PRODUCT SUCCESS METRICS

Why They Matter, Which Ones to Choose, and How to Measure Them

ProductPlan

PRODUCT SUCCESS METRICS

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Introduction

Why We Wrote This Guide

With customer preferences changing more rapidly than ever, and more competitors entering your market, you need data and evidence to guide your team's product decisions.

In ***Product Success Metrics***, we're going to show you a range of data points that you can monitor and analyze to gauge your product's success. We'll also help you distinguish valuable metrics from those that are not useful or even misleading.

In our experience working with hundreds of product leaders, we've found that identifying and then analyzing the right mix of success metrics can benefit your business in several ways.
For example, it can:

- Help you earn the support and enthusiasm of your executive colleagues.
- Keep your cross-functional team focused on building solutions that matter to your market.
- Build more successful products and grow your company's bottom line.

If those outcomes are on your list of business objectives, you'll find valuable guidance in the following pages.

Enjoy!

The ProductPlan Team

The Power of Metrics

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The Power of Metrics

Before we jump into our review of specific success metrics, it's worth taking a moment to underscore a few reasons why it's essential for any product leader to measure what matters.

Metrics will help you better predict what will resonate with customers.

We would argue the most important reason to track and analyze a set of product metrics is how it helps you evaluate and predict customer needs.

These metrics, sometimes called key performance indicators (KPIs), give the company quantifiable evidence about which aspects of the product or customer experience are resonating with customers—and which aren't. Product, marketing, and sales teams can all use this data-driven information to understand what motivates their customer personas. This data helps the company continually improve its products.

Without such metrics, product managers are forced to rely on educated guesses when deciding which products or features to prioritize.

As Product Director Paul Yokota explains in a podcast episode on *This Is Product Management:*

> *"A product manager's intuition is valuable, but gut instinct should only be applied in conjunction with product metrics."*

Metrics will help you spend your limited resources more effectively.

Your company has limited time, budget, and personnel to develop new products and make decisions about improving the solutions you already have on the market.

By establishing the right metrics to help guide your decisions, you can lower the chances that you'll waste limited resources sending your cross-functional team down the wrong path. And if you do make a mistake, having the right metrics to gauge how well your product is (or will) resonate with customers can also help you regularly course-correct based on what the data says.

You can use these metrics to earn support from your executive team.

Because the right product metrics provide objective evidence of a product team's proposed plans, offering these metrics to the company's executive team can help earn their buy-in to go ahead with development.

When you present your product roadmap to your executives, investors, or other members of the decision-making team at your company, they will be expecting to see more than your enthusiasm for the product. They will also demand evidence suggesting that the company will enjoy a positive return on investment if they green-light the product you're proposing.

PRO TIP

Tie success metrics to your business goals.

Product success matters only to the extent that it leads to success for your business.

Prioritize metrics that affect your company's bottom line, such as:

- Revenue per customer
- Retention rate
- Growth in market share

You'll have a more engaged, happier product team.

Encouraging your product managers to select success metrics to follow can also lead to a happier product team. When ProductPlan surveyed 2,500 product professionals in 2020, we found a direct relationship between job-satisfaction levels and teams that tracked product success metrics.

When product professionals can see that their work has a positive effect on their company's bottom line—and their customers' lives—they find more happiness in their roles.

Three Tiers of Product Success Metrics

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Three Tiers of Product Success Metrics

Not all product success metrics are created equal. The quantity of data points that your team measures is not as necessary as the quality of that data.

In the sections that follow, we've broken out success metrics into three tiers.

Tier 3

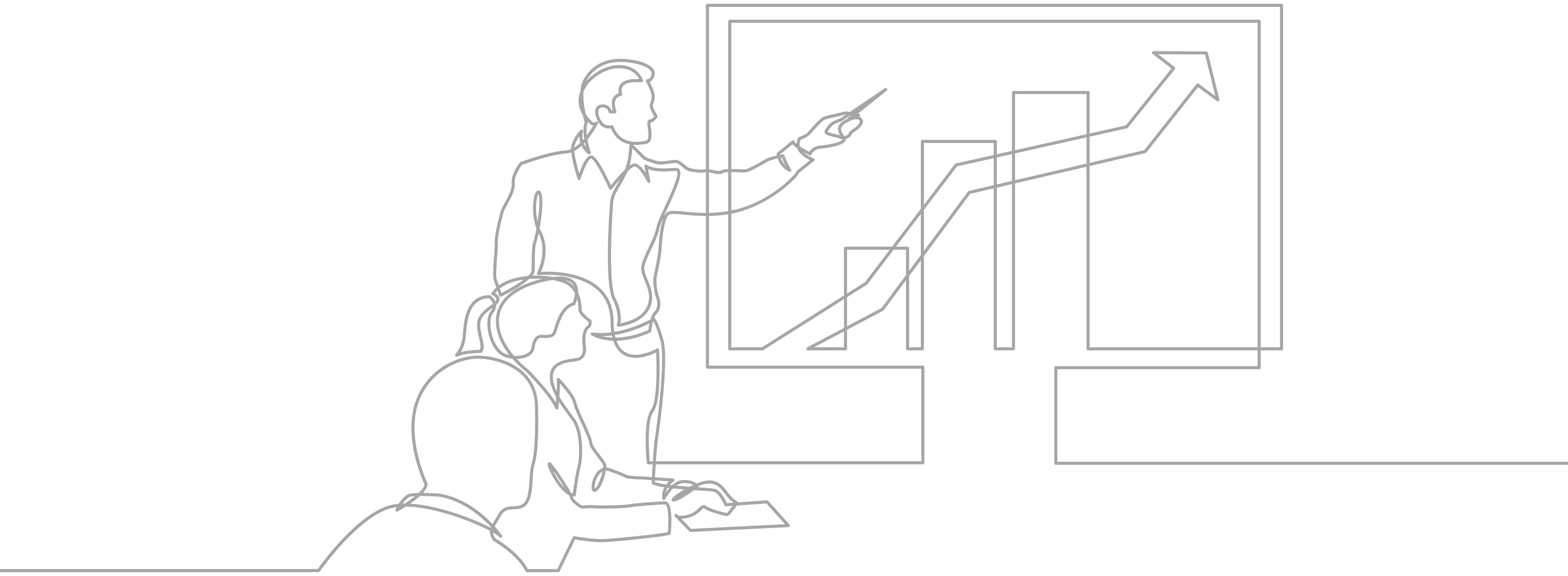
These are the vanity metrics that can boost a product team's ego. You'll want to be cautious about putting too much weight on them.

Tier 2

These are proxy metrics that can suggest something about your product's potential success. But because they do not themselves represent direct evidence of how your product will resonate with users, you need to be careful about these metrics.

Tier 1

These are the business and customer-oriented metrics, and they're the ones you'll want to focus on primarily. Tier 1 metrics—sometimes called Key Performance Indicators (KPIs)—capture concrete data about revenue, customer retention, acquisition, the size of your user base, etc.



Defining a few key terms

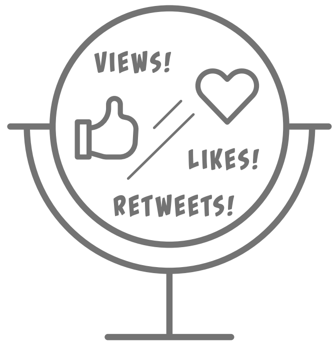
We will discuss each of these tiers in detail below. First, though, let's define a few key terms because although they're often used interchangeably, they each have different meanings.

Metric:	A metric is any type of quantitative measurement used for assessment.
KPI: *Key Performance Indicator*	A specific type of metric that lets you know quantitatively how successful a process is at achieving the desired outcome. A team can set a KPI to measure anything: the success (or failure) of a product, a marketing campaign, an internal team project, or other initiatives.
OKR: *Objectives and Key Results*	An OKR is a metric that defines a big-picture objective for the team or the company as a whole, along with a limited set of critical results used to measure that objective's success. It is similar to a KPI but differs in that OKRs are typically more aggressive and represent larger-scale initiatives. The team will also establish and track fewer OKRs than KPIs.

Here is how Felipe Castro, a partner with Lean performance, explains the key difference between KPIs and OKRs.

> *"If you were on a road trip, the dials on your car's dashboard would be your KPIs, telling you if everything is working properly. Your OKRs would be the navigation system, helping you track if you are on the right path or need to course-correct."*

Tier 3



What they look like:

- Quantity of social media followers
- Number of views of a promotional video
- Popularity of your product's user-discussion space

Why they're the least valuable metrics:

Let's say your product team creates a chat area within your product online, where users can comment on the product and share thoughts, ideas, and best practices. Now imagine that this area of your product gets an enormous amount of both comments and viewer traffic.

Visitors are posting product ideas and making comments about their jobs or industry, or even their personal lives. Many of these comments start long and thoughtful threads with other visitors. Disagreements and even arguments break out. Some of your "power" commenters even start treating your product's chat area like a mini-Medium site, posting long essays such as "10 ways to streamline your daily workflow." After all, many of your product's users are in similar roles, so they have a lot in common. Soon, your chat area is looking like a small-scale Twitter, with tens or even hundreds of thousands of views.

Question: *Does all of this engagement tell you anything about how your product is resonating with customers or how well it will do in the coming months?*

Not necessarily. What might have happened here is that people your chat area created a useful channel for your user personas to connect with like-minded people? Some of these conversations might be about your product, but many of them could also be much broader and not related to your company.

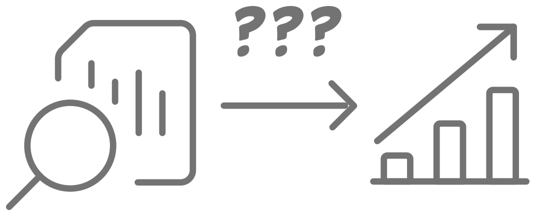
It’s great that you’ve created this accessible digital space to attract your user persona. Some of these people might become interested in your product, even if they arrived at your chat space only because they found a relevant discussion thread in a Google search that led them to your company. But, it’s important not to read too much because many people are using some aspect of your product to connect. Until this heightened attention to your chat area leads to your product’s actual usage—or better yet, purchases of your product—you need to recognize this large number of “commenters” for what it is: a vanity metric.

How a vanity product metric can go wrong

Let’s say your company makes an app that lends itself to be kept open for users’ long durations. Consider a timer app that helps consultants or freelancers track the time they work on projects. If your team uses “average user session time” as a product metric to gauge how much value users derive from your product, you’ve mainly created a “vanity metric.” It might feel great to say that the average user keeps your app running for several hours at a time. But you know this isn’t because those users are actively engaged with your product—you’ve designed it to run in the background, to be more or less ignored once your users set the initial timer.

Vanity metrics can be fun to follow. They can increase your team’s morale. They can even serve as very indirect indicators that your products have an increased potential for success. But don’t be tricked into believing a high number of likes or hearts on social media will necessarily translate into anything that moves the needle for your business.

Tier 2



What they look like:

- Level of user engagement and interest in your product survey
- Number of prospects who take action showing interest in your product, such as downloading a document about it
- Ideas for features ideas from prospects or customers

When you'd use them:

Sometimes you need these metrics because you don't yet have a product on the market or even a prototype to share with users. In these cases, you might need to gauge interest levels among your target market and estimate how much success your product might enjoy once you release it.

Their benefits and shortcomings:

Tier 2 metrics are more valuable than vanity metrics because they can tell you something about your product and the target user. But they are typically capable of providing only indirect measurements of the data you want—such as the size of your market and what percentage of that market you can expect your product to capture.

For example, let's say you send out a request to a list of prospects asking for feature ideas for a new product you're considering. And let's imagine you receive a large number of responses. Many of the suggestions for features are logical, thoughtful, and creative. Those ideas themselves might prove valuable if you decide to pursue this product.

But neither the number of responses nor how well thought out they are can tell you whether or not you have a viable market for the product. It can tell you only that some people found the product concept intriguing *in theory*. Or it might be telling you that a number of your target customers enjoy a good brainstorming session about product ideas.

You will need to do several things to distill the exact level of interest in your product from the other signals these metrics might be telling you.

For example, you'll need to:

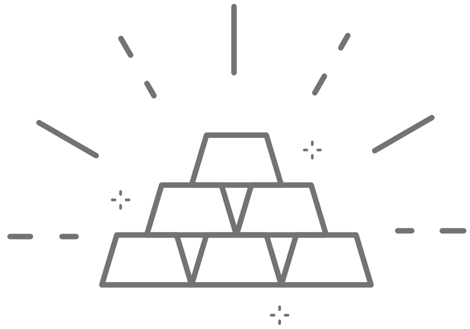
- **Check the respondents** who who submitted positive and thoughtful feedback against those who have responded to your surveys in the past. If you're seeing the same people, consider whether they've purchased your products in the past when reviewing their feedback.

- **Review the survey results** against similar feedback your company has received about previous products, and then review how well those products performed in the market. If strong survey results have translated into product success in the past, that data point is valuable. But if you've experienced disappointing market results after receiving encouraging feedback from your user personas before, you can't assume a direct connection between positive survey responses and product success.

Tier 2 metrics can be valuable. But generally speaking, you'll want to minimize your dependence on these metrics and focus instead on the Tier 1 metrics we're going to discuss in detail next.

Note: Although the sweet spot will differ for every company in terms of how many unique metrics to track and analyze, a good rule of thumb is to limit your count to five or six. It is vital to limit your metrics to avoid getting confused or overwhelmed by data and, at the same time, reduce the chances that you'll end up analyzing data points that are of low value.

Tier 1: Business & Customer Metrics



Business, North Star, and customer-oriented metrics are the most useful for tracking and analyzing because they can give you direct data about the success of your products and your business.

These metrics tell you directly how your product performs in the market and how you can expect it to continue functioning. This category represents the only genuine product success metrics.

These are also the most valuable of all types of metrics because they're the best indicators of how successfully your team executes its product strategy.

When you established your product's strategy, you answered important high-level questions such as:

- *Who will our product serve?*
- *How will this product benefit those people?*
- *How will this product support our company's goals (in terms of market share, revenue, profitability, customer loyalty, etc.)*

The only direct way to quantifying your team's success at achieving these goals is through the Tier 1 metrics we're going to discuss below: financial metrics, business metrics, and customer usage metrics.

Tier 2 proxy metrics can, at best, give you data points that suggest how well your product might succeed. Vanity metrics can tell you only about how well your business is connecting with the general public. These are not useless data points. But they're not a direct scientific indicator of product success, either. One of the critical reasons for this is that neither proxy metrics nor vanity metrics can tell you directly how well your product is resonating with flesh-and-blood, paying customers. The only metrics that can do that will be around user adoption, customer retention rate, lifetime value, etc.

If you had to focus on just one metric to measure your product's success, you'd want to choose a few from among the metrics in this category. So let's delve into them.

For each of the metrics below, we'll give you some details about:

- *What they can tell you about your product*
- *How to measure them*
- *How to evaluate your results*
- *When you'd want to use them*
- *Research and examples how these metrics can be useful*

Another reason the tier 1 metrics we're about to discuss can be invaluable is that they can create a single source of truth for your entire organization. These metrics represent hard, indisputable data about how your product performs in the market.

The right metrics mean you can give all of your stakeholders across the company (in marketing, sales, support, operations, finance, and management) an accurate picture of how the product performs.

Sharing these tier 1 data points throughout your company ensures everyone is working from the same information, which will help them make better-informed decisions.

Outlier data points

When you're tracking and analyzing any data, even these tier 1 metrics, you can come across outliers. Maybe a few users spend all day interacting with your product. Perhaps a few companies purchase an enormous number of licenses to your B2B productivity app. And maybe a small percentage of buyers contact your company almost immediately after signing up and ask to cancel. Don't get too enthusiastic (or worried) about these outliers.

Your best bet concerning this small percentage of your user base's unusual behavior is to contact these people directly and ask about their unique situations. You can learn a lot from the outliers—and good news or bad news; it will all be valuable data.

But when you're evaluating these metrics to gain a broader sense of how your product is performing, you will want to focus on the vast majority of data points clustered in the middle. That might be average numbers, the median, the mode, or the range represented by the vast majority of your user base.

Maintain and share data

Finally, it's worth considering where you'll keep and share the status of the metrics you're tracking. You could also create a presentation or spreadsheet file and then periodically send it to your organization to make sure they all have the latest details.

The drawback of this option is that you could face version-control issues and stakeholders regularly contacting you for a current version of your company's metrics.

With ProductPlan's roadmap app, you can update metrics data in other apps—such as Jira—and sync that data automatically with your roadmap. If you update your revenue number in another app, your roadmap will immediately reflect that new number.

Now let's look at these tier 1 metrics: broken down into business goals, North Star metrics, and usage metrics.

PRO TIP

A best practice here is to maintain the product metrics you're monitoring *within the product roadmap itself.* Ideally, you'll want to use a web-based roadmap app, which you can update quickly and as often as needed, and make that single online version of the roadmap accessible to your entire team of stakeholders.

Business-Oriented Metrics

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Business-Oriented Metrics

Revenue

Which type of company should use it:

Revenue is one of the most critical metrics for every company in every industry.

How to measure:

Measure the product's revenue per month over a one-year period.

When to use it:

Always. This is the key metric for the success of any product.

How to evaluate the result:

Calculating your revenue is straightforward. For a healthy product, this number should be going up. For mid-life products, you may just want to be holding it steady, and for aging products, you might want to analyze the downward slope to determine best whether to prop it up or discontinue it.

Revenue is an excellent metric to use for any product in any stage of life, and it should probably be a standard part of your metrics mix. By comparing each calendar month to the previous year, this can also be used to evaluate the seasonal dependencies of a product.

Hypothetical example:

Three years ago, Orange Software launched a new product in three variants:

- **Product A** is the company's flagship product.
- **Product B** is a premium version.
- **Product C** is a version tailored for a specific vertical.

	Year 1	Year 2	Year 3
Product A	$120,000	$180,000	$264,000
Product B	$75,000	$135,000	$195,000
Product C	$34,500	$80,500	$126,500

By calculating and comparing revenues, you've discovered Product A contributes the most to the company's annual revenue. Based on this metric, where would you prioritize your development dollars?

Customer Acquisition Cost

How to measure:
Divide all cost spent to acquire new customers by the number of customers acquired in that period.

When to use it:
When you need to know if your marketing expenses are profitable (or if you might need to charge more for your products).

Which type of company should use it:
CAC is a valuable business metric for any company. Still, it can be particularly necessary for small, young, or budget-strapped organizations that need an objective way to determine whether or not to continue devoting resources to a given initiative.

How to evaluate the result:
The cost to acquire new customers will differ across industries and company sizes, so there is no single answer to the question, *What is the customer acquisition cost should we aim for?*

But according to Hubspot, an important rule of thumb is that you should be able to recoup a new customer's cost with one year of revenue generated by that customer.

They also suggest that your average Lifetime Value (LTV) should be roughly three times the number of your CAC. That is, a customer's lifetime value should be three times the cost to acquire them.[10]

What the research says:
A few years ago, data cited in *Entrepreneur* gave us the average CACs for various industries, including:

- **Travel:** $7
- **Telecom services:** $315
- **Financial services (e.g., new brokerage customer):** $175

Hypothetical example:

Let's have a look at Orange Software's Customer Acquisition Cost.

They've calculated that the average amount they spend to acquire a customer for Product A is $100. Since some of those customers later decide to upgrade to Product B, the effective CAC for Product B is only $90.

As you recall, Product C sells exclusively into the X vertical. There is little competition in this space, and the CAC is $50.

Looking at these numbers out of context, you might be inclined to shift your focus away from Product A. Its CAC is twice that of Product C. But you'll recall that the total profit contribution of A is 2x that of Product C.

Which of these two financials is more critical to your company objectives? Let's examine how adding the CAC for each product affects the profit contribution in the first year of a subscription. If you burden the COGS with the CAC, you get effective 1st-yr COGS of:

Product A: $110

Product B: $115

Product C: $55

It reduces the effective profit contributions this way:

- **Product A:** from $242,000 to $22,000
- **Product B:** from $162,500 to $45,500
- **Product C:** from $121,00 to $66,000

The profit contribution picture is completely flipped during the first year of a subscription and shows the value of tracking the right metrics and using them all to get a 360° view.

What this last analysis says to us is that customer retention for Product A should be a key focus for Orange Software.

Revenue YoY

Which type of company should use it:

It is an especially important metric for larger companies or those with multiple products or product lines. A year-over-year indicator of whether a given product is in its growth or decline stage can help the product team determine the resources to continue devoting to the product.

How to measure:

Compare revenue this year to the same time period (month, quarter) in the previous year.

When to use it:

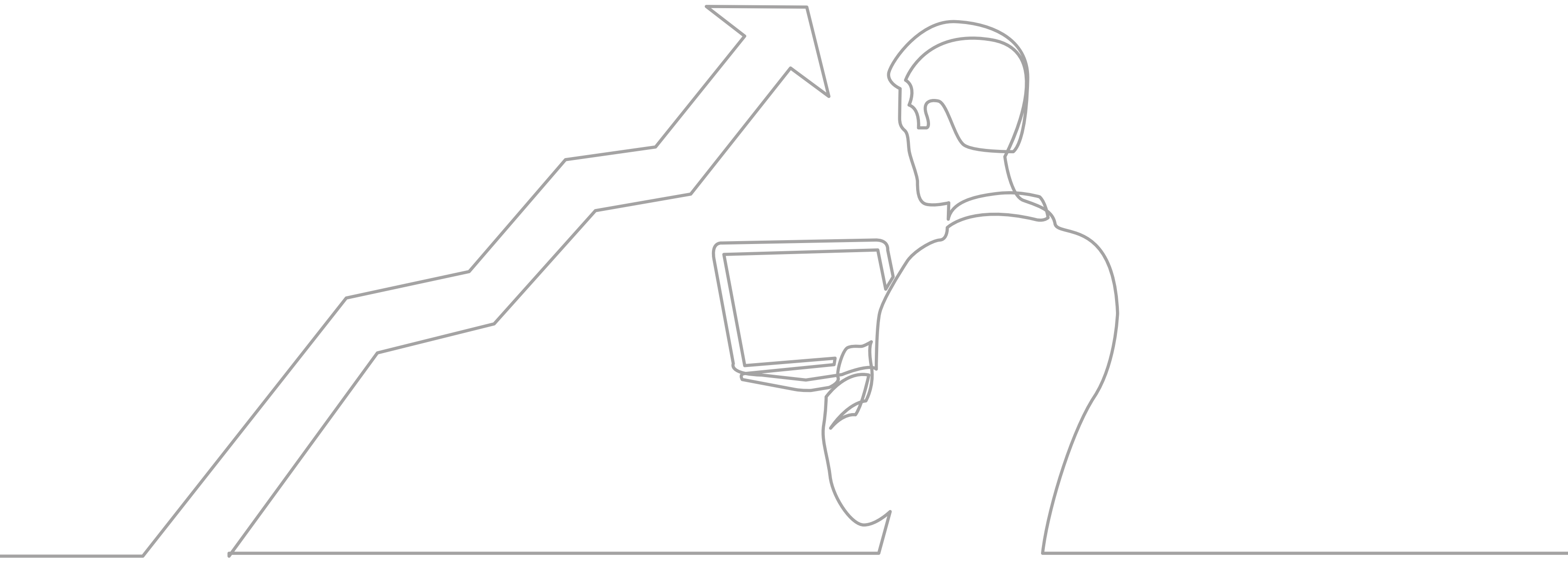
When you want to determine if your product's sales ups and downs have regular pattern's during the year.

How to evaluate the result:

Evaluating year-over-year revenue for any given period helps you identify if your product's success has grown, contracted, or stayed flat. It can help you understand what seasons you've got dialed in with your product and message, and where you can leverage that success into other seasons, or reduce spending if things aren't looking good.

What the research says:

Sequoia Capital's Data Science team suggests, "Year-over-year changes can be even better understood by plotting the ratio of revenue from one year to the next." [1]



Units Sold

How to measure:

Simply calculate the total number of units over a given period.

When to use it:

Always.

Which type of company should use it:

Every company. The number of individual product units getting purchased is a valuable indicator of a product's performance. Even if the revenue number seems disappointing or the customer acquisition cost seems higher than expected, the units sold can still signal that the product resonates with users. Perhaps the issue of adjusting is the price or the company's marketing budget, not the product itself.

How to evaluate the result:

Unless you're in a declining or saturated market, you're looking for growth in this number from one period to the next. It's also a useful data point to compare to your competition, and you can often find the data on their units sold. If you can get that for all of your competitors, you'll clearly understand your market share.

Hypothetical example:

Let's review yet another metric for the Orange Software products.

Product A's subscriptions over the last three years have been 1,000/1,500/2,200. (We'll treat each subscription as a "unit sold."

For **Product B**, subscriptions have been 500/900/1,300 over the past three years.

For **Product C:** 300/700/1,100.

It put growth rates as follows:

	Year 1	Year 2
Product A	50.0%	46.7%
Product B	80.0%	44.4%
Product C	133.3%	57.1%

There are several takeaways from the data above:

- **Product C** is the fastest-growing product.
- Growth for all products slowed in Year 2.
- **Product B** was growing faster than **Product A**, but that has since changed.

These data points can help guide your team's strategic thinking and planning.

Net Profit Margin

How to measure:

Divide your product's net profit by it's revenue.

When to use it:

To understand how best to allocate development and other resources across product lines.

Which type of company should use it:

Every company needs to know its net profit margin. It's the only way to tell whether a product is succeeding, given existing revenue and expense levels, in terms of its ability to bring in more money than it costs to deliver. Net profit margin can tell a company all sorts of relevant information about its operations. Costs are too high, the product's pricing is too low, customers aren't sticking around long enough to warrant their acquisition costs, etc.

How to evaluate the result:

A reasonable profit margin will vary from industry to industry. But the real insight here will come by comparing your profit margins across product lines. While you might intuitively understand that one of your lower sellers is a gem, these calculations will let you objectively compare two somewhat different product lines.

What the research says:

In his book *Key Performance Indicators (KPI): The 75 measures every manager needs to know,* Bernard Marr, suggests that, as a rule of thumb, a net profit margin of 20% to 40% is excellent.[2]

North Star Metrics

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North Star Metrics

It is the single metric your team or company decides will be the one that best represents how well your product is performing in the market.

The North Star metric should provide evidence of a clear and direct relationship between your product's problem and the degree to which it is solving it for your target market.

Feature Adoption

Which type of company should use it:

It is a key metric for businesses with a new product on the market because it can give meaningful feedback about which aspects of the product connect with users. It can also alert the company to problems, such as that certain features might not be placed logically or prominently enough in the product. This might necessitate a UX/UI overhaul.

How to measure:

Track number of percentages of monthly average users who engage with a specific feature.

When to use it:

When you are trying to determine which of your product's features represent the major draw of your product.

How to evaluate the result:

Feature adoption is a valuable metric. It can even represent your team's North Star because it lets you know which aspect of your product's functionality is genuinely drawing new users and keeping your existing user base loyal to your product. You can evaluate feature adoption as a number—such as Monthly Active Users—or what percentage all users access a particular feature.

Analyzing these results can tell you a great deal about your product. For example, you might discover that most users interact with only a small percentage of your features. That signals it could make sense to rearrange some plans on your roadmap and redirect your efforts to enhancing those high-performing features.

On the other hand, if you discover that some of your features receive almost no attention from users. This suggests either that you need to de-emphasize those features (because your personas don't need them) or boost your efforts at education and marketing (because your personas don't know those features are there).

What the research says:

For many products, users engaged with only a small portion of the available features. Research from CSO Insights, for example, cites a study finding that 43% of CRM customers use fewer than half of the features in those apps.

Active Users

Which type of company should use it:

This metric is important for digital product companies: software makers, SaaS providers, mobile app makers, etc. An influential gauge of customer retention, loyalty, and lifetime customer value with a digital product is how regularly users interact with it.

How to measure:

Calculate how long it should take your user to complete a desired activity in your product, and then measure the number of users (per day, week, or monthly) spending that time in your product.

When to use it:

When you want to measure how well your product is solving problems for your users.

How to evaluate the result:

An accurate picture of your product's active users—per day or month—can give you a strong sense of whether your product is solving the user problems you built it to solve. But you must calculate this metric correctly. Otherwise, you might get the false sense that your product is resonating with users when, in reality, it is letting them down.

For example, if you have strong marketing or advertising campaigns, or if your company has built a strong brand, you might find a lot of new users accessing your product, signing up for it (or for your free trial), and then logging in. But if those users don't engage with the product for a sustained period, they might never get the full value of your solution. Still, if you are counting "active users" as the number of people who access your product online, or who log in for a short period, you might see a high number.

Conversely, measuring daily active users can give you an unduly negative outlook about your product's resonance with users. Even your power users might not access your product every day. But over more extended periods, they will show up many times.

Moreover, when they use your product, your more loyal customers might engage with it many times throughout the day–a statistic that won't be reflected in your daily user score.

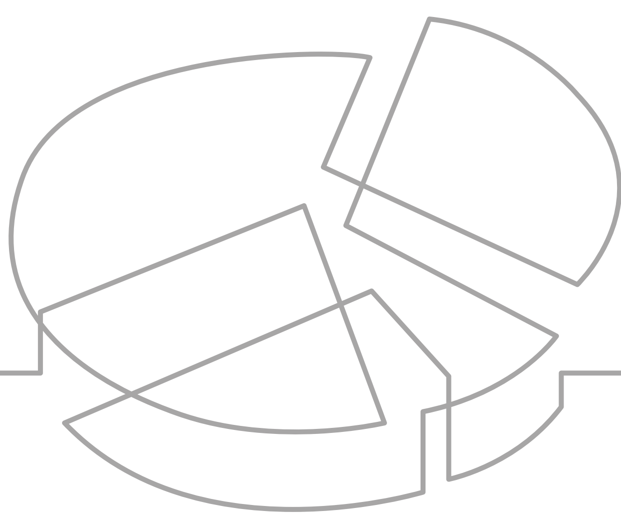
For this reason, we recommend estimating how long it should take the typical user to perform a specific task in your product. Once you have that number, you'll only count those users who spend roughly that long in sessions with your product (you can add or subtract a few minutes or seconds if need be) each day, week, or month. This will give you an accurate number of your active users.

If you don't have a digital product that would allow you to track these usage statistics easily, you can also ask your customers directly. Send out surveys asking how much time they estimate they spend engaging with your product in a given timeframe.

Note: Daily Active Users are often written as DAUs; weekly are abbreviated WAUs, and monthly are MAUs.

What the research says:

As the conversion-tracking app Popcorn Metrics reports, something like 60-80% of web-based app users are gone within the first week. For mobile apps, more than 70% can disappear after just one day.[3] That's why the company believes the longer-term metrics–say, monthly active users (MAU)—are a more accurate gauge of continued usage and engagement. The users who stick around for a month are much more likely to continue using your product for the long haul.



Net Promoter Score

Which type of company should use it:

Every company should know its NPS because this tells you how positively (or negatively) your average user feels about your product.

How to measure:

Ask users how likely they are to recommend your product and calculate the difference between "promoters" and "detractors."

When to use it:

Anytime you want to gauge how well your product is resonating with users.

How to evaluate the result:

Net Promoter Score (NPS) is another invaluable metric; one worthy of a team's North Star—because it gives the team a clear and direct way of gauging how well the product solves problems for its intended customerscustomers. The evaluation process for NPS is simple:

Step 1: Ask your users.

The Net Promoter Score is an aggregate answer to a single question you put to your product's users: *How likely are you to recommend this product to a friend, relative, or colleague?*

You can ask this question in a survey, or build it into your digital product and allow your users to answer it anytime. For the response, you will create a scale from 0 ("Not at all likely") to 10 ("Extremely likely").

Step 2: Calculate the results.

You'll then group your responses according to the following categories:

- Promoters = 9 or 10 score
- Passives = 7 or 8 score
- Detractors = 0 to 6 score

Step 3: Determine your NPS

The formula for NPS is also simple: Subtract your overall detractor score from your promoter score. That final number represents your Net Promoter Score.

What the research says:

According to SurveyMonkey's massive global study (covering more than 150,000 companies), the median NPS is 44. And a "good" score–earned by only the top quartile of organizations–is 72.[14]

User-Oriented Metrics

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User-Oriented Metrics

Churn

Which type of company should use it:

Every company should know its churn rate for every product. This metric tells the product team whether the product's customer acquisition cost is too high (a high churn rate means the company earns less from its acquisition cost) and whether or not the product is striking the right chords users to keep them engaged and loyal.

How to measure:

Divide the number of customers lost by the total number remaining.

When to use it:

Always.

How to evaluate the result:

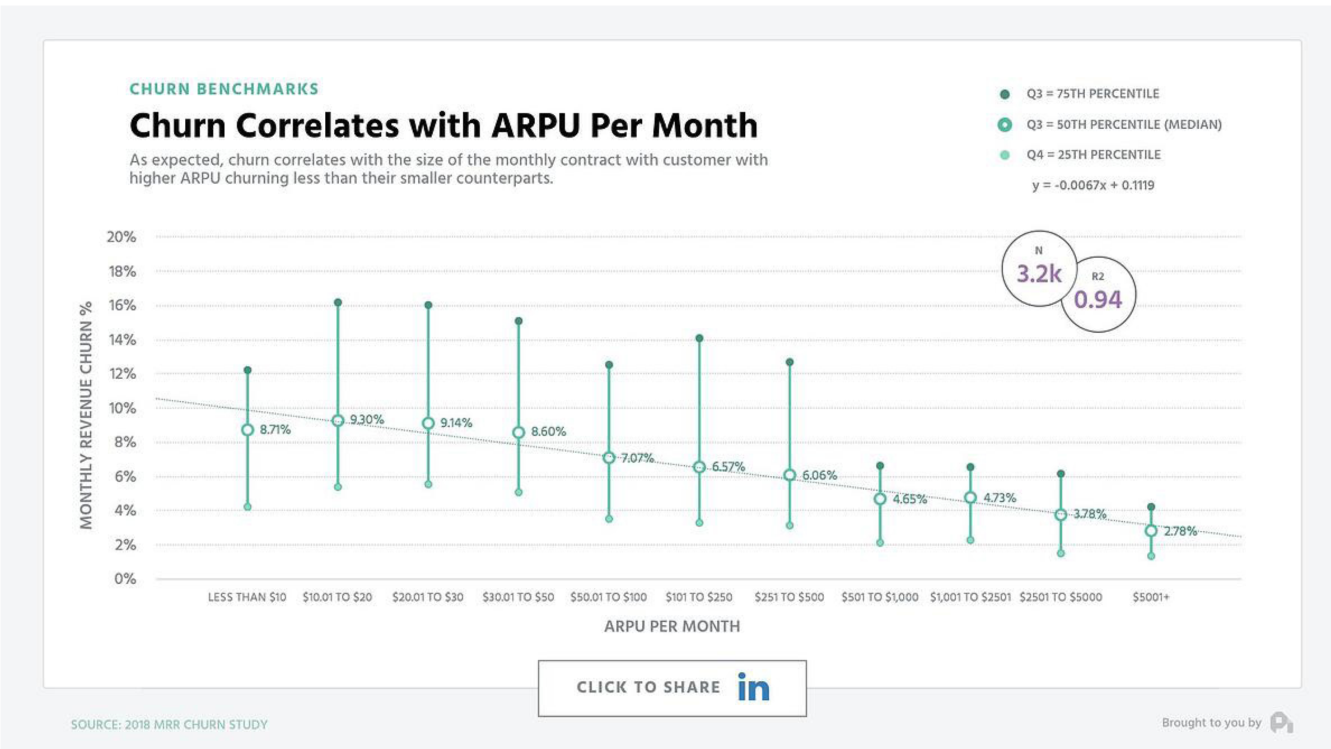
David Skok from forEntrepreneurs believes the best metric for churn is Net Dollar Churn, which can be calculated as (Revenue Lost to Churn + Revenue Lost to Downsell + Revenue Gained from Upsell) all divided by Ending Revenue.

This number can be detrimental, and that's a good thing as it indicates that companies can grow even without acquiring new customers. An example of this is seat-based products where happy customers continue to expand their licenses as the onboard new employees.[4]

What the research says:

According to the world's most comprehensive study on churn, cited by ProfitWell, there is a strong correlation among SaaS companies between higher Average Revenue Per User (ARPU) and lower churn. The more a business customer spends on a subscription-based software product, the less likely it is to end that subscription.

The researchers concluded that this is because when a business signs up for a SaaS app with a higher price point, that product typically comes with more hands-on support and customer service and solves larger-scale business problems.[5]



Retention Rate

Which type of company should use it:

Retention rate is the all-important metric for subscription-based products. If a customer of a physical product stops using it after purchasing it, the manufacturer has already made its money. But if a subscriber to a SaaS product terminates the relationship, the company immediately stops earning revenue from that customer.

How to measure:

Divide renewals by (renewals + cancellations).

When to use it:

This is must-have data point for a subscription-based product.

How to evaluate the result:

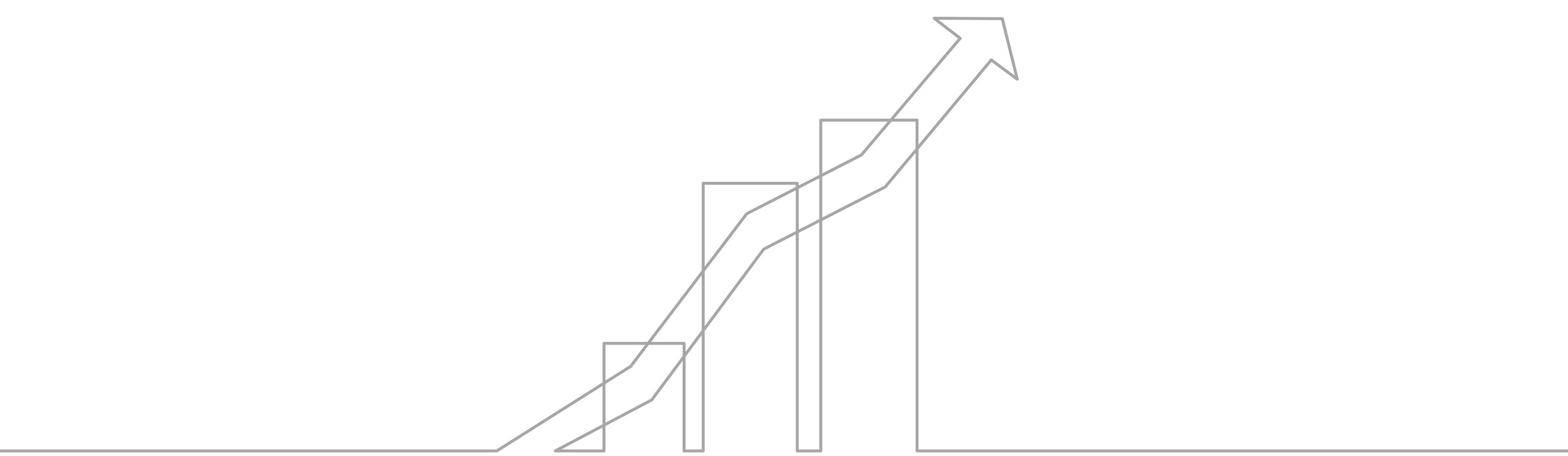
This is a straight ratio, and the consensus across industries is that a retention rate of 80% is a starting point, and one above 90% is a strong indication of the value of your product.

What the research says:

Maintaining high retention or resubscription rate can be extremely lucrative for your business. According to Bain & Company, a 5% increase in customer retention produces more than a 25% increase in profit.[6]

PRO TIP

Focus on retention. A 5% boost in customer retention produces more than **25% in increased profit.**



Canceled Orders

Which type of company should use it:

This is a key metric for any business but particularly for younger companies and those with new products. The sooner the product team can discover that users are canceling, the faster they can get to the root of the problem and fix it.

How to measure:

Divide the product's canceled orders by its total orders. Capture a reason for the cancellation and compare the percentage from one period to another for each reason.

When to use it:

For products that have a delay between order and delivery. Use this especially if you have a suspicion your cancellation rate is on the rise.

How to evaluate the result:

If your cancellation rate is changing, there is almost certainly a common thread among those cancellations. If the rate is going down, that's great, and you'll know that either your product feature set is filling out, or your conversion process is improving.

If it's going up, you'll want to explore the reasons cited for the cancellation. Is your feature set lagging behind the competition? Is there a new entrant in the marketplace? Is your fulfillment time too long?

What the research says:

As a benchmark, consider that Amazon demands its sellers to maintain a cancellation rate under 2.5%. Anything higher than this can result in account deactivation.[7]

% New Customers

How to measure:

Calculate # of customers signing on within a time period and divide by total customers.

When to use it:

When your company is younger or when your growth has stalled.

Which type of company should use it:

This is a particularly important metric for a company trying to discover the life stage of its product. Is the product still in its growth phase? If so, then the percentage of new customers will remain high. If it's moving to the mature stage–earning most of its revenue from its existing user base–then the percentage of new customers will slow or even decline. These are important data points because they help inform the product team about where to devote resources, such as supporting the existing functionality or marketing campaigns to capture new users.

How to evaluate the result:

How much of your business comes from new or existing customers depends on your company's stage of life. There's a general rule of thumb that says 80% of your business will come from 20% of your installed base.

What the research says:

A study by Optimove classified companies into four categories based on their maturity and current growth rate. The researchers found that more mature companies could depend a bit more on sales to existing customers. But for younger companies, along with those that had experienced a stall in their growth, pushing up the percentage of new customers in the installed base was critical.[8]

Lifetime Value

Which type of company should use it:

This metric will play a more significant role at bigger companies and those with products on the market longer. For a young startup or a company releasing a brand-new product, lifetime value will be both difficult to determine and mostly irrelevant in the product's early days. But for a product that's been on the market for some time, gauging its LTV can help guide the product team on how to deploy resources to continue supporting the product.

How to measure:

Customer lifetime value = average value of a purchase x number of purchases each year x average length of the customer relationship.

When to use it:

Whenever possible.

How to evaluate the result:

The key benefit of knowing your customer's lifetime value is your ability to try to start increasing it. You can increase your upsell efforts, improve customer service to minimize churn, or find incremental feature enhancements that maximize retention. And tracking that lifetime value will help you know if your efforts are working or need to be rethought.

What the research says:

According to the business blog *Alexa,* tracking Customer Lifetime Value leads to important business insights such as:

- How long it takes before a customer relationship becomes profitable. In other words, at what point the revenue you earn from them becomes more significant than the cost you invested in acquiring them as a customer.
- When the cost of maintaining the customer outweighs its value.
- Which personas or segments are the "most profitable." [9]

Price Satisfaction

Which type of company should use it:

This can be a useful metric for any business, but particularly those whose product is somewhat original or is in a field with few competitors. With a commodity product, a company can glean a lot of pricing intelligence from its competitors. But for a company releasing an innovative product, getting feedback directly from their customer base might be one of only a few ways to learn the sweet spot for pricing. The sweet spot is not so high that it outweighs its value, but not so low that customers perceive the product as less valuable.

How to measure:

Do a customer survey that asks for a rating on this measure. Track it monthly and add a trend line.

When to use it:

Whenever you're comfortable asking your customer base for feedback.

How to evaluate the result:

Here you are gauging your average customer's satisfaction level with the price of your product versus its value. Your goal should be for this number to be flat or increasing. This will require periodic contact with a segment of your customer base.

PRO TIP

Measure customer satisfaction with price to value. Businesses that track this average **13% higher profit growth.**

What the research says:

A McKinsey & Company study found that although the majority of companies have data on customer satisfaction with product performance, only 44% of companies measure customer satisfaction specifically in terms of how much they paid for the product versus the value they received from buying it.

That is a significant oversight, according to McKinsey. They also found that among those companies that did analyze satisfaction with price-to-value, their average profit growth was 12.9% higher than those that didn't.[11]

Customer Reviews

Which type of company should use it:

Every company needs to know what customers are saying about its products publicly. The product team shouldn't just view this as a metric to track but also an open action item to monitor the entire web for customer comments and reviews. The team can quickly spot negative reviews to learn about potential problems and try to make things right with those customers.

How to measure:

Monitor product review sites and chart the results of your products' average star ratings.

When to use it:

If you sell products through a public marketplace, and customers are allowed to rate and review.

How to evaluate the result:

Up is good for ratings. An increase in the number of public product ratings is generally good as well. You're getting more and better data about how your product is performing.

However, the one adverse scenario is if reviews spike up with a significant drop in average rating. There's a problem with your product or the market's perception of what they got versus what they expected.

But there's good news here, too. Now you understand that there is a problem, and reading the reviews should go a long way to helping you know how to fix it. Monitoring your product reviews online can serve as an early warning about a problem with your product, service, or company.

If you address the issues quickly and proactively contact each reviewer who has complained, you might even be able to stop customers from abandoning your product altogether.

What the research says:

Research conducted by Profitero of top products on Amazon found that Top 10 products in most categories, across both the U.S. and U.K., tend to have a larger number of reviews than the Top 100 category average.[12]

This correlation between increased reviews and sales success makes sense for two reasons. First, the category-dominating products in each category create a better experience for customers, and more customers were compelled to share their positive experiences. Second, people look for social proof to help guide their purchasing decisions. So seeing more positive reviews for a product makes people more comfortable buying from that seller.

A key takeaway here: If possible, ask your customers to publish reviews for your products on the major marketplaces where buyers look for those products. A higher number of reviews can translate into additional sales.

More Tier 1 Metrics to Consider Tracking

The list above is far from complete. Depending on your company's industry, size, product distribution models, and other factors, there are many other high-quality product success metrics you might benefit from analyzing.

Others include:

- % Increase (or decrease) in market share
- % Product Revenue vs. % Development Resources
- % Revenue from New Products
- % Revenue from Existing Products
- Conversion rate from ads/content/demos/free trials/ etc.

Why Your Roadmap Needs to Be Based on Product Metrics

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Why Your Roadmap Needs to Be Based on Product Metrics

So far, we've reviewed many of the key product success metrics for your team to track and analyze. We've also discussed how to measure these metrics, their results, and how to use what you learn to improve the products.

But how do you communicate all of these valuable learnings to the rest of your organization? This is where the product roadmap comes in.

The roadmap articulates your company's high-level strategy for the product at any given moment.

Ideally, that strategy should be informed by and based on at least some of the metrics we've reviewed in this book—and they should be reflected on the roadmap itself.

Here are two best practices to tie your product success metrics to your product roadmap:

1. Use success metrics to provide strategic reasoning for each roadmap initiative.

You can include one or more success metrics under each theme or epic on the product roadmap. These can give your stakeholders an at-a-glance understanding of why you've chosen to prioritize a theme because they'll be able to see what you hope it accomplishes.

2. Use the roadmap itself to help you establish the right success metrics.

The right web-based roadmap will include a weighted-scoring feature. That will help your product team compare and analyze competing initiatives based on criteria such as revenue, increased market share, or reduced churn.

If you don't have your own roadmapping software, try our **14 day free trial.**

Where to Find Useful Metrics for Your Roadmap Before You Have a Product

If you're looking for useful product metrics before you have a product on the market and are still in the strategy stage, you can still find valuable data throughout your target market.

Here are a few examples of sources of valuable metrics to inform your strategic roadmap:

Key Influencers

These could include industry experts, or the widely read columnists and commentators who write and speak about trends in your industry and review your competitors' products.

Industry Researchers and Analysts

The researchers who cover your industry are an excellent source of information about which metrics offer the most significant clues as to what will constitute a successful product. After all, these are the people who listen to briefings from your competitors about the things they're finding resonate with their customers and write detailed reports about which products are enjoying the most success in your industry, and why.

Competitive Products

Unless you're planning to create an entirely new category with your product, chances are you have competitors with products already on the market. chances are those competitiors have done a lot of the research into the most strategically useful metrics relating to their products and their customers and may have public information available, especially if they are publicly traded. You can leverage this information in developing your own set of metrics to focus on.

You can find your competitors' discussions of what they deem essential data points in their press releases, their earnings call with analysts (assuming they're publicly traded), and even their business filings online.

		Benefit			Cost				
Title ↓	Lane ↓	Increase Revenue	Strategic Value	Customer Value	Dev Effort	Operational Costs	Risk	Score	Rank ↓
	Weight	25	20	10	50	20	20	145	
Mobile Mock Up	Mobile Team	5	5	5	1	1	1	145	1
UX Improvements	Mobile Team	2	4	5	5	3	1	78	3
Interactive Dialogue Box	Mobile Team	3	1	2	4	2	5	63	6
Accept new forms of payments	Web Team	3	2	3	2	3	1	101	2
New Admin Console	Web Team	1	2	4	2	4	4	77	4
Code Review	Web Team	3	2	4	4	3	3	75	5
API	Web Team	3	2	2	4	4	4	63	6

When you've conducted this exercise, and one or two initiatives stand out based on their potential for specific success criteria, those can serve as the key product metrics you'll follow.

5-Steps to Identify the Right Product Success Metrics

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5-Steps to Identify the Right Product Success Metrics

One final note: You can't measure everything. You'll need some way of deciding which of the many data points your team will gain the most advantage from monitoring and analyzing.

You'll want a product metrics framework—a step-by-step approach to establishing a plan for which success metrics to track and how to use them to improve your products continuously.

As noted earlier in this book, make sure your product success metrics tie directly to your overall business goals and product strategy. So you should keep all of those objectives in mind as you work through your product success metric framework.

Your higher-level business objectives might include initiatives such as:

- Increase revenue
- Increase profitability
- Expand into adjacent markets
- Control costs
- Innovate
- Support a social cause (example: diversity, tolerance, support developing nations)
- Deepen connections with our customers
- Build our corporate brand
- Recover from a corporate misstep

Here's a five-step process for this framework:

Step 1

Choose one or more of your business objectives to focus on. (Remember, you can't do everything at once, and trying to achieve too many corporate goals at the same time will only dilute your efforts.)

On your product roadmap, for example, one of these business objectives, such as, "Increase market share by 2% in the next six months" might be a theme.

Step 2

Once you've chosen one or more corporate objectives to align with, you'll need to decide how your product can contribute.

Financial objectives are the most familiar. Increasing corporate revenue directly corresponds to increasing product revenue. A mandate to increase profits could take a couple of paths. You could increase revenue through higher pricing, higher sales, or additional products. Or you could reduce costs by reducing COGS or streamlining fulfillment.

Other objectives might have non-obvious ways for your product to contribute. What about supporting developing nations? You could favor offshore contractors for parts of your product design.

To support a tolerance objective, you could consider changing your product packaging to include relevant stories.

You might find some corporate objectives almost impossible to contribute to your product plan. You don't need to support all of them. The sad truth is that, once corporate objectives are set at the beginning of the year, many product teams (and other teams in the company) never really think about them again until reporting the end of year results.

This is where you can pull your company ahead. By spending just a little more time aligning your product plans and making sure you're monitoring and tracking the right things, you'll be ready for any executive, investor, or board meeting to report your contribution.

Step 3

Finally, you'll choose the metrics that will show how much you've contributed. These should fall out reasonably naturally from the specific product initiative which you've decided to pursue. We've included lots of ideas for you to choose from. There is no one right set of metrics for all product teams. But there's a set that's right for yours.

Step 4

Document your plan. It should include bringing in relevant colleagues to help you capture, track, and review the success metrics data as it becomes available.

Add the success metrics you've chosen to your product roadmap on your documentation plan, both as your strategic reasoning for each roadmap initiative and as a data point for your team to gauge their progress in succeeding with initiatives.

Step 5

Monitor, measure, analyze, and adjust.

These success metrics can help you improve your products only to the extent that you use them. You'll want to track and review their results diligently. You'll also want to apply the learnings to your cross-functional team's plans on an ongoing basis, course-correcting wherever your success metrics signal a potential threat—or a huge opportunity.

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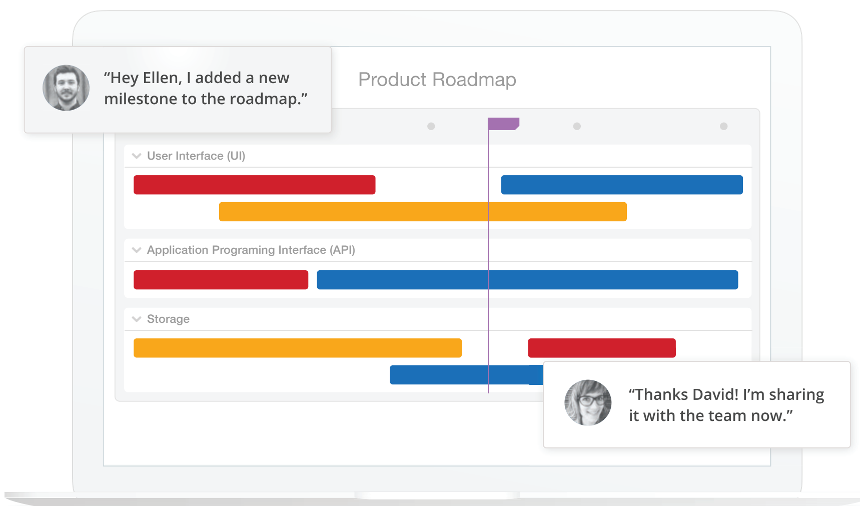
About ProductPlan

ProductPlan makes it easy for teams of all sizes to build beautiful roadmaps. Thousands of product managers worldwide–including teams from Nike, Microsoft, and Spotify–trust ProductPlan to help them visualize and share their strategies across their entire organization. With our intuitive features, product managers spend less time building roadmaps and more time shipping products.



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