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HubSpot: Inbound Marketing and Web 2.0

> *None of [the old rules of marketing] are true anymore. The Web has transformed the rules, and you must transform your marketing to make the most of the Web-enabled marketplace of ideas.*
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> — David Meerman Scott, author of *The New Rules of Marketing and PR*

Business was good at HubSpot. Founders Brian Halligan and Dharmesh Shah were thrilled with the progress their young company had made in the two years since they began their journey to convince corporate America that the rules of marketing had changed. To be successful in the marketplace, HubSpot needed to be much more than just a software company. Its founders had to become evangelists, preaching a new way of doing business that would fundamentally change how marketers reached their customers. To their great pleasure, Halligan and Shah were finding a willing audience for their ideas. HubSpot was now considered a thought leader in the Web 2.0 space, coining the term "inbound marketing" to describe marketing strategies and practices that *pulled* prospective customers toward a business and its products, through the use of Web 2.0 tools and applications like blogging, search engine optimization, and social media.

Halligan and Shah realized that their business was at a crucial juncture. They had just reached the noteworthy milestone of 1,000 customers, attaining this level of critical mass by practicing what they preached. HubSpot had built its business by turning its back on traditional marketing methods and was solely using innovative inbound techniques to acquire customers. Looking ahead, the founders wanted to accelerate their growth rate and increase profitability. Ironically, they were grappling with many of the same issues that their customers faced when implementing inbound marketing practices.

Halligan and Shah realized that they would need to work through these issues in order to achieve their goals for the company. First, they would need to decide which customers to serve, pulling the best opportunities from the diverse pool of customers who were contacting them. Second, they would need to make some decisions about their current pricing model to entice new customers to the company and to maximize the profitability of existing customers. Third, they would need to assess whether they could achieve enough scale through inbound marketing efforts, or whether they needed to supplement their inbound programs with traditional, interruptive outbound programs. This was more than a test of HubSpot as a company; it was a test of the inbound marketing business philosophy. If HubSpot couldn't scale its own business using inbound marketing, then how could it convince its customers that inbound marketing would work for them?

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Founding HubSpot

The two HubSpot founders met at the Massachusetts Institute of Technology (MIT). As early and eager students of Web 2.0, Halligan and Shah recognized the transformative power the Internet possessed for changing the way small businesses operated. After graduation, Halligan joined Longworth Venture Partners, a venture capital firm with an expertise in technology. As he worked with start-up companies, he recognized an issue with which they all struggled—how to harness the Internet to build a business. Halligan, like many of his clients, came from a traditional sales and marketing background, working for the high-tech companies Groove Networks and Parametric Technology Corporation. However, at Longworth, he began to realize that the traditional marketing and sales methods he had previously employed were losing their effectiveness in the new Web 2.0 world. Shah also grew up in the technology sector, holding a number of management and development positions in technology companies. Prior to forming HubSpot, Shah was founder and chief executive officer (CEO) of Pyramid Digital Solutions, an enterprise software company and the winner of three Inc. 500 awards, which was acquired by SunGard Data Systems. Shah also authored OnStartups.com, a top-ranking blog and online community for entrepreneurs.

Halligan and Shah founded HubSpot in 2006. With Halligan's marketing, sales, and venture capital expertise and Shah's technological knowledge and experience as a successful entrepreneur, the two were a winning combination. Halligan became the CEO and served as HubSpot's evangelizing front man. Shah became the chief software architect and focused on product development. On the strength of their business plan, Halligan and Shah attracted premier financial partners. After initially self-funding the business, Halligan and Shah raised $5 million from General Catalyst, a Cambridge-based venture capital firm, in 2007. Less than a year later, the team raised an additional $12 million from Matrix Partners, a venture capital firm with offices in Boston and Silicon Valley. For a young start-up, HubSpot had a solid financial foundation.

Halligan and Shah strove to create a distinct culture at HubSpot. They headquartered the company near MIT in Cambridge, Massachusetts, a hotbed of activity for high-tech start-ups, and they staffed up with young, eager MIT graduates who were immersed in Web 2.0 culture. The HubSpot office buzzed with energy. The sleek, minimalist architecture contrasted with the animated and passionate young team, who craved a fast pace. The team battled over business with the same gusto that they battled over the last slice of pizza.

Inbound Marketing

HubSpot built software products that helped companies execute inbound marketing programs to supplement or replace their traditional outbound programs. In the current environment, outbound marketing's effectiveness was diminishing as consumers, feeling bombarded by the daily deluge of commercial messages, began tuning out. Increasingly, direct mail, trade shows, and telemarketing were yielding less new business. In contrast, companies were finding that search engines, blogs, and social media were generating new business at higher rates. These communication programs were more consistent with the inbound marketing approach. As HubSpot explained on its corporate blog:

> Outbound marketing is about pulling people away from their dinner, or family, or TV and interrupting their lives. Do you really think you are important or interesting enough for them to want to talk to you instead of doing whatever they were doing when you interrupted them? They have not invited you into their home, and they certainly do not happen to enjoy being interrupted. Instead of spending your whole day interrupting people and hoping they pay attention, try setting up a blog and writing interesting content, so that people want to hear what you have to say and come find you when they're interested in your products.

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Inbound marketing is a collection of marketing strategies and techniques focused on pulling relevant prospects and customers toward a business and its products. Inbound marketers offered useful information, tools, and resources designed to attract prospective customers to the company during the time when prospects were actively engaged in a search for a particular product or service. The informative content that the inbound marketer produced was used to entice prospects to interact with the company and begin a relationship with it. As HubSpot's vice president of marketing Mike Volpe explained, "Instead of interrupting people that don't care, why not help those who want what you're offering to find you? We have found that building interesting tools is a more effective marketing tool than doing advertising. Things like this get people curious and draw them in." This new approach to marketing complemented the way consumers were actually making purchasing decisions: by using Internet search, online blogs, and social networking sites like Facebook and Twitter to learn about products and services before they bought them. HubSpot preached this new way of marketing:

> Instead of interrupting people with television ads, inbound marketers create videos that potential customers want to see. Instead of buying display ads in print publications, they create their own blog that people subscribe to and look forward to reading. Instead of cold calling, they create useful content and tools so that people call them looking for more information. Instead of driving their message into a crowd over and over again like a sledgehammer, they attract highly qualified customers to their business like a magnet.

To be maximized, inbound marketing required three distinct skills. The first was the ability to write compelling content that would attract customers to the business. According to HubSpot, this content had to be useful to customers and not just a promotional message:

> Whole Foods publishes recipes, profiles of their vendors, forums and a lot more. Across all of these mediums they use the right tone. Their content is useful first, and promotional second, not the other way around. This means that their customers find them when they want to know how to make oatmeal cookies, when they want to learn more about where their apples come from or when they want to watch a cooking show.

The second skill was the ability to distribute that content so that it was easily found by prospective customers using search engines, which required a sophisticated understanding of search engine optimization. The third was the ability to attract and engage a community of followers who interacted with the content, added their thoughts to it in an ongoing dialogue, and disseminated it to others. Firms that nurtured an active audience gained credibility in the marketplace, because it was the support of an audience that conferred expertise in a particular area.

In contrast to traditional outbound marketing, in which a business's message was pushed to a mass audience that contained many who were not in the market for the product, inbound marketing was designed to create content that pulled in only those customers who were interested in the product. This created marketing efficiencies. According to Mark Roberge, vice president of sales for HubSpot, inbound marketing blended marketing and sales: "One of our salespeople calls it 'smarketing'—we really blend it together so much more." Volpe explained this concept further in an interview with RainToday.com: "Our salespeople hear things like 'Oh, HubSpot. I've been meaning to talk to you guys,' or 'Oh, I just watched your webinar yesterday. I had a couple of questions.' So it's the opposite of a cold call. It's like getting a call from one of your friends because we've already built a relationship. We really don't do any cold calling."

Volpe estimated that a lead generated using inbound marketing cost five to seven times less than a lead generated by outbound marketing. Businesses had increased the portion of their marketing budgets dedicated to inbound marketing, particularly in business-to-business (B2B) industries, where

37% of the marketing budget was spent on inbound marketing and 30% was spent on outbound marketing. Given its lower costs and increased efficiencies, inbound marketing allowed small businesses to compete with larger firms in a way that had never been possible in the pre-Internet world dominated by mass media. Small businesses had realized that inbound marketing helped level the playing field and were more aggressively allocating their budgets to inbound marketing techniques.

The HubSpot Product

Embodying the philosophy of Web 2.0, the HubSpot Web-based software product was a complete inbound marketing system, designed to help businesses attract prospects, qualify their potential, and convert them into paying customers. The goal was to enable a firm to generate more qualified leads, to generate those leads more efficiently, and to convert them into sales. HubSpot's user-friendly product allowed even those who were not familiar with Web 2.0 to build and manage a thriving inbound marketing program. The software included templates to design content for websites, blogs, and social networking sites; tools to help customers optimize their exposure on the Internet; tools to help customers solicit and engage the right customers; and tools to analyze their results.

Content Design

HubSpot offered its customers a content management system (CMS), software that made creating and editing online content easy. Further, HubSpot's CMS allowed small businesses to add interactivity, the hallmark of Web 2.0, to their old "brochureware" websites. Predesigned templates helped customers create their corporate websites, providing guidelines for creating Web pages, blogs, online forms, and landing pages. The templates were designed to be turnkey so that customers without HTML programming knowledge could easily publish content online and have that content be search-engine-friendly. HubSpot's Keyword Grader scanned the Internet and returned an analysis of the keywords relevant to the company's business that were driving online search results. Including these keywords in their content, companies could improve their organic search results, making it more likely that potential customers would find their content. Steve Douglas, president and creative director for The Logo Factory, explained how search engine optimization (SEO) worked for customers:

> I had been doing SEO all wrong when I came to HubSpot, trying to optimize my site for the wrong keywords. With HubSpot, I'm now able to see the words people are actually using to find my products and services. I'm able to see which words have the greatest search volume in search engines, helping me choose the right words to optimize my site. HubSpot has helped me be a lot smarter about how I optimize my site and track my progress. (HubSpot, Customer Quotes, 2009)

Exposure Optimization

The HubSpot product contained a series of tools designed to help customers make their published content more visible on the Internet. These included SEO tools that graded the firm's content based on its likelihood to be included early in the search results that were returned when a potential customer searched through Google, Yahoo, or other search engines. The SEO tools graded the company's website, its key landing pages, and its blogs, and made suggestions for improving them to increase exposure. HubSpot's Link Grader analyzed the links a firm had on its website to see which ones were generating the most inbound traffic. The Link Grader also analyzed links to competitors' websites to see which ones were driving customers to them instead of to the firm. HubSpot customer Noel Huelsenbeck, president of the telecom expense management software firm Vocio, gushed:

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I love the HubSpot software. With just a little page optimization I've already gotten great results and my traffic and keyword rankings continue to improve steadily. I'm about to sign a deal from a company that typed in one of our top keywords for which we are now the #1 organic result, thanks to HubSpot! That one deal will pay for all the money spent with HubSpot three times over. On top of that, the support is incredible. The HubSpot team had dedicated their time, even at off hours, to get my site up and optimized. The application is great, but it's the people that make this company stellar. (HubSpot, Customer Quotes, 2009)

Lead Tracking and Intelligence

The HubSpot software had marketing intelligence analytics for tracking the interactions customers had with the firm's content. This enabled firms to analyze which of their inbound marketing programs were working to generate qualified leads, by telling them where potential customers were coming from and how they were engaging with the company. Firms could generate an interaction profile for each customer by tracking the pages they viewed and the types of forms they completed. Firms could use this information to qualify prospective customers according to their potential. For example, HubSpot itself used the lead tracking software to construct its sales funnel (see **Exhibit 1**). Information about each customer allowed HubSpot to qualify some of its visitors as "prospects," then "leads," and then "opportunities" based on the behaviors they exhibited while on the site.

Team Jodi, a real estate firm, had seen a significant increase in business, claimed owner Jodi Bakst:

The traffic to my site increased by 97% in November, by an additional 62% in December, by an additional 31% in January and we're on track for another big increase in February. In real estate, the absolute number of leads is way down. But what I'm looking at is the percentage of good leads. The percentage of good leads is actually going up right now and I attribute it to all of the hard work I am doing, 90% of which I learned from HubSpot. (HubSpot, Customer Quotes, 2009)

HubSpot used a software-as-a-service (SaaS) pricing strategy for its product. Rather than paying a large up-front fee, customers paid a smaller monthly fee (between $250 and $500), much like a gym membership. HubSpot's low cost and ease of use for Web 2.0 novices were its competitive advantages. Volpe explained the difference between HubSpot and one of its competitors, Eloqua:

Eloqua is really expensive and complicated. It is awesome for larger enterprises. Everyone we talk to that uses Eloqua says, "If you can get it to work, it's super powerful, but you have to give up your firstborn child to pay for it and you need to hire a full-time employee to run it because they have all these scripting languages and all this really, really difficult stuff."

HubSpot's customers were required to purchase a $500 onboarding package, which bought them four hours of HubSpot consulting. During this time, consultants helped customers through a process designed to kickstart their inbound marketing program: (1) setting up the software, (2) using the SEO features to get found, (3) converting prospects to leads to customers, (4) analyzing their results, and (5) institutionalizing the process so that it could be repeated. Once the original consulting hours were depleted, customers were on their own, unless they purchased additional consulting time at a cost of $500 for four hours. Customers were also given access to Success.HubSpot, which provided Internet marketing training and resources. Halligan described the HubSpot product as much more than a piece of software; it was a system of tools and training (see **Exhibit 2**):

HubSpot is a complete inbound marketing system that will help you get found by more prospects and convert more of them into paying customers. We use the word "system" intentionally. HubSpot is more than software. We have a complete inbound marketing

methodology comprised of best practice guides, training materials, software tools, a community and support. Plus, HubSpot is hosted on demand software, meaning that you don't need any IT staff to get started. We don't just give you a new marketing tool. We teach you to be an expert in how to use it.

HubSpot's products had garnered acclaim that drove buzz for the company. In 2008, HubSpot received the W3 Silver Winner Award in branding and marketing and the MITX Impact Award for innovative business strategy. HubSpot's Website Grader was an official honoree for the "Best Websites in IT Hardware/Software" category in the 12th Annual Webby Awards. In February 2009, HubSpot was named in the top 10 of PromotionWorld's "Best SEO Companies" ranking.

HubSpot's Marketplace

Halligan and Shah envisioned that HubSpot would become the market leader of the industry space carved out by software companies and consulting firms focused on helping businesses fill and manage their customer funnel. The term "customer funnel" metaphorically described the critical processes firms undertook to attract prospective customers to their business; qualify those prospects to determine which ones had the highest probability of converting to paying customers; and, finally, close the sale. The customer funnel was divided into three main activity areas. Most of HubSpot's competitors chose to play in only one of those areas, although some offered integrated services that spanned all three (see **Exhibits 3** and **4**).

Creating Traffic

The goal in the top part of the customer funnel was to attract large numbers of prospective customers. Firms used marketing programs to capture attention and interest to feed prospects into the funnel. Firms offered information, contests/sweepstakes, or free consulting on their websites to entice prospective customers. To receive the information or to participate in a contest, prospects filled out an online form that asked them for their contact information and other valuable information, such as budget available for the purchase and estimated purchase timing. HubSpot's competitors in this area included consultants who built online advertising, websites, blogs, and a social media presence for companies, as well as software companies with SEO products that helped companies maximize their likelihood of getting found by consumers using search engines.

Analyzing and Qualifying Leads

The goal in the middle of the customer funnel was to assess the potential of different prospective customers brought in by the lead-generation programs. Selling a customer required an investment of human and financial resources, and firms wanted to ensure that they were targeting these resources to prospects who were most likely to convert to customers. Many prospects brought in through lead generation had a low probability of becoming customers, and firms could save substantial money if they could identify those customers early and weed them out. The lead-qualification process focused on finding customers with potential to pass along to the sales force. HubSpot's competitors in this area included consultants and software companies with proprietary methods for rating and ranking prospects based on historical analysis of the company's current customers and conversion rates.

Closing the Sale

The goal in the bottom of the customer funnel was to convert prospects into customers. One player, Salesforce.com, dominated this segment, providing easy-to-use customizable software that

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helped firms create a database of their prospects and track their conversion progress in real time. Salesforce.com's software had become the industry standard for managing and tracking sales efforts.

Halligan and Shah hoped that HubSpot could dominate the lead-generation and analysis/ qualification stages of the customer funnel, just as Salesforce.com dominated the stage devoted to closing the sale. They claimed, "HubSpot could be to marketing what Salesforce.com is to sales."

Filling HubSpot's Customer Funnel

By 2009, HubSpot had 1,000 very diverse customers. Practicing what it preached, HubSpot had attracted these customers through inbound marketing. HubSpot used several different tactics to drive prospects into the funnel. First, the company had a robust website that attracted more than 300,000 unique visitors in 2008. The website featured white papers, webinars, podcasts, and a blog that provided information about Web 2.0 and inbound marketing strategies. HubSpot created and managed an 8,000-member LinkedIn group called Pro-Marketers, dedicated to marketing professionals who were interested in learning about Web 2.0 and inbound marketing. Employees came together every Friday to host their own television show, *HubSpot TV*, a live streaming podcast (also available on iTunes) that featured interactive commentary on topical events. HubSpot also produced YouTube video spoofs that changed the lyrics of popular songs like "You Oughta Know" by Alanis Morissette to sell the inbound marketing concept. The most popular of these spoofs was viewed more than 50,000 times. A video entitled "Cold Calling Is for Losers," which humorously showed the futility of outbound marketing techniques, was viewed more than 35,000 times.

The HubSpot team was encouraged to build the company's own Web 2.0 presence to supplement corporate activities. Many employees blogged and participated on social media sites such as Twitter to promote HubSpot. Inbound marketing was a passion for the HubSpot team members, who used every avenue they could to evangelize it to whoever would listen. The company website claimed, "At HubSpot, we live and breathe inbound marketing. We know a lot about it. We love to teach. We'll make you an expert."

HubSpot's most successful inbound marketing program was its freeware, small software programs that were available for free and accessible on the Internet. Three commonly used programs were the Website Grader, the Twitter Grader, and the Facebook Grader. All were designed to provide useful information to prospective customers and introduce them to HubSpot. The graders allowed users to evaluate how well their websites, Twitter accounts, and Facebook profiles were performing. For example, Website Grader analyzed a company's website, rated it versus other sites on the Internet, and offered suggestions for improvements. Users who accessed the free Web tools often completed a lead form expressing interest in other offerings, which fed them into HubSpot's customer funnel. By 2009, more than 650,000 websites, 22,000 Facebook profiles, and 2 million Twitter accounts had been graded by the free tools. The freeware had also generated a lot of positive press and online buzz.

Volpe explained how all these activities fed HubSpot's funnel: "We think about the size of the community we've built. It includes people on our e-mail list, people that subscribe to our feed in iTunes, people that subscribe to our blog, people that follow one of our accounts on Twitter, people that are fans of our page on Facebook. It's sort of how many fans we have cultivated in the world."

When HubSpot was just getting started, the sales force called on all leads coming into the funnel. HubSpot sold to any customer who was interested in buying its products. This helped achieve the critical mass the fledgling venture needed to survive. However, as the number of prospective customers grew, HubSpot began carefully qualifying leads before turning them over to the sales

force. HubSpot constantly updated its lead-rating algorithm based on its success with converting different types of prospects and on the varying customer retention rates experienced postsale.

By 2009, the company was weeding out almost 50% of the leads in its funnel. Low-quality leads were given no further attention. The remaining 50% were rated on a scale of 1 (low probability of conversion) to 10 (high probability of conversion). Of the rated leads, 63% were graded with scores ranging from 7 to 10, making them a high priority for the sales force's attention. The selling process was fairly involved and focused on a salesperson guiding a prospect through an online product demonstration; closing a sale took between 30 and 45 days from the point of initial contact to the final sale.

Since HubSpot's inbound marketing did not target a specific type of customer, HubSpot found itself attracting a diverse set (see **Exhibits 5** and **6**). HubSpot's customers came from many different industries, including professional services, health care, software, real estate, and construction materials. They included businesses selling to other businesses (B2B), as well as businesses selling directly to consumers (B2C). Two different types of customers were visible: small business owners and marketing professionals working in larger firms. HubSpot affectionately dubbed these two types "Owner Ollie" and "Marketer Mary."

Owner Ollie: The Small Business Owner Customer

Owner Ollies made up 73% of HubSpot's customer portfolio. Owner Ollies owned small businesses with 1–25 employees. Owner Ollies were busy, as they were simultaneously managing the human resources (HR), marketing, sales, operations, and finance areas of their companies. Given their companies' small size, they did not have a dedicated marketing professional on staff and thus did most of the marketing themselves. Owner Ollies were curious about Web 2.0 and inbound marketing but had not made investments in consulting, software, or programs in this area. Their primary objective was to generate more leads for their businesses; Owner Ollies were focused on feeding the tops of their customer funnels. Time and resources were scarce, and Owner Ollies wanted quick, simple solutions to help them generate leads, because leads were the lifeblood of their small businesses. Owner Ollies were fairly easy to sell; HubSpot's cost to acquire this type of customer was around $1,000. As Volpe explained, "Ollie doesn't even think about marketing most of the time. He's thinking about finance and HR and there is a leak in the pipes in the office. He's got all kinds of stuff to worry about. He typically doesn't shop around and try to find any other software competitive to HubSpot. He gets on the phone, he decides if he likes it, he gives you his credit card number and he's like, 'Great, let's do it.'"

Marketer Mary: The Marketing Professional Customer

Marketer Marys made up 27% of HubSpot's customer portfolio. Marketer Marys were marketing professionals working in companies that ranged from 26 to 100 people. Unlike Owner Ollies, who tended to work alone on marketing, Marketer Marys were supported by a marketing team. As marketing professionals, Marketer Marys were more educated than Owner Ollies about Web 2.0 and were looking for assistance with running their programs, evaluating their results, and justifying their return on investment to senior management. Marketer Marys often had Web consultants who designed websites and programs. Hence, Marketer Marys were more interested in the analytics and reports that HubSpot provided. Marketer Marys ran many more inbound marketing programs than Owner Ollies, and needed more robust and sophisticated tools to design them and measure their results. Marketer Marys had more money to spend on products like HubSpot but were harder to reach and had a longer selling cycle, because they often had to get approval from managers higher up in their organizations. HubSpot's cost to acquire this type of customer was $5,000.

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As these two customer segments emerged in the customer base, HubSpot tweaked its product, developing two different versions, each with features designed to better serve the needs of either Owner Ollies or Marketer Marys (see **Exhibit 7**).

HubSpot took good care of its customers. Jonah Lopin headed up the HubSpot services group, known as the Customer Happiness Department. Lopin and his team quickly realized that the customers HubSpot was serving were very diverse, making it difficult to standardize processes across customers. Different customers had different familiarity and comfort with Web 2.0 tools. B2C companies were much more sophisticated Web 2.0 users than B2B companies, and many found that HubSpot's content templates were too rudimentary for their needs. Most B2C companies already had highly performing websites and a strong social media presence, and had engaged Web 2.0 consultants and agencies to work with them prior to coming to HubSpot. In contrast, most B2B customers had little to no experience with Web 2.0 and no other agencies or consultants supporting their efforts. They required more attention from Lopin and his team during start-up and during their lives as customers.

The second difference was that B2B customers seemed to derive greater value from inbound marketing than B2C customers did. Many of the B2B customers sold products or services that were complex, which required buyers to undergo in-depth learning prior to purchase. Blogs, podcasts, webinars, and other Web 2.0 programs that explained the product served as valuable inputs into a customer's decision-making process and were effective feeders of B2B customer funnels. The buying processes associated with the B2B companies were much more complex than those associated with B2C companies, due to a longer decision-making cycle involving multiple stakeholders at the buying firm. Because of this, B2B customers were more selective about whom they focused their sales forces' attentions on and derived great value from the lead-qualification analysis that HubSpot provided.

The third difference was that Owner Ollies were less knowledgeable and sophisticated than Marketer Marys. Owner Ollies also derived greater initial value than Marketer Marys. Volpe explained, "The great part about Ollie is that we can actually have a much larger impact on his overall business than we can with Mary. It saves him a ton of money and he is getting a much better customer flow. It has fundamentally changed his business."

Lopin also saw differences in the customer retention data, as the churn rate (the rate at which customers canceled their HubSpot subscriptions) varied across segments. The results of his analysis are listed in **Table A** (also see **Exhibit 8**). Although Marketer Marys were a harder sell up front, they stayed longer than Owner Ollies. Lopin speculated that usage of the monthly analytics and reporting was driving her longer customer life. Owner Ollies were focused on using SEO to increase visitors to their websites. They derived much of their value in the first few months as a customer. Once Owner Ollies thought they were "done" optimizing, they would cancel their HubSpot subscription.

Investigating further, Lopin realized that customers who hosted their websites on HubSpot's content management system (CMS) had lower churn rates than customers who hosted with other companies. Lopin urged the sales force to push the CMS service to new customers. As a result, an increasing number of Owner Ollies were migrating their websites to HubSpot. In 2009, 13% of Owner Ollies selected HubSpot to host their site, paying an initial fee of $500, which covered 12 hours of HubSpot consulting designed to make the migration process painless. In contrast, only 2% of Marketer Marys hosted their websites with HubSpot.

Table A   Churn Rates by Segment

	Average Churn Rate (cancellations per month)
Owner Ollies	4.3%
Marketer Marys	3.2
Total B2B	3.3
Total B2C	6.0
CMS	2.1
Non-CMS	5.5
Total	**4.1%**

Source: Company reports.

Finally, Lopin saw differences in the amount of time different types of customers were willing to put into using the HubSpot software. To derive meaningful results from the software, customers needed to consistently invest 10 hours per week to it. This was a significant time investment, particularly for Owner Ollies. Customer Geoff Alexander, president of Geoff Alexander & Company, a telesales training company, explained: "It took a couple of hours to mash through all the training, but the key to HubSpot is putting the time into it. Without HubSpot, I just would have winged it. The investment required for HubSpot is actually a lot like paying for web intelligence school. I was ignorant of the nuts & bolts of SEO and online lead generation for years. Now I'm making up for it." (HubSpot, Customer Quotes, 2009).

Some of HubSpot's current customers were not putting in the time, as shown in **Table B**. Fifteen percent of current customers had not logged in to the HubSpot software over the past 12 weeks.

Table B   Customer Usage

	Percent of Customers
Logged into HubSpot system > 50% of weeks	45%
Logged into HubSpot system < 50% of weeks	55%
Logged into HubSpot system 12/12 of weeks	23%
Logged into HubSpot system 0/12 of weeks	15%

Source: Company reports.

When customers complained that HubSpot was not working for them, the first thing the customer service team looked at was the amount of time the customer was spending on HubSpot. As Lopin explained, "It's like saying that your gym isn't working. People say 'I joined a gym six months ago and I'm still kind of out of shape, and it's not working.' No, it's like, you're not working out. There's no question that inbound marketing is effective, it's just that you've got to do the work."

HubSpot customers who were using the software were seeing results (see **Exhibit 9**). Dedicated users experienced a burst of increased leads in the first six months after using the software, a result of the creation of inbound marketing programs. Over time, the growth rate in leads diminished, but customers continued to gain value by focusing on efficiently rating and following up on the leads with the most potential.

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Scaling Up

While their employees were celebrating breaking the 1,000-customer mark, Halligan and Shah were not resting on their laurels, realizing that they still had a lot of work to do. The founders knew that they needed to quickly scale up the HubSpot business. Their venture partners saw huge market potential for HubSpot and looked for the company to make significant inroads into small and medium-size businesses. **Table C** lists the number of small and medium-size businesses in the United States that formed HubSpot's market potential.

Table C   Market Potential: Small and Medium-Size Businesses[a]

Category	Number of Employees	Number of Businesses
Large	100 to 499	86,538
Medium	20 to 99	526,355
Small	10 to 19	632,682
Very small	5 to 9	1,043,448
Total	—	**2,289,023**

Source: Company reports.

[a]Roughly half of all businesses are B2B; the other half are B2C.

Volpe was excited about the opportunity:

We're growing fast, there's a market there. We're trying to get as big as we can as fast as we can. We have this gigantic vision for what the product should do and it is relatively broad. And I think it's why we think that the market we are going after is potentially very, very large and today, our product is a small, small fraction of what it needs to be. The company is still small. We've got only so many engineers and we can only build things so fast and that whole process in matching the product to the market and building the right features at the right time is difficult. Sales and marketing have been ahead of the product and we just need to continue to focus on the product and hope that it will catch up more.

As they looked back at their achievements, Halligan and Shah realized that the inbound marketing that built their business presented them with challenges that they would have to overcome to reach the next level. While traditional marketers prospected for new customers based on a predetermined target market that was strategic, inbound marketers fished for customers, took what they caught, and then figured out who their actual market was. This left HubSpot with a very diverse customer base and made strategic planning more difficult. Different types of customers valued different features, and prioritizing items in the long list of potential software updates proved challenging. A mix of customers also added layers of complexity and cost to the sales and customer service areas of HubSpot. Halligan and Shah wondered if they should continue to throw a wide net to attract all different types of customers or if they should narrow their focus to a particular target market. Roberge believed that HubSpot needed to refine its focus:

If we picked one type of customer to focus on, we would likely get to success faster. Ollie and Mary speak different languages, have different needs. Now, we are choosing between them and dividing our development resources. There are certain applications that are specific to Ollie and they would be designed and implemented differently. And then it affects customer support and how well we really get to know our customer, understand them, and then ace the product.

Halligan and Shah debated which segments were the best customer segments to cater to. Was it the B2C or B2B market? Was it Owner Ollies or Marketer Marys? HubSpot employees disagreed about who was more profitable over the long term. Roberge placed his bets on Marketer Marys: "I think there are more Ollies out there, but I think we can get more money out of Mary. There's a lot of macroeconomic risk associated with Ollie because there are a lot of small businesses that are just bad business models, they are risky during recessions." Others argued that Ollies were likely to stick around longer, especially when they were using the content management system. Narrowing the target market presented challenges for an inbound marketing company. HubSpot was already ignoring 50% of the leads brought in by its inbound marketing programs. This selectivity seemed at odds with the founders' desire to grow quickly. Shouldn't HubSpot sell to anyone who wanted to buy the product?

Halligan and Shah also wondered if their current pricing strategy was effective. While the software-as-a-service (SaaS) monthly pricing model seemed to be the right way to capture maximum value from customers and provide a reliable income stream for HubSpot when it started, the patterns in customer churn rates were showing that some customers were obtaining the initial burst of value from the software and then canceling it within the first several months. Halligan and Shah wondered whether they were leaving money on the table by not charging more for the HubSpot software up front or locking in customers for longer periods. The diverse customer base also presented opportunities and challenges for pricing, which made Halligan and Shah consider if the two products and price points they had developed to address the Owner Ollie and the Marketer Mary market segments were adequate, given those segments' different business needs and sensitivity to price.

Finally, an internal debate raged within HubSpot about the role of outbound marketing programs going forward. Looking at aggressive growth targets, some employees, including Roberge, were itching to supplement the inbound marketing tactics with traditional outbound marketing programs, including targeted telemarketing and traditional advertising. Roberge lamented:

> Most sales organizations are responsible for doing their own lead generation for prospects. We have to wait for the inbound marketing programs to bring leads to us. I'm not allowed to cold-call prospective customers because HubSpot's been preaching inbound marketing and publishing these videos and webinars about how cold calling is "for losers." If someone then gets a cold call from someone on my team, that can hurt our brand. So I am actually restricted from doing outbound prospecting, which makes things more challenging for me, because I own the sales number and I have to sit back and be dependent on what marketing brings to me. So, yeah, I think we are hindering scale a little bit by not creating outbound marketing programs.

Looking at their growth rates, Halligan and Shah realized that they would have to push things up a notch to achieve their long-term goals (see **Exhibit 10**). However, the founders were as committed to inbound marketing for their own company as they were for their customers. Volpe, in an interview with RainToday.com, explained, "If we couldn't make inbound marketing work for our own company, then we shouldn't be selling software that helps other companies do it." Though the founders' vision was centered around inbound marketing, the reality was that most businesses—including HubSpot customers—would likely have a mix of inbound and outbound marketing.

Exhibit 1   The HubSpot Customer Funnel
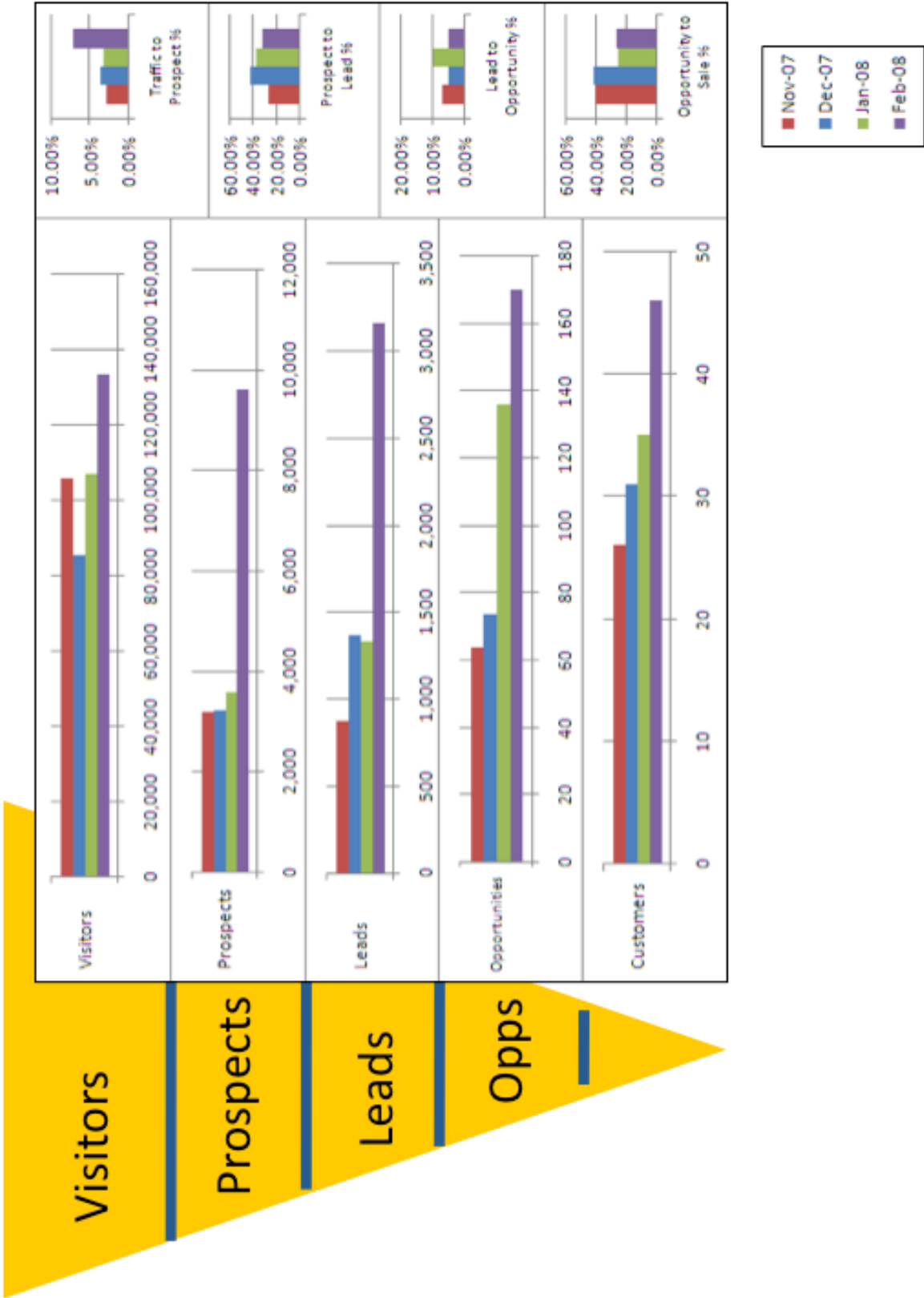
Exhibit 2   HubSpot's Product Timeline

2006

Q1:   Content management system (CMS); blog; analytics (alpha)

Q2:   Search marketing tools (alpha)

Q3:   First paying customers

2007

Q1:   Public launch of WebsiteGrader.com

Q2:   Series A venture capital round funding
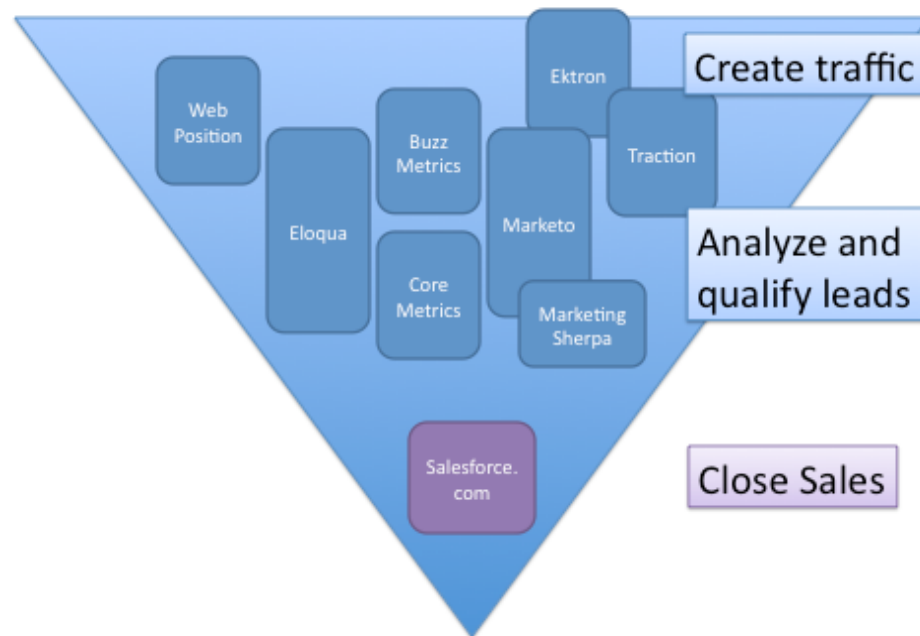
Q4:   v1.0 product launch; 100 paying customers

2008

Q1:   Started using "the cloud" on Amazon EC2; 100 million page views served

Q2:   Series B venture capital round funding; introduction of two separate products ($250/month and $500/month)

Q3:   PageGrader, aka The Crawler, HubFeed (entry into social media);

single sign-on; Salesforce.com integration; HubSpot Express + Trials

Q4:   Changed products to HubSpot Owner and HubSpot Marketer; launched Grader.com, TwitterGrader, Facebook Grader

2009

Q1:   1,000 customers; 500 million page views served; free trials for main product

Source: Company reports.

Exhibit 3   HubSpot's Competitive Field

Source: Casewriters.

Exhibit 4   The Marketplace

Company	Products and Services
Web Position	Offered tools to improve a website's search engine rankings. The software included a summary dashboard, trend graphs, several metrics (link popularity and search engine saturation reporting), and many search engines.
Nielsen's BuzzMetrics Services	Provided tools to help clients understand how consumers perceived their brand, monitor trends that might be influencing their industry, and monitor how marketing campaigns were resonating with consumers.
Ektron	Provided a software platform with all of the tools that were needed to create, deploy, and manage a company's website.
Traction	Provided businesses and government organizations with enterprise weblog software that allowed groups and teams to communicate more effectively.
Marketo	Provided SaaS solutions that helped marketing and sales teams collaborate throughout the sales cycle, from demand generation to the close of a sale. Its solution included e-mail marketing, lead nurturing, lead scoring, and sales effectiveness tools and was tightly integrated with Salesforce.com.
Eloqua	Provided software to automate a broad range of marketing functions. Its solution could help clients build databases, create e-mail campaigns, capture leads, and measure their marketing effectiveness.
Coremetrics	Provided on-demand Web analytics and precision marketing solutions. Its platform could capture and store all customer and visitor clickstream activity to build a Lifetime Individual Visitor Experience (LIVE) Profile.
Marketing Sherpa	Specialized in tracking what worked and what didn't in all aspects of marketing.

Source: Casewriters.

Exhibit 5   HubSpot's New Customer Acquisitions

	Number of Customers				Percent of Customers			
	Sep-08	Oct-08	Nov-08	Dec-08	Sep-08	Oct-08	Nov-08	Dec-08
New Owner Ollies	**24**	**31**	**27**	**34**				
B2B > 25	2	3	3	2	8%	10%	11%	6%
B2B < 25	11	11	13	19	46	35	48	56
B2C > 25	1	0	0	2	4	0	0	6
B2C < 25	10	17	11	11	42	55	41	32
New Marketer Marys	**41**	**60**	**68**	**74**				
B2B > 25	9	18	21	30	22	30	31	41
B2B < 25	12	24	22	19	29	40	32	26
B2C > 25	4	9	7	13	10	15	10	18
B2C < 25	16	9	18	12	39	15	26	16
Total B2B	**34**	**56**	**59**	**70**	**52**	**62**	**62**	**65**
Total B2C	**31**	**35**	**36**	**38**	**48**	**38**	**38**	**35**
Total > 25	**16**	**30**	**31**	**47**	**25**	**33**	**33**	**44**
Total < 25	**49**	**61**	**64**	**61**	**75**	**67**	**67**	**56**
Total	**65**	**91**	**95**	**108**	**100%**	**100%**	**100%**	**100%**

Source: Company reports.

Exhibit 6   HubSpot's Customer Portfolio in December 2008

	Number of Customers	Percent of Customers
Owner Ollies	694	73%
Marketer Marys	255	27
Total B2B	647	68
Total B2C	302	32
Total > 25 CMS	21	2
Total < 25 CMS	122	13
Non-CMS	806	85
Total	**949**	**100%**

Source: Company reports.

Exhibit 7   HubSpot's Product Portfolio

HubSpot Owner	**HubSpot Marketer**
For business owners who need a simple system to generate more qualified leads and convert those leads into sales.	For marketing professionals who require flexible, sophisticated inbound marketing tools, including closed loop marketing reports.

Includes:

- Search Engine Optimization (500 Keywords)
- Business Blogging
- Business Blog Analytics
- Competitor Analysis (Up to 5)
- Marketing Analytics
- Website Editor (Required)
- Lead Tracking & Intelligence
- Landing Page Wizard
- Marketing Intelligence
- Social Media
- Inbound Marketing Advice

Includes:

- Search Engine Optimization (2,000 Keywords)
- Business Blogging
- Business Blog Analytics
- Competitor Analysis (Up to 20)
- Closed-Loop Marketing Analytics
- Website Editor (Optional)
- Lead Tracking & Intelligence
- Lead Grader
- Lead Visit Alerts
- Landing Page Wizard
- Marketing Intelligence
- Social Media
- Inbound Marketing Advice
- Salesforce.com Integration

$500 consulting fee at start-up

$250/month ongoing fee

$500 consulting fee at start-up

$500/month ongoing fee

Source: Company reports.

Exhibit 8   Hubspot's Churn Rate Detail

Churn Rate by Age of Customer

Churn Rate by Age of Customer

Chart data points (Churn Rate by Age of Customer, Customer Age in Months):
0.0%, 1.7%, 2.0%, 4.7%, 3.3%, 4.2%, 4.9%, 4.9%, 3.3%, 3.6%, 3.9%, 4.3%, 5.3%, 4.0%, 1.0%, 4.7%, 9.0%, 10.0%, 14.3%, 0.0%, 0.0%, 7.7%, 0.0%

Y-axis: 0.0%, 5.0%, 10.0%, 15.0%, 20.0%

X-axis (Customer Age in Months): 0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22
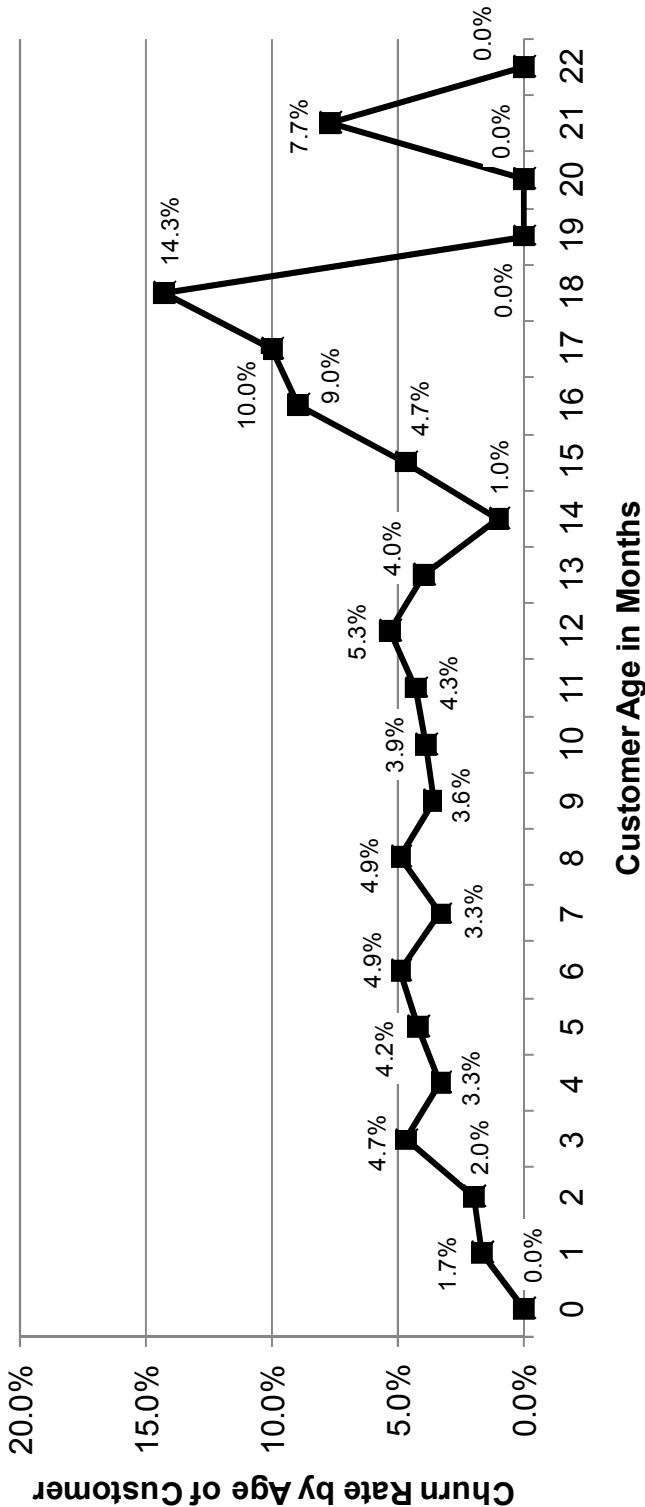
Source: Company reports.

BUSINESS TYPE VS. BUSINESS SIZE

Average Churn Rate (cancellations per month)

	Very Small Businesses	Small Businesses
B2B	7.3%	1.4%
B2C	7.8%	4.1%

Source: Company reports.

Exhibit 9   HubSpot's Visitors and Leads Generated for Customers

M/M Growth in Average Weekly Unique Visitors
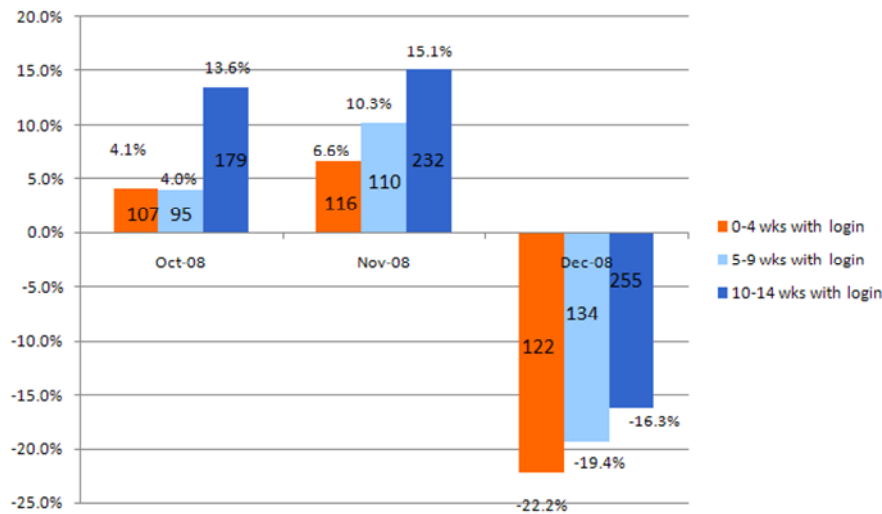
Customers included in analysis: (381 for Oct, 458 for Nov, 511 for Dec)

• Accounts must be over 3 weeks entering the lift period
• All weeks in lift period must have >10 unique visitors
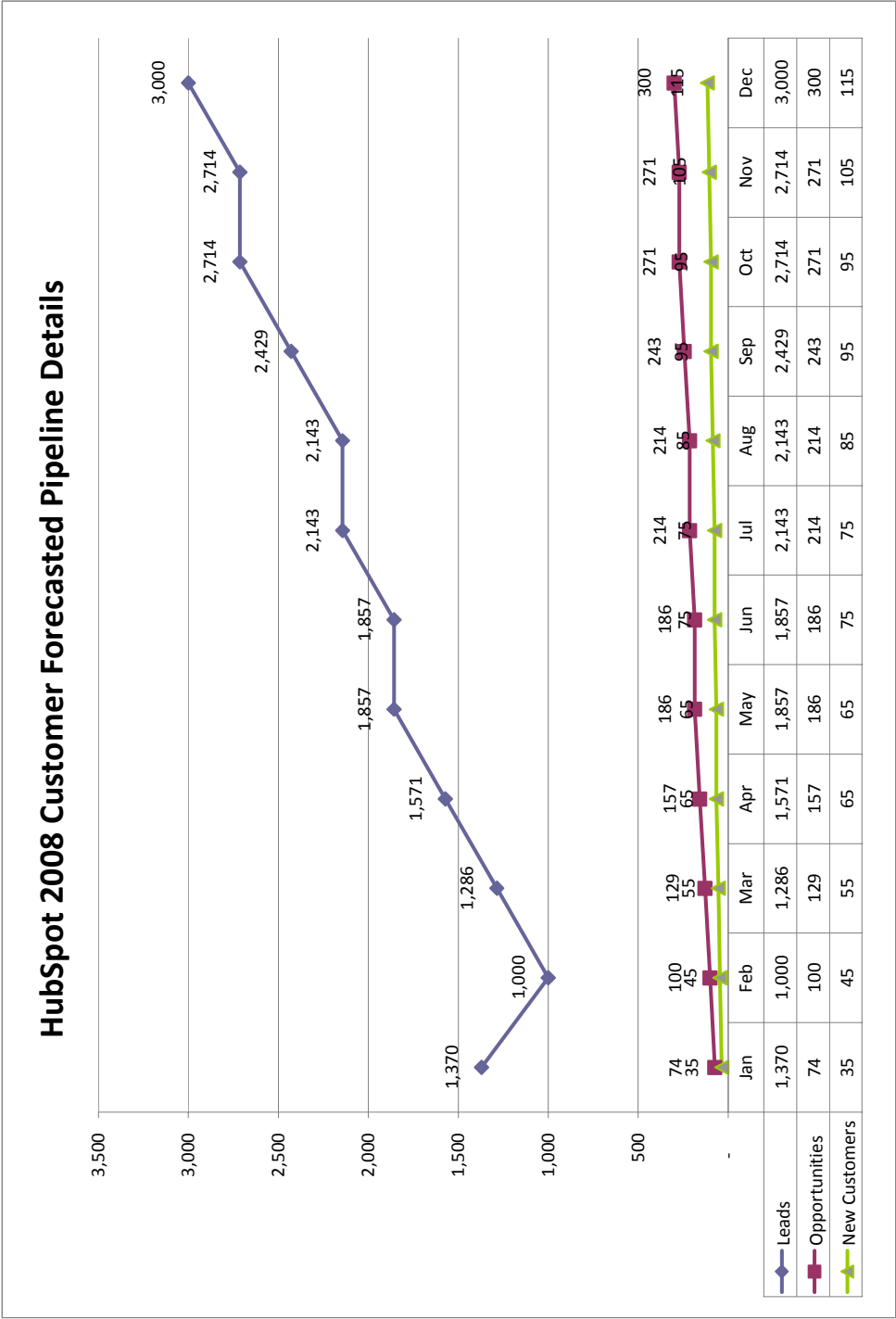
M/M Growth in Average Weekly Leads
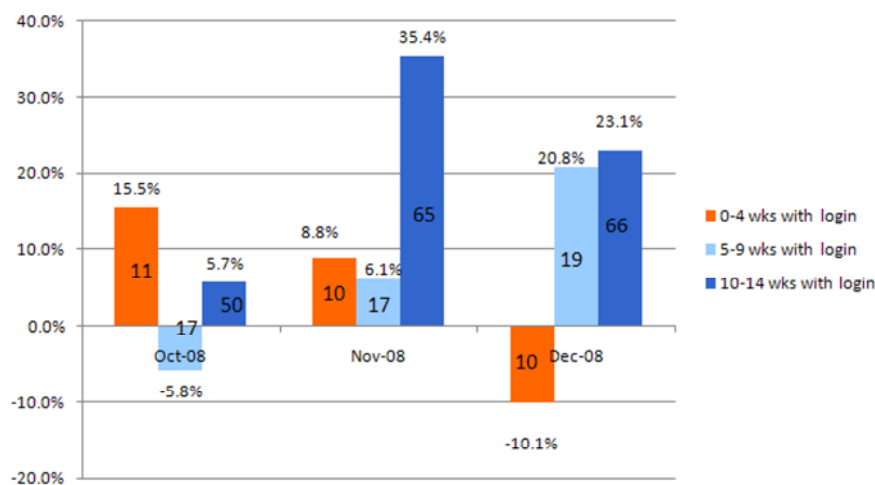
Customers included in analysis: (78 for Oct, 92 for Nov, 95 for Dec)

• Accounts must be over 3 weeks old entering the lift period
• All weeks in lift period must have >1 lead

Source: Company reports.

Exhibit 10   HubSpot's Growth Rate

HubSpot 2008 Customer Forecasted Pipeline Details

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Leads	1,370	1,000	1,286	1,571	1,857	1,857	2,143	2,143	2,429	2,714	2,714	3,000
Opportunities	74	100	129	157	186	186	214	214	243	271	271	300
New Customers	35	45	55	65	65	75	75	85	95	95	105	115

Source: Company reports.