Andrew: This session is about lean analytics. It's hosted with me and today's guest, Benjamin Yoskovitz. He is a longtime entrepreneur in the tech space and an angel investor, and the author of this book, "Lean Analytics: Use Data to Build a Better Start-up Faster." My name is Andrew Warner. I'm going to help facilitate. Ben, good to have you on here.

Ben: Thank you very much for having me.

Andrew: The problem we're trying to help people who are listening to us avoid is something that you experienced a few years ago. You spent a lot of time building a product called Stand Out Jobs and when you launched, what happened?

Ben: Sure. So this is a very common problem for entrepreneurs. As you said, we invested a lot of time, a considerable amount of money. We thought we knew all the answers, a little bit of ego I would say involved in that and to some degree there has to be when you're starting a company, but we launched it and unfortunately didn't get the sort of traction we were expecting from it. And so the assumptions we had maybe made in our own minds about why this thing would be valuable to people weren't panning out. And it wasn't quite silenced from our Beta users, but it was clear that what we thought was a solution to a problem that we were attacking was not resonating with the people we were going after.

Andrew: Here is a screenshot of the site. What could you have done differently? Where was the mistake there?

Ben: Well, there were a few mistakes, but the number one mistake, I think, when we go back right to the beginning of this company was not building a smaller version of the product and testing it more frequently with users. And so in lean start-up vernacular we call that a minimum viable product and I'm sure you've heard that before, and folks listening have heard that before, but we didn't really build an MVP. We built something, I would say, considerably larger than that.

Andrew: So Ben, what's the problem with that? So you spent a lot of time. Yeah, you didn't build an MVP. Yes, people didn't like what you put together, but can't you at that point say, "All right, we'll just redo the whole thing and start over." Can't you do that or what's the problem with that?

Ben: Well, you can try, of course, right? And companies do, in fact, do that, but the cycle time from going from, okay, idea to building something to figuring out if this is working. It's very long, unfortunately.

Andrew: I see.

Ben: And so you've mentally and psychologically, and financially committed to something. And so you've put yourself in a position where it's very hard to go and do something else and change it completely. Frankly you're not even going to know what to change to begin with. You're not even going to say, "Okay, this is not quite working, but what have I learned from this experience?"

Andrew: I see and because there is such a big product you can't tell which aspect of it isn't hitting, which aspect you need to emphasize. I see.

Ben: Yeah, absolutely.

Andrew: Before I get to an example of how when someone who is listening to us applies all the ideas that we're going to be talking about today, what can happen to them, I got to ask you a personal question.

Ben: Sure.

Andrew: If this business didn't work out, where did you get the money that you're using to invest in all these start-ups?

Ben: Oh! So I've been through a number of businesses. The last company I was at, not my current company, it was a company I joined very early on. I wasn't a co-founder. The company was called Go Instant. And Go Instant was acquired by SalesForce in 2012. And so that was a financial success for myself, for the founders, for some of the early employees. And so that was one of my significant successes if you will, but that was the one that allowed me to get a little bit more into angel investing.

Andrew: I see. This is go Instant from October 2011 and within about a year they were sold of your [??].

Ben: Yeah, I joined the company in October 2011. About a year after that the company was sold. I worked for about two years inside of SalesForce, inside of Go Instant, essentially integrating Go Instant into SalesForce. I've since moved on to another start-up again, not the founder of it, but in fact, the start-up I'm currently working for, I was, in fact, the first angel investor in that startup.

Andrew: I see, Codified.

Ben: Codified, exactly. And the founder I had known for many, many years and he said, "Ben, I need you to come run product", and the lure of chasing the dream, if you will, was very strong. And so I joined Codified.

Andrew: I get it. All right, so then if what we just showed is an example of what not to do, here is an example that will help us understand why analytics are important. What's your connection to this company?

Ben: Sure. So I'll give you the premise of HighScore House very quickly. They were looking at game-ifying chores for children and their parents. Not just chores, it could be activities, things you wanted to encourage your children to do, but the idea was to have children on a daily basis do tasks that parents agreed with the children to do. They would get points. They would then redeem those points for rewards. It might be toys, it might be a $10 gift card, whatever the case may be.

They went through the process of validating this idea with parents, they built their minimum viable product, and then they launched that to their beta users. So this is where it gets interesting from a lean startup and from an analytical perspective. Before they would say, "Is this MVP successful?" That's the ultimate question we're asking here. Is this product resonating with users? Is it creating enough value to justify going to the next stage of this and investing more money in it to scale it?

Andrew: And you're going to advise us in a moment that we should have a metric that the whole company is gearing towards. Did they have that?

Ben: They did. So we were looking at active users. We said, "What's a proxy here for value," because they weren't charging money, and money is the best proxy for value. If people are paying you, that's, of course, great determination of whether you're creating value or not, but in this case it was usage, are people using the product? So we encouraged them to set a very high bar. What's a high bar that tells you that people are really, really using this product? So they said, "Based on some of our assumptions, based on our understanding of parents and children behavior, we think families should use the product four times per week."

Andrew: Okay.

Ben: That was kind of their benchmark. You can, of course, measure that. How many times are people logging in? How many times are people using the product? So we said great. If I remember correctly, we were sort of looking at, say, if about 10% to 20% or your users are what you deem to be active, that's great. That's a good percentage, and

we think that that justifies continuing with this business.

Andrew: So what happened when they actually looked at their real metrics?

Ben: They had a low percentage of people using it that frequently.

Andrew: Okay.

Ben: So they tried a whole bunch of different things. They tried tweaking the product, changing the product, changing the value prop, acquiring different users. All the kinds of things like let's just go out and do more stuff to try to get this metric to where we think it needs to be. And then the founder of the company said nothing was working.

Andrew: Nothing is getting them to have 10% of their users log in four times a week and show that they really like the product.

Ben: Exactly.

Andrew: So what did the founder do?

Ben: The founder said, "I'm going to pick up the phone and I'm going to start calling moms." Mostly moms, right. So he picks up the phone and he starts calling people who aren't at the threshold, but are below that threshold. He would call parents who were using it once or twice a week, and the feedback was overwhelmingly positive. People were saying, "We love it. Our kids are doing what we want them to do. The kids are engaged in the product." So the obvious next question is, "Well, why aren't you using it more often?"

So what he learned was a lot of parents like to control the amount of time their children are on the children or on an iPad or on a mobile device, whatever it may be. So parent's would say, "Well, on Sunday night, we sit down with our kid, and we go through the tasks that they're going to do, we put them in HighScore House, then the kids do the tasks all week. We ask the kids to not use the computers during the week, and on Saturday or Sunday, they come back in, they cross off everything, and they're happy, and we do it again."

So what he learned from that was something about his users behavior, that is wasn't a fault of HighScore House that people weren't using it. That was a faulty assumption. He learned that parents were very happy using it only once or maybe twice per week because of a family dynamic, because they don't want their kids on the computer.

Andrew: I see. So they had to change the analytics that they were using, they had to change the way that they were thinking about what makes their product a success or not. I assumed since this is a successful example of somebody using Lean Analytics that the company would be thriving. I went to their site, and they're down.

Ben: Yeah, they're down. So here's the thing about any tactic anybody can ever teach you about anything pretty much is that there's absolutely no silver bullet.

Andrew: Is there an example of a win, of somebody who has actually gone through all this, and because they mastered Lean Analytics or maybe not mastered it, but did it well that they built a thriving company or a company that's still around?

Ben: Yeah, I think there's a number of examples of those companies.

Andrew: Give me one.

Ben: The example I would use, they're no longer around because they were acquired, but it was a company called Localmind.

Andrew: Okay.

Ben: Localmind was also one of our investments in Year One Labs. So what they did that I think was interesting was, they didn't build a product to start testing assumptions, instead of building a product, so local mind to take a step back, was a location based q and a service on a mobile device right, so if you had a question about a particular place, the lineup at a place, the, you know, the daily specials.

Andrew: You want to find somebody who's right there and ask them a question.

Ben: Exactly, and it was anonymous right, so you're asking an anonymous real time question. And so, we all thought, "Oh, this, this is a great idea." This service doesn't exist, but before building an IOS application, which is a challenge, we said, what can we do to try to vet, you know, prove or disprove some of the assumptions and so the founders of Local Mind, they thought the number one problem for their business would be that people wouldn't answer questions. That people, you know, you would send a question anonymously, some person would get it and be like, I don't know who this person is, I'm not answering this question so I said, how can we test this assumption or this risk before we start building product.

Andrew: Okay.

Ben: And so what they did was, they used geo tag tweets, so people who were tweeting from Times Square, geo tag tweet, so you would know they're at Times Square, they're tweeting about whatever it is.

Andrew: Because Twitter automatically, for many users, will put in their location within the tweet, so they were able to search and find someone who was in Times Square and say, let's ask this random stranger a question, and when they asked the random stranger a question, what happened?

Ben: People answered the questions.

Andrew: Gotcha, and that's how they were able to prove that their idea worked and it was, it was worth working on and. .

Ben: Well, they proved that one, one risk, they de-risked one element of the business.

Andrew: Gotcha.

Ben: Right, not the whole business, but they de-risked one element. But that approach to things of, let's test something, let's not invest heavily in engineering and design and building a product if we can test something and de-risk it first, let's de-risk it, and then move to the next challenge, the next problem, the next risk. And so, they were able to do that quite successfully, they were ultimately acquired by Air BnB, I can't remember what year that was, well, 2010 probably.

Andrew: This was an investment of yours?

Ben: It was, yes.

Andrew: It was. So you did well from that one?

Ben: Yes, so that was successful, and I mean, they, those guys have gone on to do great things and thrive at Air BnB, which is, of course, an amaze, I mean, is a huge and amazing company.

Andrew: All right. Alright, so now I get a sense of the possibilities here. We can reduce risk before we even build software and we can understand, by doing that, what software we should be building and what companies we should build for people and if we do it right, we might have the kind of exit that the company that you're talking about had with Air BnB. I'm going to move on to the big board here so we can get to the audience and see how they can take advantage of these ideas and use them in their own business.

The first thing that you say is focus on the one metric that matters, the one metric that matters and if you give the example of this company. Who are these guys, and how did they do that?

Ben: Sure, so, the one metric that matters is a sort of this core idea of the book which says that any given point in time with your business, there's one metric that you should really be focused on and it's the metric that you would align the whole company on, it's the metric that everybody is trying to improve and is thinking about. Obviously, it's not the only thing that you track with your business but it's there to create focus for the company around, what are my number one problems and what's the metric that's going to help me understand if I'm doing things in the right direction. So, that picture is of a good friend of mine, his name is Randy Smerick, and he is a serial entrepreneur, he has a whole bunch of businesses, funnily enough in the text base, but this is a restaurant, Solare Restaurante in San Diego.

Andrew: I see, and that's him in the center there.

Ben: That's him in the center, exactly. A Mexican restaurant, doing extremely well in San Diego and the one metric that matters for them, or we'll say like, one of the key metrics that they look at is this ratio of staffing costs to gross revenues and what they've found is that when staffing costs exceed 30%, so they look at a ratio of about 30% of staffing cost to gross revenues, if they can, on a daily basis, have staffing cost to gross revenues be above 30%, they know they're, the business is doing well and it's healthy, at that given moment in time. And so, if that number is too high, so staffing costs are, you know, 40, 50, 60 % of gross revenues, it probably means what they're doing is they're got too many staff for the revenue that they're generating, if it's too low, let's say it's 20% or 10% ratio, it probably means that, you know, business is doing well but they're understaffed.

So, it's a, think of the one metric that matters, like, a health indicator for your business. It doesn't give you all the answers. I think of it, like, it gives you permission to ask questions. So, imagine in this particular case, on a weekly basis or a daily basis, that number is 50%, you know, there's too much, you know, the staffing costs are way high compared to gross revenues. Why is that happening?

Andrew: Right.

Ben: Is it revenues are too low? Are staffing costs too high? It gives you the ability to go in and dig into the problem, and then try to solve it.

Andrew: Let me take a look at a typical business that has prospects, leads, and

customers. For example, mine. People come to the sight, we have hits. We can measure that. People end up giving us their email address, those are called leads. And then we have customers, when they buy.

Ben: Right.

Andrew: I could get drowned in data because it's not just how many hits I have, but: Did this conversation get more hits than the other conversation? Do conversations with younger entrepreneurs get more than older entrepreneurs? How did we do last week versus this week? Where do we get the most email addresses? Where do we get the most customers? All of this data is relevant. How do I pick the one that is the most relevant?

Ben: We look at two things; there's two things that we focus on. The first one is the stage of your business. When we look at the book we define five stages that every startup will go through. It starts with empathy. It goes to stickiness. It goes to virality, revenue, and scale. This is a fundamental tenet of lean analytics, that companies go through these five stages. Then you have to look at your business model, and you have to understand genuinely what is your business model.

In some cases that may be about Revenue, which is obvious; SaaS revenue, subscription revenue, an app purchase revenue, whatever it is. If it's not a revenue-generating business, maybe it's a consumer application, then your business model is more around engagement and usage. You have to understand the stage that you're at, and you have to understand your business model.

If you understand those two things, and you're honest with yourself about those, that really helps you narrow down what the one metric that matters is for your company. For Mixergy, as an example, and obviously I don't know, right. I don't know any of the numbers.

Andrew: We're just using it as an example.

Ben: Just as an example.

Andrew: It's okay that you don't get it perfectly right, but I want to understand the bigger concept because of it. Let's put it up.

Ben: Sure. The concept has been around for a while.

Andrew: Yep.

Ben: The company is successful. The company has grown. These are all things I know to be reasonably true.

Andrew: Okay.

Ben: We know you're past empathy. Empathy is does anybody even care?

Andrew: I see. When we're just starting out, that metric around empathy is what's important to us.

Ben: Exactly. 100 percent.

Andrew: Does anyone care that this thing exists?

Ben: Right. At that stage, often times, it's qualitative feedback. There might not even be a product; it might just be qualitative feedback from talking to users. That's very much a lean start-up principle of "getting out of the building," if you will, and talking to customers.

Andrew: Early stage, are we getting any people who say, "Yeah, we like this." How many of those people are we getting, but we don' have to go more than that.

Ben: That's right.

Andrew: All right. Let's go on, then, to later on.

Ben: Stickiness is when you're building that minimum viable product. You build the first version of this product, now you're putting it into the hands of those early adopters, and now you're starting to measure things. You're starting to measure engagement, and usage. That's typically what you're looking at, some form of engagement. This is the "high-score house" thing: are they using it frequently enough as a proxy for our creating value. The problem we were trying to solve with this product, are we solving it with this early beta version or this MVP version of our product.

Andrew: Okay.

Ben: That's stickiness. If we use Mixergy as an example, we're past the stickiness phase.

Andrew: If we were at the stickiness stage, it might be, "How far into an interview are

people watching?" How many notes are they making on an interview? How many comments are they adding? How often are they coming back?

Ben: Those are all useful metrics in terms of engagement. I would guess it's more along the lines of how frequently do they come back. Every time we publish a new interview, do people come back and consume the interview? Let's not worry if they consume the whole thing, yet. Let's not worry if they engage. Let's just worry if they're some definition of active.

Andrew: I see. As an entrepreneur, and if there's a small team at this stage, what you're focused on is, Are people coming back? Is this product sticky?

Ben: Sticky. Exactly.

Andrew: All right. Let's go on, later stage.

Ben: Once you get past sticky, you've proven that a small group of people are using this product, are happy with this product; that you're solving a problem. Now you need to get into virality. Virality means a lot of different things. In a consumer application it, literally, means how many people does each individual person invite. We're talking here about customer acquisition. Can you go beyond those early adopters, to a broader audience? You're now starting to test customer acquisition channels. You're now testing real virality insight. Is your product viral?

Andrew: Are people sharing the product with their friends?

Ben: Exactly.

Andrew: Or, How many of them are sharing it? How many friends are they sharing it with? That's the kind of number you're looking for . . .

Ben: Exactly.

Andrew: . . . or for buying ads what

is our conversion rate? How many customers are we getting, or users are we getting in every month?

Ben: So now, that funnel you just sort of described a minute or so ago that you were describing about Mixergy. Now I care a little bit more about that funnel, right. Now you might worry more about the top of the funnel in terms of can I acquire anybody, you

know a hundred people love this thing but now I need to get to a thousand, and then I need to get five thousand.

Andrew: Now I care about hits, or what we call prospects. All right, on to the next section here, wait before we get to the big board, the revenue.

Ben: Revenue, sure.

Andrew: Later on in the business is, is there enough revenue?

Ben: Exactly, so you may be charging from day one, right of course. It depends entirely on your business, right whether you're ... and maybe even at this point you're not charging based on the type of business you're running.

But now you have to look at ... so now what you've done is you know people care, you know people use the product, and you know how to acquire users slash customers. Now you have to figure out if the economics makes sense.

You know, now you're looking at the life time value of you customer verses the acquisition cost, now you're looking at does the economic engine of this business work. And so that if I was thinking about

Mixergy I would guess that you are somewhere between virality and revenue. If I just had to guess that's sort of like we can acquire users, are they good users, are the sticky do they convert into paying users.

How much am I paying to acquire them verses how much are they worth to me long term. That revenue is really when you're focused on is the business economically sound, were as up to this point you know you may be getting a little of revenue into the business but you haven't really focused on that because yon don't have enough usage.

Andrew: Okay, and then finally as the company gets bigger we're looking for metric, a single metric to focus on around scale. What's an example of that?

Ben: So for scale again, scale can mean so many different things, because the other part of this of course is what is your business model, right. So scale may mean we just, you know, grow our acquisition because we know the funnel works. It might mean, you know if I'm thinking about a tech product it might mean we develop an API and we become a platform. And we acquire users and partners that way.

In a more traditional B2B business we're now at the point where we're hiring sales

people because we have a formula. We know you know how many leads a sales person can generate we know what the sales cycle is. And now we're really looking at just closing deals. And so in a B2B kind of software sort of traditional B2B software business, the one metric that matters is going to be close deals, as an example. Could be closed deals, right.

Andrew: So what you're saying is, of course, lots of metrics matter but if you're going to put one up on a big LCD screen for the company or one in the corner of your screen. If you're individual entrepreneur you need one metric that makes sense and you need not a big table with tons of data but one that you're going to focus on, one that you're going to...

Ben: Here's what I would suggest is that you, it's so easy to track things now. We're so lucky now that there's so many tools we can use to track our analytics. I surge recommend track everything, right because you never know when something will be valuable.

The more data you collect the ability you have to ask questions of that data, right. You realize there's a problem in your business somewhere you can now go look at the data to try to find an answer. But if you're focused on to many things it's very difficult to succeed.

Andrew: Track as much as possible, focus on one metric, all right. Let's go back to the big board now we understand why we want to focus on the metric and we understand how to find that one metric based on were our company is.

The next big thing that you tell us, is want to focus on a metric that aligns with our business goals. And you give an example of this company, let's zoom in this is...

Ben: Wine Express.

Andrew: Wine Express they created an AB test to test one of their web pages. And what could they have done, what's the mistake that other companies would have made?

Ben: So I think what was interesting. So we dug a lot into Ecommerce Company so you know Wine Express is an Ecommerce Company the sell wine online. And so they have this page the wine of the day page and it was already quite successful for them. But they thought, you know what I think we can make this page more successful, I think we're not sort of leveraging the full advantages we can out of this page.

And so they hired a company to do an AB test, and I think I'm sure you know your

audience is familiar with sort of we change a few things on the page, we can see sort of the changes on the screen. And let's measure which page is better. But the real question is well what the definition of better. And a lot of company's would assume well conversation of course is better, right.

Which page converts more people? But one express said, well conversion you know is a good proxy for or possible a good proxy for success but really revenue per customer is actually what matters. Right? Because if one of these pages, if I optimize for conversion, but everybody comes to the wine of the day page, but they only spend, you know, $5.00, that might be worse than a page that converts less effectively but everybody spends $20.00. And so, that to me was fascinating because my instinct would have immediately been, "which page converts better"? That's an easy question.

But in fact, revenue per customer is what really matters here because they found that one of these pages happened to convert better, but it's really people would go in, they'd buy the wine of the day and then they would buy more. And they would buy more. And that's obviously a home-run victory for that business because they're focused on revenue, which for Wine Express drives that company, not focused on conversion. You can very easily over optimize a specific metric thinking that it's the right thing, but you have to really understand how is it actually impacting your business.

Andrew: For them, the one that got fewer customers, the page that got fewer customers ended up delivering 41% more revenue, you say? Forty-one percent more revenue per visitor...

Ben: Right.

Andrew: ...from the one that got fewer customers?

Ben: So, it didn't actually get fewer customers. I think it converted slightly higher...

Andrew: Okay.

Ben: ...but it wasn't significantly higher.

Andrew: I see.

Ben: So, if you were just looking at conversion, you might say this is not super conclusive, but then when they look at revenue they were like, wait a second, these people are converting a little bit more, but they're actually buying more. And so that's really, the lesson here for me is, you know, just be careful about what metric you look at.

Making an easy assumption that, well, conversion automatically means more success; it might not. You might be acquiring bad customers. Think about a mixergy funnel. You might try an ad campaign, for example, to acquire users, and you might get a whole bunch of them, but if they don't convert later down the funnel, you know they don't go from freemium [SP] to paid, or...

Andrew: We might actually have something that's a little bit different where we created a sales page that got more revenue, but fewer customers, and we decided that we'd rather have more customers and less revenue because if we had more customers it meant better engagement for our interviewees.

Ben: Right.

Andrew: And we had to say, yes, more revenue feels great, but more customers actually has the ability to keep this thing sustaining longer. And then, if we need to, we can sell other things to the same audience base.

Ben: Right. So, I think that's a great example of understanding your business and the stage that your business is at. You know, maybe later you're able to optimize for revenue. Today, you're optimizing for engagement on videos.

Andrew: Yep.

Ben: Right? And so, it's a question of...when we think of business models, I think of them like a map. Right? It's not like, "Well, I charge $10.00 per month." That's not a business model. It's everything that gets a user from where they're coming from to your site, to converting, to engaging, to churning potentially. Think of it like a whole map that you would put on a white board. That's a business model. And when you realize, "Okay. I'm at the point now where I care about engagement with the videos because the people who are doing them, you're trying to make them happy with that engagement..."

Andrew: A bigger audience.

Ben: Exactly. Then you optimize for that. You sacrifice a little bit on the revenue for more people. Later on that may change because the business evolves.

Andrew: All right. On to the big board. The next big thing we want to talk about is to change that one metric that matters. Yes, you want us to pick it, but you want us to also change it and be flexible. For that, a good example is Buffer.

Ben: Yes.

Andrew: I use Buffer all the time when I want to share something on Twitter. Instead of going directly to Twitter and tweeting it out, I add it to Buffer. Buffer will pick the optimal time of the day to tweet it out and will send it out at that point. What was their first one metric to focus on?

Ben: So, when they started Buffer...and I use Buffer too, great product. Great team. Great founders. So, it's interesting because they did a couple of things. One is they started charging out of the gate, which is extremely rare for what you would consider sort of a consumer product. Right? Not sort of a traditional enterprise software product. They started charging. They did that for a couple of reasons. One was just financially for themselves, personally, to have some money and see what would happen there. But really it was a great measure of "Does anybody care"? So if we think about empathy, if you can get people to pay you some money, that's a pretty good indication that they care about the problem that you're solving.

Andrew: Yes.

Ben: And so, that was their first thing, let's just charge people and see if anybody pays, right? But what's great about Buffer is that, okay it turns out that people paid, and enough people paid that Joel and the co-founders of Buffer said there might be a business here. We don't know for sure, but there might be. And so then they moved through the stages from empathy through to scale in sort of a logical progression. So once they saw that people were coming and paying, then they said, "Okay, well, what percentages of people are actually creating accounts?"

And it turns out at the time it was about 20% of visitors were creating accounts, and that's a pretty good number, and so they said, "Okay well that's more validation here then..." We're not optimizing for revenue right, we're not looking at the real economics, but we're just proving that enough people are interested in this product, and then okay well how many use the product? And 60% of people who signed up...

Andrew: Yeah, I've got the numbers here.

Ben: Yeah, that's great if you show them. 60% of people who signed up were turned in the first month, and so you see that's stickiness right? Enough people cared, a high enough percentage of people cared, people were paying which is a pretty good proxy for a sort of consumer product, 60% of people stayed after the first month, 20% of people were still around after six months, which is quite good, and so you see they go from empathy to stickiness, and then they really started to focus on the end of the funnel which is conversion. They actually switched the model to free. They said, "Well

we know people will pay but let's go free because we need to acquire more people."

Andrew: Or freemium.

Ben: Freemium, exactly, exactly, exactly.

Andrew: Where there's a free version but you pay to go awesome.

Ben: Where you pay...And so then they went to that sort of virility stage of let's use freemium as a marketing lever to acquire more customers faster, and let's see what conversion looks like, and conversion at the time when we did this was about 2%, which is actually quite good for a freemium business, and so then they, they're very much in that scale phase, which is okay we know, we know what our funnel looks like, our funnel proves to us, not just the funnel of acquiring people but the usage, and engagement, and churn, they look pretty solid let's focus on...In a freemium business you have to focus on just tons, and tons, and tons of users. The math doesn't work otherwise, and so they're very much in that scale phase now which is let's just acquire a ton of people and see if they follow the same behaviors of the people that came before, and if they do you've got a business.

Andrew: I see. The big takeaway is you need to keep changing your one metric and metric needs to make sense within your business. I actually understood that the founders focused at first on revenue, not just for empathy but because they needed money to survive if they were going to do this full-time.

Ben: Absolutely, absolutely. So there's a little bit of survival instinct there right? Which is fantastic that the risk there of course is you know a little bit of revenue is not you know, it again like all businesses you know you solve one problem, you de-risk one thing only to get to the next problem, right? It's I mean you know this right? It's not like, it's not like you solved the first problem in your company and then just everything magically falls into place. Right so you're right they did that in a way of saying, "We just need enough money to be able to feed ourselves," and that's just the reality for lots of people starting companies, and if you can get to that stage that's fantastic. I look at it and say, "If you take that part out of it, the necessity out of it, to me it's a proxy for empathy."

Andrew: So my whole team then will be focused on one goal at a time, one big clear goal for them, I and other people in the team will be thinking more granularly what do we need to do to get to that goal, is that number really meaningful for us still, that kind of thing? But as a team we're all working together towards the one goal.

Ben: Yeah so I think way you described it, you know the big LCD screen, or you know

the monitor if you don't have the big screen, there's one number in the middle it's the number that we're all focused on. It's the number that tells us you know we have a goal for that number, and then there's a whole bunch of numbers around that that are secondary numbers that help tell us you know give us more granular detail. You can have lots of different parts of your business all working towards the same goal in their own way. You know if you're trying to lower churn for example, right? Which is you know the percentage of let's say paying customers that abandon your service on a month, let's say on a monthly basis customer support is tackling churn, sales people are tackling churn, marketing is tackling...

Everybody can be tackling churn in their own way. They can be running their own tests, their own experiments, they can be looking at it at a very fine, you know very fine amount of detail, but the whole business can say we know the top of the funnel works, we know lots of people are coming through, too many people are leaving, the bucket is to leaky, in that particular case everybody can work towards solving churn.

Andrew: All right. On to the big board for the next big idea for us to talk about which is to understand what business you're in I interviewed this founder of this company.

Ben: Did you?

Andrew: I did, he's such a great guy.

Ben: Yeah.

Andrew: And we talked about this topic that you and are going to be discussing, which is how he came, how clear fit his company came to their pricing model. What did they do and how did that happen because they understood the business they were in.

Ben: Right so I think this is like this is so much more fundamental then just lean analytics, this is just fundamental to understand your business, and I think when you say to someone you know understand your business model sounds like, "Well of course I know how I charge customers," but Clear Fit is in the recruitment space and so having been in the recruitment space, I have a certain affinity and Ben Baldwin's a great founder, they, they're business is about assessing candidates. So, you sort of have to understand a little bit about what that business is, it's for assessing candidates, so, somebody applies for a job, they have technology and tools for assessing that candidate, whether they're a good fit or not for your company.

So they went out and they said, we're going to launch this product, launch this business and we're going to charge $99 per month. Right. And so they were going to take the,

what we would describe, software is a service subscription model. It's the model that, if you can build your business that way, if your business is aligned to be a subscription service, it's kind of the Holy Grail because of course, people just pay every month, certainly there's some churn but it's kind of the, it creates the hockey sticks of subscription businesses or in the enterprise software space. But, what they were finding was that, they were getting some traction, but they were getting pushed back from their customers about the business model. People didn't understand, well, why do I have to pay $99 a month when I'm only hiring this month and maybe next month, I'm not hiring this much.

The folks that they were talking to, HR folks, just, they didn't quite get the value prop. The value prop wasn't resonating with the business model. Alone, the value prop made sense to them, yes, we need a way of assessing all these candidates but when they applied the business model, it was causing friction. So, they switched the business model, and they said, ok, it's not $99 per month, it's now 300, 350, at the time $300, $350 per job posting. Now, what is interesting about Clear Fit's business is that it's not really about job postings, of course, there's a job posting and candidates apply to the job and then Clear Fit takes over. .

Andrew: From what I remember, the posting happens on other sites. Like, they will post it on Linked It, etc. for you but, what they do is, really well, is what you said, they help you figure out which of the candidates that are applying make the most sense for you to consider.

Ben: Right. So, it's not a job org, right, it's not, it doesn't, the pay per post model doesn't really make sense for the ongoing value proposition of Clear Fit but what happened was they 3xed sales and they 10Xed revenue by changing the business model because what happened was they understood the customer and that's the real lesson here. HR people get a budget from other people in the company to say we need to hire for these positions, you have, let's $2,000 to make your bets and HR people will make bets on job boards for that job posting, they'll get all the candidates in and they'll try to fill the position. And so, by changing the business model to a model that the customer understood, that product was exactly the same, everything was basically the same, the model was changed.

Andrew: All right. Back to the big board here and we're going to talk about a company we discussed at the top of our conversation. Next big topic is, to quickly test ideas with a concierge MVP, again, another mixer g interview we did this, this is Air BnB. What do they do here?

Ben: So, this is, so there's a couple of things going on here that I think are fascinating.

The concierge MVP idea is one of them. The concierge MVP is just, instead of building product, I mean, I would use local minds sort of, what they did with Twitter, almost like a concierge MVP, instead of building a product, can we find another way of doing it that, that's not scalable, right, we know that that's not a long term solution but what can we do to de-risk this, to test some of our assumptions. So, Air BnB, looked at the rental volume of their properties and they sort of saw this and said, you know what, properties that have better photos on Air BnB seem to be renting at a higher frequency than properties that have poor photos.

Andrew: And by the way, let me just show this on the screen, anyone who sees this can understand why the property on the left doesn't get, doesn't go as often as the property on the right. People don't want to book on the left as often as they do on the right even though it's the exact same place. And, it's the photo, the photo on the right obviously makes the place look more enticing, makes it look more open, bigger. Okay. So that's what they noticed, how did they use that information?

Ben: So they said instead of going out and building an entire system for taking photos and making something complicated, they hire 20 photographers and they said, they put up a page and they said, anybody who wants free photos of their place can sign up and we will send a photographer and we'll take free photos. End of story. Not a scalable system, there was no calendaring system, no behind the scenes system for managing photographers, it was all being done by him.

But what they found was, not surprisingly that professionally photographed places were booked I think it was about three times as much. So they increased bookings three times just by using professional photography. And so that was, they did that by hand. They hired 20 people. They sent them out and said go take photos of these places. But then they started to build that system out. Right, then they started to build technology behind the scenes to optimize the scheduling, the, you know, deploying of photographers, the recruiting of photographers.

They started to build out this product because it became a real part of their Airbnb. And still today that screen shot off course is from 2012. But they still provide free photos for anybody because they know it's going to significantly increase their bookings. And their whole business is based on bookings.

Andrew: And this, this is little big, but that is what happened

Ben: Right, Exactly, so, you know, right when they started this program this Concierge MVP, you see 20 photographers, you know, late tech 2010, booking started to go up. And you see a hockey stick in and that hockey stick is of course even bigger today. And

the photography program is of course not the only reason for that. But at the point in time, it had a material impact on their business. So, I think the point here is for software companies anyway, but for any kind of business, you don't have to always build the whole solution or what you deem the whole solution to be. You can build a piece of it that's not scalable. See if it works. Test it against the important metrics and matters and then build the system that is actually scalable and automated and all of those wonderful things that make it sustainable.

Andrew: I see. Yeah, that's what this Concierge MVP idea is. A lot of time people think of an MVP, minimum viable product, as an actual product. Concierge MVP says doesn't have to be a product. It can be some human being doing this in a very handmade, a very unscalable way. But you are telling us, do it that way so that you can get some metrics. And if the metrics, if the analytics tell you that this is worth pursuing then figure how to scale it and whether or not to get in to it. But don't do it and don't do it from the start. Don't start building out a team of photographers. Don't start building up the software. Try doing it.

Ben: Right. And Air BnB you know at that time in their business, they had the resources to do basically whatever they wanted. Right

Andrew: Yes they had tons of that. They were flush

Ben: They could have hired ten thousand photographers. Who wouldn't want to go do that work for Air BnB. They could have built a massive thing. Spent six months designing the perfect you know the back end automation system for scheduling photographers and said wowowow [SP]. Don't do that. As you described, build something small. It's not scalable. And it's not even a real product. And let's just validate that this thing actually works and moves the needle on what matters for our business.

Andrew: All Right. On to the big board again. The penultimate point, which is to find the industry benchmarks. Again a friend and another Mixergy interviewee, here he is Jason Cohen's Business, WP Engine which hosts WordPress sites. In fact they are hosting this site, Mixergy. What's the issue that he had? Let me bring him up again.

Ben: So this is a big challenge. So you know, when we say to or when I would say to the company or what we say in the book is you know you pick that metric that matters. And once you understand your business model and what stage you are at, it becomes fairly easy to focus on something that's going to matter. But then two other, you know the next step there is you need a target, you need a goal. And what we would describe as a line in the sand.

Let's say, you know that the metric you focused is churn. Just use that. And that's the example from WP Engine, right. But you know, let's say churn is 8% right now per month for your business. You know it's not good. You know it could be better. And your acquisition is good and you want to focus on retaining more people. But what should it be. What is it?

Andrew: Should it be zero?

Ben: Well zero. But there is no such thing, right? There is absolutely no such thing. So we ask, we sort of recommend to people or ask them when I talk to companies, you need a goal in mind. Just like high score house, four times per week and they change the goal based on their learning. Right. So, Jason, when he was growing WP Engine, they had a churn rate of 2% or so per month. And when you think about it, that's a quarter of your customers a year disappearing. Right, which can freak you out. That's a lot of customers, right.

So he went and said, "We are going to go and try to improve churn." They did a bunch of things and they couldn't really move the needle on churn. It just sort of stayed, 2% 3%. And so he then went and said, I need to go get more information about this. And so he talked to other people in his industry in the hosting space. He raises capital in part for Automattic, the makers of WordPress. So by talking to some other folks in his industry, he learned that a trail of two percent is quite healthy in the hosting business.

Andrew: And Automattic is another hosting company for WordPress sites. So they're very similar, a very similar business. And so if Automattic says, "Hey, our churn is 2%", then how could Jason really do much better than that?

Ben: Exactly.

Andrew: I see. And so...

Ben: And so...

Andrew: At that point he says, "You know what? My numbers are right where they need to be for churn. Let's focus on things that we have much more impact on."

Ben: Exactly. So, now that, you know, once he sort of learned, "I can't make churn one percent. I can't make it point five percent". It's going to be . . . Now if it ever goes up from there we kind of know what our benchmark should be and we can maybe address that down the road. At the time, I could spend all my energy banging my head against the wall trying to over optimize a metric that's probably not going to move. And even if I

improve it a little bit it probably won't have a significant impact on the business.

So it kind of . . . I sort of would use it like the term . . . It sort of gave Jason permission, if you will, to move on to something else that would have a bigger impact. Now that he knows churn is only two percent, you can logically focus more on acquisition to acquire more people and widen the top of the funnel. Why pour more people into the bucket? The bucket's a little bit leaky. It's always going to be leaky. But it's good enough, if you will.

Andrew: And I did see that he did that a lot. He...

Ben: Yeah.

Andrew: ...not only got more people at the top of the funnel but bigger and bigger clients at the top.

Ben: Right. Exactly.

Andrew: All right. Final point is one that we kind of talked about earlier. This is "Always question and test your assumptions." We talked about how this company did it. Here's Localmind, if I can bring them up on the screen. There they are. Localmind is the company we talked about earlier which wanted to let people say, let people ask others- wait. Said- ha, you know what? I did such a good job of explaining it a moment ago. Let me see if I can recapture the magic. Hang on a second. Here's what they did. They said, "People want to know what's going on in a local place. Can we create an app that lets them find out what's happening in a small location by asking strangers who are there?" Instead of building the app first, they went to twitter to test one of their assumptions. How else have people done it?

Ben: Well, I think there's all kinds of ways of sort of testing things before you really commit. So, you know, AD testing, I think, is a good example of that. [inaudible] express sort of saying, "You know, let's test different versions of this." I like to think about- you know, when you think about testing marketing language or value propositions using landing pages in a way that, you know, don't change your whole website. Throw up a landing page. Acquire some traffic maybe through Google or Facebook. Obviously depends on your business. Drive that traffic to that new landing page and see what happens.

So before you rebrand your company, before you change your entire home page, there's lots of ways of sort of testing things in advance. So I think- and Localmind is a good example of that. Instead of investing- before you assume the answer is to build

something, think about a way of testing it before you build something.

Andrew: You know, I'm looking online, but for some reason I can't bring it up right now. Buffer did that. So oh. Here we go. Yeah. Here. I'm going to grab a screen shot and show you. It's as good as I can get...

Ben: Okay.

Andrew: ...at this moment but. It's from my interview with Joel. Here's what he did. This is the very first thing he put up on his site. "Tweet more consistently with Buffer". And you can't yet see the button there but in the upper right you can see the words that were on the button which are "Plans and Pricing".

Ben: Right.

Andrew: He was testing to see if anyone would actually click on "Plans and Pricing" to see if anyone would actually pay for this...

Ben: Right.

Andrew: ...and there was nothing there. He didn't even have like a basic PayPal button on there.

Ben: Yeah.

Andrew: It just said, "Sorry. Give me your email address and I'll let you know when you can pay."

Ben: Absolutely.

Andrew: And that's a basic way of testing.

Ben: Yeah, I mean. And you can do it inside your product as well, right? You can do it, um well I'm trying to remember what product. I-I- I forgot the name now. But a product I was using recently or testing out. It had a "Reports" button. And I clicked it and it was just like, you know, "The reports aren't ready yet. They're coming soon." You know, "Tell us what you would be interested in when it comes to reporting." So, you can even do this inside your product.

Andrew: And they were testing the assumption that people actually want reporting.

Ben: Want reports. And then, of course, if you clicked it, now you've hooked me so I'm going to tell you what I want, right? So you're just going to, you know. Maybe you're going to irritate a few people because the reports aren't there, but by and large, people will click it, which you are able to track. And then it gives you a way of opening up a conversation with those users.

Andrew: The book that everything we've talked about here today is based on is called "Lean Analytics: Use Data to Build a Better Startup Faster". What's one thing that if people go and grab the book they should be looking for?

Ben: Well, so don't read the whole book. How about that?

Andrew: Okay.

Ben: So. You know, it's a very, very big book. The screen shot doesn't show that. But it clocks in, you know, 400 plus pages. Like, it's a behemoth. But the reason it's so big is because when you talk about metrics. We try very hard to get into specifics and details. Like some of the case studies. And we try to, you know. Find the stage that you're at for your business and find the section of the book that relates to your stage. Find the business model for your business. And we cover about six business models in the book. And see if one of those, or a couple of those, resonate with you. So I see it more like a reference book as opposed to a book that you sort of read cover to cover.

Andrew: Oh. That makes sense, especially for startup entrepreneurs that don't have much time to sit and read...

Ben: Yeah.

Andrew: ...long books. All right, but there it is. Let's bring it back up on the screen one more time. "Lean Analytics". Ben, thank you so much for doing this session with me.

Ben: Awesome. Thank you very much.

Andrew: You bet. Thank you all for being a part of it. Bye everyone.