



TheBloX

Customer Acquisition Channels

A Refresher Course On The Lean Startup

- The Lean Startup is essentially applying the scientific method to startups
- Launch sooner and small; treat everything we do as an experiment with no pre-conceived notions about it.
- Let the data dictate what worked (and do more of it), or didn't work (and cut it).
- We then make minuscule improvements, repeatedly, forever - constantly just moving in the direction the data tells us.

Lean For Marketing?

- When The Lean Startup is talked about it's most often discussed in terms of engineering. Like, what features to build or manufacture. And this is good. But, the same concept works across the board in business, including and especially business.
- There are roughly 20 customer acquisition channels, sometimes referred to as traction channels. Examples, Google Ads or Sales Conferences.
- Most founders only consider the ones they have experience with.
- It's hard and almost impossible to guess which one will work the best.
- And again, once it's found, it's hard to optimize it so you can wring it out for every dollar you can get out of it.

Traction Fixes All

- Obviously you have a lot of details to work through as an entrepreneur. But ultimately they all are in pursuit of traction. Traction cures almost all that ails a startup.
- Traction will get you investors, more customers, better employees, more press...and the list goes on.
- But what is it?

TYPES OF STARTUP METRICS

Infographic by @agrassoblog

 MRR Monthly Recurring Revenue monthly total of paid customer fees	 ARR Annual Recurring Revenue recurring revenue on an annual basis	 ARPA Average Revenue Per Account $MRR / \text{Total \# of Customers}$	 Gross Profit Total revenue minus the cost of goods sold
 TCV Total Contract Value value of one-time and recurring charges	 ACV Annual Contract Value value of a contract over a year	 LTV Lifetime Value prediction of the net profit from the entire future relationship with a customer	 Deferred Revenue amount that was received by a company in advance of earning it
 BILLINGS current quarter revenue + deferred revenue from previous quarter	 CAC Customer Acquisition Cost full cost of acquiring one user	 Concentration Risk revenue from largest customer/total revenue	 DAU Daily Active Users users other than one-time users per day
 MAU Monthly Active Users users other than on-time users per month	 Number of logins times of sign in per month	 Activation rate number of users taking a specific action to get value out of a product	 MoM Growth Rate Month-on-Month Growth average of monthly growth rates
 CMGR Compounded Monthly Growth Rate (Latest Month/First Month) $(1/\# \text{ of Months}) - 1$	 Monthly Churn Rate lost customers this month/prior month total	 Retention % of original installed base (1st month) that are still transacting	 Gross Churn Rate MRR lost in a given month/MRR at the beginning of the month
 Net Churn (MRR lost - MRR from upsells) this month/MRR at the beginning of the month	 Burn Rate Monthly cash burn rate	 TAM Total Addressable Market revenue opportunity available for a product	 MRR Projection projection of current MRR into the future, annualized

Data source: AdiomaApp

Quote by Peter Thiel, Founder of PayPal and early major investor in Facebook. For more context, when he says “distribution” he’s referencing what we’re calling customer acquisition channels.

“[You] probably won’t have a bunch of equally good distribution strategies. Engineers frequently fall victim to this because they do not understand distribution. Since they don’t know what works, and haven’t thought about it, they try some sales, Biz Dev, advertising, and viral marketing - everything but the kitchen sink. That is a really bad idea. It is very likely that one channel is optimal. Most businesses actually get zero distribution channels to work. Poor distribution - not product - is the number one cause of failure. If you can get even a single distribution channel to work, you have a great business. If you try for several but don’t nail one, you’re finished.”

The Bullseye Framework

- Brainstorm
- Rank
- Prioritize
- Test
- Focus
- Repeat

Give Each Channel A Mental Tire Kick & Pick Your Top Three Best Candidates

- Debate, discuss, think about, research (but all very, very fast) reasonable ways you might be able to use EACH customer acquisition channel.
- Put your inherent channel biases to the side for the time being.
- Think through:
 - How likely is this channel to work?
 - Can I quickly run a test to prove my assumptions?
 - How quickly will my inventory of customers from this source run out?
 - How much hard costs and time will it take to acquire a customer?

Test Them Like A Scientist Would

- The goal is to determine which of the three was the most viable in the real world.
- Run a series of relatively cheap tests
- Give all three options an equal amount of gasoline (ads, time, attention). The gasoline per channel is your dependent variable.
- Attempt as best as possible to quantify what the cost of customer acquisition is for each of the three channels.
- Ensure that if a channel is working that it's bringing in the right type of clientele.
- Assess the scalability and repeatability of the channel.
- The goal of this test isn't some breakthrough amount of revenue. It's simply to prove that this channel can work for you long-term and it's the one you should be investing your time and capital into.

Optimize

- If it went well, one of the channels should be outperforming the others. Start putting more effort and resources behind this one and cut the others.
- Now start running more and bigger tests, but not about finding different channels. Instead the goal is to now figure out how to optimize this channel.
- This process should take one-to-two years.

The 50% Rule

- Spend half your time on product
- Spend half your time on customer acquisition channels

Making this whole concept hard: The Leaky Bucket

- You have to be careful not to invalidate good customer acquisition channels when customers are saying no because your product isn't there yet. Or your design isn't there. Or your pricing isn't there. Or you didn't have enough time or money to create a large enough sample size.
- As scientific as we're trying to make this, there needs to be a buffer space in the early days for customers that came in, through a quality funnel, but they balked before paying because something wasn't right about the product.
- This is why we have to accept piss/poor customer acquisition costs in the early days while we're still plugging the holes in our bucket.

Viral Marketing

- Pro: free and organic growth
- Con: much harder than it looks

Getting Press

- Pro: It's external validation and social proof
- Con: It's less effective than it used to be due to the nature of the media, and hard to turn on whenever it's time to sell.

Search Engine Marketing

- Pro: Immediate access to customers whom are already searching for the solutions to their problems
- Cons: the competition to bid for those keywords is stiff, making it expensive

Social Media Ads

- Pro: it will create demand for your product when people didn't even know they wanted it
- Con: it's not cheap and isn't a 'set it and forget it' option

Search Engine Optimization

- Pro: Same pros as Search Ads, but no cost
- Cons: tons of work, luck, and time

Content Marketing

- Pro: Branding and thought leadership, massive aide in SEO
- Con: Arduous work with no early proof it will work

Email Marketing

- Pro: easily automated; easily scaled
- Con: Unlikely to be the only thing you can use

Engineering As Marketing

- Pro: Great differentiator
- Con: Takes a lot of creativity to think of something effective, and then a lot of chops to build it

Targeting Blogs

- Pros: Same pros as press, but more highly targeted, and easier to get a hold of
- Cons: hard to scale

Business Development

- Pro: could unlock more value than just finding customers
- Con: hard to track down partnership, sell them on the value, and then fully implement

Sales

- Pro: borderline mandatory for the higher ticket items
- Con: hard to scale

Affiliate Programs

- Pros: The more scalable version of press
- Cons: Pain in the butt to manage

Existing Platforms

- Pro: you might be able to ride the wave of a new platform
- Con: your growth and features will be restricted to their whim

Offline Events

- Pro: in-person is the highest quality impression a marketer can make
- Con: Hard to scale and promote and manage

Influencer Marketing

- Pros: *can* be a very effective arbitrage VS Instagram ads
- Cons: harder to manage than it looks

Tradeshows/Conferences/Speaking Engagements

- Pros: There are certain types of customers who only make purchases decisions by who they met at certain events such as these
- Cons: not scalable, not provable until you try it, requires a lot of skill to pull it off.

Retail

- Pros: It uses the foot traffic of the store (online or in-person) as a crutch to augment the demand of your product.
- Cons: This doesn't necessarily create the demand, it just helps fill it