Pr Speedinvest Pirates

Marketing and Sales
Startup Metrics

12.11.2020

The Ultimate Guide to Startup Metrics.

What to track, when and why.

✔️ Key metrics you need to track and when

✔️ Tips to become a data-driven company

✔️ Industry relevant metrics

https://get.speedinvest-pirates.com/metrics-guide/

Agenda

1. Introduction (10')
2. Why metrics matter (5')
3. North Star (15')
4. Exercise 1 (30')
5. AARRR (45')
6. Industry relevant metrics (15')
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8. Tips from investment managers and startups (5')
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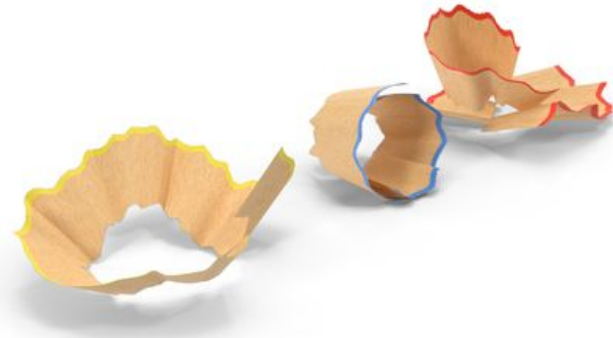
Why Metrics Matter

The importance of PMF

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A data-based decision making culture is the single most important competitive edge of startups against incumbents. But most startups are in love with their product and rather work on a "Product founder fit" than a "Product market fit".

-       Dieter Rappold, CEO Speedinvest Pirates

Metrics Matter

"If you cannot measure it, you cannot improve it" - Lord Kelvin

PMF & Sustainable Growth

- Fundamentals such as a profitable business model and achieving product-market fit have been neglected

- Profitability (and not growth at all cost) → especially after e.g. Quibi

- Show how revenue ultimately surpasses costs (rather than making money straight away)

+800 SaaS benchmarks

Initiatives like the "Open Project" from Baremetrics share metrics and benchmarks openly
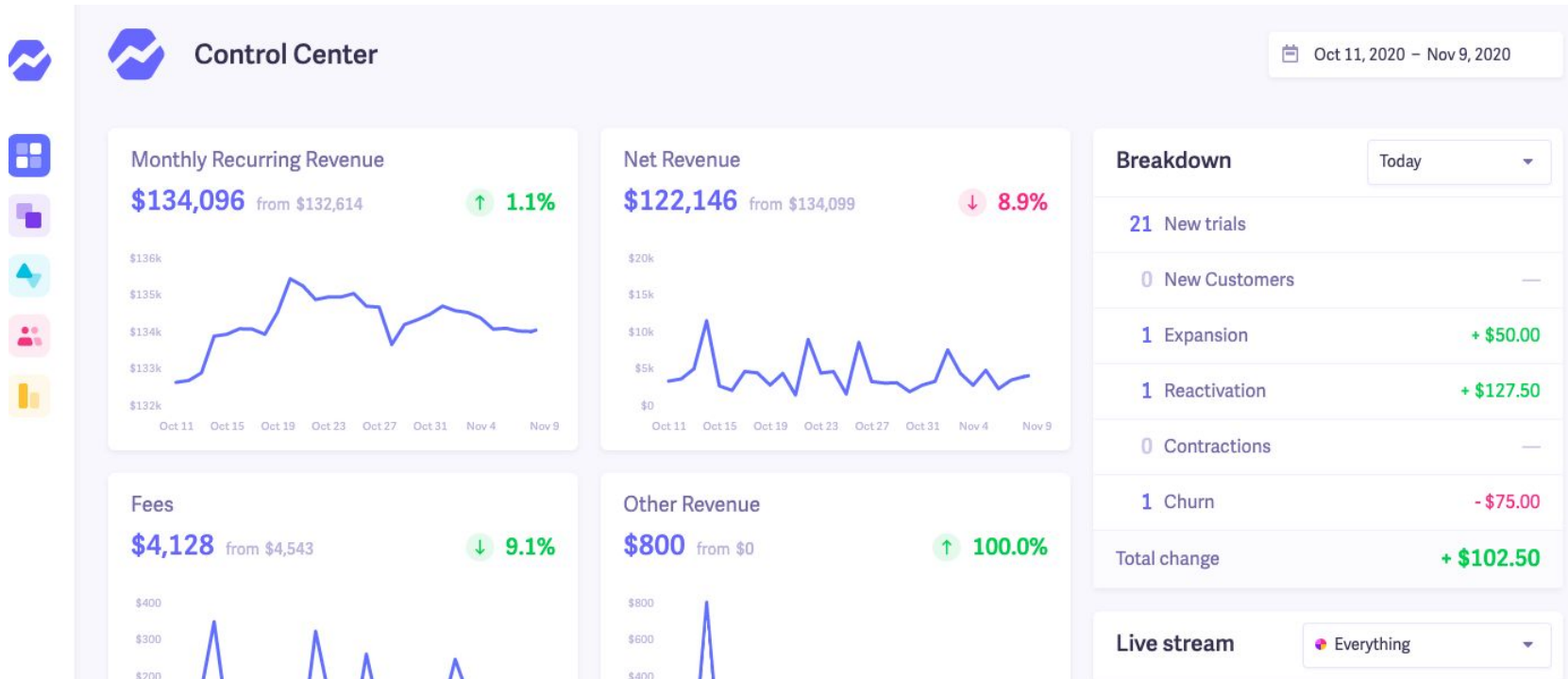
But unclear what to track, when and how ...

PMF

Lack of focus on product-market fit.

Benchmarks

When to achieve which metrics?
Benchmark for Deeptech, Fintech, etc.?

Definitions

Definitions of metrics vary greatly … (e.g. CAC)

North Star

North Star

How can you measure your overall company's success?

Finding the one metric that matters

- NSM = One metric that best captures core value of your product (→ It reflects your PMF)

- Understand the value your most loyal customers get from using your product.

- Quantify this value in a single metric.

Using the NSM to grow

- Define the variables that work together to move your NSM.

- These variables generally include parts of the customer lifecycle:
  - new user signups
  - new user activations
  - improving engagement/retention
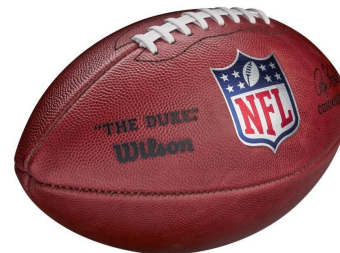
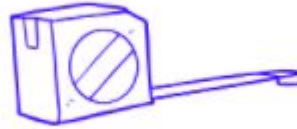# Different types of metrics

Quality

Resembles the service quality

Satisfaction, engagement or retention metrics

(NPS)

Quantity

Usefulness to the user and the revenue

(nr. of bookings)

Efficiency

High return on the investment made

(e.g. customer support tickets per reservation)

… what is definitely **<u>NOT</u>** a north star metric.

~~Revenue~~

NSM Examples

What do you think should be the North Star for these 3 businesses?

NSM Examples

What do you think should be the North Star for these 3 businesses?

Number of nights booked

Daily active users

Number of questions answered

NSM Example: Spotify

North Star Framework

Worksheet

Team Name: *Spotify*

Input Metrics

Breadth - How many users are engaging?
- # of premium trial users
- # of premium subscriptions
- # of users listening on more than one device

Depth - What level of engagement are they reaching?
- Avg # of hours/session
- Avg # songs shared per user per month
- # of recommended songs/session

Frequency - How often does each user engage?
- # sessions/week
- median usage interval
- 2-day weekly stickiness of radio

Other - Add in your own leading metrics

North Star Metric

What's your Product's North Star?

Time spent listening to Music by Subscribers

Mid/Long-term Impacts

What will the impacts to the business be?

Monthly subscriptions from premium users

15

Exercise 1

Come up with a NSM for your startup

- 20 min brainstorming → get together in groups
  - How do you your customers get value?
  - What could be your NSM?
  - Are there variables which influence your NSM?

- 10 min discussion and Q&A

AARRR

What could it stand for?

A …
A …
R …
R …
R …

The AARRR Funnel

Acquisition
Activation
Retention
Referral
Revenue

Acquisition	How do customers find you?
Activation	How quickly can you get your customer's to the "Aha-Moment"?
Retention	How many of your customers are you retaining & why are you losing the others?
Referral	How can you turn your customers into your advocates?
Revenue	How can you increase revenue?
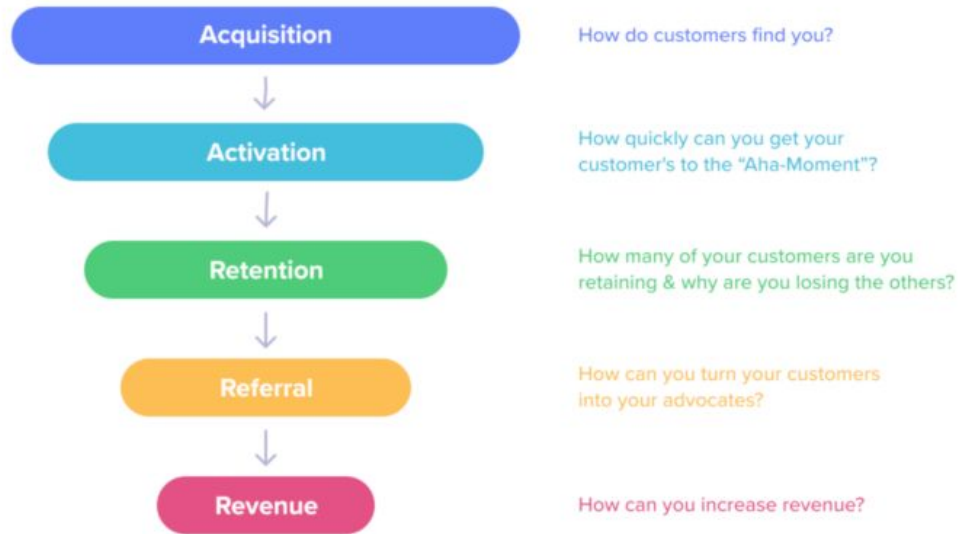
Acquisition Metrics

The pace in which a business is growing

CR (Conversion Rate)

- CR = % of visitors/ users who perform a certain desired action
- Shows you how engaging your content is to users.
- Sequence of CRs → leads to the purchase of a product
- Conversion funnel for new user acquisition, retention, and resurrection
  - Double down on best performing channel (high LTV & low CAC)

$$CR = \frac{\text{Visitors who take actions}}{\text{All Visitors}} \times 100$$

Practice

- Fintech B2C companies: Probability of CR is assessed by looking at users who (onboarded to the product e.g. identification verification)

Activation Metrics

Activation metrics indicate the value of your product and how willing customers are to use and ultimately pay for it

CAC (Customer Acquisition Cost)

- CAC = cost of convincing a potential customer to buy your product.
  - Blended CAC = organically + users acquired via paid marketing
  - Paid CAC = acquired via paid marketing
- Split for organic and paid CAC → Viability of a startup

Practice

- B2B companies: "time-costs"
- CAC < ACV (ideally about half)
- Network effects: rely on organic acquisition!

$$\text{Blended CAC} = \frac{(\Sigma \text{ Sales \& Marketing Expenses})}{\text{No. of New Customers Added}}$$

$$\text{Paid CAC} = \frac{(\Sigma \text{ Sales \& Marketing expenses})}{\text{No. of new Customers Added via paid marketing}}$$

Retention Metrics

Retention metrics give an indication of the quality of growth

DAU (Daily Active Users)

- Daily active users (DAU), weekly active users (WAU) or monthly active users (MAU)
- Find the right definition!
- Identify power users
  - segment them based on demographics or behavioral data
  - identify actions they take ($\rightarrow$ PMF!)
    - look into cohort activity heatmaps
  - where do power users come from?
    - acquisition channels

GROWTH ACCOUNTING FRAMEWORK

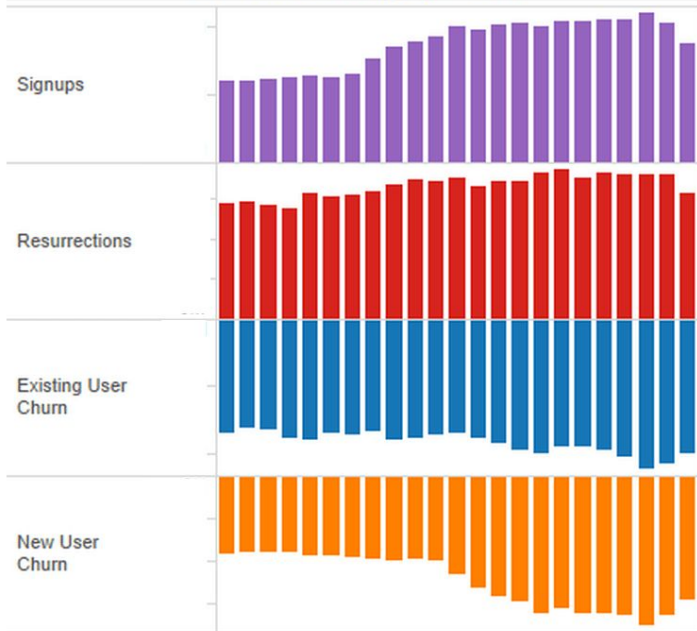|		
+	New + Reactivated	5,000
-	Inactive	1,000
=	Net MAU	4,000
+	Engaged	10,000
=	MAU	14,000

Tab.6.: Amended from Chen, A.

MAU Accounting

Retention metrics give an indication of the quality of growth
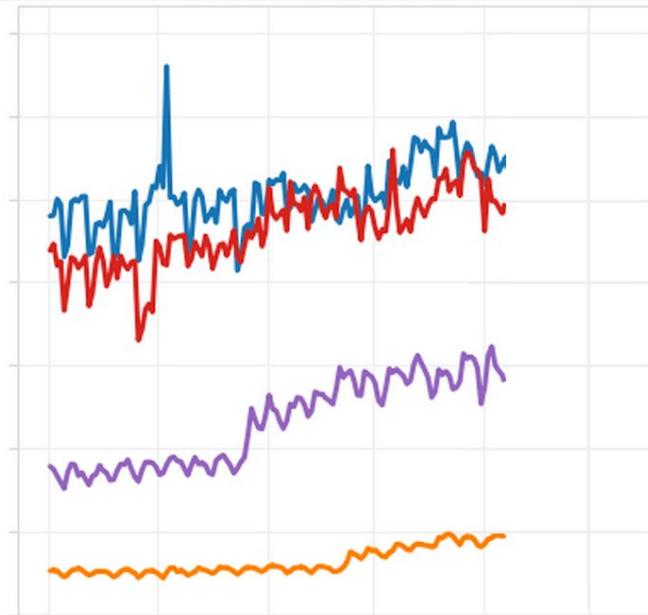
Usage is key

"
Usually you can see a nice correlation. If usage drops the willingness to pay goes down and people are likely to churn.

- Markus Lang, Associate Partner Speedinvest

Cohort Activity Heatmap

Identifying cohorts which stick for a long period of time and are frequent users

Cohort 1
Cohort 2
Cohort 3

Cohort activity level over time

New cohorts over time

High user activity
Medium user activity
Low user activity

Amended from Egan, J.
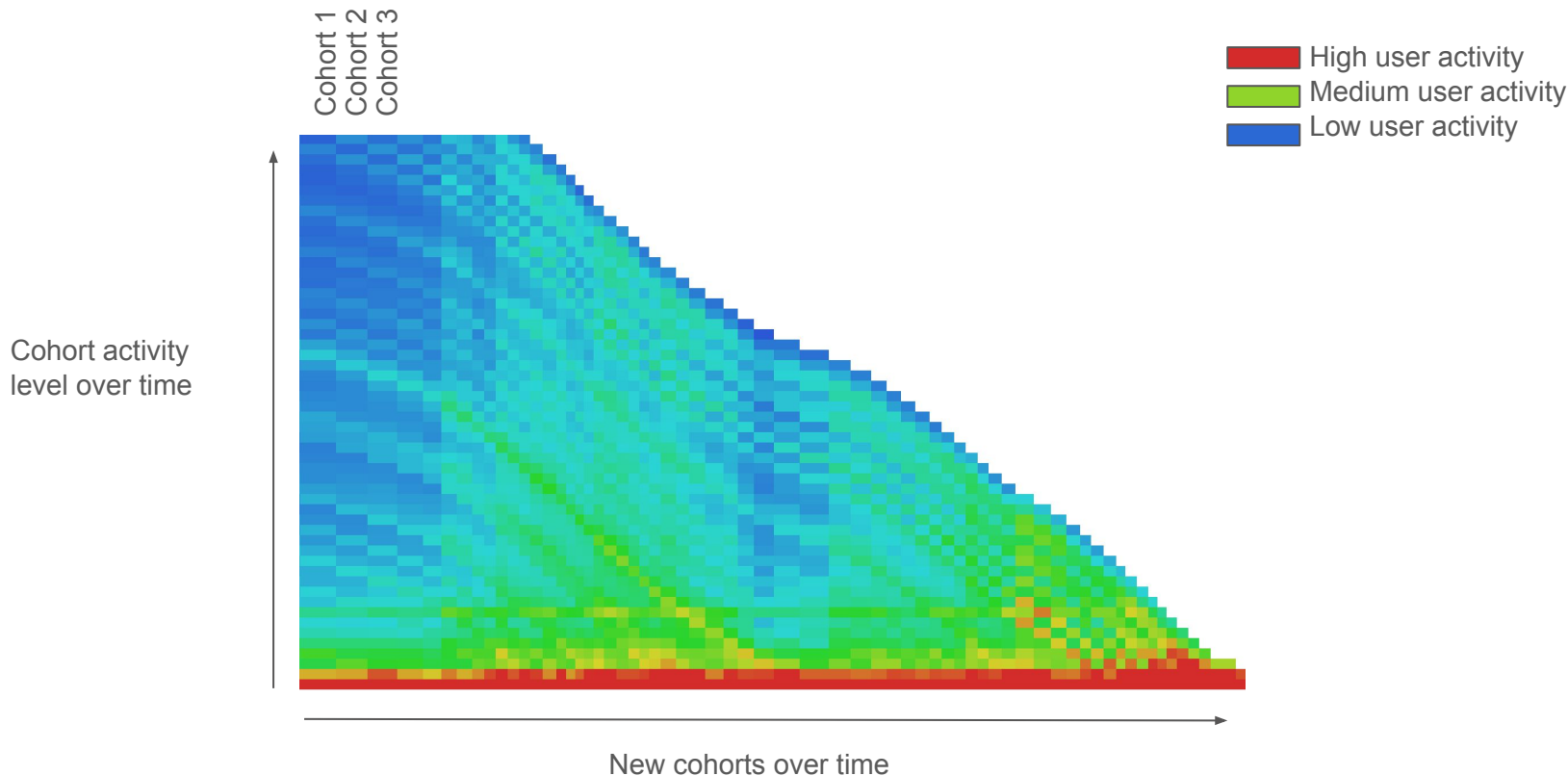
Use Case: Refurbed

How a online consumer marketplace for refurbished electronic goods implements cohort activity heatmaps

1. Monitor retention cohorts

2. Purchase rates & purchase frequency of each cohort

3. Combine insights with engagement metrics (e.g. OR of emails)

Referral Metrics

Referral metrics show whether or not users are willing to refer a product.

NPS (Net Promoter Score)

- NPS = indicator for customer loyalty (churn and revenue)
- "How likely are you to recommend this product to a friend?"
- Cluster
  - Detractors = rating from 1 - 6
  - Neutrals = rating from 7 - 8
  - Promoters = rating from 9 - 10
- Analyze NPS per customer segment
- Implement measures to improve NPS

$$NPS = \%promoters - \%detractors$$

Use Case: Refurbed

How a online consumer marketplace for refurbished electronic goods tracks NPS

- Problem: small size of the sample early on
    - NPS changes by +/- 10% on a weekly basis
    - Less than 100 responses → statistical error or a significant trend?

- Solution
    - Lower the scale to either yes or no questions to increase significance by lowering the answer options.
    - Call every customers to increase response rates and get more valid insights.
    - Current NPS = 70

NPS Factsheet

Aka why you should really be interested in your product's NPS

2.6X

On average, a promoter is worth 2.6x more than detractors

83%

83% of satisfied customers are willing to refer a product

4X

People are 4x more likely to buy if they get a referral from a friend

16%

Referred customers are in turn 16% more likely to stay
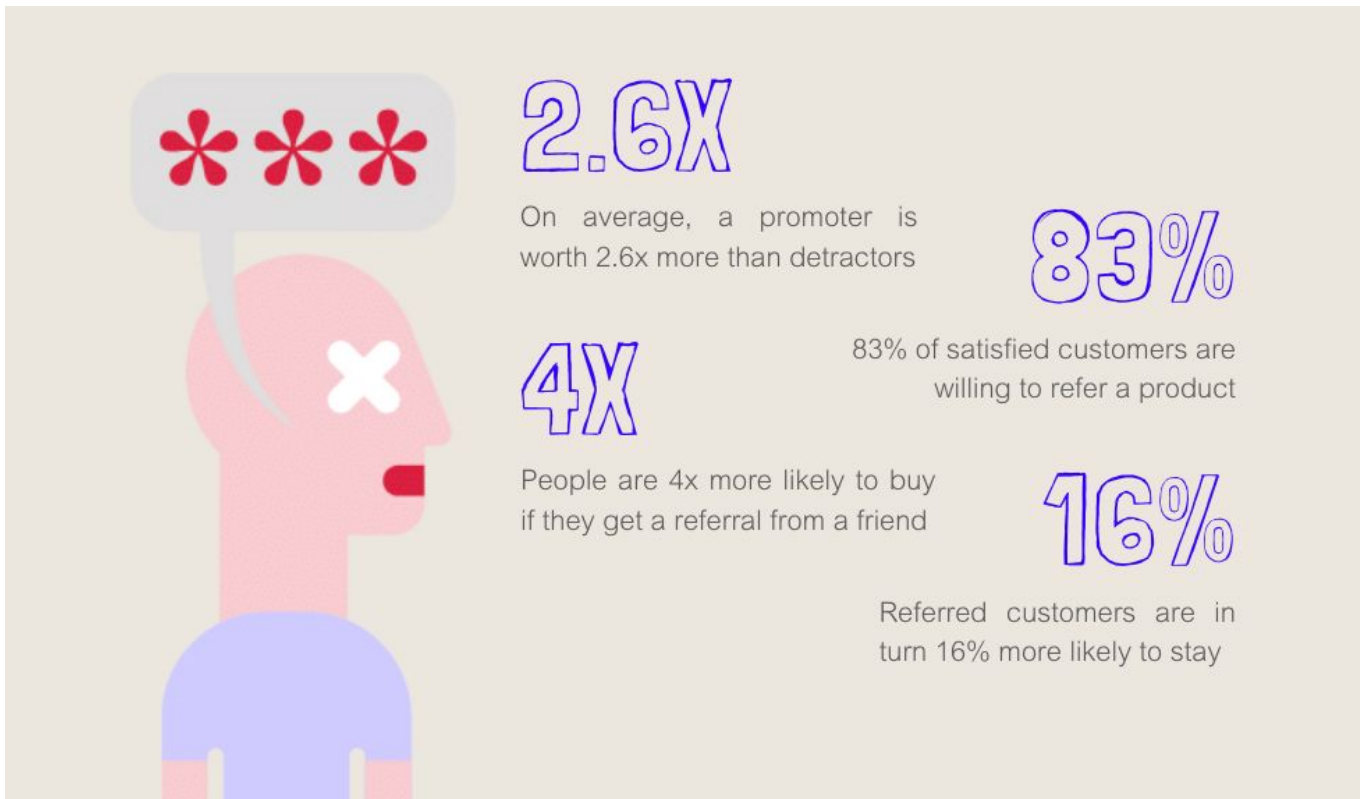
Revenue Metrics

Revenue metrics which should be tracked

CLTV (Customer Lifetime Value)

- CLTV = shows the net profit from one customer over his/her lifetime
- CLTV:CAC ratio = tells you if profits exceed your costs of acquiring customer
- Goal: 3X CLTV > CAC

$$\mathit{fx} \quad LTV = \begin{array}{c} Contribution \\ margin\ c/m \\ *\ Average\ lifespan \end{array}$$

$$\mathit{fx} \quad \begin{array}{c} LTV{:}CAC \\ Ratio = \end{array} \frac{LTV}{CAC}$$

WAYS TO DECREASE YOUR CAC

- Focused target market
- Customer referrals
- Inbound marketing
- CRO
- Differentiation to competition
- Increased brand awareness
- Use freemium or free trials
- Optimize customer acquisition
- Capitalize on referrals - if possible
- Automate sales processes
- Use demo videos - reduces the amount of salespeople needed to explain a product (Skok, D.., 2019)

WAYS TO INCREASE YOUR LTV

- Cross- and upselling
- Increase referrals
- Reduce churn
- Add repeat business
- Determine the main source of customers with high LTV and pinpoint your ideal target group

Industry Relevant Metrics

Deep Tech

Relevant metrics for deep tech startups which should be tracked across the different stages

Target Group	Pre-Seed	Seed	Series A
SMB	Downloads Signups GitHub Engagement	Downloads Signups GitHub Engagement	CAC Churn Rate
Enterprise	Nr. of POC's	Nr. of POC's ACV	ACV ARR & Bookings Churn Rate

Fintech

Relevant metrics for fintech startups which should be tracked across the different stages

Target Group	Pre-Seed	Seed	Series A
B2C	Nr. of Beta Customers Customer References Probability of Conversion	Nr. of Customers LTV MRR Engagement Metrics NPS	MAU MRR, MRR Growth Gross Payment Volumes CAC, LTV, CAC:LTV EBITDA, Net Income
B2B	PoCs (and plan of further integration and scalability)	Converted PoCs ACV	MAU MRR, MRR Growth Gross Payment Volumes CAC, LTV, CAC:LTV EBITDA, Net Income

Finding a hook

"

People don't find finance sexy. No one does. And so you really need to find a painkiller hook (...) for me as a consumer I don't care about a cool app, but I deeply care about my finances.

- Anthony Danon, Associate Partner Speedinvest

Health & Consumer Tech

Relevant metrics for health & consumer tech startups which should be tracked across the different stages

Target Group	Pre-Seed	Seed	Series A
B2C	/	Revenue MRR Growth Rates (absolute growth)	Revenue MRR Growth Rates (absolute growth) CAC, LTV, LTV:CAC Retention Cohorts
B2B	/	Revenue MRR Growth Rates (absolute growth)	Revenue MRR Growth Rates (absolute growth) CAC, LTV, LTV:CAC Retention Cohorts

Usage is key

"

You need to show that your users are not only paying but also using the product.

- Markus Lang, Associate Partner Speedinvest

Industrial Tech

Relevant metrics for industrial tech startups which should be tracked across the different stages

Target Group	Pre-Seed	Seed	Series A
B2B SaaS	NPS	CAC Conversion Rate Margins	MRR / ARR CAC LTV
Enterprise	Nr. of POC's	ACV Sales Cycle CR POC to Customer	ACV Conversion Rate Margins CAC

Tracking CAC

"

Ask yourself: Is the effort of the investment during the sales cycle worth the revenue that you can generate with it?

-    Marie-Helene Ametsreiter, Lead Partner Speedinvest

Marketplaces and Network Effects

Relevant metrics for marketplace startups which should be tracked across the different stages

Target Group	Pre-Seed	Seed	Series A
Consumers	Signups CVR Signup to User	DAU, MAU, WAU Cohorts (user, order, revenue, power users) Share of Wallet Virality Coefficient NPS	DAU, MAU, WAU CAC, LTC, LTV:CAC Gross Margins NPS Cohorts (user, order, revenue, power users) GMV (Gross Merchandise Value)

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Draft such a table yourself

- 20 min brainstorming → get together in groups
  - For your idea decide which metrics you need to track, when and why

- 10 min discussion and Q&A

Tips from investment managers and startups

Tips from investment managers and startups

Product-Founder Fit vs. Product-Market Fit
Focus on finding PMF. Create something people want!

Kicking-off Data-Drivenness Early On
Understand user behavior (driver for product development). Tracking should start at day zero. There is only data-drivenness - everything else is useless.

Don't Forget About Retention
Land pilots, convert and expand them. Otherwise you'll fill a leaking bucket.

Grow Sustainably
Founders tend to rely too much on paid strategies and the acquisition of early adopters. Find a hook for your users.

Track and Optimize KPIs
Question everything, test everything and put the subjective opinion completely out of it → let data decide

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Wrap Up

Thank you!