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Freshworks, Inc. (FRSH)

Bank of America Global Technology Conference

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CORPORATE PARTICIPANTS

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

The Senior SMID-Cap Software Analyst at the Bank. Really, really pleased to have Freshworks with us today and Mika. So, thank you so much for coming out. I really appreciate you coming.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

Thanks for having us.

Unverified Participant

I don't know if you [indiscernible] (00:05:40) begin with, any kind of overview, any kind of disclaimer. [indiscernible] (00:05:44) you wanted to start.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

I can introduce myself and just talk about my role here.

Unverified Participant

Yeah. That'd be outstanding. Thank you. Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

So, I spent my career on scaling companies, and so companies like Microsoft who have gone from on-prem software to subscriptions, coming from Windows. They want to go into new markets. So, Russia, Brazil, India, China, work on those strategies. We want to digitize their go to market. That was work at SAP, focus on SMB, was work at SAP. So really companies that want to go into different markets want to go into different channels. So, SAP, Microsoft, Amazon, Adobe and so now at Freshworks, I work on skilling Freshworks.

Unverified Participant

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Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

And so, I lead marketing. I lead the sales organization that handles the new business expansion and customer success motions for customers below 500 employees and then the support organization at Freshworks as well.

QUESTION AND ANSWER SECTION

Q

It's a great segue to my first question for you. And can you talk about the Freddy Copilot attach rates in SMB?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

I can. What's amazing is it has actually been a really good accelerator for growth for us in the new business space, on the expansion space. If I talk – if I think about every quarter that I've had conversations with customers, talk to a few dozen customers every quarter, at the beginning or middle of last year, it was like we're kind of thinking about AI, near the end of last year, it was – we're piloting AI and there has been a dramatic shift over the last couple of months where it's like we want to go in and put it in production and start seeing efficiencies now, but not sacrifice efficiencies for customer satisfaction and employee satisfaction. And that with, for example, an electronics manufacturer in February, out East here in the United States, and they're like, maybe we'll consider AI, I met with her two weeks ago and she's like, please help me put in AI to eliminate mind numbing tasks.

Q

Yes.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And so, it's been amazing to see the acceleration of how many customers are going from wait and see to pilot to, I want to put it into my business and actually see some growth. And so, we're seeing quarter-on-quarter increase in attach rates and now we're at over 20% attach rate for Freddy Copilot...

Q

Like incredibly high...

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...which is amazing.

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Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And we're seeing actually really healthy expansion business for Freddy Copilot as well with our – expanding our businesses. So, it's been great, increasing the value we can give to our customers that are already in our portfolio. So, it's really been a good accelerator for growth for us.

Q

And I'd love to get a better understanding like what the catalyst has been for the companies moving from, we're thinking about AI – to we're doing a science project, Test with AI, to reaching out to you now and saying, what can you provide to help us here? And before we start, [indiscernible] (00:08:35) about our kids and trying to find internships and there are stories all over about kind of note that...

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

The school is real.

Q

...well, about the no firing, no hiring economy that we're in. So, I'm just curious if that's been part of the catalyst for companies, don't have the budget to hire more people, but are still trying to increase productivity and workflow and maybe how that's contributing, the macro contributing to the inbound phone call through outreach that you're hearing about how can we use AI?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Yeah, the main catalyst is exactly what you're saying is let's find efficiencies. But the thing that we've seen a lot of in more press has said, we're going to see AI completely eliminate jobs and completely drive for efficiency sake only. I haven't had one customer conversation where it's just been about efficiency. It's been about how do I make sure – and this is large customers, the very small customers is how do I actually increase customer satisfaction? How do I actually increase retention of my customers while I drive efficiency? And so, the goal has been to do two things. One has been how do I accelerate – accelerating growth in my company? How do I make sure that my top line grows faster than my bottom line?

And so that's been a major, whether it's medical companies, whether it's consumer product companies or software companies. And some companies are then taking those funds and actually using those funds to invest, right. There's no extra money to invest in innovation, but they're using the money that they would have otherwise spent on straight lining their OpEx with their top line with people and using that to innovate or upskill their employees to be able to deal with more complex issues.

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Q

Yeah. Makes total sense and very consistent. So, how is Freddy Copilot contributing to customer ACV retention? So, the general economics of your business with customers?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

We're seeing economics in every single major lever.

Q

Yes.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So, from a new business standpoint, it's helping us get customers not just buying AI, but customers actually buying higher plans. And so we have a number of plans that we offer small and mid-sized businesses and they're buying higher plans so they can enjoy the benefit of more functionality to coincide or to work alongside either Freddy AI Copilot or Freddy AI Agent. So, it's helped us increase the ACV for our new business. It has been incredible for us in terms of being able to drive an expansion motion. And so what we're seeing is that the mix of expansion is shifting, so that we have more of our expansion motion on taking up add-ons versus just relying on agent adds...

Q

Interesting.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...we're actually seeing a lot more of our revenues from an expansion standpoint, take place with AI investments as well as other investments of extending, for example, for Freshservice, which is ITSM products.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

We have a lot of customers that use that in SMB and they're saying, hey, I see these benefits in IT, but I actually want to see these benefits in my HR department. So, we're actually seeing our ESM product.

Q

Okay.

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Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...actually do very well in the SMB space as well. So, we're seeing AI do really sell from an expansion standpoint and we're actually seeing other add-ons do extremely well in the SMB space. And that trending took place throughout last year. We saw really healthy expansion business in Q1 for us as well as new business attach of Freddy Copilot. And then we're – our linearity for Q2 is looking pretty solid too.

Q

Okay. That's a great commentary. I want to touch on pricing for a moment, which I know it's also core to your job and how do you think about pricing for Freddy Copilot or other products to kind of balance between maximizing profitability versus penetrating the market and that whole expansion motion that you mentioned earlier. So, what is the right pricing strategy in your view?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

I think that we're seeing the market move to more use based...

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...pricing, resolution-based pricing or employee account-based pricing...

Q

Which is much more intuitive. Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Which is a lot more intuitive. Right now, we're pricing a per agent fee. And so, what we're doing is we try to remove that friction, especially in the SMB space. We're bundling it. So, we're saying, hey, if you buy this higher plan and you buy it with Freddy Copilot, you can get this bundle at a reduced price and we don't discount that price beyond that bundle first.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

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So, it actually helps us preserve a lot of our top line because we just say we don't – we aren't going to discount it beyond that price. So, right now, we're doing it on a per agent from a per-agent perspective.

Q

Yeah. Okay.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...but we're considering other models [indiscernible] (00:13:28).

Q

Are customers asking for more of the consumption or usage-based pricing? Is that a conversation that you're initiating with them?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

They're not, actually.

Q

Okay.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

I think that there's still a – as we look and we're studying – like we study other business models all the time. And as we look at other business models in the market, I think what we're seeing is that it's still a wait and see in terms of moving from an agent-based pricing to a utility-based pricing for the type of business that we're in. I think market's moving there, but we're not having customers actually ask us for that.

Q

How worried are you there to move towards more consumption-based model for AI and Freddy Copilot specifically that it accelerates the drive towards pricing at basically marginal cost rather than a per seat model, where maybe the margin kind of profitability is less clear to customers, right?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

I think that going to a per – going to utility-based pricing actually is more predictable for customers, it's [indiscernible] (00:14:29) for us. Based on our product roadmap, we want to make sure that we're driving enough value with our products so that there's enough – [indiscernible] (00:14:38) value in AI, for example, that will make sure that we can continue to grow, that we can continue to see growth and we continue to see opportunities to be able to drive add-ons like we had done for our customers like AI for our customers and we're looking at other

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innovation and you'll see – next week, we have an event where we're talking about some of our announcements in terms of other innovations that we're driving. And so, as we look at the CX business specifically and we're seeing a lot of customers ask for how do I drive a unified experience across email, across social, across the Web and voice, where I think some people thought, well, voice is going away because everybody wants to be digital, everyone needs...

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...not for talking.

Q

Yes.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

We're actually seeing the opposite in every single customer of all sizes, we're seeing – ask about voice. So, that's something that you may see us actually invest in the future.

Q

Is there anything you want to preview today for the event next week in the innovation in new products?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Not necessarily. I'll keep the cat in the bag [indiscernible] (00:15:40) go and get trouble with...

Q

I think we are being webcast, so.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

You tried.

Q

I had to try. There's been ongoing investor concern about the CX business, right.

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Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Yeah.

Q

And that was going to continue to deteriorate. You've done a notable job actually stabilizing that business. And so what does it take to continue to stabilize and then drive that business back to growth?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Yeah. We are not necessarily in a really awesome place, I think at the beginning of last year with CX. We have stabilized that growth and we've actually seen – last quarter we saw 7% growth in our ARR and that's actually consistent with what we saw in Q3 and Q4. And again, Q2 is looking pretty good. But we want to – as we look at the market, market's growing at mid-teens. We'd like to – our goal is to grow at mid-teens. And so the accelerators to growth for us are making sure because when we're in front of our customers, we win. Our win rates are going up. Biggest competitor, Zendesk-Intercom. When we go head-to-head with our competition, we win. And so those, again, like I said, win rates are going up. So, getting in front of more customers is something we're really focused on. Accelerators for growth for us are being able to really lean into our partner channel. That's something that we've started to lean into. I think we need to be more aggressive at leaning into our distribution channel from – a distribution from a partner standpoint and there's an opportunity for us to look at co-sale partners. So, other customers, sorry, other companies that focus on small businesses and say, hey, how can we co-sell because it's better together?

Q

Yes.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

We're also looking at our PLG motion. That's been a motion that you've – we've had high hopes for a number of quarters that hasn't really paid out...

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...but is a massive opportunity for us. And so, we've got new product leadership that came on in Q4 of last year and we've started to innovate a little bit there with some end products, nudges and messages to customers when they're trying our products and we're starting to see green shoots there. So PLG motion is something that's going to be strong for us. Ongoing execution rigor and lastly, we've actually renovated our whole CX strategy because we have new product leadership as...

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Q

Yes.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

... we have a new leader. His name is Venky and he came in late last year. Extensive experience in the CX space. And so he – we presented our new CX strategy to the board at the beginning of this year. We're starting to – and you'll see some of the announcements for the benefits that we're seeing already...

Q

Okay. We're good.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Next week.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And so, seeing some more product innovation and seeing more of a unified approach to how our customers can deal with their customers, whether their customers want to deal with them through social media, through their website, through voice or through email. You can see one single view of the customer regardless of how they contact you. Adding efficiencies with AI, whether it's Freddy Copilot as assistance to an agent or deflecting the mundane tasks or the mind-numbing tasks that our customers follow.

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...with Freddy AI Agent is also an opportunity. And so, there's a lot of innovation coming out that we believe is going to drive increased growth and from a new business standpoint and massive opportunities for us in terms of what we can do for expansion of our existing customers, whether they're CX customers or cross-selling into our EX base or ITSM base in the SMB space.

Q

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You touched on the partnerships earlier. I want to go back to that. So how have you re-ramped the partner relationships, whether it's through partner compensation, partner education, social relationships with them, expansions? How have you reworked that to improve that and I guess accelerate that ocean?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Everything you just mentioned. So, really trying to drive more regular touchpoints with the customers that we – sorry, with the partners that we've got. We weren't that strong previously. We brought in new leadership to deal with our partner channel, partner strategy last year, [indiscernible] (00:19:48) and so we're looking at how do we actually drive more consistent relationship with our partners where it's less transactional and more of a relationship.

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So, it is – we've looked at moving away from commission-based compensation to more compensation that is more tied to their performance and incent them to actually perform better with them.

Q

What does that mean exactly though, moving away from commission-based to performance-based compensation?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Previously, it was just a straight up percentage on it from a commission standpoint.

Q

Yes.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And now it's more tied to their performance and so when they grow – when they grow, they'll make more money. And so they're positive there. A big feedback point we have also is enablement. So, how do we get them up to speed on our latest innovations and our latest roadmaps? And so that's something we're leaning into as well. And interestingly, a lot of partners are looking to modernize their and scale their go-to market approaches. So, something that we're doing is to help them with running their businesses more effectively. They're looking to drive an outbound motion. So, where they've typically dealt with inbound motions from a lead standpoint, a lot of our partners are looking to build an outbound motion, which is how do I find a set of customers that I want to go after and how do I strategically go after them? So, actually driving workshops on saying, hey, here's how you can run your business better.

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Q

Yes.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So it's a lot more of a relationship on how do we make you successful as a partner, them successful as a partner. And so that's what we're doing with our existing partners. We're going out to recruit new partners and bring them online and make sure that the partners that we've got in our family are actually producing for us versus idle partners that aren't producing. So, it's just constant touch points and more deliberate efforts. So, we talked about our announcement next week. There's going to be a partner track for inviting our partners with us.

Q

Oh, great.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

... previews to our roadmaps to have them have input into our roadmaps. So, it's more – it's far more of a relationship and less of a transaction.

Q

Are you actually actively curating your partnership, so calling the ones that maybe aren't effective or aren't accurately depicting your brand, right, or your products and then trying to, I guess, add ones that you feel could do that better. Is that something you actively do or is it more reactive?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

No. It's exhaustive.

Q

Okay.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So, we've got a pipeline of partners. We've actually got a big pipeline of partners for our field organization, so our larger customers, as well as targeting small- and mid-sized business customers. We've got a pipeline of partners that we're actually proactively going after and getting them and bringing them in. And then looking at the partners that are currently with us in our – as part of our portfolio now and paying more attention to those that are producing more for us or leaning into us to be able to drive more growth with us.

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Q

You mentioned product roadmap earlier and I'm sure next week, you're going to walk us through a lot of that. But maybe heading in from a different direction. What are your customers asking you for? If you have conversations where like, I love your core products, but I wish, right. Like, I wish you had this, I wish you had that or this capability. What do you most frequently hear customers want to see?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

In the CX space, it is a more unified and integrated approach to how they can deal with customers from multiple channels. It is helping them be more efficient while raising the bar from a customer satisfaction standpoint and that actually they're asking us more – we're seeing more customers ask us about AI and what the possibilities of AI. The benefit we have is that we have thousands of customers, 2,700 customers using Freddy Copilot.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

We've got 1,600 customers using Freddy AI Agent. And there's no shortage, as I'm sure all of you see, nor shortage of companies out there that are touting AI and Agentic AI. Challenge is that there isn't a lot – with a lot of proof with thousands of customers and a lot of proof points of having really delivered value.

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And that's saving time from a Copilot standpoint or deflecting L1-L2 tickets from an Agentic standpoint or – sorry AI agent standpoint, conversational AI standpoint. And so we're able to say, look, companies that look just like you within hours or days are able to get up to speed because it's pre-integrated on our products. You don't have to have a data scientist, a bunch of consultants or a bunch of extra staff online to actually bring AI up and get it running and continue to have it learned on your behalf. And so that's been a really good tailwind for us in terms of seeing growth for us as a company and bigger deal sizes. And so, customers are actually now proactively asking us, like the woman that I was talking about...

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

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I visit her frequently. Consumer electronics manufacturer, and she was like, wait and see, maybe pilot. And now she's like, please help me with my mind numbing tasks. She's asking and pulling and we're seeing this all over is just customers saying, hey, can you help me get more efficient. Met with a medical company, just last week said the same thing. I just – I need to – actually we're growing amazingly fast. We don't want to grow our OpEx at the same rate. So, how can you help me get to be more efficient while I can still innovate and drive extraordinary customer satisfaction. And so, that's what our customers are asking for is more integrated, faster time to market, faster ROI, less complex solutions. And that's why we're winning against a lot of our competitors, whether it's ServiceNow, even in the small and mid-sized business space and again, Zendesk is because we're less complex or less costly to run. And the ROI is actually realized over time quicker for our customers. And so, they're asking us for all of those things and we're able to deliver.

Q

And the ROI point is really interesting thing. We've heard the last couple of years, we've run our IT spending survey, which is probably most recent one this week, by the way that customers are increasingly focused on shorter term return investments, right. So investments [indiscernible] (00:25:38) at 12-month or less return because again pressure from their own CFOs. So, as you kind of market or pitch to the customers, what do you pitch as the ROI and then kind of the cash-on-cash return? How do you pitch that?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

We pitch it and I mean, I drink my own champagne as well with [indiscernible] (00:25:55).

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So, we use Freshdesk. We use our AI products. And what's amazing is that when you stand up AI agent, for example, and it no longer – because it's conversational and you can point to a dataset or a knowledge base and it can get up to – it can get up and running within hours or day. It immediately starts deflecting tickets. And so, we see 50% to 70% deflection of L1 tickets...

Q

Wow!

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...which is really extraordinary because I need – just need fewer people to, again, get rid of those, not have to deal with a mind-numbing task...

Q

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And they're expensive seats too.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Well, they're.

Q

Right.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

The thing is that there – I mean support individuals are not – they're less costly than some knowledge workers.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

They turn over fast, right. And you have to get that up and running.

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And so you want to make sure that you can retain and maintain a set of people to deal with complex tasks. And then the people, you just don't want to have to staff people to deal with password resets or inventory status, for example, and you're just – that's not worth a human being.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And the way that AI agents work now is that they're more conversational, they're more – it feels like someone's actually paying attention to you and talking to you. And so, customer satisfaction has gone up. With us, our use of AI, whether it's Copilot or whether it's AI agent, our customer SAT has gone up and we're able to actually deflect more calls and save 30% to 40% of an agent's time when using Copilot. So, it's time savings so that they can deal with either more customers over a set of time or more complex customers. And then it's fewer agents that have to deal with mundane tasks so you can deal with more agents, highly skilled agents that then attrit not as fast to deal

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with more complex issues. And so, it really is efficiency and increase in customer SAT, which ultimately leads to opportunities for either expansion or less churn for those customers.

Q

No, makes a ton of sense. I wanted to touch on the macro for a second, it's been a sort of topic over the last few months, at least. And there's been a lot of concern about the macro impact on SMBs, right.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Yeah.

Q

...your core market. So maybe help us understand what you're hearing from your customers as they talk about the macro and the uncertainty and their willingness to either lean in or maybe pull back from making investment?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

The macro – we don't – I talk to dozens of customers and they have not mentioned macro as being a major reason why they may not invest.

And so now I feel like I need to knock on wood just to make sure I'm not [indiscernible] (00:28:35) myself, right. But I have not had one customer worldwide, regardless of size, actually say we are not investing because of the macro. What they have said is I need to make sure that this drives returns for me because I'm putting my neck on the line to drive this investment. And a lot of companies are actually looking to us to be able to invest because they are actually saving money because they're dealing with vendors that are actually more complex in terms of their human capital to actually run their systems, the licensing costs to run their systems. So, they come to us and they say, hey, and so I guess we can benefit from the macro is that we got a lot of pressure.

We can free up cash on people and licensing costs by investing with us. We see faster ROI. Our customers see faster ROI and then they can free up that money to be able to innovate or to put it to the bottom line. And so, but there hasn't been a lot of customers that have said, look, I can't invest with you because of the macro, it's more we want to invest because we want to see greater efficiencies, we want to increase our customer SAT because most of our customers, except for those very small customers are moving from outlook to – using outlook to using an official system. A lot of our customers are using either a really nascent system or a more clunky system from our competitors that again costs more to license and costs more to run.

And so, they just want to see more efficiencies. So, the macro itself has not been – has been less of a reason, has not been a reason for them not to invest. It's been more of a reason for them to lean in and invest with us, which maybe is a reason why we're seeing an increase in our win rates, both in the EX business in SMB as well as in our CX business.

Q

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Which has really been the surprising part as well, right, the increase in win rates now while you've done competitively in the last 12 months and I'm sure you think about it a lot. But how do you – even just in the kind of bigger, more complex solutions that are out there, big name brand companies. How do you define your lane and how do you keep those larger competitors out of your lane, right, so you can continue to have the competitive advantage and the win rates that you talk about?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.
A

Well, they keep themselves out of our lane because they're more complex, right. And they're more costly. And so we have no business in running Bank of America, right. I mean, we would not want – because Bank of America needs, so very complex companies need bespoke solutions for which some of our competitor are very well-suited.

Q

We want everything custom-built. Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.
A

And you need it.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.
A

You have to...

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.
A

...for security reasons based on the complexity and size and scale of your business, you have to. But a lot of our customers, which are customers, if I think of our whole portfolio at Freshworks, their customers who are saying, hey, I don't need all of these bells and whistles. I don't need them and therefore I don't want to pay for them. And then I really don't want to have the set of people that are sitting after the side, whether it's Salesforce or Zendesk or ServiceNow, I don't want to have a set of people on staff or consultants have to sit there. And when I want to make a change, when I want to make a change, I have to go deploy them to make a change and wait forever to make that change.

Now we have admins that can make changes in the system. We have people within the companies already that can implement the systems. And again, you talked about ROI within the year, the CROI within a quarter, the quarter that they invest with us. And so, that's been a really big benefit for us in terms of seeing returns for our

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customers and again seeing a lot of win rates from our partners. So, they stay – they essentially stay in their lane because they're just more complex, by nature of their businesses and by nature of – by virtue of who they focus on.

Q

And your expectations is that they will continue to focus [indiscernible] (00:32:32) more bespoke complex solutions and that they wouldn't also want to create a similar easy-to-use, plug-and-play product to at least take part of that market?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

I'm sure they would want to. I mean, it's an amazing market. It's hard to move when you're a bespoke or a very complex solution. It's really hard to move down market. I mean, I've tried at SAP. I'm trying to focus on the SMB market and trying to move down market, it's a really hard thing to do.

Q

Yeah. It's a cultural thing as well, right. Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Cultural, and right that the ability to drive a predictable scale and scale and scale motion that focuses on the SMB space, right, and in the mid-market space is a very different motion than the true enterprise motion.

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And it's not just the sales motion, it's the support motion, it's the community motion. It's actually what's expected of customers from an end product experience standpoint. And it requires you to divert a set of engineers within your organization to focus on that market, which if you're focused on the upper end of the market and then also like upper end, I mean, Fortune 500...

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

...moving them into focusing and simplifying our product is actually quite complex for those customers – for those companies, sorry.

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Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So, they essentially stay out of their own lane or stay out of our lane themselves by being – by virtue of them being complex, which is a great fit for certain customers like Bank of America.

Q

Yeah. That makes a lot of sense. Maybe time for one more question. You kind of touched on it earlier, but the strategy for free-to-paid conversion, can you just walk us through your strategy, how that evolves over time?

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Sure. So, we had no strategy before. And so essentially we allowed as many agents as customers want.

Q

It's a great job security comment, by the way. Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Yeah. No strategy.

Q

[indiscernible] (00:34:23)

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

That was – the free-to-paid was a target-rich environment, definitely, because we allowed customers to essentially enjoy our product perpetually for free, regardless of how many agents they wanted to have for free and it was a downgraded version, but it was good enough.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

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So, we did in Q3 of last year is we limited the number of agents you could have for free and so we limited to two. And so now customers can only enjoy two free agents on our free-to-paid, like free plan.

Q

Sure.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And so that converted about 2,000 customers in Q4 and about 600 customers in Q1 of this year to paid...

Q

Tremendous left. Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Which is awesome. Yeah.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Yeah. It's paid. And they're happy customers. And then now we're actually limiting how long you can enjoy free.

Q

Okay.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So, what you'll see in the next few weeks is us going into saying, look, you can have two agents and you can only have it for six.

Q

So, size and duration now are the gating factors for how long you can keep that migrated. Okay.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

Yeah, and it's actually the conversion of the customers that were on free because they've enjoyed the benefits of being on Freshdesk to move and to convert, it was actually surprisingly a lot higher than we thought.

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Q

Well...

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

So, it's good, it's great.

Q

Yeah.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

A

And they stay with us, a lot of them are still with us, so it's good.

Unverified Participant

Well that's amazing. That's a good place to stop. Thank you so much for coming in today. We really appreciate it.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

Thanks for having me.

Unverified Participant

Okay. Thank you all.

Mika Yamamoto
Chief Customer and Marketing Officer, Freshworks, Inc.

Thank you.

Unverified Participant

Thank you again for doing that.

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