

Product/Market Fit Milestone 1

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Agenda

- About Dave
- Why Startup Fail and You Shouldn't
- Company Valuation Drivers
 - Creating, Delivering, & Capturing Value
- Product/Market Fit Math
- Marketing & Sales
- 14 Revenue Models

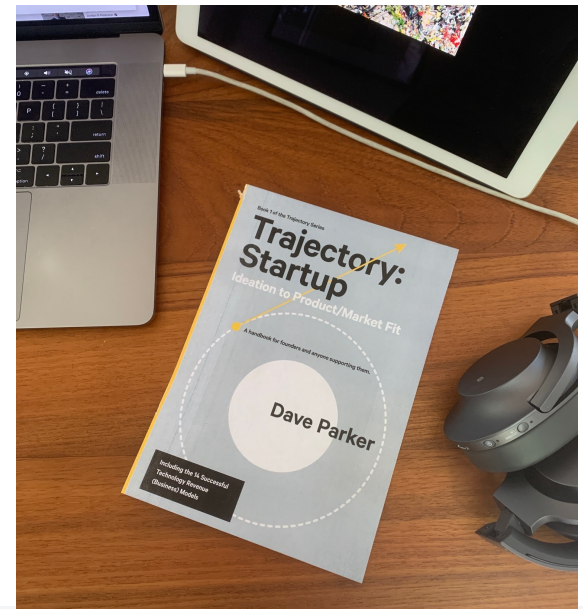
About Dave

- 5X founder, raised \$12M, exited \$85M
- Former SVP Programs at UP Global (Startup Weekend)
 - Startup Next creator, Startup Week
- Author – "[Trajectory: Startup – Ideation to Product/Market Fit](#)" shipping today!
- 3X VC and random Angel
- >15 transactions – now with [NextPath Advisors](#)



Resources

- ▣ 14 Revenue Model Excerpt
 - ▣ <https://www.dkparker.com/trajectory-excerpt/>
- ▣ Dave's Blog
 - ▣ www.dkparker.com



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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>.

Ignore the Memes!

Follow Your
Passion, Money
Will Follow!

The Team
Matters
most!

It's All About
the Market

The Product
is Most
Important

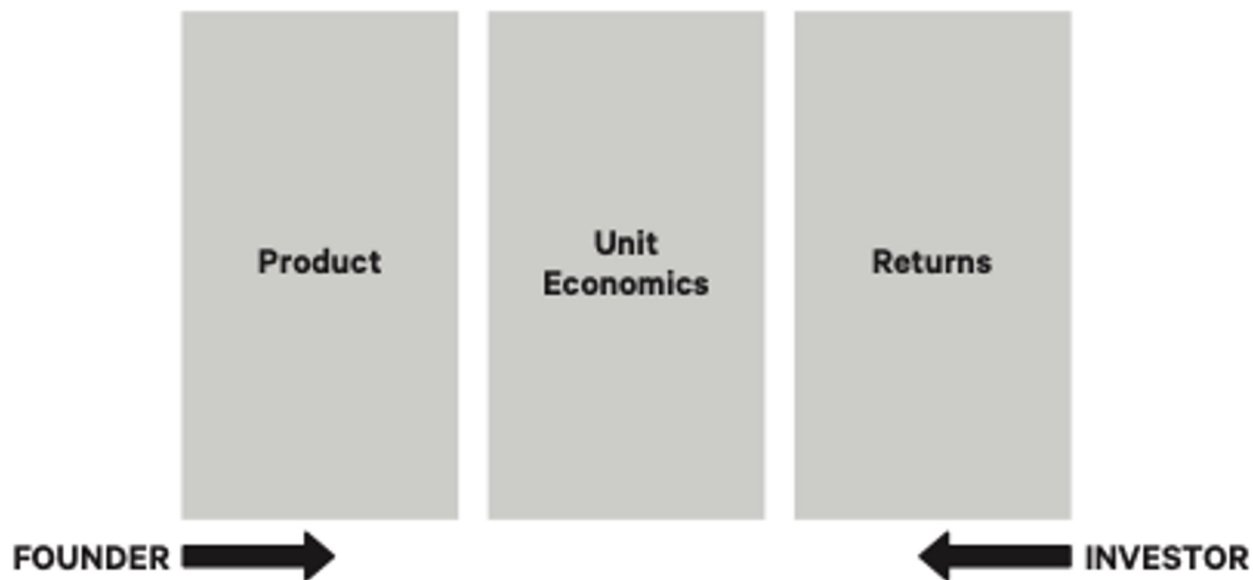
Focus on
Customer
Growth, Revenue
will Follow!

The Idea Doesn't
Matter only
Execution!

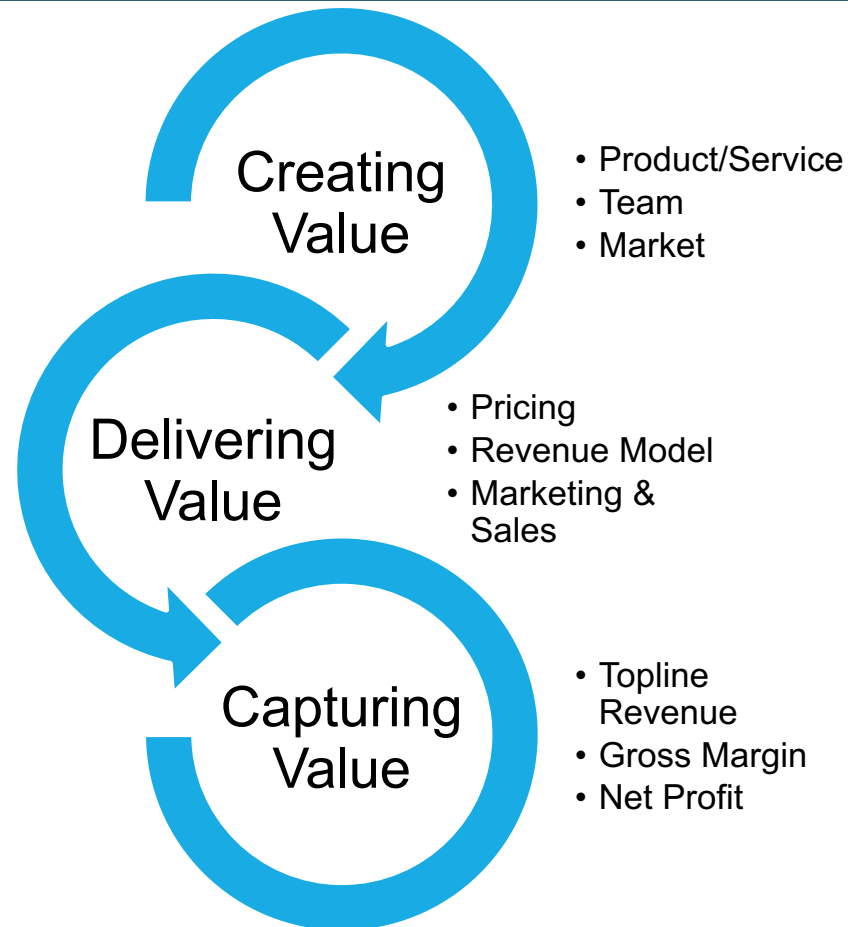
BASED ON ANALYSIS OF 101 STARTUP POSTMORTEMS
Top 20 Reasons Startups Fail



Two Views of Startups



Business Model Breakdown



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Creating Value

- Product or Service or combination
- Cost to Build – Team
 - Engineering
 - Design
 - Hosting
 - Manufacturing
- Cost of Delivery & Support

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)

Capturing Value

- What's left over!
- Topline Revenue
- Gross Margins
- Net Profit

From TAM to Customer Profiles

- ▣ TAM is abstraction, PMF makes it real
- ▣ Customer Profiles Matter
 - ▣ First 10 customers
 - ▣ First 100 customers
 - ▣ First 1000 customers
- ▣ Start narrow and expand Ideal Customer Profile (ICP)

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

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 \$\$

- Great Product + solid monetization + great market + great execution = monster result

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. Traffic is increasing
 2. Leads are increasing
 3. Customer Count is increasing
 4. ACV/MRR is increasing
 5. Time to close is decreasing= Magic of compound interest

Traffic

- ▣ SEO – Organic traffic
 - ▣ Sources
- ▣ Paid traffic
 - ▣ SEM
 - ▣ Paid Ads - IG, LinkedIn TikTok, FB
 - ▣ Affiliate
- ▣ Events
- ▣ Supporting sales – where sales driven

Leads

- ▣ Clear Call to Action (CTA)
 - ▣ Lead form capture
- ▣ Published pricing
- ▣ Demo or White Paper
- ▣ Not a “call for more info”

Customer Count

- ▣ New customers by month
- ▣ Customer onboarding
- ▣ Cohort analysis
- ▣ Churn?

Annual Contract Value

- ▣ Increasing ACV
- ▣ Price increases
- ▣ Term increases
- ▣ New features and value increases

Time to Close

- ▣ Decreasing over time
- ▣ Google Attribution Manager or Google Tag Manager
- ▣ Anonymous cookies to customer tracking
- ▣ First Demo to Close
- ▣ Proposal timing

Tools

- ▣ Google Analytics
- ▣ Google Tag Manager
- ▣ Google Attribution Manager BETA
- ▣ Google Cohort Manager BETA
- ▣ Google Forms/Sheets or CRM (Hubspot)

Marketing Machine

Marketing – Finding Customers

- Messaging/Value Proposition
 - Does it resonate with the target customer segment
 - They are the hero of the story
 - Is it repeatable?
- Customer Profiles
 - Ideal Customer Profiles (ICP)
- Strategy
 - Outbound first
 - Inbound second

Key Metric Terms

- ▣ State your hypothesis
 - ▣ CAC – Customer Acquisition Cost
 - ▣ LTV – Life-time value
 - ▣ ARPU – Average Revenue per User/account
 - ▣ MRR/ARR/ACV
 - ▣ Active Users
 - ▣ DAU/WAU/MAU
 - ▣ Churn – or retentions
 - ▣ Time to Close
 - ▣ Customer engagement
 - ▣ Time on Site/App, Frequency

Value Proposition and ICP

- ▣ What is your value proposition
 - ▣ Near term – next 12 months
 - ▣ Long term - >12 months
- ▣ Who is your launch customer
- ▣ Who is your scale customer

(we'll workshop this more in your GTM session)

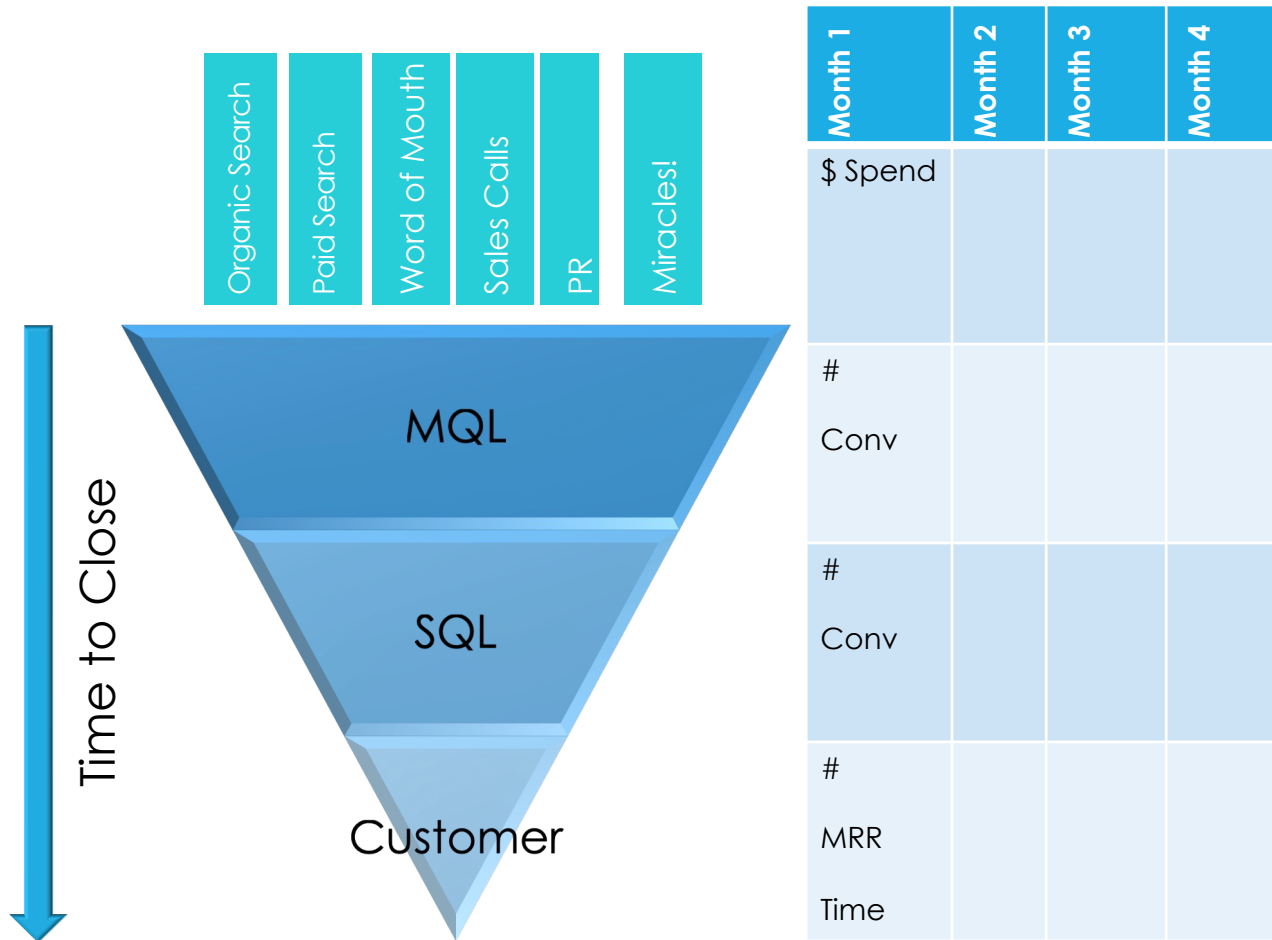
B2B and B2C

B2B Funnel

- ▣ Traffic
- ▣ Marketing Channels
- ▣ Marketing Qualified Lead
- ▣ Sales Qualified Leads
- ▣ Sales Funnel
- ▣ Time to Close
- ▣ Customers

B2C Funnel

- ▣ Traffic
- ▣ Marketing Channels
- ▣ Leads
- ▣ Users DAU/WAU/MAU
- ▣ Time to Close
- ▣ Customers



Your Top Three Channels

If you're spending \$\$ on marketing, what are your top channels?

Sales Motion – capturing value creation

What do we do with the leads?

- Follow up email at registration, lead with value proposition, message on thank you page
- Set appointments for demos, automate where you can, [Calendly](#), HubSpot automation
- Drip campaign - Mailchimp or Hubspot
 - Paths for scheduled, not scheduled

Steps in the Sales Process

B2B

- ▣ Educational or transactional process
- ▣ Demo
- ▣ Proposal/price sheet
- ▣ Price testing, Terms – length of contract
- ▣ Promotions
- ▣ Drip campaign follow up

B2C

- ▣ Transactional process
- ▣ Pricing
- ▣ Remove friction to purchase
- ▣ Promotions

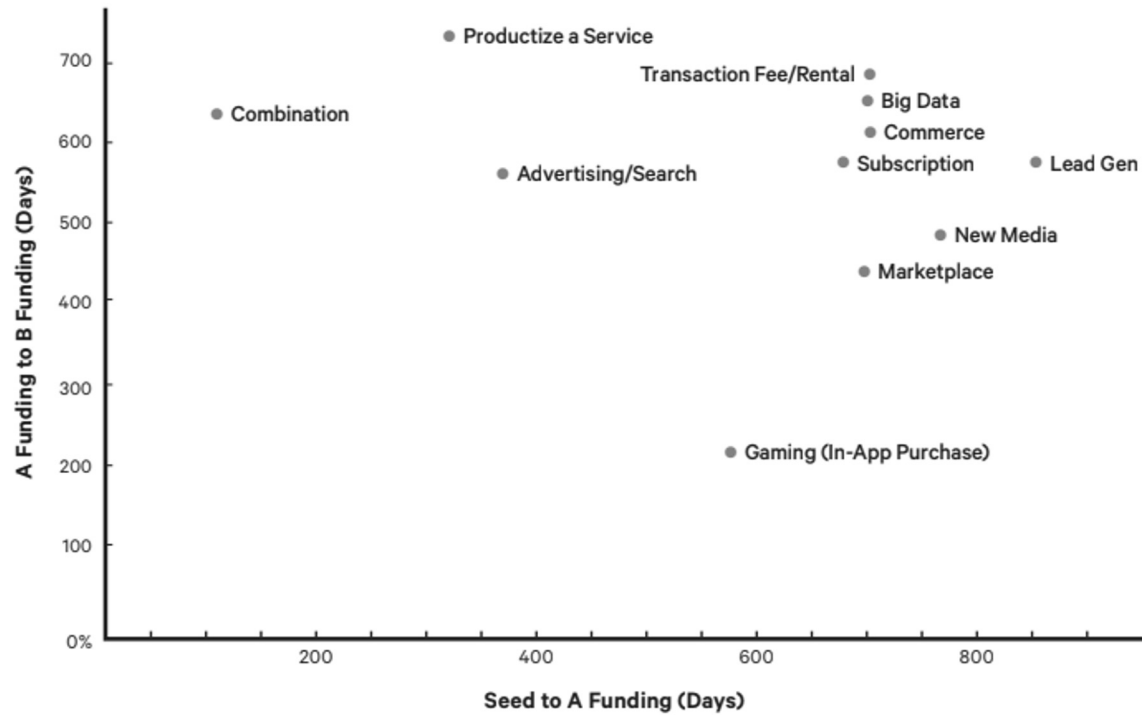
Predictable/Forecastable Revenue

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

How to Monetize: 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: 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

2. Productize a Service

- Example: SW Airlines, Guidant Financial, IBM
- 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: Wayfair, Lululemon
- 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, 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

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, 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

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

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

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

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

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. Big Data

- Examples: PatientsLikeMe, Splunk
- 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

13. Lead Generation

- Example: Mint.com, Chime.com, AllStarDirectories,
- 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%

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– 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

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)

Public Multiples

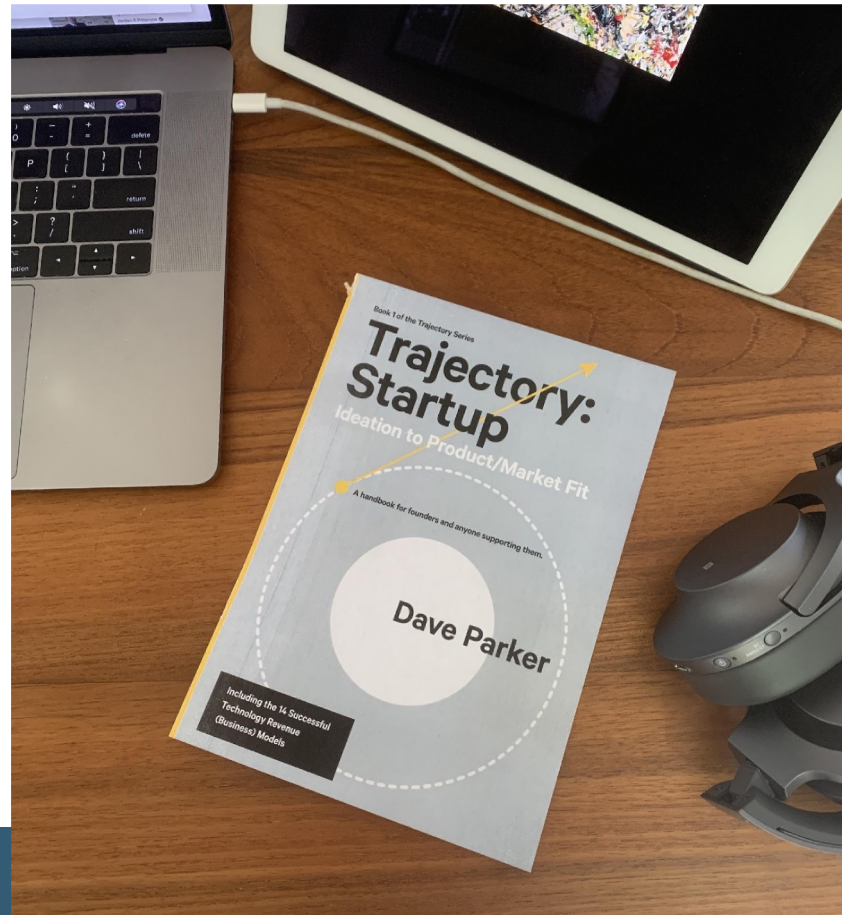
	Model	Example	Price/Sales Ratio (TTM)
1	Services	Stride, Accenture	.75-1.5X
2	Productize a Service	SWAir, IBM	1-2X
3	Commerce	Wayfair, Lululemon	4-5X
4	Subscription	Salesforce, Spotify	8-12X
5	Metered Service	Twilio, AWS, UiPath	24X
6	Transaction Fee/Rental	TripAdvisor, Chegg	12-15X
7	Marketplace	eBay, 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

Deliverables

1. Outline your basic value proposition for today
2. Identify your target Ideal Customer profile today
3. Guess your top three marketing channels
4. Have a hypothesis of your sales models
5. Pick your primary and secondary revenue models

Deliverables

- ▣ Outline your basic value proposition and ideal customer profile
- ▣ Pick your primary and secondary revenue model from the list of 14
- ▣ Identify your top three channels
- ▣ Choose your sales methods



Q&A

Available at [Amazon.com](https://www.amazon.com)