



First Avenue
Ventures

The Structured Start-Up

WORKBOOK



MODULE 18: METRICS

TOPICS COVERED:

The necessity of objective financial measurements and how to develop Objectives and Key Results.

The Structured Start-Up from First Avenue
Ventures
<https://learn.firstavenueventures.com>

**LEARN WHAT
MATTERS
MOST**

WHAT OBJECTIVES DO YOU NEED TO ACCOMPLISH? WHAT'S THE BEST WAY TO EVALUATE SUCCESS?

"It's a common misconception that money is every entrepreneur's metric for success. It's not, and nor should it be."

— Richard Branson

"What's measured improves."

— Peter Drucker

"If you don't collect any metrics, you're flying blind. If you collect and focus on too many, they may be obstructing your field of view."

— Scott M. Graffius, *Agile Scrum*

First and foremost: at some point, you need to make a profit. As mentioned in our discussion of unit economics, you have to produce your good or service for less than you sell it. Tracking those numbers seems relatively easy: income and revenue, the cost of goods or services sold, and net income. Rarely, though, is it so simple.

Even with objective measurements, these numbers can get tricky depending on what kind of company you're running and what kind of goals you have. You may also want to track the cost of customer acquisition, the life-time value of a customer, and the churn rate (the percentage of customers and/or subscribers you lose over a period of time). On the expense side, you may want to track fixed versus variable expenses, fully loaded labor costs, EBITDA, EBIT, and/or some other earnings component.

All of these metrics are needed and necessary. But a founder has a limited amount of mental bandwidth and focus. At some point, you're at risk of death by data and of losing focus on what really matters. One good rule of thumb is to have three metrics to focus

on and just focus on those. What three objective measurements are most indicative of your organization's health? Find these three objective measurements and go with it.

Objective financial measurements are also important when it comes to the creation of a start-up or project. Often, it's the building of something – tangible or intangible – that's at the core of the process. Measuring the progress towards that goal is critical for success. Figuring out how to measure that when what you are doing is new is a challenge, but a necessary one.

In his book *Measure What Matters*, John Doerr offers some advice. In a nutshell, he suggests examining your business strategy and determining strategic priorities. For instance, a car dealership's strategic priorities might include increasing profitability, attracting more customers, and increasing service revenue. Next, you'll want to figure out which processes and projects are linked to those strategic priorities. Then, decide what success in these strategic priorities looks like, naming clear Objectives and Key Results (OKRs). Using the example of a dealership, in order to increase service revenue, your Objective may be to reduce the churn rate by extending warranties. In this case, your Key Results would be to increase targeted service emails by 10% and set up initial service appointments during 60% of car purchases.

Regardless of methodology, you need to pick something that works for you and implement it. You need to know what success looks like for you and your organization so you can celebrate your wins and hold yourself accountable for your losses.

Some people (myself included, sometimes) use what some may call "the checking account methodology." You open up the checkbook: if your cash has grown, you won; if it's decreased, you lost. While there is some measure of success in cash, this is far too simplified a process to really get a good basis for what is and what is not working within the organization. Yes, a simple approach is good, but it needs to be thought out in order to work.

CONFLICTING DYNAMIC

QUESTIONS TO CONSIDER



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1. What three things do you and your team need to accomplish in the next three months?

QUESTIONS TO CONSIDER

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2. What three things do you and your team need to accomplish in the next quarter?

3. How might you measure the success of these objectives?
