

Evernote Shows Startups: ‘Free’ Can Pay

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So how do you make money if you are offering a product that has millions of users and only a small percentage pay for it?

‘The easiest way to get a million people to pay for nonscarcity product may be to make 100 million people fall in love with it.’

That’s the so-called Freemium model that many companies have bet on only to find it doesn’t turn into a pile of gold immediately.

But the answer, according to Phil Libin, the CEO of [Evernote](#), is that the money will come if you focus on just keeping your millions of users happy, regardless of whether they pay or not.

Libin’s advice and impressive slides were welcomed by a roomful of budding entrepreneurs at [The Founder Conference](#) in Mountain View, California Tuesday.

“The easiest way to get a million people to pay for nonscarcity product may be to make 100 million people fall in love with it,” Libin said, calling his users his marketing team.

Evernote, a application that lets users save snippets of web pages and notes from a wide range of devices, now has 9 million registered users and 3.2 million active users monthly, most of them using the free version. The company is on a tear, adding 28,000 new registered users daily and plans to grow from 69 employees to 370 in the next three years.

Libin says the most annoying question he gets is what percentage of users are paying for the product.

But it's not the percentage, it's the number who are paying that matters. And the key to getting that number higher is to keep users happy.

"It's more important that you stay than you pay," Libin said. "Once Evernote gets under your skin, you never want to stop using it."

Libin started out by looking at the long-term behavior of the 31,000 users who signed up in June 2008 when Evernote launched its beta product. About half left by the next month and lost about 10 percent more then next month. But then the retention rate didn't change over the next three years — 11,000 users stuck around.

And over time, the amount of revenue from that group rose steadily. The first month about half a percent of that group paid for Evernote's \$5 a month premium plan, equaling a grand total of \$700. But over time, as that first group of users grew more reliant on Evernote, more started paying for it. So now, those original users from that first month now account for \$11,000 a month in revenue.

And that's held true for every month of users since, adding up to the classic hockey stick where profits start shooting up — in Evernote's case up to \$525,000 a month in January 2011.

The key to that, according to Libin, is simply by not trying to squeeze users and to make the free product good enough for people to use for forever.

Keeping the cost per user low is also necessary. In Evernote's case, that's 6 cents per user per month in costs, while revenue is more 22 cents per user, leaving a gross profit of 16 cents per user, on average.

So Evernote's focus isn't on trying to find ways to move users to the premium version, Libin said. Instead engineering decisions are made by figuring out how to keep retention rates high.

"Evernote is about your life and your life gets more valuable over time so we don't have do much," Libin said.

It's a model that's also working for another darling of freemium business model, Dropbox, which gives users a free 5GB of online storage, with no limits on number of devices or who you share it with.

Libin said that Evernote and other freemium services that serve millions without charging them or showing them ads owe their existence to the development of low-cost servers, cheap bandwidth, open source software, and cloud infrastructure.

"This is the best time in the history of the universe to start a company," Libin said. "Even five years ago we couldn't have built Evernote, but today we can."

Photo: Phil Libin, the CEO of Evernote, talking with attendees at The Founder Conference in Mountain View in May 2011. (Ryan Singel/Wired.com)