

Module 4. Product-Market Fit Measurement

Unit 4.1 Sean Ellis' Methodology

Before going into the methodology proposed by Sean Ellis (2010), which focuses on the growth of the startup, it is important to note that these ideas are useful if you have already achieved the product-market fit. That is to say, you can begin to introduce growth strategies once you have found the product that solves your market's problems—and, of course, once you know where your market is—not before. The idea is to be able to apply this methodology to digital and non-digital businesses, and both B2C and B2B businesses.

Sean Ellis, founder of Qualaroo and GrowthHackers.com (one of the main online communities of marketers focused on growth) and responsible for the accelerated growth of companies such as Dropbox, believes that it is essential to first calculate the product-market fit and then implement scalable, repeatable and sustainable strategies that allow the venture to grow (2010).

To measure product-market fit, we should conduct a survey, expecting 40% or more of the users surveyed to respond by selecting the option that they would be "very disappointed" to stop using your product. And finally, start thinking about scaling, about growing sales.

Therefore, Sean Ellis proposes a simple strategy to measure the product-market fit based on the implementation of a survey whose results will be the first step to plan the growth. This will enable you to make informed decisions regarding the elimination or reduction of product development, or you will be able to drive growth, expanding sales, streamlining marketing strategies and achieving greater customer success, since you will know the potential of your product and its scalability. In order to have a measure of the concept of scalability, we use as an example of those digital products or services that are exposed to a global market through the Internet.

Hence, Ellis (as cited in Law, 2017) proposes to survey users—who are the source of privileged information—to know what would happen if they could no longer access the product you offer and defines a series of parameters. The basic question to be answered by users is the following:

How would you feel if you could no longer use it (your product)?

- Very disappointed.
- Somewhat disappointed



- Not disappointed (actually, it is not that useful)
- Not applicable: I no longer use it (the product).

And he states that, if over 40% of users respond to the survey by selecting the option that they would be "Very disappointed" to stop using your product, then there is a great chance your solution has found product-market fit (Law, 2017).

It is important to note that, according to this methodology, the minimum number of customers who must respond to the survey (and therefore be active customers of the startup) must be between 40 and 50; otherwise, the sample is not representative.

The reason that Ellis gives, after comparing nearly 100 startups, is that "those that struggled to reach traction always scored under 40% on this particular test. In contrast, those that managed to gain strong traction always scored over 40%" (2010, <https://goo.gl/TR1Gbt>). This coincides with the claim of many specialists, who argue that you can witness when the product-market fit is not happening, but also when it is happening: there is no doubt. Since customers buy the product as fast as they can, you start making money and hiring sales and customer service personnel, among other characteristics that we all have in our dreams and do not need to describe to know that you are looking at a successful product.

Therefore, by applying this survey to your venture, you will be able to obtain, simply and quickly, the measurement of your product-market fit. In other words, do your customers care about your product? According to Ellis, then, a score of more than 40 % means yes.

Simplifying the processes carried out so far in the previous chapters, we have taken four important steps:

- 1) We have validated that there is a problem.
- 2) We have created a solution to this problem.
- 3) We have validated that there is a problem-solution fit.
- 4) We created a prototype (MVP) and improved it with user feedback.

Now, we leaned the following steps:

- 5) To validate the product-market fit, we conducted a survey. In this survey, 40% or more of the users surveyed respond by selecting the option that they would be "very disappointed" to stop using your product.
- 6) Therefore, we have to start thinking about scaling, about growing sales.



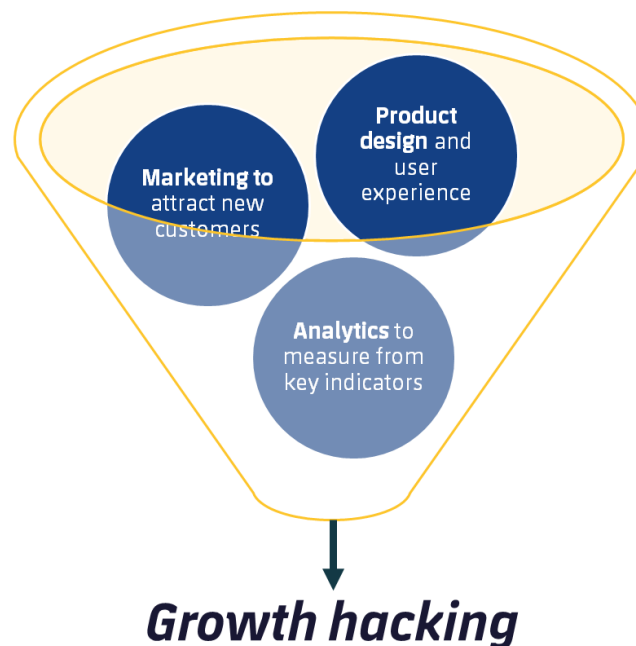
Unit 4.2 Growth factors. *Growth hacking*

Once the product-market fit has been confirmed, the next step is to prepare the startup to grow and to do this, Ellis (2010) suggests hiring, training or designating a specialist to act as a growth hacker whom he defines as "a person whose true north is growth. Everything they do is scrutinized by its potential impact on scalable growth" (<https://goo.gl/q5qjg6>).

This growth hacker must be responsible for connecting your target market with the solution you developed creatively and innovatively but also disciplined and focused on results, demonstrating the company's potential.

How far does Ellis want to go with this methodology? Through growth hacking, Sean Ellis created a new discipline that blends innovative marketing techniques with product development and web data analysis results to build an integrated view of the venture based on all three (Figure 1).

Figure 1: Integrated components of growth hacking



Source: Own elaboration based on Ellis, 2010.

In this way, the objective of growth hacking is to attract interested customers and turn them into loyal ones, that is, to increase sales and have customers recommend you in order to obtain a higher return with a minimum investment, the desire of every entrepreneur. Remember the usefulness of the conversion funnel that we saw earlier, as it is the best way to safeguard these results.

When applying growth hacking, you must keep in mind that no knowledge should be taken for granted. Therefore, without pretending to set aside your intuition, we recommend you to follow the steps that allow you to quantitatively measure the progress of this growth:

- 1) Define actionable objectives.
- 2) Implement metrics to measure these objectives.
- 3) Take advantage of the strengths of your venture to determine the objectives and design the experiment.
- 4) Define the hypotheses and experiment without being discouraged by the preliminary results.
- 5) Optimize the experiment, applying control groups and A/B tests.
- 6) Iterate or repeat (Patel and Taylor, 2016).

There is an eight-step process you can follow (including Dave McClure's conversion funnel or metrics) to employ growth hacking in your own business, according to Neil Patel (n.d., <https://goo.gl/etDjWP>). Let's look at each step in detail:

Step 1: Make sure you create a product people really want

Although we have insisted a lot on this subject and it may seem unbelievable, many entrepreneurs launch products on the market that nobody is interested in, that is to say, they did not do the work of validating customer needs before developing the solution (problem-solution fit).

In today's market, with the advance of communication technologies and the amplification of social networks, if you launch a bad product, people will find out about it so quickly that you will not even have time to regret it. Patel puts it as follows: "If your product sucks, it can disappear in less time than it took you to build it" (n.d., <https://goo.gl/etDjWP>).

It is usually recommended that you think twice before launching your product on the market, but we recommend that you think a thousand times before doing so. Take your time to validate it and pivot as many times as necessary. You will surely save yourself a lot of headaches.

One solution to avoid this is to obtain feedback based on an MVP. "You have to get your product out there, as fast as possible, to start collecting feedback and keep improving your product-market fit regularly" (Patel, n.d., <https://goo.gl/etDjWP>).

Even though we have already gone deeper into this topic, as a summary we will tell you that you can use at least two ways to validate your idea in the market: the first is by asking and answering questions to find out what your potential customers think and need. While the second way will be to get feedback on your ideas. This feedback will be fundamental to consolidate your proposition before it is launched to the market.



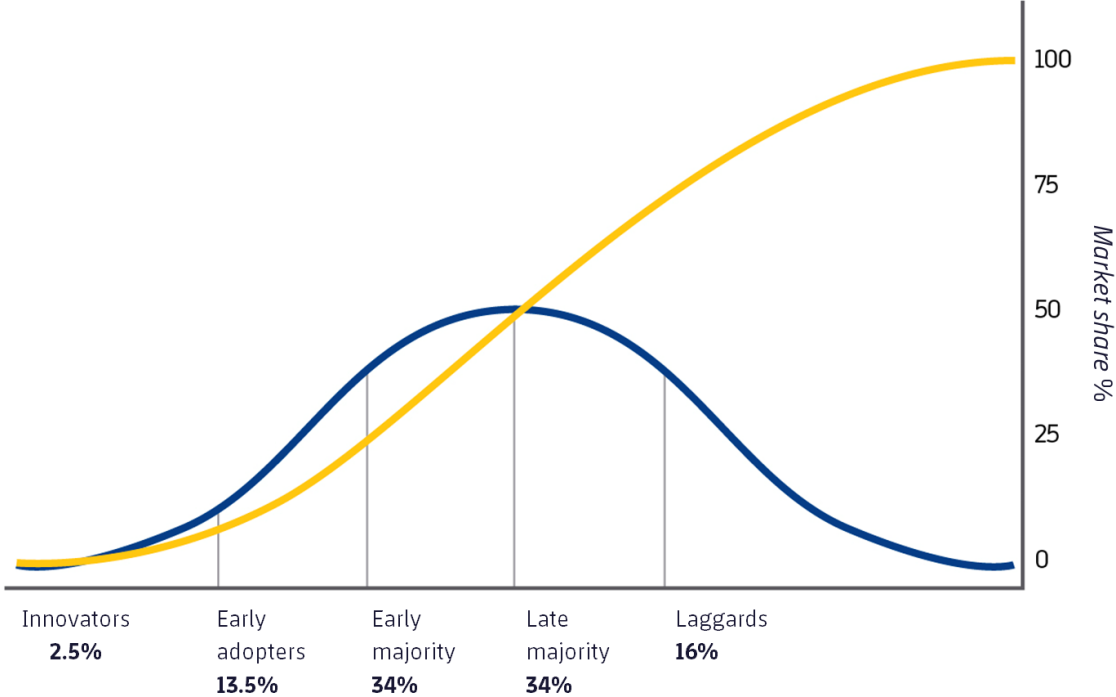
However, before completely building the final product, remember, over and over again, to validate it with your customers. As many authors recommend, a sure way of knowing if the customer is interested in your product is to ask them to pay for it. From their answer, you will be able to easily conclude.

Before finishing with this step, keep in mind that, to learn more about the tastes of your potential users, you can start by sharing free content and see how interested they are. This will allow you to detect which aspects they are most interested in or like the most.

Step 2: Target only a small niche market, do not target everybody!

To make this step clear to you, we will go back to Geoffrey Moore's theory on the law of diffusion of innovation that we saw in course 3, about market size. Moore (2015) states that, in order to reach the majority of customers, the product must first successfully captivate innovators and early adopters or first customers, remembering that these comprise a small mass of users who like and dare to try new products. Let's look at the chart to remember:

Figure 2: Geoffrey Moore's law of diffusion of innovation, with percentage of customers



Source: Own translation of the graph elaborated by Patel, n.d., <https://goo.gl/etDjWP>

If you do not manage to capture that 15% of first users, then it will be difficult for the product to survive. Nail Patel states, "If your target customer is "everyone," there is no way



to growth is going to advance in that first 15% because you do not even know who to convince to buy” (n.d., <https://goo.gl/etDjWP>).

Therefore, you must devise strategies so that a small minority of people can get the most out of your product and you can capture them. Some strategies that can help you have already been discussed in other modules, such as defining your customer archetype by describing a real person as specifically as possible. And, in the first instance, seek to serve exclusively the needs of those people, because, in order to take off with your product, you will need to make effective growth jumps and exceed the 15% market share boundary that you need.

There are paradigmatic cases of good results in this phase, such as Dropbox, Hotmail or Uber, in which the accelerated capture of their first customers allowed them to grow rapidly. In the world of sports, success stories of accelerated capture are few and far between. We have previously mentioned Peloton, undoubtedly one of the best innovations, which, however, did not reach big numbers until 2019.

Some of the reasons for these few success stories:
<http://www.transeopartners.com/2019/06/10/why-are-there-so-few-sports-technology-unicorns/>

In all cases, the strategies followed two instructions:

- Make the experience of acquiring the product exclusive to them.
- Generate actions that would allow them to spread this experience within their community to instil the feeling of exclusivity and belonging.

What follows—how to spot the difference between a brilliant idea and a bad one—is already a familiar topic to you. This is where you should intervene with Dave McClure's (2007) metrics learned in Module 2 to determine and measure the key growth factors and ignore the others.

As a quick reminder, the stages of the funnel are as follows:

- **Acquisition:** how users find you.
- **Activation:** how many customers you get to show interest or take some kind of action towards your product/service.
- **Retention:** how do you keep them coming back for more, which ones are coming back and how many are coming back.
- **Referral:** how do you keep them coming back for more, which customers are coming back and how many are they.
- **Revenue:** knowing if you make money, that is, how many customers pay for your service or product.

In the following stages of the growth hacking process, Patel (n.d.) suggests going deeper into some of the stages of the funnel.



Step 3: Pick a growth model that works best for your product

At this point, we will consider Eric Ries' (2013) proposal of the three engines of growth as routes for companies to scale customer acquisition, selecting the one that works best according to the type of product you have. The engines of growth he proposes are the following:

1. **Viral:** go viral by encouraging the sharing of your product. Going viral is not the same as targeting everyone. What this engine proposes is to grow, basically, through other people who refer it to their friends, family or close environment. You still have early adopters as customers, but you will need to expand to mass platforms where "everyone" can be found. That is to say, accessing larger systems and user bases to truly penetrate the majority of the market, taking advantage of the reach achieved by other products.

Although it seems like we are talking about another metric, the referral one (at a certain point, it is) will be your main acquisition growth lever. First, you must work on brand recognition so that customers become familiar with your product. Start by testing tactics that already work to see how they adapt to your product. If the benefits of such tactics outweigh the costs of implementing them, then we should double the intensity of these tactics.

2. **Sticky:** capture and retain customers with irresistible sticky experiences that keep them with your product for as long as possible. Examples of this are Facebook or Instagram, networks to which users spend more time than... eating! Neil Patel (n.d.) suggests that there is a kind of magic formula for a sticky product, deduced from the success of Facebook:

High retention + low churn + network effects.

In this regard, Ries (2013) argues, "the rules that govern the sticky engine of growth are pretty simple: if the rate of new customer acquisition exceeds the churn rate, the product will grow" (p. 170).

3. **Paid:** knowing how much it costs to get a customer to sign up will help you deduce whether your business will grow quickly. If you spend £10 to acquire a customer who will eventually be worth £100 to your business, the lifetime value of each customer will be generating the possibility of buying new profitable customers. This is the case of Groupon since they paid a fortune to acquire new users. This was a positive investment, as they were able to earn a margin for each new registration. How did they do it? They used lifetime value (LTV) on one side of the equation, considering that this "is the average value of each client over time. So if someone pays you 100€ a month for two years, that's an LTV of 2,400€" (Patel, n.d., <https://goo.gl/etDjWP>). However, if you compare this indicator with the cost of customer acquisition (equipment, salespeople, advertising campaigns, marketing, etc.), you are likely to come out ahead, as the latter will be higher. Paid growth, therefore, involves lowering costs and increasing profits in order to secure your positioning.



Step 4: Activate customers by giving them a “happy first experience”

What you have to achieve in this phase is to make the user's experience on your page easier, which will pave the way for you to activate their subscription. Patel (n.d., <https://goo.gl/etDjWP>) proposes two sub-steps:

- a. Streamline user flows to get people into the product quickly:** in this regard, all strategies that facilitate the user's entry and stay are welcome, especially if they find useful information or help for their benefit. A simple example cited by Patel (n.d.) is to remove the credit card request from the user's subscription form, as this request causes the person's interest in signing up to decline.

On the other hand, keep in mind that subscriptions can be a good starting point, but this does not guarantee user activation. You have to discover all the steps it takes the user to get to the page or what they experience before they participate. For example, when they perform a previous search on Google and, from there, they navigate to your site. What you must keep in mind, at this point, is that the customers not only find what they are looking for, but also that it is something attractive that transcends their needs or show them what they need. Patel calls it “optimizing the user flows to speed each one up” (n.d., <https://goo.gl/etDjWP>). This has great power, since it gives the user a benefit, an immediate value, for free.

- b. Create product tutorials to seamlessly onboard customers:** after what has been achieved above, it is time to deliver an experience that comforts them. Always try to offer a little more than your customers expect. For example, you can provide them with tutorials to help them get the most out of the product. It is not so important that customers understand the product, but rather that they understand the benefits it will bring them. This is the most difficult to achieve.

Testing is going to be the only way to know how it works. And this is where the creativity of the growth hacker cannot fail. Their role of hypothesizing possible solutions, testing, measuring the reaction and iterating until the solution is found is vital.

Step 5: Retain users by combining messaging across channels

It is time to plan strategies to retain your existing customers and update your churn measurement, remember?

It is known that loyal customers, those who choose you again, are more prone to conversion—they are likely to spend more and more on your business. The thing is that entrepreneurs generally do not understand this and allocate a large part of their budget to new acquisitions—to attracting new customers—rather than retaining existing ones. These marketing campaigns are not only less effective but also less profitable. In addition, it is advisable to consider customer retention and loyalty strategies at this stage.



With this reasoning in mind, Neil Patel warns that “the secret to retention-based marketing is to avoid getting tunnel vision on any channel” (n.d., <https://goo.gl/etDjWP>) since, nowadays, users search across channels and devices before making a purchase. One study reveals that customers need at least five touchpoints before they say yes. This allows you to deduce that the secret is to combine your messages in different channels so that you are everywhere and your customer can find you easily and you can communicate effectively with them when they are looking for a solution that you can provide.

Patel (n.d.) cites an example of a study conducted by Facebook and Salesforce in which they showed that ROI grows rapidly when tactics such as email and Facebook ads are combined.

Consider the many useful applications that are available on the web to plan your messages and distribute your presence through various channels, optimizing your touchpoints. Nowadays, you can synchronize data, generate low-cost ads, send automatic e-mails to personalized audiences, generate live chats, use algorithms and robots that identify your customer's tastes and preferences or suggest solutions, among hundreds of effective options to keep users coming back to you.

Step 6: Revenue and monetization: never stop trying to front-load cash

Money is always scarce, whatever the business model you undertake. In the first months, the numbers remain in the red, with a negative cash flow due to the investments made in the face of the lack of sales.

It is in this part of the funnel, the bottom, where growth hackers spend the most time (and have headaches). However, it is not an impossible task: it only requires technical knowledge and skills to constantly define hypotheses with new ideas, implement changes, measure them and iterate until performance is improved. The secret is in the technical mindset combined with creativity.

Following Patel (n.d.), we will mention some strategies that may be useful, especially if your business is related to software. These strategies are the following:

- “Big revenue increases can be as simple as getting customers to prepay” (Patel, n.d., <https://goo.gl/etDjWP>). In this regard, an example might be a special e-mail campaign to obtain annual purchases in advance. This will allow you to smooth out the drawbacks with cash flow for reinvestment.
- Focus on easy wins in relation to people who might leave without buying, such as abandoned cart emails for e-commerce. Find a way to get people who have tried to buy from you and then gave up to come back and make the purchase. One strategy you can use is to include shipping in the cost of the order (as long as the calculations are convenient for you) since it is one of the main reasons why users abandon their shopping cart.



It is important to understand, in this section, that the sources of money at this stage may not be the ultimate sources of money for the business model: for example, start charging for advertising while scaling up. Having this money will help you, mainly, to increase those activities with the greatest impact on scaling (see step 3).

Step 7: Use simple indicators to predict your product's referral potential

Incredible as it may seem, most companies do not know how to measure their customer's perception of them or measure it incorrectly. Patel would say that they spend "time, energy, effort, and money creating complex systems to measure customer happiness" (n.d., <https://goo.gl/etDjWP>) when the simple question to give them an indication of their performance is: "Would you recommend this company to a friend?" Or, even more specific: from 1 to 10, how likely are you to refer to this product (company, brand) to a friend? Everyone has answered this question at some point!

This result is important to distinguish between promoters (9-10 scale), passives (7-8) and detractors (0-6). Some authors suggest targeting the middle group to improve retention by getting in touch to save them before they leave you for another company.

However, the important thing is to compare these results over time or in relation to industry benchmarks. This will allow you to make more accurate forecasts of your business performance, review failures and then see where you are headed.

A very important recommendation to remember is that:

The bigger the gap between you and the competition, the better chance of success you have. The closer you are, the more likely your product idea doesn't stand out enough just yet. People will leave you if something easier or cheaper comes along. (Patel, n.d., <https://goo.gl/etDjWP>).

Also, keep in mind that a fundamental indicator is the viral coefficient that we dealt with in module 3.

Step 8: Keep improving your product continuously

Iterate constantly and pivot if necessary. Launch upgrades, since it takes many startups years to become profitable even though they have many users. Increasing the number of users or followers does not mean that they are using or paying for your products or services.

The ultimate purpose is to never stop learning; think about the details, optimize your processes and improve both your product and the user experience when they come in contact with it. Constantly think about the growth of your venture based on data. Become



obsessed with it if necessary. Growth hacking is not limited to a specific action, but quite the opposite: it is a mindset that will lead you to determine every step of your venture on the path to success.

Now, in another of his blog posts, Patel recommends 5 actionable growth hacks to achieve the initial scalability of your product (Patel, 2016):

- 1. Tell an enchanting video story about your product/brand:** Do you remember that we saw an introduction to storytelling when we developed design thinking? Telling the story of your products or company generates credibility and closeness with the customer, in addition to increasing your conversions.

The video format is one of the most effective for transmitting messages, since it has a better reach and acceptance than text, especially if you can generate a good story and turn it into something really attractive by appealing to creativity, the ingenuity of the visual arts, technological advances and, many times, humour.

- 2. Crack the analytics code to smooth the conversion funnel:** let your data dictate your marketing strategy. When it comes to marketing, do not do what everyone else is doing because your venture is different from everyone else's. Use your data to apply tailored strategies that are linked to your business and the culture of your project, as this will result in a strong and effective message.

Traffic, user and revenue metrics (commonly used) are very important, but they are not the only ones. You should look for those that help you describe how your business works, because you may be missing information about how your customer feels and thinks in the different stages of the conversion funnel.

Other options for applying growth hacking to your venture include the following:

- Reducing unproductive marketing channels that do not generate sales.
- Continuously performing A/B tests. Not going with the first option you try, but with the one that convinces you the most.

- 3. Make noise before launching your product:** do not forget to collect pre-launch emails in order to incorporate the first registered users and keep them informed until you launch the product.

Be transparent, but when you have useful and practical content to share: when you make a mistake or, on the contrary, when you have good practices in your venture (shared by all its members), it is positive that you share it. Some companies that know they pay above average and promote this advantage or share their profits because they have nothing to hide or, on the contrary, they have had a failure or a mistake and decide to take responsibility publicly.

Many companies channel these developments through their sustainability or social responsibility areas, demonstrating their socioeconomic and environmental efforts. When you have these results, you can integrate them into your online marketing.



- 4. Offer amazing value to your users and pave your way to growth:** your proposal must add value to your customers and you must work to make them perceive it this way. Focus on making your customer feel that they have found the solution to their problem, even if this means that you must implement personalized strategies and avoid using automation tools. Sooner rather than later, these actions will bear fruit, since a truly satisfied customer will be the one who will refer your business (Patel, 2016).

As final recommendations, we leave you a small list with the most important items of what you have just learned, keeping in mind that it is not necessary to wait to hire a growth hacker to start thinking about implementing growth strategies for your business:

- Growth hacking is a mindset and a way of thinking about projects.
- Focus on a few, but good objectives, metrics, channels and tactics, as your resources will probably also be few and should not be wasted. **Pareto's law**, presented in lecture 3 of the previous course, may be useful for this case: 80% of your effort concentrated on the 20% of strategies that work best.
- Measure all activities no matter what, avoiding the implementation of strategies that you will not be able to calculate. Do not exhaust resources and efforts.
- Become a scientist who reasons in terms of hypotheses, experiments and results.
- Investigate the tools that you can use to simplify your work before taking an action. On the web, you can find everything—or almost everything—you need.
- **Dig deep into successful businesses that have a similar model to yours.**
- Start your testing through free and low-cost channels until you have no alternative and enter new platforms and networks.
- Do not forget that things can always be done better and that even if an action is good, it doesn't mean it is the best.
- Set high personal goals, question your work and your decisions to exercise self-criticism and do not forget that your goal is to grow your venture in every way: the project, the revenues and profits and, above all, the team behind it.
- **Carry out non-scalable activities that generate a lot of knowledge.**
- Finally, one of your goals is to make money. Focus on this and not on gaining visits, followers or likes. Revenue is what will allow you to drive your venture forward.



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