



A GUIDE TO PIRATE METRICS AAAAARRRR

A STARTUP FOUNDERS MARKETING GUIDE

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FRACTAL

FOREWORD

This book is dedicated to all of the founders/marketers out there who want to further sharpen your skills and your expertise in the field of marketing metrics. I hope this book helps you to progress further in your career and (one day) achieve your desired position as a well sought-after marketing whiz.

As you're well aware, the field of marketing is a vast and versatile one to say the least! So, my best advice is that you remain open to all possibilities, and I wish you the best of luck in your endeavors.



INTRODUCTION

The mere mention of the word ‘Pirate’ is an evocative one, the character of a pirate portraying the image of a fearless outlaw who lives (and dies) by their own rules. After all, a pirate survives on their ability to outsmart their opponents while enduring the elements.

“Why the pirate references?” you might be asking yourself...

To start with, here’s a little bit of history; off-topic, but related by name-

Sadie Farrell or ‘Sadie the Goat’ was a female pirate who got her name because she would approach men on the street and then head-butt them in the stomach like a goat. Her accomplices would then attack these men with knotted ropes and rob them.

When Sadie had finally acquired enough money, she bought a ship and applied the same vicious tactics out on the high seas.

“Cool story, but what does this have to do with metrics?” you might be asking yourself...

Well, Sadie would have used some “pirate metrics” to measure the success of her and her crew. She started by gaining her crew from all the ships in the area. Through acquisitions and activation, (in the form of her and her gang robbing people) Sadie gained enough revenue to buy a ship. Retention and Referral is just the brand awareness she attracted along the way, making it easier for her to gain more wealth.

Now I’m not telling you to go out, head butt customers and steal their boats (not even metaphorically) but you can gain a lot from the pirate “Sadie the Goat”.

ABOUT ME

Allow me to introduce myself: I'm Gerard Doyle, and I am a marketing expert and consultant, covering a whole range of marketing domains such as fractal marketing, etc.

On my journey so far, I have helped a whole range of companies who set sail as startups. If I were to define myself in logos, here's what it would look like:



Now to be fair, I have worked with brands like H&M and Burberry despite having fashion sense, yet I am still the person they seek out when it comes to marketing. So there must be something they like about what I can do for them...

I like looking at these logos to appreciate my journey so far, and for that added encouragement to keep doing what I enjoy the most (and seem to do best at). It also attests to my expertise and shows that I must have something of a clue in regards to what I am talking about!

PIRATE METRICS

So, getting down to actual pirate metrics, the word (if you can call it that) AARRR is an acronym.

They are called “pirate metrics” because the acronym makes the same sound as a pirate.

ARRGHH! It's corny I know- but you won't forget it.

The term itself was coined by Dave McClure, founder of the 500 Startups. The term is a standard framework; not termed this way because it's memorable; instead, it's used because it actually works.

The terminology stands for the following base terms:

- **Acquisition.**
- **Activation.**
- **Retention.**
- **Referral.**
- **Revenue.**

Except here, we add an extra 'A' at the beginning, which stands for **Audience**. It's easy to add more alphabets when it's just a sound; so in the end we get **AAARRR**.

Now, let's delve into how it all works and understand every component of the acronym.

Pirate Metrics is a complete, top-to-bottom framework that you can understand from the very beginning. So if you want to decide how best to approach the marketing of your product/service, you have to start at the top of Pirate Metrics, which is the Audience.

In this book, you're going to learn how to optimize for each metric and establish an overall structure. I have been working with startups for over four years and I still apply these pirate metrics to break out the market structure.

Although it's mostly applied by digital marketers, they merely focus on the acquisition and activation phases. Whereas, growth marketing and (as a result) pirate metrics go beyond that- highlighted in the following diagram:



Generally, people look at traditional marketing and that's as far as it goes for them. But in reality, marketing is an umbrella term encompassing many different sub-divisions, all associated with marketing.

Optimizing your efforts to grow this metric is key to driving sustainable growth across your entire customer base.

So with growth marketing, you might spend six months just working on a referral program or optimizing retention or just testing different pricing; and that all falls within your remit of growth marketing, indicating the type of person to which your pirate metrics apply.

AUDIENCE

If you can work out the audience, the rest of the metrics fall into place easily.

Dave suggested that people get confused and race straight down to the referral section without covering the elements at the top. Not possible! For everything to work properly, the approach must be organized and systematic.

You will recognize your audience once you can define their level and your target market. One popular trick is to create personas so we are better able to define our target audience.

There are many free templates available online that you can use to create personas with a defined framework. A good example would be Hubspot's Make My Persona.

People do argue, however, that the persona market is often limiting as there is a versatile market out there. This argument claims that we are restricting our attempts and efforts to one or a few personas.

Think of it like writing a love song. Nobody targets a specific audience when creating a love song. We as humans thrive on interactivity and so to develop better marketing tactics, we need to have a persona/s to practice our efforts on. A love song is written with one person in mind yet we can still all relate to it, can't we?

This is how marketing needs to work.

The key here is that an audience needs to have a problem for a marketer to devise their messaging around. Your job as a business owner (or even a marketer) is to solve the problems people have or at least portray that you hold the solution to their problems.

So creating personas helps us to assign specific problems that we can solve for each persona. There are a lot of demographics involved in this practice that refines the entire practice and the more thorough it is, the better.

ACQUISITION

The second step (which was originally the first) is acquisition.

So now you've created a persona and they have a problem- that's a start! But then you need to create a pitch and a promise that helps solve their problem/s.

This step involves several P's where we have a persona with a problem, but we are providing a pitch featuring a promise and that's how I would like everyone to think when it comes to their marketing efforts.

In our marketing messages, the most common mistake I see people make is talking more about themselves, instead of the person they're supposed to be targeting! If we provide a pitch that is sure to grab the attention of the persona we have created, then we've done it. From there, we can go a step further and get into the details of what we are trying to market.

So acquisition is simply the art of driving people towards your proposed solution and getting them on board. The medium you use could either be a site, store, or an app.

The process of attracting customers can take a lifetime in order to learn how to get the communications just right. To solve this problem, when using pirate metrics we apply some KPIs around it.

Using pirate metrics, you would be asking:

- **What can we afford if our business assumptions are correct?**
- **What can we afford to pay to acquire somebody?**
- **How are we going to go about acquiring those people?**

We can acquire people using different channels, which isn't that extensive in many ways. Although sometimes, you are limited in your choices.

Take Google and Bing for example, in terms of search. Both are paid and include practices such as PPC and even SEO. This is imperative to understand because we need to know how people conduct their search for a product, which makes the search element quite significant.

This includes understanding an articulated problem and viewing it from the acquisition as people define their problems in searches. It is classical pull marketing.



This is how marketing over social media channels is conducted, which is much more about finding your exact persona (according to the audience we spoke to) and presenting in such a way that they admit to having that problem. This is where you provide your solution.

For a lot of innovative startups I have worked with, the search doesn't solve the problem because people don't even know they have that problem to begin with. Acquisitions can be made via several different methods and people need to be made aware that they have a problem in order for your solution to work.

The methods work differently for new entrants vs. incumbents because while some tactics (banners etc.) work well for the incumbent, for newcomers they might work later on in steps like activation and retention.

ACTIVATION

This is the stage where founders discover whether their business is going to work or not.

Pitch with a promise can be presented to a persona and from there you'll know whether the idea can be activated or not. Whether you get someone to activate is usually where you ponder is this point going to work or not?

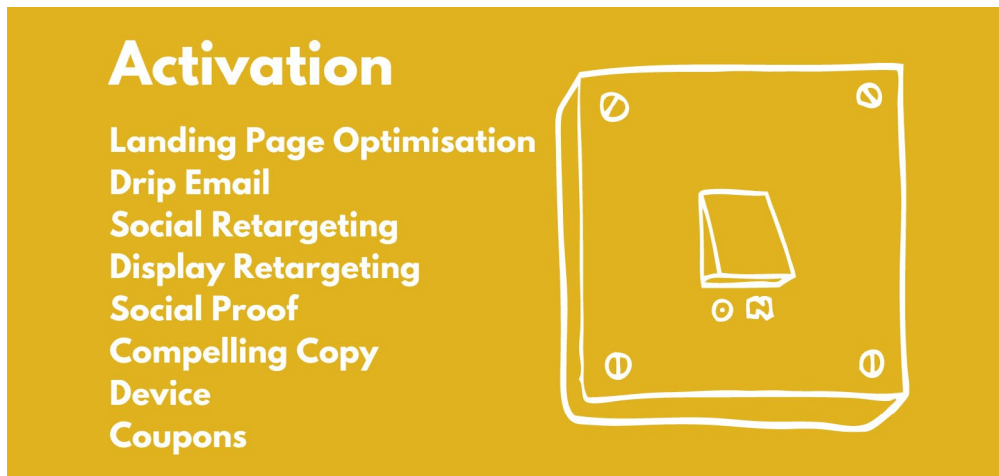
It sometimes moves into that product-market fit where a lot of investors and angels/VCs are present. But activation is the moment when a customer achieves your product's promised value.

It reflects how efficiently you are spending your money on acquiring those customers. It also highlights the fact that you might have gone after a particular persona and might have even acquired a whole group of people. That said, if activation isn't happening, there might have been a mismatch with the selected persona.

You have to go back through your pirate metrics, move over, and come back down in another direction. The real moment of truth for most businesses is the stage where they think they need some funding or to scale up their marketing; instead what they really need is to sit and pay attention to the activation layer.

Examples of activation are when you take your first ride with Uber and think "Oh, this is nice and convenient" or send your first email with Gmail and think, "Hey, this is quite easy to use". This is the activation point for them with a new customer. It's that 'Aha!' moment where your target persona is intrigued and captured.

Activation activities include the following:



For online businesses, landing page optimization and delivering the promise you put out there in the advertisement and carrying it through to the landing page is the real achievement of the goal.

There are many paid and free tools that can be employed for this purpose that typically results in 20 to 25% improvements (as I have seen) in activation rates by simply changing and split-testing the activation page.

Often, we spend so much time and effort getting people to click on ads that we don't know what to say or deliver when they have come to the page. Activation is more than just capturing a persona's details; it's about delivering the experience they expect after joining.

So a drip email that states this for you is really important. A thank you message with the company's details, CEO's message, company's vision and mission statement will do. The campaign can follow up to a second and even third-day message if you want.

Activation is an area that I advise you to spend some time on. Offer a free coupon on the first purchase or 50% off on all purchases after registering.

Include codes like Facebook pixel to pool people and know that the people registering with you are also on Facebook so you can get them to like your page or call them back; similar for other social media apps.

Retargeting users is a great way to reactivate them. Activation is the best way to get on top of the funnel, increase users or customers, and even highlight whether you have got the targeted persona right or wrong. This is probably the area where I recommend you spend the most time.

RETENTION

Retention for a startup is typically the metric that starts to get strong when you are moving between an angel round and a VC round.

For example, we are focused on the product here and this is where the product market feels locked in.

People are getting it, and you've delivered the promise that you made at the start. Now comes the question I once had that people in this position often get.

Retention can be supported with marketing, which means email marketing is an option, build a community around what you are doing etc. and spend some time on acquisition source tracking.

If you've got the retention and the buy-in, then we know you are in the right place. This goes back to the user base. If you have hundreds of users who love a product like yours, then you must work your way back to understand where those people initially came from.

You get to contemplate what you are doing and how can you further refine it. You need to understand what you are doing that is retaining your customers, which half is being retained and which half of your advertising efforts are working?

But fortunately in the digital age, you can work that out if you have set your retention methods up the right way. You may even call it the cheapest part of getting people on board. You know there is this much portion that is being retained and it can be made into a pirate metric that is presented in the form of a funnel.

That's the best way to think about it at the start, it keeps things simple and once you've got things going, this becomes a feedback loop where each of these elements as you get them right continues feeding back to the top. So in essence, retention for a business is where they can articulate whether they have figured things outright or not.

The North Star metric is the single metric that best captures the core value that your product delivers to customers.

People try to define their North Star metric at the start, but they can't articulate it until their retention is correct. I am quite passionate about ensuring the North Star metric is correct.

The biggest mistake around it is people tying it up to revenue. This doesn't help retain customers and we don't grow innovative businesses this way either. Instead, we do it by delivering on our promises and measuring success.

Some examples include Uber. Imagine if a private equity firm took over Uber

They would allow:

- **Cars to be older than ten years**
- **Drivers to be paid less**
- **Try to cut corners on their insurance, and**
- **Increase their profits and potentially increase their revenue by putting prices up.**

But that's not what Uber does. That's a profit metric, not a North Star Metric. It would be calculating the number of completed journeys where both driver and passenger rate 5-stars. Irrespective of all factors, it focuses on the continuation of the system. Continuation of 5-star journeys means the business will grow.

Universities, in particular, are bad at this. They are optimized to get students to the point where they have their HECS debt, a student loan where they get their money from the government.

They are entirely driven to get a student to pass, built around profits and the number of students; a flawed North Star metric in the long run. A good North Star metric for universities would be the percentage of students graduating and finding a job in their respective domain.

The area on retention that you won't often see is cohort analysis. This is where you take a group of people and follow them through the journey. The usage must be frequent and repetitive regularly that expresses customer retention in the long run.

If your retention number is good, venture capitalists will invest before your referral and revenue are even in place.

REFERRAL

Referrals are something businesses often go forward with from the start and consider them everything for the business.

The reality is, they have an amplification effect; which is not a primary driver. The truth is that not many people will make referrals.

Most of it will come from a small subset of users with an NPS (Net Promoter Score) score of 9+. It is the question you get where it says on a scale of 1-10 how likely are you to promote this to a friend.

It's one of those metrics where if you were to walk into a venture capitalist which is they would believe that it's a good way to think about the viability of a business. Explain this further.

The reality with the referral is that our brand is worth more than the few dollars we might get as a commission. The commission you get is the reward you get for taking that you were predisposed to make. This needs to be explained better or left out.

Personal reputation is worth much more than a few dollars because people value their reputation and their relationship with others more than the referral bonus. This is not going to happen unless the NPS score is 9 or 10.

Referrals

- **Referrals have and amplification effect - are not primary drivers**
- **You need a NPS of 9+**
- **Getting RO > 1 is really rare**
- **Consider a 2-way referral bonus**
- **You usually have to prompt for a referral**

A healthy business is where 100% of your customers come through acquisition and activation efforts. When you get to NPS, you have more users coming in that you aren't paying for, which leads to your blended acquisition cost going down.

R_0 is the virility of a business/product; no one knew what it meant but now thanks to COVID-19 we know it is one thing that a person will spread to another and it will grow exponentially. It is quite rare to get $R_0 > 1$, but when it does, it reaches herd immunity where growth stops. Factoring in an R_0 of 0.1 is still quite good.

Referrals should be considered as a 2-way referral bonus. People never naturally make referrals; they need to be prompted.



REVENUE

It sits at the bottom because if you don't get all the other things right, there's no point optimizing it.

If you do get it right, this is where businesses can start to grow, scale, and take profits. Just remember, it is easier to lower prices later than to raise it, and that is an excellent way to adjust them.

Similarly, it is much more efficient to provide more value rather than provide discounts. Your revenue doesn't go down and your customers are getting much more for the same worth.

Discounting and competing on prices is a rather lazy approach to marketing. If you don't articulate and frame value proposition, you will find that people come back to the price where there is only one market winner: the cheapest person.

If you can position yourself on value, you have a much bigger chance of winning, or at least sustaining your business and moving forward.

You can earn revenue in your business by the following means:

- Ad-based Revenue Model
- Affiliate Revenue Model
- Transactional Revenue Model
- Subscription Revenue Model
- Web Sales
- Direct Sales
- Channel Sales (or Indirect Sales)
- Retail Sales
- Product is Free, but Services Aren't
- Freemium Model
- Other...

CONCLUSION

So that about covers everything. If you weren't clear on what pirate metrics were before, now you are!

I hope I have shifted some of the preconceived notions surrounding marketing and you've had some awesome 'Aha!' moments along the way (or is that AAARGH-A moments?) I also hope that using what you've learned here, you're now able to go ahead and apply pirate metrics more efficiently- and thoroughly- in your daily business operations.

Again, this framework is going to forever change how you conduct your marketing and (hopefully) strengthen your position in regards to where you stand now. Keep on learning, keep on trying new things and (in addition to applying pirate metrics) sooner or later you'll find the treasure you've been seeking in your business.



A FINAL WORD...

As a business owner, getting your pirate metrics down can make all the difference between a thriving business, or the unfortunate sinking of the big idea you set sail with.

With all that in mind, I hope you find this guide helpful, and that you are now well on your way through your pirate metrics path.

If you have any lingering questions about what you've read here or would like to join me on a "right-fit" call, you can book a time that works for you directly into my diary using this link here:

<https://fractal.com.au/call>

Otherwise? Best of luck and happy sailing!



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