

Connecting The Censored Internet: AnchorFree CEO David Gorodyansky, Mountain View CA (Part 1)

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David Gorodyansky is the CEO and co-founder of AnchorFree. Previously, David founded Intelligent Buying Inc., a profitable asset management company and reseller of IT enterprise networking equipment. Prior to that, David launched a B2B Web service in the field of Competitive Intelligence, which in turn, gave rise to the spin-off of a large network of IT Service Management portals. David's earlier work experience has included several years of wireless research, planning, and enterprise strategy at Remedy Corporation, Fulcrum Management, and work with analyst companies such as Gartner Group, IDC, and Meta Group. David is a member of the Society of Competitive Intelligence Professionals and an advisor on the Technology Expert Council to Edwin Lee, the Mayor of San Francisco

Sramana Mitra: David, where are you from and where does your story begin?

David Gorodyansky: I was born in Moscow, Russia. I moved to Palo Alto with my parents when I was 9 so I pretty much grew up here. They were engineers and found jobs here. I went to high school here and then went to **San Diego State** for business school. While at school I founded my first company, **Intelligent Buying Inc.**, with the same gentleman who is the co-founder of **AnchorFree**, **Eugene Malobrodsky**.

That company was relatively success for a team of college students. It had a small IPO as an OTC. It was pretty cool for being in college. That company was in the IT asset management space. When the crash happened we would buy up their networking equipment and then sell it to new startups. We made a million dollars the first year which was great for a college project. We started in our garage before we rented a small cubicle in a building. We ended up taking over the entire building.

Sramana Mitra: When did you finish with that company?

David Gorodyansky: We exited in 2005. We wanted to invest in something that would have a real impact in the world. We came up with the idea of creating a private VPN that we could give away for free. We could essentially put every user in the world in control of their privacy and identity online.

In 2005 people were not conscious of the **dangers of being tracked online**. Today they are more aware of that. There is legislation that Congress is trying to pass to prevent people from tracking you online. We have had members of Congress reach out to us because of what we already do. We came up with the concept of building a platform where everybody in the world could be secure and private, and that they could access it for free.

To make it sustainable we came up with an ad platform to monetize the software. Typically VPNs are used by enterprises to get to their employees. We created a **VPN for the masses**. It is not enterprises, any average person can use it to be secure and private. There is a downloadable client that you can download and turn on. Once you turn it on, then every web page users visit with **Hot Spot Shield** is delivered over https. The easiest way to explain this to consumers is that your email is just as secure as your banking site. We https as much as 2 billion pages a month.

The other thing **Hot Spot Shield** does is it encrypts your Wi-Fi connection. Public hot spots are almost always unsecured. We secure it for you. Our product also gets rid of your IP address so your ISP cannot track what you do, and neither can we. You become totally private. We protect you from the bad guys, good guys, and ourselves. We designed the system to be that way intentionally.

Connecting The Censored Internet: AnchorFree CEO David Gorodyansky, Mountain View CA (Part 2)

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Sramana Mitra: In 2005, did you plan to do what your business is doing today?

David Gorodyansky: This is what we planned to do, but it has evolved a bit. There is another very major functionality of the product that we did not even realize when we launched. We filed a bunch of patents after we launched in 2005, and we raised \$6 million of venture capital a year later. Between 2006 and 2008 we **distributed the product through word of mouth** to users throughout the United States, Western Europe, and Canada.

In 2008 we saw a very interesting trend. We saw a lot of users coming from emerging markets, and they were using the product for very different reasons. They used it as a conduit to **access content that is censored in China**, Indonesia, Egypt, or Saudi Arabia. We never thought about that

functionality when we started the company, but we realized that it could be powerful. We were making a real impact on people's lives because they would have no other way to get to the Wall Street Journal, Facebook or Google. We then went out and raised another \$5 million venture round to help, in part, with our **new focus on emerging markets**. That part of the business has definitely evolved.

Sramana Mitra: In 2005 you started with a hypothesis, and you raised \$6 million in 2006. How did you validate your concept between the time you founded the company and the time you raised venture capital?

David Gorodyansky: We raised money on a concept. We founded in late 2005. We raised money on the patents that we had filed because we had about 20 of them.

Sramana Mitra: From the time you raised money and launched your first version of the product, what was your process to get the product in the hands of your customers?

David Gorodyansky: We did not know what would happen three years down the road. Too much analysis and market research is useless. You need to focus on the road right in front of you. In our case we did not do any marketing. It took off by word of mouth.

We have two market segments that we address. There are **800 million users who have antivirus products** and use them to secure their computers. None of them have security for their Internet connections. We look at our total addressable market as 800 million people that use security but don't have a complete solution.

Sramana Mitra: How does an antivirus customer learn about AnchorFree and your products?

David Gorodyansky: People tell people. Some of that came from press releases, but primarily it has been **word of mouth**. We never had a marketing plan.

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Sramana Mitra: All word-of-mouth advertising is seeded somewhere. How did you seed your word-of-mouth campaign?

David Gorodyansky: I think it just kind of took off. I would love to identify a specific news article or event that made it happen, but I am not sure what that is. I know that it started taking off very fast like **Twitter** and **Facebook**.

Sramana Mitra: Facebook had a clear strategy about how they took off. They went campus by campus.

David Gorodyansky: In the early days we did talk to a lot of **Wi-Fi networks** such as coffee houses. We got them to put a link on their start pages. When people went to their Wi-Fi hotspots they would see AnchorFree on the front page. We are still at the **San Jose airport**, and we went live there in 2007. Those places realized that they needed security and we were a way for them to offer security to their users free. I think that was the beginning.

Sramana Mitra: You said you look at your total addressable market in two parts. The first was the 800 million people who use security products. What is the second part?

David Gorodyansky: There are 600 million people in emerging markets that are **faced with censorship**. They can get online but are restricted as to where they can go.

Sramana Mitra: How do they find out about you?

David Gorodyansky: In that case they can only find out by word of mouth. In this case you don't have to write a whitepaper. If they want to get to **Facebook**, then they can just install our software and suddenly they can get there.

Sramana Mitra: Somebody in those markets had to figure out that it was possible by using your software. You didn't figure that out because your customers figured that strategy out for you. Do you know how your customers discovered AnchorFree?

David Gorodyansky: I don't know. One of our guys was testing different things and talking to users online when someone told him in chat that he used our product to access Facebook in China. We then found out that you can get YouTube in Turkey and Skype in Saudi Arabia. We did not have to explain to anybody what the software does, they just got it. They figured that out very easily.

Sramana Mitra: That is very powerful for those cases.

David Gorodyansky: Yes, it is very powerful for those users. It took off very fast due to the security context. We played a key role this year in the **revolutions in Egypt, Tunisia** and throughout the **Middle East**. People were using the product to bypass the censorship. Even last year during the **Iranian** election there was a lot of press about **Facebook** and **Twitter** helping groups to organize. The question is, how did people get to **Facebook** and **Twitter**? They got there by using **AnchorFree**.

Sramana Mitra: What was your motivation for raising a second round of funding? Was it related to the censorship market?

David Gorodyansky: In 2008 when we had our second round of money, we did it exactly for that reason. We were already well funded to address the Western market, but we wanted to cater to the emerging market that really needed us.

Sramana Mitra: What did you have to do to your business to address the emerging markets if the business was already growing by word of mouth?

David Gorodyansky: We are not doing anything from a marketing point of view, but we do a lot from our engineering point of view. We are **growing our engineering team** very rapidly and actually have seven open positions today. We are **scaling our server infrastructure**.

We have about 9 million monthly users who access us 40 million times a month in order to access 2 billion pages per month. We enable 5 million people to gain

access to Google in regions where Google is censored. We enable Facebook access for 2 million to 3 million users a month. Pushing 2 billion pages through HTTPS requires as much bandwidth as eBay.

We have 45 people in our company, but we take on as much bandwidth as eBay. We have to pay for that bandwidth. We are fortunate that we do not have to spend a lot of effort on marketing because our company is **growing organically**. We are, however, spending a lot on engineering and product.

Sramana Mitra: Let's talk about your business model. How does an advertising-supported VPN business work?

David Gorodyansky: That has been our model from the beginning. Some of our patents filed in 2005 cover the concept of making consumers private while providing targeted ads. Typically those two things do not go well together.

I am a speaker every year at **Yahoo! Business and Human Rights Summit**. Privacy advocates, bloggers, Google and Microsoft are always there. **Microsoft, Yahoo!, and Google** always send their lawyers to the conference. They never send their businesspeople because for those companies privacy is something that is defensive. For us, it is offensive. It is our business model. We have created significant IP around making users private while still targeting relevant ads.

Sramana Mitra: How do you do that?

David Gorodyansky: When the user signs on the first thing that happens is the IP address of the user is thrown out. We do not collect it, and we prevent the ISP and other websites from tracking it by providing an **AnchorFree IP address** instead. All 9 million of our users look like AnchorFree users to other websites.

Once user identity has been stripped away, they go out and surf the Web like they would any other time. Every page the user visits has cookie targets. If you are searching for furniture on Google, then they can show you furniture ads based on cookie data. We **anonymize your identity** but allow your cookies to come through. We know contextually that private user 123 is looking at furniture, so we show them furniture ads. We can target ads without **violating user privacy**.

Sramana Mitra: What is the ad server infrastructure that supports 2 billion page view a month?

David Gorodyansky: It is our own infrastructure. We work with a lot of partners to sell the ads. We have hired a lot of engineers but not a lot of ad sales people. We partner with companies like Yahoo! and AOL to sell the advertising for us.

Sramana Mitra: Does the algorithm that determines who sees what ads reside on your servers?

David Gorodyansky: It depends if they want to contextually target or not. Some advertisers do not care, they just want their advertising seen by a lot of users. Advertisers who want to target based on context can do so based on the content of the page, not the user. If you want your ads on Cars.com or the Wall Street Journal, you can put your ads there.

Sramana Mitra: The Wall Street Journal sells its own ads.

David Gorodyansky: The platform works in a specific way to allow us to conduct advertising. When the user turns on the platform and opts into our terms of use, the first thing they get when they reach **AnchorFree** is a welcome screen. That page has a search box, a video ad, and some display ads. The user can stay on the page or go wherever they want.

Let's assume the user leaves the home page and goes to **CNN.com**, **Facebook**, and then **Google**. Every page the user visits is converted from HTTP to HTTPS. That requires resources, so we had to monetize and the only way to monetize across all those sites is for us to create a web toolbar. It sits on top of the page of the browser.

The top 90 pixels of the browser is our Web toolbar and that is where we display our advertising. It follows you wherever you go. We put one advertisement per

page. If we encrypt 2 billion pages for our users, that also means that we serve 2 billion ads.

Sramana Mitra: What percentage of your inventory is monetized today?

David Gorodyansky: We monetize all of it, but some of it is monetized at low rates and some of it is monetized at high rates.

Sramana Mitra: What kind of rates do you see?

David Gorodyansky: People who want to target specifically can pay a **\$20 CPM**. People who do not care can pay a **40 cent CPM**. The rates go across the board, but we are able to sell the entire network.

Sramana Mitra: When did you start generating revenue?

David Gorodyansky: We started generating revenue in 2008. We are growing by about 200% year over year. Our first fully profitable year was 2009 followed by 2010. Today we have earned more than \$5 million in revenue and the company is profitable.

Sramana Mitra: How has your user growth been affected by the Middle East protests?

David Gorodyansky: In Egypt we had about 100,000 users before the uprisings. When they blocked Facebook, Twitter, and the rest of the sites, our usage jumped to 1 million users in a single day. We did not market or advertise; that was pure word of mouth. E-mail was working and people would tell each other. We set up an auto responder so that you could e-mail that address and we would auto-respond with the install file attached. If the **government blocked our website**, you could still get access to the install file.

Once the government realized that users were getting access to **Facebook** and **Twitter**, they cut all access to the Internet. At that point our usage went down,

but it did not go down to zero. It turns out some people still accessed us through their phones which were not blocked. They also got to us through dial-up services, the old 56K modems.

In Libya, the Internet would go down to zero every night and comes back online in the morning. We have users in 100 countries, and this does not occur everywhere else. Our hypothesis is that the government turns on the Internet for the oil companies in the morning, and then to prevent people from organizing it shuts the Internet off in the evenings. That is based on the traffic patterns that we have seen.

I am 29 years old. I have always wanted to do something that would change the world. My co-founder and I had the goal of founding **AnchorFree** to make a lot of money and then use that money to start a pure nonprofit.

Sramana Mitra: Why would you need to do a nonprofit to change the world?

David Gorodyansky: Exactly. That is what we have learned. Right now we have discovered that we have done both. This is the ideal way to do it. It is sustainable, which a nonprofit cannot do.

Sramana Mitra: What is happening in China? That is a highly censored country.

David Gorodyansky: China is growing and is definitely a highly censored geography. They have blocked our website. Our usage has quadrupled since they did that. We have about 1.5 million monthly users in China now. If you go to YouTube today and type in Hotspot Shield you will see dozens of videos. Only one of those videos was made by us. The rest are user generated. People are passionate about spreading the word.

Sramana Mitra: What other regions are interesting?

David Gorodyansky: The Western world users are concerned about security and we see a lot of use from travelers. The censored market is very interesting.

That includes China, Indonesia, Malaysia, Vietnam, Saudi Arabi, United Arab Emirate, and countries like that.

Sramana Mitra: Indonesia has a lot of censorship? I thought that was a very moderate country.

David Gorodyansky: They do censor off and on. Most of them censor YouTube because it is user-generated content. A lot of countries in Europe censor Skype. We are a huge **enabler for Skype. Telecoms in Europe hate Skype** because people get to avoid paying those ridiculous fees. Telecoms are also the ones who provide the Internet in Europe. Skype should love us because of how much we do for them.