Scaling Customer Engagement: Lessons From Silicon Valley

It's well-known that the rise of Silicon Valley startups like Twitter, Dropbox, Airbnb, and LinkedIn has been meteoric. Lifting the curtain on the stories of these mega-successes reveals the Valley's engineering genius and business smarts, the ability to turn fledgling companies into international superstars by combining limitless data collection, sophisticated analytics and advanced testing. But the real key, as the founders of these companies discovered, is an obsessive focus on customer engagement.

Modern consumers want and expect more from service providers and companies across industries. A recent survey by Accenture of over 4,000 retail banking customers revealed that customers believe they are not receiving the level of engagement they would like with their banks. More than half, 51%, want their bank to proactively recommend products and services for their financial needs, while 48% are *willing to pay a fee* for forward-looking spending analyses.

DROPBOX: THE EARLY YEARS

The story behind San Francisco, CA-based cloud storage company Dropbox illustrates how engaging with customers, if done right, can lead to stratospheric growth. In the eight years since its founding, the company has grown its user base to over 300 million worldwide, is currently valued at $10B, and is expected to go public this year.

Even though the founders were confident that once they tried it, customers would recognize its value, Dropbox had initial difficulties. After a failed attempt at traditional marketing through public relations and Google AdWords, the company knew it would need to scale through other means.

"All the AdWords in the world are not going to save you if no one's looking for what you're making," says Co-Founder Drew Houston. Instead, what worked for Dropbox was "making our users really really happy, and then giving them good tools to spread the word."
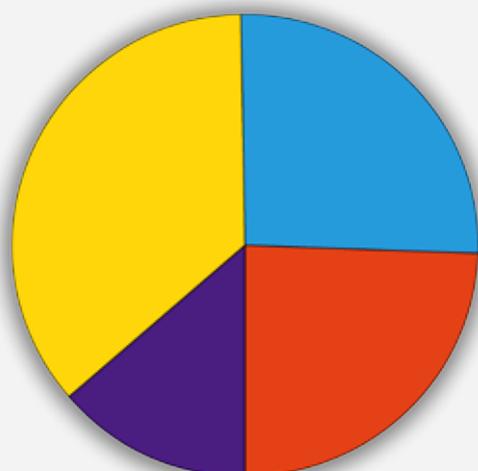
After a great deal of experimenting, the company hit on a landing page design that was and continues to this day to be a model of simplicity

Customers believe they are not receiving the level of engagement they would like with their banks.

Source: Accenture

An Opportunity for Customer Engagement

71% **Consider** banking to be *transactional* rather than relationship driven.

51% **Want** their bank to *proactively recommend* products and services for their financial needs.

48% **Are interested** in real-time and forward-looking *spending analysis*.

27% **Would consider** a *branchless* digital bank.

and fast customer onboarding. First-time users are presented with a two minute video that explains what the product is and how it works, along with a sign-up button that downloads the product. Each step of the way, the process is streamlined and made easy for users.

Dropbox's greatest discovery came in 2010, when Houston, inspired by a rewards program he'd seen on PayPal, realized that the product itself could be used as a reward to entice users to spread the word among friends. The company decided to offer users 500MB of extra storage simply for referring a friend. During the period between 2009 and 2011, Dropbox customer numbers skyrocketed from 3 million to 45 million. The referral process is intuitive: there are boxes for email, Facebook friends, or a link they can share.

> ## "What worked for Dropbox was making our users really really happy, and then giving them good tools to spread the word."
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> Drew Houston, Co-Founder Dropbox

Successful online companies make users feel excited enough to share the products with their networks. Referrals from friends are still the most powerful way to gain customers, whether for a tiny startup or a multinational corporation. The Dropbox story shows that just building a great product does not necessarily guarantee success in today's complex online ecosystem.

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Testing audience engagement, optimizing customer onboarding, fine-tuning user experience, and creating viral messaging that can be disseminated through appropriate channels is coming to be seen as having equal or greater impact.

THE RISE OF "GROWTH HACKING"

"Growth hacking" is a buzz phrase that has taken off in recent years. It is infused with the notion that there is a secret formula that can make a product or company go viral.

The legendary roots of growth hacking go back to 1996, when Hotmail failed to take off using traditional TV and billboard advertising. Hotmail investor Tim Draper suggested adding a line to the signature of every email that read: "PS: I love you. Get your free email at Hotmail." The result was 3,000 new signups every day and within

a year and a half, a hockey stick growth pattern that took the company to 12 million users.

Testing audience engagement, fine-tuning user experience, and creating viral messaging are all of great impact.

The reality is complex—while it is true that some of Silicon Valley's greatest success stories involve specific techniques to encourage viral growth, they invariably involve a number of factors that are not as repeatable as they might seem.

"Growth hacking describes a new process for acquiring and engaging users, combining traditional marketing and analytical skills with product development skills."

Josh Elman, former Growth Hacker
Twitter

Former Twitter Product Lead for Growth and Relevance Josh Elman says: "Growth hacking isn't the best term, but it describes a new process for acquiring and engaging users combining traditional marketing and analytical skills with product development skills."

REALITY-CHECK

Growth Hacking:

AIRBNB'S SHADY BEGINNINGS

The term "growth hacking" has fallen out of favor in some circles because it has become synonymous with tactics that can border on spam. Even those who favor the term admit that there can be a gray area in which growth hackers operate. For example, popular San Francisco, CA-based vacation rental service Airbnb got its start by making ample use of an existing site, Craigslist.

One intrepid blogger set a trap and found that for every vacation listing he put up, he received an email from a supposed fan of Airbnb (really a salesperson in disguise) suggesting that he list his home on Airbnb. The company acknowledged that this tactic was used, and took steps to stop what they claimed were the actions of rogue salespeople. However, Airbnb continued to make use of Craigslist in other ways, which helped bootstrap its success.

As the term suggests, it also involves speeding up the process of acquiring and engaging customers. Growth hacking is not a replacement for marketing, as some claim, but it can mean that companies augment it with out-of-the-box, data-driven approaches.

TWITTER: SMALL CHANGES CAN MEAN A LOT

Global social network Twitter, based in San Francisco, CA is a publicly traded company with a market capitalization of $25B and 284 million monthly active users. Founded in 2006, it might well have dropped off the map if it weren't for some small but significant changes to its onboarding process.

As Elman explains, from the start, plenty of users were signing up for Twitter because they heard about it in the press or from friends, however few were sticking around to actually use the service. Rather than going the traditional marketing route of reaching out to the customers through newsletters or advertising, the team decided to focus on discovering what would keep them engaged.

"We dug in and tried to learn what the 'aha' moment was for a new user and then rebuilt our entire new user experience to engineer that more quickly," says Elman.

After many experiments, the team found that retention rose significantly when a person manually selected 5 to 10 Twitter accounts to follow on their first day. This indicated that they had found areas of interest. They also discovered that

the signup process needed to be much faster than they originally realized. Instead of giving users a tour of the product, they offered them a set of actions that got them using Twitter right away.

It was several years—an eon in the tech startup world—before the company hit on the tagline "find out what's happening in your world." This message spoke to users in the right terms because they were using Twitter to keep up on news.

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THE IMPORTANCE OF BEING OPTIMIZED

While Dropbox and Twitter eventually hit on the right formulas on their own, Silicon Valley startups are lining up to provide companies of all sizes with a range of services that facilitate customer engagement. Optimizely, a San Francisco, CA-based startup founded by Google alums Dan Siroker and Pete Koomen offers a pre-built methodology for testing and measuring user response to design changes on websites and mobile applications.

The company has attracted such customers as Sony, American Apparel, Microsoft, and NBC Universal. Optimizely's rigorous testing procedures played an important role in the Obama campaign's fundraising success in the last election.

Optimizely provides a complete testing environment, utilizing a simple technique known as A/B testing that's proven to be effective. Any change to a design of a site or mobile app is tested against the original (or any other) version using real audiences and a number of response types. The users determine the "winner" by the actions they take, and the company implements the design that works best.

Optimizely's custom goal tracking provides customers with an almost infinite number of measurable actions that they define. This includes tracking engagement, clicks, conversions, signups, or any other definable actions. The tracking software itself is an API that requires only a single line of code to connect a site to a rich layer of resources on the back end.

"Some people might be stunned that a company doing something seemingly as simple as A/B user testing could have raised $88.2M over a few short years," writes Ben Kepes in Forbes. "But Google's meteoric rise to fame, in part fueled by an insane focus on measuring everything, is an indication as to just how transformative hyper-optimization can be."

Optimizely is backed by top tier venture capital firms, including Andreessen Horowitz and Google Ventures, along with an A-list of Silicon Valley individual investors such as Twitter VP Elad Gil, actor and investor Ashton Kutcher and others.

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BEST OF FRIENDS

As the story of Dropbox demonstrates, referral-to-friends is a highly effective strategy for growth and there are now services available to optimize and manage these kinds of programs. San Francisco, CA-based Talkable is a referral marketing platform that automates and analyzes friend-to-friend initiatives for e-commerce sites.

In Talkable's model, customers set the parameters for how a rewards program is structured—who the campaign targets, how it looks, who is rewarded, and how they are rewarded. The company analyzes results in all categories, utilizing A/B testing as part of its service.

The science of discovering what types of deals and offers will appeal to customers has also been taken up by several startups. Fanplayr based in

Palo Alto, CA, provides online retailers with the power of Big Data so that they can profile customers' behavior in order to give them hyper-personalized deals, offers, and pricing.

The company's software-as-a-service (SaaS) platform is provided at a reasonable cost, replaces the need for in-house resources of this type, and is easily integrated with e-commerce software.

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LINKEDIN: LEVERAGING THE POWER OF SOCIAL MEDIA

LinkedIn, based in Mountain View, CA is the de facto network for professionals, with 332 million users. However, in its early years the company struggled to find ways to grow its membership. Elliot Shmukler, former Senior Director of Product Management at the company explained at a recent growth hackers conference that when he took on the role in 2008, his first shot was to analyze user behavior on the site.

As he parsed the data, he saw a pattern. Inactive users—those who had posted a profile but didn't respond to email and other marketing practices—required a great deal of effort but produced a low level of result. Shmukler recognized that the best use of his limited budget lay in making active users the focus of LinkedIn's marketing outreach.

Inactive users were essentially ignored. They were reached indirectly, however, by the active users, who could often be counted on to re-engage them through invites and other social features.

As Shmukler put it, "Every active user is the same— every inactive user is inactive for different reasons."

As a result, in large part due to this simple but highly effective change in emphasis, the company was able to grow the network's user base from 13 million to 175 million in the following five years.

Research shows that focusing on existing customers, discovering ways to segment them and putting attention on those with the greatest potential for profitability can pay huge dividends. Increasing customer retention by a mere 5% increases profits by 50% to 90%, according to a study by Bain and Company.

However, Shmukler's approach went above and beyond the typical segmentation strategy, cleverly taking advantage of the strengths that LinkedIn had as a social network. LinkedIn went on to build in many compelling features that kept users coming back.

Increasing customer retention by a mere 5% increases profits by 50% to 90%.

Source: Bain and Company

"Every active user is the same—every inactive user is inactive for different reasons."

Elliot Shmukler, former Senior Director of Product Management, LinkedIn

ENGAGEMENT, NOT ANNOYANCE

Companies across industries must balance the use of social media, email and other inbound marketing to connect with customers without becoming part of the noise or being perceived as spamming.

Focusing on attracting customers through strategically placed content, Cambridge, MA-based HubSpot provides software and services that generate email, blog posts,

social media posts, white papers, and webinars that can be configured to attract the kind of customers a company considers most desirable. The service uses Big Data analytics to identify the channels that these preferred customers use.

"To be successful and grow your business and revenues, you must match the way you market your products with the way your prospects learn about and shop for your products," says Brian Halligan, CEO, Senior Lecturer at MIT and HubSpot's co-founder.

HubSpot is a publicly traded company with offices around the world and a market capitalization of $1.05B.

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Forward-looking companies will leverage the latest, cutting-edge tools and techniques while remaining true to their vision.

CONCLUSION

Corporations have long known that connecting to their customer base is the key to longevity and success. However, differentiating oneself is more challenging than ever as users are increasingly bombarded with messages and advertising.

Disruption is taking place in almost every industry worldwide, creating a strong imperative to connect with customers and drive business. As the pace of change accelerates, forward-looking companies will leverage the latest, cutting-edge tools and techniques while remaining true to their vision.