

Trajectory Series Bootcamp – Session 2

Dave Parker

@DaveParkerSEA

www.GetTrajectory.com

@DaveParkerSEA



Session 2 Agenda

- ▣ How Startup Make Money – 14 Revenue Models
- ▣ Pricing and Metrics that Matter
- ▣ Go-to-Market
- ▣ Traction and Product / Market Fit
- ▣ Pitch Reviews

How Startups Make Money

Do you know?

▣ Cost to Build	Known	Unknown
▣ Cost to Sell	Known	Unknown
▣ Price	Known	Unknown
▣ Profit	Known	Unknown

How not to make money?

- ❑ Small transaction values are bad
- ❑ Small percentages are bad
- ❑ Not being able to capture value is bad
- ❑ Lumpy sales cycles are bad
- ❑ Long sales cycles are bad
- ❑ Pricing too low could kill your idea before you start

How to Monetize Your Startup: Revenue Models

Business and Revenue Models

- Business Models – abstract framework of Creating, Delivering and Capturing Value
- Revenue Models (part of business model) is the framework of revenue, pricing, who pay
- Models Lean toward Tech and Product

1. Fee for Service

- Example: Consulting Services company
- Use: B2B & B2C
- Key Metrics
 - Project Revenue
 - Cost of delivering (usually time)
 - Gross Margin
- Services are hard to scale because they require people to deliver including Restaurant, Contractors, etc.
- Services include markup on cost of goods sold

2. Commerce

- Example: [Amazon](#), [AmazonSupply](#)
- Use: B2C & B2B
- Key Metrics:
 - ▣ Wholesale or cost of goods sold
 - ▣ Average Margin %
 - ▣ Average Basket
- Commerce – Physical Goods- Wholesale, cost of goods, retail, average margin, physical good
- Notes: Can mature into marketplace

3. Subscription

- ▣ Example: [Salesforce](#), [Box](#), [Spotify](#)
- ▣ Use: B2C & B2B
- ▣ Key Metrics
 - ▣ Average Revenue Per User (ARPU)
 - ▣ Conversion ratio – e.g. trial to purchase
 - ▣ Churn
- ▣ Challenges: MVP won't be enough to be Kick Ass Product
- ▣ Notes: Highest multiple, forecastable revenue

4. Metered Service

- ▣ Example: AWS, Splunk, Azure
- ▣ Use: Favors B2B
- ▣ Key Metrics
 - ▣ Average Revenue Per User (ARPU)
 - ▣ Conversion ratio – e.g. trial to purchase
 - ▣ Churn
- ▣ Challenges: MVP won't be enough to be Kick Ass Product
- ▣ Notes: Highest multiple, forecastable revenue

5. Transaction Fees/Rental

- ▣ Example: [99Designs](#), [KickStarter](#), [Elance](#), [Chugg](#)
- ▣ Use: B2C & B2B
- ▣ Key Metrics
 - ▣ Average transaction revenue
 - ▣ Fee % per transaction
 - ▣ Number of transactions
- ▣ Challenges: Margins are small (15%), need efficiency
- ▣ Notes: Don't start too low

6. Productize a Service

- Your offerings is generally complex and requires services to deploy
 - Gross margin on Services >35%
 - Product development comes with services
- Use: B2C & B2B
- Examples: Moz, service company convert to tools.
- Challenges – difficult to make the transition away from services

7. Marketplaces

- Example: [eBay](#), [Alibaba](#)
- Use: B2C & B2B
- Key Metrics
 - ▣ Average Transaction Amount
 - ▣ Number of Monthly Transactions
 - ▣ Commission %
- Challenges: two sided market places require you start with one side, value to seller & Product market fit (x2)
- Notes: critical mass or marketplace required

8. Combinations

- Combinations business models happen for two reasons
 - You don't know which model is right
 - At scale you can expand revenue sources
- Examples: Hardware sensors + software services to create data analytics
- Challenges – most require scale or at least traction

9. Lead Generation

- ▣ Example: [Mint.com](https://www.mint.com), [AllStarDirectories](https://www.allstardirectories.com), [NetQuote](https://www.netquote.com)
- ▣ Use: B2C & B2B
- ▣ Key Metrics
 - ▣ Cost to generate traffic
 - ▣ % conversion of form data
 - ▣ Price per lead
- ▣ Challenges: Highly competitive, barrier of entry is low
- ▣ Notes: Conversion rates average 0.06%

10. Gaming

- ▣ Example: [King.com/Candy Crush](https://king.com/CandyCrush)
- ▣ Use: B2C Only
- ▣ Key Metrics:
 - ▣ Downloads
 - ▣ % play
 - ▣ Average in app purchase
- ▣ Challenges – tends to be “hit driven business”
- ▣ Notes: use in first 21 days is a predictor of success

11. Advertising/Search

- ▣ Example: Google, Facebook
- ▣ Use: B2B – advertisers pay, users are free
- ▣ Key Metrics
 - ▣ Traffic
 - ▣ Click
 - ▣ Avg. revenue/click
- ▣ Challenges – Scale, need >1M uniques/month to consider the option

12. New Media

- ▣ Example: [SnapChat](#), [WhatsApp](#)
- ▣ Use: B2C only
- ▣ Key Metrics:
 - ▣ K-Factor (Viral Co-efficient)
 - ▣ Network effect of inviting others to join
- ▣ Challenges – K-Factor is hard. Little revenue until scale
- ▣ Notes: Everyone wants to! Not happening in B2B
- ▣ No revenue acutally required

13. Big Data

- ▣ Examples: [PatientsLikeMe](#)
- ▣ Use: B2B
- ▣ Key Metrics:
 - ▣ Per API Call
 - ▣ Per record pricing
 - ▣ Frequency/recency
- ▣ To monetize data, you need to have the data in advance or massive cash

14. Licensing

- Example: Think Microsoft office license or server license – before subscription. Content Licensing
- Use: B2B
- Key Metrics:
 - Duration of license
 - Upgrades & maintenance (20-25% annually)
- Use can be based on vertical market or geography

Revenue Models– Pick Two

1. Fee for Service
2. Commerce
3. Subscription
4. Metered Service
5. Transaction Fee/Rental
6. Productize a Service
7. Marketplace
8. Combinations
9. Lead Generation
10. Gaming
11. Advertising/Search
12. New Media
13. Big Data
14. Licensing

Break

Pricing

Your price will be wrong!
Increase it every year and
grandfather early customers for a
period of time

Art or Science?

- ▣ Pricing is an informed decision based on data and proven revenue models
- ▣ Benchmarks
 - ▣ Comparable products
- ▣ Don't start too low
- ▣ Cost base vs Value based
 - ▣ What is the alternate for the "Job to be Done"?

Pricing needs to cover

- ▣ Cost of Building
- ▣ Cost of Delivering and support
- ▣ Cost of Selling
 - ▣ Customer Acquisition Cost
 - ▣ Marketing expense
 - ▣ Marketing team
 - ▣ Sales expense
 - ▣ Sales Team

Cost vs. Value Based

- Cost based is mark up over expense
 - Pay rate vs bill rate
 - Mark up from cost of goods
- Value based is what you can charge for it
 - Can be a range
 - Depends on product maturity

Jobs to Be Done Framework

- ▣ Clayton Christensen – HBS

“When we buy a product, we essentially ‘hire’ something to get a job done. If it does the job well, when we are confronted with the same job, we hire that same product again. And if the product does a crummy job, we ‘fire’ it and look around for something else we might hire to solve the problem.”

- ▣ What job is your customer hiring your product to do?

- ▣ Does it replace 20% of a staff person's time
- ▣ Does it save them money, make them money

Product Pricing

- First Product
 - Staged pricing – up or down over time
- Second Product
 - Staged pricing – up or down over time
 - Launch timeline based on product road map
- Services?
 - Could it improve you sales cycle

Tiers

Trial Level

- ❑ Low commitment
- ❑ Lower features?

Best Option

- ❑ Optimize for ICP or Segment

Top Tier

- ❑ Call for price (meh)

Terms

- ▣ Month to month
- ▣ Annual Contracts
- ▣ Multi-year contracts
- ▣ Proposals vs. clickable terms of service
- ▣ How about the data?

A/B Testing

- ▣ With your hypothesis
- ▣ Hide the current pricing page
- ▣ Drive traffic to Pricing landing pages
 - ▣ Squeeze page
 - ▣ Test pricing
- ▣ Unbounce or other tool to tack
 - ▣ Optimizes based on conversions

Promotions

- ▣ Freemium
- ▣ Time based
- ▣ Early adopter based
- ▣ Percentage discount
- ▣ Grandfather early users

* Prices subject to change

Common Errors

- ❑ Setting pricing too low
- ❑ Too opaque of a price will frustrate customer – especially if it's low
- ❑ Knowing the answer vs testing
- ❑ Positioning as “me too” just like your competitor, but less
- ❑ Same price for all customers
- ❑ “Free for Life!”

Where to Start

- ▣ Pick your primary/secondary model
- ▣ Do a competitive analysis
- ▣ Building a pricing hypothesis
- ▣ A/B Test
- ▣ Three tiers, maximum
- ▣ Price high and promo the discount based on time to close

Metrics that Matter

What to track – best practices

- Marketing Metrics – “Marketing Motion”
 - Ad Spend
 - Traffic
 - Marketing Qualified Leads (MQLs)
- Sales Metrics “Sales Motion”
 - Outbound/Inbound
 - MQL to SQL Conversion
- Business Development – Partnerships
 - What’s in it for them?
- Pricing

Lunch – 60 Minutes

Marketing – Finding the right customers

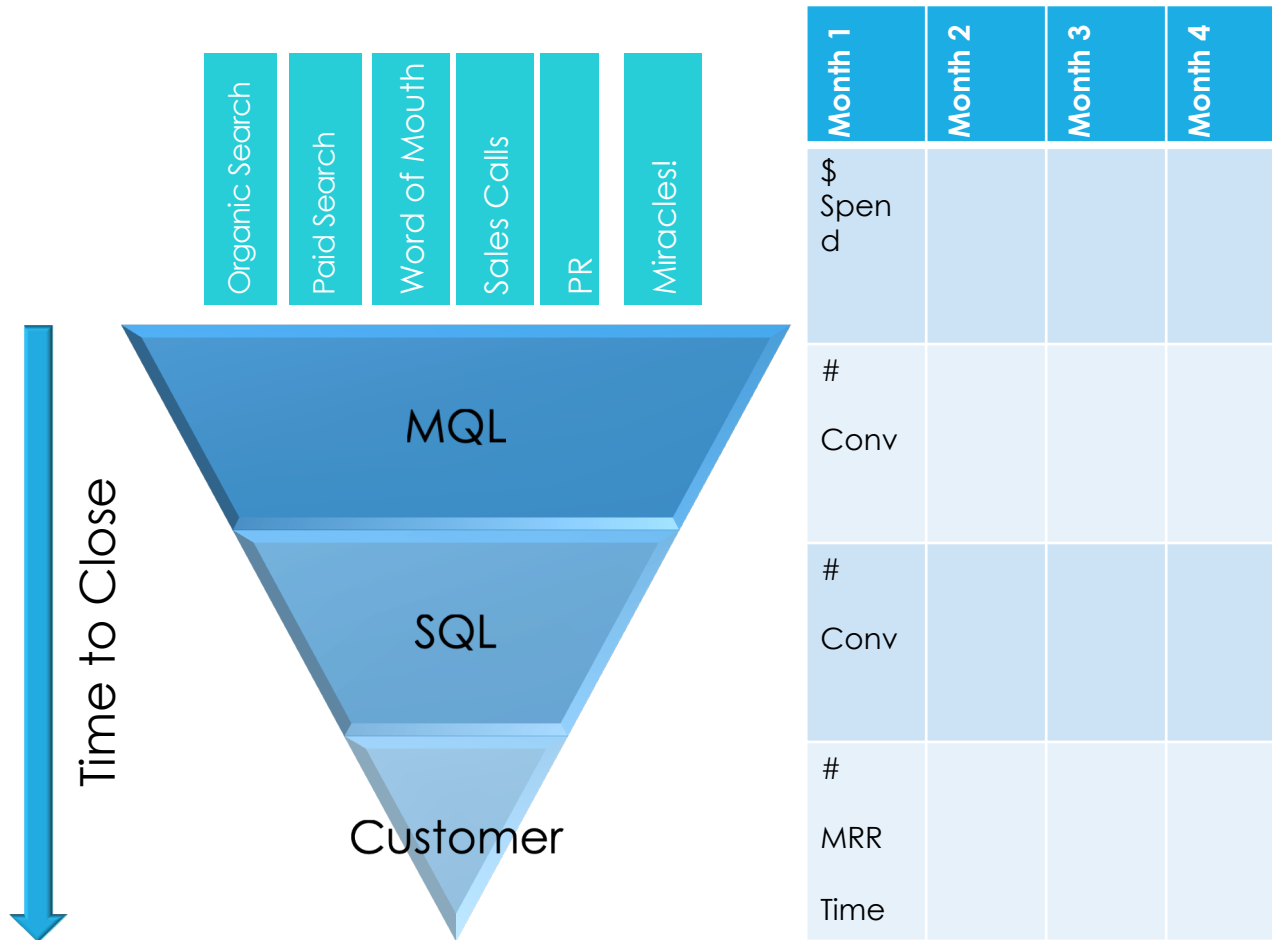
Marketing – Finding Customers

- Messaging/Value Proposition
 - Does it resonate with the target customer segment
 - They are the hero of the story
 - Is it repeatable?

- Strategy
 - Outbound first
 - Inbound second

Key Metric Terms

- ▣ State your hypothesis
 - ▣ CAC
 - ▣ LTV
 - ▣ ARPU
 - ▣ Churn
 - ▣ Time to Close
 - ▣ Customer engagement
 - ▣ Time on Site



Marketing Channels

- ▣ Paid Search
- ▣ Organic Search
- ▣ Word of mouth
- ▣ Sales calls
- ▣ Public Relations
- ▣ Affiliate
- ▣ Email marketing
- ▣ Social



Marketing Qualified Leads

- ▣ Define qualified vs list
- ▣ Suspects
- ▣ Prospects
- ▣ Qualified Prospects



Sales Qualified Leads

- Hand off to Sales
- Identify steps to close
- Number of calls



Time to Close

- ▣ Lead attribution
- ▣ Source time
- ▣ Compressing or Expanding
- ▣ Trend by source



Tracking

- Data allows you to know where to double down and where to hold back
- Conversion ratios

Month 1	Month 2	Month 3	Month 4
\$ Spend			
# Conv			
# Conv			
# MRR			
Time			

Sales – capturing value creation

How will they buy?

- ▣ Web Direct – place the order to buy on the web
- ▣ Direct – outbound sales, inside/outside
- ▣ Indirect/Channel – fulfills demand, doesn't generate
- ▣ Retail – BestBuy, etc

Sales Model Hypothesis

	Known Market	Unknown Market	Low Price Point	High Price Point	Known Search Words	Unknown Search words
Web Direct	✓		✓		✓	
Direct	✓	✓		✓	✓	✓
Indirect	✓		✓		✓	
Retail						

Sales

- ▣ Model – Pick one, why?
- ▣ Strategy
 - ▣ Who
- ▣ Tactics
 - ▣ How
- ▣ Tools
 - ▣ Sales tools

Business Development

Business Development

- ▣ Strategic relationships
- ▣ Who has the list you want
- ▣ How do you get the partnership

Business Development

- Strategy
 - Who should you get as a partner
 - How will you build the relationship?
 - What channels
- Tactics
 - Messaging/Value proposition
- Tools
 - CRM

Go-to-market plan

Go-to-Market Plan

- ▣ Revenue Model
- ▣ Marketing
- ▣ Sales
- ▣ Business development plan
- ▣ Pricing

Before the Program

- ▣ What are your priority tests?
- ▣ Do you need product final to do that test?

Exercise - 30/60/90

- ▣ Write up your 30/60/90
 - ▣ Marketing tests
 - ▣ Channel spend hypothesis
 - ▣ Lead source, cost
 - ▣ Sales tests
 - ▣ Initial Sales script
 - ▣ Pricing
 - ▣ High and low

Traction and PMF

Product Market Fit

Two Epoch's of every startup

- Pre - Product Market Fit
 - The only thing that matters is getting there
- Post – Product Market Fit
 - A whole new set of questions – Scale, Culture and People

Pre – PMF

- Some Revenue
- Some Customers
- Some Marketing
- A lot Hypothesis

Post – PMF

- ▣ Predictable & Scalable Revenue
- ▣ Customer profiles
 - ▣ Cohort analysis
- ▣ Churn
- ▣ Scalable marketing
- ▣ Hypothesis + Data

PMF Scorecard

- ▣ ***How would you feel if you could no longer use [product]?***
 - ▣ The answers are the following:
 - ▣ Very disappointed
 - ▣ Somewhat disappointed
 - ▣ Not disappointed
 - ▣ I no longer use [product]

Tracking Over Time

- ▣ Churn Rate
- ▣ Net Negative Churn
- ▣ NPS vs CSAT
- ▣ Product usage level
 - ▣ Frequency
 - ▣ Recency
- ▣ Growth Rate

What is “Traction?”

Predictable/Forecastable Revenue

- ▣ De-risking your <time> investment
- ▣ Predictable revenue moves you from valuations based on trailing 12 to future 12
- ▣ Target customer
- ▣ Sales Cycle
- ▣ Tools trail Strategy and Tactics

Customer Acquisition Hypothesis

- Cost of Customer Acquisition (CAC)
- Lifetime value of Customer (LTV)
 - 36 month calculation in a mature business, 12 months for you
- **Time** to close sale
 - How does this change with product/market maturity?
- Churn/Retention
- Average Revenue/measure (User, Account, etc)
- Word of mouth vs. Virality

Financial Modeling Note

Templates

- Do this after you get in the program – not highest and best use today
- Four Templates
 - Marketplace
 - Subscription
 - Transaction Fee (works for commerce)
 - Productize a service
- Templates in shared [Google Drive](#)

Financial Model Heuristics

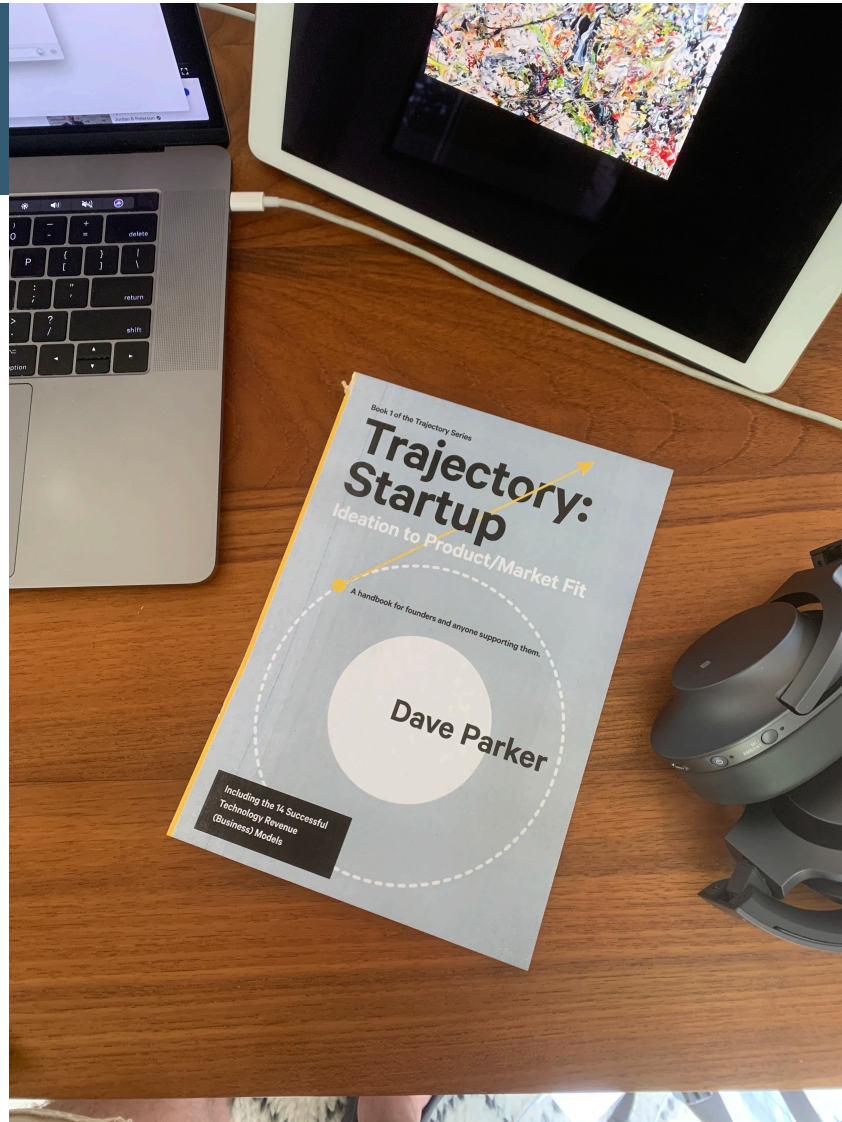
- ▣ \$0- \$40 is likely OK
- ▣ Start with Assumptions
 - ▣ Product 1, 2
 - ▣ Services
 - ▣ Release timing
- ▣ Scale Revenue first
 - ▣ Customer count and timing
- ▣ Keep expenses in line as you grow

Q&A

Dave's Madlibs Pitch

Hi, I'm <your name here>, and my company <your Company name here> the problem I'm solving is <insert problem here>. Our product <insert product info here> is designed for our target customer of <insert target customer here>. We make money by <insert method here> and our team is the right team because <insert why you're awesome here>. I need help with <insert help needed here>.

Pitch Reviews



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