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Effective digital business building through growth KPIs and digital marketing

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Identifying and optimizing the growth KPIs of your product or service is critical to properly structure an effective digital marketing strategy. When businesses focus on a few key actionable metrics, the limited resources can be optimized to maximize impact in both marketing and overall growth.

For any business that wants to grow through globalization, a strategic presence on the web is very important. It affects the perception of your brand, provides a channel to work with customers in an engaging and interactive way, and ultimately generates impact on revenue. Although it is easy to acknowledge the need for digital presence, creating a digital strategy that drives growth is difficult. In this article, we introduce some ways to leverage digital marketing in business building.

The first step is to identify the key growth drivers of the business, the engines of growth. These engines can be categorized as viral, sticky or paid. The growth engine that is suitable for your business depends entirely on the product or service. The next step involves identifying actionable KPIs in each growth engine and leveraging digital marketing tactics to boost those KPIs. In the following we will discuss each of these steps from the point of view of the different engines of growth.

The viral engine of growth is very efficient but difficult to achieve

A viral engine of growth usually requires a product or service that creates new customers as a mere consequence of the normal usage of the existing customers. Growth is sustained as a side-effect of customers using the product, when every new user begets a new user. Viral growth is easy to identify as the customer acquisition rates show a “hockey-stick” figure:

growth starts at a normal linear pace and then at an inflection point takes off at an exponential rate.

Skype, a service which offers free online calls, is a perfect example of a viral product as it requires non-users to download the product if they want to receive calls from current users. A good example of a more traditional product is Tupperware, a company well-known for its plastic food storage containers. Tupperware initially sold the plastic containers exclusively through home parties that catered to housewives. The first Tupper salesperson started out by asking a friend or a relative to host a Tupperware home party, as the home was a trusted environment that can be used to combine a social event with a sales presentation. Existing customers invited their network of friends and relatives to continue a cycle of home parties and product sales presentations. Every women holding a Tupperware party not only pushed the product itself but also created new saleswomen as a side-effect. It was a primitive version of a viral engine of growth as existing users generated thousands of salespeople simply as a result of the normal purchase process.

Achieving viral growth is extremely difficult as products or services are either inherently viral or not. Truly viral products or services are usually made such already in the early stages of the development. Generating virality is not necessarily limited to a single feature or function but the existence of a viral loop that facilitates the process of one customer going through the product or service and inviting the next set of potential customers. Creating a viral product or service can be facilitated by an iterative approach to product development, where the product iterations are continuously tested with the potential customers to understand how the improved product facilitates and promotes virality through sharing and invitations.

It is important to note that companies can also achieve virality through viral marketing tactics without an inherently viral product. However, this approach is rarely able to sustain viral growth in the long term. Viral marketing tactics can boost new customer growth rate in the short-term but this accelerated growth is generally incremental. It is based on sharing the viral advertisement instead of getting the existing users to share the product or service for their own benefit. Thus, there is a big difference between a truly viral product, and product sales growth through viral marketing efforts. The former can exhibit exponential growth, while the latter is likely to be linear or step-wise linear.

The sticky engine of growth focuses on the long-term retention of existing customers

When a business has a product or service that keeps the customers “addicted” and coming back for repeat usage or purchases, it uses a sticky engine of growth. The exact frequency of usage to be considered “addictive” is difficult to define as it depends on the product or service. However, having highly addicted users translates into minimal attrition rate, the speed at which the customers are lost. Ensuring growth for a business with sticky products or services first requires retaining existing customers at a high rate. After customer attrition is normalized to a low rate, businesses can invest in new customer acquisition and monetize its user base by increasing the lifetime value of current customers.

Video games such as World of Warcraft are an example of a sticky product. According to a study in 2005, an average player of World of Warcraft spent roughly 20 hours a week playing the game as the social hierarchy of the game promotes extensive playing and the content is regularly updated. In contrast to consumers of viral products, consumers of sticky products are not necessarily compelled to share the product. They are rather compelled to return to the product or service. Other similar examples include subscription-based services such as cable television or magazines.

Similar to viral products, sticky products are inherently sticky or not. This should be taken into account already in the development of the product or service. To make a product or service sticky, product developers are increasingly looking towards social gaming companies such as Supercell for tips. One of the ways the developers from Supercell keep their customers hooked is through “design cues”. These are elements of the user interface of a product that signal (visually or audibly) some sort of a reward. For example, in Supercell’s hit game Clash of Clans, battle attacks are rewarded with erupting gold coins or battle sound effects to encourage the repetition of these actions. Non-gaming companies can leverage language and user interface elements of games to focus on rewarding various levels of interactivity within their product or service. A very simple example would be the different collectibles in cereals or McDonald’s Happy Meals.

Paid engine of growth builds on the value creation potential of the product or service

Though viral and sticky engines of growth can be seen in well-designed products or services, most businesses will grow their core business through the paid engine of growth. For example professional services such as tax and legal services leverage this engine, where growth of the product or service is facilitated by using margin generated from an existing customer to cover the cost of acquiring a new customer. The rate of growth is determined by the ratio of average gross margin generated per customer to the average cost in acquiring a customer. If the business can manage to drive the acquisition costs of a customer well below its lifetime value, it can use a paid engine of growth.

Businesses can use more than one engine of growth and they often do. However, for small businesses with limited resources, it is better to focus on one engine and figure out what is actually working. If the product or service is not able to inherently utilize any of the engines, the market fit of the product or service should be reassessed. If the market fit cannot be found in alternative markets or customer segments, re-engineering of the product or service may be necessary.

After identifying the growth engines of a business, the next step requires understanding the core key performance indicators or KPIs of each engine. In the following section, we present specific KPIs that affect each engine of growth. As the engines create value in different ways, the marketing strategy and tactics must then be aligned to these actionable KPIs.

The viral coefficient provides an analytical tool for maximizing virality

For a viral engine of growth, the KPI is the viral coefficient. It indicates the number of new customers that each existing customer is able to successfully convert. The viral coefficient is calculated by multiplying the number of invitations sent out by one customer by the percentage of invites that convert into customers. To illustrate, if the number of invites that one existing customer sends out is 10 and the conversion rate of those invites into customers is 20%, we have a viral coefficient of 2. To achieve viral growth, the coefficient must be greater than one.

Digital marketing tactics can optimize the viral coefficient by increasing the number of invitations sent or the conversion rate. Digital marketing campaigns that incentivize customers to share the product or service can boost the number of invitations sent by existing customers. Dropbox, a cloud storage service company, did just that with their famous “Space Race Campaign”. To boost the number of invites sent out by existing users, Dropbox held a contest for students to invite their classmates in their school to sign up for the service online. The school that had the highest number of sign-ups received 25GB of free Dropbox storage space. BlendTec, a business that sells both commercial and consumer blenders, leveraged YouTube to facilitate sharing. In order to demonstrate that their blenders were the most powerful in the world, they released a series of infomercials called “Will it Blend?” in which they used their blenders to liquefy a wide array of random items such as iPhones, hockey pucks and books. Their video series has become a Youtube phenomenon and accumulated over 200 million views and over 600,000 subscribers.

Sharing the product or service has to be made as easy as possible to maximize the number of referral invitations. Embed sharing widgets from social media platforms such as Facebook, Twitter, and Youtube into your own marketing channels. These widgets allow users to share information about the product or service directly onto their social media channels. The conversion rate can then be improved by tailoring the sharing message and platform to best suit the potential customers. For example, a Facebook invite can be much more compelling than an e-mail message. It is also important to make the buying experience as easy and seamless as possible to ensure that no potential customers are lost during the process. In the product business, the availability of the product is also a key factor in improving conversion: the potential customers rarely want to travel far or spend a lot of time looking for a place to buy the product.

Analyzing the behavior of different groups can help to find ways to reduce attrition

For sticky engine of growth, the most important KPI is the customer attrition rate. Customer attrition rate indicates the rate at which customers leave the product or service. In order to sustain growth with this engine, the customer attrition rates should be lower than customer acquisition rates. In other words, growth requires the existing customers to remain customers while gradually acquiring new users. Increasing the average revenue per existing customer will also accelerate growth.

To minimize the customer attrition rate, businesses need to first identify what is causing customer attrition by segmenting incoming customers into cohorts or groups. Customer cohorts can be segmented by a certain activation date (for example, the month in which visitors become customers). With customer cohorts, marketers can identify the impact of an external factor on customer attrition. For example, if in July a Cable TV provider increased the prices of new contracts by 35%, and the attrition rates jump starting from the July cohorts, we can identify the price change as one reason for high attrition. Cohort filters can be implemented through web analytics tools such as Google Analytics if applicable. This method is commonly used in technology startups. Phil Elbin, the CEO of Evernote, presented this customer cohort analysis as an integral tool in both minimizing the customer attrition rate and increasing revenue.

One marketing tactic to minimize attrition is developing a loyalty program for existing customers. Frequent-flyer programs, popularized by United Airlines and now an airline industry norm, are an example of a reward program designed to incentivize customer loyalty and increase product or service usage. Foursquare, a mobile application that allows users to check-in and broadcast their whereabouts, minimized attrition rates by "gamifying" repeat usage of the product. They created a badge system in their mobile application in which users profiles were designated various achievement badges according to their frequency of product usage. For example, a user who checked into 13 coffee shops received a "Fresh Brew" badge. This resonated well with users as it gave a sense of achievement and prize for frequent usage of their product.

E-mail newsletters can also be leveraged to engage existing customers from time to time and maintain a line of communication with them. Businesses should track the open-rate of distributed emails and the click rate of the email content. Testing catchy headlines in the email subject line can improve the open-rate of the email while testing different images and content can improve the click-through rate of the content.

Harnessing the "paid engine of growth" by improving customer life time value while reducing acquisition cost

For the paid engine of growth, the key performance indicator is to maximize the lifetime value of a customer (LTV) and minimize the customer acquisition costs (CAC). If LTV > CAC, the company will be able to invest in growth. In order to lower customer acquisition costs, marketers must identify channels that provide a high volume of traffic. Study the web analytics of your website and prioritize media channels (search engines, blogs, social networks) that provide the most web traffic. Then, calculate the cost of advertising in the channel and the conversion rate of general traffic into paying customers by each channel. Select the best-performing channels which provide high volume, low cost and high conversion. Businesses can then gradually invest more in the channel as long as the CAC is lower than the LTV and the cash position can take the investment.

Driving repeat sales continuously for any product or service is difficult, especially if there is no sticky engine of growth. One fundamental step in increasing the LTV of a customer is to understand the lifecycle of your product or service. Identify how long a customer can use your product or service before they will need to repurchase. For example, a company that sells contact lenses will know when their customers need to rebuy based on the type of the contact lens (daily, weekly or monthly replacements). Once the lifecycle of the product or service is identified, marketers can time their promotional marketing campaigns at the end of each cycle.

Bringing it together: functional teams taking joint ownership and responsibility for growth KPIs

Identifying and optimizing the growth KPIs of your product or service is critical to properly structure an effective digital marketing strategy. When businesses focus on a few key actionable metrics, the limited resources can be optimized to maximize the impact. The decision on which KPIs to prioritize must be set at the strategic level as the optimization of these metrics cuts across the business functions such as marketing and product development. Responsibility for these growth drivers should not be delegated but rather owned jointly to facilitate the alignment between these functions.