A Unique Freemium Cloud Model

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WisdomTree
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Last week's "Behind the Markets" podcast features a discussion on the cloud computing space with two great guests.

- Adam Fisher manages Bessemer Venture Partner's Israel office and has invested in 30 early stage technology companies from consumer to hardware. Fourteen of his companies have exited via IPO or M&A transaction.
- Nir Zohar is President and Chief Operating Officer of Wix, which is based in Israel and appears in the top 10 holdings of the BVP Nasdaq Emerging Cloud Index. Wix helps individuals and small businesses create professional and beautiful web presences and businesses on their own. Wix is a $15-billion market cap company that has grown tenfold over the last five years and by over three times since the depths of the market lows in late March.

Why Israel for Technology Investments? Israel is known for having a strong vertical of cyber and security technology, but Fisher sees really every type of technology vertical being present—from semiconductors to enterprise software to digital printing. Because Israel is not a big local market, the firms there are very internationally focused, primarily on the US market but also globally.

Corona-Times Cloud Acceleration: Business growth in the post-corona world accelerated away from pre-corona times. Wix had been regularly adding two million new users each month, but that increased 50% to over three million new users a month after the pandemic began. Zohar emphasizes that the trend to global internet e-commerce is not going away. Much of the acceleration to the web, Zohar believes, would have happened anyway over the course of three to five years. Instead it happened in two months.

Wix Freemium Revenue Model

One unique element of Wix is how they evaluate cohorts of customers who join on a monthly basis to see how their free trials turn into future revenue. One thing that separates Wix's free trial is that they don't require customers to give credit card information to get the trial. They really want to add value with their premium products that motivate the paid service—which tends to start at base levels of $15 per month. Zohar believes if you are not paying for hosting services, "that is a no-brainer" for a small business. There are some additional services like CRM that one can add on top, but that is the main level of service.

Zohar believes their current set of free users will translate to over $7 billion in future revenue, while their current run rate revenue is closer to $1 billion. This means that even if they added no more cohorts, they can harvest their current free users for some time to support future growth.

Measuring Marketing Spend

Wix has a laser focus and a conservative view on how to measure the time to return their marketing dollars in revenue. Their team is targeting seven to nine months before their marketing dollars return to revenue. They evaluate effectiveness this way for all new marketing spending.

Expanding to Professionals: While Wix was started as an effective platform for do-it-yourselfers, they are now trying to raise their profile for designers and agencies with a new coding environment within their system. Their new EditorX platform brings features like those that Adobe offers, but for working on the web and building websites – so these two services could be a big expansion of their addressable market—as much as 10 times, according to their investor relations deck.

E-Commerce Competitor to Shopify: Wix has an e-commerce platform that competes with Shopify and they have up to half a million businesses leveraging their technology. The team at Wix has invested a lot in this product over the last two to three years. Zohar believes their product is simpler to use for the very tiny shops, while they don't yet compete for bigger businesses. The middle ground was mostly a Shopify domain in the past, but Wix is competing with them more and more.

Handling Remote Work: Zohar, as COO, was early to lockdown in March, a month before New York generally. He believes we are going to open and close in fits and starts but does not think we will have a full all-clear signal until next summer. He also believes companies have fallen in love, understandably, with work from home.

The views expressed in this blog are those of Adam Fisher (Bessemer Venture Partners) or Nir Zohar (Wix) any reference to "we" should be considered the views of Mr Fisher or Mr Zohar and not necessarily those of WisdomTree Europe.

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