CHAPTER EXCERPT / THE AMC FRAMEWORK: GROWING WITHOUT BREAKING

CONCENTRATE ON THE KEY HANDFUL OF FACTORS (AND SUB-FACTORS) THAT DRIVE A BUSINESS'S LONG-TERM GROWTH AND PROFITABILITY

The term "growth" can be interpreted in various ways, depending on the goals, circumstances and objectives specific to your business.

For some companies, growth may primarily focus on increasing revenue, while for others, it may focus more on improving profitability by either increasing profits or decreasing costs. Additionally, some businesses may prioritize growth in terms of expanding their user base, gaining market share, or increasing brand awareness.

Whatever you have in mind for your own business, make sure you define what “growth” is for your particular goals over your various relevant timeframes.

One helpful framework I like for thinking about growth at a high-level is the AMC framework, which stands for:

Active Paying Users x Monetary Value – Cost

This framework encapsulates the major levers of growth and provides a clear way to understand the key drivers of a business's success.

As you will soon see, the parts of this framework leverage and then tie together everything we've talked about in this chapter and throughout this book.

Here's a breakdown of the different components of the AMC framework:

- **Active Paying Users:** This refers to the number of users who are actively and ***meaningfully*** engaged with your product and are generating revenue for your business. It's important to note that this metric focuses on paying users and excludes those who are using your product on a free plan or trial basis
- **Monetary Value:** This represents the average lifetime value (LTV) of an active paying user
- **Cost:** This encompasses the average lifetime costs associated with serving and supporting each active paying user. These costs can include various expenses such as customer acquisition, product development, customer support, and infrastructure

At its simplest, the goal of this framework is to maximize Active Paying Users and Monetary Value while minimizing Costs associated with maintaining and growing the other two factors. At the same time, Costs should not be minimized beyond the point where it negatively impacts the growth of Active Paying Users and Monetary Value.

Put another way, the framework emphasizes the importance of generating consistent operating income that regularly exceeds the expenses required to produce that income.

Let's look into how each of the three components of the AMC framework does this:

First, to achieve a strong base of **Active Paying Users**, several key levers must be considered:

- **Acquisition:** How do you increase your top of the funnel such that you can acquire more overall users (some of whom will convert to a paid plan and others take up a freemium account)?

- **Conversion:** How do you increase the percentage of free users into paid ones?
- **Engagement:** What must you do in your product, marketing, sales and overall end-to-end customer experience to drive engagement on your product to the point where there is meaningful interaction such that a customer becomes long-term (rather than churning)?

For example, increasing acquisition of users might mean deciding to add content marketing alongside your existing paid ads. Increasing engagement might mean building community features like user forums and knowledge sharing platforms, offering certification programs, and hosting industry-specific webinars to create a broader ecosystem around your product. To increase conversion of free users into paid users might mean revising the marketing copy on your email nurture sequences.

Next, to increase the average **Monetary Value** of your users, several levers must be taken into account:

- **Purchase frequency:** How do you get a user to buy more often throughout their relationship with you?
- **Transaction value:** How do you get them to buy more per transaction via pricing strategy? Also, how do you do so via up-sells, cross-sells and new products (some of which you may create entirely in-house, others provided wholly by partners and others via a hybrid approach to varying degrees)?
- **Tenure:** How do you get an active paying user to stay longer with you?

For example, to increase purchase frequency, you might offer volume-based discounts on your API to encourage increasingly more usage over time. Or, to increase tenure, you might industry-specific integrations that make your system increasingly embedded in client operations.

Finally, the **Costs** element of the AMC framework is often overlooked or inadequately addressed in other growth frameworks, but it is critical for maintaining profitability. To effectively manage costs, you must consider:

- **Customer Acquisition Cost (CAC):** What is the average cost of acquiring a user (both paid and free users) at the top of the funnel?
- **Cost of serving free users:** What is the average cost of serving all your free users?
- **Cost of serving paid users:** What is the average cost of serving all your paid users?
- **Cost of converting users to paid plans:** What is the average cost of turning a free user into a paid user?
- **Cost of engaging paid users:** What is the average cost of turning a "regular"paid user into a *active* paid user who is *meaningfully engaged* with your product?

It goes without saying that in thinking about what each of the above costs are, you should also consider how to decrease them (but not to the point of creating negative impacts across your business). For example, CAC could be lowered by focusing your marketing spend on channels where your target audience is most active - such as prioritizing LinkedIn over Twitter for B2B software sales, or Instagram over LinkedIn for consumer products.

More than anything, the aim of the AMC framework is to encourage you to concentrate on the key factors (and sub-factors) that drive a business's long-term growth and profitability.

By focusing on increasing the number of active paying users, maximizing their lifetime value, and minimizing the costs associated with serving them, you are naturally forced to hyper-focus on the three levers that directly contribute to creating a sustainable and viable business (which itself is always the result of adding real, relevant and consistent value to a sufficient number of paying customers in ways that are financially sustainable for you).

In other words, the AMC framework serves as a north star or beacon for developing (or developing into) a business that lasts regardless of market cycles or other changes in the macro environment such as those in technology, society, law or government.

In addition, as you have seen from the examples for each of the three elements, you are forced to think of the downstream, on-the-ground tactics and implementations that will drive each element in the direction you want.

Applying the AMC framework is a straightforward process that involves focusing on maximizing your Active Paying Users ("A") and their Monetary Value ("M") while minimizing Costs ("C"). However, as to hit the nail on the head yet again, it's crucial to strike a balance and avoid reducing costs to the point where it negatively impacts your ability to grow "A" and "M".

How fast you want (and can handle) your Active Paying Users and Monetary Value categories growing is entirely up to you (growing more aggressively will obviously impact both your work and personal life). At the same time, how much you want to spend on expenses also has elements of being a judgment call.

In all three instances, these three levers of A, M and C and their respective sub-levers also get you thinking about the timeframe required to pull off each of these in a manner that is reasonable and viable for your situation.

All of the above also helps you think about the specific AMC levers (or sub-levers) you need to lean on in order to pursue other growth goals such as increasing cash flow (or free cash flow), increasing margins or decreasing COGS (Cost of Goods).

These foundational levers and their component sub-levers also play a part in funding larger macro strategies such as increasing market share in an existing market, entering new (including overseas) markets, horizontal and vertical integration, branding overhauls and any other initiatives that require adequate cash (and cash flow) to entertain, execute, sustain and then complete.

In short, the AMC framework's emphasis on building a strong financial foundation sets it apart from other growth frameworks that may only focus more narrowly on metrics such as user acquisition, top-line revenue, product downloads, or market share. While these metrics are undoubtedly important, they don't provide a comprehensive view of a business's overall financial health and sustainability.

AVOIDING DIMINISHING RETURNS BY SCALING ACROSS MULTIPLE DIMENSIONS

Growing across multiple dimensions is a useful and effective way to help you circumvent the issue of diminishing returns in any single area. This approach leverages the compounding effect of improving multiple aspects of your business simultaneously.

Here’s how it works:

Let’s say you wanted to grow your company's monthly recurring revenue (MRR).

Rather than expending all your energy solely on (for example) acquiring new customers, you would instead focus on improving (for example) these three areas: increasing new customer acquisition, reducing churn rate through product development, and expanding revenue from existing customers.

By increasing each of the three ways by 10% (for example), you can achieve a combined growth of 33%. This approach is likely easier and more efficient than trying to increase new customer acquisition by 33% (or for that matter, any individual lever).

Part (but not all) of the power of this strategy lies in its exponential effect where improvements in one area can (note I said “can” rather than “will”) enhance the impact of improvements in one or more other areas.

More importantly however, is the concept of diminishing returns. After a certain inflection point, each additional unit of input (using our example) to get new customers will return successfully fewer units of usable output. Therefore, it would be more effective to put enough effort into several dimensions, but before crossing (or substantially crossing) the respective inflection points for each of these dimensions.

In other words, if you were a restaurant, instead of putting all your “stat points” into an expensive paid ads marketing campaign, it might be more effective to invest those same number of points into a more modest (but still effective) paid campaign, improved food quality and better trained staff. By focusing on these three factors, you would drive both new customer acquisition from the campaign and repeat business from better food consistency and service quality.

You would also likely get more “bang for your buck” with a lower overall expenditure of resources with this latter approach.

This is not to say you don’t max out a category up to its respective inflection point. Instead, what I’m saying is that, initially, it's effective to focus your energy on the area providing the highest immediate returns. However, be aware of each category's inflection point. As you approach this point, the marginal return on your efforts will diminish. That's when it becomes crucial to diversify your focus. Shift resources to other high-potential areas before the returns in your initial focus area diminish significantly.

Remember that diminishing returns can manifest in various aspects of your business, including time, effort, and money invested.

The key takeaway is that in scaling your business in the immediate (and longer term), you should consider instead attack multiple high-ROI leverage points. By spreading your efforts across several high leverage dimensions, you can achieve a higher overall ROI compared to exhausting your resources on a single point where the marginal return has started to diminish.

KEY IDEAS

- The AMC Framework (Active Paying Users × Monetary Value - Cost) provides a comprehensive model for sustainable growth, focusing on three key levers that must be balanced rather than just pursuing top-line metrics
- Active Paying Users growth relies on three key factors: acquisition (growing your funnel), conversion (turning free

users into paid), and engagement (creating meaningful long-term usage)

- Monetary Value can be increased through three levers: purchase frequency (buying more often), transaction value (spending more per purchase), and tenure (staying longer as a customer)
- Cost management must consider multiple factors including customer acquisition costs, serving free/paid users, conversion costs, and engagement costs - but should not be minimized to the point of hampering growth
- The framework serves as a "north star" for building sustainable businesses that can weather market cycles and macro changes, forcing you to think through practical implementation of each element
- Growth speed and resource allocation across the AMC components is a personal decision based on your capacity and goals, but must remain viable for your specific situation
- Rather than exhausting resources on a single growth lever, spread efforts across multiple dimensions before hitting diminishing returns in any one area
- The compounding effect of improving multiple areas simultaneously (even by smaller percentages) often yields better results than trying to maximize a single dimension
- Focus should be on identifying and leveraging high-ROI opportunities across different areas of the business, rather than pushing any single lever past its point of diminishing returns

CHAPTER EXCERPT / POST-LAUNCH REVENUE ENGINES, STRATEGY AND GROWTH

EVALUATING REVENUE ENGINES

When assessing revenue engines, it's essential to acknowledge that not all of them are created equal in terms of the effort required and the rewards they generate.

While overall revenue is undoubtedly an important factor, it's crucial to also consider profit margins and total profit when assessing the effectiveness of each revenue engine.

Ideally, your goal should be to maximize your earnings while minimizing the effort required to generate those returns. In other words, you should strive for revenue engines that offer higher profit margins, as these will provide the most "bang for your buck" in terms of your time and resources expended.

It's important to avoid the pitfall of holding onto revenue engines that are too costly to maintain, especially if they divert resources away from other, more profitable engines. These high-cost, low-reward engines can drain your resources and hinder your ability to invest in growth opportunities that offer a better return on investment.

However, there are certain situations where it may be advantageous to keep a revenue engine that appears less than optimal at first glance. Consider retaining such an engine if:

- The reward-to-effort ratio is expected to improve meaningfully within a reasonable timeframe. If you anticipate that the revenue engine will become more profitable and efficient over time, it may be worth maintaining in the short term
- The engine offers high margin percentages or high aggregate margins. Even if the effort required is substantial, a revenue engine that generates significant profits can still be valuable to your business (for e.g. using the sheer magnitude of such profits to reinvest into new, promising income streams)
- The engine will lead to a high Customer Lifetime Value (LTV) (again, within a timeframe acceptable to you) as derived from current, adjacent or future products. If a revenue engine consists of a product or service that helps you acquire and retain customers who will generate substantial value over the course of their relationship with your business, it may be worth the investment

When assessing revenue engines, it's important to consider volume alongside margin and LTV. While high margins and LTV are desirable, the total volume of sales or number of customers (which affects things like volume of word-of-mouth) generated by a revenue engine can also have a significant impact on its overall profitability and value to your business.

Also, a revenue engine with a high margin or LTV but low volume may not generate sufficient total profits to justify the resources invested in it.

The key to effective revenue engine evaluation is to strike a balance between the reward-to-effort ratio, profit (margin and aggregate), LTV, and volume.

As mentioned earlier, focus on identifying and nurturing the engines that proportionally offer the highest rewards for the least effort. These highest "bang for the buck" engines will typically have high margins, strong LTV, and sufficient volume to generate substantial total profits. These engines help maximize your overall profitability and create sustained (and sustainable) growth for your business.

In most cases, you'll find that your portfolio of revenue engines adheres to the Pareto principle (also known as the 80/20 rule). This principle suggests that a small portion of your revenue engines (roughly 20%) will be responsible for generating the majority (around 80%) of your results.

While the exact percentages may vary, the fundamental concept of the Pareto principle holds true across a wide range of business contexts, including revenue engine performance. It's highly likely that a select few of your revenue engines will contribute disproportionately to your overall revenue and profitability.

Knowing this can help give you decisiveness and initiative to cut middling performers, as well as aid you in making better informed decisions about which revenue engines to prioritize, maintain, divert resources away from to higher potential ones or just completely phase out.

It's important to note that the specific proportion of 80/20 outlined in the Pareto principle, while helpful, is less important than recognizing and acting upon the insight it provides. In other words, the key is to identify which minority percentage (whatever that percentage is in your case) of engines are generating the most value for your business and to allocate your resources accordingly.

Here's an additional way to think about (and evaluate the viability) of your different growth engines:

Categorize them into four categories:

- Low margin + low volume
- High margin + low volume
- Low margin + high volume
- High margin + high volume.

Low margin + low volume revenue engines should generally be eliminated unless they serve a strategic purpose (like maintaining key relationships or market presence), have significant future potential (like early-stage products in growing markets), or support your broader ecosystem (like integration tools that enable enterprise sales), or require minimal resources to maintain. Otherwise, the low margins and low sales volume make it difficult to justify the effort and investment required, as they typically drain resources from more valuable engines

High margin + low volume revenue engines can be viable if the absolute margin generated is sufficient to justify the resources invested. This category often includes enterprise software and other high-ticket items such as luxury products where the sales volume may be lower, but the profit per sale is substantial. Keep these engines if the total profit generated by these engines is substantial or if they require little effort to maintain.

Low margin + high volume revenue engines are typically associated with businesses that operate on a model similar to Walmart. To succeed in this category, a business' operations must be highly efficient and optimized for low costs – and it must have sufficient scale of marketing to reach a large number of prospects to turn into a sufficient number of paying customers. The key to profitability in this segment is achieving a very high sales volume to compensate for the low margins. If your business can generate an extremely high volume of sales, even slim margins can result in significant total profits. This type of engine is also worth keeping if it is a "loss leader" - where a low-margin product serves as an entry point to attract customers who can later be upsold to higher-margin products in your portfolio. For example, a software company might offer a basic tool at minimal margin to build a customer base, then generate actual profits by selling these same customers premium features or more sophisticated products

High margin + high volume revenue engines are the most desirable, as they combine the best of both worlds: substantial profit per sale and a large number of sales. This combination can lead to impressive overall profitability. Apple is probably the best known example in this category. However, it's important to note that high volume sales will put strain on your operational capabilities - including your sales team (if you have one). To succeed in this category, your business must be able to efficiently and effectively fulfill orders and manage the increased demand.

When assessing your revenue engines, it's crucial to consider additional dimensions beyond just margin and volume:

- **Risk factors:** Each category may have different risk profiles. For example, high margin + low volume engines are often more vulnerable to economic downturns and changing preferences because they rely on fewer, larger customers, while low margin + high volume engines face greater risks from market saturation due to their need for constant high sales volumes and vulnerability to new competitors
- **Capital requirements:** Different categories may require varying levels of initial and ongoing investment. High volume engines may necessitate significant investments in sales/marketing spend to achieve required sales volumes, while high margin engines such as complex enterprise software may require more investment in product development
- **Competitive landscape:** Assess the ease with which competitors can enter each category on an ongoing basis. Low margin + high volume markets tend to see frequent new entrants due to lower technical barriers, leading to constant price pressure. Meanwhile, high margin + low volume markets have fewer competitors due to technical complexity and the need to have (and maintain) deep customer relationships, but at the same time face intense competition for a limited pool of enterprise clients
- **Sales cycle:** Low margin + high volume sales generally have short sales cycle and a fast cash collection period. On the other hand, high margin + low volume sales are the opposite: longer, more complex sales cycles and much longer cash collection periods

- **Sales cycle and payment dynamics:** Low margin + high volume engines generally have short sales cycles and rapid payment collection (typically within days via credit card processing), enabling predictable cash flow. In contrast, high margin + low volume enterprise sales typically involve longer sales cycles with complex (possibly months-long) procurement processes involving multiple client stakeholder groups. In addition, there are often extended payment terms (often 30-90 days after invoice) that lead to longer cash collection periods
- **Customer loyalty:** Some categories naturally lead to higher customer retention and loyalty. High margin + low volume categories often foster stronger customer relationships due to product uniqueness and specialized solutions (in other words, fewer viable alternatives for customers). On the other hand, low margin + high volume categories typically have lower customer loyalty due to abundant alternatives (resulting from lower barriers to entry for competitors)

THE RFM MODEL

What's the best way to identify your best customers from both your current products and new revenue engines?

My answer: the RFM Model, which which stands for "Recency, Frequency and Monetary Value".

The components evaluates customers in the following ways:

- **Recency:** How recently did the customer make a purchase?
- **Frequency:** How often does the customer make purchases?
- **Monetary Value:** How much does the customer spend on purchases?

Here's how to use the RFM Model:

Step 1: Identify recent buyers: Determine which customers have made purchases most recently. In general, the more recently they have bought, the more likely they are to buy from you again (either the same product or another one you offer). The more recently they have bought from you, the more likely they are to be currently experiencing the pain they need resolved. For this same reason, those who bought more recently are also generally likely to be receptive to your marketing messages.

However, it's important to note that recent buyers are not guaranteed to become consistent customers. While they may be more likely to make another purchase soon, they may not necessarily develop into loyal, long-term customers. Nonetheless, targeting recent buyers can be an effective way to boost short-term sales.

Step 2: Identify frequency buyers: Next, identify which customers are buying most frequently. Unlike recency, frequency does not necessarily indicate that a customer will make a purchase in the near future. A frequent buyer may make their next purchase in a few weeks, months, or even years. However, compared to the other two categories (recency and monetary value), frequent buyers are more likely to remain consistent customers in the long run. In other words, frequency is a measure of customer loyalty - not how soon they will buy again.

Step 3: Identify buyers of high monetary value: The final step in the RFM model is to determine which customers spend the most money on your products. Customers who purchase your big-ticket items, often referred to as "whales," are more likely to buy more high-priced products in the future.

Combining these 3 categories, we can expect the following combinations and their respective customer behavior:

High Recency, High Frequency, High Monetary Value

- Your best customers
- Buy often, buy recently, and spend a lot
- Most valuable and engaged segment
- Champions of your brand

High Recency, High Frequency, Low Monetary Value

- Loyal but price-sensitive customers
- Buy frequently and recently, but stick to lower-priced items
- Good for steady revenue but not big tickets

High Recency, Low Frequency, High Monetary Value

- Recent big spenders who are new or occasional
- Might be first-time premium buyers
- Good potential for conversion to regular customers
- Need nurturing to increase frequency

High Recency, Low Frequency, Low Monetary Value

- Recent first-time or occasional buyers
- Testing your products/services
- Need nurturing to increase both frequency and spending
- Risk of one-and-done behavior

Low Recency, High Frequency, High Monetary Value

- Previously valuable customers who haven't bought recently
- Historical champions at risk of churning
- Need re-engagement strategies
- High priority for win-back campaigns

Low Recency, High Frequency, Low Monetary Value

- Loyal but lapsed customers
- Regular small-purchase buyers who've gone quiet
- Need re-engagement
- Might have switched to competitors

Low Recency, Low Frequency, High Monetary Value

- One-time big spenders who haven't returned
- Could be seasonal or situational buyers
- Need investigation into why they haven't returned

- Potential for reactivation with right offer

Low Recency, Low Frequency, Low Monetary Value

- Least valuable customer segment
- Minimal engagement across all metrics
- Might be worth deprioritizing
- Unless there's clear potential, focus resources elsewhere

By analyzing the respective recency, frequency and monetary value of customers, you can identify your highest-value and highest-potential customer groups, which will consequently allow you to properly prioritize and target your marketing efforts for the greatest return. At the same time, you'll have clues for which customers to move on from.

KEY IDEAS

- Not all revenue engines are equal - focus on maximizing returns while minimizing effort, prioritizing those that offer the best "bang for your buck" in terms of resources expended
- Consider keeping seemingly suboptimal revenue engines if they: show potential for improved efficiency, offer high margins despite effort required, or lead to high Customer Lifetime Value (LTV)
- Revenue engines can be categorized into four types: low margin + low volume (usually eliminate), high margin + low volume (viable with sufficient absolute margin), low margin + high volume (requires operational efficiency), and high margin + high volume (most desirable but operationally demanding)
- Beyond margins and volume, evaluate revenue engines across multiple dimensions: risk factors, capital requirements, competitive landscape, sales cycles, and customer loyalty
- The Pareto principle (80/20 rule) typically applies - a small portion of revenue engines will generate the majority of results, helping inform which to prioritize or phase out

- The RFM Model (Recency, Frequency, Monetary Value) helps identify and categorize your most valuable customers and those with highest potential
- Recent buyers are likely to buy again but aren't guaranteed to become loyal customers; frequent buyers indicate loyalty but not necessarily immediate purchases
- Different RFM combinations (high/low combinations of recency, frequency, and monetary value) require different strategies - from nurturing to re-engagement to potential deprioritization
- Use RFM analysis to identify both highest-value customers to prioritize and lowest-value segments to potentially move on from

CHAPTER EXCERPT / USE THE PSYCHOLOGY OF DESIRE TO CREATE HIGH-VALUE OFFERS THAT CONVERT

THE UNDERLYING MECHANISM OF DESIRE IN SALES AND MARKETING

Sales and marketing - and by extension, creating offers that are seen as high-value by buyers and which convert - is fundamentally about understanding human psychology, and more specifically, recognizing human emotions and the triggers that elicit certain emotional responses.

Selling and marketing should not be viewed as merely ways of communicating, but rather as deliberate, calculated strategies for eliciting desired emotions in your prospects and buyers. A big part of effective sales and marketing isn't just about keeping your brand top of mind - it's about knowing how to communicate in ways that provokes, harnesses and even stacks the emotions of your buyers.

By doing so, you increase the likelihood that your target will (1.) take the immediate actions you desire and/or (2.) form consistent, lasting thoughts and opinions that will predispose them to take actions in the future that benefit your business.

Let’s start by discussing what makes desire, and how you can leverage its elements to motivate actions and thoughts you look to instill in your buyer.

UNDERSTANDING DESIRE

Wants and needs are emotional triggers and also the core psychological components of desire. These triggers accelerate the decision to take action, reduce skepticism, and help convert passive interest into active buying behavior.

A desire can be a combination of:

- Needs plus wants
- Just needs
- Just wants

For example, a want might be fast food and video games (pay-offs: pleasure, entertainment and instant gratification), while a need could be exercise and salad (pay-offs: fitness, long-term health and disease prevention).

In general, needs are logic-driven, while wants are emotion-driven. Keep in mind that this is a somewhat simplified model, but one that is deliberately so to encourage you to take action (rather than to overthink).

Another way to think about this is that a want is an inclination to do something, regardless of whether it feels "correct" or not. On the other hand, a need is something that people know they should be doing, but may not be doing because they lack sufficient reasons or motivation to act on it. Of course, there are also needs that people know they should be addressing, and which they are indeed addressing.

In any case, understanding whether a prospect's desire stems primarily from needs or wants helps you craft effective persuasion strategies that actually work in the real-world to persuade a prospect to buy – or to further investigate your product and/or brand.

THE ROLE OF EMOTIONAL WANTS AND LOGICAL NEEDS IN DESIRE

How do we use the understanding of desire as being made up of needs and wants?

What we want to do (i.e., the practical application of these theories) is to use logic or emotions to augment a prospect's current desire (depending on how much of it is from wants and how much from needs) such that it crosses the threshold from indecision to decision – and then action.

Here’s what I mean:

If a prospect’s desire stems primarily from an emotion-based want and not enough logic, their rational mind may hold them back from buying. However, if we can convince this prospect why they need this product by providing enough logical reasons to help them justify the potential purchase to themselves, then they may very well pull the trigger.

On the other hand, if the prospect’s desire is mostly logic-based need without sufficient emotion, then they may not feel enough excitement or attraction to buy. In this case, you’ll want to add more emotion to the mix.

Here’s how the above works in more detail:

In the first scenario, the prospect's desire is primarily emotional, stemming from a want. They may be attracted to the product because it makes them feel good, boosts their self-esteem, or fulfills a personal aspiration. However, their rational mind might create barriers to the purchase, such as questioning the necessity of the item, considering the financial implications, or weighing alternative options.

To overcome these logical hurdles, you can provide the prospect with rational justifications that support their emotional desire. This could include highlighting the practical benefits of the product, demonstrating its long-term value, or showing how it aligns with their logical goals. By giving them logical reasons to justify the purchase to themselves, you can help them overcome their internal objections and move forward with the buying decision.

In the second scenario, the prospect's desire is primarily logical, stemming from a need. They recognize the practical value of the product or service and understand how it can solve a specific problem or meet a particular requirement. However, they may lack the emotional motivation to take action and make the purchase.

To address this, you want to infuse their logical need with emotional appeal. This could involve highlighting the deep personal or social benefits of meeting the need, creating a sense of urgency or scarcity, or tapping into their aspirations and desires. By making the prospect feel excited, inspired, or emotionally invested in the purchase, you can consequently give them the motivation needed to take action.

In both cases, the key is to provide sufficient emotion or logic such that it prompts a decision (and ideally action) from the prospect. By providing the missing piece – whether it's logical justification for an emotional want or emotional motivation for a logical need – you can nudge the prospect towards a buying decision that feels both emotionally "correct", and at the same time, rational.

NOT ALWAYS ABOUT ADDING THE OPPOSITE QUALITY

Of course, reality isn't as simple as how we've presented things so far.

In practice, it's not as simple as always (and dogmatically) applying the opposite quality. In other words, if a desire is primarily an emotion-driven want, it's not about always adding logic - or vice versa with adding emotion to a logical need.

Sometimes you need to add more of what's already there. In other words, if the desire is largely composed of emotion driven wants, sometimes you need to add more emotion-driven wants (not logic-based needs). And same for some desires that are largely logic-based needs – sometimes you need to add more logic-based needs rather than emotional wants.

Here are the possibilities:

1. Desire is mainly emotion; add emotion
2. Desire is mainly emotion; add logic
3. Desire is mainly logic; add emotion
4. Desire is mainly logic; add logic

5. Desire is mix of logic and emotion; add both
6. Unclear dominant driver

But how to identify what ingredient (or ingredients) to add?

Here are some scenarios with statements from prospects and the clues they provide which give you hints on what you need to add. For each of these six categories, and for the sake of comprehensiveness, I've provided two sets of examples each:

1. Desire is mainly emotional wants that require adding more emotional wants:

- <u>Prospect A:</u> *"I'm looking for a handbag that will make heads turn when I enter a room."*
- <u>Clue:</u> Emphasis on attention and status. No mention of functionality
- <u>Strategy:</u> Enhance the emotional appeal by focusing on the thrill of being the center of attention, the boost in confidence, and the feeling of being admired and envied

- <u>Prospect B:</u> *"I want a vacation package that makes me feel like I'm travelling and living in luxury."*
- <u>Clue:</u> Emphasis on feelings and experience. No mention of practical considerations
- <u>Strategy:</u> Amplify the emotional appeal by describing the sense of escape from everyday life, the feeling of being pampered and indulged, and the thrill of experiencing a lifestyle usually reserved for the wealthy. Emphasize how the vacation will create lasting memories of opulence and rejuvenation, making the prospect feel truly special and valued

2. Desire is mainly emotional wants that requires adding more logical needs:

- <u>Prospect A</u>: *"I love the look of this watch, but I'm not sure I can justify the expense."*

- Clue: Emotional desire is present, but seeking rational reasons to buy
- Strategy: While maintaining the emotional connection, provide logical justifications such as the watch's long-term value, superior craftsmanship, and reliability. Present data on the brand's resale value retention and compare its cost-per-wear to less expensive alternatives

- Prospect B: *"This art piece speaks to me, but I'm hesitant about investing so much in artwork."*
- Clue: Strong emotional connection present, but seeking rational investment justification
- Strategy: Acknowledge the emotional resonance while providing logical support. Present data on the artist's market performance, explain art as a diversification strategy in investment portfolios, and provide information on the piece's provenance and potential for appreciation

3. Desire is mainly logical needs that requires adding more emotional wants:

- Prospect A: *"The data shows this marketing strategy would be effective, but my gut feeling is that it may not be the right fit for our brand."*
- Clue: Analytical justification exists, but emotional alignment with brand identity is missing.
- Strategy: Illustrate how implementing this strategy could become one of the brand's defining moments. Describe how it aligns with and amplifies the company's core mission, potentially becoming a source of inspiration for both customers and employees

- Prospect B: *"The productivity metrics for this workflow system are impressive, but I'm concerned about we as a team feel about this."*
- Clue: Logical benefits are clear, but emotional buy-in from the team is missing

- Strategy: Share a vision of how this system could transform daily work from a series of tedious tasks into meaningful contributions towards larger goals. Emphasize how it could enhance team morale, potentially leading to breakthrough innovations that wouldn't be possible with current workflows

4. Desire is mainly logical needs that require adding more logical needs:

- Prospect A: *"I need software that can reduce our operational costs by at least 20%."*
- Clue: Specific, quantifiable goal. Focus on practical outcomes
- Strategy: Provide more logical arguments, data, and ROI calculations. Present case studies, detailed cost-benefit analyses, and long-term projections to further reinforce the logical appeal

- Prospect B: *"We need a cybersecurity solution that can detect and prevent 99% of potential threats."*
- Clue: Specific, measurable requirement. Focus on technical performance
- Strategy: Present detailed threat detection statistics, comparative analysis with other solutions, and technical white papers. Offer a comprehensive breakdown of the solution's features and real-time monitoring capabilities

5. Desire is mix of emotional wants and logical needs that requires adding more of both:

- Prospect A: *"I want to lose weight to feel more confident, but I also need to lower my cholesterol."*
- Clue: Balancing personal desires with health necessities
- Strategy: Enhance emotional appeal by vividly describing the boost in self-esteem and improved quality of life. Simultaneously, provide logical data on health benefits, including statistics on cholesterol reduction and its impact on longevity

- Prospect B: *"I want a home that feels cozy and welcoming, but it also needs to be energy-efficient."*
- Clue: Balancing emotional comfort with practical energy considerations
- Strategy: Amplify the emotional appeal by painting a picture of a warm, inviting home that's a haven from the outside world. Complement this with logical arguments, presenting data on energy savings, increased home value, and reduced environmental impact

6. Unclear Dominant Driver:

- Prospect A: *"I've heard good things about your software, but I'm not sure if we're ready to make a change."*
- Clue: Positive perception exists, but hesitation indicates unaddressed concerns or needs
- Strategy: Probe further to understand their needs and wants, then tailor your approach

- Prospect B: *"Your consulting services seem comprehensive, but I can't tell if they'd make a real difference for us."*
- Clue: Acknowledgment of offering's breadth, but uncertainty about impact suggests lack of clear value proposition
- Strategy: Investigate current pain points and aspirations, then tailor your pitch to address both practical improvements and emotional satisfaction

Finally, when dealing with desire that is a mix of logic and emotion, you might encounter a situation where you need to add only emotion or only logic. The key, as you have seen from the examples above, is to listen carefully for what type of reassurance the prospect currently lacks – and to add those.

IT'S MORE COMMON TO MOTIVATE ACTION BY APPEALING TO WANTS - AND ALSO USUALLY MORE EFFECTIVE

If in doubt, lean towards more on targeting emotions rather than logic to compel action.

Why?

Because as creatures ultimately more so driven by emotions than logic, people are on balance more likely to buy what they want on an emotional level, but not necessarily what they need on a logical basis.

In other words, emotions are usually the more powerful motivator towards yearning, grasping – and coveting – which in turns drives thought and action more effectively than logic.

In terms of practical application, the most successful emotional appeals are those that speak to the primitive, pre-verbal, "lizard brain" (i.e. the one that operates on feelings and impulses).

There's no one definitive list, but here are some emotional wants to consider (along with how you might appeal to them):

- **Fear:** The desire to avoid pain, danger, or loss. (e.g. *"Don't miss out on this limited-time offer! If you wait, you might lose your chance to get this product at such a low price."*)
- **Greed:** The desire for wealth, possessions, or power. (e.g. *"Invest in our exclusive real estate program and watch your money multiply! You'll be able to afford the luxurious lifestyle you've always dreamed of."*)
- **Lust:** The desire for physical gratification or pleasure. (e.g. *"Our premium silk sheets will make every night feel like a sensual paradise. Indulge in the ultimate comfort and let your desires run wild."*)
- **Envy:** The desire to have what others possess. (e.g. *"Don't you wish you could look as stunning as the celebrities on the red carpet? With our revolutionary beauty serum, you can achieve the same flawless complexion and make everyone jealous."*)

- **<u>Pride:</u>** The desire for status, recognition, or superiority. (e.g. *"Drive the car that sets you apart from the crowd. Our top-of-the-line model is a symbol of your success and refined taste."*)
- **<u>Sloth:</u>** The desire for ease, convenience, or avoidance of effort. (e.g. *"Why spend hours cleaning when our robot vacuum can do it for you? Sit back, relax, and let technology take care of the hard work."*)
- **<u>Gluttony:</u>** The desire for excess, indulgence, or satisfaction. (e.g. *"Treat yourself to an all-you-can-eat buffet at our luxurious resort. Savor the finest cuisines from around the world and satisfy your every craving."*)
- **<u>Love:</u>** The desire for connection, affection, or belonging. (e.g. *"Give your loved one the perfect gift that shows how much you care. Our personalized jewelry is a symbol of your unbreakable bond and eternal love."*)
- **<u>Hope:</u>** The desire for a better future, success, or positive outcomes. (e.g. *"Join our life-changing fitness program and unlock your true potential. In just 90 days, you'll have the body of your dreams and the confidence to conquer any challenge."*)
- **<u>Curiosity:</u>** The desire for knowledge, novelty, or discovery. (e.g. *"Uncover the secrets of ancient civilizations with our exclusive archaeological tour. Embark on an adventure like no other and satisfy your thirst for knowledge."*)

As you can see these emotional appeals tap into the most basic – and universal – layer of our mind (i.e. our operating system). They are designed to evoke strong feelings and create a sense of primitive urgency, prompting the prospect to take action based on instinctual responses rather than logical reasoning. When in doubt about whether to apply emotional wants or logical needs, default to the former.

CAN DEMAND FOR A PRODUCT BE CREATED?

In the previous sections, we looked at examples where the prospect had an existing interest in your product, but was held back from buying by insufficient degrees of emotional wants or logical needs. In these cases, you would “top up” the quality that was lacking.

On the other hand, the question of whether demand for a product can be created from scratch (or near scratch) is a complex one, and the answer is not a simple yes or no. In my view, demand for that product cannot be created out of thin air, but it can be harnessed and shaped by tapping into existing (but latent) wants and needs that can be fulfilled by your product.

It's important to understand that you cannot create desire in someone for a product they don't already want or need on some level. If a person has no inherent need or desire for a particular product or solution, no amount of education or persuasion will generate genuine demand. Instead, what marketers and businesses can do is funnel and direct existing wants and needs towards their specific offering.

In other words, your solution should aim to satisfy or fulfill the wants and needs that your target audience already possesses, even if they are not yet fully aware of them. You cannot manufacture demand for a product, service, or end-result that doesn't provide benefits or fulfill outcomes specifically desired by your target segments.

In other words, focus on identifying and addressing real wants and needs within a target market, rather than trying to force interest in a product that has no relevance or value to them.

This includes cases where a change in perspective, triggered by new information, can alter their perception of a product's desirability. For example, someone might say, "I didn't know I wanted a Speedmaster watch until I learned about its history and cultural significance."

(The Speedmaster is an iconic mechanical wristwatch made by Omega, and is known for being the first watch worn on the moon during the Apollo 11 mission in 1969)

In this case, the individual may not have expressed a prior outward interest in mechanical watches, but the new information tapped into their latent desire for status and prestige. Luxury watches, in particular, are often sought after as status symbols and jewelry pieces, rather than purely functional timekeeping devices. By highlighting the association between a specific watch and the respect, admiration, or elevated status it can confer, marketers can arouse a buyer's latent desires and redirect them towards their product.

This example illustrates how demand for a product can be harnessed and redirected, rather than created from nothing. More specifically, it's about using education, persuasion, and storytelling to tap into latent desires and shift perspectives, making your product desirable to a target audience in ways they had not considered before.

At the same time, the same product can be repositioned for different markets by appealing to the specific desires and needs of each segment, without necessarily changing the product itself. For example, a high-performance electric car can be marketed to environmentally-conscious consumers as a way to reduce their carbon footprint, while also being positioned as a symbol of luxury and status for affluent buyers who prioritize style and exclusivity.

Demand can also be harnessed by presenting solutions in new packaging or through innovative mechanisms that address the same underlying problems or opportunities as existing alternatives. For example, meal kit delivery services tap into the desire for convenience and healthy eating by providing pre-portioned ingredients and recipes, addressing the same need as grocery shopping and meal planning but in a new and appealing format.

The shift from snail mail, television and phones to social media is another example of how the fundamental human desires for connection, validation, and information can be harnessed by businesses to grow demand for their newly launched products and services.

Demand generation, therefore, is not only about arousing and appealing to inherent latent desires, but also about first deeply understanding the existing wants, needs, and preferences of your target audience to be able to arouse and appeal to those latent desires in the first place.

To successfully generate demand, you need to highlight the specific benefits, features, and value proposition of your offering, and demonstrate how it aligns with (and satisfies) the existing wants and needs of your target market.

This may involve repositioning the same product for different segments by emphasizing the specific attributes that resonate with each group's desires and preferences.

The important point is that you must always speak to the fundamental human desires that drive decision-making in order to successfully (and effectively) shape and direct demand towards your newly launched products.

Ultimately, the key to successful demand generation lies in recognizing that you cannot force demand where there is no underlying want or need. But you can deliberately guide, shape, and amplify existing desires to position your offering as the ideal solution for satisfying such latent desires.

KEY IDEAS

- Sales and marketing success relies on understanding human psychology - specifically how emotional wants and logical needs drive purchase decisions, and how to trigger desired responses
- Desire consists of emotional wants (driven by feeling) and logical needs (driven by reason), which can exist separately or in combination, requiring different approaches to motivate action
- There are six scenarios in desire-based selling: emotion needing more emotion, emotion needing logic, logic needing emotion, logic needing more logic, mixed needs, and unclear drivers
- Listen carefully for clues in prospect statements to identify whether they need more emotional appeal or logical justification to move forward with a purchase
- Emotional appeals are generally more effective than logical ones because humans are primarily driven by emotions; the

most powerful appeals target primitive "lizard brain" desires like fear, greed, pride, and hope

- When in doubt, default to emotional appeals but be prepared to provide logical justification when needed to help prospects rationalize their emotionally-driven decisions
- You can't create demand from scratch, but you can harness and redirect existing latent desires by helping prospects see how your product satisfies wants/needs they may not fully recognize
- The same product can be positioned differently for various market segments by emphasizing specific attributes that resonate with each group's particular desires
- Successful demand generation requires deeply understanding your target audience's existing wants and needs before you can effectively appeal to their latent desires
- Focus on guiding and amplifying existing desires while positioning your offering as the ideal solution, rather than trying to force interest where no underlying want or need exists

FULL CHAPTER / UNDERSTAND CHURN AND RETENTION

UNDERSTANDING AND REDUCING CUSTOMER CHURN

At its core, churn – the loss of paying customers or a reduction in their spending – is an issue of user retention, which is influenced by three key factors: user utility, satisfaction, and communication.

Churn rate is defined as the percentage of paying users who stop paying over a specified period – typically calculated on a monthly basis in the software industry.

It's important to note that from the context of revenue, churned users can include those who remain on your platform but have downgraded to a free plan, as they are no longer contributing to your revenue stream.

(I say this because you may have a separate churn calculation for your freemium users. In its broadest sense, "churn" is about the loss of engagement – and thus, usage of your product – rather than the narrower definition of the loss of paid users or revenue. But in this book, we will focus on using the stricter definition of the latter – i.e. a loss of paying customers or a reduction in their spending).

The three primary factors that influence churn are:

- Your product's relevant value exceeds price paid
- Net positive user experience with your product and company
- Communicating continued relevant value

Let's start with the first component. Relevant product utility (as measured by your buyer from a logical and/or emotional point of view) is the primary driver of churn. Of the three key factors influencing churn and user retention, this component has the most significant impact on whether a customer continues to use your product.

To better understand this concept, let's break it down into its core elements:

The fundamental question you need to consider is:

From your buyer's perspective:

1. Does your product effectively solve their problems (or create benefits)
2. ...Such that the total perceived value they believe they're receiving from your product
3. ...Is at least equal to, if not greater than, the price they've paid?

If the answer is no, churn becomes likely.

In essence, users are most likely to churn when your product is no longer relevant or sufficiently useful to them. Put more specifically, if the price they're paying exceeds the total value they perceive they're getting back – in terms of problems solved or benefits gained – they're more likely to discontinue use of your product.

Throughout all of this, it's vital to evaluate this from your buyer's viewpoint, rather than your own assessment of your product's value. Your personal opinion about the value your creation provides is irrelevant to your users and buyers. At the end of the day, it is the buyer's opinion about the amount and quality of relevant value that matters.

To decrease churn, focus on product development that enhances your product's utility by improving the user's condition. By "improving the user's condition", I mean things such as (but not limited to) making their lives easier, more convenient, or simplifying their workflows compared to competing alternatives. Continuously improving your product's relevance and utility is key to increasing (or maintaining) retention and consequently, reducing (or minimizing) churn.

Aim to build and launch features at a pace that matches or, ideally, anticipates market developments. For example, when the shift from desktop to mobile began in the late 2000s, forward-thinking companies like Facebook quickly recognized the trend and prioritized mobile app development. By 2012, Facebook had completely revamped its mobile strategy, moving from a HTML5-based app to native iOS and Android apps. This proactive approach allowed them to capture the growing mobile user base and maintain their market dominance, while competitors who were slower to adapt struggled to retain users in the increasingly mobile-centric landscape.

At the same time, be thoughtful and strategic about what you choose not to compete on, to avoid wasting resources (these include money, time and labor) that otherwise could have been invested into other opportunities.

For example, as Netflix transitioned from DVD rentals to streaming in 2007, they made the strategic decision not to produce their own hardware for streaming. This decision stood in contrast to some competitors who later entered the market with their own devices, such as Amazon with its Fire TV in 2014 and Apple with its Apple TV (which had been around since 2007 but became more streaming-focused in later iterations).

Netflix's choice allowed them to focus resources on developing a superior content library and recommendation algorithm, remaining platform-agnostic and reaching users across various devices and smart TVs. This strategy proved successful, allowing Netflix to become a dominant force in the streaming industry before many of its current competitors even entered the market.

Next, the second component is whether they have a net positive user experience with your product and company.

This type of user satisfaction encompasses the totality of a customer's interactions with both your company and product. In other words, this factor spans all touchpoints a paying customer has throughout their journey with your business.

On the company side, this includes experiences such as:

- Onboarding experience (Is the setup process smooth and well-supported?)
- Billing processes (Is the invoicing clear and accurate? Are payment methods convenient?)
- Responsiveness to feedback (Does the company actively implement user suggestions for improvements?)

On the product side, considerations include:

- Data security and privacy (Does the product adequately protect user information?)
- Integration capabilities (Can the product easily connect with other tools in the user's workflow?)
- Scalability (Can the product grow and adapt as the user's needs expand?)"

It's important to note that overall user satisfaction isn't simply a matter of positive experiences outnumbering negative ones. The weight and impact of individual experiences vary significantly.

For instance, a single severe negative incident, such as a major security vulnerability that exposes user data, can potentially negate the goodwill built through multiple positive interactions, like consistent delivery of new and innovative features.

When evaluating user satisfaction, the key question to consider is: Do your buyer's accumulated positive experiences substantially outweigh their negative ones?

While not every one of your customer journey touchpoints may be up to the same standard and quality (for example, you may have great documentation and data analytics but so-so data export capabilities or customer support), the key is to make sure that the overall satisfaction of a user, taken together, is positive.

Also keep in mind that an often-overlooked aspect of current customer satisfaction is that it can also be impacted (either negatively or positively) by their expectations of future experiences. For example, customers might become dissatisfied if they learn that the product will no longer be compatible with a critical tool in their workflow after the next update. On the other hand, satisfaction in the present might increase in anticipation of an upcoming integration with a popular third-party tool, which has been confirmed on the product roadmap to arrive within the next 4 to 6 months.

Finally, the third key component influencing churn is the ongoing communication of your product's continued relevance and value to your buyers.

This factor focuses on effectively conveying your product's continued relevance and value to your customers. As the macro-environment (including technology, economics, law, and society) evolves, the collective professional and personal preferences/needs of your customers change accordingly.

It's thus important to not only adapt your product to meet these changing demands but also to clearly communicate these adaptations to your users.

Key considerations of this “ongoing communication” of relevant value include:

- Are new features and capabilities being effectively communicated to paid customers in a way that demonstrates their relevance to their workflow?
- Is the continued relevance of your product in direct response to broader market shifts being consistently demonstrated?
- Are you proactively informing customers about how your product continues to meet their evolving preferences and needs?

Many product-focused founders fall into the trap of concentrating solely on product development while neglecting to communicate the value of these developments to their customers and the broader market. This oversight can lead to a significant risk: even if you're building highly relevant features, failure to communicate their value may result in customers being unaware of how your product continues to meet their needs.

Moreover, this communication gap creates an opportunity for competitors. If a rival develops similar features but communicates their value to the market (including your customers) more effectively, you may find your customers becoming theirs.

The answer is simple in theory (but requires ongoing action) and it is this: never stop showing and telling how and why you continue to deserve a place in your customer's pocketbook.

ANALYZING CHURN THROUGH CUSTOMER SEGMENTATION

To effectively address churn, it's crucial to identify exactly where it's occurring – not just at a high level, but within specific subsegments of your customer base. By drilling down into your data, you can uncover whether certain subsegments are contributing disproportionately to your overall churn rate.

This granular analysis allows you to see exactly which customer subgroups you're falling short with. This then subsequently opens up the opportunity for you to diagnose and identify the specific needs you're no longer adequately serving for these churning subsegments. As discussed in the previous section, customer needs can (and do) evolve, and what once satisfied a particular group of users may no longer be sufficient as their requirements shift over time in response to factors internal and/or external to their business.

When analyzing churn, it's essential to dive deep into specific segments. And that's because unless you have a glaring, universal flaw in your product that negatively impacts the experience and utility for all users, churn is often concentrated within certain user segments that share similar needs and behaviors.

To gain actionable insights, identify the specific segments that are churning at higher rates. Then, take it a step further by examining subsegments within those groups. For example, let’s say you sell a legaltech product and sell to the following segments: law firms, law schools and in-house legal departments of large corporations. Instead of simply identifying "law firms" as a high-churn segment, dig deeper to understand which types of law firms (i.e. subsegments) and its users are most affected. Is it M&A lawyers in global firms, litigation lawyers at firms with fewer than 50 employees, or another subsegment? The more specific you can be in your analysis, the better equipped you'll be to address the root causes of churn across your product and product-lines.

It's also crucial to review your churn data on a regular basis to stay informed about whether churn rates are trending upward or downward. Pay close attention to the rates themselves – are they increasing or decreasing, and what factors are contributing to these changes?

For example, gradual changes in churn rates over time can reveal long-term shifts in customer preferences, market dynamics, or the competitive landscape. These trends may necessitate more strategic, forward-looking adjustments to your product roadmap and business model. On the other hand, sudden changes in churn rates may signify acute issues or those that require rapid response such as the introduction of a new compliance requirement by regulatory authorities that your product doesn't meet, or a major competitor releasing a breakthrough feature that makes your product appear significantly behind.

TROUBLESHOOT USING BOTH QUANTITATIVE AND QUALITATIVE DATA

As a quantitative measure, churn only reveals the “what” (the rate at which customers are leaving and the features that are being abandoned) and the "who" (which specific customers or segments are churning). However, it does not provide insights into the "why" – the underlying reasons that drive users to stop using your paid services.

Therefore, you would ideally follow up quantitative churn rate analyses with qualitative data collection such as surveys, interviews, heat maps or interviews to determine WHY particular user segments are churning - and then apply that feedback towards plugging the holes in your product's capabilities, user experience (both in your company and product) and customer communication.

BUILDING PRODUCT STICKINESS: BEYOND CHURN PREVENTION

While reducing churn is important, it's vital to recognize that churn is a symptom of a larger issue: a lack of stickiness in your product. Thus, instead of focusing solely on how to reduce churn, shift your attention to also ask: "Why isn't my product sticky enough to retain customers?"

In other words, concurrently think about how to increase a customer's investment in your product such that you don't merely delay their departure, but instead actively make them want to stay (ideally for the long haul).

You can approach churn reduction and stickiness enhancement as involving defensive and offensive angles. The notion of acting to lower churn tends to make people think of how to plug the leaky holes in the bucket – i.e. defensive moves to fix flaws in existing capabilities. Conversely, the idea of acting to increase stickiness makes people think about offensive moves (i.e. introducing novel features or improving upon existing high-value features to make them even better).

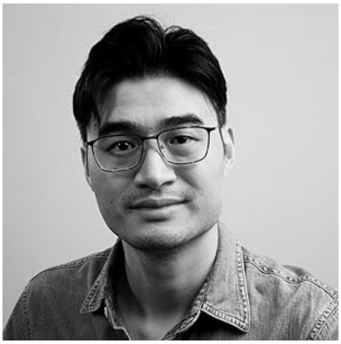
Taking both approaches is not mutually exclusive and a parallel can be drawn to the concept of increasing overall profit margins. You can achieve this by either cutting costs (which has its limits) or by increasing revenue by (among other things) raising prices, improving existing products or introducing new offerings.

Ideally, you would do both – eliminating unnecessary expenses while also investing in product enhancements and innovation that you can sell greater volumes of, and for a higher price. The same principle applies to churn reduction and stickiness enhancement – you can take both defensive and offensive approaches.

KEY IDEAS

- Churn is influenced by three key factors: (1) Product's relevant value exceeding price paid, (2) Net positive user experience, and (3) Effective communication of continued value
- Product utility is the primary driver of churn - value received must exceed price paid from the buyer's perspective
- User satisfaction encompasses all touchpoints with both company and product, from onboarding to ongoing support
- Regular communication of product relevance and value is crucial as market conditions and customer needs evolve
- Analyzing churn requires detailed segmentation to identify specific subsegments contributing disproportionately to customer loss
- Use both quantitative and qualitative data to understand not just what and who is churning, but why
- Focus on increasing product "stickiness" and churn reduction through both defensive (fixing issues) and offensive (adding value) approaches

ABOUT THE AUTHOR



Richmond Wong, a native of Toronto and Hong Kong, is a consultant who works directly with founders and senior decision-makers, guiding them from inception to growth and scale.

At the time of this writing, he has successfully helped over 150 startups around the world achieve their highest ROI growth, product development, and launch initiatives.

Richmond's experience also includes launching enterprise B2B software for Reuters and LexisNexis in more than 10 international markets, such as Korea, Singapore, Hong Kong, Taiwan, Malaysia, and across Southeast Asia.

He is also a business coach for MBA-level courses taught by hand-picked senior leaders from Google, Bain & Company, Meta and Netflix at Section, a New York City-based B2B edtech company. These courses are attended by managers and executives from companies such as Apple, Microsoft, Spotify and Adobe. Section was founded by Scott Galloway ("Prof G"), an entrepreneur (two company exits totaling $175+ million), New York Times Bestselling Author and co-host of Vox Media's *Pivot* podcast alongside Kara Swisher.

His previous book, *Advanced Growth and Product Strategies for Technical B2B SaaS Founders and Execs* provides senior leaders with sophisticated frameworks on scaling B2B software companies through advanced pricing strategies, product-market fit optimization, leveraging customer psychology, and growth strategy.

His first book, *The 1st-Time B2B SaaS Startup Founder's Compass*, offers new founders guidance on achieving product-market-fit, gaining marketing traction, optimizing sales, pricing strategies, reducing churn, and general business advice drawn from his work with founders and senior decision-makers.

Richmond co-authored *Nine Leaders in Action: Proven Strategies for Effective Leadership and Results*, which he wrote alongside the 2016 Olympics bronze medalist in the modern pentathlon, former McKinsey and Deloitte consultants, and an ex-Morgan Stanley Executive Director, focusing on high-stakes leadership.

Before his software career, Richmond trained as a corporate lawyer at Hogan Lovells, one of the world's largest law firms, where he served Fortune 500 clients on their most mission-critical mandates.

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Richmond speaks fluent English, Cantonese, Mandarin and conversational French.

If you have found any of Richmond's books helpful, you are encouraged to leave an Amazon review because it helps him help more people like you.

Feel free to go into as much detail as you want in your review, including any specific concepts you found useful and how it helped you.

Thank you and much appreciated.

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