



FLYBRIDGE

The Community Playbook for Founders

Strategies and stories for founders
building community-driven
companies.

By Flybridge Capital

Communities look different than they did 50 – even 20 – years ago. They are organized around businesses and brands and providing profound opportunities for companies around the world.



We wrote at length about how to create competitive advantage with community in this [Harvard Business School Review article](#) and the subsequent [Flybridge community investment thesis](#) that we have developed from this insight.



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This ebook, a Community Playbook for Founders, is a more detailed guide for entrepreneurs to provide the practical “how to”.

Community-driven companies harness the force of a highly engaged and passionate ecosystem of members to drive adoption, growth, and success. Our hope is that this playbook will support entrepreneurs who share our vision for the power of community.

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Formation & Engagement



Founders who wish to build a successful community should take into account these three critical principles of community building:

1

Focus on the “who”. Start with a narrow target persona.

2

Set your objectives clearly.

3

Create community engagement through a portfolio of activities.

FOCUS ON THE “WHO”

When embarking on creating a community, it’s important to first focus on the “who”. Specifically, who is the target persona for this community? Persona creation is a well-established product development technique that defines an archetypical user or an example of what you want the quintessential user to look like.

Early in its development, marketing software company Hubspot created a persona they called “Marketing Mary”.

This persona was complete with a photo and a biography -- even where she went to college (Boston University, if you were wondering!). The company plastered pictures of Marketing Mary across all of its departments to help the entire company concentrate on its target customer.

For early-stage entrepreneurs, articulating a big vision and targeting an expansive customer base is essential for fundraising. However, when defining a persona for a community, it is best to start narrow. Even more narrow than you might otherwise think.



When forming a strong community, begin with a small group of similarly minded individuals who self-identify with the community persona. Psychological research tells us that humans are hardwired to seek out similar people who they perceive to be trustworthy as a “psychological default”.

Wellesley professor Angela Bahns indicates people seek out others who are more “similar on the things that matter most to them personally.” This principle does not mean that a community can’t be diverse on traditional dimensions such as gender and race. Instead, there needs to be some unifying theme that brings the community together -- for example, shared values or mission at a personal or professional level. **If the community is too broad, there is not a strong enough reason to gather.**

The example below from our portfolio company Chief, a private network that connects and supports women leaders, helps demonstrate the power of starting your community with a narrow persona.



Big picture target customer: all executive women in the world



Filters to make the initial community smaller: C-level executives, US-based



Initial community (more narrow definition): C-level executive women in NYC



Initial community (even more narrow definition): C-level executive women in NYC that work in retail, media or technology

With this persona in mind, Chief launched a series of outbound email campaigns and LinkedIn messages to its target persona. To

create a sense of intimacy and credibility, Chief name-dropped the other members of that community that had already joined the network. Once a critical mass of network members was established, expansion was possible to other industries, broader titles, and other cities. But to get the community formed from a “cold start”, the power of a narrow definition is clear:



Like-minded individuals are more likely to embrace the community if they see reflections of themselves in the community.



Best practice sharing, and thus value exchange, is more likely in a small community of people who form bonds of trust.



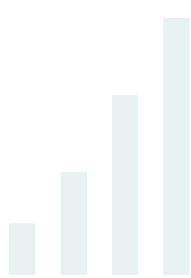
Accountability, loyalty, and acting respectfully to preserve reputation within the community is more likely if the community members believe they will run into each other either virtually or in real life.

Some communities require these techniques to address the “cold start” problem, but other situations may require a different approach. Codecademy’s community manager, Alyssa Vigil, points out that many communities already exist. The company’s job is to simply recognize and organize the existing community, building a structure to help the community engage even more dynamically. Jacob Peters of the community software company, Commsor, notes, “community happens whether a company facilitates it or not.”

As Airbnb Brian Chesky famously said (quoting Paul Graham):

“It is better to have 100 people love your product than a million people sort of like you.”

Substitute the word “product” for “community” and you have the essence of community formation.



Once you select the who, it is a natural transition to next focus on the “what”. That is, what is the value proposition that the community represents? A community’s value proposition may differ from the product’s value proposition. The community’s value proposition is what brings people into the community and what keeps them there. Importantly, that value proposition should be as narrow and specific as possible to the initial community you wish to attract and contain an “aha!” piece of content that lures them in as a carrot to join.

Once you have clarity on the who and the what, you are ready to build your community. Now the two questions you need to answer are: (1) what is my business and personal objective in forming the community? And (2) what defines community success? As we will discuss later in this ebook, the value to the business will flow naturally from the value to the community.

There are a few typical answers to the question: why do you want to form a community?



Product support and success. Members can answer questions and address issues for other members. Atlassian does a particularly good job of designing their community to provide support. They do so by constantly feeding community managers a rich set of workbooks, videos, templates, and code snippets to answer questions about how to use Jira and other tools.




Source of new customers. When the community is configured to serve as one of the free benefits of a “freemium” business model, it effectively serves as a marketing function. In essence, the community represents a part of the content marketing and lead nurturing process. Honeybook, a customer bookings platform for small businesses, uses its community in this fashion. The company considers its community efforts, which brings small businesses together to share best practices and prospects, a central engagement strategy at the top of its funnel. This mindset became so effective that the company reallocated their partnership budget to the community team.



Product innovation and feedback. This community objective is typical for software companies who want to use community to enhance their offerings and test new ideas. Salesforce’s creation of their MVP program is an excellent example of this objective. Members receive product briefings and access to senior executives on a systematic basis to provide detailed feedback on new products and offerings.



The product itself. In some cases, the central value proposition is community, and hence the success of the community is defined clearly as the quality of the offering that the community itself represents. Duolingo exemplifies this community strategy to help make learning another language easier. The community connects users with native language speakers within the Duolingo community who are happy to converse and instruct.



Many companies want to do it all, so prioritizing these four objectives is critical to focus your initial energy. Just as Eric Ries popularized the product design concept of a minimum viable product (MVP), it is important to think through what defines the minimum viable community (MVC) to generate the necessary critical mass required to achieve the community's objective.

At the same time that you're determining what your objectives are for building the community, you want to make sure that you are also taking into account why the community members themselves might be interested in being a part of the community. In other words, why are the community members showing up and what is their objective in being a part of the community?

Once you have determined both your objective and focus for the community, you can begin developing your plan to form and engage your initial community members. To forge a successful community, there are seven key elements to success to consider:

1

A shared purpose and values. There must be a clear reason for the community to come together and a clear sense of shared values. This speaks to the homophily principle that similarly breeds connection. Joro is an example of this as a community of climate change enthusiasts committed to “living lighter” and reducing their carbon footprint.

2

Simple, easily accessible value consumption. It should be clear what the value proposition is for new and existing members. The benefit must be immediate and obvious. In the early days at Github, the value proposition of a cloud-based code repository to facilitate collaboration across open source coding projects was obvious and powerful. This simple value proposition led to the Github community's explosive growth and its powerful role as the “Library of Alexandria” for code.

3

Simple, easily navigable value creation.

Members should easily be able to create value simply and intuitively for others. The value that the community adds to its members should be obviously greater than the value extracted from them.

4

Clearly defined incentives and rewards. The quality of a contribution should be acknowledged and recognized, as should community-centric behavior, to strengthen a sense of belonging and unity.

5

Carefully crafted accountability. Peer review should be integrated into the workflow to produce better, more diverse results while encouraging greater collaboration.

6

Healthy, diverse participation driven by good leadership. Prevent a few voices from dominating the community conversation and instead surface leaders that solicit broad

participation. Codecademy reinforces community leadership through a ranking system based on the leader's "trust level". When a community leader achieves "trust level 4", enabling them to moderate a forum, they host a digital party to celebrate them and their contributions.

7

Open, objective, governance, and evolution.

The governance should be clear and well understood, with community members playing an active role in reinforcing the rules and proper code of conduct. Atlassian's well-defined "rules of engagement" has served to clearly identify the appropriate boundaries and positive tone for its community of 2.6 million members.

These seven elements of community success will lay the groundwork for your community to form in the right fashion. Next, you can turn your attention to engaging that community.

To successfully engage your community, create a model that recognizes the individual member's journey from awareness to attention to action. Community members will often move from stage to stage at different points -- some will progress to the most engaged stage while others may settle at a less engaged stage. All community members should be valued and targeted with appropriate engagement tactics -- no matter what stage of engagement they may be at any given point in time.



This paradigm is different from the marketing funnel, where the objective is to get the target customer from initial awareness through the entire funnel until a sale is closed. Here, community members may engage in various activities and demonstrate different levels of commitment to the community at different points in time based on their goals and profile. Obviously similar funnel principles apply to engage new community members, but this fluid range of engagement models should be encouraged and a part of the community design.

An example from the nonprofit Facing History and Ourselves, a teacher training program, is instructive. Facing History's community of teachers incorporate their curriculum materials in a broad variety of ways. Some teachers simply take resource material and use it as part of a single lesson plan. Others incorporate the curriculum into an entire, dedicated course ("full implementation"). Across the tens of thousands of teachers in the community, Facing History customizes activities and engagement

techniques across all stages of engagement, valuing teachers no matter where they are.

The chart on the next page shows that a small percentage of the community may engage at the deepest level while others might engage at a more basic level. Again, all levels of engagement are valued. It is expected that community members -- in this case, high school teachers - might move through different levels of engagement at different times over the course of the year, or even at different times in their career.

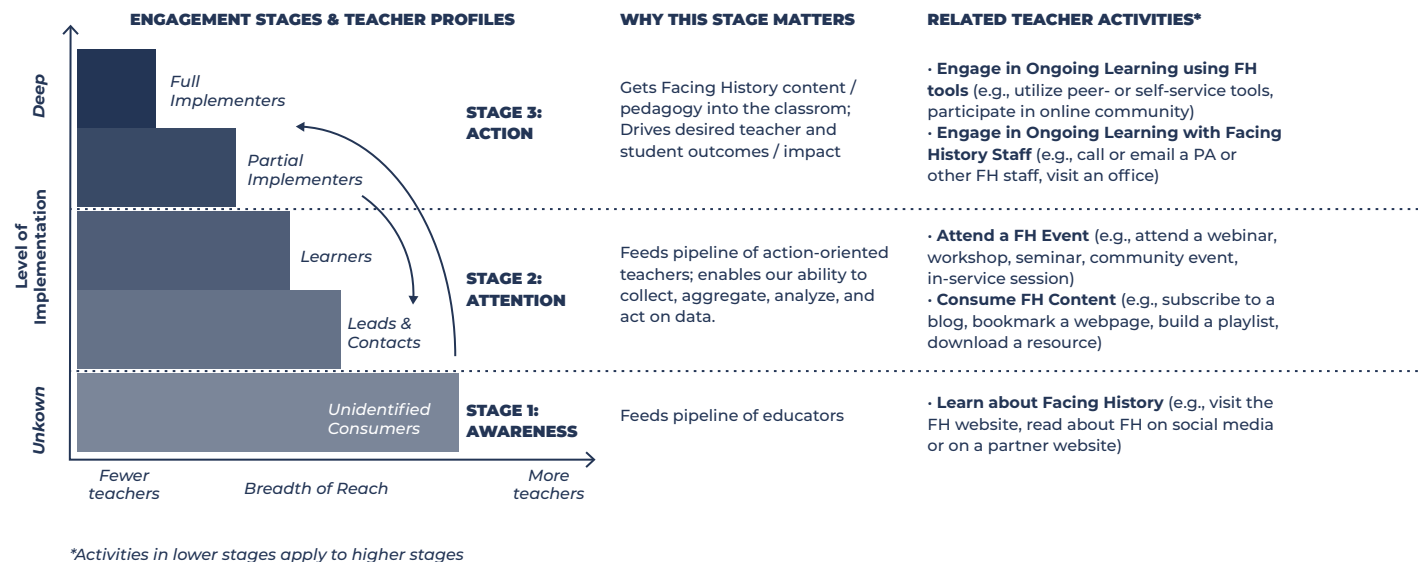


Figure 1: Teacher Engagement Model from Facing History and Ourselves, a leading educational nonprofit

SUMMARY

These three elements provide you with a framework for forming and engaging your community. In sum: start narrow, set up the rules, and craft your engagement strategy across a set of fluid, well-defined stages.

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Product Feedback, Experience & Support

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Here are three critical principles that founders should keep in mind when leveraging community to shape their product:

1

Be intentional about incorporating community into your product development process.

2

Look for opportunities to establish the community as the product itself.

3

Design the community to support itself.

These three critical principles need to be considered in the context of an organizational design. In other words, where should the community function sit and how should it be measured? We discuss each of these points below.

THE COMMUNITY AS A PRODUCT DEVELOPMENT RESOURCE

The first challenge for entrepreneurs is to develop and test their idea with prospective customers. Customer discovery involves deep inquiry into problems that prospective customers face, ideation regarding possible solutions, and identifying falsifiable hypotheses to test whether those solutions compellingly address the problems. Entrepreneurs need to spend countless hours identifying and researching customer problems to explore unmet needs.

Communities can be powerful sources of information to inform customer discovery and product development. Like product managers, community managers can elicit feedback and insight through smart research techniques and community immersion.

As David Noel, the first community manager at SoundCloud, put it,

“my job was to be a sponge - to go out into the community and absorb all the water but only squeeze back into the product team the feedback they really needed to know.”¹

SoundCloud went so far as to assign a community lead for each product team to ensure the community's insights were being fed into the product development process. The Android community team meets weekly with the Android product team, while the iOS community team does the same with their product team.

¹ *First Round Review, From Instant Pot to Instagram: Critical Lessons in Startup Community Building.*



THE COMMUNITY AS A PRODUCT DEVELOPMENT RESOURCE

Jono Bacon, author of *People Powered*, observes that there is a science to extracting feedback from your community. He notes,



“no matter how much you invite feedback from your community, some people just won’t be comfortable being blunt or critical.”

You need to lean into the critical feedback and, in particular, solicit feedback from those in the community who have the highest community standing. These community members don’t fear the repercussions of providing that blunt feedback in public forums or private venues such as user conferences or product roadmap briefings.

Anya Benbarak, Chief Revenue Officer of Honeybook, reports that when the Covid-19

pandemic hit the company, it was a clarifying moment for how critical it is to listen to their community and its product requirements. The product roadmap process typically involves deciding among many competing priorities and constituents, but at that moment in time, “we realized that if our customers fail, we will fail.” Thus, Honeybook’s product team solely focused on providing features that their community demanded and innovated its product faster than they ever had before.

The overall key insight here is that customer discovery and validation is a continuous process. Being tied into your community allows you to leverage it as a valuable resource to fuel that process. Listening to your community members, and being transparent about your product roadmap and challenges, can turn them into a valuable product requirements generation machine.

Why do senior executive women, arguably the busiest and most stretched individuals on the planet, flock to sign up for Chief? What is the magic?

The secret to Chief is that the community itself is the product. The company is a private network designed to support exceptional professional women with a core set of services such as coaching, peer learning, and network building.

Yes, there is a mobile app that delivers content and a clubhouse that hosts a multitude of events. But the secret sauce is that members want to be in the community with the other members. They want peer-to-peer coaching and mutual accountability for their individual and collective success. Designing a community to be the

product itself requires a well-designed community that rewards participation and generates tremendous value.

Scott Heiferman, founder of Meetup, summarized it well in Bailey Richardson's book, *Get Together: How to Build A Community With Your People*.

Community members “show up for the Meetup but come back for the people.”¹

¹ *Get Together: How to Build a Community with Your People.* Book by Bailey Richardson, Kai Elmer Sotto, and Kevin Huynh.

Creating a community that is itself the product often involves creating what venture capitalist Andy Johns calls a flywheel effect to creating content communities. The flywheel effect is that you need to design your community paradigm to create energy, typically content, that itself generates more interest in the community. Johns gives Reddit as an example, where the content created by the users is discovered in Google and shared via social media to generate more user traffic. These social media shares, in turn, generate more content and create a self-propagating rotational engine.

Content communities are not the only examples of communities where the product is the actual community. Others include:

- 1 **Chief, a network community.**
- 2 **MongoDB, a software development community.**
- 3 **Codecademy, a learning community.**

In each case, the community architecture is centered around value delivery and a positive feedback loop that provides a network effect to community creation, value proposition, and community development.

In other examples, you may see the community formed first and then a product built around the community. Community software company Commsor is an example of this approach. Commsor first built out a community of community managers – a very meta concept! After successfully establishing this community, which they call the Community Club, Commsor then built a software product with analytics and engagement tools for community managers. Whether you build community around your product or a product around your community, designing the community to support and nurture itself is a key element of success.

¹ *Flywheels. Article by Andrew Sohn.*

DESIGN THE COMMUNITY TO SUPPORT ITSELF

Having a community that can support itself has multiple benefits, the most obvious of which is cost and leverage.

A small, ten-person startup can't expect its staff to be deeply engaged in supporting across a community of millions. Thus, a community's ability to support itself not only provides cost advantages but also reduces friction to enable a company to scale rapidly.

One paradigm that Bacon recommends is to create a culture of paying it forward where core members of the community support regulars and casual members, regular members support casual members, and casual members support new members. In other words, at each step of the community journey, members are encouraged to provide mentoring and peer support to the newer members. The figure below from Bacon's book illustrates this concept nicely:

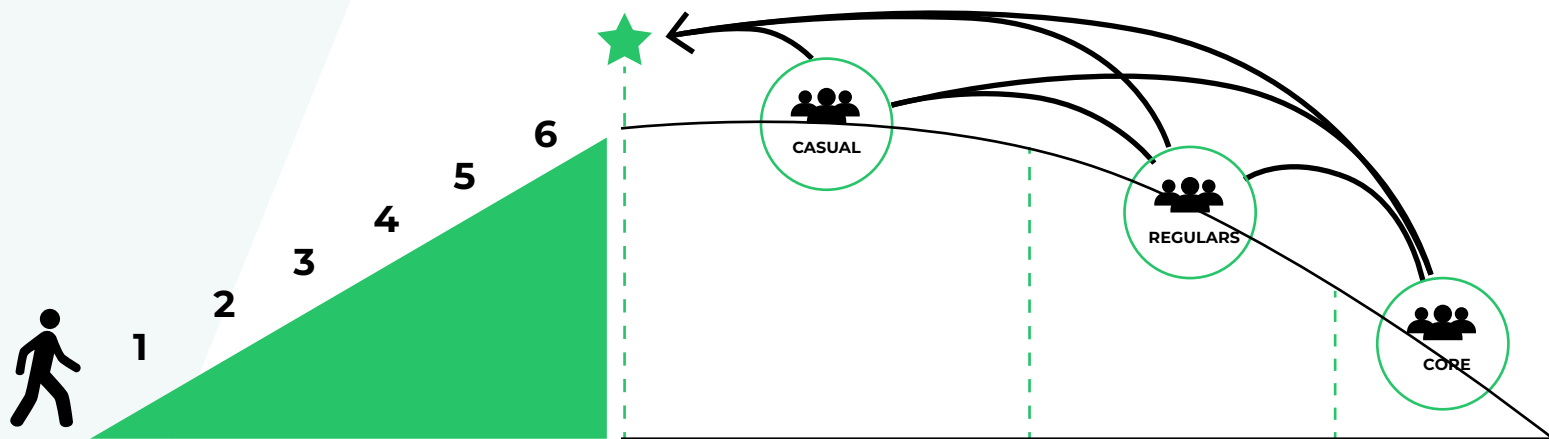


Figure 2: Community Engagement Model from People Powered by Jono Bacon

DESIGN THE COMMUNITY TO SUPPORT ITSELF

In her book, Richardson emphasizes that the community design approach taken by cookware startup Instant Pot was rooted in a desire to connect customers with each other and scale support.

“They had lots of people who were hobbyists. They wanted to get the most out of an Instant Pot or do creative things with it. Connecting users directly to one another in a Facebook group allowed them to get basic questions answered much faster than they could’ve scaled customer support at the time,” she observes.²

Creating incentives for the community to support itself requires careful consideration. In large part, members of a community invest in supporting others when they feel a sense of ownership. Blockchain-based communities literally provide ownership through the issuance of tokens. Financial incentives are powerful motivators of behavior. Other communities require an ethos of ownership to be created and rewards that are less tangible. Stars, badges, and other signals of contribution are ways to convey recognition, status, and competence. By creating methods for members to build up their reputation when they support others -- creating a sense of belonging and purpose -- communities can enhance the self-perpetuating power of a supportive community. On the flip side, as communities scale, it is critical to have strict content moderation and monitoring to avoid illegal content and dangerous behavior.

² *First Round Review, From Instapot to Instagram: Critical Lessons in Startup Community Building*

Atlassian provides a nice example of how to invest in community leaders to elevate their effectiveness and status. When a new community leader is recruited, a 60 day on boarding plan” is created with intentional touch points and nudges each week to surprise and delight the new community leader. New community leaders are encouraged to host online events with customers to help answer questions, share interesting articles, discuss product usage, and any new features. If a community leader has not hosted an event within any given three-month period, they are flagged and contacted by an Atlassian community staff member. Community leaders have different status levels based on how many events they host per year and receive awards personally from the company's cofounders as they progress from silver, gold, and platinum (nicknamed “Beyoncé status”). These mechanisms enable Atlassian to create an ethos of community ownership and support.



Many entrepreneurs struggle with the questions of where the community function should report. Is it a marketing, engineering, or product function? Or should it report directly to the founder? The choice of reporting structure depends on the nature of a community, its objective, and the signal you wish to send internally.

If you wish to send the signal that community is a deeply strategic function, have the role report to the CEO, even if temporarily while some of the other functions are maturing operationally. More typically, the community function reports to a customer-facing function like marketing or product. For example, the Atlassian community team reports to the head of Brand Experience and Customer Engagement, who reports to the Chief Marketing Officer.

Community managers typically require demonstrated expertise and skills in the following areas:

- **Customer support**
- **Content generation**
- **Social media marketing**
- **Branding and PR**
- **Internal organizational navigation**

Typically, those skills fit well inside a marketing organization, but they can also be well-suited for a product organization or even as a standalone function reporting directly to the CEO.

Critically, the Head of Community needs to operate and prodigiously communicate cross functionally. They need to understand the engineering workflow and seek out technical insight to help address customer needs. They also need to be close to the product team, as mentioned above, to provide tangible feedback as efficiently as possible. The best community managers avoid silos. Instead, they are team builders, service-oriented, and dedicated to playing that liaison role, bridging the two worlds between the community and company. In short, it matters less who the head of community reports to and more how it operates within the organization.

— SUMMARY

The value of building community to enhance your product development process, customer experience, and support processes should be clear. The community's impact can be woven into each of the organization's operational systems if designed and integrated properly.

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Business Model



If a company can transition from simply delivering a product to building a community, it can unlock extraordinary competitive advantages, thereby creating and sustaining a superior business model.

A startup's business model -- like any company business model -- is comprised of four constituent parts: customer value proposition, technology and operations, go to market, and profit formula. Each of these parts is defined as follows:



The customer value proposition is a sustainably differentiated solution for an important unmet customer need.



The technology and operations model is the set of operational methods used by the startup to fulfill its value proposition.



Go to market is how potential customers are made aware of the startup's offering.



Finally, the profit formula is the method in which the startup will make money and the embedded unit economics of its offering.

The profit formula for a startup is typically calculated as the lifetime value of a customer (LTV) divided by the customer acquisition cost (CAC). LTV equals the discounted present value of the gross profit (not revenue, a mistake many make) earned over the life of a typical customer's relationship.¹

¹ Eisenmann, Thomas. "Business Model Analysis for Entrepreneurs." Harvard Business School Background Note 812-096, December 2011.

Note that many entrepreneurs are overly optimistic about their LTV calculations. We recommend a very specific method for ensuring that your LTV math is truly conservative by doing the following:



Factor in a conservative churn rate (that is, the rate by which your customers' attrit and no longer pay you), which caps your customer lifetime at three years.



Assume a conservative discount rate of 30% to factor in the high cost of raising venture capital.



Apply a conservative gross margin percentage, recognizing that a startup's gross margin is suboptimal for many years.

Many entrepreneurs are also overly optimistic about their CAC, particularly since customer acquisition is a bit like drilling oil. Sometimes you hit a gusher, and it flows beautifully. But eventually, that well runs dry, and you need to find another one. Similarly, you may come upon a particular customer acquisition tactic that works beautifully and with favorable economics. But, eventually, it runs its course, and you need to deploy another tactic. Thus, entrepreneurs should be careful not to extrapolate too readily from their initial, favorable CAC results with their first few gushers and their early customer cohorts.

Network effects are often discussed as a powerful attribute of a business model where the product or service becomes more valuable to any given user as more users are added. Chief is an excellent example of network effects: each high-powered female executive who joins Chief makes the Chief network that much more valuable to join. Another valuable business with strong network effects is LinkedIn. Once you discovered that your professional network joined LinkedIn, it was impossible not to become a member yourself. Thus, LinkedIn's strong network effects lower its customer acquisition costs (CAC), improving the LTV/CAC ratio.

When a business has network effects, it can generate virality in its customer acquisition engine: each new customer attracts other customers. The economic power of viral marketing is evident when you apply the degree of virality to your LTV/CAC math. For example, if each new customer attracts, on average, 0.5 additional new customers, then your LTV is 1.5x that of a company with no virality. For this reason, network effects are highly valued. Bill Gurley of Benchmark notes that network effects are one of the most important elements required for a company to become a member of the "10x Revenue" club (which should be renamed the 20x Revenue club in today's stock market).

— COMMUNITY EFFECTS

"Community effects," as we define and experience them throughout our portfolio, represent a superset of network effects. That is, you can have network effects without building a community. But having a community can have a powerful, positive impact across all elements of the business model, driving even more value and supercharging your network effects.

Specifically, a vibrant community can itself represent the core of the value proposition for the startup, as in the case of Chief. As a result, the stronger the community, the more compelling the value proposition.

Further, a strong community will result in enthusiastic members helping acquire new members, accelerating the go to market process resulting in lower customer acquisition costs, and a tighter viral loop. CAC thus decreases while LTV increases, as noted above, improving the startup's profit formula.

Community members support one another. As described in the earlier chart from Jono Bacon's book, *People Powered*, this peer-to-peer support results in a company being able to execute a lower cost of service as the burden of service is not solely on the backs of its employees. Lower cost of service translates to high gross margins, which results in an improved LTV.

Also, members are reluctant to abandon the community, resulting in increased retention and thus lower churn. Churn represents the equivalent of being expelled from the community, something that loyal community members are loath to do. For example, Codecademy believes there is a dramatically lower churn rate for its 70,000 community members who are active on its Discourse forum on a monthly basis compared to the millions of learners who do not actively participate in its forum. That is because they know that

community engagement is correlated with a 20% higher rate of product engagement (as measured by code submits). By achieving a lower churn rate, community companies see improved LTV as the cash flows associated with a customer persist over a longer lifetime.

Thus, if achieved, community effects are network effects on steroids: as engagement grows, the community gets smarter, faster to respond, more globally available, and generates more value.

SUMMARY

A strong community has an extraordinarily positive impact on a company's business model. As a result, we refer to companies with strong community effects possessing a magical business model.

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Measuring Community ROI

Measuring the return on investment (ROI) for a community is an evolving art and science. Some companies and community executives might try to “hand wave” and fumble their way through a conversation around ROI. Why does measurement matter, after all, if their small team is getting great buzz online? However, for the community function to scale into a truly strategic one and earn a seat at the big table, ROI needs to be measured analytically and compared to investments in other initiatives.

SECTION 1: CROI DEFINITION

There are many reasons for ROI measurement in the community calculus, similar to the motivating force behind marketing ROI (MROI) calculations, including:



The ability to justify community spend. How else can you argue for another community resource or program if you can't articulate the return on that incremental investment?



Deciding what to spend on. Budget allocations can follow a thoughtful analysis of which community initiative is most effective.



Holding the community function accountable. To earn a seat at the table, community executives need to sit beside their marketing and sales peers to justify every headcount and program dollar.

The math behind Community ROI (CROI) is straightforward and is similar to the math behind MROI.

Specifically, to measure the incremental financial value gained as a result of the community investment subtracted by the cost of the community investment and divide that quotient by the cost of the community investment. In other words:

$$\text{CROI} = (\text{VALUE GAINED} - \text{COST}) / \text{COST}$$

Measuring the financial value gained as a result of marketing programs is a well-established field for marketers but less so for community leaders. Consumer packaged goods (CPG) marketers, for example, have long learned to measure their baseline sales volume and then assess the impact of a marketing promotion in generating incremental volume. This methodology of measuring sales “pre” and “post” promotion can similarly be applied to measuring community impact and incremental value generated from community-related activities. The easiest of these techniques is to measure when an investment in a community directly leads to an incremental sale.

For its Atlassian Community Events (ACE), Atlassian uses “total attendees” as a key performance indicator for its community events team. When they looked at the behavior of their ACE attendees, they were pleased to discover that 81% of ACE attendees downloaded a free license within 30 days of their attendance and 34% of attendees made a purchase – all considered incremental revenue to the company as a result of the community event.

Atlassian’s average revenue per customer is roughly \$6,000 and the gross margin is roughly 80%. That means for every ACE attendee, $0.34 \times \$6,000 \times 80\% = \$1,632$ in incremental financial value. Let’s assume it costs the company \$100 to acquire each community member attendee. Then we have the following calculation for CROI:

$$(\$1632 - \$100) / \$100 = 15.3x \text{ CROI}$$

Thus, for every \$1 invested in the community events function, there is a more than 15x return on that invested dollar. An outstanding result! The result is even more compelling if you are a subscription-based business and can improve the value of an acquired customer through an ongoing renewal of your annual subscription. In other words, take the approach of calculating the customer lifetime value (LTV, as defined in chapter 3) to measure the incremental financial value more fully.

With numbers like these, it is no wonder Atlassian is widely considered to be one of the most sophisticated community-based software companies and has a staff of over ten people on its community team.

In measuring the CROI for existing members, the calculation might be more subtle. For a subscription-based business, one can measure the difference in churn between the active community members and the customers who do not participate in the community.

For example, Codecademy has 70,000 active members in its community. The pricing for Codecademy's product is \$20/month. Let's assume members stay for an average of 15 months, resulting in \$300 in total revenue. And let's assume Codecademy's gross margins are similar to Atlassian's at 80%. Then the gross margin contribution – or financial value – of an average subscriber is \$240 (not factoring in the time value of money for the sake of simplicity).

If the company were to analyze the behavior of active community members and discover that their average life was 20 months, then the financial value of an active community member

would be \$320 (20 months x \$20/month x 80% gross margin). Thus, the difference in financial value is \$80. If it requires an investment in program dollars, on average of \$20 for Codecademy to shift an individual customer from an inactive community member to an active community member, the CROI would be:

$$(\$80 - \$20) / \$20 = 3x \text{ CROI}$$

This result is also a strong one and, if accurate, would justify a meaningful incremental investment in shifting Codecademy customers to become active community members.

These examples provide a few of the metrics that help demonstrate the financial impact of community.

Others include:

Increasing your sales pipeline – more deals generated by and from community members than non-community members.

Increasing your deal size – community members spend more with you or sign up for large average contract value (ACV) than non-community members.

Higher product adoption – community members take up new products faster than non-community members.

Answer support tickets – community members help tangibly defray your support costs by answering and resolving support tickets.

Adding features or capabilities into a product – in many open source communities, community members actually write code and add features to the product, more than justifying the ongoing community support costs.

SUMMARY

Since the community function often ultimately reports into the Chief Marketing Officer, the importance of measuring CROI is clear. As noted earlier, when the incremental financial impact of a community can be linked more explicitly to the business model math, it can justify the appropriate level of investment in community programs and activities. The most sophisticated community-builders are becoming sophisticated business builders as well.

In this playbook, we have provided our best advice – collected over dozens of portfolio companies and expert interviews – for founders who seek to build community as a competitive advantage. To do so, founders need to follow this simple checklist:

- ✓ **Start with a narrow target persona (the “who”)**
- ✓ **Define your business objective in forming community**
- ✓ **Define what community success looks like**
- ✓ **Develop your plan to form and engage the community**
- ✓ **Deliver a community value proposition – an “aha” piece of content as a carrot**
- ✓ **Solve the “cold start” problem by organizing an existing community**
- ✓ **Define a portfolio of community member journeys and value them at any given point in time**

Once you have formed your community, you can begin to do more sophisticated things to get the most out of them, such as:

- ✓ **Design the community to support itself**
- ✓ **Leverage the community as a product development resource**
- ✓ **Build strong “community effects”, which make the community value proposition even more powerful with scale**
- ✓ **Measure community ROI so that you can justify investing more in the community**

We hope you enjoy these insights and implement them in your own environment!

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