ARTICLE MARCH 14, 2023

North star myth busting

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Important truths and common misconceptions about the metrics that speak the loudest

The concept of a North Star metric has remained popular for quite some time, and for good reason—because it tracks a performance indicator considered critical for success. Why the name? The value of North Star metrics comes from aligning everyone around a common goal. At their best, North Star metrics provide focus and guide people to make better decisions—but they can also do the exact opposite, leading people astray of what really matters. Which raises an important question: “Are your North Star metrics pointing you in the right direction?” To answer that, let’s start by busting some common myths.

Myth: We must identify only one North Star metric.

Here's an example: We could make our North Star metric building the best product possible, only to reach a price point where nobody buys, causing us to sell it at a loss and go bankrupt. Or we could make cost-cutting our North Star and stretch things so thin that there's no staff to build or sell products. This illustrates why no one metric rules them all; they're interconnected and need balance. And to maintain that balance, metrics must be viewed in combination to see correlation, not singled out at the exclusion of all others.

Following a singular North Star can actually be quite risky. It might not be the right success metric, including due to changes in the market. It could cause the team to think too narrowly. Or the North Star could be disconnected from what the team does. In all these cases, the North Star shines in the wrong direction.

If the solutions being offered to customers differ from the problems they're trying to solve, that's a strong indicator that different (or at least additional) North Star metrics are appropriate.

Myth: Our North Star metric should measure business value (e.g., revenue).

Both growing and established businesses care about revenue growth, so it seems like an appropriate North Star metric. Even better would be profit, since it takes costs into account, and ultimately organizations need enough revenue to cover costs.

There are two challenges with that, though. First, there are many avenues that teams can take to boost revenues, cut costs, and boost profitability, resulting in what can be disjointed and inefficient or even contradictory activities across the organization.

The second challenge is that revenue and profits are lagging indicators, indicating past rather than present performance. The actions that determine the end result happen upstream, so measuring the downstream impact takes time, leaving decision makers with outdated information and pointing their focus backwards rather than forwards.

> North Star metrics instead should be linked to value provided to the customer. If the customer is gaining value, the business value will materialize.

example, it's not necessarily important how many hours a team spent on building a feature or product. Far more important is how big of an impact they make on the business through that effort.

- Ignoring the effectiveness and efficiency of team member activities can seem very counter-intuitive, but these metrics are not what ultimately matters. The value to the user is the most important metric. We wouldn't allow a focus on efficiency to diminish customer value in any way, so we can't allow it to become the North Star either.
- If the team is producing a lot but not making an impact on the end metrics that matter for the business, then you're not just falling short of targets; you're also wasting money and other resources to get those underwhelming results. Our earlier point bears repeating: focus on outcomes not activity.

Myth: Our North Star metric never needs to change.

Customer needs shift over time. Competitive offerings can also change customer expectations, meaning that what was once a unique problem solver is now a table stakes commodity.

At a younger organization, the North Star metric should be evaluated as often as quarterly, and at a more established organization, it should be evaluated at least annually. That's not to say that changes should happen that frequently. Rather, systematic review ensures that the North Star metrics are still the ones that matter and keeps these metrics top-of-mind among everyone on the team.

Myth: We don't need to measure anything other than our North Star.

Even if we have a small handful of North Star metrics, it's important to break each down further—without losing sight of customer value. We want to understand and influence the actions that lead up to our North Star metrics.

Going back to the suggested approach of envisioning the customer journey, isolate the steps that the user needs to take before each item. While they aren't North Star metrics, they are what will enable or inhibit you from reaching your targets.

Another advantage of "nested" metrics is they drive ownership and accountability at the team and individual levels while aligning everyone around desired business outcomes. Furthermore, teams can experiment with improving the user experience. And by repeatedly measuring and improving each step, customers experience more value.

How to move forward

The vision we've established, like the North Star Polaris, is an amazing source of guidance provided you know how to follow along.

> Continual measured improvements can help us determine if we're having an impact on delivering on the vision, provided those metrics are oriented toward customer value.

Typically, there will be one North Star metric for every customer segment that is addressing the same set of problems through the same set of solutions. It should be revisited periodically and evolve as needed. Valuable outcomes for the customer guide us to the next level of metrics, which, if monitored regularly, can serve as leading indicators of success or early warnings of potential issues.

Here at Launch by NTT Data, we've seen firsthand how North Star metrics, when combined with a hierarchy of supporting metrics, are an effective way to align an organization on strategic vision and goals that deliver value for customers. Together they provide a framework for decision-making, experimentation and tracking progress.

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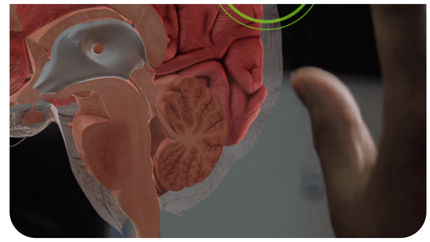

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