Will Your Startup Make $$? Or be a Statistic??

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Agenda

- About Dave

- Why Startup Fail and You Shouldn't

- Revenue Models
  - The Data
  - The 14
- Company Valuation Drivers

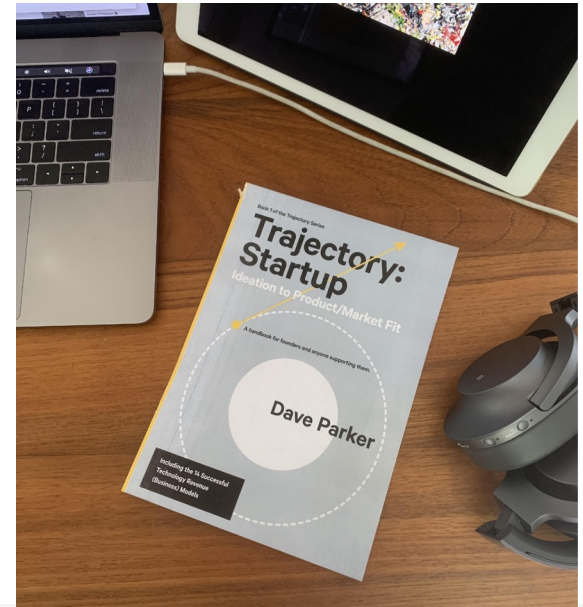**Trajectory Series**
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About Dave

- 5X founder, Board Member, former SVP Programs at UP Global (Startup Weekend + Startup America)
  - Startup Next creator
  - Startup Week

- Senior Partner, Fearless.fund

- Author – "Trajectory: Startup – Ideation to Product Market/Fit"

- >15 transactions –now with NextPath Advisors

FEARLESS fund

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Resources

- www.dkparker.com

- 14 Revenue Model Excerpt here

- Order the book on Amazon

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Ignore the Memes!

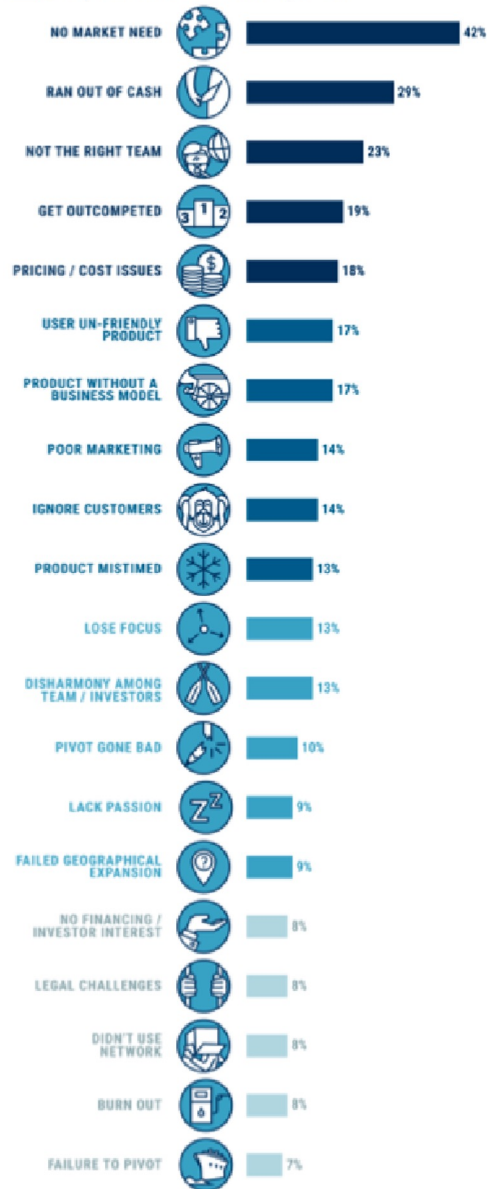Follow Your Passion, Money Will Follow!

It's All About the Market

The Team Matters most!

The Product is Most Important

Focus on Customer Growth, Revenue will Follow!

The Idea Doesn't Matter only Execution!

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Top 20 Reasons Startups Fail

Reason	%
NO MARKET NEED	42%
RAN OUT OF CASH	29%
NOT THE RIGHT TEAM	23%
GET OUTCOMPETED	19%
PRICING / COST ISSUES	18%
USER UN-FRIENDLY PRODUCT	17%
PRODUCT WITHOUT A BUSINESS MODEL	17%
POOR MARKETING	14%
IGNORE CUSTOMERS	14%
PRODUCT MISTIMED	13%
LOSE FOCUS	13%
DISHARMONY AMONG TEAM / INVESTORS	13%
PIVOT GONE BAD	10%
LACK PASSION	9%
FAILED GEOGRAPHICAL EXPANSION	9%
NO FINANCING / INVESTOR INTEREST	8%
LEGAL CHALLENGES	8%
DIDN'T USE NETWORK	8%
BURN OUT	8%
FAILURE TO PIVOT	7%

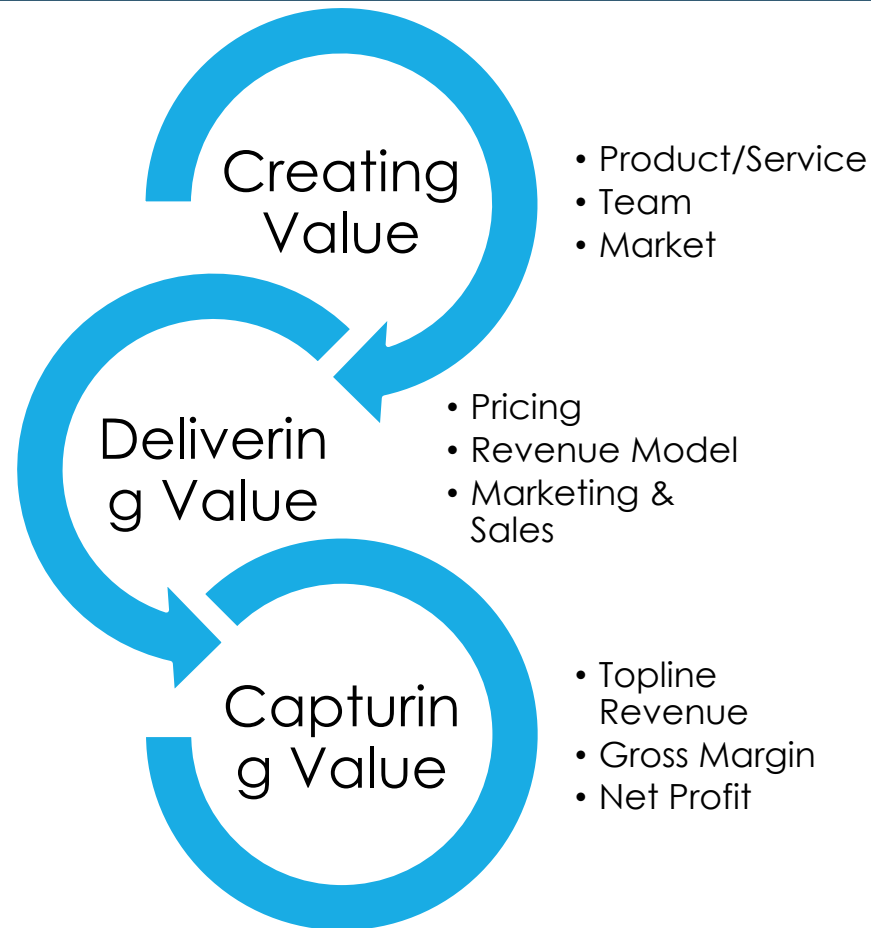Trajectory Series
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Some Calculus

- Great Team in Bad Market = Failure to meh result

- OK team + Great Market = could be great result

- Great Product + no path to revenue = failure

- OK product + great monetization = make $$

- Unicorns = Great Product + solid monetization + great market + great execution

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Two Views of Startups

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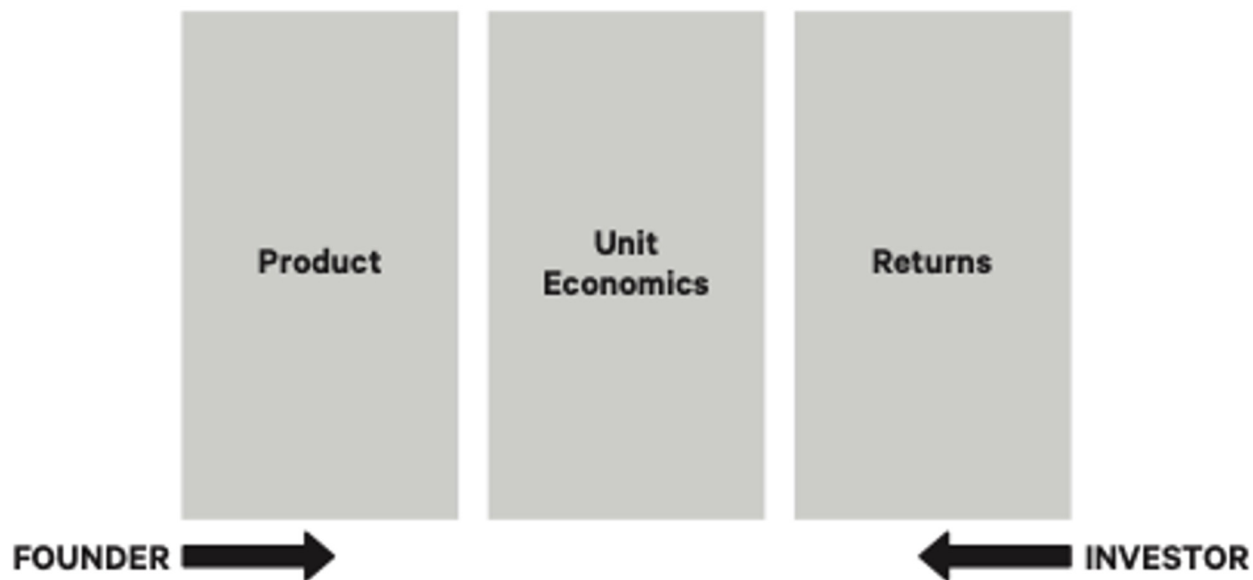
Business Model Breakdown

Creating Value

- Product/Service
- Team
- Market

Delivering Value

- Pricing
- Revenue Model
- Marketing & Sales

Capturing Value

- Topline Revenue
- Gross Margin
- Net Profit

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Creating Value

- Product or Service or combination

- Cost to Build – Team
    - Engineering
    - Design
    - Hosting
    - Manufacturing

- Cost of Delivery & Support

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Delivering Value

- Revenue Model

- Pricing

- Customer Acquisition Cost (CAC)
  - Marketing Methods and Spend
  - Sales Models

- Lifetime Value (LTV)

- Note Promotions are not pricing or revenue models (e.g. freemium is a promotion)

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Capturing Value

- What's left over!

- Topline Revenue

- Gross Margins

- Net Profit

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Product/Market Fit = Math

- PMF means being in a good market with a product that can satisfy that market (no more pivots)

- Pre-PMF looks like pre-compound interest, early options:

  1. Site Traffic is increasing
  2. Leads are increasing
  3. Closing ratios are increasing
  4. Time to close is decreasing
 5. ACV/MRR is increasing

  Bonus for:
  - Referrals are increasing
  - Time on site/app is increasing
  - LTV:CAC Ratio improving
  - LTV is increasing (>12 months)

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How to Monetize: Revenue Models

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This isn't a calculus for valuations - it's a heuristic

The Data

- Background – revenue templates
  - 2654 companies from Crunchbase
  - 5+ year tracking
  - Surprises
    - Seed 1-10
    - Combinations models
      - * on short time from Seed to A
    - Failures
      - Wayback Machine
      - >80% lacked clear CTA and Value Prop

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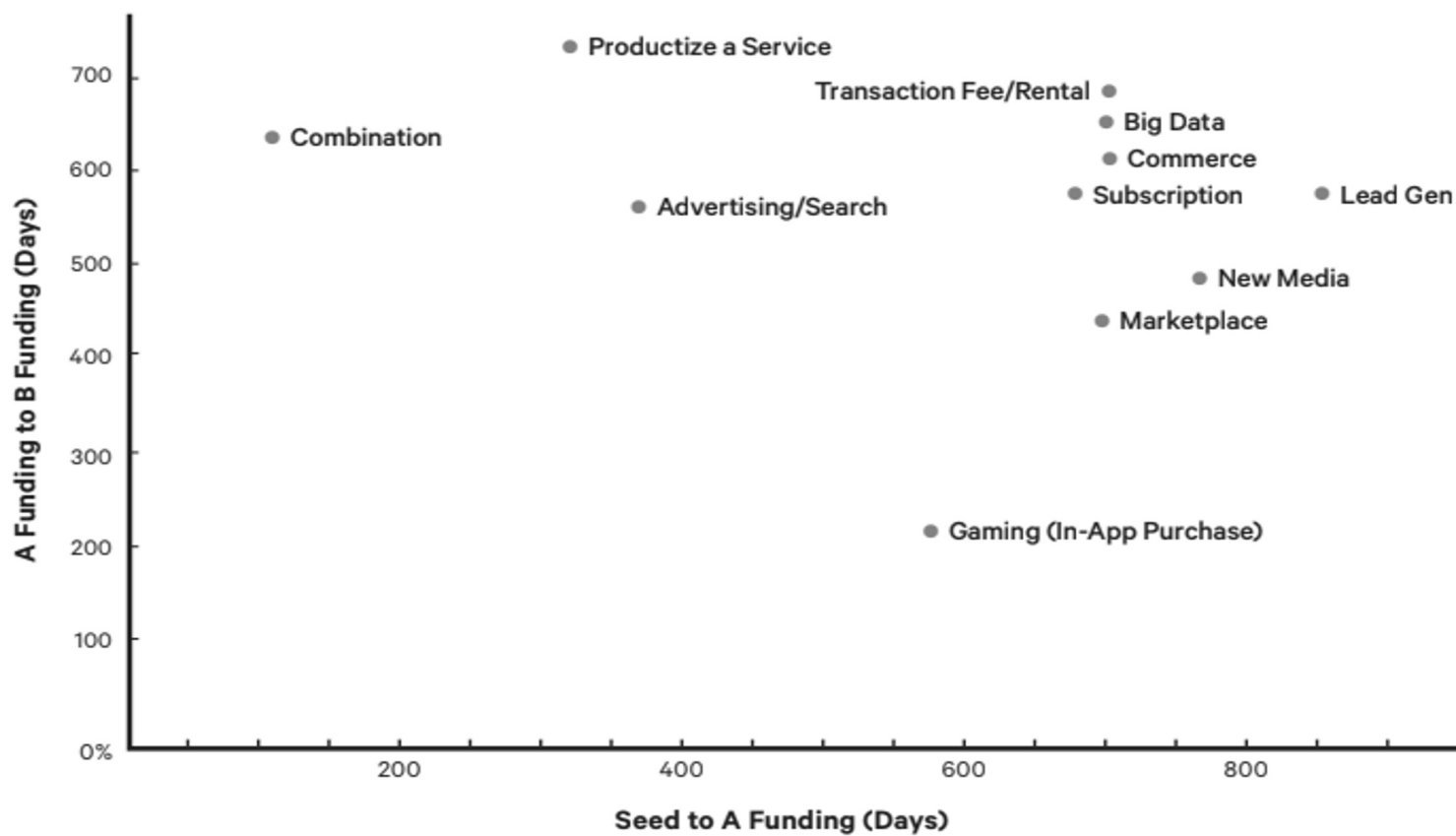
1. Fee for Service

- Example: Accenture, Stride (Education)

- 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

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2. Productize a Service

- Example: SW Airlines, IBM

- Use: B2B & B2C

- Your offerings is generally complex and requires services to deploy
    - Gross margin on Services >35%
    - Product development comes with services

- Examples: Moz, service company convert to tools.

- Challenges – difficult to make the transition away from services

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3. Commerce

- Example: Wayfair, Lululemon

- Use: B2B & B2C

- Key Metrics:
  - Wholesale or cost of goods sold
  - Average Margin %
  - Average Basket
  - # of Baskets/Month

- Commerce – Physical or virtual goods- Wholesale, cost of goods, retail, average margin

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4. Subscription

- Example: Salesforce, Spotify

- Use: B2C & B2B

- Key Metrics
  - Average Revenue Per User (ARPU)
  - Conversion ratio – e.g. trial to purchase
  - Churn

- Tiered pricing to optimize customer profiles/revenues

- Notes: High multiple, forecastable revenue

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5. Metered Service

- Example: Twilio, AWS, UIPath, Plaid Tech

- Use: Favors B2B

- Key Metrics
  - Average Revenue Per User (ARPU)
  - Usage growth over time
  - Churn

- Challenges: infrastructure required at launch

- Notes: Highest multiple, forecastable revenue

The API Economy

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6. Transaction Fees/Rental

- Example: Stripe, Chegg

- 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. Booking only the fee

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7. Marketplaces

- Example: eBay, Alibaba, Uber

- Use: B2C & B2B

- Key Metrics
  - Average Transaction Amount
  - Number of Monthly Transactions
  - Commission %

- Challenges: two sided marketplaces require you start with one side, value to seller & Product market fit (x2)

- Notes: critical mass or marketplace required

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8. Combinations

- Example: SmartSheet, conglomerates at scale

- Combination 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. At Scale, Amazon, Microsoft

- Challenges – most require scale or at least traction

- Mature faster

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9. Gaming

- Example: King.com/Candy Crush, Blizzard

- 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

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10. 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

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11. New Media

- Example: SnapChat, Clubhouse

- 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 actually required – GREAT multiple

This is the Non-Revenue Model

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12. Big Data

- Examples: PatientsLikeMe

- Use: B2B only

- Key Metrics:
  - Per API Call
  - Per record pricing
  - Frequency/recency

- To monetize data, you need to have the data in advance or massive cash

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13. Lead Generation

- Example: <u>Mint.com</u>, <u>Chime.com</u>, <u>AllStarDirectories</u>,

- Use: B2C (selling consumers data), 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%

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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

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Revenue Models– Primary/Secondary

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

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Public Comps

- Public companies are the likely buyer, if you're going to be acquired, it's a good place to start

- You can get their Enterprise value
  - Price (market cap)/Sales (ttm) Ratio
  - Most early-stage companies don't have profit, so valuing based on EBITDA or Earning (PE) is rough

- Notes:
  - Combination models aren't clearly calculated
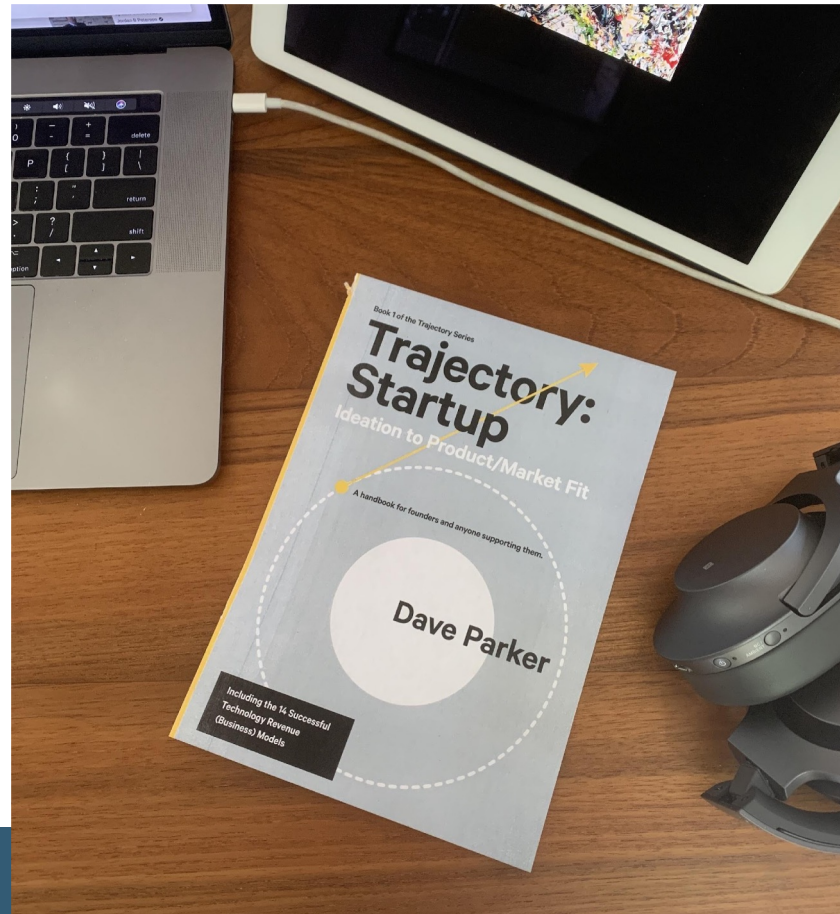 - Current stock prices reflect Covid Era pricing (ttm)

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Public Multiples

	Model	Example	Price/Sales Ratio (TTM)
1	Services	Stride, Accenture	.75-1.5X
2	Productize a Service	SWAir, IBM	1-2X
3	Commerce	Wayfair, Lululemon	4-5X
4	Subscription	Salesforce, Spotify	8-12X
5	Metered Service	Twilio, AWS, UIPath	24X
6	Transaction Fee/Rental	TripAdvisor, Chegg	12-15X
7	Marketplace	eBay, UBER	4-8X
8	Combinations	SmartSheet, Amazon	8-12X
9	Gaming	Activision - Blizzard	7-10X
10	Advertising/Search	Alphabet, Facebook	7-9X
11	New Media v. Old	Snap	3-23X
12	Big Data	Splunk, Plaid Tech	8-10X
13	Lead Generation	Chime, Mint	4-5X
14	Licensing	Broadcom, Oracle	5-9X

Other Influences on Valuation

- Total Addressable Market (TAM)

- Growth – rule of 40 (or 50 today) growth + profit= >50% annually

- Logical and acquisitive up market buyers

  - Create competition between buyers

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Summary

- Dave did not say: This is not a method you can use to calculate your current valuation of a pre-revenue company!
  - Too many variable at early revenue stage to calculate
  - See [Berkus Method](#) for a 20 year method

- The data is still a work in progress

- Startup need to be creative, in product and marketing. **Not revenue models**

- If you come up with the 15th, I'll write about it!

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Q&A

Available at Amazon.com

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