

Trajectory Series Workshop

Understanding Your Customer and How Startups Make Money

Dave Parker

www.dkparker.com

@DaveParkerSEA



Customer Development

Customer Development

- ▣ Parallel process with Product Development
- ▣ “Get out of the Building”
- ▣ Develop for a few not Many
- ▣ Prioritize features based on Needs not Wants
- ▣ Validate with Revenue/Commitment

Customer Development Goals

- ▣ Acute focus on **problem** – not product
- ▣ Find out if customers care?
- ▣ What do they want?
- ▣ Determines the difference your product at launch and at scale
- ▣ Feature priorities & Product Roadmap

Customer Development Questions

MIKE FISHBEIN

A

The Ultimate List of Customer Development Questions



I've had a few requests for this post. I've compiled all of my favorite customer development questions into one place! I'm sure I've missed some great questions. Please let me know your favorites in the comments sections and I'll continually update this post.

<https://mfishbein.com/the-ultimate-list-of-customer-development-questions/>

Copyright, DKParker, LLC 2020

Customer Dev Mechanics

- ▣ Google Forms
- ▣ Structured questions
 - ▣ Progression
 - ▣ Easy to Hard
 - ▣ What do you really want to know?
 - ▣ Will they pay for it? How much
 - ▣ Why will it fail
- ▣ Neutral, not Guided Questions

Customer Dev Mechanics, Cont

- Build a list of interested parties
 - Mail Chimp List setup
 - Ask for permission to email
 - Monthly updates –
 - Format: “What we did, what we’re going to do and where we can use your help”
- Regular frequency – be predictable

What Not To Do

- ▣ You are not the customer
- ▣ Don't tolerate a small sample set – this could delay your success by **Years**
- ▣ Avoid “Selection Bias”
 - ▣ “Isn't our product amazing”
- ▣ No rhetorical questions
- ▣ No blind surveys
- ▣ Can't outsource

How Many Customer Interviews

- B2B – 25+
 - Profile
 - Job Title
 - Type of Company
- B2C – 50+
 - Demographic
- ㄟ(ツ)ㄟ = bad

Fundraising Note

You have opinions
You have Data
You get money!



Investors have opinions
They have money



Hypothesis vs Fact

- If you are convinced you're right you won't be open to radical feedback that could change the trajectory of your business & life!
- Always testing what you think you know
- Permission to give negative feedback
 - If this idea was to fail, why would it fail?
 - Why is this idea stupid?

How Startups Make Money

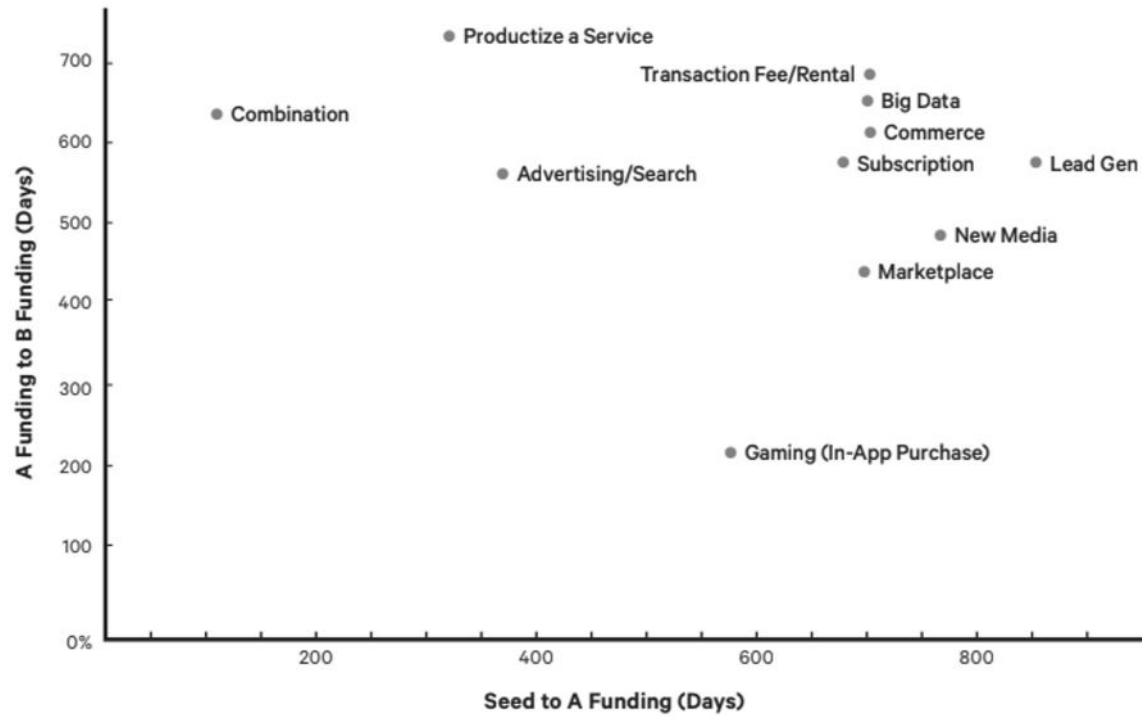
How not to make money?

- ❑ 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

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



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. 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

3. 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

4. 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

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

6. Transaction Fees/Rental

- ▣ Example: [Stripe](#), [Square](#), [Chugg](#)
- ▣ Use: B2C & B2B
- ▣ Key Metrics
 - ▣ Average transaction revenue
 - ▣ Fee % per transaction
 - ▣ Number of transactions
 - ▣ Transactions per month
- ▣ Challenges: Margins are small (15%), need efficiency

- ▣ Notes: Don't start too low

7. Marketplaces

- Example: [eBay](#), [Alibaba](#), [Fiverr](#)
- 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

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. Gaming


- ▣ Example: [King.com/Candy Crush](https://www.king.com/candy-crush)
- ▣ 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

10. 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%

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

12. 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

13. Big Data

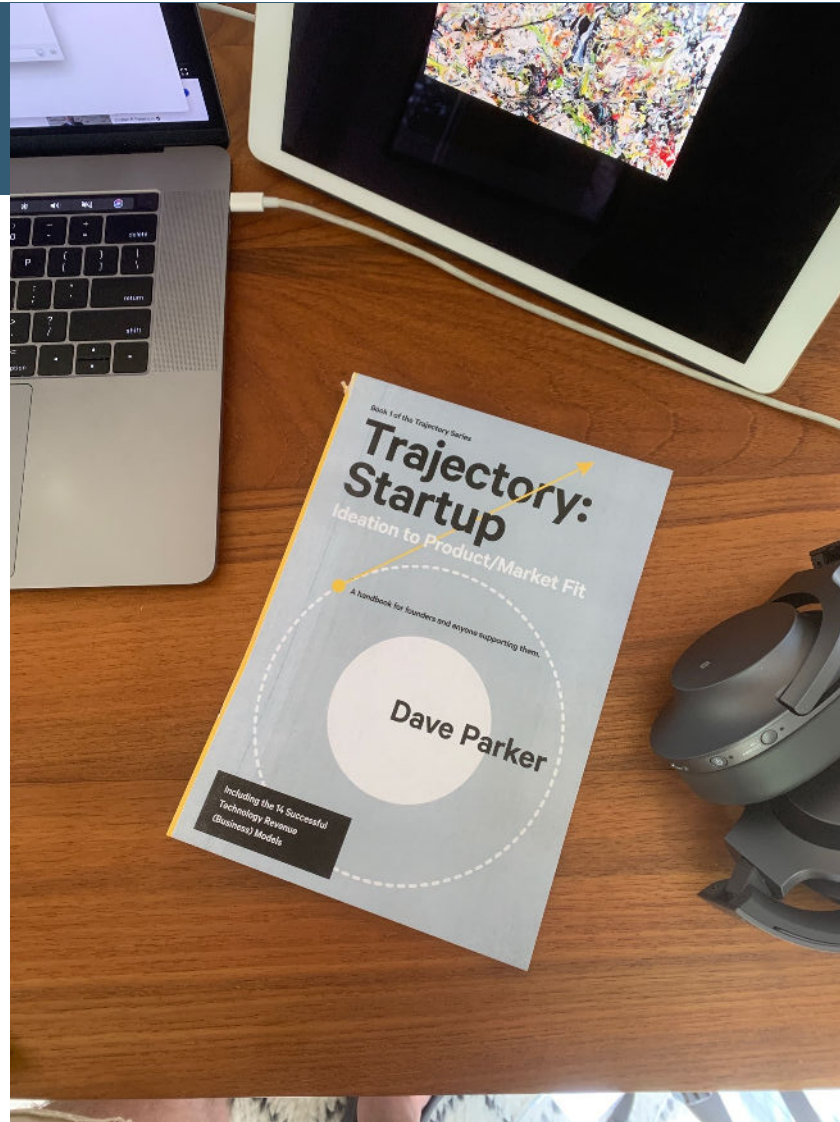
- ▣ Examples: [PatientsLikeMe](#)
- ▣ Use: B2B
- ▣ Key Metrics:
 - ▣ Per API Call
 - ▣ Per record pricing
 - ▣ Frequency/recency
- ▣ To monetize data, you need to have the data in advance or massive cash

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



Copyright, DKParker, LLC 2020