

Evernote CasePrep

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Objective: *To analyze segmentation in the context of a freemium strategy for Evernote*

Introduction:

The case revolves around Evernote, a note-taking app with 150 million users, grappling with profitability challenges. Under the new leadership, the introduction of Project Gnome is initiated to tackle these issues through a strategic pricing approach. The study provides insights into Evernote's history, its freemium model, and the delicate equilibrium required between revenue growth and user retention. The overarching objective is to devise a pricing strategy that ensures financial sustainability while maintaining user trust.

1. Assess the effectiveness and wisdom of Evernote's freemium model as a segmentation and fencing strategy

a. How effectively has Evernote fenced the free tier from premium?

The table shows the segmentation in features offered for the initial model and the Changes introduced in 2014

Aspect	Initial Freemium Model (Before April 2015)	Post-April 2015 Changes
Tier Structure	Two tiers: Free and Premium	Three tiers: Basic (Free), Plus, and Premium
Monthly Total Upload	Free: 40MB, Premium: 500MB	Basic: 60MB, Plus: 1GB, Premium: Unlimited
Max Size of Any One Upload	Free: 25MB, Premium: 50MB	Basic: 25MB, Plus: 50MB, Premium: 200MB
Differentiation Criteria	Primarily based on upload limits	More structured with clear distinctions between each tier in terms of upload limits and additional features
Effectiveness of Fencing	Clear but not restrictive; allowed free users to experience core functionalities while incentivizing heavy users to upgrade	Added a middle tier (Plus) to provide a gradual transition from free to premium, potentially making it easier for users to upgrade
Impact on User Experience	Free users had access to essential features with some limits; Premium users enjoyed significantly higher limits	The introduction of the Plus tier offered an affordable upgrade option with significant enhancements over the free tier, while the Premium tier remained the most feature-rich option

- **Initial Structure:**

- The initial structure's upload limits created a distinct boundary between free and premium, motivating heavy users to upgrade without being overly restrictive. This encouraged users to experience core features in the free tier while enticing them to opt for premium for expanded capabilities

- **New Structure:**

- The tier system maintained clear distinctions, allowing users to easily navigate from the free tier to the premium level. This provided a balanced middle tier (Plus), facilitating a smooth transition for users seeking enhanced features without jumping directly to the premium tier. The strategy effectively segmented users by offering clear distinctions between free, Plus, and Premium tiers, encouraging user migration and providing a gradual upgrade path.

b. What role does the free tier play and how much revenue does it drive?

The free tier feature plays an important role in the following ways:

- **User Acquisition and Brand Exposure:**
 - The free tier served as a powerful tool for attracting users to Evernote's platform, acting as a gateway for potential customers.
 - By providing essential features at no cost, it created an entry point for users to experience the core functionalities of Evernote.
- **Significant Growth in Registered Users:.**
 - In 2009, Evernote boasted 1 million registered users, and this number skyrocketed to an impressive 150 million by 2015.
 - This strategy not only encouraged initial sign-ups but also established a connection between users and the brand.
- **Revenue Contribution:**
 - Direct revenue from the free tier is non-existent as it's a free service. However, the indirect contribution lies in its potential to convert free users to paid subscribers
 - Given that fewer than 2% of users opted for paid tiers, the conversion rate was low, suggesting room for improvement in the free tier's role as a funnel to paid subscriptions.

- c. **How would you define a logical “path to pay” for free-tier customers and what percent migration would you consider a success?**

1. Logical “Path to Pay” for Free-Tier Customers:

- **Feature Limitations and Incentives:**
 - **Implementation:** Gradually increase free tier limitations (e.g., reduce monthly upload limit from 60MB to 50MB, limit device access from unrestricted to 2 devices).
 - **Goal:** Aim for a 10-15% increase in the number of users hitting these limitations within 6 months.
- **Value Demonstration::**
 - **Strategy:** Regularly showcase premium features (e.g., monthly emails or in-app notifications highlighting advanced search, offline access, etc.).
 - **Goal:** Track engagement with these showcases, aiming for a 25-30% open or interaction rate, suggesting increased interest in premium features.
- **Targeted Promotions:**
 - **Tactics:** Offer 1-month free trials for the Plus or Premium tiers to users who are 80% close to their monthly free tier limits.
 - **Goal:** Achieve a 20% acceptance rate of the trial offer, with at least half of these users converting to paid plans post-trial

2. Success Metrics for Migration:

- **Migration Rate:**
 - **Current Rate:** Less than 2% of free users upgrade to paid tiers.
 - **Target Rate:** Increase this to 5-10% over a 12-month period.
- **User Engagement and Retention:**
 - **Pre-Conversion Engagement:** Track average usage metrics (e.g., number of notes created, app logins per month) among users who later convert to paid tiers.
 - **Post-Conversion Retention:** Maintain or improve these metrics post-upgrade (e.g., if average logins per month pre-conversion are 20, aim for at least 20 logins per month post-conversion).
 - **Churn Rate:** Keep the churn rate (percentage of users who cancel their paid subscription) below 5% annually.

Summary:

By establishing measurable objectives and precise targets for implementing the "Path to Pay" strategy and assessing its success, Evernote can adopt a focused approach to transitioning free users to paid tiers. This not only seeks to boost revenue but also enhances the value proposition for users, fostering increased satisfaction and retention.

2. What do you learn from the consumer research that Evernote undertook?

- A significant portion of Evernote users strongly prefer existing free features.
- Limiting free features, like the number of notes or device access, is unacceptable to many users.
- Drastic changes to the free tier may result in reduced usage or user drop-off.
- Users are particularly sensitive to limitations on core functionalities like the number of notes.
- Limiting device access, while less critical, still shows a potential impact on user retention.
- There's an opportunity to transition users from free to paid tiers by balancing limitations and enhanced features.
- User responses to price increases vary across regions, suggesting a need for region-specific pricing strategies.
- Effective communication is crucial during service changes to maintain user trust and manage brand perception.
- Evernote's market position relative to competitors influences user expectations and strategy.
- Consumer research provides critical insights into user behavior, informing decisions on the monetization strategy.
- Balancing revenue generation and preserving user satisfaction and loyalty is crucial.
- Nuanced, well-communicated changes are essential, especially when altering a well-liked free service.

Summary:

The consumer research provided Evernote with critical insights into user behavior and preferences, which were essential for making informed decisions about its monetization strategy. It highlighted the delicate balance Evernote needed to maintain between generating revenue and preserving user satisfaction and loyalty. The research also emphasized the importance of a nuanced, well-communicated approach to any changes in the service offering, especially when it involved altering a well-liked free service.

3. How would you announce your plan to current users?

1. Clear and transparent communication:

- Announcement via Multiple Channels:
 - Email Campaign: Send personalized emails explaining changes with a clear, empathetic, and positive tone.
 - In-App Push Notifications: Use in-app messages for immediate visibility of changes.
 - Blog Post: Publish a detailed explanation on Evernote's official blog.
 - Social Media: Utilize platforms like Twitter, Facebook, and LinkedIn

for announcements, directing users to the blog post for more details.

- Content of the Message:
 - Reason for Change: Explain the necessity, emphasizing service improvement, sustainability, and growth.
 - Specific Changes: Clearly outline changes, their impact on users, and effective dates.
 - Benefits to Users: Highlight new features or improvements accompanying the changes.
 - Assurance of Quality: Reassure users that core functionality and reliability will remain unchanged or improved.

2. Addressing user concerns

- FAQ Section: Create a comprehensive section addressing potential concerns
- Support Channels: Ensure customer support is ready to handle incoming queries

3. Offering incentives

- Trial Offers: Provide free trial periods of the premium service for users transitioning from free to paid tiers.
- Loyalty Bonuses: Offer loyalty bonuses or discounts to existing paid subscribers as appreciation for their support.

4. Follow-up communication

- Feedback Channels: Encourage users to share feedback on the changes, demonstrating Evernote's value for user input.
- Surveys: Conduct surveys to gauge user reactions and adjust strategies accordingly.
- Progress Updates: Keep users informed about the implementation of changes and any adjustments based on user feedback.