Sean Ellis (author of "Hacking Growth") on Lenny's Podcast

Date: 5th Sep, 2024
Link: [The original growth hacker reveals his secrets | Sean Ellis (author of "Hacking Growth")](https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis)

https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

All relevant stuff transferred to 🖼 PMF Book - Research, Supportings etc

Sean Ellis is one of the earliest and most influential thinkers and operators in the world of growth. He coined the term growth hacking, invented the ICE prioritization framework, was one of the earliest people to use freemium as a growth strategy, and maybe most famously developed the Sean Ellis test to help you understand if you have product market fit, which a large percentage of founders use today and profoundly impacted the way startups are built.

Over the course of his career, Sean was head of growth at Dropbox and Eventbrite, helped companies like Microsoft and Newbank refine their growth strategy, was on the founding team of LogMeIn, which eventually sold for over $4 billion, and he's the author of one of the most popular growth books of all time called Hacking Growth.

PMF Definition - Nail it then Scale It

Sean Ellis
5 September 2024
https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis
I think one of the biggest challenges in an early stage startup is half the people feel like we're years from having this product ready to grow, and half the people are like, "What are we waiting for?"

Where if you can actually get people on the same page of what does product market fit look like for our business, and it's at that point that we're going to. Before I ever heard the term product market fit, I remember the conversations back at LogMeIn in the mid 2000s of kind of like, "When do we step on the gas? What is the combination of factors that need to be in place before we start pouring fuel on the early fire?"

And so yeah, I think that kind of nail it then scale it. It's probably been a term that's been around for decades now, but it's all kind of pointing to that same concept of product market fit.

PMF Definition - Customer Love and Retention

Sean Ellis
5 September 2024
https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

15)   The definition of product market fit is the definition that people who get through my crappy onboarding and actually experience the product love it. And if I'm able to retain those people, that means I have product market fit.

Iterating to PPF - Sean Ellis test to validate or measure PPF or product to problem fit

Sean Ellis
5 September 2024

2)   But first of all, can you just tell people what is the Sean Ellis test for folks that aren't exactly familiar with this?

It's a simple question that helps you figure out, does anyone consider your product a must-have, or ideally, who and how many people consider it, but ultimately it's about trying to figure out is your product a must-have, which could be equated to having product market fit. And so the question is, how would you feel if you could no longer use this product? And I give them the choice, very disappointed, somewhat disappointed, or even not disappointed or not applicable, I've already stopped using the product.

And what I'm trying to find are those people who say, "I would be very disappointed if I could no longer use this product," then that's a really powerful vein to dig into when you discover that you actually have some people who would give a crap if your product disappears.

3)   The idea is that if you, 40% or more of people, say they'd be very disappointed if they can no longer use the product, you essentially have product market fit. I would say it's a leading indicator of product market fit. The lightning indicator is, do they actually keep using it?

So probably retention cohorts are more accurate, but the problem is, like your time at Airbnb, how long do you have to look at a retention cohort before you know that you've actually long-term retained someone?

And so with this question, you can kind of find out day one, you don't need a good analytics system in place to be able to see if product market fit exists.

4)   When I introduced this test that you described it as a leading indicator of product market fit and actually retention, people actually using your product, the product actually being used by the market is the actual ultimate test.

So the idea here is this is a good way to get a sense of, before you actually have data, are we headed in a good direction?

5)   When I come into a company, my goal is to help them grow. And so I don't want to put myself in a situation where I'm going to fail because no one actually cares about the product. And so it can really be asked at a company of any stage.

It's helpful to understand who your must have users are. But essentially once you have even an MVP, like a very first MVP on the product, you can still get some useful feedback about the product if it's resonating with anyone.

6)   The second thing that we did was we streamlined onboarding so that the first thing that they did after signing up for the product was to set up the antivirus and then get a message "you're now protected from viruses."

And so it's really the combination of those two things. It's set the right expectations and then speed to value.

7)   Basically you're sharing kind of a growth strategy that I imagine you execute, is look for the percentage of people that would be very disappointed if your product went away, see who they are, see what they're excited about and lean into that both positioning-wise, onboarding-wise, and probably also cut out stuff from your product that they don't care about.

8)   As a marketer, I probably didn't have a lot of influence on a engineering founded company to say, "Let's cut out stuff." So it made more sense to say, "Let's just sequence the onboarding so that we're highlighting this and onboarding to this." That was a little easier to sell. And just hearing that you can move this score so quickly without even changing the product substantially, I imagine what surprised a lot of people when you think about moving retention often is really hard.

9)   Ultimately moving retention is really hard, but it's usually much more function of onboarding to the right user experience than it is about the tactical things that people try to do to improve retention.

10)   Until you deeply understand that product market fit, you kind of don't have the tools to be able to grow the business. So that's really the next step, is to dig in and figure out who considers it a must have, how are they using the product, what did they use before, what problem are they solving.

One of my favorite questions is... So I tend to have a lot of questions that I build off of that I'm using that filter, trying to drill into the users who say they'd be very disappointed without the product, and one of my favorite questions is, "What is the primary benefit that you get?"

And then I use that initially as an open-ended question to kind of crowdsource different benefits people are getting. But then I run another survey where I turn it into a multiple choice question, force them to pick one of four distinctive benefit statements.

And then the question that follows on that next survey is, "Why is that benefit important to you?" And then I start to get really good context. So I actually came up with this question when I was working with an early YC company called Xobni, which is inbox felt backwards.

And when I ran that question, basically the people who said they'd be very disappointed without the product we're focused on, "Xobni helps me find things faster in my email." So it's

great to know, okay, that's the benefit. But when I asked, "Why is that benefit important to you?" They said, "Oh, I'm drowning in email."

I kept seeing that statement as a written statement. And so when I then was trying to figure out how to acquire customers, when I tested "drowning in email?" ", that set such a good hook. That was the context that people were living in, that they were really responsive to the message of find things faster with Xobni and then a description of what Xobni is.

So I think when you can really dig into the context of why that must have benefit is important to people, you start to get the ingredients to build that flywheel that leads to long-term sustainable growth.

So what I'm hearing is whether you have 40%, whether you have 60% or even 7%, the actual best use of this tool is look at that percentage of highly disappointed and see what they're looking for, what they're excited about.

Start drilling in, start feeling back that onion... and just deeply understand them and make sure that ultimately your product roadmap is doubling down on the things that are important to your must-have customers. Onboarding is bringing new people to the right experience. Your messaging is setting the right expectations, your acquisition campaigns are targeting people who actually have the need.

And so it's all about getting the right people to the right experience. And then even your engagement loop is about just reinforcing how to get people to experience that benefit more often.

13) What's your guidance on when to ask this question? What I'm hearing is, if you ask it very far along the journey, when they're very invested, you'll get a much higher score. Is there any advice on the timing and the best time to ask this question to your users?

What I recommend is a random sample of people who've really used your product. So they've gone in, they didn't just sign up, but they went in and hopefully hit that deviation moment. They've used it twice, two plus times, and they've ideally used it, say, within the last week or two weeks, so they haven't churned yet.

So if it's a random sample of those people, that's kind of the ideal time to ask it.

14) "What are the limitations of the score? When does it break down? When should you not use it if ever?" Is there anything of just like, "Here's when it's not going to work for you"?

Yeah. I think one-off products would probably, like, how would you feel if you could no longer watch the movie you just watch? I wouldn't care. Even when I run a workshop, I don't run this as part of my survey after I do a workshop because how would you feel if you could no longer attend the workshop you just attended? It doesn't make sense.

So I'll ask an NPS question as my filtering question so that I'm looking at focusing in on feedback of people who love it, also then through a separate lens, looking at people maybe who would be my detractors. So I think one-off products are probably not good products to run the question on.

17) I had Jag from Nubank on the podcast, I think you may have worked with them, and they use 50% as their threshold because apparently Brazilians are very nice.

Yeah. Optimistic I think is what I said. Yeah. I guess the question is do you find instances where you should increase that percentage? And in B2B, is anything different? Do you change the percentage in B2B?

Any advice there just when you adjust the threshold?

Yeah, I hadn't really thought too much on that. Again, for me, generally I'm trying to just figure out is this a product that can grow? So if I got a 37%, am I going to be like, "Oh no, this would be impossible?" Or if I had a 70%, does that mean I'd say, "Oh yeah, I want to jump in and work with this company?" It's more nuanced than that. Obviously, if it's a 70%, but I have no idea how I grow the business, I'm going to be stuck there.

But I do think he brought up a really good point that, culturally, some people are going to be more optimistic or pessimistic.

Awesome. And speaking of Nubank, if anyone wants to see how a company has actually operationalized this in the way they operate, that there's an episode that we'll link to in the show notes where every new product at Nubank they build, before they launch it, they wait for 50% threshold.

For people to say 50% of people would be disappointed if this product did not exist as they're developing it. And only then do they launch it publicly.

Yeah, I think they even do it down to the feature level. So if you think about it, how would you feel if you can no longer use this feature starts to give you, again, the signal, is that feature a must-have feature? And if it's not, maybe we shouldn't have it.

And so yeah, I was super excited when I saw how they were using the survey and they were doing it before I engaged with them. But they were doing it, I think, from pretty early on in the business. The reason they can do this is they have a lot of users. They have millions of millions of users, so they can ask some small percentage of people this question. Because people hearing this might be like, "Oh my God, how many times am I going to be asked this question when I'm using this feature?"

SPW: Products with high switching costs can have a high Sean Ellis Test score

12) Eventbrite when I was there when we ran it was probably the second highest I'd ever seen. But with event organizers, if they've already set their event up on that platform and they've sent it out to their list and all those people are coming in and they're managing their event, again, they've invested a lot in the platform.

So sort of switching costs I think can factor in there. So it's a function of both switching costs and utility of the product.

Iterating to PPF - Improving the Sean Ellis Test score and improving / iterating PPF

Sean Ellis

20) Say someone is listening and they're like, "Okay. Man, I'm getting 10%, I'm getting 15% (on the Sean Ellis Test) I don't know what to do to increase my product-market fit." You should have just a strategy of just dig into the people that are very disappointed and see what they have to say.

But any other advice/what do you find often works in helping people move from, say, 10% to 40%?

21) One of the other companies that I think used it in an interesting way is Superhuman. And I would say that they basically ended up probably putting a lot more momentum behind the question than it had even before. They posted something about how they did it on First Round Capital's blog.

And what I have always said, and again, it's me coming at it from probably initially a marketing background, which is I'm taking the product as a fixed thing, and how do I actually figure out how to market and grow this product?

And product changes are going to take a long time, and so what are the variables that I can control with a marketing background? So one of the things I've always said is just ignore the people who say they'd be somewhat disappointed. They're telling you it's a nice to have. They're as good as gone, so just ignore those guys. I'll put one piece in the middle there before I say what Superhuman did.

The reason that I say ignore those guys is that if you start paying attention to what you somewhat disappointed users are telling you, and then you start tweaking onboarding and product based on their feedback, maybe you're going to dilute it for your must-have users. And ultimately, it becomes kind of good for everyone but not great for anyone.

And so that was my fear of trying to read too much into the users who say they'd be somewhat disappointed. But the Superhuman guys actually found, I think, a good way around that where they said, "Okay, what is the benefit that my must-have users are focused on?

And then of the users who say they'd be somewhat disappointed, so the nice-to-have users, of those users who are also focused on that benefit, what do they need in the product for it then to become a must-have for them?"

And so they're staying true to that core benefit, but they're trying to essentially take those on-the-fence users and moving them up. And so I think their way of approaching that addressed what my concern was, which is are we going to break it for the must-have users?

22) So just to repeat, the approach you recommend for when you're digging into... I wrote this down. When you were talking for how to dig into what benefit people are finding, your advice is it's basically a follow-up survey to the extremely disappointed people asking them what is the primary benefit you get? It's an open text initially.

Then once you get a collection, you do it sounds like another survey as multiple choice. Here's five benefits to a different group of people, to be clear. Different group. Yeah. Got it.

Awesome. And then it's like, which of these four or five benefits is what you're getting out of this product? And then the question is, why is this benefit important to you?

Eventually the survey.io got closed down, but essentially the template that I typically used was then moved to PMFsurvey.com. And so you'll see some other questions that I have on there as well, like what would you use instead if this product were no longer available?

And that's one of the interesting things is you start to see people who say they'd be somewhat disappointed, usually, they're focused on a commodity use case and they know an easy alternative to switch to. So to be a must-have, it needs to be both valuable and unique.

Iterating to PPF - Moving nice to have users to must-have users

Sean Ellis
5 September 2024

SPW: Some elements of growth hacking come in PPF

23) When I coined growth hacking, I did not think of it as a bunch of one-off hacks. What I thought of it was what's more about what is the way to ultimately drive sustainable growth?

24) It's about looking at every single thing that you're doing and scrutinizing its impact on growth in the business.

25) What's your first piece of advice to them to start when they're thinking about growth? And then just broadly, how do you approach helping them figure out how to grow?

Ultimately, it's about trying to get as many of the right people to that same state that we just talked about with the must-have users, so trying to get as many people to experience the product in a way where they'd be very disappointed if they could no longer use the product.

And so that's not just acquisition, which is how most companies think about... Initially, it was awareness then maybe the more developed way was, oh, let's at least focus on profitable acquisition.

But in my experience, the hardest part really sits inside the product team, so how do you shape that first user experience so they actually use it in the right way and it's not so difficult that they give up? And that ultimately, we understand what makes it a must-have product.

26) So step one would be to understand it. Step two for me is then figure out a metric that essentially captures units of that value being delivered. And so when I think about a north star metric, that's what I'm thinking about is something that reflects how many people are coming in and experiencing that product-market fit experience, whatever that is. And it's not just me telling them, "Here's what your north star metric should be." It's that ultimately the team needs to decide that together.

And then really just diagramming, what are all of the different ways that we can grow that north star metric? So that's where you start to actually build, I call it a value delivery engine, but it's what does our onboarding look like? What's that aha moment? That activation? What does the engagement loop look like? Is there any referral?

Try to capture it as it is today. And then, from there, thinking about where are the biggest opportunities for improvement, so those high-leverage opportunities, and then ultimately starting to run experiments against those opportunities.

Iterating to PPF - Activation / Onboarding

Sean Ellis
5 September 2024
https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

27) The sequence that I like to do is start with activation because that one's just so critical and it's easy to get lost in between, especially for an early product. The product team's so focused on the roadmap. We're two features away from not even needing marketing anymore. This thing's going to take off. And then a marketing team so focused on bringing new people in, but how do you get those new people to a great first experience falls through the cracks a lot of times.

So a lot of focus on activation and then engagement and referral and getting the revenue model right. And then once each of those pieces are working well, then starting to really obsess on the channel side. One thing that I'll say.

When I go in and directly am involved with a company on the acquisition side, I am thinking about my hypotheses on the acquisition pretty early on, because if I go into it and I have no idea how we'll acquire those customers, I'm not real confident I'll figure it out when I'm there.

So I want to have two or three things that seem pretty viable as ways to profitably acquire customers, and knowing that once I get deep into it, I'll probably come up with one or two more and I've got five, one of them's likely to work. But I don't want to just be under the pressure of having to come up with that once I come in, if I don't at least see an angle from that before I get involved with the company.

28) You actually focus first on activation onboarding, and we're going to talk about all these things. Then, after that, basically these are priority order for you. Then it's flywheel engagement referral stuff to see if there's a way to drive that. Then revenue. How do we make money with this and how do we make sure we're doing this profitably? And only then do you start to go big on acquisition top-of-funnel growth.

Yeah. I may need to do some acquisition stuff before just to bring enough flow-through, but I'm not obsessing on how scalable is this. It's just like, yeah, let's get enough people coming through that we can start to take the slack out. Part of it comes down to that the acquisition side is so competitive now that if you're not really efficient at converting and retaining and monetizing customers, you can't find scalable, profitable customer acquisition channels.

This is fascinating because I think a lot of people probably do the opposite. Start driving a bunch of growth to a product, then we'll fix onboarding, then we'll figure out how we're making money, and referrals comes along there. So I think this is really important for people to hear.

So again, the reason you invest first and focus a lot on onboarding/getting people activated is because that is very correlated to retention and this must-have customer, this, "I'll be very disappointed," customer.

Yeah. And they're at highest risk of losing them at that point. They're at highest risk of losing them at that point. They're probably a little skeptical about a promise that you put out there, but they're intrigued enough to want to use it. But until you get them to that must-have experience, until you kind of get them to that aha moment, they're at their high risk of being lost. And so a lot of people focus on, "Well, I better get their email address or their phone number." But then you're essentially having to reacquire them at that point.

29)   So to me, if you can collapse that time to value, I can give you a couple of incredible examples of when we [inaudible 00:54:38] So at LogMeIn, when we initially tried to grow the business, I was stuck at being able to spend... I couldn't spend more than $10,000 per month profitably trying to grow the business.

And then I dug into the data and I saw that 95% of the people signing up for LogMeIn. So LogMeIn, at the time free remote access for your computer. And so you install software and you can control it from any other computer.

So 95% of the people signing up never once did a remote control session. And so not surprisingly, then I had to get my monetization off the 5% who did that was really limiting my ability to find channels that worked. Credit our CEO with this, that I shared the data with him and he basically told the product team, "We are putting a complete freeze on the product development roadmap."

So every single person from product, engineering, design and then also said to me, "Stop trying to find new channels." The three of us on the marketing side are all going to focus on improving the signup to usage rate. And so in three months, we improve the signup to usage rate by a thousand percent.

So we went from only 5% of people using the product to 50%. I went back, tried the exact same channels that previously only scaled to $10,000 a month. Now they scaled to a million dollars a month with a three-month payback on marketing dollars invested. 80% of new users were coming in through word of mouth. So there was this major inflection point by just focusing on activation.

30)   What do you find often works in helping increase activation?

I know there's a million things that people do, but I guess what are three or four things that you think people should definitely try to help improve activation and their onboarding conversion?

One of my favorite quotes is a quote from a guy Kettering, who was a hundred years ago at GM running innovation. And he says, "A problem well stated is a problem half solved." And so I think a lot of it comes down to not the things you try, but how you deeply understand the problem that's preventing someone from using your product effectively. And so I'll just give you one example.

We had one channel after we made a lot of these changes and had already driven a ton of improvement in the LogMeIn onboarding. We found a demand generation channel that was

really cheap and the economics looked great, but at just the download step we had a 90% drop off rate.

And so we A/B tested a bunch of different things there to try to improve that conversion rate, and then finally 10 plus tests, not able to improve it. Finally, someone said, "When these people are registering. Why don't we just ask them why they signed up and didn't download the software?"

And so we didn't want to do it in too kind of a creepy way. So we made it look like a note coming from customer service. This channel was sending 200,000 people a day, so 20,000 people were converting to registering. So we had essentially 20,000 people we could email and then 18,000 of them who didn't download.

And so we just asked, "Hey, notice you haven't had a chance to use the product yet. It looked like it was coming from customer support. What happened?" And the answer we got back and not a formal survey was, "Oh, this seemed too good to be true. I didn't believe this was free."

I mentioned to you we were one of the first freemium SaaS products out there. And so people were skeptical, especially in a demand gen channel where they hadn't seen a radio or a TV advertisement from our competitor who was a premium only product. These were people who were discovering the category for the first time they were getting there. Once we articulated what the problem was, our next test gave us a 300% improvement in the download rate, which was…

We gave them a choice, download a trial of the paid version or download the free version, put a big graphical check mark next to the free version. But when they saw we had a business model and a trial of a paid version, the free version was credible. And so that essentially made that channel work for us.

31)   So a few things for people to try if they're like, "Hey, how do I improve my activation rate? How do I improve my conversion rate?" Just drill further into what is stopping people from progressing. Ask them, "Why did you bounce here? What did you think this was going to be? Why didn't you end up using this?"

Look for inspiration from other products, I think people probably already know that. You talked about earlier this idea of the positioning, having a big impact of just figuring out. They want an antivirus software. Let's make that very clear. "Hey we've got the best antivirus software, that's what we're here for."

So there's probably just messaging that you find works a lot of times, right?

I mean your two big levers on driving a conversion are increase desire, reduce friction. And so you definitely want to increase the right desire. Sometimes it can also just be reminding people along the way of what benefits you're going to get.

In the case of LogmeIn, it was probably the most complicated funnel I've ever seen because you couldn't even get to the aha moment while you're sitting in front of the computer. You had to actually go to a different computer and to use the service to remote control the computer you're in front of.

So it's not surprising that there was so many steps where we could lose people, but we just weren't that intentional about designing each of those steps initially. And it wasn't until we

thought through why would we lose someone at this step and studying the data, which steps were we losing the most people at?

Then deeply trying to contextualize why are we losing them there, coming up with a set of tests that we want to run and then having a good way of deciding which one to test first and ultimately focusing the tests on the areas where we're losing the most people.

The other element of this is coming up with an activation metric and aligning on here's what we consider so activated. I know this is very dependent on the product, but any advice or heuristic for how to help people decide this is our activated user.

I tend to start qualitatively. So just like when do I think they've had a good enough experience with the product to really know it? And so in the case of LogMeIn, it was pretty easy. If they didn't do a remote control session, they didn't use the product. There was no value along the way there.

And then at least try to see if there's a correlation to long-term retention of doing that. Causation is you need to do some experimentation to prove causation. At the very least, I want to see that correlation, but if I start with two or three ideas of what it might be and then go and study the data, that can help you focus. But again, I don't think there's necessarily one exact right answer of what is that aha moment.

There might be two or three different things. I think it's that intentionality about picking something that's experience-based and saying, "What is a likely experience that someone's going to get a good enough taste of this product?"

Iterating to PPF - Prerequisites for MMF: is conversion working + optimising for time to value

Sean Ellis
5 September 2024
16) When I focus on growth, then customer acquisition is almost the last step. Once I validate that it's a must have for those early users, then I'm thinking about, "Okay, how do I optimize speed to value? How do I make sure that people have the right prompts to come back and use the product at the right time so that's kind of more of that engagement loop? How do I get my existing users to bring in more users if there's something that makes sense on that end? Even how do I optimize my revenue model?"

Once all of those things are working well, then I'll obsess on the customer acquisition side. But customer acquisition is so hard that if you're not really efficient at converting… customer acquisition is so hard that if you're not really efficient at converting and retaining and monetizing people, you're going to really struggle on the customer acquisition side.

Iterating to PPF - Prerequisites for MMF: is cohort retention holding?

Sean Ellis

5 September 2024

https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

19) Is it just once you have enough data, once you have a couple of cohorts, then start looking at that? Forget about the survey?

Yeah, but retention cohorts don't give you any of the qualitative insights into the why, so that's why we continue to do the survey. So initially I would say if the survey comes back and it shows whatever your target number is... If you want to be Nubank, it'd be a 50%. Or two of the companies I launched, we launched in Hungary, and I would say it was the opposite end of the spectrum of Brazil, maybe more pessimistic than the average culture. And so maybe 30% is good enough there, but that ultimately, whatever your target is, that you have the signal that says, "Okay, we have enough value here.

Let's start working on growing the business." But while you're working on growing the business, I would be paying attention to those retention cohorts. And if you're churning out all the customers who were saying that they'd be very disappointed without the product, then okay, let's retrench and rethink, do we really have product-market fit here and what do we need to do to get it if we don't?

Iterating to PPF - Asking the right questions

Sean Ellis

5 September 2024

https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

40) I keep coming back to this advice that I heard from guy Oleg Yakubenkov, which is it often comes down to asking the right question at the right time in how you figure things out.

And he's a former data scientist from Meta and so where he basically boils data science down to learning how to ask the right questions.

And so I actually have a course with him called Gopractice.io, where that's really the big benefit of the course, is to learn how to ask the right questions and yeah, you learn how to query them and amplitude, but more importantly, being able to ask the right question.

I think it's kind of cool to hear that from a data scientist from Meta, the importance of that. But every time I'm going through exercises in my workshops, it almost always comes down to people who aren't able to come up with the right or a good answer in a business. It's because they're not asking the obvious question.

And as soon as they have, like why aren't users downloading the software? Let's just ask them that question. That would be one example from my workshop. Who considers the product a must have? That part of getting, to figuring out the must have kind of benefit that then allows you to hone in on product market fit.

And so yeah, right questions, right time I think is a really important way to think about growth and even getting to product market fit.

Iterating to PPF - Freemium Programs

Sean Ellis
5 September 2024

https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

35)   Any other advice on helping figure out is there some kind of loop here that we can build?

Well, one thing I will say is freemium when we first started with it, as I said, we were one of the first with it, so it took me a while to figure out exactly how freemium worked, but to me, freemium towards having a free and a premium version of your product to really work in any business, it needs to be that your free product is so good that people naturally have word of mouth around that product.

And then to be economically viable, you have to have a premium product that's better enough and differentiated enough that people are going to upgrade to the premium product.

But I think a lot of times people are so worried about the second part that they make the free version not very good and then they're surprised when word of mouth isn't very strong there. So I think you have to essentially have two distinct products that are great on their own.

Iterating to PPF - Product Metrics

Sean Ellis
5 September 2024

https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

36)   Obviously, companies that have any kind of collaborative layer to them are going to be more likely to work well with referral. And then I think on the engagement side, a lot of it comes down to just the nature of the product.

Like Airbnb, you're not going to use it every day unless you're like a vagrant or something and then you wouldn't have money to pay for it. So there's kind a natural usage cycle to products and you want to be able to maximize against that cycle.

That's where I was saying, coming back to the hooked model, I think is a really good way to help to have a framework to think about how do I improve engagement.

One good counter example to that though of the natural frequency of using a product is Facebook when they change their North Star Metric from monthly active users to daily active users. I think, again, just having what gets measured gets managed.

Once Facebook was on a daily active user goal, the team suddenly had a lot more incentive to think about, "How do I bring people back every day and use this product?" Where when it was monthly active users, they kind of only got credit for that person for using once in that month.

And even if they used 10 times, they didn't get 10 times the credit. It was just like a, "Oh, that's cool too." But they weren't sort of measured on that.

And so I think it was sort of a random decision for Mark Zuckerberg to move from a monthly active to a daily active because they hit 1 billion monthly active users and they're like, "Okay, let's go for 1 billion daily active users."

But it had a really big impact on making that product way more addictive to the point where obviously they ended up in Congress or get a lot of pushback. I'm not sure they went to Congress for that, but they got a lot of pushback for having a product that's maybe too addictive.

And the same thing carrying into Instagram and some of the other Meta products or basically anything that is highly engaging. So I do think the right incentives can actually help a team to focus on it, but there's going to be sort of a natural usage cycle to any product as well.

I'm glad you mentioned North Star Metrics. I actually have a post I will link to in the show notes where I collected the North Star Metrics of 30 different companies to give you some inspiration.

I know this is a deep topic of its own, but just when someone is trying to pick their own North Star Metrics, which I 1000% agree, informs so much about how your company operates. It basically focuses everyone's incentives to let's drive this thing. And that changes so much of what you're building.

Any just bullet point piece of advice for helping you pick your North Star Metrics?

I start with the value that's uncovered through the [inaudible 01:21:02] test. So with a company, I'll say, "Okay, this is what the must have value is according to our most passionate customers, and we want to think about a metric that reflects us delivering that value."

And then I'll give them kind of a framework of ways to think about a North Star Metric. But I think it's really important for it to be a time capped group conversation. And if you give a team 30 days, they'll take 30 days. If you give them six months, they'll take six months.

But I think generally a team can come up with a pretty good North Star Metric after 30 minutes if they have the right raw ingredients and a checklist of what's important in a North Star Metric. Something that's not a ratio, it's something that can be up onto the right over time.

So you can keep managing it and feeling good. It should correlate to revenue growth, but revenue shouldn't be the North Star Metric, but as you grow value across your customer base, you should be able to grow revenue at the same rate. And so there's- Revenue at the same rate.

And so there's some other things, but I think that would be the most important, is that it's something that could be up and to the right over time and reflects value that you're delivering to customers.

Awesome. And I was going to ask about revenue in your opinion there. And so your advice is don't make revenue or North star metric?

No. Even Amazon, and again, this is just what I know of Amazon's as being but monthly purchases, but someone else might say Amazon, no Amazon's is GMV or something. But I think monthly purchases is great because it maps to value that people are getting from Amazon.

And so even if I spend say $1000 on a TV set with Amazon versus $3 on a or $10 on an electric toothbrush, Amazon from the consumer's perspective delivered the same value. I needed something, Amazon helped me find that thing. And so units of value from the customer perspective I think is more important than overall revenue.

But clearly with Amazon focusing on driving more monthly purchases, at least on their store side of the business, that has helped them become one of most valuable companies in the world. So I think focusing on value is, revenue should be a product of doing things.

Right. It shouldn't kind of guide your day-to-day actions. To make this even more concrete for people, are there some North star metric examples you could share that you've seen that are good? Like say for Eventbrite or Dropbox or any companies you've worked with? And I'll share one real quick as you're thinking about it. At Airbnb, our North star metric was nights booked.

And so it's similar to Amazon. It's not like the money Airbnb made from bookings, but it's like nights booked and it was really, and basically every experiment ran is like, is this increasing night booked or is this decreasing night's book?

And so that's a really good marketplace one. Uber obviously weekly rides. I'm always surprised with the Airbnb, that there's not a kind of time piece on it, like the weekly rides that you have with Uber, but maybe it's because it's such an infrequent use case on travel that it doesn't make sense to focus on. Yeah.

Yeah. Why is the timeframe important to you? Why do you encourage that?

Just daily active users, you saw the difference between monthly active users and daily active users could change behavior a lot at Facebook. It gives you a quantifiable way, if you're just kind of taking an aggregate number over time, it always looks like it's going up.

So it's an engagement element of how often are they engaging.

Any others? Any others real quick?

Yeah, I mean, I didn't really think about North star metrics when I was at Dropbox and Eventbrite, like the term itself, but I was thinking about what is a valuable experience with Dropbox and how do I get people to have that more time?

But I don't even know what they go with today, but maybe files in Dropbox, files access might be better than just files hosted.

And then probably for Eventbrite, again, I would say weekly tickets or something like you could say weekly events, but then you have events that don't sell any tickets where weekly tickets would be more likely to reflect, events are going to be happy if they're selling tickets and yeah.

Iterating to MMF - Four key channels

Sean Ellis

5 September 2024

https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

32)   I found there's basically four ways to grow and usually one of these engines is responsible for almost all of your growth. So what I've seen is basically you're going to go through sales, you're going to grow through SEO, you're going to go through virality, word of mouth or paid growth. Does that resonate? Does that feel right?

And I wouldn't say it's necessarily one or the other. I think Bounce is a really interesting example where SEO is super important for Bounce. So people who are essentially saying, "Luggage storage, Paris.

Luggage storage..." Most people when they're trying t0 find a place to store their luggage, they're starting with Google, but at the same time, a huge percentage of the

people who use Bounce are dragging their bag down a street over cobblestones in Paris. And then they pass a sign that says, "Store your bag here for $5 a day."

And it's like, "Oh, no-brainer." And so 10,000 partners around the world means that there's a lot of people in the right situation on the demand gen side. One would be, I actually think of kind of... I'm not sure how it would map to this, but demand generation versus demand harvesting.

And so one of those examples would be a... Demand generation example, when you see the signs when you're passing, it's high context, right place. And then obviously the demand harvesting would be anyone who's Googling. And so they do paid search and organic search there.

33)   I think basically for each business it's just thinking about what's unique for that business that is going to open up channel opportunities and everyone's going to be a little bit, I think jaded from whatever the last thing that worked really well.

They're going to think they can apply it in the next business. But after enough times myself, I tend to get the most inspiration by just talking to customers and finding out how did they find it, how do they typically find something like that? And that starts to give me some ideas as well.

I think that last point is really powerful and I'm just writing it down. You said, essentially one of your tactics is talking to users, asking them how did you find this product and how do you normally find products like this? Is that the second question? I think it's similar to your [inaudible 01:21:02] test.

It's such a simple question, but it's so powerful because how else will people find your product? They go to a place to find stuff like this, and I searched Google for folder sharing. There's so much there that you just skip over. I think the reason that you don't actually hear people taking the obvious route there a lot of times is because, and I used to be in the same thing, that people tend to be either over indexed on qualitative or over indexed on quantitative.

So it's like analytics, I'm going to get all my answers from testing and analytics or I'm going to get all my answers from traditional customer research. And I was very much in that initial camp for the first five years of my career.

I'm just going to measure everything and test the heck out of things and find stuff that works. But I had a VC who was our lead VC at LogMeIn who just said, "When was the last time you talked to a customer?" Just pushed me to survey and talk to customers all the time.

And at first I gave the smart-ass answer, "I don't care what they say, I care what they do." And he's like, "No, you got to talk to him."

Then just to appease him, I would try to have a conversation every day because he was in our office a lot and so I could say, "Hey, yeah, I talked to a customer today," when he would ask me.

But I started finding that my experiments were so much better the more I talked to customers, and eventually I became very much... The blend of qualitative and quantitative research leads to much better tests.

34) It is just really hard to run good experiments when you can't deeply contextualize what's going on.

Iterating to MMF - Referral Programs

Sean Ellis
5 September 2024
https://www.lennysnewsletter.com/p/the-original-growth-hacker-sean-ellis

I love this. By the way, I don't know if I knew this. So you helped develop the Dropbox referral program?

I was there at the time. Basically, even when I first started talking with Drew. Before I came in, I was like, "I think the way we're going to grow this business is by leveraging the really passionate customer base and that's what we need to double down on."

And we had tried a similar kind of referral program at Xobni and a friend who actually started Ring, Jamie Simonoff, previously had a company called PhoneTag way before Ring, and he had actually done a lot of the testing on double-sided referral programs and having incentive on both sides, and he found that that worked the best.

And so between what we had tested at Zabni and those conversations with him, I hadn't actually seen PayPal yet at that point, what they were doing. But that was kind of like... It seems like a referral program where we have incentives on both sides is the best way to go.

Interestingly, six months before I was at Dropbox, I was at LogMeIn, and I really thought about having incentivized referrals at LogMeIn, but 80% of our new users were coming in through word of mouth.

And I had a hundred million devices connected in on our system, and I was just so afraid of breaking this growth engine by adding an incentive that I didn't want to risk it. But at Dropbox it was so early. I would still say no experiment is one person.

It happened to be when I was there, I had some insights that I brought in, but ultimately... The guy who built it was actually an intern named Albert Knee and he ended up dropping out, I think, out of MIT to stay with Dropbox for a few years after that.

But he was kind of my right-hand guy to collaborating on growth day to day.

Wow. I would say Dropbox is the referral program, and the PayPal referral program, as you mentioned, are the two most legendary, studied, copied referral programs out there.

Unfortunately, I think that what they don't realize is that before the referral program, Dropbox had amazing referral rate. Companies that are trying to copy it are like, "Why isn't anyone talking about a product? Let's add a referral program with incentives."

To me, I think it's a great accelerant when it's already working, but it can't fix it if people don't want to talk about your product.

****

ICE Impact Confidence Ease

37a) So you came up with ICE, the very popular way of prioritizing work, which is crazy.

37b) The I in ICE is impact and it's essentially saying best case scenario, how much impact could we get from this? And reach is a super important part of impact. And so I think it's already factored in the I in ICE.

37c) One just quick note on ICE is that in order to be able to effectively run a high velocity testing program, you need to be able to source ideas from across the company.

And that's why I came up with ICE, that if you're having people submit ideas and you can't tell them why their idea was not chosen, they're just going to get upset and you're going to waste a lot of time.

But if you have a systematic way of being able to compare ideas, it's more likely that people will be able to get it and they'll be able to come up with better ideas.

I love the way you think, Sean. I have a post on prioritization where I basically just make the same argument that there's all these complicated ways to prioritize. In the end, it's just impact, confidence, and effort and it really works and rarely is more work.

On the other hand, I do also have a guest post called DRICE by these two guys called Detailed RICE, which actually I think is a really good point where sometimes it's worth spending like 30 minutes per idea to just really estimate how long will it take to avoid doing things that are just going to not work and very unlikely.

38) And so almost every question that I get, I go to ChatGPT say, how would Sean Ellis answer this? And it gives me an initial draft to make a couple of tweaks and definitely allows me to answer a lot more. So it helps to have a book that's indexed in there and lots of writing.

39) Longer term, I actually think, as I said, I think the cross-functional challenge to growth is a thing that holds a lot of companies back from being able to implement this a bit later. Mostly product teams don't want to get direction from marketing teams.

Marketing teams don't want to get direction from product teams, and maybe a growth layer can help.

*

Books, Misc

41) What are two or three books you've recommended most to other people?

Increasingly, I'm recommending a book called Presenting to Win that's been around forever, but it really helped me with my presenting. And so of course when I'm out traveling, I'm

often sharing the stage with other speakers and yeah, I like to recommend that one to them. I've already talked about Nir Eyal's Hooked.

*

18) I prefer a more passionate customer base and work from there, just because I think your biggest competition when you're really innovating is just being irrelevant. And so if you're deeply relevant to anyone, I think that gives you a much better chance of long-term success.