Stanford eCorner

The Freemium Business Model

Aaron Levie, *Box.net*

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Video URL: http://ecorner.stanford.edu/videos/2609/The-Freemium-Business-Model

At Box.net's inception, customers were charged for storage when they signed up. However, Box.net CEO and Co-Founder Aaron Levie, and his team, realized they wanted to grow the customer base by lowering barriers to product adoption. In this clip, Levie describes the company's successful implementation of the "freemium" business model, which not only increased their number of customers, but also served as a differentiator from larger competitors.

Transcript

We were thinking, "How can we grow this business faster?" We have this business model that lets us charge for it the customers and charge the users. We have this guy, Mark Cuban, who is helping fund us. How can we really reduce the barriers in doing this? And so, we decided to launch a business model that is now fairly standard across the services. But at the time it was really taking a bet and saying, "We're going to put some free space online and let people sign up and try it out." And so, we introduced freemium. This was the first real thing that kicked off our business model. So, instead of blocking users, instead of creating friction around how they were going to sign up for Box, we decided to open it up for free, let you sign up for a free gigabyte of space, which now sounds like nothing. But back in 2006, when we launched this, this was like a really big deal. And we started getting hundreds of thousands of signups a quarter. And so, all of a sudden, we just had this massive influx of users. And so, people could upgrade and they could start paying for better versions of the product.

But we decided to really expand the awareness and the base by being more efficient. And this ultimately has become a very competitive advantage for us against traditional enterprise and larger companies.