THE GROWTH HANDBOOK

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Brought to you by Intercom

Authoritative, actionable strategies on how to grow your business.

Intercom builds a suite of messaging-first products that all modern internet businesses can use to accelerate growth across the customer lifecycle, from acquisition to engagement and support.
www.intercom.com

We also regularly share our thoughts on growth, marketing, sales, startups and the business of software.
blog.intercom.com

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Copy Editor: Karen Ostergren
Book Design: Judson Collier and Kelly Carpenter
Art Direction: Justin Pervorse

ISBN: 978-0-9861392-9-1

Got questions? Drop us a note at team@intercom.com.

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Chamath Palihapitiya, Founder and CEO,
Social Capital and Facebook's first VP of Growth

When asked, I often tell people that the key to understanding growth is two things:

1. A fundamental understanding of your product and, specifically, what the key reasons people use it are. It's easy to be confused about what true value looks like and, as a byproduct, conflate causation and correlation: motivations and root causes versus byproducts and outcomes. Knowing your true product value allows you to design the experiments necessary so that you can properly isolate cause and effect. For example, at Facebook, one thing we were able to determine early on was a key link between the number of friends you had in a given time and your likelihood to churn. Knowing this allowed us to do a lot to get new users to their "aha" moment quickly. However, this required us knowing what the "aha" moment was with a fair amount of certainty in the first place.

2. A simple framework for doing your work. Too many people "complexify" things in an attempt to seem smart. Great things are simple. We had a very simple framework for growth – acquisition, activation, engagement, virality. Having this framework allowed us to prioritize our work, design experiments, build products and so on. It also allowed everyone to understand it and see how decisions were made in a logical, transparent way.

This book will help you and your business understand all of the above. It serves up a full package of ideas, suggestions and lessons from across the entire spectrum of growth, from acquisition to activation. Featuring contributions from people who've grown businesses from $0 to many billions in revenue, it outlines time-tested advice for anyone working in product, marketing and sales.

Done right, a smart effort around growth puts companies into hyperdrive. Good luck on your journey.

EDITOR'S NOTE

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If your business isn't growing, nothing else matters. It's the perennial problem that faces businesses at all stages of their development. Late in 2017 we began to think about creating a podcast series devoted to the topic of growth. The thesis was simple: we wanted to interview the people who established the growth marketing function at some of the most successful software companies of our generation.

We got such a positive reaction from listeners that we began to think about how we could bring that content to an even bigger audience, the result of which is this book. As well as excerpts from our podcast, we interviewed our own team for their insights and have also included samples from some of the best writing on growth that helped and inspired Intercom in its early days.

The result is a set of stories from people who have figured out some of the hardest growth problems so you don't have to. Perhaps you're acquiring customers but they're not sticking around. Perhaps you don't understand what metrics you should be tracking? Or maybe you've found product market fit but are struggling with getting pricing right. This book will help you answer all of these questions, and much, much more.

The book is written as a collection of short sections, which are self-contained and address one of six topics we feel are essential to growth: acquisition, activation, retention, monetization, testing and optimization, and metrics and measurement. Read the sections in any order that works for you – this isn't a book you need to read front-to-back.

In each section, you'll find links to learn more about each topic. We don't pretend to have all (or even most) of the answers, nor are all of our ideas applicable in all situations. We'd love for this book to be the first point in your journey to learn more about growth, not the last.

Last but not least, we owe a huge debt to our contributors. Without their valuable insights and hard-learned lessons, this book simply wouldn't be possible. Thank you for all your time and wisdom.

Geoffrey Keating & Adam Risman, Intercom

ACQUISITION ACQUISITION ACQUISITION

In the early days of a startup, customers are likely discovering a product through word of mouth. At first, this looks like a founder emailing contact after contact, asking all of them to try the product and showing them how it can help accomplish their goals in a cheaper, faster or easier way. If the team is doing everything in their power to help those very first customers fall in love with the product, they'll tell their friends, and the cycle will begin anew.

Word of mouth is the most economical way to acquire new users, but over time, its returns are diminishing. This requires new thinking and new acquisition channels alike.

Let's be clear – there are no silver bullets when it comes to where and how to acquire new customers; there is, however, a golden rule before getting started: Your software has product market fit. Marc Andreessen, who coined the phrase, defines that as "Being in a good market with a product that can satisfy that market." In practice, that looks like:

- Software solves a fundamental problem;
- People who have that problem are able to find that software;
- They're successfully activated and experience value through the software;
- They stick around, and would be genuinely sad to see this software cease to exist;
- They tell their friends about the software; and
- Product usage continues to grow up and to the left.

When your software shows this pattern, and you've got a system in place that can accomodate onboarding and activating all these fresh faces, then it's time to ask, where are my future users spending their time? What pain points are most important to them, and how can I (cost-effectively) connect those dots back to my product?

The new sales and marketing funnel

Des Traynor,
Co-founder, Intercom

Sales and marketing funnels are a very old concept but they're finally changing in a substantial way. So many businesses, both B2C and B2B, are shifting to subscription models. This changes the nature of what it means to "close" a customer. Landing a new deal in this subscription economy might mean $500 per month, not quite the $20,000 upfront deal you once got. As a result it's no longer enough to just get a customer to convert. This new model only works when retention is strong enough such that the customer is still paying $500 or more in month 40 and your customer lifetime value is realized. In this new era, acquisition is just not as important as retention. Plan accordingly.

Acquisition is diminishing in revenue effectiveness

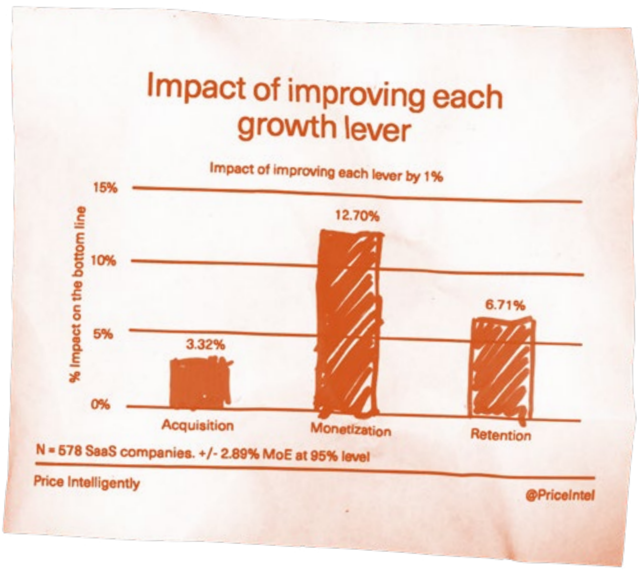
Patrick Campbell,
CEO, ProfitWell

The nail in the coffin is that the prevalence of competition and the rapidity in producing product has made acquisition so much harder that the effectiveness of focusing on that lever solely has diminished considerably. To put it another way, because it's continuing to become easier to switch from product to product and the increase of ad, content and social noise has gone up, it's not only harder to acquire a customer, it's also harder to keep them.

Yet, just focusing on acquisition means your bucket becomes so leaky, all you can do is add more customers to the top of the funnel in the hopes that you'll make up for all those you're losing.

To quantify this a bit more, we built what's called a simultaneous equations model to normalize and compare the impact of doing one unit of effort on acquisition, retention and monetization and seeing what that unit of efforts impact on that pillar. Put another way (although it's a bit oversimplifying), we basically looked at if you spent an hour of time on each of the three pillars, what would be the relative impact on that hour of time to your bottom line.

What we found is that if you improve your acquisition by 1% (by increasing your lead volume or conversion rate), you'll see just over a 3% boost in your bottom line. This contrasts starkly with the relative improvements in monetization (increasing your ARPU by 1%) and retention (lowering your gross churn by 1%) that see boost in roughly 13% and 7% respectively.



The individual numbers aren't as important as the relationship that shows improving your retention or monetization has 2-4x the impact as improving your acquisition. Yet, all we want to focus on is acquisition, and to make matters worse, data indicates that this trend is getting worse over time.

Excerpt from "Data shows our addiction to acquisition based growth is getting worse".

Short-term hacks vs. long-term strategy

Steli Efti,
CEO, Close.io

Most new businesses use short-term sales tactics to get their first 10 customers. That's great at the start but terrible for sustainable growth. Transition to more long-term plans as you grow.

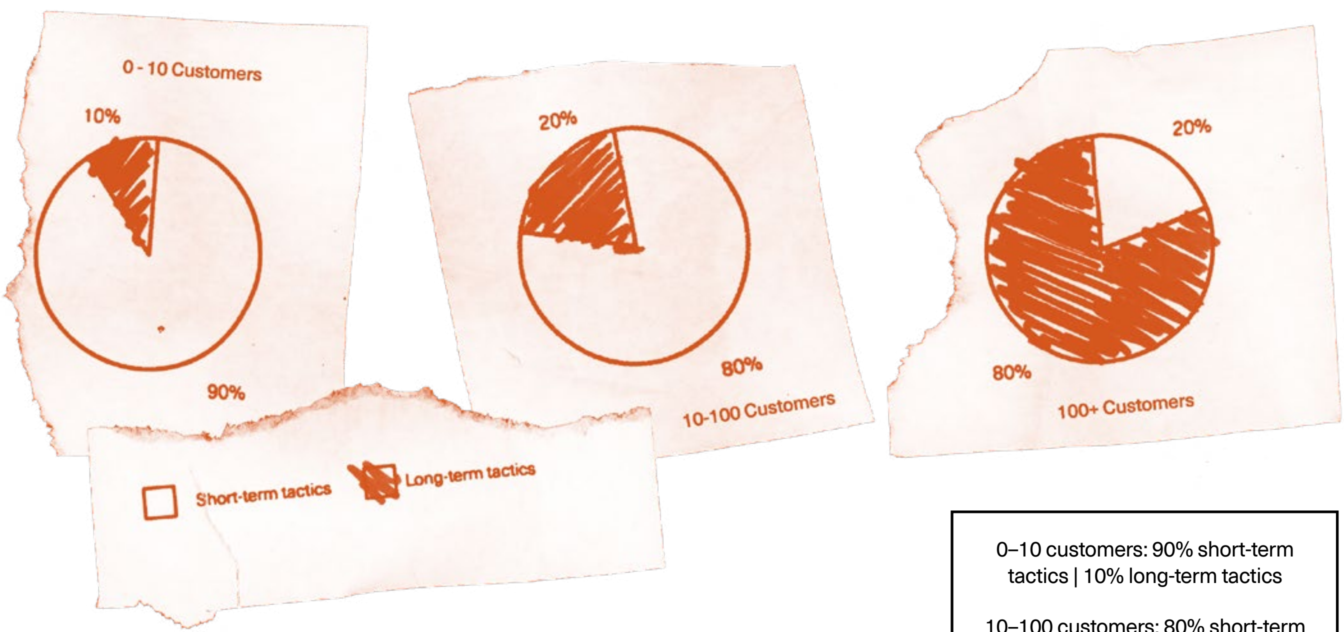
A short-term plan is one that you won't continue doing in the future.

For example:

- Handling every support call
- Visiting every new customer in person
- Personally following up with every new user
- Tapping into your personal and professional network to get customers

A long-term plan is one that scales with your business. For example:

- Cold-calling and cold-emailing
- Creating a drip email campaign
- Search engine optimization
- Building a scalable lead generation process



0–10 customers: 90% short-term tactics | 10% long-term tactics

10–100 customers: 80% short-term tactics | 20% long-term tactics

100+ customers: 20% short-term tactics | 80% long-term tactics

Excerpt from "Early B2B SaaS growth: How to go from 10 to 100 customers."

Don't trade growth for profitability

Brian Kotlyar,
Director of Demand Generation, Intercom

There's a silly old business expression that says, "We're going to lose a dollar on every deal, but we'll make it up in volume." It is also an extremely common way that venture-funded businesses think about how to grow. They think they can burn through tons of capital acquiring users and figure out monetization later. But no matter how much volume you have, if you don't make money on any of the transactions, you won't make money at all.

If you look at many of the initially successful companies that have come and gone over the past 36 months, that's exactly what they were doing. These companies had incredibly smart and experienced people, but the underlying business model was broken: They were creating volume businesses without a clear-enough plan for how to solve the profitability question. For a viable business, the value of the customer must exceed the cost of acquiring that customer. You don't need to have this solved on day one of your business, but you need to have a plan as to how that's going to happen.

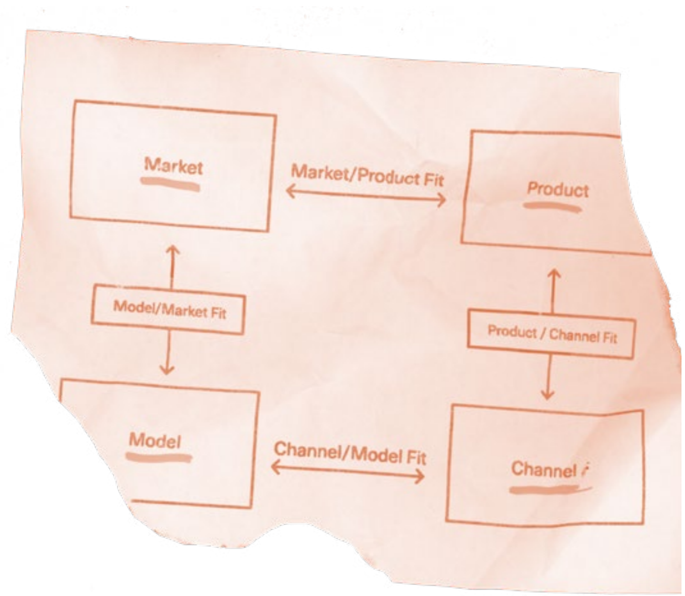


Image credit: [Brian Balfour]

After product–market fit comes product–channel fit

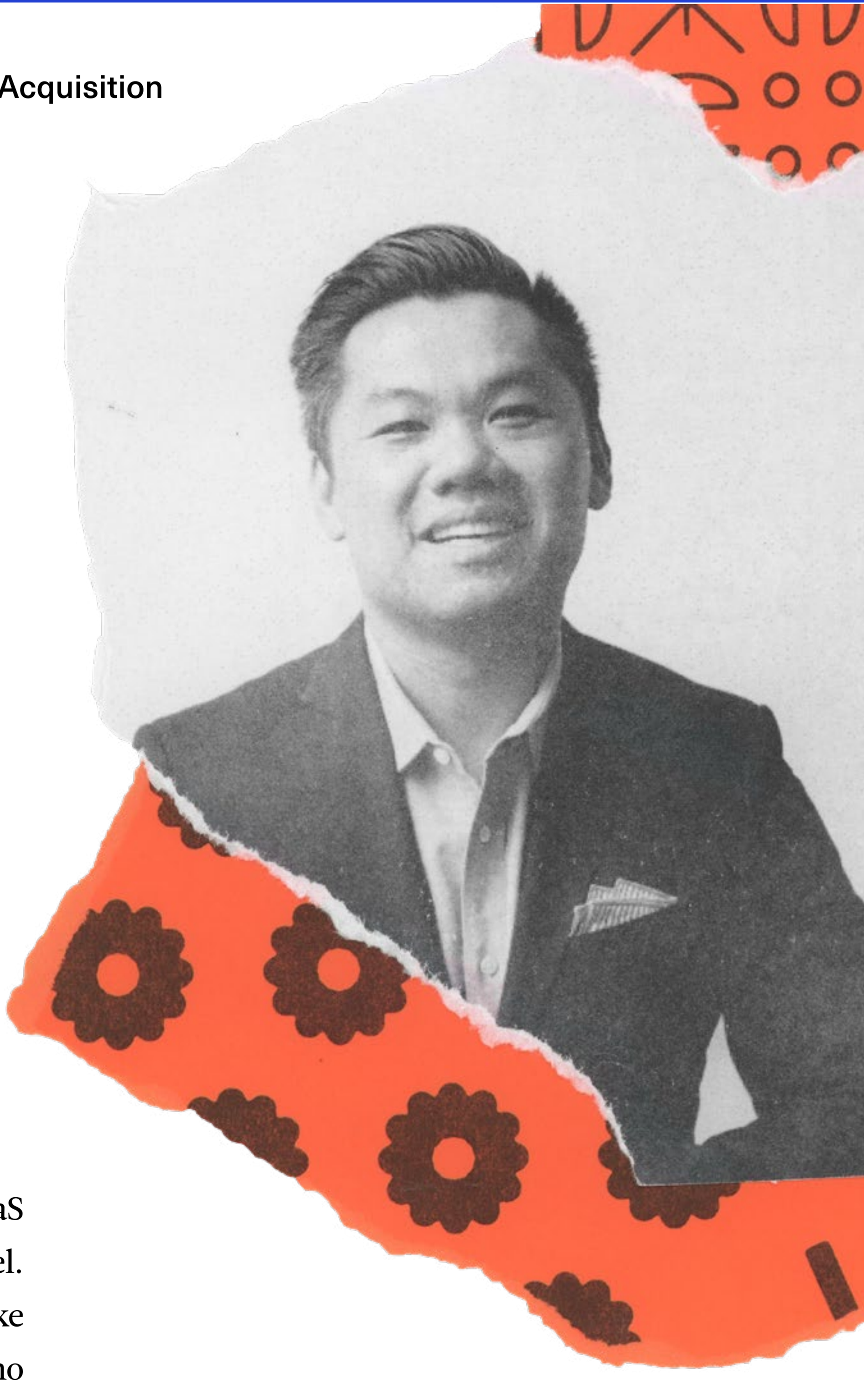
Sujan Patel,
Co-founder, Web Profits

Once you figure out product market fit, it's immediately time to figure out what Andrew Chen and Brian Balfour call product channel fit. You need to identify your marketing channels, particularly the one or two you can use to go from wherever you're at to that next level. The whole process of first investing in growth marketing isn't, "Can I get social ads to work? Can I get AdWords to work? Can I do SEO? Can I do content marketing?" You have to invest in one or two.

Look at the biggest companies out there, like Apple and Microsoft. Each company usually has one main channel and two or three secondary channels. A startup with limited resources has never been able to achieve success at three different things at the same time, so find one channel that you want to enter, and then as you get that one humming along, go after the next one, and then the next one.

Let's say you're trying to raise money. You probably don't want to invest in content marketing or SEO as a primary channel to move the needle, because they take too long. Spend your marketing budget on ads or outbound sales.

Sujan Patel as heard on the Inside Intercom podcast.



Why every business needs a mechanism for free acquisition

Andrew Chen,
General Partner,
Andreessen Horowitz

There's a reason why B2B SaaS companies have a recurring revenue model. It's also why a transactional marketplace like Uber, which has a large number of riders who use it use it every day for commuting, is nice. That regularity and habit formation means the company has better lifetime value. It also means the engagement can power organic acquisition, because customers naturally tell their friends about it. Look at Dropbox or Slack – a natural network forms, where every user has the opportunity to acquire one of their co-workers. Another example is DocuSign, where folks who are collaborating within a workflow involve other people from across companies. That's going to be even more viral than something that only exists within a company. How many folks have discovered Intercom because they saw the little window on the bottom right and thought, I want that too? You get all of this free acquisition.

Make sure you understand how customer acquisition is going to play out long-term.

When I look at some of the high-profile cases where chasing acquisition didn't work, I see a couple of things that work in concert to make it more difficult. First, you have an acquisition model that is a single channel. Maybe it's Facebook ads, maybe it's Google ads, maybe it's SEO – but you don't have any natural virality.

Second, specific to ecommerce, if you're buying something like a mattress or a car, that happens very infrequently. Because of that, you end up in an acquisition treadmill, where you've got to run really, really fast and then – if you're on a single point of failure on your acquisition channel – there's an arbitrage for a period of time. If you hit it at exactly the right moment, you can build a pretty decent company. But eventually you should just plan on losing it, right? This is another reason why a lot of gaming companies are hard to fund from a venture perspective: there's built-in natural churn. Dating apps are also like this. You have that combined with the need to actually buy the traffic because it's very hard in a dating app to say, "Oh, you should download this too." That doesn't make sense.

If you're building something in fintech or healthcare, these are all things you have to be very careful with. Make sure you understand how customer acquisition is going to play out long-term.

Andrew Chen as heard on the Inside Intercom podcast.

Mobilizing your influencers

Karen Peacock,
COO, Intercom

When it comes to getting the word out about your product, ask yourself, "Who do my customers and prospects turn to for advice when they are looking to learn about great solutions or make a buying decision?" Understand who influences your prospects most, then earn the trust of those influencers. You'll need to win both their hearts and their minds.

Before I joined Intercom, I led all of Intuit's small-business products and services, including QuickBooks accounting, payroll and payments. For accounting and payroll products, the No. 1 influencer for a buyer was the accountant. Makes sense, right? When small businesses make decisions around accounting and payroll, they end up talking to an accountant roughly half of the time. So, we focused on being great for accountants – winning their hearts and minds to help drive word of mouth.

Once you find the folks who are trusted advisers to your customers and prospects, you need to help them do four things. In order, they need to know, use, love and recommend your products or services.

Understand who influences your prospects most, then earn the trust of those influencers.

1. **Know:** They can't recommend your solution if they don't know about it.
2. **Use:** To build their confidence, they have to actually use and understand your product.
3. **Love:** Figuring out what matters most to those folks is crucial. Make sure that they're experiencing real value and that they see the value your product will provide for others. This is also about giving them an experience that is emotionally engaging, wins their hearts (not just their minds) and gets them excited.
4. **Recommend:** Find ways to help influencers amplify this love. Make it easy and rewarding for them to recommend your product. You can use things like referral fees to align your business interests. At Intuit, we built capabilities into our products that made accountant's lives easier when their clients used QuickBooks, so they were motivated to get more folks using our products. How can you motivate your influencers to get more folks using your product or service?

Why content is your most powerful acquisition channel

Eric Siu,
CEO, Single Grain

I was talking growth with Neil Patel recently and we discussed the channels that we would both invest in long term. If we were to start all over again, what would we do? The answer was one you'd expect us to give: content marketing.

The way we see it, content is the foundation. If you get content marketing working, then you are able to retarget people. You are able to build lookalike audiences on different channels. If you're creating great content, it builds links, which brings your domain authority up.

You can write more content and then you can collect more emails and optimize your conversion rate from there, but everything starts with content first. Look at a lot of media companies – they're building agency services divisions now. It's easier to build an audience first, and from there you can start to branch out into other areas.

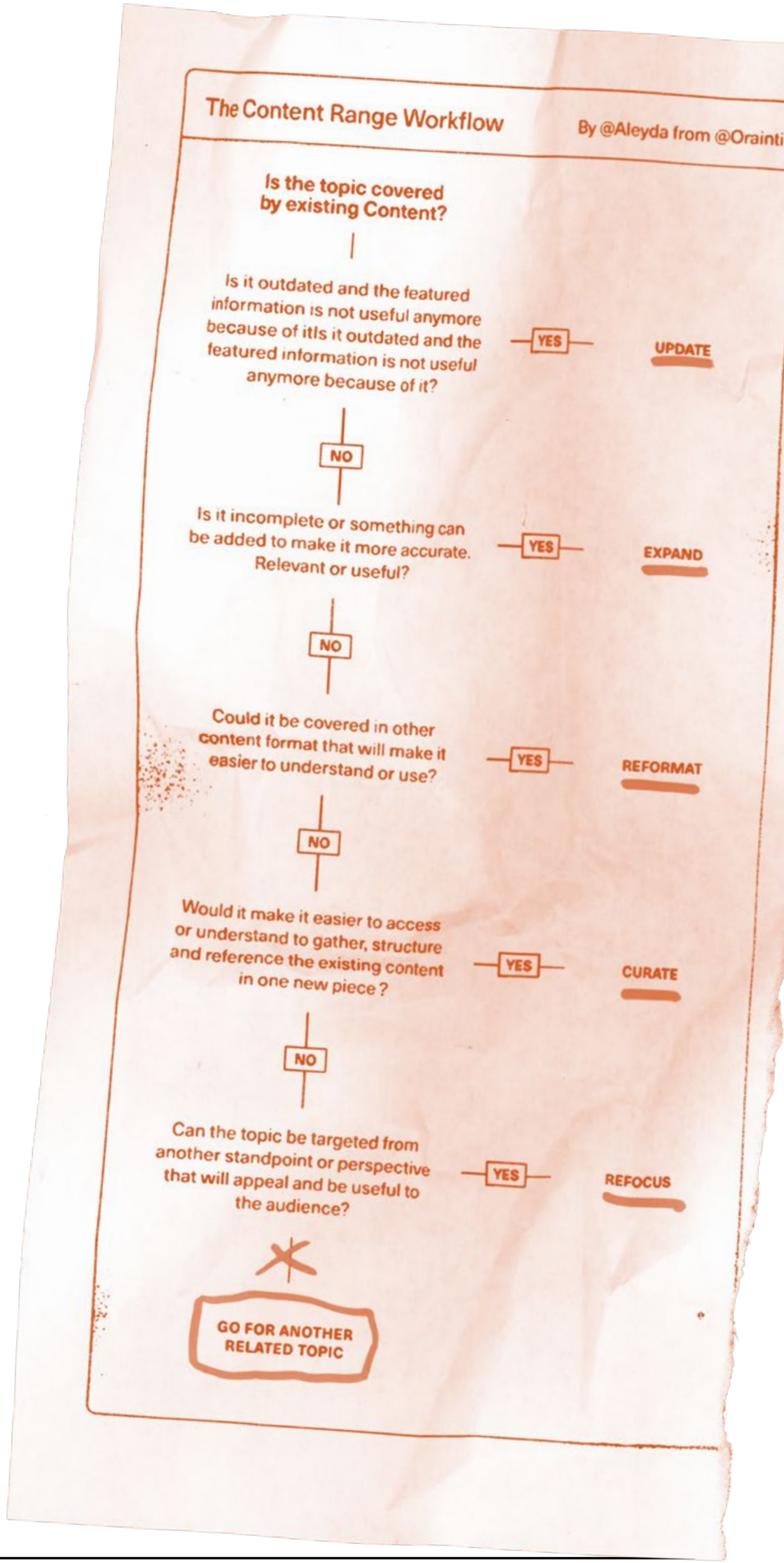
My point is just be relentless. Content marketing works. Yes, it takes time, but anything good takes time. Just be patient.

I'll share a story. Four years ago, I spent six hours a week on "Growth Everywhere," the first podcast I started. Editing, recording – I did everything by hand the first year. And after the first year I was only getting nine downloads a day. That number is terrible. I should probably have given up, but I kept going because people kept emailing me saying, "Hey, I don't know why you're not getting more downloads but this has been really helpful. It's made a difference in my life." I worked for another year, again six hours a week, and I was only getting 30 downloads a day.

Nowadays "Growth Everywhere" has about 80,000 downloads a month. Not bad, but the "Marketing School" podcast gets about 640,000 downloads a month. Those succeeded because I was relentless.

The framework that I'll give is really easy for everyone to follow. It's the Content Reusage Framework from Aleyda Solis. She has this flowchart you can follow when you're creating content, and it doesn't mean you always have to be writing new stuff all the time. If you use that framework, it's going to work out really well for you.

My point is just be relentless. Content marketing works. Content marketing is the foundation for building whatever you're trying to do in the long term. Yes, it takes time, but anything good takes time. Just be patient.



Eric Siu as heard on the Inside Intercom podcast.

How early is too early?

Sujan Patel,
Co-founder, Web Profits

Yes, you can definitely invest in acquisition too early. Unfortunately, at my first SaaS endeavor contentmarketer.io, which has pivoted to Mailshake, we made that exact mistake.

If you don't have a product that can fit that channel, then I would recommend not leveraging that. For example, at contentmarketer.io, we had a product that was kind of okay, and we were still validating product market fit. Naturally, I went to town as a marketer. I built an audience. I built an email list. We started blogging. We got lots and lots of traffic. People even converted into customers. But the feedback we got from the first month was, "I don't think this product is right for me. It doesn't fit." We wasted that whole channel, and we had too many people talking about us. That sounds like a good problem to have, but it's a really bad one because the first impression those people had of us was a product that doesn't work for them or a bad product.

In the early days, if you're figuring out your product and it's still not fully ironed out, go lay the groundwork of content that you know is going to be potentially optimized or something that can rank. Go to town on channels that you can turn on and off, like outbound or cold email or advertising. Make sure when you turn them on you get feedback and data, and then turn them off until you're ready to go.

Sujan Patel as heard on the Inside Intercom podcast.

Acquiring the right kind of customers

Rachel Hepworth,
Head of Growth Marketing, Slack

One of the things I'm really concerned about is that we're not just acquiring free teams. We're here to acquire teams that have the potential of paying Slack at some point. Last year we pivoted from asking "How many teams are we creating?" to "How many work teams are we creating?" Even though an enormous amount of our team creation is social, based on how much people love Slack, work teams are the teams that pay Slack.

Then we moved from looking at work teams created to looking at what we call "early-activated work teams created", which are teams that have actually invited somebody to join. A Slack team of one is a lonely place, and unlikely to be successful. Then, if a team has invited a couple people, have they exchanged any messages? The bar is fairly low, because it has to be something people can achieve quickly, so that we can iterate and test off of it and not wait five months. But, it's high enough that it actually screens out a lot of teams of people who have said, "I don't really know what Slack is. I just want to get in there and experiment with it and see if it's at all like what I think it's like."

Looking at the full funnel of metrics and not just stopping at that team creation number is really important for knowing whether we are driving value for the company. The friction is so low to starting a Slack team that you could really drive a lot of really poor quality teams if you didn't pay attention to it.

Rachel Hepworth as heard on the Inside Intercom podcast.

Your ideal customer profile should bend – but not break

LB Harvey,
VP of Sales, Intercom

Acquiring customers through outbound sales is expensive. So, the more your company has honed its ideal customer profile, the better targeted your sales team can be. That allows you to be a lot more efficient from both a sales and marketing standpoint, because you're investing dollars against a segment of customers that is more willing and likely to buy your products, and to find success with them too. You know those target prospects are going to have good product market fit, and you know that when you actually sell those deals, they're not going to quickly churn out and leave you with a brand that's known in the market for its lack of customer success.

That said, if your sales team isn't pushing the envelope a little bit when it comes to your customer profile or target segment, that's a miss too. Your sales team talks to more prospective customers than any other team in your organization, and they will have the best pulse on where you might unexpectedly be resonating in the market. They'll press on the edge of product market fit and gather important intel. If those prospective customers represent the next wave of customers you want to start acquiring, then begin to understand the largest problems or business pains your product can solve for them. That's valuable information for R&D.

ACTIVATION
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If you work at a growing SaaS company, you might be familiar with the "Pirate Metrics Model" (termed so because of its acronym AARRR). Its five metrics represent the five most important stages of a customer's life cycle – acquisition, activation, retention, referral, and revenue.

Most growing SaaS companies focus first on acquiring users and getting them into the funnel. Then, they focus on retaining those users and turning them into loyal, long-term customers. But they're missing that second A in AARRR – activation.

Activation is the science of turning acquired users into active customers: people that pay for and value your solution. After all, 10,000 free trial signups is a vanity metric if no one actually uses your software.

Since activation comes right after acquisition and right before revenue, it's an incredibly important part of your business to optimize. In fact, when a lot of companies are struggling with growth, it's not that too few people are coming to the products. The real growth problems start when people land, and then leave.

Acquisition vs. Activation

Justin Mares,
Co-author of *Traction: A Startup Guide to Getting More Customers*

Most SaaS companies are (rightly) concerned with user acquisition but fail to pay adequate attention to activation. What few realize is that activation plays a major role in user acquisition itself.

Imagine that you (and your competitors) can spend $10 on Facebook to get one user signup, and that you make $20 for every customer you have. Let's also say that half of your users that sign up for a trial will not activate – they'll never experience the key action that separates your product from the other SaaS tools out there, and won't become a fully featured user.

So, overall, you're breaking even on your marketing spend: $20 per customer x 50% of users that activate equals the $10 per signup you spent on Facebook. If you can boost this activation number even just to 60%, your marketing channel suddenly becomes profitable, not just break-even. That increase also opens up new audience and ad targeting options, and allows you to profitably scale your advertising.

Just like you'd optimize your ads, you should be optimizing your activation process to successfully onboard as many users as possible.

You should be optimizing your activation process to successfully onboard as many users as possible.

Excerpt from "Activate or die: 10+ ways you can improve your user activation for SaaS."

Activation – the hidden marketing opportunity

Karen Peacock,
COO, Intercom

When I became the VP of Marketing for the Intuit payroll business, I took the first 60 days to assess what was working and what wasn't working, and then came up with a set of priorities about where we were going to invest. The first big decision I made was to take a significant chunk of my marketing program budget and use it to hire a product team to build a better first use and onboarding experience.

My peers in marketing came to me and said, "Karen, we know that you're new to being a VP of Marketing, but this is not what we do. We don't hire product teams. Our money and our budget is the biggest source of control and power we have to hit our numbers – you can't give it away to a product team."

I understood where they were coming from, but I wasn't giving it away. I was making what I believed was one of the best investments I could make – an investment that not only would enable us to hit our numbers that year, but would drive results for many years to come.

We were able to staff up a team on the product side, which I worked with closely, and that team was able to increase the trial to paid conversion by about 20%. It was the best investment not only that I made, but that any of the marketers across the company made. It enabled all of my other spending to be wildly more efficient. We complemented this with the right engagement activity led by marketing, including messaging to welcome new customers, get them started and successful, move them to the next step and upsell and cross-sell with targeted streams depending on who they were and what they had or hadn't done yet with our product.

Marketers should care as much about the onboarding and first use experience and getting customers from trial to paid as they do about driving customers to their website or to sign up for trials. The points on the board are when customers become paying users or active users who get real value and tell others.

Uncovering your activation steps

Ruairí Galavan,
Senior Manager, Product Education,
Intercom

Helping your customers experience the full value of your product is key to ensuring their loyalty, and you do that through first uncovering your activation steps. For your product to survive, you need to activate your new signups by getting them to take the actions that will enable them to see value in what you're selling. These are the actions that if a customer takes, you know they'll start to see value in your product, and thus stick around.

The key to getting this right is to first know what the key actions are for your product. Start by first looking at the steps your most successful customers take before becoming successful. As an example, let's imagine a ride sharing app, where all customers who complete two trips in the first 30 days after signup are 40% more likely to retain in month two, compared with the customers who take just one or no trips. In this case the activation step is "orders 2 rides by the end of day 30". Once you're aware of these steps, it will directly influence your activation strategy. In this case you'd get laser focused on encouraging customers to take 2 rides in their first 30 days. Hopefully you'll know these steps in your product already, or at least have a good idea of the steps successful users are taking.

Remember, over a long enough timeframe most customers churn. And most companies die. It's tough out there. This lack of traction with new signups isn't because your product has no value. Well, it could be. But, it's more likely because your customers just don't see the value of your product.

Putting all your chips on activation

Shaun Clowes,
VP of Product Management, Metromile
(former Head of Growth at Atlassian)

If I were starting up and had $100, I'd bet $80 of it in the activation phase, because what happens is people fail to have their "aha" moment. And even if they have their "aha" moment, they can drop out before using the product becomes a habit. And that's a huge amount of value lost.

The tactics I use in that space are first understanding what my dropoff rates are, and then watching users in their very first experience. I try to understand: What are the buttons they don't find? What are the things they are confused about? Then try really simple stuff like a dialogue box saying, "These are things you are probably looking for." Lead them in the three places they most likely want to go.

At one point we had a 12-step onboarding flow at Atlassian. It was deeply involved; it had a whole bunch of things that it taught you; it was very successful. But when I talk about champion/challenger, we were constantly trying to beat that, and we later ended up with an onboarding flow called "Choose your own adventure". It was one dialogue box with three buttons, and it outperformed the 12-step program. The 12-step program was trying to tell you enough that you could do the rest, but most people arriving at the software wanted to do one of three things. Rather than needing to educate them about those three things, about the way in which they could go about thinking about the software and finding them, just giving those three things to them was enough.

Shaun Clowes as heard on the Inside Intercom podcast.

Finding your product's magic moment

Alex Schultz,
VP of Growth, Facebook

For Facebook the "magic moment" is that moment when you see your friend's face. Everything we do on growth – if you look at the Linkedin registration flow, if you look at the Twitter registration flow, or you look at what WhatsApp registration flow when you sign up – the No. 1 thing all these services look to do is show you the people you want to follow, connect to, send messages to, as quickly as possible. Because in our vertical, this is what matters.

When you think of eBay, it's about finding that unique item, that PEZ dispenser or laser pointer, that you really, really cared about and want to get a hold of. When you see that collectible you are missing, that is the magic moment on eBay. When you look on Airbnb and you find that first listing, that cool house you can stay in, and when you go through the door, that's a magic moment.

On the other side, when you're listing your house on Airbnb or an item on eBay, that first time you get paid is your magic moment.

Think about what the magic moment is for your product, and get people to experience it as fast as possible. You can go from 60% retention to 70% retention easily if you can connect people with what makes them stick on your site.

Excerpt from "Alex Schultz's Lecture in How to Start a Startup."

To understand activation, understand retention first

Karen Church,
Director of Product Analytics & Data Science, Intercom

At Intercom, we define activation as the point at which a customer first realizes or derives real value from the product. In order to define value, we look at it through a retention lens. Customers who find value in your product come back. Customers who continue to find value over time will continue to come back. So we look at customers who retain versus customers who churn, and investigate the actions they took in the first few weeks. What are the actions that separate these groups in particular during their early experiences with the product?

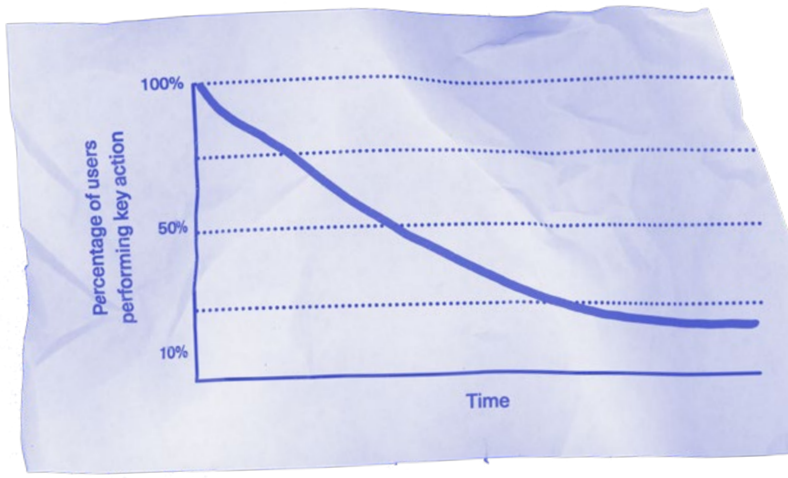
If you can identify the early actions that separate the retained customers from the customers who leave, you'll be able to define and track activation and what drives real customer value. To use a concrete example from Intercom: For our Capture & Convert Use Case, a team that has five conversations with a lead is 79% more likely to retain than a team who has no conversations with a lead.

Tracking activation

Casey Winters,
Scaling and growth advisor
(former growth leader at Pinterest and GrubHub)

Identifying the key action can be easy or hard – it depends on your business. At Grubhub, it was pretty easy to determine. You receive value only if you ordered food, so we looked at if you placed a second order. At Pinterest, this was a little harder to determine. People derive value from Pinterest in different ways, from browsing lots of images to saving images to clicking through to the source of content. Eventually, we settled on saving (pinning an image to a board), because, while people can get value from browsing or clicking through on something, we weren't sure whether it was satisfying. People only save things if they like them.

Once you know your key action and your frequency target, you have to track that target over time. You should be able to draw a line of all users who sign up during a specific period, and measure if they do the key action within the frequency target after signup. For products with product market fit, the line flattens as a percentage of the users complete the key action every period:



If the line flattens rather quickly, your successful activation metric is people who are still doing [key action] at [set interval] at [this period after signup]. So, for Pinterest, that was weekly "savers" four weeks after signup. If your cohort takes a longer time to flatten, you measure a leading indicator. At Grubhub, the leading indicator was a second order within 30 days of the first order.

Excerpt from "Why onboarding is the most crucial part of your growth strategy."

Define your activation metrics before it's too late

Andrew Capland,
Director of Growth, Wistia

I wish someone had told me to clearly define our activation metric and get serious about tracking the inputs to that metric ASAP. Many teams avoid this because it seems hard (and time-consuming) to define – which is a huge mistake. The clearer that definition is, the easier it will be to prioritize projects to increase it. Before we begin any new onboarding project, we ask "How does this project increase our activation metric?" and "Will this project increase our activation metric more than this other project?" Clearly defining your activation metric will provide huge dividends to your users and your company.

Excerpt from "User Onboarding Advice From SaaS Leaders."

Activating customers long term

Ruairí Galavan,
Senior Manager, Product Education, Intercom

A common mistake I see companies making is only focusing on activation for the first 14 days of a customer's life cycle. Activation varies from product to product. For example, if you're UberEats, activation is the customer's first order. Nothing really changes after that. The customer just comes back and orders food again. But for a product like Intercom, users can be activated in hundreds of ways. They might have used a few key features, but have whole areas of the product they haven't even explored yet.

That's why we don't just think about activation at a product level – we tackle it on a per feature basis too. When we launched our bot Operator, we were activating people who were active power users of Intercom for almost two years. So we found ourselves having to educate people all over again on a new workflow, and how it could make their existing ways of doing things better. It's limiting to think about product activation too broadly. It should be about individual feature activation too, and that has to be a continuous process that happens long after a customer's trial ends.

RETENTION
RETENTION
RETENTION

Once you have driven visitors to your product and have successfully helped them take the most important actions within your product, it might seem like you are out of the woods. But another crucial component is retention. It doesn't matter how many active customers your startup acquires if none of them stick around in the weeks and months after signup.

For many companies today, retention hacking is the new growth hacking. There are a number of reasons for this:

- If your retention is low then all of the ingenious growth hacks that you apply to your product are basically meaningless. Your members will leave your product at the 11th hour (or the very end of your funnel). Leaky buckets don't need more water. They need their holes fixed.
- Increasing your customer retention rate can have a big impact on your bottom line. Harvard Business Review researched the value of customer retention and found that by raising retention rates 5%, the average business will increase profits by 25% to 95%.
- People that have been retained for long periods of time are more likely to evangelize for your product. Word of mouth referrals result in new users, which drives habits among groups of friends and colleagues as they begin relying on the same product.

Plain and simple, your eye should be on retention. It's the tide that lifts all other boats – acquisition, monetization, virality and beyond – and is the difference between a business that sustainably grows long term, and one that flames out and dies.

How churn disrupts the SaaS business model

Des Traynor,
Co-founder, Intercom

It's difficult for many startups to assess the real impact of churn because they lack the longitudinal data. Churn is usually seen as a factor limiting growth on a month to month basis, but the impact on customer lifetime value (LTV) is equally significant. It's hard to build a subscription business on short term subscriptions. The whole idea of the SaaS business model assumes the lower revenue per customer per month is offset by a longer lifetime of that revenue.

If your customers aren't sticking around for years then you have a business model problem. This is common for products that have immediate upfront value, but give no reason to stick around months later. In these cases, you can spam customers all day long, but you'll see a better return from rethinking your business model.

If analyzing churn, cohorts or lifetime value gives you big results that you didn't expect or can't explain, then you should be talking with your customers more often to work out what's going right and wrong for them. It's likely you're out of touch. These days you can automate and visualize almost anything, except caring. That has to come from you.

Excerpt from "Reduce churn by re-engaging your customers."

Reducing the "time to pie" and increasing stickiness

Karen Peacock,
COO, Intercom

If someone is using your product but they're just dabbling and coming in once a month, your whole relationship with that customer could easily tip over. As soon as they find a more interesting or useful solution, you'll get cut out. Of course, what you want to have is a deep engagement and involvement with your customer. The question is, how do you get that?

Focus on providing meaningful value in a way that requires as little work as possible for customers to get that first taste of value – lower the barriers. As an example, look at Mint, the personal finance product. That team found that the first "aha" moment, the first taste of value, was when a customer could see the pie chart of where they were spending their money. Customers who got to that point were likely to stay, so Mint did an overhaul of the onboarding experience to make connecting your bank account and getting to that pie chart as fast as possible. They took out every other part of setup and held it for later, which reduced the "time to pie." That led to much higher engagement and dramatically accelerated the growth of their active customer base.

Another key is to make your product or service sticky. For example, when I was the General Manager for Intuit's payroll products, we saw that customers who set up a direct deposit service that connected to payroll and automatically moved money from the employer's bank account to the employee's had

Focus on providing meaningful value in a way that requires as little work as possible for customers to get that first taste of value – lower the barriers.

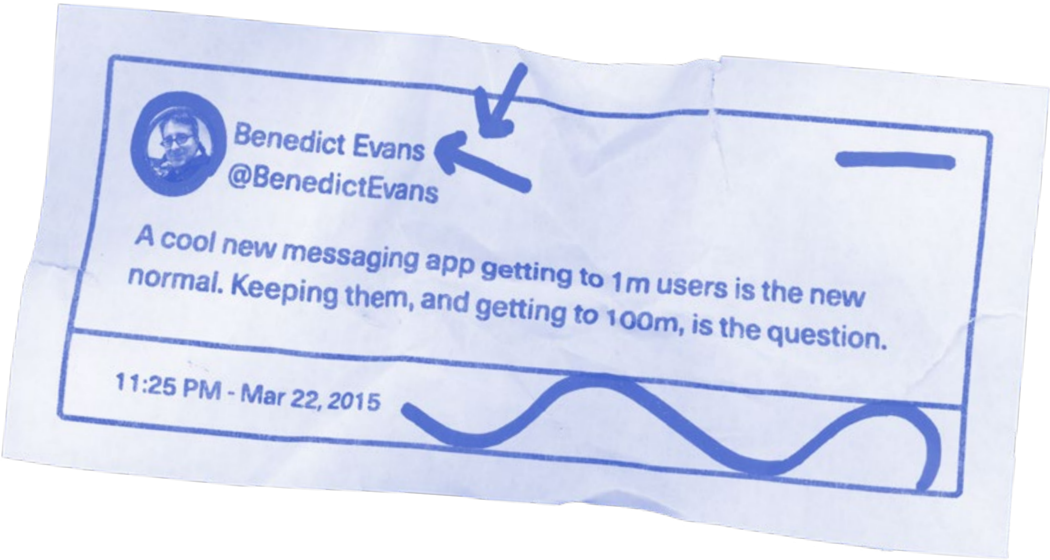
much higher retention rate and much higher net promoter scores. They were happier and stayed with us. This makes sense – nobody wants to go through the hassle of having to redo a bank account routing setup, write physical checks or manually go into their bank account every week.

Unfortunately, setting up that direct deposit was, at the time, a much later step in our onboarding process and required a back and forth to your bank that took days. We did three things to tackle this:

1. We changed the onboarding experience to make the direct deposit setup for the employer early in the process.
2. We found a partner who could do a real time confirmation of the bank routing info for the majority of our customers, making the process immediate rather than split over multiple days.
3. We created a way for employees to do their own direct deposit setup, instead of waiting for their employer to do it (after all, who cares most about seeing the money show up fast in the employee's bank account – the employer or the employee?).

The result? Higher usage of direct deposit, higher retention and higher net promoter. Customers were getting more value and were switching less.

Strong retention comes from driving up the core value of your product, helping customers get that value as fast as possible with as few barriers as possible, and creating an experience that is so good that no one can imagine going back to the old way.



The no-BS way to understand churn

Des Traynor,
Co-founder, Intercom

No matter how successful your business is, your percentage growth of your customer base will decay over time, but if churn is endemic in your business, you don't have a similar guarantee with it. At some point you'll be faced with a reality that you'll soon be losing as many customers are you're adding.

That's why one of our investors coined a term, the SaaS quick ratio, to help startups understand the extent of their customer churn.

The importance of this ratio can be crudely summarized as: I don't care how fast you're growing, keep your customers or it'll all go bust. If there's a million target customers in the world and you're winning 100,000 of them every month, but losing at 50,000 as well, in ten month's time you'll have a powerful monopoly in the market, and just ten months later you'll file for bankruptcy.

Churn matters.

The SaaS Quick Ratio

Mamoon Hamid,
General Partner, Kleiner Perkins

We've coined an accounting term, "the SaaS Quick Ratio." It measures assets and liabilities that we apply to SaaS businesses. It's the MRR (Monthly Recurring Revenue) that's gained every month divided by the MRR that's lost.

On the next page are two examples of companies. On the left are two companies that we did not invest in and to the right are two companies that we invested in.

You do the quick math, and this is what it looks like. The companies on the right have a quick ratio of four or above. The companies on the left, less than four. It's not always this simple. But we try to use data as much as we can to make good decisions.

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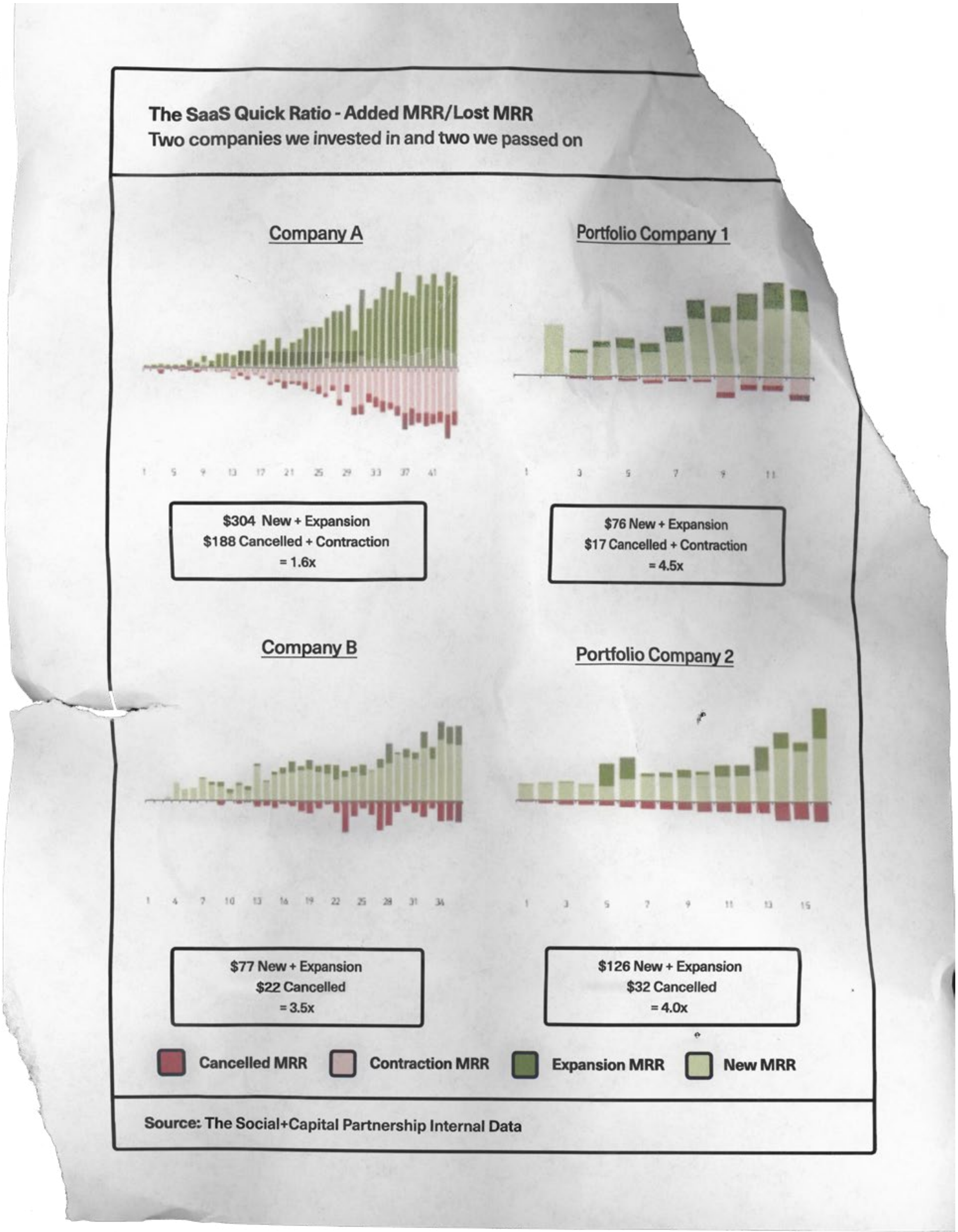


Excerpt from [“Mamoon Hamid On Why Sh*t Really Gets Funded at Saastr.”]

Why negative churn is such a powerful growth mechanism

David Skok,
General Partner,
Matrix Partners

In the early days of a SaaS business, churn really doesn't matter that much. Let's say that you lose 3% of your customers every month. When you have only 100 customers, losing three of them is not that terrible. You can easily go and find another three to replace them. However as your business grows in size, the problem becomes different. Imagine that you have become really big, and now have 1 million customers. Three percent churn means that you are losing 30,000 customers every month! That turns out to be a much harder number to replace. Companies like Constant Contact have run into this problem, and they have found keeping up their growth rate very hard.

The ultimate solution to the churn problem is to get to Negative Churn.

There are two ways to get this expansion revenue:

- Use a pricing scheme that has a variable axis, such as the number of seats used, the number of leads tracked, etc. That way, as your customers expand their usage of your product, they pay you more; or
- Cross-sell them to more powerful versions of your product, or upsell them on additional modules.

Excerpt from "SaaS Metrics 2.0."

How to fix a leaky bucket

Bobby Pinero,
Senior Director of Finance, Intercom

Monthly recurring revenue (MRR) retention will make or break the growth of your SaaS business – there's no point filling the bucket if it's full of holes. This topic has been covered over and over and over again. Read these articles and digest them. Investors will be heavily focused on this aspect of your business.

You'll need to show retention in a few ways.

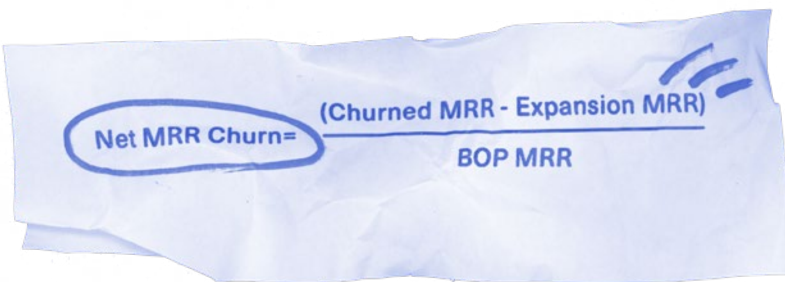
Gross churn:
Of all the committed revenue you had last period, how much has walked out the door this period? Do the same on a customer count basis.

$$\text{Gross MRR Churn} = \frac{\text{Churned MRR}}{\text{BOP MRR}}$$

$$\text{Gross Customer Churn} = \frac{\text{Churned Customers}}{\text{BOP Customers}}$$

Net churn:

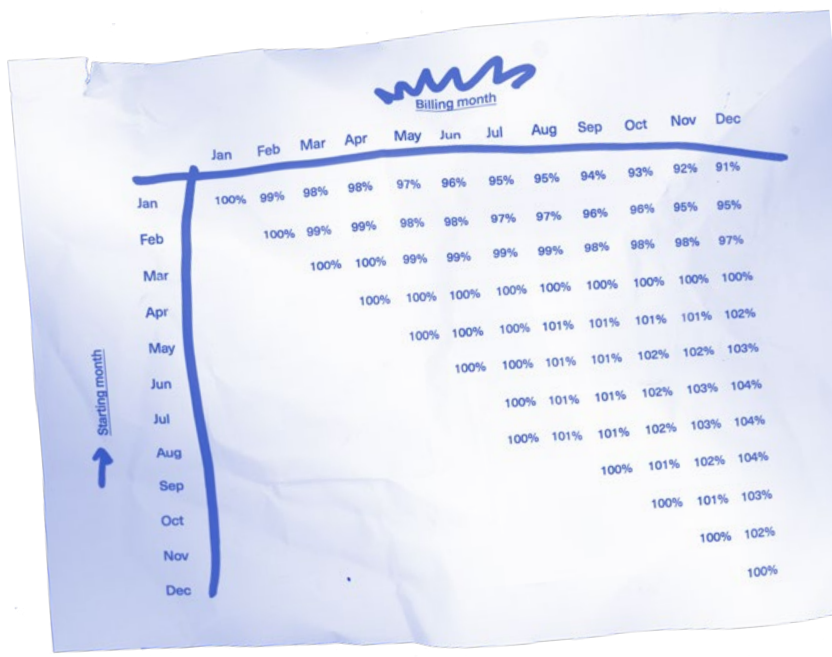
Of all the committed revenue you had last period, how much has walked out the door this period net of upsells?



Cohort retention:

Churn metrics as described above are a great snapshot into the business at a point in time. However, it's a blended average of all customers at different points in their lifecycle. Retention by cohort gives you a longitudinal view of how good you are at keeping, upselling and cross-selling any given customer and how that has evolved over time. In other words, for every dollar you get today, how many dollars do you have six months later, one year later, and so on?

To the right is an example of how this is typically displayed. This fictional business is getting better at retaining customers and upselling them over time; a promising sign. Cohorts greater than 100% is what investors want to see. Consistent cohorts of greater than 100% will lead to negative net MRR churn.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Jan	100%	99%	98%	98%	97%	96%	95%	95%	94%	93%	92%	91%
Feb		100%	99%	99%	98%	98%	97%	97%	96%	96%	95%	95%
Mar			100%	100%	99%	99%	99%	99%	98%	98%	98%	97%
Apr				100%	100%	100%	100%	100%	100%	100%	100%	100%
May					100%	100%	100%	101%	101%	101%	101%	102%
Jun						100%	100%	101%	101%	102%	102%	103%
Jul							100%	101%	101%	102%	103%	104%
Aug							100%	101%	101%	102%	103%	104%
Sep									100%	101%	102%	104%
Oct										100%	101%	103%
Nov											100%	102%
Dec												100%

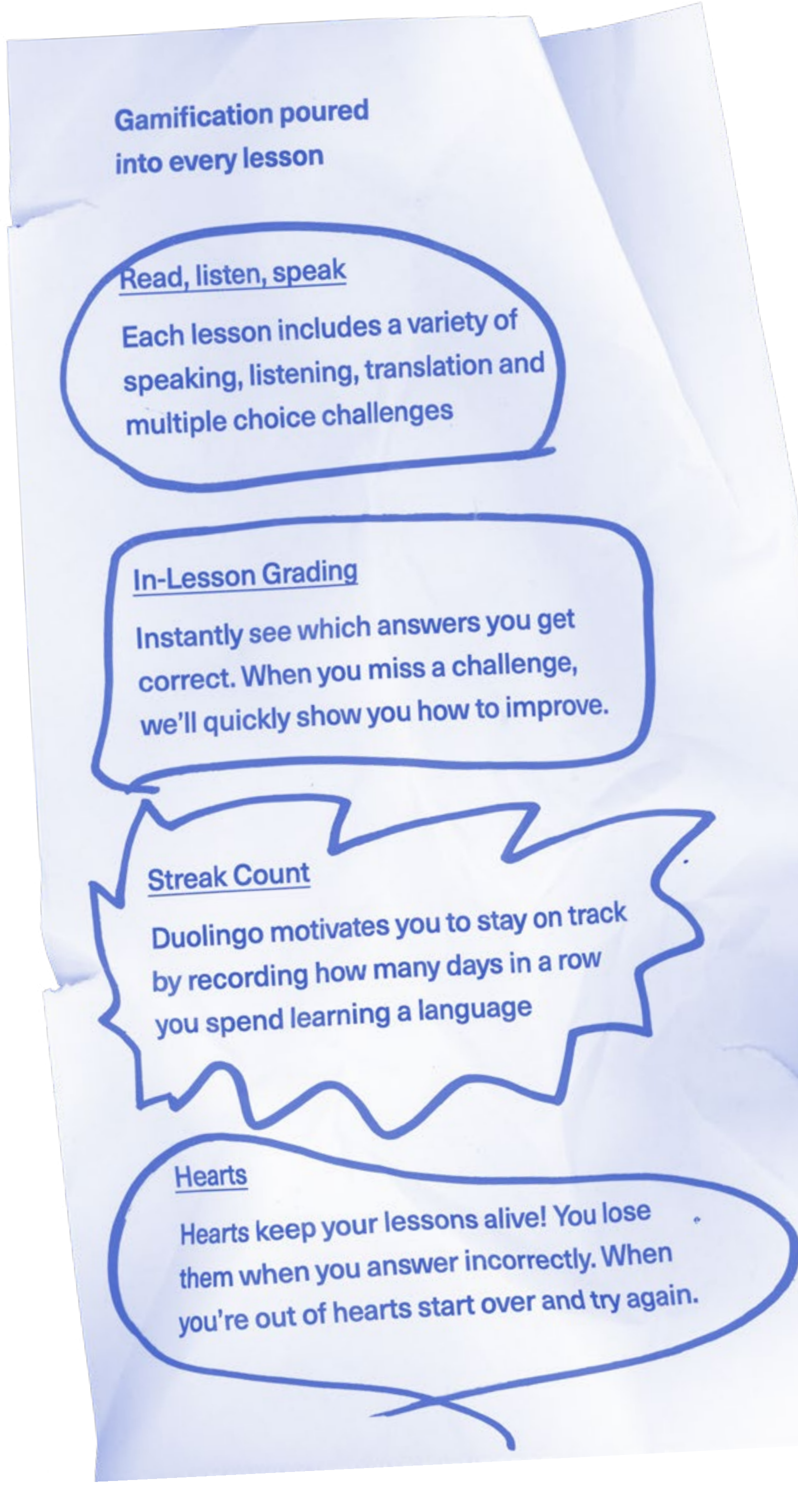
Excerpt from *Intercom on Starting Up.*

What the gaming world can teach us about retention

Gina Gotthilf,
Former VP of Marketing and Growth,
Duolingo

Duolingo was meant to be a game from the get-go. That comes from our founders. They thought, "You know what? Learning is a drag. Learning a language takes forever. We need to find a way to get people to keep coming back," so making it a game was baked in from the very beginning.

My team would do things like assign games to different members of the team. I'd say, "Okay, this week you're going to play this game" – a top grossing game or top downloaded game – "and then you're going to give a little three-minute presentation, each person, in our next meeting, about what you thought was effective in this game." That could be something like how they onboard people. Look at this metric system for points. Look at how you have this set of points, but you also have this other type of points. Look at how you earn them and how one influences the other. We were constantly talking about game mechanics and applying them to Duolingo with the goal of getting people to stay interested in



learning a language and to automatically, like a habit, go back to Duolingo whenever they were bored, instead of to a normal game on their phone.

It was a fine line. Our team was the growth team, and we were just trying to get more users and users to stick around. There was a separate learning team and a separate monetization team. Having those three metrics separate and having teams advocate for each one of them was really important. Otherwise, we could have just made a product that was super easy and fun, that people would play more of and stick around more and buy more things, but not learn anything at the end. Because if it's easy, it's more motivating, but you're not learning. If it's harder, you might be learning more, but then you might also give up more easily because it's frustrating. We didn't want to make something that was just there to entertain, or to make money and get users and be the next thing that everyone forgot a year later.

We didn't want to make something that was just there to entertain, or to make money and get users and be the next thing that everyone forgot a year later.

We definitely had hard conversations. Sometimes one team won, and sometimes another team won. Some things that we A/B tested that hurt monetization, for example, or an A/B test that the monetization team launched that hurt our retention. The same goes with learning, although we prioritized learning above all at Duolingo, so fighting against the learning people was a harder battle.

Gina Gotthilf as heard on the Inside Intercom podcast.

A low investment with massive rewards

Shaun Clowes,
VP of Product Management, Metromile
(Former growth leader at Atlassian)

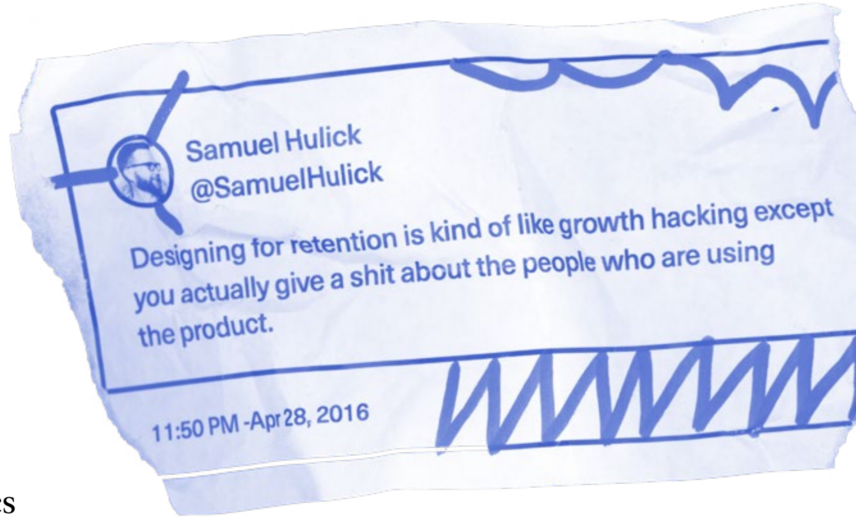
It never ceases to amaze me how much time we as an industry spend optimizing our acquisition tactics to acquire a huge bunch of people. When I think about all the energy that has gone into this, and understanding who those people are and how to go and find them, and then I look at the number of people that drop off in the first five to 10 minutes, the first day, it always breaks my heart. Even at Atlassian, where I felt like we were getting better and better at this, we had the charts that would show us what was happening. Every one of those people is a person whom you have fundamentally burned. You have failed to give them what you told them you would give them.

When I think about the ROI of things that you can do in a business, make certain that your customer is safely handed from acquisition to activation. Make certain that you have done everything in your power to help them find their "aha" moment and begin habit forming. Then make certain that they're getting the maximum value from your software though engagement. Those are generally very low investment, but with potentially massive rewards. Not only because you keep those users, but if you truly succeed at that, and you get high engagement, then what you really get is sustainable businesses, because you get word of mouth.

People who are highly engaged with your software are always the people who love it, and those people who love it will tell other people. The most authentic form of acquisition, by far, all day, every day, is word of mouth. It's amazing the business you can build once you have that engine going.

People who are highly engaged with your software are always the people who love it, and those people who love it will tell other people.

Shaun Clowes as heard on the Inside Intercom podcast.



Eliminate friction at every step

Samuel Hulick,
Founder, User Onboard

In order to hit the retention metrics necessary for scaling and sustaining your business, it is imperative that you smooth your users' path forward at every opportunity.

Fortunately, however, that doesn't mean creating a tedious interstitial stage at every step of your onboarding. In fact, it's best when it's just the opposite: Rather than provide a plodding, Playskool-level "My First Interface" for your users, harness the power of technology to warp your users right past the tedium of having to deal with the task at hand at all.

Want a real world example? Look no further than Medium.

Ever wanted to tweet a highlight of a compelling passage that you just read? They could have left it up to you, which would involve the clunky, user-has-to-leave-the-product workflow of:

- Highlight the compelling passage
- Take a screenshot
- Locate the screenshot
- Upload it to Twitter
- Come back and copy the post's url
- Go back to Twitter and paste that
- Look things over before pressing "Tweet"
- And then, finally, remember to come back to Medium to pick up reading wherever you'd left off

Instead, Medium warps you through all of that by providing this helpful little Twitter icon whenever you highlight something (whoa, this is about to get meta). When you click on it, you're teed up to tweet it out from the article itself! And then you're free to keep reading, having never even left your place.

This is good for the user because it cuts out a bunch of steps you don't actually care about, but it's even better for Medium because they've prevented the risk of you leaving and not coming back!

Excerpt from "Product People: Mind the Gap."

Act before it's too late

Ruairí Galavan,
Senior Manager of Product Education,
Intercom

Your retention strategy has to be proactive. Don't wait until customers are on the brink of churning to throw some last-ditch attempts at them. What you do to stop it – and how you do it – depends entirely on your relationship to that customer. For active customers, you'll need to continuously ship new features that better serve their needs. For inactive customers, you'll need to offer training so they can start seeing the value of your product. Specifically, you'll need to understand why someone might leave your product, look for the signs that your customer is getting ready to leave and then choose the right tactic to stop it.

Retention is a sales job too

LB Harvey,
VP of Sales, Intercom

Who owns customer success within an organization can vary. For example, some companies have a Head of Sales and a separate Head of Customer Success. When speaking with companies who use that model, I often hear the same back and forth: Customer Success feels like Sales is selling bad deals, and Sales feels like Customer Success is dropping the ball when it comes to managing their beautifully sold deals and customers.

I feel strongly that Sales should be accountable for the long-term success of their customers, not just the initial deal. Some people worry that a sales team isn't going to be quite as ambitious about driving that success and engagement. There's very few things better than winning the initial deal. But guess what? There's not much worse than winning the deal only to see it churn. That's why actually retaining and growing customers is just as exciting and important.

As a result, Account or Relationship Managers should be talking to their customers consistently – at least once a quarter. If you're doing that, you should be able to feel out how successful they're feeling with your tool, and you can help steer the conversation to the value that your product is already providing. From there, you can decide when it's appropriate to talk about a further investment or enlarging a footprint.

MONETIZATION
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MONETIZATION

Put simply, acquiring, activating and retaining users isn't cheap, and they only represent one side of operating a successful business. Going back to the all important concept of product market fit, if you're not in a market where you can operate profitably, then your loyal customers should begin preparing for the cold reality of a world where your product no longer exists.

Growth is a symbiotic relationship. Just as your customers should be experiencing the value of your product, you should be extracting equal value from them. This is why the tiered pricing structure seen in SaaS is so problematic. Small, medium and large/enterprise pricing buckets inherently mean giving the heaviest discounts to the most valuable customers.

Monetization is really the process of marrying your business model to customer value. Do that successfully, and you'll be able to reinvest in new features or solutions, which will provide more value and bring in new users. It's that cycle that underpins the most important monetization philosophy of all: None of this is set in stone. Your product will change, its value will change and your pricing must change along with it.

Pricing = product marketing

Tomasz Tunguz,
Partner at Redpoint Ventures

To figure out the right pricing strategy, determining what the buyer cares about is crucial. Do they care about cost or value? What is their core unit of their world: people, dollars, gigabytes? How predictable is the pricing plan? And can the buyer clearly articulate the pricing, advocate on your behalf and champion the purchase?

Understanding the seller's needs is also important. How does the pricing change the market size? The unit economics and cash flows associated with the sale? The competitive positioning?

All of these disciplines fall under product marketing. Well-run product marketing teams develop these perspectives before product launch. By combining market research, interviews with prospective customers and conversations with the sales team, the product marketing team can develop a unified pricing strategy that is consistent with the company strategy and the sales tactics.

The challenge with pricing is that it's never a constant. As an industry evolves, competitive pressures change, a vendor's positioning changes and the buyer's needs change, and so must pricing.

Excerpt from "Ten Year's Worth Of Learnings About Pricing."

The only thing certain about pricing is change

Des Traynor,
Co-founder, Intercom

You can read all the pricing books and academic papers in the world and dream up the most sophisticated pricing models, but the first thing to know about pricing is that you're going to get it wrong. Pricing is a moving target, and if your business is growing it's likely you'll miss that target more than a few times, whether that's setting their price low to attract customers and never raising it, or keeping a feature free long after it's clear people will pay.

The second thing to know about pricing is that you need to keep iterating on it constantly.

If you continue to improve your product then it will inherently deliver more value to more people and cost you more to support and scale, so naturally you may need to change prices to account for that. You need to plan on changing pricing, and you have to afford yourself that luxury for a variety of reasons: your product's quality will change, your target market will change, your customers expectations of you will change.

At Intercom we went from a flat fee for the whole product, to tiered price plans, to separate products priced per metric. I don't think we could have pre-empted all of this and started at the end, the product wasn't there yet, nor were our customers. Every time we learned more about our business, we knew a change was coming.

If your product delivers a unique value, then the chances are it won't map onto one of the classic SaaS 'bronze, silver, gold' price plans that you see everywhere. Pricing is often a tension between effectiveness and simplicity, going too far in either direction usually leaves either customers or revenue on the table. Of course you won't know the limits until you go past them, and that's why you need to plan for change.

You need an effective sales process, no matter how "viral" your product

Mark Cranney,
Chief Commercial Officer, SignalFx

One of the myths of SaaS is that the products are so good, so easy to use, so quick to deploy that the product sells itself. Given the popularity of try-before-you-buy and freemium-to-premium models for software as a service, it's easy to see where that myth comes from.

But as many startups discover to their horror – after they "land" users and try to "expand" to more departments in a large company or government agency – this is far from the truth. Even with early viral growth, SaaS products don't sell themselves.

Excerpt from "If SaaS Products Sell Themselves, Why Do We Need Sales?"

On your next big deal? Double your pricing

Jason Lemkin,
Founder, Saastr

There's a fun – and very lucrative and rewarding – exercise I like to go through with most of the startups I work with.

It goes like this:

- First, who's your largest customer? Okay.
- Now, do you have a prospect in the pipeline that's somewhat similar?
- You do? Great.
- On that deal, go quote twice your highest price ever.

This is a terrific exercise to drive your deal size up. It does not mean you should rip off your customer.

What it does force you to think about is providing a true solution to a big problem. A thousand dollars a month is a lot of money for a widget, even if everyone on my team uses it. But $12,000 a year is dirt cheap for anything that solves a true problem. That solves me having to hire an engineer, or three, to do something. That fixes something broken in my 500+ person organization.

Challenge yourself.

Your biggest deal so far is with Google, for $100,000? Well, when Facebook comes in as a prospect, ask for $200,000. With confidence. I know you just got comfortable asking for $100,000. But if you're worth $100,000, then either your product today, or some future variant of that product, is worth $200,000.

You may have to build them an extra feature. Provide better onboarding. Improve customer success. Upgrade your sales team or, at least, add reps with more experience selling larger deals. Build a new integration. Who knows.

You may have to change a bunch of things to get twice what you did on your largest previous deal. Or possibly nothing. Either way, you'll learn. It's a journey.

And if you have a true solution that really makes an impact, you'll probably get the 2x pricing at least some of the time.

Once you do it once, level up. Make 2x the new 1x. Make $200,000 your new enterprise price point, not $100,000. Do that for a little while, and then you can multiply it all over again.

Rinse. Wash. Repeat.

Excerpt from "On Your Next Big Deal? Double Your Pricing."

Justify or kill your lowest price point

Des Traynor,
Co-founder, Intercom

A lot of products include a "starter" plan for $5 or $9 per month. Usually that's to reinforce the claim that the product is "affordable enough for everyone", while boosting your customer numbers. But remember that a customer on the $9 plan often costs just as much to acquire and support as a customer on the top tier, $499 plan. This means your bottom tier can often be unprofitable, which is fine if you are confident that it's paying out in some other way.

Some small companies can grow into large customers, but more often they remain a small customer paying that amount forever. If you can justify your lowest price plan either by migration to higher price plans, or through marketing benefits (word of mouth, etc.) then it's a great idea. But you do need to justify it.

A customer on the $9 plan often costs just as much to acquire and support as a customer on the top tier, $499 plan.

Excerpt from *Intercom on Starting Up.*

Make your pricing disappear

Yao Choong,
Director of Business Operations, Intercom

Your monetization has to feel fair to your customers, and that means your pricing has to disappear. When you're telling a potential customer the story of your product and how great it is, you never want them to think, Do I like this pricing, or not? You want pricing to disappear as a consideration. You want them to hear it, think that it's fair and then have it go out the window. It should never be on their minds.

As a result, "fairness" is the imperfect way to label the quality that gets people to hear your price and ignore it. Ultimately, if they think it's unfair, or if they think that it doesn't align with their conception of the value that they're getting from the product, they will not be able to let that go. That is the biggest reason why people reject pricing, because it stops feeling fair.

"Fair" can be simplified to mean industry standard, which is a shortcut most companies take. That approach might work, but in the process, you might lose out on the opportunity to come up with a better solution than anybody else. This is where you have to pick your battles carefully: Do you put in the effort to come up with an unusual solution and take a risk in exchange for some hypothetical benefit, or do you pick the safe route and differentiate yourself in some other way? Making this tradeoff is, in my experience, the most complicated thing about monetization.

Earning the right to the upsell

Brian Kotlyar,
Director of Demand Generation, Intercom

If you have a multitude of features you're trying to get people to adopt in a certain order, or you're selling multiple products or solutions, getting every customer to buy everything at once is not realistic. There's an order of operations for most platform products, in terms of consumption, that creates the most value for both the customer and the company.

It's easy to fall into a trap of selling everything you've got as quickly as possible to everyone who walks through the door, but that's rarely the right approach. Instead, ask yourself, "What part of my product has the strongest value, the strongest brand positioning and the most differentiated capabilities, and can create the most value the fastest?" In many cases a subset of your product or solution creates strong initial value, but minimizes the complexity of the initial sale. For most consulting businesses, this is an initial onsite consultation. You do that as a proof of concept for your value, and then you transition from that into a long-term consulting engagement. In SaaS it tends to be a free trial.

It's easy to fall into a trap of selling everything you've got as quickly as possible to everyone who walks through the door, but that's rarely the right approach.

My last company, Sprinklr, sold a social media management solution. That was our market-leading differentiated product, and if you adopted that, you were getting world class value. We knew that if a customer then added the Facebook ad buying tool that was linked to that initial platform, they got way more value and we got way more value. When we tried to sell both at first; however, we often failed. It was just too complex – there were two different buyers with two different budgets and two different sets of requirements.

Using Intercom as an example, let's say someone implements our Capture and Convert solution for sales and marketing teams. When they see a ton of value from lead generation, that gives us the right to show up a little later and say, "You would really benefit from onboarding those same users with the context you've already established."

You can anecdotally figure a lot of this out just by looking at your best customers. Find someone who's been a customer for years, who's slowly over time added every product that you've sold them. Then ask, "Does this pattern exist anywhere else? Are there other companies who have done parts one and two of this four-step pattern?" That's your opportunity.

TESTING & OPTIMIZATION

TESTING & OPTIMIZATION

"To learn is to grow."

This is a common phrase in the world of professional development, but it's equally true when it comes to growing a business. A culture of, and dedication to, testing and optimization is a core component of meaningful growth.

This is because growth is often a game of diminishing returns. The growth tactics and channels that worked yesterday likely aren't working as well today, and will yield even worse returns tomorrow. What's more, these tactics are hardly repeatable. What lit a fuse under acquisition for a financial technology company, or increased the number of daily active users for an education app, is never a sure thing in another vertical.

To stay ahead of the curve, you have to test, test and test again. Every growth experiment, no matter the results, yields an opportunity to learn about your business and users, and grow further. If the results are really good, you've found something with meaningful impact – optimize it for all its worth. If you see a small change, ask yourself, was the impact worth the effort?

And if you've found something that doesn't move the needle at all, there's value in that too. It signals that something was wrong with your intuition (about your product or user), or you've missed something along the way.

The quickest way to stunt your company's growth is resting on your laurels. So, what growth experiment will you run next?

There's a time and place for growth hacking (and it's not a startup)

Des Traynor,
Co-founder, Intercom

For young companies, small optimization projects just don't make sense. Changing the copy from "sign up free" to "sign up for 30 days free," or comparing a red button with a green button might see a slight uptick, but you're likely working towards a local maximum. You're trying to go to the last 100 yards, and you're doing it with small experiments, each of which, unfortunately, takes a long time to run unless you have a very high traffic site. That means these generally tend to be a waste of time for startups, distracting you from working on projects that matter.

There's a lot of big company envy that happens in startups. They see a big company doing an A/B test that pays off with a .2% improvement in conversion rate, and for Amazon, that change might be worth $100 million, and they get their result in days. But for a startup, it's more like worth $1,000 in MRR and it took 7 months of a frozen homepage to get the 'learning'.

When you're pre-scale the time, money and headspace spent trying to tweak systems that have to prove their worth is better spent elsewhere. Similarly, don't stress yourself if you read an A/B test that guarantees a 5% lift in conversions. It never delivers. Copying someone else's test results is like wearing someone else's glasses. They weren't meant for you.

Navigating the landscape of growth opportunities

Jeff Chang,
Growth Tech Lead, Pinterest

A common problem that new growth teams have is that they overinvest in a growth opportunity that is not paying off, while many other good opportunities are lying around. If a growth opportunity is not paying off anywhere near expectations, fail fast and try some other ones. Naturally, as the growth team expands, it will invest more into opportunities that continue to show high impact. In the beginning of Pinterest's growth, quite a few times we had decent-size teams working on a project for months, with little to no impact. Sometimes, a project would be completely scrapped and months of work would be wasted. Since then, we've learned to fail fast and now every subteam on growth has a significant amount of impact.

As for specific opportunities, I would recommend trying at least one acquisition opportunity and one retention opportunity to start out. Acquisition without retention has a well known "collecting water into a leaky bucket" problem, and retention without acquisition leads to slow growth rates. So, you will eventually need to solve both problems. Here are some sample opportunities in each category and some product characteristics that suggest you should try each one.

Acquisition:
SEO – Product has quality web content
Mobile web to app conversion – Product gets mobile web traffic and also has an app
Signup conversion – Every product that requires authentication
Performance – Every product
Paid acquisition – Company has a budget and decent LTV
Virality – Product has social aspect
Referrals – Product has something to give to users to incentivize them

Retention:
SEO – Product has a lot of web content
Email – Every product
Performance – Every product
Push notifications – Product has an app
Login conversion – Every product
Paid resurrections – Company has a budget and decent LTV

As you can see, a lot of these opportunities probably apply to your product, and this list is not exhaustive. Eventually, you want to have tried them all!

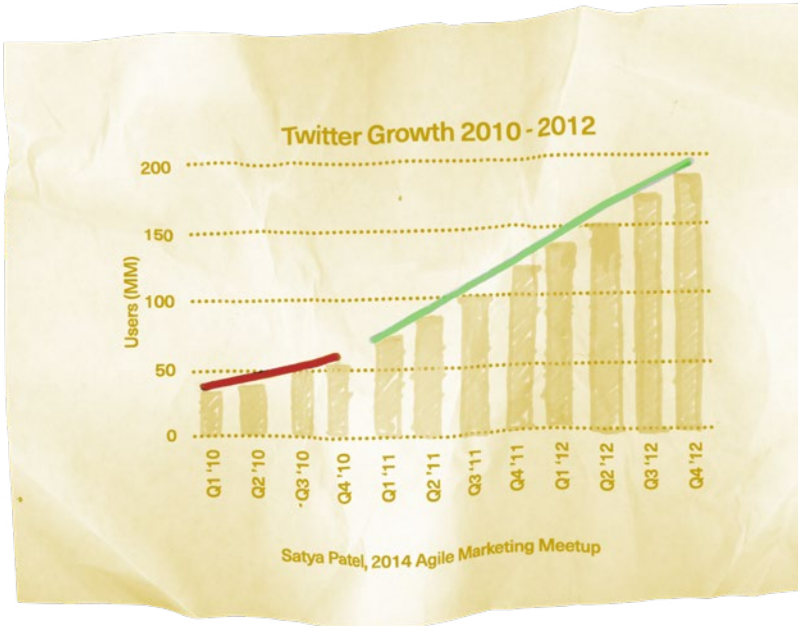
Excerpt from “How to prioritize the right projects.”

How incremental improvements compound

Yao Choong,
Director of Business Operations, Intercom

Venture capital is an interesting, risky game of finding a small number of outlier companies that are going to generate all of your returns. When I worked at Social Capital, our CEO, Chamath Palihapitiya, tried to change the game. He thought that if we could shift the odds of success for the companies we invest in, even by a few percentage points, that edge would compound across all the investments in our portfolio, and result in a large cumulative gain in our performance. A good public markets investor might make a good decision 55% of the time versus a mediocre investor who's basically a coin flip (or worse), but the performance of the good investor compounds over time. Creating a growth mindset and applying a set of growth best practices across our portfolio was his way to systematically shifting our odds.

What this looked like in practice was helping our portfolio companies make little investments in doing things better: Could we make one improvement in X? If that works, could we make another improvement in Y? As long as these investments are carefully judged and fit into a holistic framework, they stack on top of one another and compound. They synergize, which is precisely the power of exponential growth: Consistent 1% improvements over time will yield larger and larger absolute increases in performance. In that sense, growth is not about coming up with the one master stroke that fixes all of your problems. Growth is the judicious, iterative improvement of all of the parts of your business that need to be improved, while maintaining a holistic sense of how all the parts fit together.



Test to learn

Sean Ellis,
CEO, Growth Hackers

The goal of a growth team is to test at a high tempo. You're testing across each of the vectors in the AARRR framework. The more testing you do, the more you're going to learn. It's all about learning to figure out what's going to work and what's not going to work in the business.

A good example of that is Twitter. We all know that Twitter's had some growth problems recently. That's probably part of the reason they're open to the idea of adding an algorithm. This isn't the first time that Twitter had growth challenges.

In late 2010, they had an almost flat quarter. At that time, they were running less than one test per week; they brought in a new head of growth, who pushed to get that testing frequency up. They got it to 10 tests per week. You can see they had years of consistent growth once they got their testing up to 10 a week.

It really does come down to testing, and you obviously want to be smart about what you're testing.

Excerpt from "Sean Ellis On Building a Company Wide Growth Culture."

The temptation of recency bias

Brian Kotlyar,
Director of Demand Generation, Intercom

It's human nature to have recency bias. "This works, let's do more." Salespeople see this challenge often. They index on a deal that they recently lost or recently won, and they assume that's a pattern they can exploit more broadly. The truth is they can't, because they either don't see or don't fully appreciate all the unique factors in how they closed, or lost, that deal.

It's the same in marketing. In online advertising, for example, you'll find a targeting tactic or a creative tactic that works super well on a small scale, and when you try and scale it up, it doesn't work. The efficiency dissipates as you spend more money. This happens to us all the time. We figure out a good piece of creative and a good piece of copy, and it produces a couple customers at a really good rate. I'll tell our agency to push it harder, they try and all of a sudden we're spending 10 times more than we had planned to get those customers. Then I have to tell them to pull back.

On one hand, you want to keep a childlike mindset where you're willing to continue to try and experiment and not feel burned by a particular channel or tactic. At the same time, you have to really be cautious as you try to scale – push too hard too fast based on limited data and you might end up in big trouble.

The law of shitty clickthroughs

Andrew Chen,
General Partner at Andreessen Horowitz

The very first banner ad was for HotWired, and it had a clickthrough rate of more than 70%. Now, 20 years later, the average clickthrough rate is close to .05%. It's very low, and anyone who has worked in the industry long enough has seen this happen with email, SMS and all sorts of other things for a bunch of reasons. You have competition, and you have the platforms themselves saying, "Hey, we need to clamp down on this." There's literally habituation from end users who are thinking, Oh, it used to be fun to get a invite from my friend, but now I'm getting it all the time. It's less effective, because you have a crowding effect.

I call this "The Law of Shitty Clickthroughs", because it's something that has been with us for a really long time and will continue to be. For all of us in marketing and growth, that means we have to continually find the fresh powder, because inevitably whatever worked in the past will no longer work. By the time a case study has been published on Medium about something that works, it's probably done. Everyone still has to do it, but then you have to move beyond it.

A lot of the interesting work happening out there ends up on these "frontier platforms." These are areas where maybe some of the big companies haven't quite wised up yet; maybe they haven't started experimenting; maybe the channel is a little too small. These are things like Alexa Skills.

One big area I have found really fascinating is the ecosystem that's being built around gaming right now. You can livestream things, you can do voice chat – you can do all of these different things around ephemeral networks of players who are getting together over a short period of time to play one game. You're not going to want to add all these folks to your Skype or Google Hangouts because you are literally just coming together for one game. However, a product that understands that ephemeral network can then build a whole ecosystem around it, and that's what we've seen with Discord and Twitch.

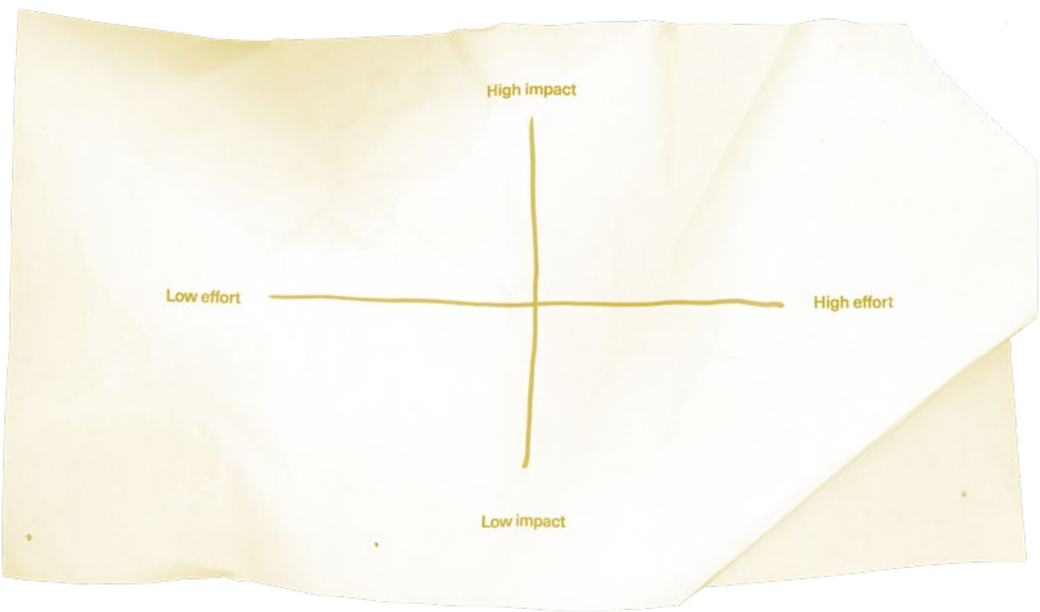
It behooves all of us in the industry to stay on top of these trends and to see what's working, because otherwise we're in constant competition where all of our stuff stops working over time.

Andrew Chen as heard on on the Inside Intercom podcast.

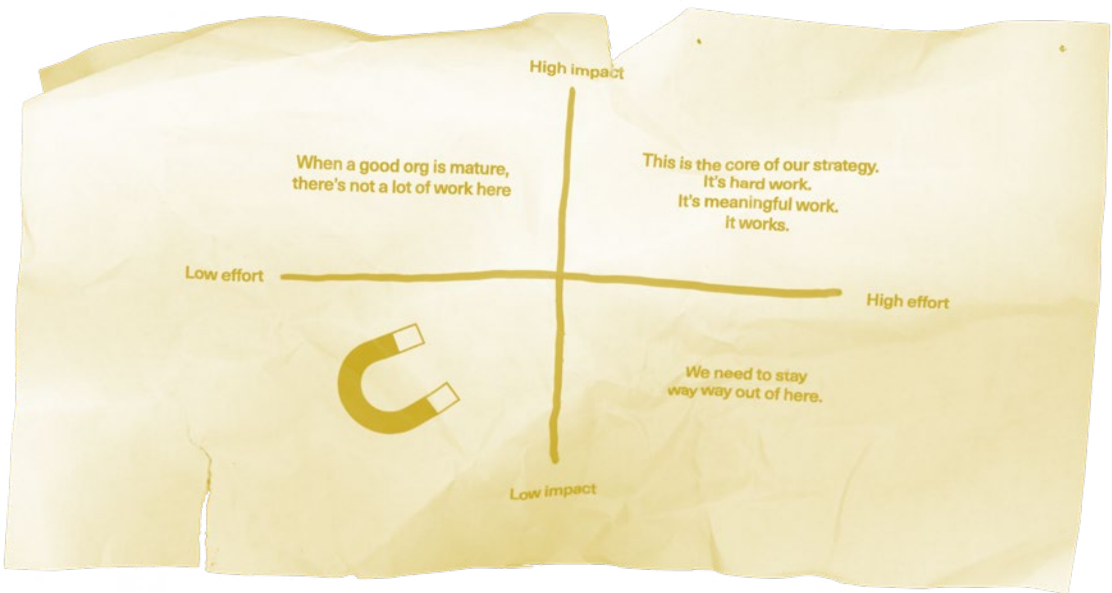
The best startups resist snacks

Des Traynor,
Co-founder, Intercom

The best lessons in business come in plain English and speak uncomfortable truths. One such example is something we learned from Hunter Walk. He pointed out how fundamental it is to avoid low-impact work. To explain, he drew a 2×2 graph that has since become famous in our company.



Everyone's favorite quadrant is the low-effort, high-impact stuff. But when you continually pick the low-hanging fruit, the branches will stop growing, so this work dries up quickly as your product and team matures. Most startups are sensible enough to avoid the high-effort, low-impact work. The lower left quadrant is the one worth talking about.



It's the low-effort, low-impact work that can kill you, because it's so attractive. Hunter refers to it as "snacking". It feels rewarding and can solve a short term problem, but if you never eat anything of substance you'll suffer.

This work is easy to justify, because "Why not? It'll only take a few hours." And when it achieves nothing useful, it's easy to excuse, because it "What's the problem? We only spent a few hours on it". The wasted time compounds a lot quicker than the insignificant results. Do this enough times and you'll grow a low impact team that doesn't achieve anything.

Excerpt from "The first rule of prioritization: No snacking"

Adding layers to the cake

Jeff Jordan,
General Partner, Andreessen Horowitz
(Former GM, eBay North America)

One of the first places eBay looked for growth was in buying formats. At the time, ebay.com enabled users to buy and sell solely through online auctions. Many in the community thought this was the magic of the site, and it clearly helped propel the company to a very strong start. But auctions intimidated many prospective users who expressed preference for the ease and simplicity of fixed price formats. Interestingly, our research suggested that our online auction users were biased toward men, who relished the competitive aspect of the auction. So the first major innovation we pursued was to implement the (revolutionary!) concept of allowing sellers to offer items for a fixed price on ebay.com, which we termed "Buy It Now."

Buy It Now was surprisingly controversial to many in both the eBay community and eBay headquarters. But we swallowed hard, took the risk and launched the feature ... and it paid off big: Buy It Now complemented auctions well, brought new users and new listings to the site and became a very important driver of growth for many years. These days, the Buy It Now format represents more than $40 billion of annual Gross Merchandise Volume for eBay, 62% of their total.

After that initial success, we doubled down on innovation to drive growth. We introduced stores on eBay, which dramatically increased the amount of product offered for sale on the platform. We expanded the menu of optional paid features for sellers to better highlight their listings on the site. We improved the post-transaction experience on ebay.com by significantly improving the "checkout" flow, including the eventual seamless integration of PayPal on the eBay site. Each of these innovations supported the growth of the business and helped to keep that gravity at bay.

I came to call this process of layering in new innovations on top of the core business "adding layers to the cake." Much of the natural effort in the organization is spent on chasing optimization of the core business. This makes sense, as small improvements in a big business can have a meaningful impact. But there is huge potential leverage to adding layers of new, complementary businesses on top of the core (aka "cake"). In the ebay.com case, Buy It Now, stores, features, checkout and PayPal integration were all new initiatives that layered on top of the core business.

Excerpt from "A Recipe for Growth: Adding Layers to the Cake."

You are not your customer

Casey Winters,
Scaling and growth adviser
(former growth leader at Pinterest and GrubHub)

It's common to hear someone at a startup say, "When I do this, this is the way that I do it." But you're not the customer. I don't care how much you look like the customer, you have way too much knowledge about this problem to assume that the way you do it is the way other people will do it. Do a lot of qualitative research and get something in front of potential customers. Put a phone in front of them, tell them to sign up for your product and watch what they do. Ask them questions.

I spent most of 2015 traveling to different countries to watch people sign up for Pinterest. It was horrifying. Everyone was confused. No one understood what the product was for. It was bad. But that time led to a number of insights and, in turn, a bunch of successful experiments that grew the activation and retention rates of our products. You can't learn if you're not putting your product in front of users and watching how they do it. Sure, an experiment can tell you what's going on, but it's not going to tell you why. You really need to get in front of your user base to understand that.

Casey Winters as heard on on the Inside Intercom podcast.

METRICS & MEASUREMENT

METRICS & MEASUREMENT

Growth metrics are the heartbeat, blood pressure and temperature of your company: the core indicators that reveal the health of your SaaS business at its most fundamental level. (This is the reason they form a crucial part of many investors' due diligence.)

The problem is that growth metrics can be complex, confusing and contradictory; keeping a finger on the pulse of your business can be easier said than done. For every growth expert telling you to track month-on-month growth, there's another telling you that tracking daily active users is where the rubber hits the road.

It's impossible for one metric to give you a 360 degree view of your business's growth, but taken together they can provide answers to difficult questions: How can we increase customer acquisition? How profitable are our customers? What do we need to do before we pitch our next funding round?

Remember, what you measure is what you end up optimizing for. Get a handle on your growth metrics early, and you'll lay the foundations for authentic growth to follow.

Bringing analytics into your startup early

Bobby Pinero,
Senior Director of Finance, Intercom

I came to Intercom right after we closed our Series A funding round. At that point only product people were at Intercom. I think our lead series A investor, Mamoon Hamid from Social Capital, looked around and said it was time to get the house in order from a finance and measurement perspective.

Joining at that early stage, right before we hit $1 million dollars in annual recurring revenue, was really insightful. Eoghan and the founders had done a great job setting up the fundamentals, but by bringing in finance and analytics, we could start to understand deeper questions about the business. We could figure out where that ARR was coming from. How could we think about it moving forward? Why might we need future capital? When might we need it? Who might we want to start hiring?

Getting these questions answered made our later rounds of fundraising easier. Your job while fundraising, whether you're the CEO or the CFO, is to use data to build a case for why your company is going to be X times more valuable than it is today. Then it's up to you to put those data together in a compelling story.

Every business is so different. Every business has a different story, is selling to different segments, has different market positioning and has different buyers. For us – and this is something I'd advise any other startup to do – it was all about finding the metrics that proved Intercom was on the road to being successful.

Bringing finance and analytics in early also meant we could all get on the same page regarding metrics. One mistake I see at a lot of other early stage startups is that they don't have well-defined sources of truth. People start talking about churn, but what are they really talking about? Are they talking about gross MRR (Monthly Recurring Revenue) churn? Are they talking about net MRR churn? Are they talking about customer churn? Too often, metrics get thrown out, and it's unclear exactly what they mean. It's easy to spend a lot of time arguing about the actual data and numbers instead of figuring out what those data and numbers are telling you.

Excerpt from *Intercom on Starting Up*

Bringing analytics into your startup early

Tomasz Tunguz,
Partner at Redpoint Ventures

Proxy metrics are powerful for four reasons:

- They are easy to measure;
- They are correlated to (and ideally predictive of) the business' goals;
- They are concrete and create a unifying vision for the team; and
- They enable businesses to iterate faster by reducing latency.

Great companies employ proxy metrics all the time. If a new Facebook user adds seven friends in 10 days, they'll be a long term user. The more engagement minutes a customer spent digging through their data in Looker during a trial, the greater the likelihood that trial customer converted to a paid customer. At ThredUp, the world's largest online consignment store, buying products both on web and on the mobile app indicates high customer lifetime value. If a user creates an expense policy on Expensify, there's a very high chance a company will buy the product.

How do you find proxy metrics for your business? There's no shortcut. Andrew Chen has written a blog post describing how to do it, step by step. Define the goal, explore the data, run a regression and then backtest.

Excerpt from "How To Create Competitive Advantage For Your Startup With Proxy Metrics."

Why lead velocity rate is the most important metric in SaaS

Jason Lemkin,
Founder, Saastr

Sales as a metric is a lagging indicator, and pipelines are crap for predicting the future. The pipeline for this month is useful, but still dependent on how various reps get probability right. The pipeline for next quarter is almost useless for most SaaS startups, even once they get pretty big. And actual sales reflect leads from the past that were qualified, managed, and then closed over a 12-plus month period. Even if your sales cycle is short, how long ago was the lead first created? The sales you get this month are really the sales you began to create more than a year ago.

The pipeline for next quarter is almost useless for most SaaS startups, even once they get pretty big.

But there's a better metric, your key metric, that you should track and score yourself to, and hold your VP of Marketing and your marketing team to – qualified lead velocity rate (LVR), your growth in qualified leads, measure month over month, every month. It's real time, not lagging, and it clearly predicts your future revenues and growth. And it's more important strategically than your revenue growth this month or this quarter.

If you set as a top corporate metric growing your LVR about 10–20% greater than your desired MRR growth – and you have a consistent sales team – you'll hit your revenue goals.

And the great thing about LVR is that while sales ultimately may vary quarterly, and a lost renewal can hurt, there's no reason leads can't grow every single month like clockwork – every single month.

As long as you are using qualified leads, and you use a consistent formula and process to qualify them, you can then see the future.

Excerpt from "Why lead velocity rate is the most important metric in SaaS."

The Customer Lifetime Value to Customer Acquisition Cost Ratio

Dave Kellogg,
CEO, Host Analytics

Some people say, for example, that a customer acquisition cost (CAC) ratio of 2.0 – meaning that you paying a $2 CAC for every $1 in ARR – is bad. And indeed, if you're selling a month-to-month product where most customers discontinue by month nine, then a CAC of 2.0 is horrific.

However, if you're selling sticky enterprise infrastructure, replacing systems that have been in place for a decade with applications that might well be in place for another decade, then a CAC of 2.0 is probably fine.

That's the point: There is no absolute right or wrong answer to what a company should be willing to pay for a customer. What you are willing to pay for a customer should be a function of what they are worth.

Excerpt from "The Ultimate SaaS Metric: The Customer Lifetime Value to Customer Acquisition Cost Ratio"

How many people are really using your product?

Josh Elman,
VP Product, Robinhood and
Venture Partner, Greylock

You need a metric that specifically answers this. It can be “x people did three searches in the past week.” Or “y people visited my site nine times in the past month.” Or “z people made at least one purchase in the past 90 days.” Whatever it is, it should be a signal that customers are using your product in the way you expected and that they use it enough so that you believe they will come back to use it more and more.

Once you can define a metric to answer this, then you can really track your growth on a day-to-day, week-over-week, month-over-month basis. And from there, you can identify the key supporting metrics that show you how likely it is more people will convert to using your product on a frequent basis, how likely they are to stay on your product vs churn out, etc.

At Twitter, we found that if you visited Twitter at least seven times in a month, then it was likely you were going to be visiting Twitter in the next month, and the next month, and the next month. And we decided this was enough initially to be “really using it,” though of course I think Twitter gets even better when people use Twitter at least once every day.

Excerpt from “The Only Metric That Matters.”

Understanding what activity means for your product

Karen Church,
Director of Product Analytics & Data Science, Intercom

MAU (monthly active users), WAU (weekly active users) and DAU (daily active users) are a useful way to help you think about how engaged your user base is. However, if you're going to use one of these metrics, it's important to assess what "activity" means for your product. Simply logging in is often not a good signal of engagement.

Take daily active users. Is the product or feature you're building something you expect people to use every day? Is it every week? For example, if you're building tax return software like TurboTax, a metric like daily active users doesn't necessarily correspond with how people use the product.

A more meaningful approach is to break your users into segments and look at activity based on segments – these segments might be based on demographics, company type, geographic location, sales-owned versus self-serve, product mix, etc. By tracking MAU/WAU/DAU across these segments, you can often learn more about your user base and potential issues specific segments have with your product.

Time is another important measure of engagement to consider. This might be time spent in your app or some measure like session duration or session length. Think of a session as a group of user interactions. Session length is the number of actions or interactions in a given session. Session duration is the total amount of time a user spends in your app or product in one session. The premise is that the more time users spend in your product, the more engaged they are. If users log in but don't spend much time interacting with your product or they quickly bounce, that might indicate a lack of engagement.

Setting your analytics team up for success

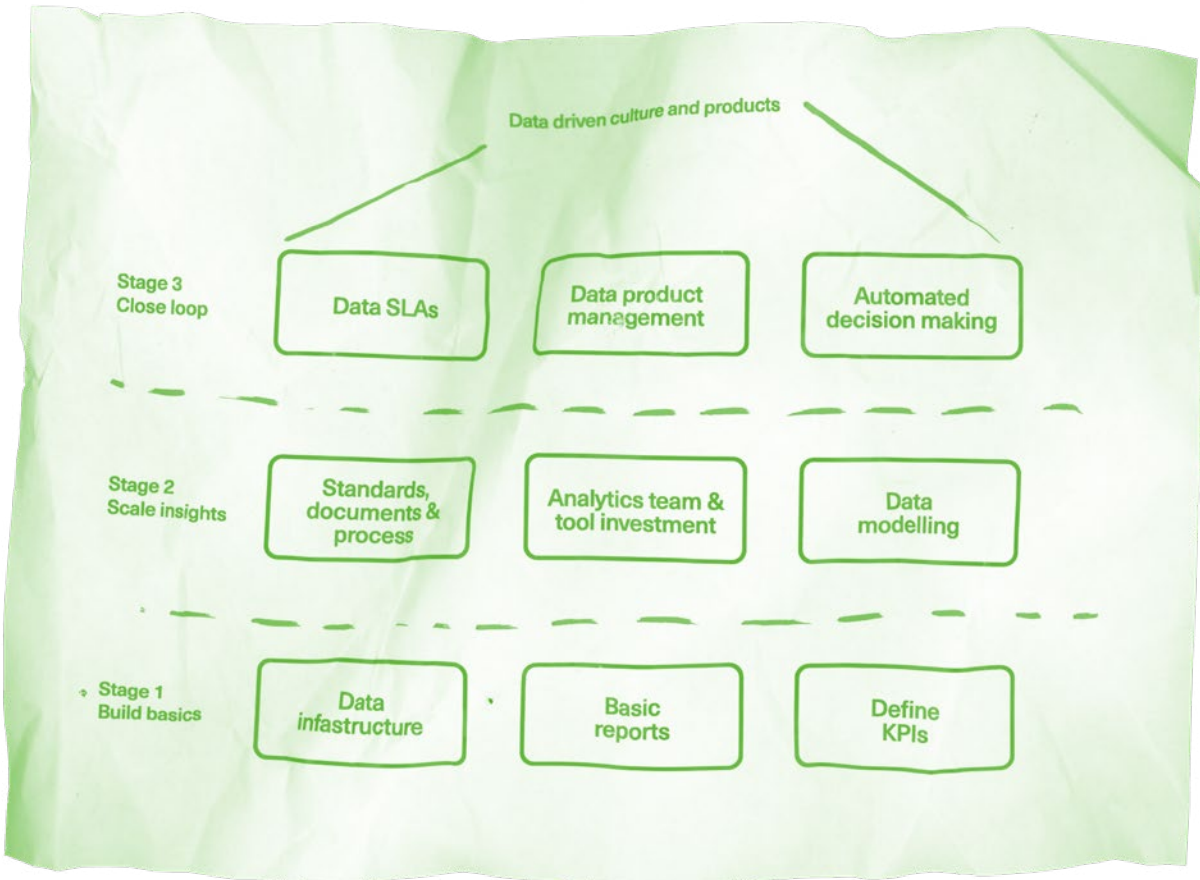
Sylvia Ng,
Director of Product Operations, Shopify

At a certain point of your startup's life cycle, it simply isn't enough to be doing analytics piecemeal anymore – somebody needs to set a strategic direction and make sure data engineering happens to serve the company's needs. A lack of a good analytics program can leave you with a whole slew of problems, including projects launching without tracking put in place for measuring success, KPI charts with peaks and valleys and no known causes, hours spent matching reports produced by different teams (e.g., one team has Daily Active Users going up; the other has it going down).

Some of these problems may sound mundane, but trust me, they are more than just annoyances when you want things to scale. If you're trying to build your company's growth machine, you can't experiment properly if you have all these issues getting in your way.

A lot of startups spend a considerable amount of energy on picking the right analytics tools and technology, but even the best technology won't help unless you lay the groundwork for success. So what is the solution?

There are probably many ways to tackle it, but here I'll delve into how we approached it at 500px, which is roughly following this framework:



The basics were already set up before I arrived—KPIs, reports and data infrastructure. The next step was to scale that out, which required additional investments in the team and tools, leveraging the data modeling for deeper insights, and most important, implementing standards and process to deal with the problems I mentioned above. Once you have a program that can scale, you can then focus on the gold—leveraging data in your products, making automated decisions (spend allocation in marketing campaigns or personalizing your homepage for example) and setting up the infrastructure so that data is delivered reliably.

Excerpt from [“How to Setup Analytics for Scale.”]

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