THREE METRICS THAT MATTER

DISRUPTOR'S HANDBOOK #5

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INTRODUCTION

This handbook is designed for innovators, entrepreneurs and ‘intrapreneurs’. It is particularly useful for those who have launched a business or project are seeking to understand which metrics and measurements are the most important for their ongoing success.

The three metrics that matter are directly related to your business model. And that means revisiting your Disruptor’s Canvas. If you have created your canvas correctly, you will have a clear sense of your business in a single page.

Most importantly, you will know what metrics you will use to measure your success. If you have not created a canvas, you can download ***DH1: Shared Value Canvas*** or ***DH2: Disruptor’s Canvas*** from our website.

DO YOUR METRICS ALIGN?
The first thing you need to check on your Canvas is whether the key metrics from your canvas align. That is, do you have revenue metrics that match the Revenue section on your Canvas? Do you have cost metrics that align with the Costs section of your Canvas?

In this handbook you’ll learn about the three metrics that matter to your startup or innovation project, including:

- ➔ The 4 benefits of a focused metrics program
- ➔ Why metrics matter
- ➔ The three metrics and examples of when and how to use them.

THE FOUR BENEFITS OF METRICS

GROWTH

Growth means different things to different businesses and different people. And it applies differently depending on the stage of your business' development or maturity.

A focused metrics program allows you to understand the patterns of growth (or decline) in your business. It requires you to baseline, understand and analyse your data, and helps you identify changes in your business as they occur.

FOCUS

We often say that what is measured is what matters. But in digital you can measure almost anything. The trick is measuring the right things for your business.

Being able to differentiate between what is essential and what is 'merely important' helps you make better, more informed decisions. And significantly it saves you time and money.

The 4 benefits of a focused metrics program:

- Growth
- Focus
- Objectivity
- Improved decision making

The three metrics that matter help you focus on the right measurements for your business, innovation or startup. They are a useful way of measuring, testing and growing your business based on data and not "gut feel".

THE FOUR BENEFITS OF METRICS

OBJECTIVITY

Fortunately, or unfortunately, data does not lie. And if you are measuring the right things, the data will help you be more objective in your decision-making.

MAKING DECISIONS

By now you'll have noticed that there is a recurring theme - decision making. It is by understanding your data that you will understand your business And in understanding your business you will be better be able to make decisions.

Perhaps most importantly, by having the right data at your fingertips, you'll be able to make decisions faster.

This will help you be more:

- Responsive to the needs of your customers and partners
- Focused on features and benefits that positively impact your customer's experience
- Comfortable with pursuing your product and development roadmap.

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WHY METRICS MATTER

Whether you like it or not, at some stage someone is going to ask about your project's success. If you are a startup, it's likely to be an investor. If you are an 'intrapreneur', then it's likely to be your boss.

But it is not about who is asking the question, or whether you are being held to account - it is about making the 'next best decision'. And the person who is making that decision is you.

As an innovator, we often think that we have to 'go out with our gut' - to trust our instincts and push ahead. And while this approach can take us far, collecting, analysing and understanding data will - in combination - help us accelerate our efforts, focus our resources and attention and drive towards the outcomes we are aiming for.

In this way, metrics are an essential part of your innovation journey. And the time to start measuring them is from Day 1.

> "With metrics it is about making the 'next best decision'.

METRICS VS MEASUREMENT

What's the difference between metrics and measurement?

Quite simply, the metrics are the things that you measure. And measurements are the shifts and changes, the results for those metrics. Let's see how this plays out...

Let's say that you are analysing your website performance. You do this each week or each month.

What are you looking at? Generally, you'll be checking the number of visitors to your website and the number of times they return. So say you have 1000 visitors to your website last month, but this month you have been doing more keyword targeting and SEO and you have had 12000 visitors to your website.

The metric you are using in this instance is visitors or visitation. If this metric is important to you, then you should be tracking it in your analytics dashboard - and it should be prominent and easy to see.

When you are looking at the measurements, however, your focus is on both the raw number and the changes. You are looking for:

- ➔ **Baseline -** Where did you start? What level of traffic did you receive before you made changes?
- ➔ **Campaign Impact -** What has changed in the short term and what was the trigger?
- ➔ **Trends -** Over the medium to longer term are you growing or shrinking?

METRIC 1: ENGAGEMENT

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ENGAGEMENT

In our culture, ‘engagement’ signifies a level of commitment between two people towards a shared future. Now, it is a long bow to draw to suggest that ‘digital engagement’ offers the same level of fulfilment or promise, but it’s a useful way of describing the level of attention or ‘mindshare’ available to brands and businesses.

Research suggests that we are exposed to thousands of marketing messages everyday. And while the jury is out on the exact number, let’s just assume that our own messages are just a very small percentage of the total.

This is precisely the challenge we face.

For, while we ‘see’ thousands of ‘impressions’ of messages daily, only about 1% of these ‘cut through’, or resonate with our senses. So if, as consumers, we only have or give 1% of our attention to these messages, how do we ensure that **THAT 1%** is **OUR 1%**?

The answer is to ensure that the messages are engaging.

With this in mind, it’s also important that we measure engagement in the right way . That is, that we measure engagement AS engagement and don’t attach the wrong metrics to it. After all, we are bound to be disappointed if we are measuring engagement and wondering why people are not buying.

The challenge of engagement:

When we talk about engagement, we are often talking about the level of ‘engaging conversations’ or interactions with others. It could be that we are discussing thought leadership on a website, connecting with people on LinkedIn or sharing content on Facebook. It may be that we are helping to solve customer service issues on Twitter. The term ‘engagement’ covers a wide, variety of styles, approaches and media.

ENGAGEMENT

What does engagement look like?

Essentially, engagement occurs when someone spends their precious attention on you. This looks different in each channel - and often uses different (branded) terminology.

NOTE: These continue to evolve, with Facebook apparently now testing a Dislike button amongst other things.

CHANNEL	DESCRIPTION	METRIC
Website	Your 'destination' site on the internet	Visitors, Return visitors
Twitter	The social news network	Likes, Replies, Retweets
Facebook	The social network to end all social networks	Likes, Comments, Reactions, Shares
Pinterest	Visual social network focused on collections	Likes, Comments, Pins
LinkedIn	The social network for professionals	Likes, Comments and Shares

In traditional media, engagement roughly included 'reach' and 'frequency'. With digital, now we can measure almost every touch point with a high degree of accuracy.

METRIC 2: TRACTION

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TRACTION

Once your audiences have been engaged, your next task is to turn them into members. Or users. Or registrations. Or subscriptions.

Ultimately, your plan should be to move audiences from ‘unknown’ to ‘known’. Because the more you know about them, the better you can serve them.

In the simplest case, think of a visitor to your website. They may have come to your website through paid or organic search methods, but generally they will still be ‘anonymous’. You may be able to tell what they searched for to find you, but you won’t be able to contact them later. At this moment, they are ‘unknown’.

So your challenge is to understand them better. And this means learning more about them and their needs beyond this single website visit. To do this you need an identifier.

On the web, email addresses remain the standard for connection. Sure we may have Facebook or Twitter profiles, but email is a database that you - as a business owner - can create, build and own.

Often the first identifier you are seeking from your potential customers is an email address. And regular newsletters offer an easy way for customers to opt-in to communications from you.

Traction is a much harder metric to work with. The numbers are firmer. The definitions are clearer. It is also a GROWTH metric - in that it can be subject to a range of analyses that will yield valuable business insight.

Traction is:

The growth in levels of your commitment to your product or innovation by your key audience.

TRACTION

TRACTION AS ACQUISITION

Subscriptions to your newsletter allow you to create a base, but this is just the beginning. You need to apply the same thinking to all the channels that you are using.

When you build your email list, you are ‘acquiring’ subscribers. Begin to understand what it ‘costs’ you to acquire that subscription. For example, are you using paid or organic search? If you are writing blog posts and encouraging sign-ups, how much time does it take for each post? How many sign-ups do you get each article? Even providing a base costing will provide you with a sense of the effort involved in taking the first step with your customer.

TRACTION FLOW

Now you need to determine what it takes to move your customer from a passive (i.e. free) state to a paid or more committed state. Rather than a free email subscription, is there an offer - or a download - that can be provided to deepen the level of commitment to your project or innovation?

For example, if you have launched a new app and want to encourage downloads, you can email your newsletter subscribers. Then you will be measuring not just the number of downloads, but the number of subscribers that **flow** from one level of commitment (newsletter) to the other (download).

Traction is:

The growth in levels of your commitment to your product or innovation by your key audience.

TRACTION

TRACTION AND BEHAVIOUR

As you start to understand traction, you will also understand the makeup and behaviour of your audiences. The challenge here is to identify patterns of behaviour in your audiences.

For example, are there leading indicators of traction - such as website visits, downloads etc? Are their trailing indicators... Like where visits decline before the closing of an account.

Learning the patterns allows you to create meaningful communications that intervene in that process - helping you to keep customers longer, as well as making satisfied customers happy.

Traction is:

The growth in levels of your commitment to your product or innovation by your key audience.

TRACTION

What does traction look like?

Newsletter subscriptions are not the only marker for traction. There are a range of other metrics that are vital for the success of your project or startup. You will need to use your knowledge of your business and your audience to map your traction figures to your needs.

CHANNEL	DESCRIPTION	METRIC
Website	Site members	Registered members, active members, inactive members
Newsletter	Subscribers to your regular newsletters	Paid subscribers, free subscribers, active readers
Facebook	Groups or Pages	Likes or group members
Twitter	Your follower base	Followers, number of lists you appear on
LinkedIn	Company pages and interest groups	Members, conversations, active discussions
Apps	Your apps	Downloads, active users, advocates, reviews, churn

TIP: Adding a time frame to your traditional metrics provides additional insight. For example, following ‘Monthly Active Users’ or ‘Daily Logins’ provides greater granularity and focus.

METRIC 3: MONETISATION

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MONETISATION

Monetisation is all about revenue coming through the door. It is the figure that keeps you in business.

We want to know the total revenue and any discounts that have been provided. We also want to know how much it costs us to acquire a lead and a customer.

We want to know the metrics that impact those revenue figures, for example:

- ➔ Cart abandonment rates
- ➔ Funnel leaking rates
- ➔ Specific differences in acquisition rates and costs by channel

Let's say that we are running paid search terms and it's costing us $100 per day. From that we are generating 10 clicks.

Of those 10 clicks, we are getting 2 new memberships, this means:

- ➔ Our cost per lead is $10
- ➔ Our cost per customer is $50

If we can improve our conversion rate from lead to customer, then we will reduce our acquisition costs. And if we can improve our click through rate, then we will improve our cost per lead ratio. But the tactics to do so are very different.

Monetisation is the hardcore metric. How many people have signed-up and paid? What is the revenue, and what are the other related values? Let's dig a little deeper!

MONETISATION

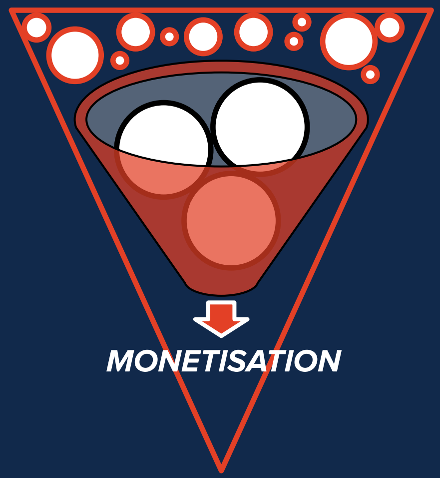
VALUING YOUR CUSTOMERS
It's also worth understanding what the lifetime value (LTV) of your customer is. Even in the early stages of your project, calculating the long-term value of your customers can help you understand the lifecycle of your customers and when it is worth investing in 'retention' as well as 'acquisition'.

Up to 70% of companies say that it is cheaper to retain a customer than acquire one, but only 30% invest in relationship marketing. Moreover, research suggests that it costs 5-10 times more to retain than to acquire customers.

Unfortunately, many innovation projects and startups focus too heavily on acquisition, and pay the price for it (yes, pun intended).

Of course, in retaining your customers, you will also be directly impacting your **traction** metrics - but don't let that confuse your focus. When it comes to monetisation, your focus needs to be on the hard revenue numbers.

Now, let's see how LTV can be calculated.



LIFETIME VALUE CALCULATION

A simple customer lifetime value calculation helps you understand how much you should invest in acquiring your customers.

Based on this simple calculation, we can invest significantly in each customer acquisition (as long as we continue to monitor the LTV).

There are more complicated versions of LTP that can be done, but this calculation can get you started.

	#1	#2	#3	AVERAGE
Purchase value /visit	12	15	10	12.33
Visits /months	2	3	4	3
Average revenue /month [AR]	24	45	40	36.33

STEP 1: AVERAGING
First, average customer expenditure. How much do they pay you and how often? Gross it up within a set period (e.g. per month). Imagine I have 3 customers and they buy widgets from my eBay store each period **(P)**.

We calculate the average of each of:

- ➔ Purchase value per visit
- ➔ Number of visits per month
- ➔ Average revenue per month

This is shown in the table above.

STEP 2: LTV
Now we do a 'simple' LTV by estimating how long someone remains a customer. To do this we need to estimate the length of time that people will remain your customer **(CL)**.

LTV = **P x AR x CL**

Therefore,

LTV = 12 x 36.33 x 5
LTV = $2179.80

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Innovation on purpose

Since 2015, we have been on a mission to dramatically improve the success rates of innovation programs, projects and startups.

We believe organisations and the humans that power them can create wicked success. This means combining an innovation mindset, making the right choices and deliberately generating the impact you imagined.

We call this innovation on purpose.