

Pirate Metrics

Take control of your funnel

Contains:

- [Digital 16x9 Canvas](#)
- [Step-by-step guide](#)
- [Examples](#)
- [Additional Material](#)
- [Digital Stickies](#)

WRKSHIP

Resource Deck

What is it?

What is it and when should I use it?

'When you are developing a new digital service or startup, it's best to think like a pirate.

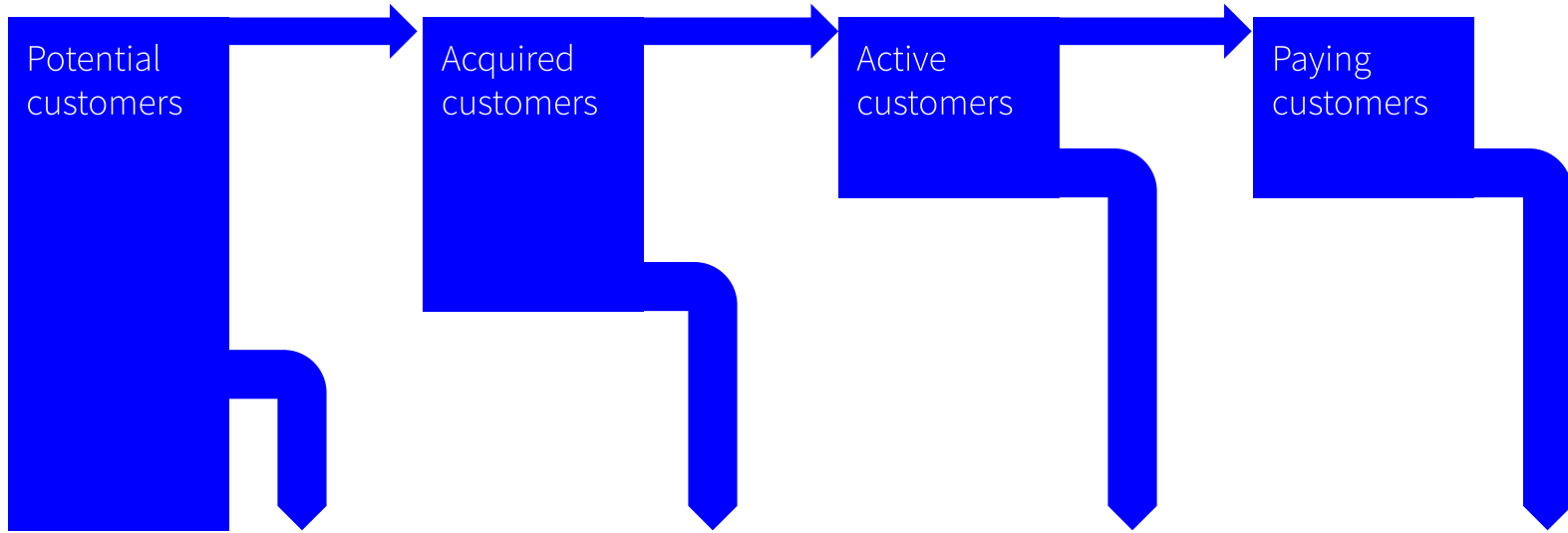
When you are developing a new digital service or startup, it is vital to understand how you will reach your customers. And to do that, according to the originator of Pirate Metrics, **Dave McClure**, who first presented it in **2007 at Ignite Seattle**, it's best to think like a pirate.

The idea is to map out the **entire journey** a customer makes to go from **someone who doesn't know the service at all** through different stages to someone that is a **paying customer**. What are the different stages a customer goes through? What are the decision points? What are the conversion rates between subsequent stages?

EXAMPLE

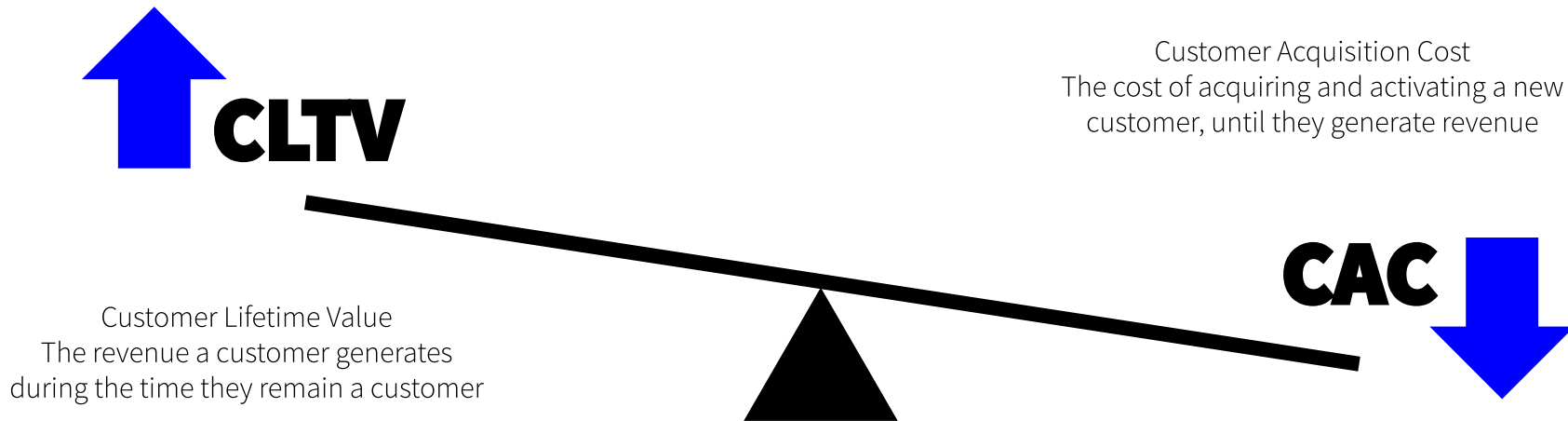
The [video of the original presentation](#) of Pirate Metrics in 2007

Your funnel as a customer journey

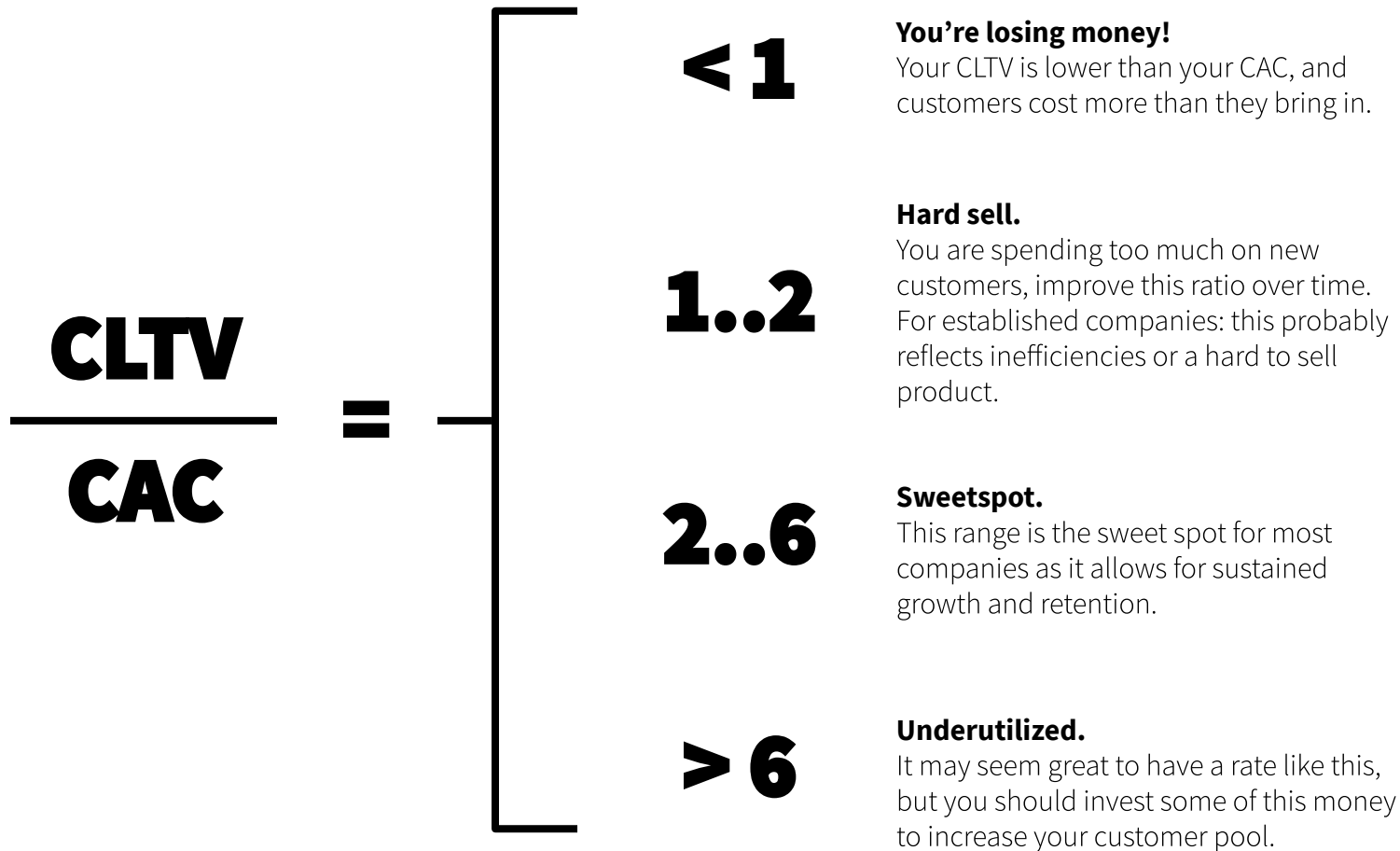


A potential customer has to go through several stages to go from someone that does not know about the service all the way to a customer that generates revenue. Each of the transitions between stages has a **conversion** attached to it. Not all customers that you acquire end up using the service, and not all of these may become paying customers. That means, **you will lose customers** going from stage to stage

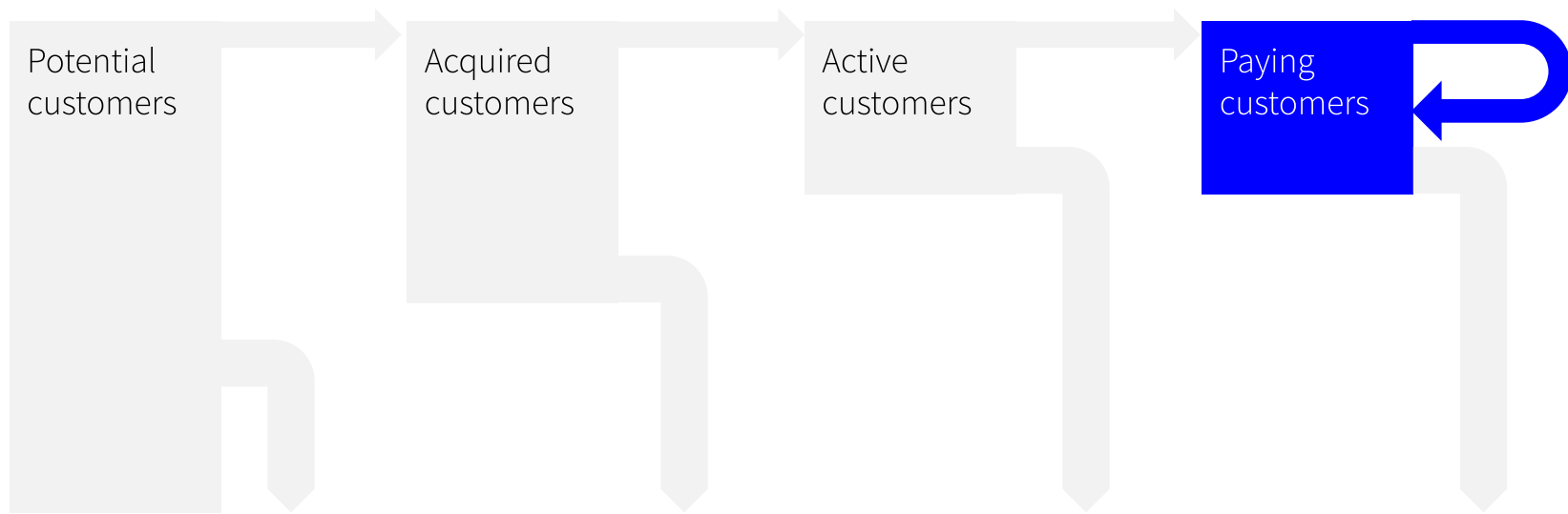
CAC and CLTV



Understanding your funnel and the conversions will help you calculate those all important metrics: the **CAC (Cost of Acquiring a Customer)** and the **CLTV (Customer Lifetime Value)**. If you know your CAC and CLTV, you also know what your profit margin is.

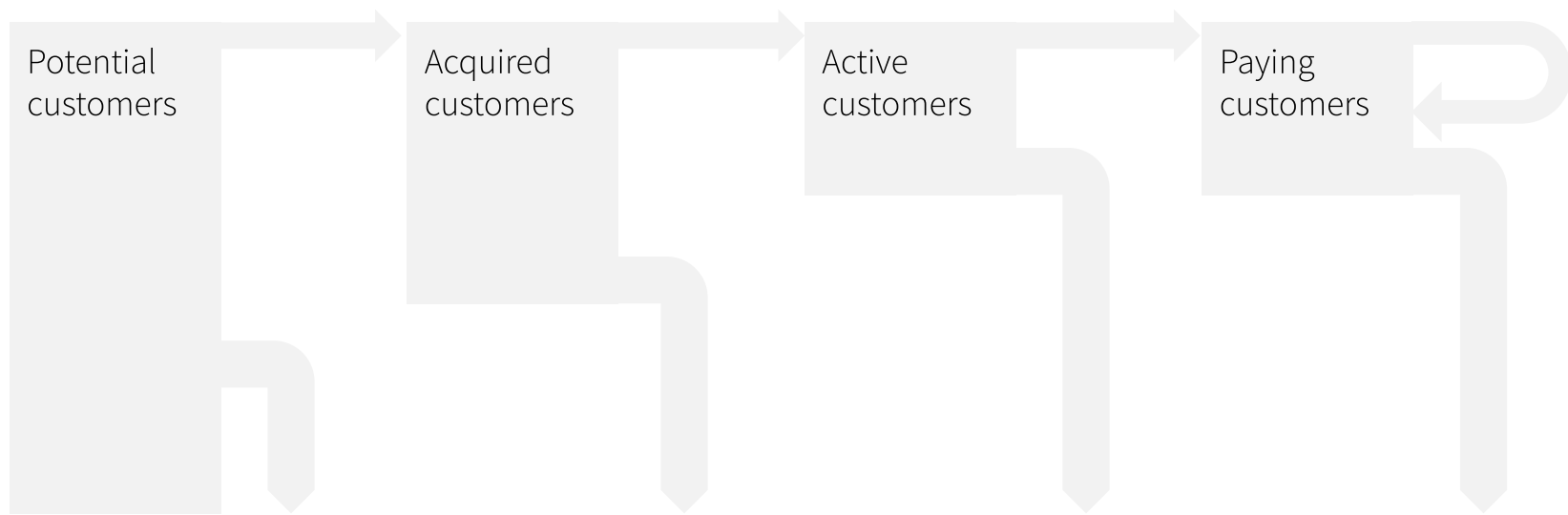


The Power of Retention



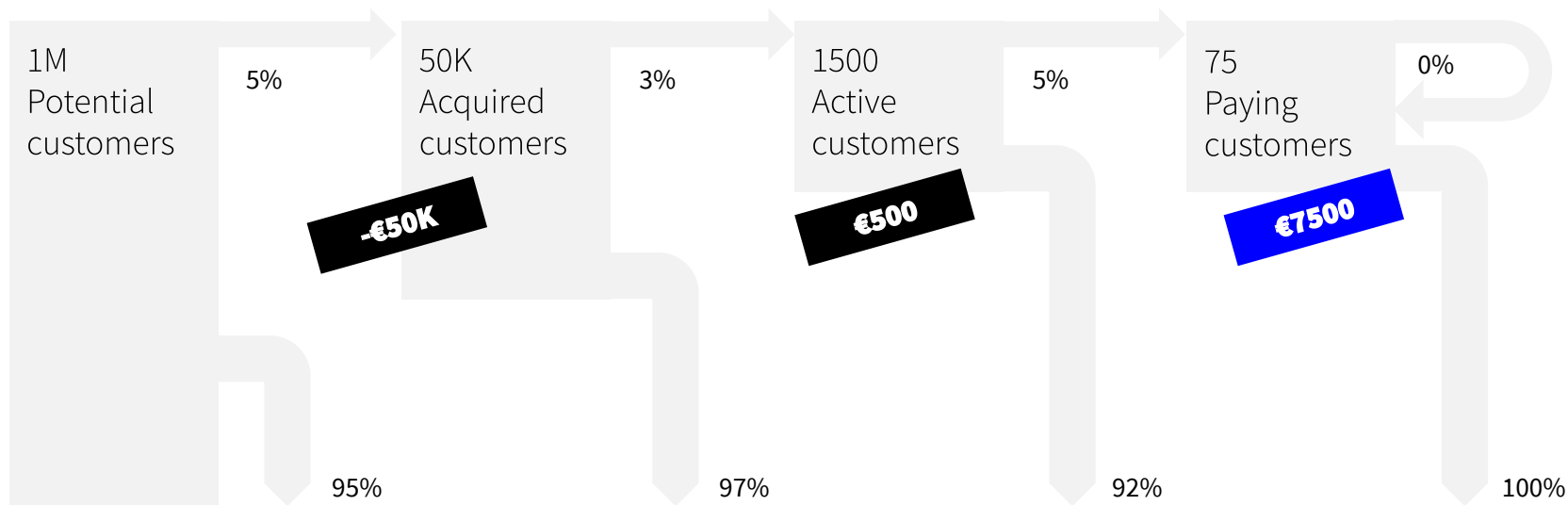
When you start calculating your **CAC** and **CLTV** you'll quickly find that the 'retention' dial has a huge influence on your revenue. The reason is, that you already paid for the acquisition of this customer, while at the same time retaining a customer means increasing that customer's lifetime value.

Getting more paying customers



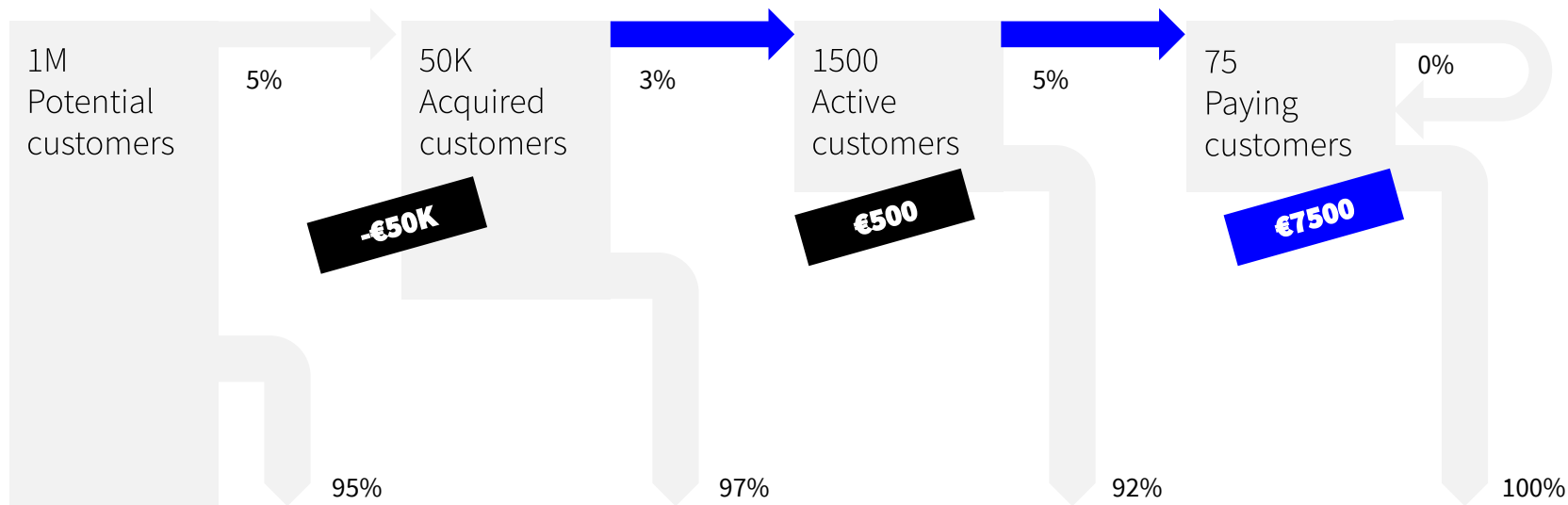
To get **more paying customers**, you can do two things. You can get **more customers into the system** (by working on the acquisition stage), and you can **increase the conversion rates** on each of the subsequent stage gates. Both strategies, typically, come with a cost. The total cost that you incur in order to get a customer from the acquisition phase to a paying customer is what determines your CAC. You need to earn back that (and your profit) from the CLTV that a customer generates over their lifetime.

Example



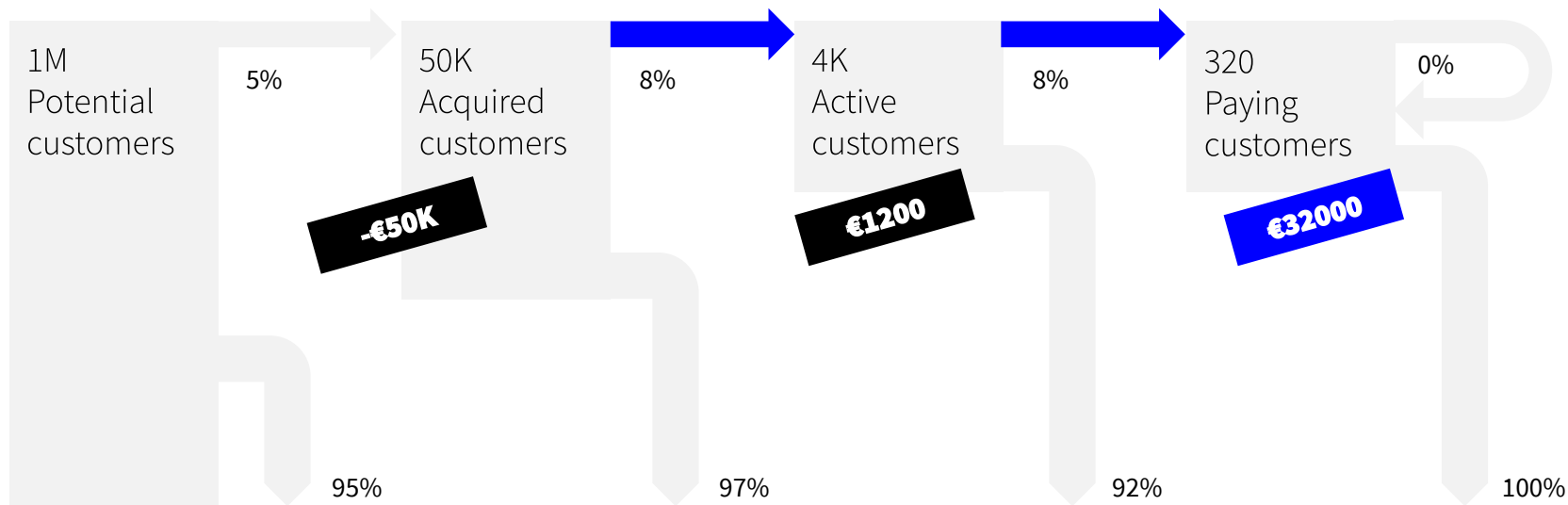
In this example, the funnel has **average to low conversion rates** throughout, and it has **zero percent retention**. This could be the model for a simple webshop selling a product, let's say for €100. The revenue of this webshop would be €7500, or a CLTV of €100. To get to this revenue however, the webshop needs to pay to acquire 50K customers, and to convert them into 1500 active customers using a drip campaign. If the webshop would use ads, this could cost around €1.00 per acquired customer, or €50K! That is a CLTV/CAC of 0.15 or lower. What to do?

Example



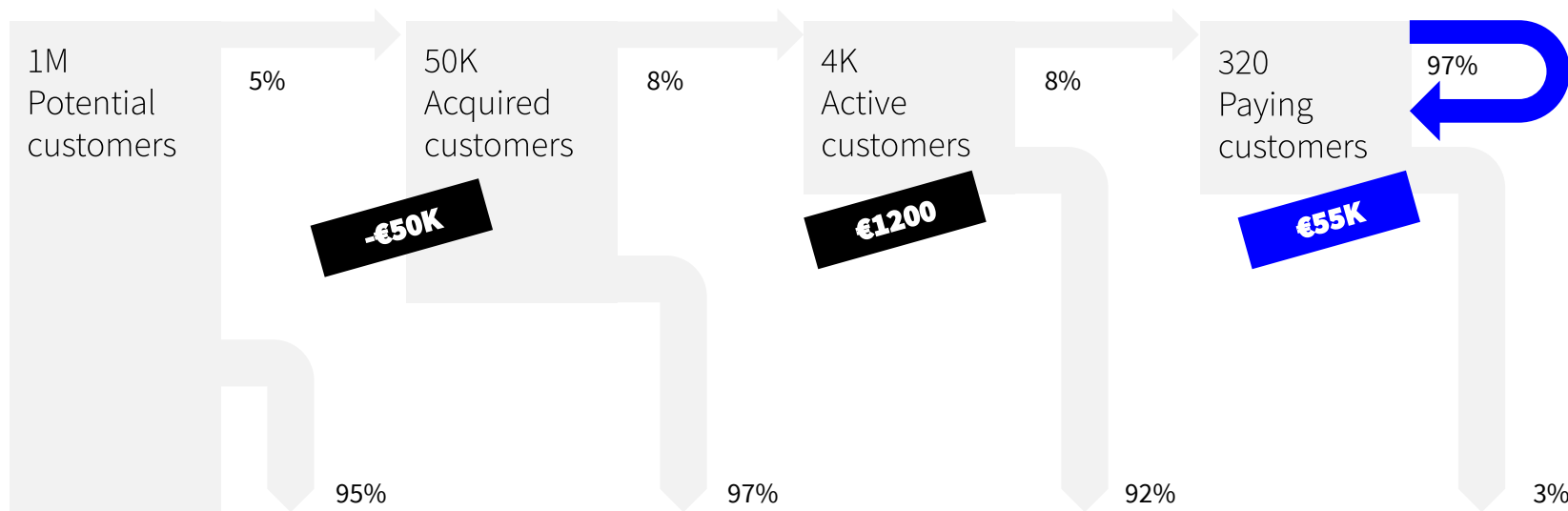
Increasing the number of acquired customers through a marketing campaign might seem obvious, but in this case it will only **further increase** the cost. The problem is that every acquired customer now only has a 0.15% chance of generating revenue. It's much more important to fix the bad conversion rate for acquired customers to active customers and the average rate for the active customers to paying customers.

Example



Changing these conversion rates to values that are in the upper range of average conversion rates means an acquired customer will now have a 0.64% chance of generating value. That's 4 times better. The cost and the revenue are more in balance, but it's still a badly losing business.

Example



Looking at retention, the entrepreneur now focuses on recurring revenue, and manages to sell a subscription with a monthly fee of **€12**, and a **substantial churn of 35%** on a yearly basis (retention of **96.5% monthly**). This means that the average lifetime of the user is now around **14 months**. This changes things to make break-even.

Retention is king

The example above shows that it makes a lot of sense to spend your marketing money where it makes a difference: on retention.

Of course, if you don't have any acquired customers, retention and referral won't make that much of a difference. You will need to do things to get people into the top part of the funnel. The problem for many businesses is how to do that without spending a lot of money on acquisition. This is what growth hacking and smart marketing strategies can help you with: how do you get a lot of interested people to your service cheap, so that you can then try to convince them to become active or even paying customers.

As a rule of thumb, to the left of the funnel, try to get people in for free. To the right, you can start spending money.

TOOL

Check out this online [Calculator Tool](#) for Pirate Metrics and play around with the numbers

WRKSH

Resource Deck

Canvas Overview

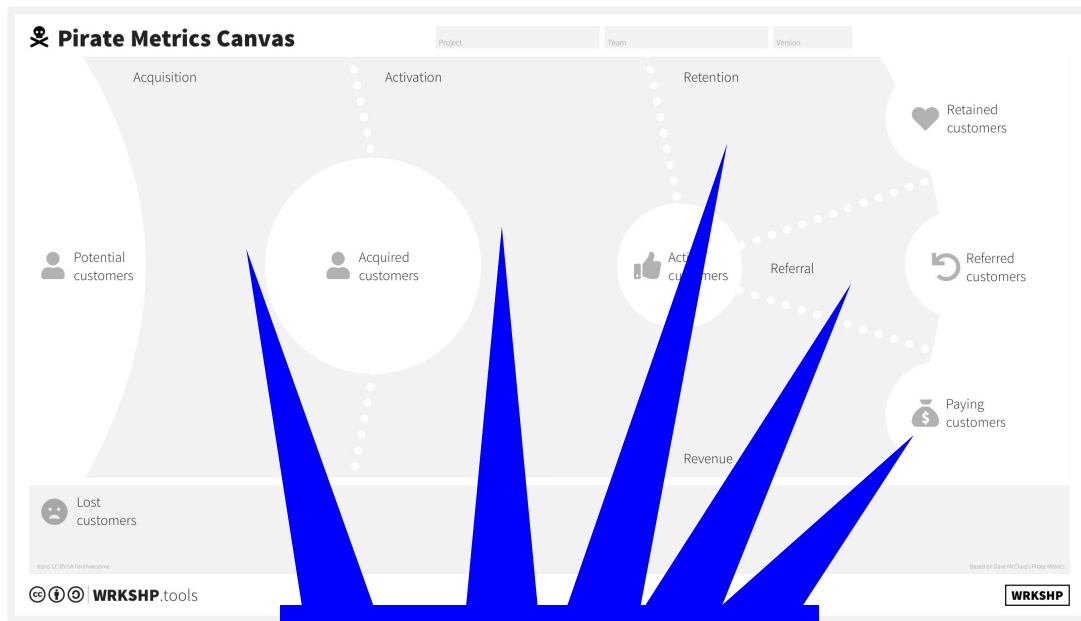
Canvas Overview

When you are developing a new digital service or startup, it's best to think like a Pirate.

The name Pirate Metrics comes from the piratey-sounding acronym '**AARRR**', for the main stages in the mental model, Acquisition, Activation, Retention, Referral, and Revenue.

The canvas has areas for these main stages, as well as spaces between them to serve as 'containers' to map out the number of customers that have successfully passed a stage.

The following pages describe the canvas in more detail.



AARRR!

Acquisition, Activation,
Retention, Referral, Revenue

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention



Potential customers

1

2



Acquired customers

3

4



Active customers

5

Referral



Retained customers

6

7



Referred customers

8

9



Paying customers

10

11

Revenue



Lost customers

12

Icons CC-BY-SA FontAwesome

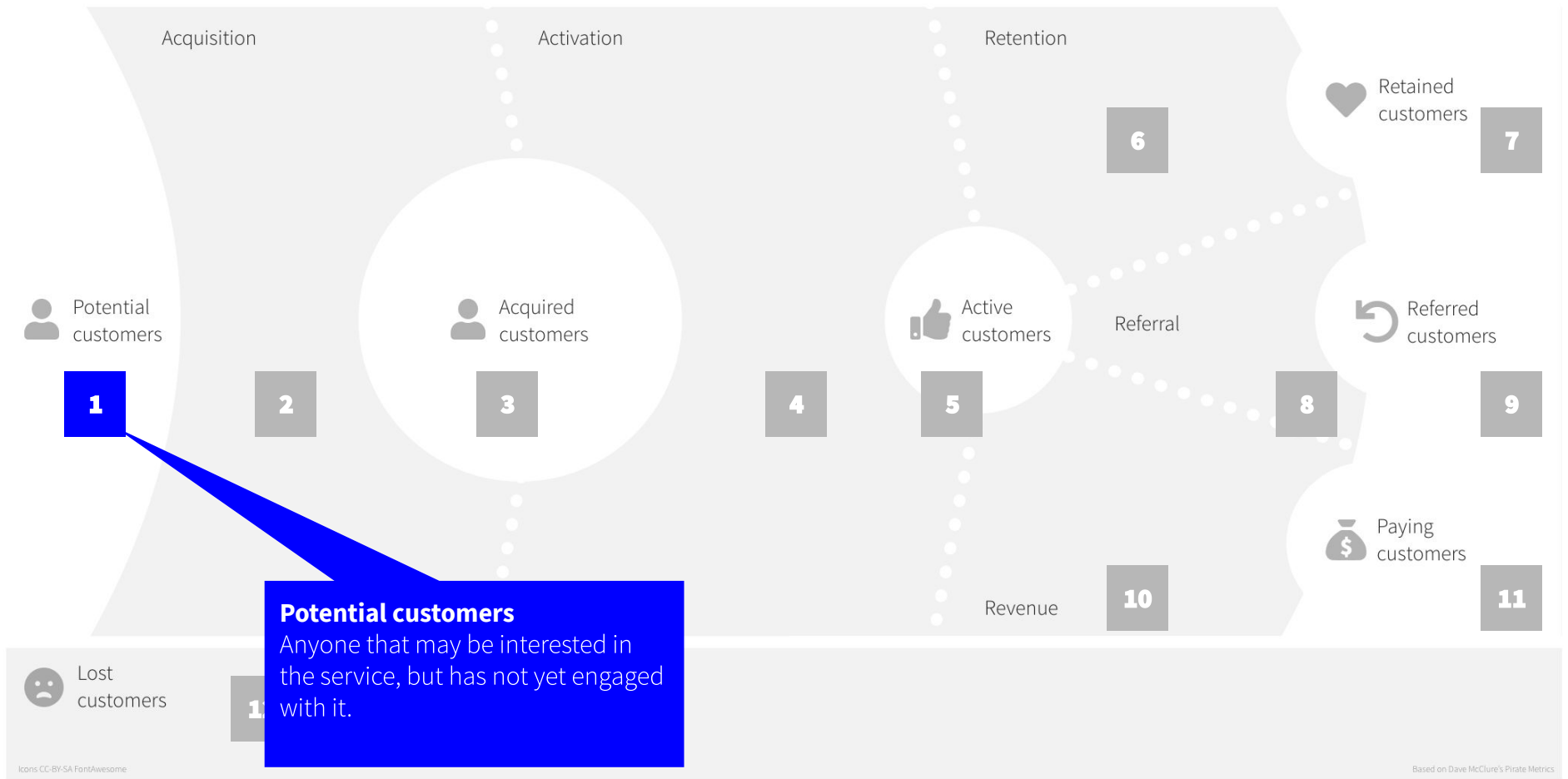
Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version



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Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version



Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention



Potential customers

1

2



Acquired customers

3



Active customers

5

Referral



Retained customers

7



Referred customers

9



Paying customers

11

Revenue

10



Lost customers

1

Acquired customers

People that have engaged with your product or service.

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Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention



Potential customers

1

2



Acquired customers

3

4



Active customers

5

Referral



Retained customers

7



Referred customers

9



Paying customers

11

Revenue

10



Lost customers

12

Activation

The activities that turn acquired customers into active customers: actual users of your product or service.

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Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention

 Potential customers

1

2

 Acquired customers

3

4

 Active customers

5

Referral

 Retained customers

7

 Referred customers

9

 Paying customers

11

Revenue

10

 Lost customers

12

Active customers

People that are actively using your product or service.

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Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention

Retention

The activities that make active customers come back to your service.

6



Retained customers

7



Potential customers

1

2



Acquired customers

3

4



Active customers

5

Referral

8



Referred customers

9



Paying customers

11

Revenue

10



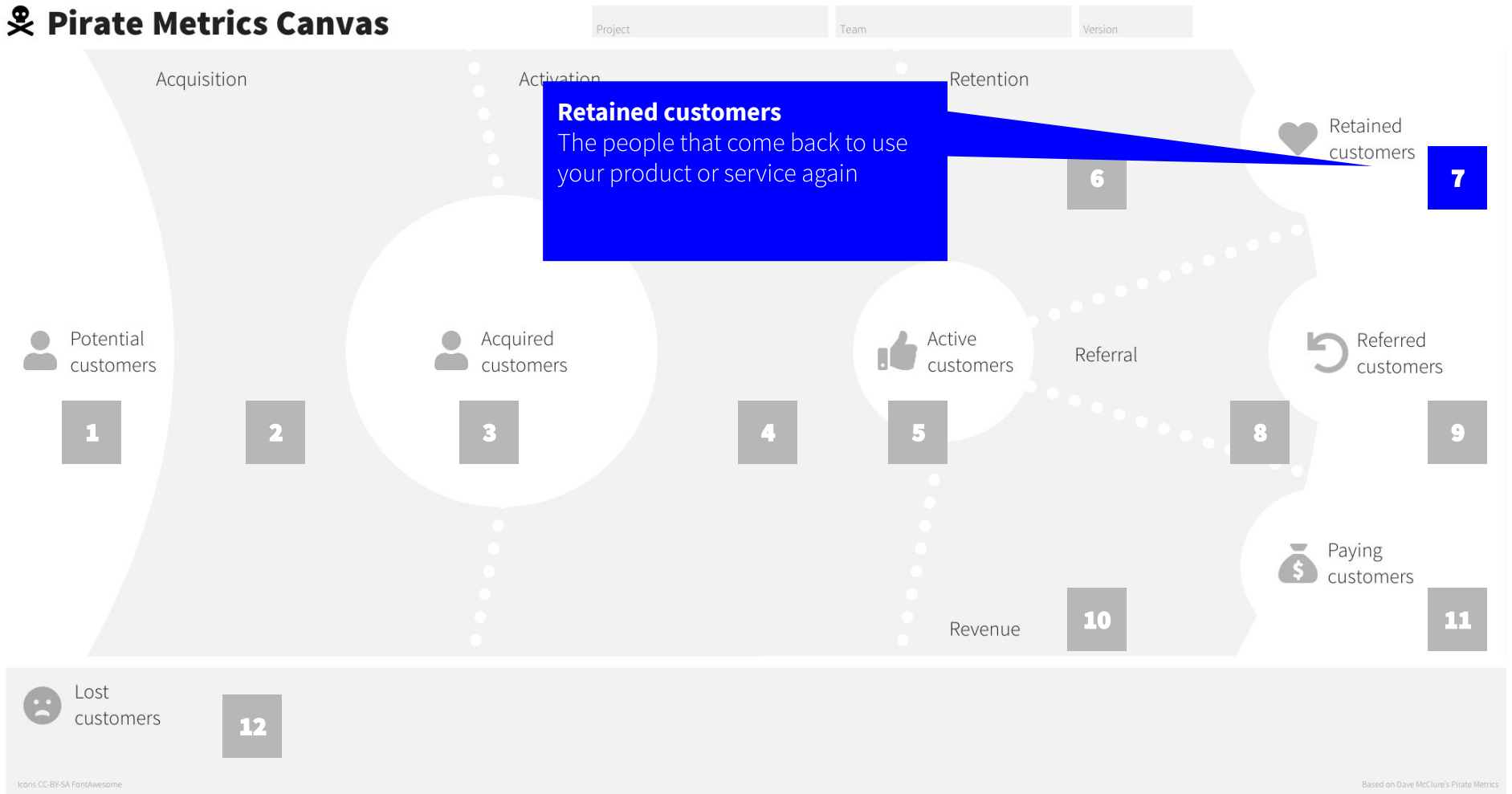
Lost customers

12

Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas



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Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention

 Potential customers

1

2

 Acquired customers

3

Referral

The activities that make active customers refer your service to others.

 Active customers

Referral

8

 Retained customers

7

 Referred customers


9

 Paying customers

11

Revenue

10

 Lost customers

12

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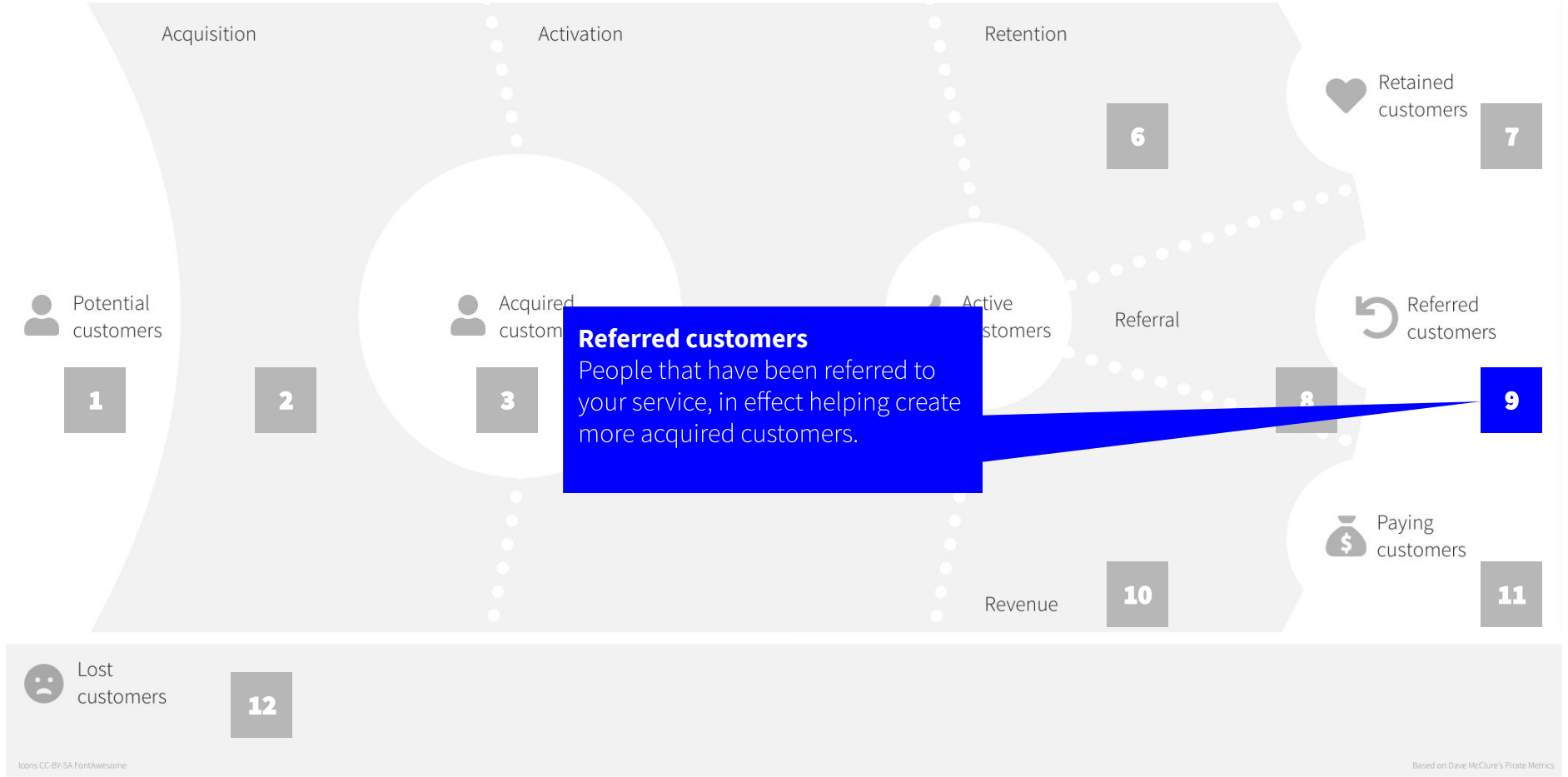
Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version



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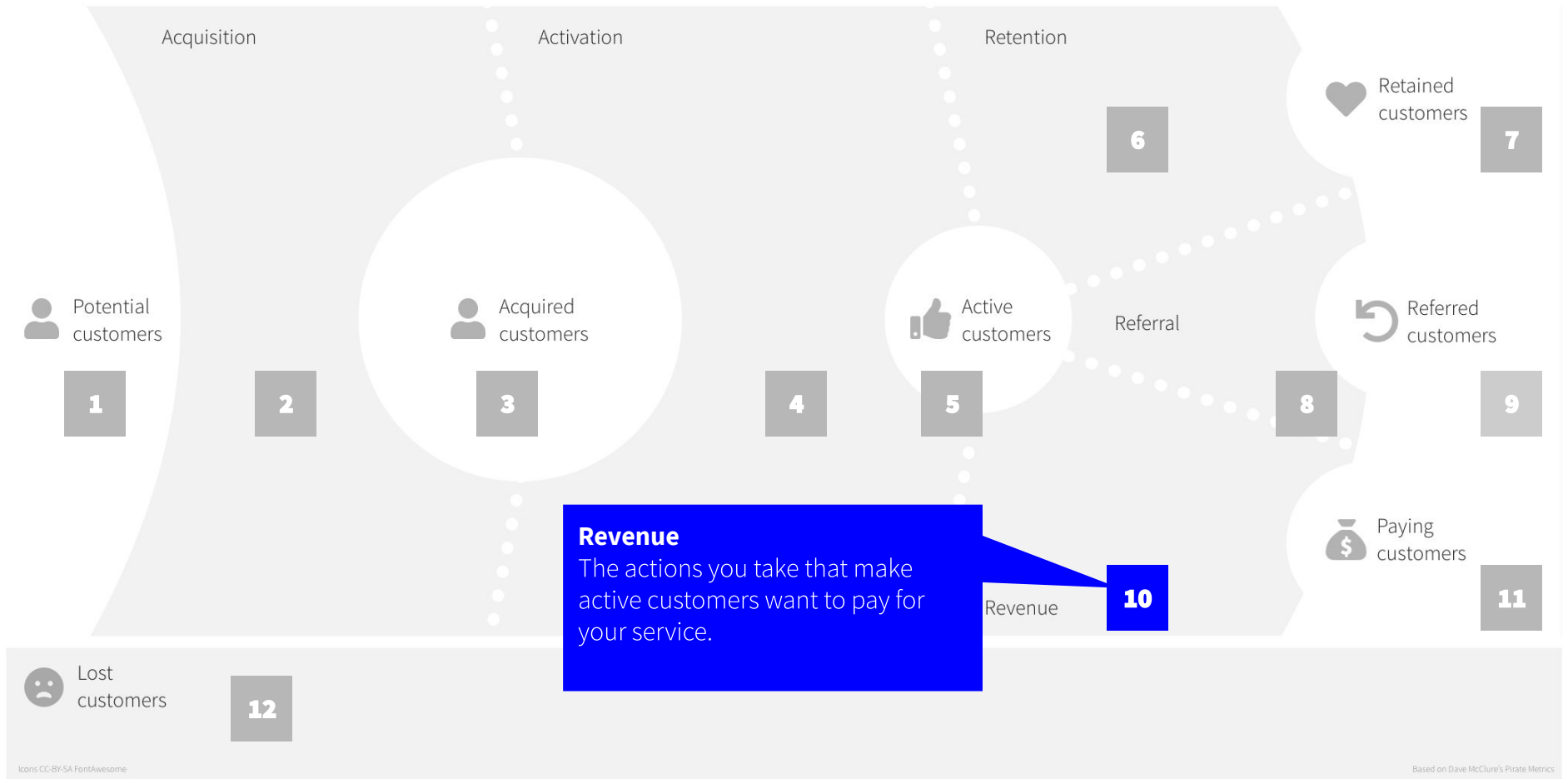
Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

Version



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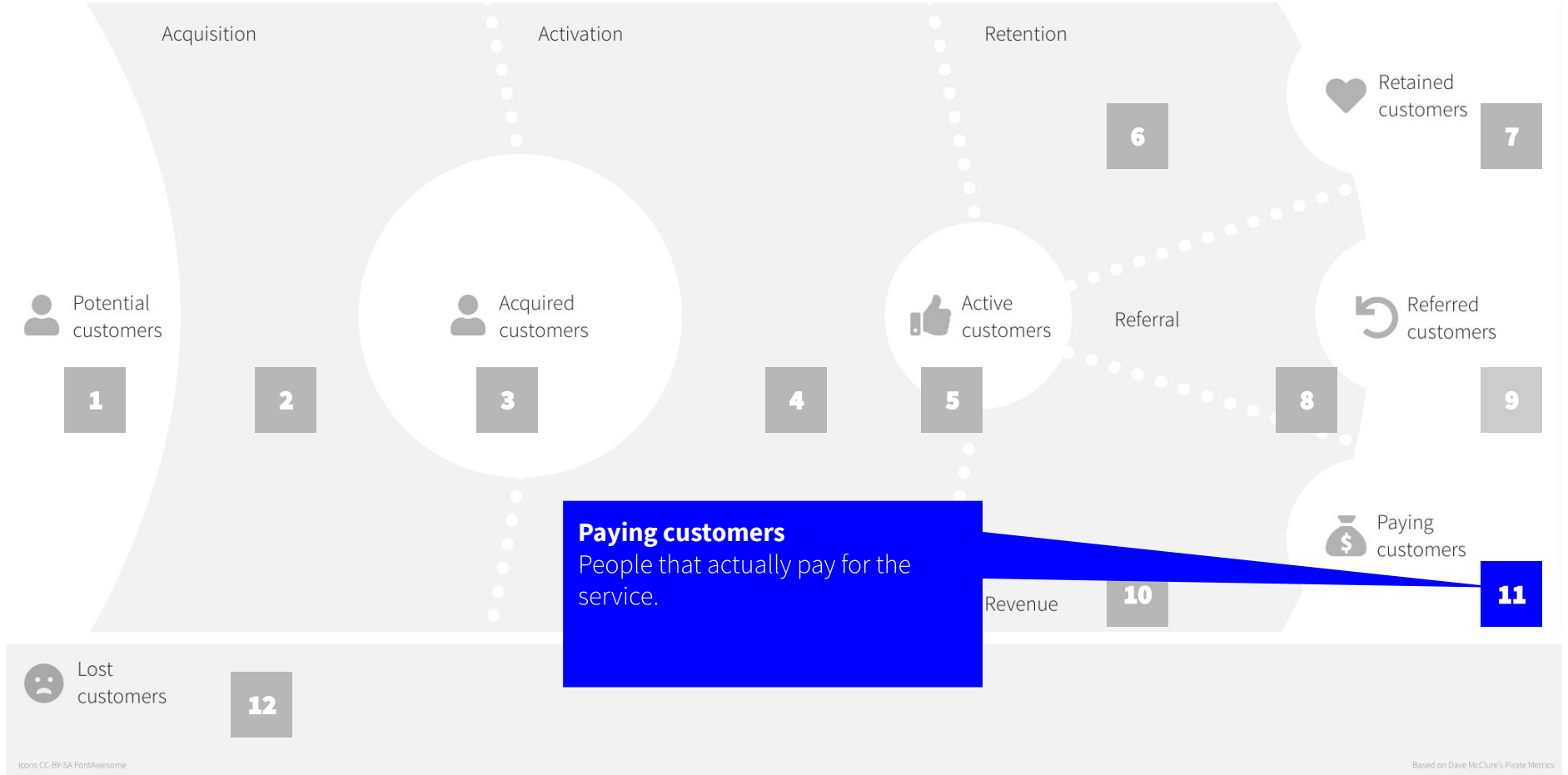
Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas

Project

Team

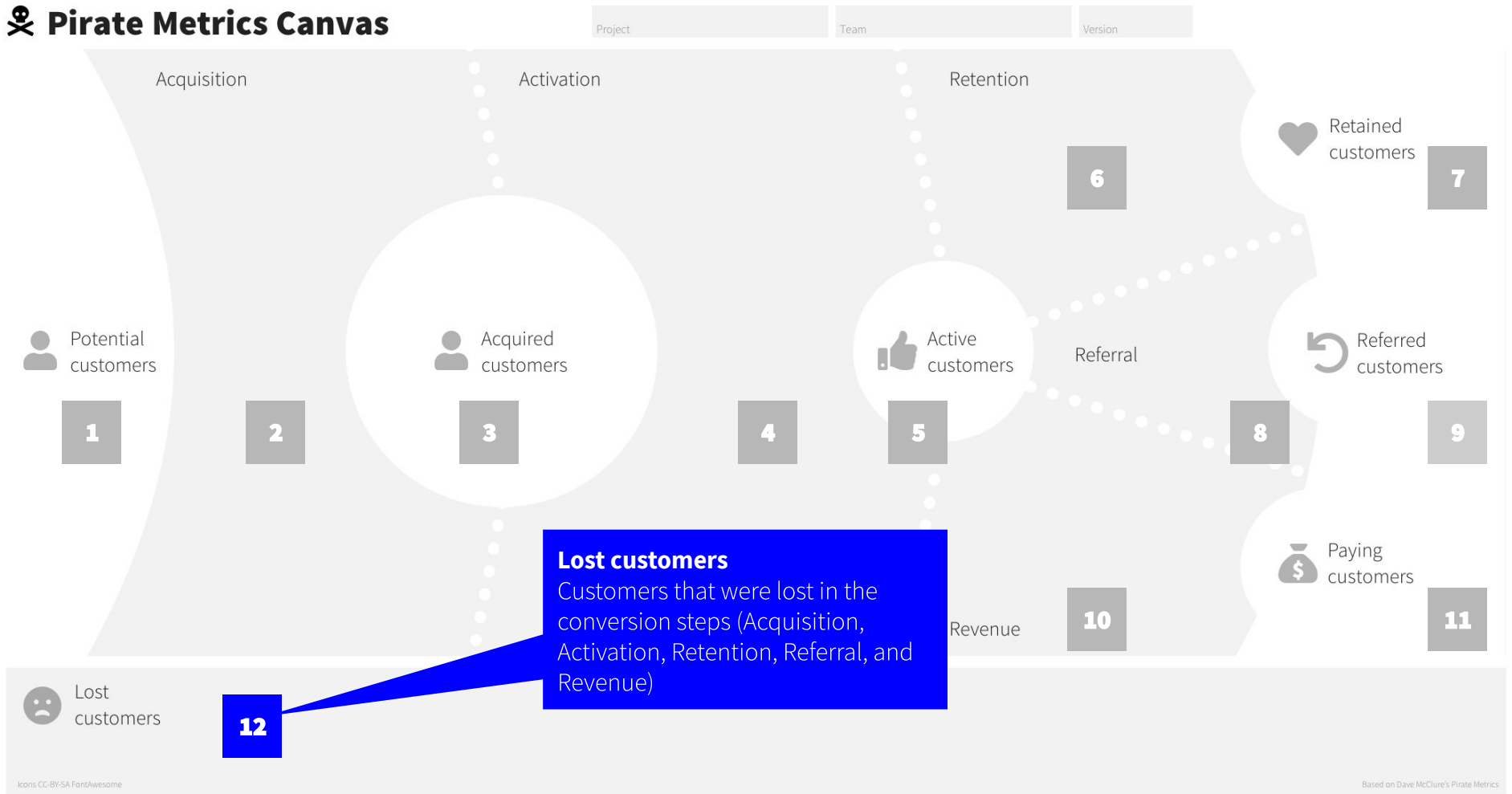
Version



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Based on Dave McClure's Pirate Metrics

Pirate Metrics Canvas



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Based on Dave McClure's Pirate Metrics

WRKSHP

Resource Deck

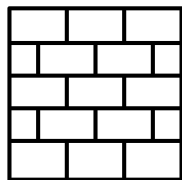
Step-by-step guide

0 Before you start

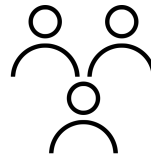
Use this checklist to prepare for the exercise.



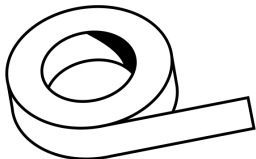
☐ Printed canvas



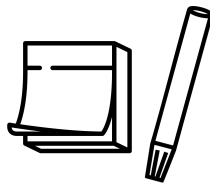
☐ Empty wall



☐ 3-5 team members



☐ Tape



☐ Sticky notes

☐ Fat markers



☐ 45 minutes time

“

Prepare your numbers.

”

Best advice during Pirate Metrics

Prepare your numbers

Doing this exercise with imaginary numbers will only result in wishful thinking. Come prepared.

The Pirate Metrics exercise can quickly turn into a wishful thinking contest with participants dreaming up great conversion rates and catching gold fever. It's super important to come prepared, ideally with the conversion rates, numbers of sales and customers, etc. that you currently and historically achieved. Additionally, or – if you're just starting out – as a starting point, you can also look at typical conversion rates and pricing for your industry. Knowing what constitutes a good conversion rate or advertising price for your industry will help you keep it real. After all, if the market leader struggles to make 10% conversion, you need to have a good reason why you can beat that as a startup.

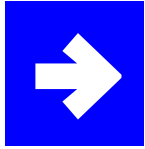
EXAMPLE

The **industry advertising conversion benchmarks** for 2020

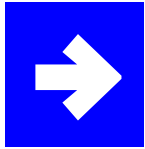
1 Write down what know

The canvas is best used with a small team. Fill in the canvas the first time with what you know from **historical data** or your **benchmark-based guesstimates**, and keep updating it during the innovation journey with real data to see how you might improve.

The first pass of the canvas is to fill in what you know already.



What do you know?



What are the benchmarks?



What do competitors do?



What are you doing well?

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention

Industry
Benchmark:
6%

Current:
5%
conversion
on ads

2019:
48963 total
visitors

Write down what you know

Use your historical data and the benchmarks you found to fill as much as you can.

Industry
benchmark:
30-50% avg.
churn

 Retained
customers

 Potential
customers


 Acquired
customers

 Active
customers


Referral

 Referred
customers

2019:
890 sales
for €10290

 Paying
customers

Revenue

 Lost
customers

Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

2 Potential Customers

Find out how many **Potential Customers** your market has (roughly). Use demographics or for instance Facebook's audience targeting system to get an idea of the maximum number of people you might reach. Stick these numbers on post-its in the **potential customers** area. It may be helpful to define customer segments when they have different preferred channels.

3 Channels

Next, find out **how many** of these potential customers **you can already reach**.

What are **the channels you already have** (or would like to have) to reach potential customers? How many people interact with these channels? List these numbers as well.

Think of channels such as: advertising, email marketing, newsletters, blogs, partner sites, etc.

Pirate Metrics Canvas

Project

Team

Version

Acquisition

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Industry
Benchmark:
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Current:
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on ads

2019:
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visitors


Industry
benchmark:
30-50% avg.
churn

 Retained
customers

2019:
43932
users in
the system

 Active
customers

Referral

 Referred
customers

 Potential
customers


 Acquired
customers

Map your existing channels
Use your historical data to fill out
what you can for your existing
channels.

2019:
890 sales
for €10290

 Paying
customers

Revenue

 Lost
customers

2019: Blog
on Medium
with 463
followers

2019
Twitter:
3250
followers

2019: we got
731 clicks
from Twitter

On average
7% of users
click
through on
Medium

Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

4 Acquisition (1)

Define what **‘acquisition’** means for your situation.

When do you count a customer as acquired?

- When they end up on your landing page?
- When they are on your email list?
- When they open the App Store page?
- Or something else?

4 Acquisition (2)

For each of the **different channels**, list **conversion rates**. How many people in the channel can you direct towards your service? If you place an ad, how many people click on it? If you write a blog, how many people read it? Try to find the **typical conversion rates** from your data (if you have it), or find appropriate benchmarks online. Later you'll be able to figure out what the actual rates are.

4 Acquisition (3)

Using the conversion rates for each channel, figure out how many of the potential customers made it to the '**acquired customer**' stage. How many people make it to your landing page? The rest has left and ended up in the '**lost customers**' box.

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention

Industry benchmark: 30-50% avg. churn



Retained customers

2019: 121K ad impressions

Industry Benchmark: 6%

Current: 5% conversion on ads

2019: 48963 total visitors

Estimate: 5800 from ads

Where do the other 39K visitors come from?

2019: 43932 users in the system

Calculate the numbers of acquired customers per channel
Perhaps you'll find gaps in your data that you can dive into later!



Referred customers



Potential customers



Acquired customers

Estimate: 3500 from social media

2019 Twitter: 3250 followers

2019: Blog on Medium with 463 followers

On average 7% of users click through on Medium

2019: we got 731 clicks from Twitter

2019: 890 sales for €10290



Paying customers

Revenue



Lost customers

Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

5 **Activation** (1)

Define what **‘activation’** means for your situation.

When do you count a customer as active?

- When they download and install your beta?
- When they posted on your forum?
- When they sign up for your newsletter?

It has to be an activity they perform at least once and that is specific to what you're selling.

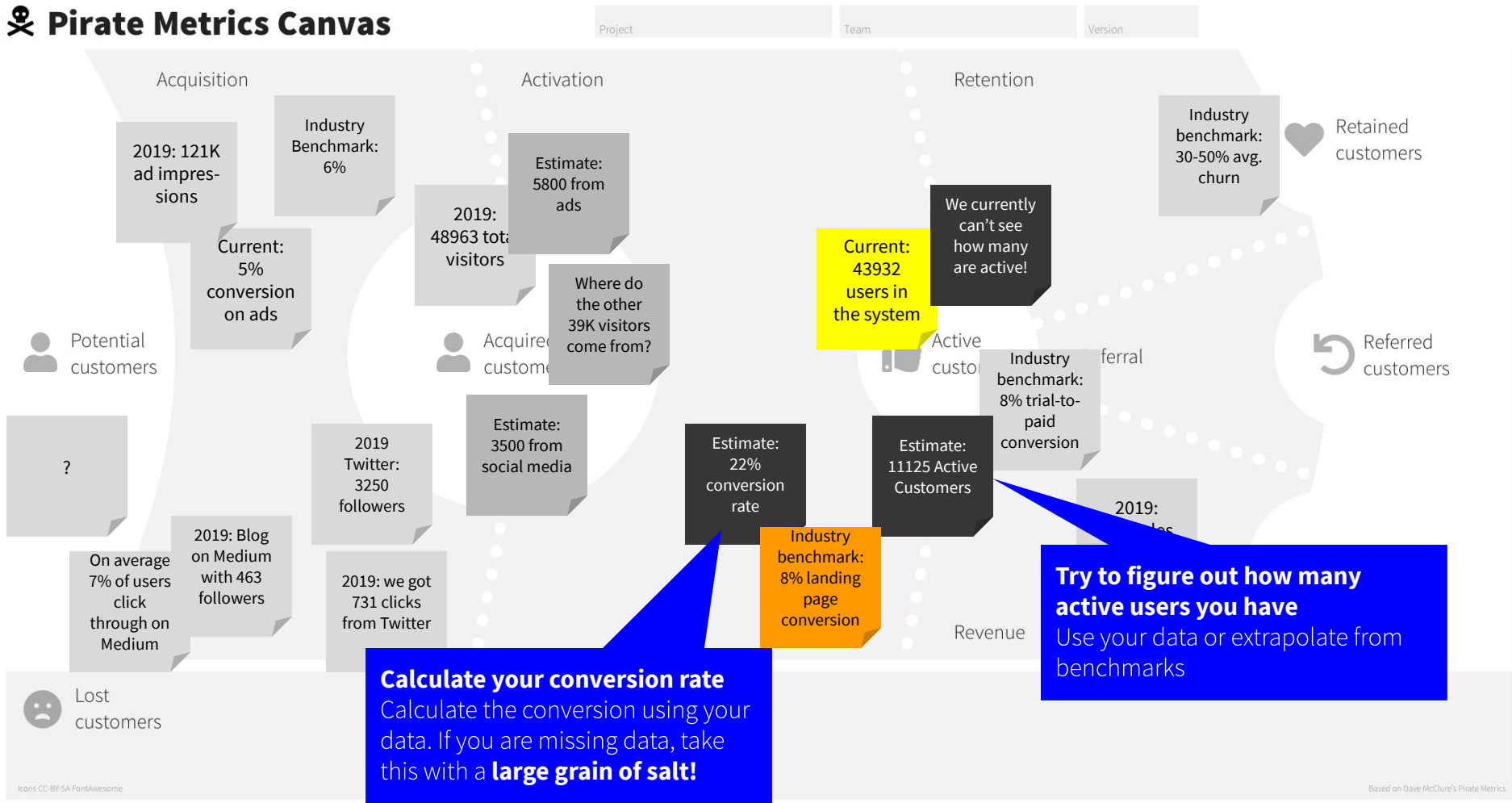
5 Activation (2)

Using your definition, **how many people will become active users of your service?**

Find conversion rates in your data or look for suitable benchmarks online.

If you don't know this conversion rate, try to figure out what you can do to measure it, and plan to implement that. Later you'll be able to figure out what the actual rates are. In the meantime make an educated guess.

Pirate Metrics Canvas



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Based on Dave McClure's Pirate Metrics

6 Retention

This is the **most important step** to look at. How many active customers come back to use the service again?

If they come back, that means the service **has value for them**. They are obviously happy about at least some aspects. Improving your retention rate means **you are able to zoom in on how you deliver value to the customer**, and how you make your service addictive.

READING

Check out [Hooked](#) by Nir Eyal for more ideas around addictive services.

6 Retention

Retention is a really important metric, especially for subscription based models. Most successful businesses get upwards of 70% of their revenue from loyal customers, and **improving retention** (lowering churn) **by even 5%** can mean a **difference of 95%** in your **revenue**.

Important metrics startups use that are influenced by retention are 'daily active users' and 'churn'.

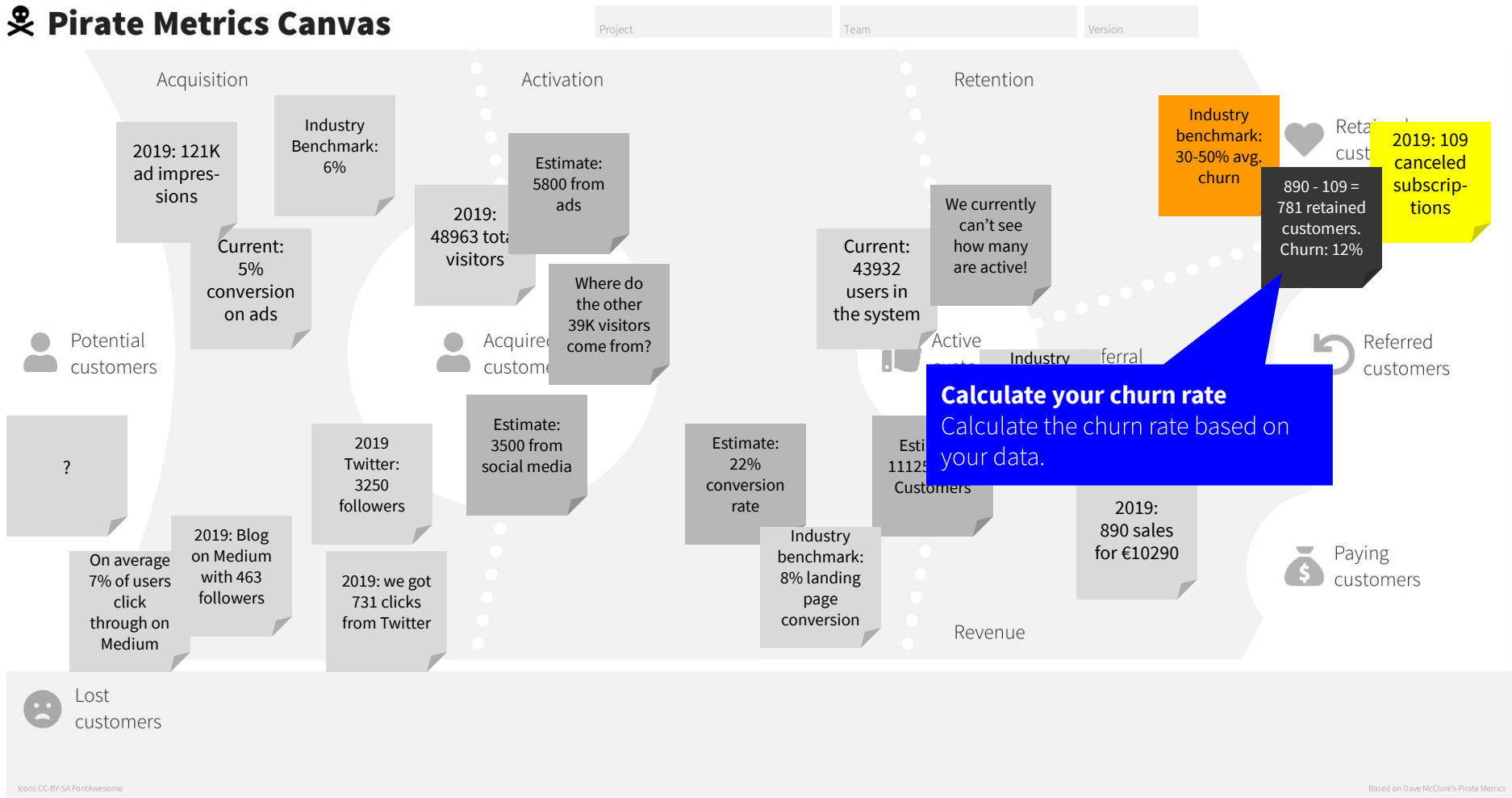
6 Retention

Again, try to get numbers from the data you have, or look at online benchmarks.

Calculate how many users will be retained based on the number of active users and the retention rate. Or, if you know the number of subscribers or return customers, calculate your retention and churn rate.

Churn = 100% - Retention.

Pirate Metrics Canvas



7 Referral

This is arguably the most important thing to look at if you want **high growth and lower CAC**.

Dropbox famously influenced their referral rates by giving free storage for bringing in new users.

Referrals mean **free advertising**. People referring your service give it a warm introduction to others: their referral is much more likely to be trusted. It also means that people need to be quite convinced of how much they like your service before they refer it.

7 Referral

As before, try to get numbers from the data you have, or look at online benchmarks. Also come up with an idea of **how many people they will refer**.

When they take the decision to refer people, and especially when there is an incentive such as with Dropbox, **they will likely refer more than one person**.

How many people will be referred to your service?

Pirate Metrics Canvas

Project

Team

Version

Acquisition

2019: 121K ad impressions

Industry Benchmark: 6%

Current: 5% conversion on ads



Potential customers

?

On average 7% of users click through on Medium

2019: Blog on Medium with 463 followers

2019: we got 731 clicks from Twitter

2019 Twitter: 3250 followers

Activation

2019: 48963 total visitors

Estimate: 5800 from ads

Where do the other 39K visitors come from?



Acquired customers

Estimate: 3500 from social media

Retention

Current: 43932 users in the system

We currently can't see how many are active!



Active customers

Estimate: 22% conversion rate

Estimate: 11125 Active Customers

Industry benchmark: 8% trial-to-paid conversion

Industry benchmark: 30-50% avg. churn



Retained customers: 890 - 109 = 781 retained customers. Churn: 12%

2019: 109 canceled subscriptions

2019: We have no data on this!

10% referring 3 people = 3300+ people

Sales: €10290



Paying customers

Calculate your referral rate

Many businesses have a hard time knowing this metric, but it is worth finding out!



Lost customers

Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

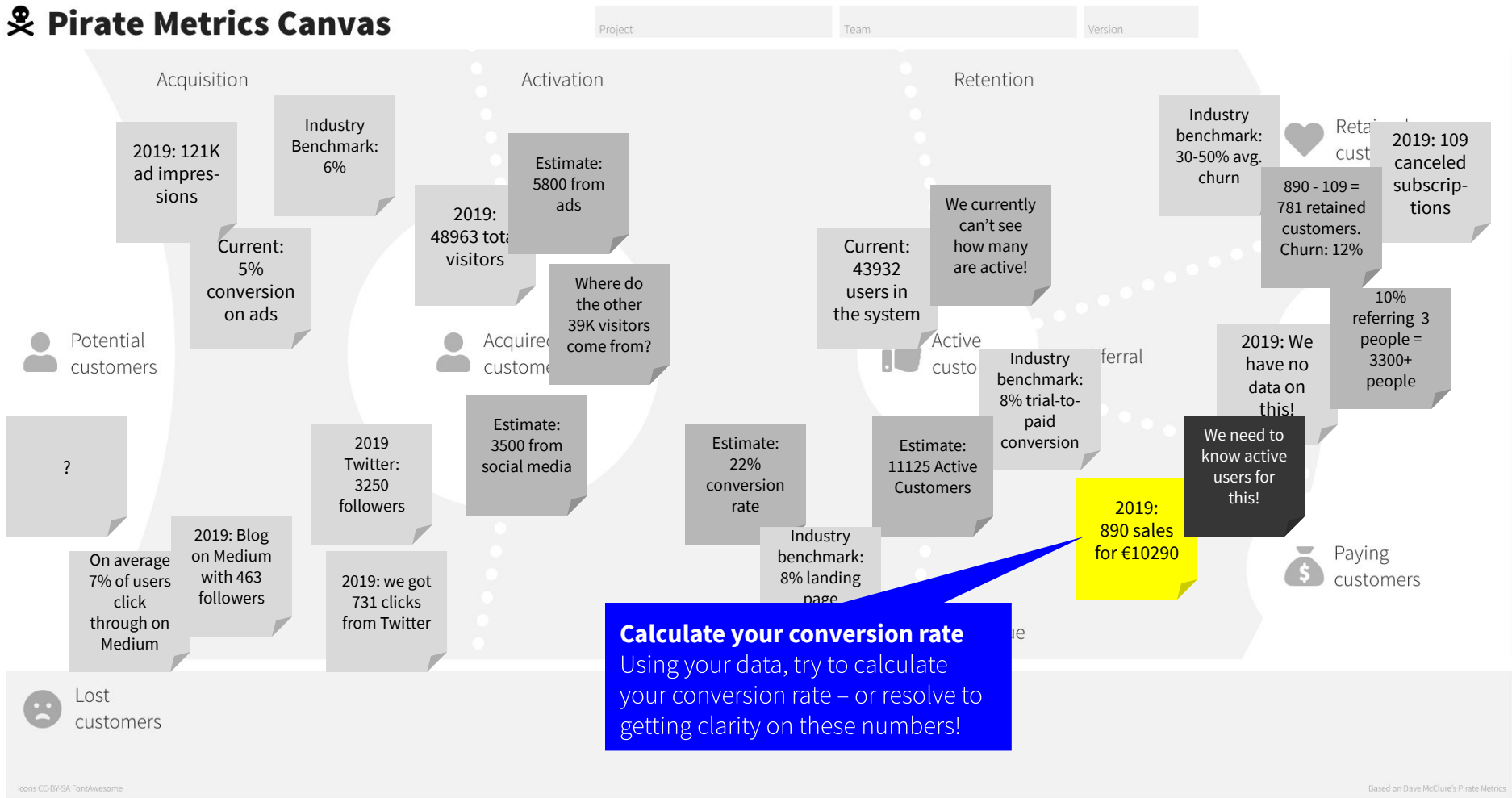
8 Revenue

This is **the bottom line**. How many people end up paying for the service.

If you have a freemium model, for instance, not every active user may be a paying customer.

Again, come up with a conversion rate for this step based on historical data or benchmarks.

Pirate Metrics Canvas



9 Strengths & Weaknesses (1)

Now that you have filled the canvas, take a step back. With the team, identify **strengths** and **weaknesses**.

Where are you doing **better** or **worse** than your benchmarks?
Where do you have **missing information**?

Mark these out with **coloured dots**.

Pirate Metrics Canvas

Project

Team

Version

Acquisition

2019: 121K ad impressions

Industry Benchmark: 6%

Current: 5% conversion on ads

 Potential customers

?

On average 7% of users click through on Medium

2019: Blog on Medium with 463 followers

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2019 Twitter: 3250 followers

Activation

Estimate: 5800 from ads

2019: 48963 total visitors

Where do the other 39K visitors come from?

 Acquired customers

Estimate: 3500 from social media

Retention

Strength

We currently can't see how many are active!

Current: 43932 users in the system

 Active customers

Industry benchmark: 8% trial-to-paid conversion

Estimate: 11125 Active Customers

Estimate: 22% conversion rate

Industry benchmark: 8% landing page conversion

Industry benchmark: 30-50% avg. churn



Retention customers

2019: 109 canceled subscriptions

890 - 109 = 781 retained customers. Churn: 12%

10% referring 3 people = 3300+ people

2019: We have no data on this!

Referral

We need to know active users for this!

2019: 890 sales for €10290



Paying customers

No Data!

Revenue

Weakness



Lost customers

Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

9 Strengths & Weaknesses (2)

Note that **in some cases it's great that people don't convert:**

If you **already know** a person is **not going to be an active customer**, for instance, it's better they don't pass the acquisition stage. Don't waste marketing money on people that are not your customers! **Lowering** your (expensive) conversion rate in Acquisition might substantially **raise** your (valuable) conversion rate later on. In essence, the **funnel is also a filter** to find those customers that are the best fit for your service.

9 Strengths & Weaknesses (2)

You now have the best guess estimate of your most important numbers mapped out on your Pirate Metrics Canvas. You have compared what you found with the best data you can find for your industry. Now, it's time to find out **what you can improve**, and what the **key drivers** are.

For this, use the [Pirate Metrics Calculator](#) tool. Play around with your numbers (keeping an eye on benchmarks) and see where you get the **most bang for your buck!**

10 Generate Options

Focusing on key drivers and uncertainties:

- Come up with **ways to improve conversion rates**. This could be adding a different channel, sending a personal message, making something easier to understand, ...
- Come up with **reasons for a customer to convert** to the next stage. How can you influence it?
- Come up with ways to improve **retention**.
- Come up with ways to fill in **missing data**. What **experiments** can you run to get the data you need?

Pirate Metrics Canvas

Project

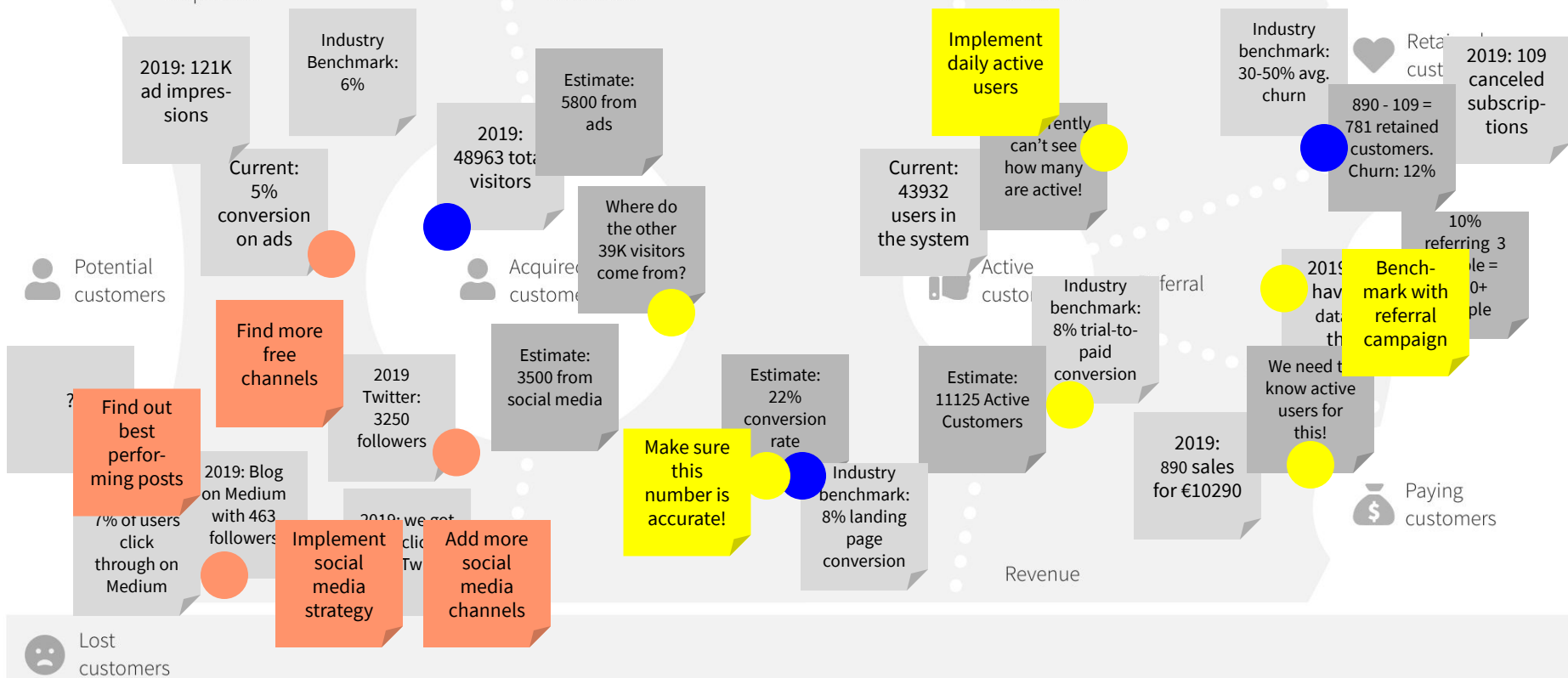
Team

Version

Acquisition

Activation

Retention



Icons CC-BY-SA FontAwesome

Based on Dave McClure's Pirate Metrics

11 Define Experiments

Use the strong/weak spots and your calculated numbers to find **likely candidates for improvement**. Where can you influence the end result in the most effective way? That should be your focus for the near future.

Define **experiments** that can help you to test your options for improvement and improve your grasp of your key metrics.

Also, if you haven't done so, **setup the necessary tooling** to measure the different transitions and stages in your model.

12 Next Steps

Every month or so, **revisit your canvas**, and update the numbers with real data.

What have you learned? Where were your numbers spot on? Where were they way off?

Try to see if you understand what is going on. And then **iterate**: find the next weak spot, and define a new experiment.

WRKSH

Resource Deck

Materials

Pirate Metrics Canvas

Project

Team

Version

Acquisition

Activation

Retention



Retained customers



Potential customers



Acquired customers



Active customers

Referral



Referred customers



Paying customers

Revenue



Lost customers

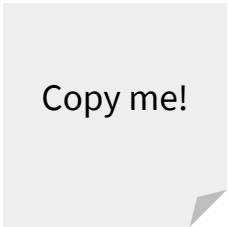
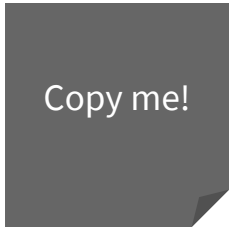
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Based on Dave McClure's Pirate Metrics



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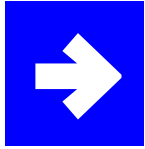
WRKSHP



WRKSHP

Resource Deck

Additional Materials



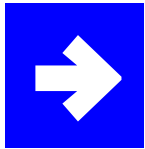
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