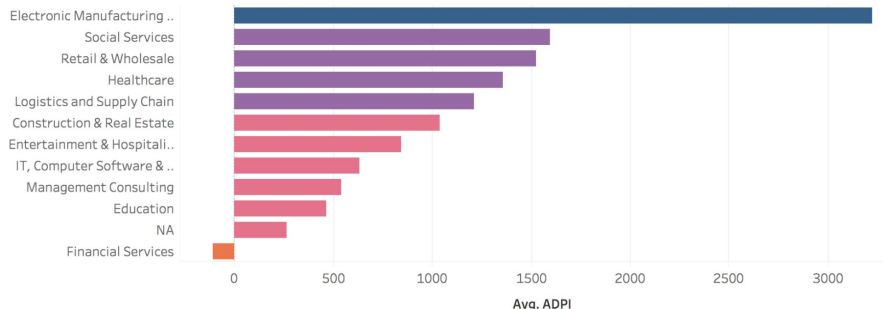
Strategy 4: Analysis

Brazil Market Industry Evaluation

Highest Revenue Industry: IT, Computer Software & Hardware



Highest ADPI Industry: Electronic Manufacturing & Machinery



IT, Computer Software & Hardware

- Spirit of technological innovation - “Latin America’s largest startup ecosystem”
- Increasing IT professionals and STEM sector employment

Electronic Manufacturing & Machinery

- Brazilian taxation policies benefit manufacturing operations and machinery
- Manufacturing primed for increased growth in Brazil due to more AI being introduced into machine operations

Strategy 4: Recommendations

Brazil Market Industry Evaluation

IT, Computer Software & Hardware

- Introducing personalized and value added services to increase customer lifetime value, E.g. data governance and management optimization
- Modularizing the service workflow to decrease the cost of maintaining and acquiring customers

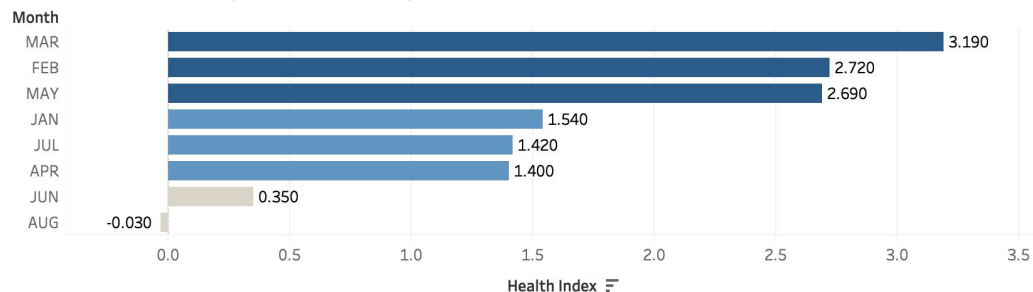
Electronic Manufactory & Machinery

- Increasing the commission proportion for sales reps towards this specific industry
- Promoting marketing training services through partnership with government investment department to enlarge HubSpot's brand impact in local market

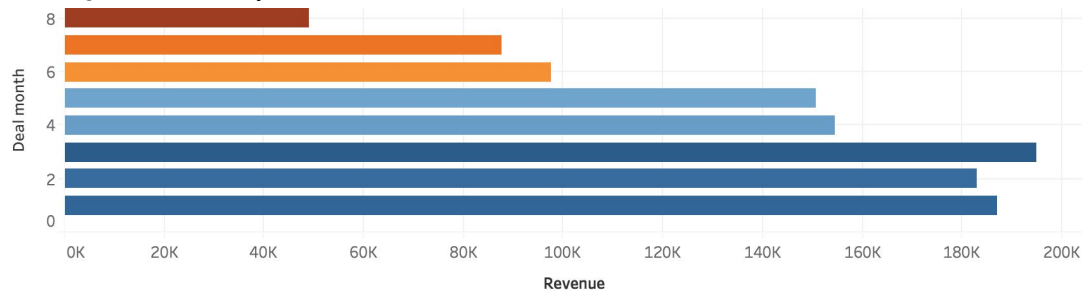
Strategy 5: Analysis

Brazil Market Performance Time Series

The health index (LTV:CAC ratio) in 2018 varies by month



Average revenues by different deal month



HIGHEST PERFORMING MONTHS

1. March
2. February
3. May

LOWEST PERFORMING MONTHS

1. August
2. June
3. April

In addition, discounts play an insignificant role in customer acquisition.

Strategy 5: Recommendations

Brazil Market Performance Time Series

Marketing Campaigns & Workforce

1. Grant more discounts for subscriptions renewal to retain customers
2. Seasonal staffing model that places higher headcount of representatives during high-demand months

Efficiency during Slow Months

1. Customer reunion with existing customers
2. Net Promoter Score surveys and on-site visits
3. Advertisement campaigns and active networking for customer acquisition

Strategy 6: Analysis

A Balanced Scorecard Model

Statistical significance tests:

- P value: 0.05
- Confidence Interval: 95%
- Method: ANOVA F test
- Sample Time Range: 2018 Jan-Aug

Statistical significance tests for the three revenue indicators:

Company Size

Result: p-value = 0.00128 << 0.05

Reject the H0.

The business revenues are significantly different over different company sizes.

Summary:

```
> aov.size = aov(Revenue~CompanySize, data = sales_data)
> summary(aov.size)
```

	Df	Sum Sq	Mean Sq	F value	Pr(>F)
CompanySize	4	3.113e+07	7781451	4.529	0.00128 **
Residuals	736	1.265e+09	1718249		

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Time Series

Result: p-value = <2e-16 << 0.05

Reject the H0.

The business revenues are significantly different over 2018 Jan-Aug.

Summary:

```
> aov.time = aov(Revenue~Deal_month, data = sales_data)
> summary(aov.time)
```

	Df	Sum Sq	Mean Sq	F value	Pr(>F)
Deal_month	1	8.300e+07	8.3e+07	83.84	<2e-16 ***
Residuals	1433	1.419e+09	9.9e+05		

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Industry

Result: p-value = 0.0805 > 0.05

Fail to reject the H0.

The business revenues are NOT significantly different over industries.

Summary:

```
> aov.industry = aov(Revenue~Industry_New, data = sales_data)
> summary(aov.industry)
```

	Df	Sum Sq	Mean Sq	F value	Pr(>F)
Industry_New	10	30056902	3005690	1.7	0.0805 .
Residuals	277	489777070	1768148		

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BY COMPANY SIZE	INDIA		
	Company Size	Health Index	Scoring
	201 to 1,000	4.47	10.00
	1,001 or above	4.34	9.71
	51 to 200	3.36	7.50
	26 to 50	2.58	5.77
	0 to 25	1.50	3.36
BY INDUSTRY	Industry	ADPI	Scoring
	Construction & Real Estate	1,145.42	10.00
	Entertainment & Hospitality	1,118.54	9.77
	Education	1,087.09	9.49
	Retail & Wholesale	1,020.06	8.91
	Financial Services	897.70	7.84
	Social Services	842.53	7.36
	IT, Computer Software & Hardware	652.85	5.70
	Electronic Manufacturing & Machinery	642.08	5.61
	Management Consulting	371.55	3.24
	Logistics and Supply Chain	94.19	0.82
	Healthcare	18.87	0.16
BY TIME WINDOW	Month	Health Index	Scoring
	MAR	9.14	10.00
	APR	3.00	3.28
	MAY	2.85	3.11
	JAN	2.77	3.03
	FEB	2.22	2.43
	JUL	1.97	2.16
	JUN	1.93	2.12
	AUG	0.82	0.89

BY COMPANY SIZE	BRAZIL		
	Company Size	Health Index	Scoring
	26 to 50	2.06	10.00
	51 to 200	1.67	8.10
	201 to 1,000	0.85	4.10
	1,001 or above	0.74	3.59
	0 to 25	0.19	0.90
BY INDUSTRY	Industry	ADPI	Scoring
	Electronic Manufacturing & Machinery	3,224.00	10.00
	Social Services	1,596.70	4.95
	Retail & Wholesale	1,521.33	4.72
	Healthcare	1,357.35	4.21
	Logistics and Supply Chain	1,212.20	3.76
	Construction & Real Estate	1,035.07	3.21
	Entertainment & Hospitality	840.06	2.61
	IT, Computer Software & Hardware	633.05	1.96
	Management Consulting	537.22	1.67
	Education	462.87	1.44
	Financial Services	(111.08)	(0.34)
BY TIME WINDOW	Month	Health Index	Scoring
	MAR	3.19	10.00
	FEB	2.72	8.51
	MAY	2.69	8.43
	JAN	1.54	4.84
	JUL	1.42	4.44
	APR	1.40	4.39
	JUN	0.35	1.10
	AUG	(0.03)	(0.09)

* Health Index: LTV/CAC ratio; ADPI: Average Deal-size Per Industry

Strategy 6: Recommendations A Balanced Scorecard Model

- Design Procedures
- Benefits
 - Improve the overall business performance for HubSpot's emerging markets

For potential customers:

- Optimize the resource allocation
- Focus on the more profitable customers
- Prioritize different orders

For existing customers:

- Evaluate the current performance

- Use Case Example
- Limitations and Mitigations

Conclusion

What we've covered...

Our process and methodology

Our Goal to increase LTV:CAC ratio to 4

Impact: 6 Strategies for Brazil and India
to Increase Revenue, Deal Sizes,
Retention Rate

Looking to the future...

Convert qualitative assumptions and limitations into quantitative results by incorporating more data into the BSM.

Refine the LTV:CAC ratio by adding more specific information about the revenue retention rate and marketing/sales spend.

Appendix

Health Index Calculation Process Example

Emerging market total: India + Brazil

2018 YTD: 2018/1-2018/8

LTV = 372.58 USD

- 1) $\text{ARPC} = \text{total revenue}^* / \text{customer count} = 638,868.86 / 1,173 = 544.64 \text{ USD}$
- 2) $\text{Gross Margin\%} = (\text{total revenue}^* - \text{total cost}^*) / \text{total revenue}^* = (638,868.86 - 209,631) / 638,868.86 = 67.19\%$
- 3) $\text{Revenue Retention Rate} = 1 - [(\text{ending} / \text{starting})^8] = 1 - [(5308713.432 / 5320652.54)^8] = 1.78\%$
- 4) $\text{LTV} = \text{ARPC} * \text{Gross Margin\%} / (1 - \text{Revenue Retention \%}) = 544.64 * 67.19\% / (1 - 1.78\%) = 372.58 \text{ USD}$

CAC = 178.71 USD

- 1) Total Sales & Marketing Spend
= Sales rep Cost (8 months of the year) + Marketing Spend (20% of total spend) = 167,705 USD + MS
Total = sales cost / 0.8 = 209,631 USD
- 2) Total Customers Acquired = 1,173 (in customer dataset)
- 3) $\text{CAC} = \text{Total cost} / \text{customer count} = 209,631 / 1,173 = 178.71 \text{ USD}$

* Total revenue = $\text{Sum}[(8 - \text{deal month} + 1) * \text{MRR}] = 638,868.86 \text{ USD}$

* Total cost = total sales & marketing spend = 209,631 USD

LTV / CAC = 372.58 USD / 178.71 USD = 2.08

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“Thank you!
Any questions?”