URL: https://ecorner.stanford.edu/clips/choose-your-own-metrics/

As an entrepreneur, advises Cloudflare co-founder, president, and COO Michelle Zatlyn, you have the freedom to define your own metrics and encourage your board and investors to embrace those definitions of success. In the case of a high growth startup, she adds, revenue might not be the best metric to obsess over in the beginning.

Transcript

- How do you decide 00:00:03,790 if you should focus on growth at the expense of profitability? Or maybe the answer is you do both.. But for the founders that are struggling with what their North Star Metric should be, if it should be growth or engagement or monetization and profitability, how do you decide? - I think it kinda goes back to, 00:00:24,171 if you're swinging for the fences or not.. - Okay.. 00:00:26,080 - So we were swinging for a fence.. 00:00:29,180 We were literally, we wanted to be a huge company.. We wanted to be, you know, a $20 billion market cap company.. And now, you know, now there is a new goalpost that we're aiming for.. And we knew this early.. Like we knew this super, super early.. In that case, you have to grow..

I mean, profitability means nothing.. Like, it doesn't matter if you're swinging for the fences.. Now the risk, (Michelle chuckles) if you are grown, then you're in trouble.. But the growth matters a lot more I would say.. If you're like my husband who is not taking outside funding and doesn't care about one day being a public company and wants to deliver good service with a small team, well, they are doing something.. It's growth plus profitability.. It's different.. They don't have the same constraints, and making different calculus.. And you do make different decisions because of that.. Early on, I will say, this is something that is also not intuitive..

We were focused on growth, really important, but our revenue was slow.. At first, the first way we made money early on in CloudFlare was we had a free service and a $20 a month service.. And then years later we added a $200 a month service.. And now we have companies paying us over millions of dollars a year.. I will tell you, it is so hard to grow revenue when you charging $20 a month.. It's just like, you gonna do a lot of, create a spreadsheet.. You know like wow, I gotta set up a lot of customers.. And then $200 a month you feel like wow, I grow faster.. But you know, to get to that 100 million and now a billion in revenue and whatnot, like it grows slowly.. And so anyhow, my point is early on and again, this was very CloudFlare specific, we cared about growth but revenue was a metric that was changing slowly for us because of the types of customers that we originally went to market with..

We started with small businesses and we knew long-term we'd go to larger organizations, but that took years.. It always takes longer than you think.. And so we picked five metrics that changed really quickly to measure our growth and revenue was not one of them.. And I actually think that this is another thing that was unintuitive.. Where you as a founder get to choose what metrics you're going to measure, get measured on with your board or your investors.. And you can pick them, pick ones that matter to your business based on your point of view.. And so we picked other metrics that changed a lot quicker than revenue for CloudFlare, because early on it just moved very slowly.. - Can you give the examples of what those metrics were? 00:02:45,250 - Yeah, so for us early on again, 00:02:48,050 we start with small businesses or developers, or again, hobbyists like many of these engineers putting their hobby sites on us because we had to build, so how does CloudFlare, what does CloudFlare do? We make the internet faster, safer, more reliable.. We literally build infrastructure for the internet, which means we have to buy a lot of servers and routers and switches and by the way, those are really expensive.. And that's not something you just snap your fingers and do tomorrow..

It's taken 11 years of a labor of love to build this global network.. So today we're in 200 cities with a lot of points of presence and that's how, because we're in 200 cities, if you are, I don't know, trying to access your schoolwork from Paris,

France, you get routed to CloudFlare's Paris, France data center.. We make things every fast and do all this magic to make it fast and safe.. If you're in Cape town, South Africa, you hit our Johannesburg.. And then versus if you're in San Francisco, you hit our San Jose.. So we cover the world so everyone else doesn't have to.. And early on, we measured by how much traffic is going through our networks.. We said page views.. So we said, and if you think about that, if robbiesblog.com signs up for CloudFlare early on, we always log, I don't know how many blog posts, how many views did you get to your blog Robbie? I don't know, a thousand.. And so it'd be that plus somebody, I don't know if some entrepreneur had a hot website and they put it ours and maybe they were doing a hundred thousand page views..

And so actually page views, how many pages we powered through CloudFlare's infrastructure was actually one of the metrics we used for the first four years, five, I think it was four years.. Every board meeting, first thing we showed on the board deck, because page views changed faster than number of customers because it was like one customer brought so many page views.. And we had to process that.. It made a lot of sense in our case, but it didn't represent necessarily revenue, but it just showed how much were we delivering on our process, on our promise to help make our customers traffic faster, safer, more reliable.. Another one that we cared a lot about was on our side, you're gonna bill a service like CloudFlare.. We were really obsessed about costs and really obsessed about costs to deliver the service.. And so we said, okay, how much does this cost to us to deliver? And we were constantly trying to bring that down.. And so that was one of the metrics we used.. And so these moved fast, they changed really quickly.. And again, back to early on, you have to make momentum as an entrepreneur, you gotta make progress..

Like things have to be changing and progressing forward.. It's like, if you play basketball, the balls gotta be going down the court.. Like it's, you just want to be constantly making progress against what you're doing.. That's how you get people to come work for you.. It's how you get investors excited.. It's how you get partners excited.. If you talk to a person who you want to work for you on January and July, everything's the same at your company, they're going to be like, this makes no sense.. You want a lot of new things and change and progress along the way.. And so we picked metrics that changed a lot that showed a lot of progress that were important to our business.. And I think that's served us really, really well and revenue wasn't one of them...