

Trajectory Series Bootcamp – Session 2

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Session 2 Agenda

- ▣ Customer Development
- ▣ How Startup Make Money – 14 Revenue Models
- ▣ Marketing, Sales, & Business Development
- ▣ Pricing
- ▣ Go-to-Market

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/>

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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?

Awkward Co-Founder Discussions

Everyone Has Expectations

- ▣ Set up a [process](#) to get the expectations out in the open
- ▣ Pre-Incorporation
 - ▣ Meeting 1 of 2
 - ▣ Why do you want to do this
 - ▣ Capital in vs out
 - ▣ Timing of life
 - ▣ Passion
 - ▣ Go to [Startup Equity Calculator](#)

Co-Founders – Part 1

Startup Equity Calculator - To Get Started

Welcome to the [Co-Founder Equity Calculator](#)! It is based on almost 3 years of one-on-one discussions with entrepreneurs through the co-founders meetup and 8 editions of the [startup conference](#).

Fill out as many of the questions below as possible. If the question doesn't apply to your situation, leave the answer blank. For questions where selecting multiple founders is allowed, try to limit your selection to one or two founders, not everyone.

What this calculator doesn't do: it doesn't handle salaries, co-founders who invest significant cash, or co-founders who join long after the first version of a product has shipped.

For projects that are heavily design-oriented, it's ok to replace the questions about development by design, but keep in mind that you need developers as well.

This calculator is experimental. If you don't like the results, [drop me an e-mail](#) with details and I'll try to make improvements. Thanks!

Also try the [Venture Capital Funding Calculator](#): will VCs invest in your startup or not?

If you need legal advice for your early-stage startup, I recommend [Grellas Shah](#) in Silicon Valley. That firm was founded by one of the more respected [commenters](#) on Hacker News.

Other good stuff to read: [Startup Trends 2017](#) / [Google salaries hurting startups](#) / [Famous Co-Founder Issues](#)

The Questions

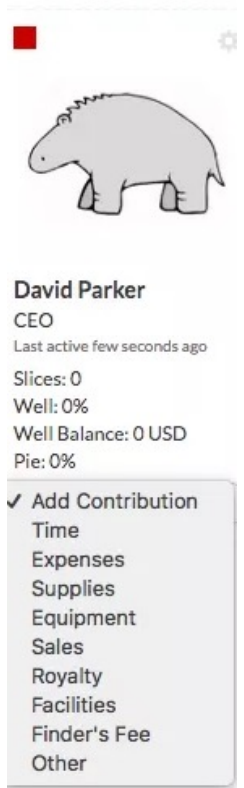
Question	Founder 1	Founder 2	Founder 3	Founder 4
Who is the CEO?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Which founders are coding most of the site/app?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Who had the original idea and told the others?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If you could magically hire a few developers, would one of the founders become their manager, and if so, who?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Which founders are working part-time and will join full-time once you get funding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If this founder left, it would severely impact your chances of raising funding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If this founder left, your development schedule would be severely impacted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Co-founders, part 2

- Meeting 2 of 2
 - Print out a copy- bring it to the meeting
 - How far off are you? What responsibilities?
- At Incorporation
 - Reverse vesting schedule
 - What happens when someone leaves?
- Option pool 20%
- Why 50/50 is the only wrong decision

Post Incorporation

- ▣ Milestones/Deliverables
- ▣ Slicing Pie
 - ▣ Market rates
 - ▣ Don't over inflate
 - ▣ Track time and contribution
 - ▣ Regular meeting
 - ▣ Weekly standups
- ▣ Make HR changes fast – they won't get easier



David Parker
CEO
Last active few seconds ago
Slices: 0
Well: 0%
Well Balance: 0 USD
Pie: 0%

- ✓ Add Contribution
- Time
- Expenses
- Supplies
- Equipment
- Sales
- Royalty
- Facilities
- Finder's Fee
- Other

How Startups Make Money

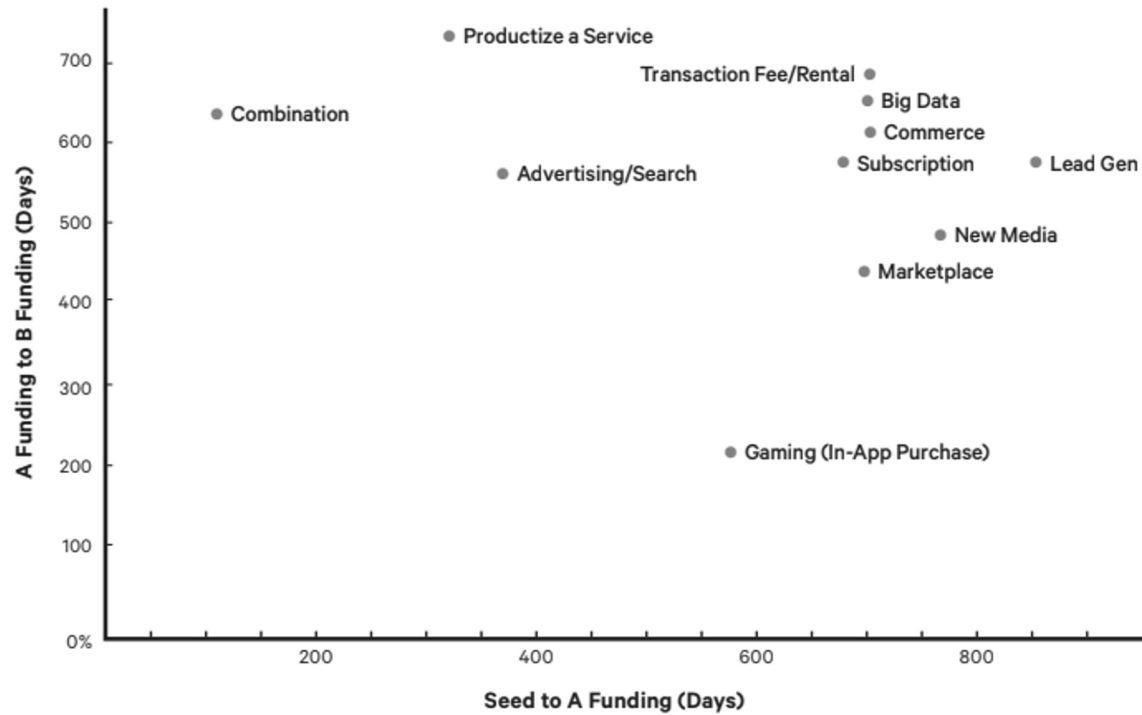
How not to make money?

- ❑ 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: [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

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. 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

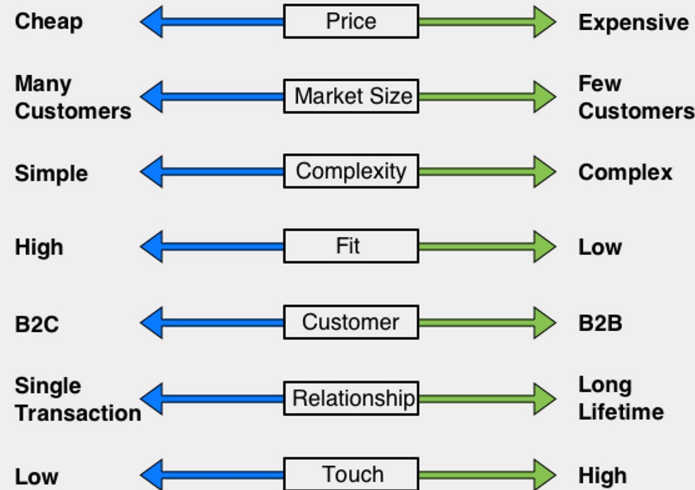
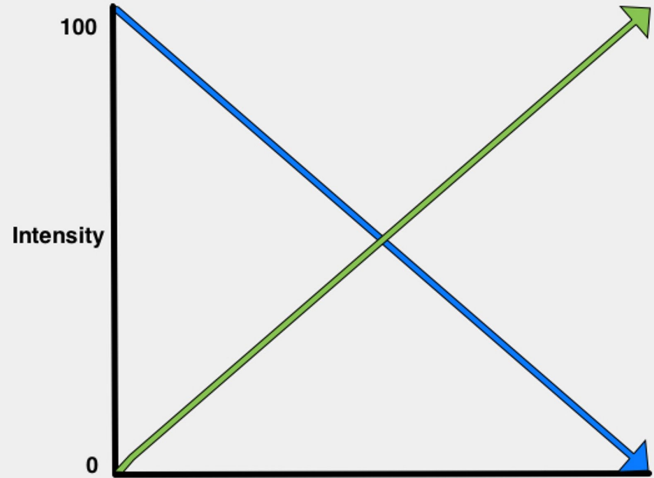
Revenue Models– Pick Two

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

Marketing – Finding the right customers

Marketing

Sales



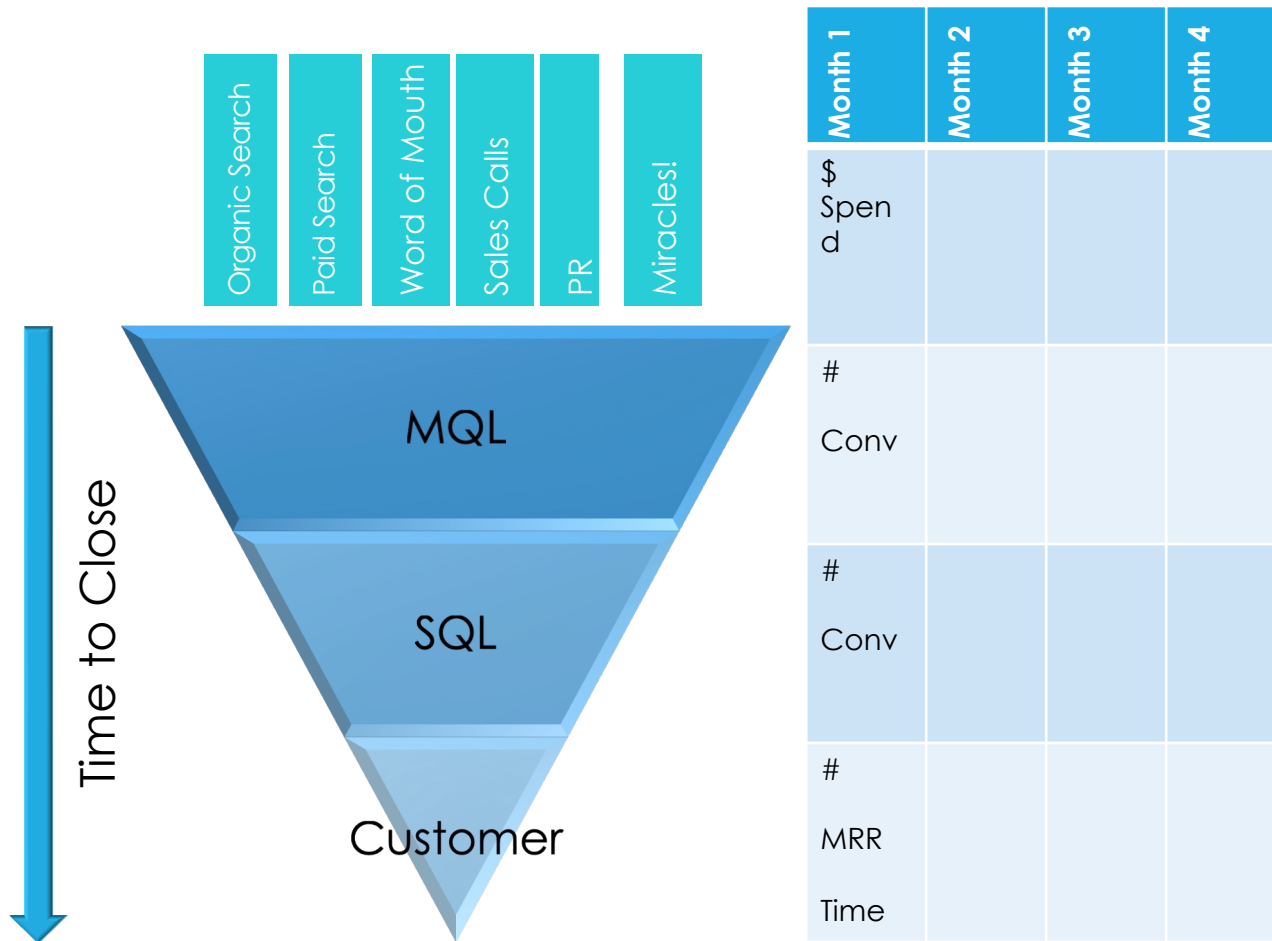
<https://review.fIRSTROUND.com/>

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 – Customer Acquisition Cost
 - ▣ LTV – Life Time Value
 - ▣ ARPU – Average Revenue per User/account
 - ▣ MRR, ARR, ACV
 - ▣ Churn – or retentions
 - ▣ Time to Close
 - ▣ Customer engagement
 - ▣ Time on Site/App
 - ▣ Frequency



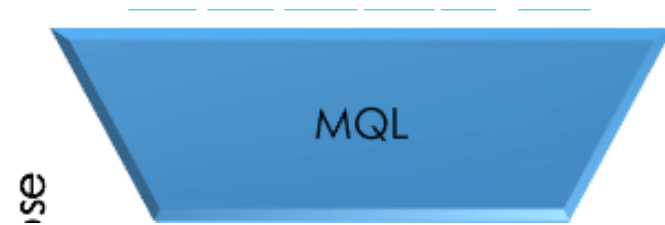
Marketing Channels

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



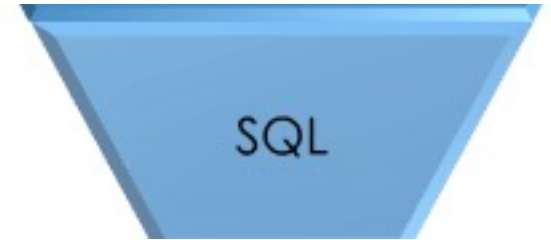
Marketing Qualified Leads

- ▣ 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

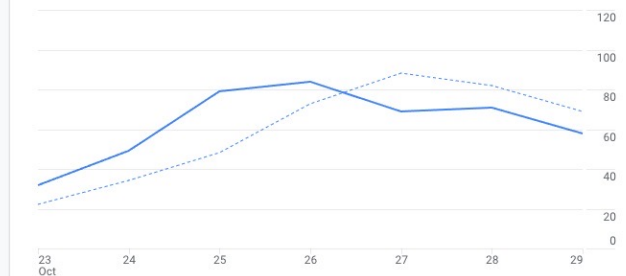
- Data allows you to know where to double down and where to hold back
- Conversion ratios

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

- Home
- Customization
- REPORTS
 - Realtime
 - Audience
 - Acquisition
 - Behavior
 - Conversions

Google Analytics Home

Users	Sessions	Bounce Rate	Session Duration
400 ↑3.1%	482 ↑6.4%	5.39% ↓6.0%	1m 49s ↑3.8%



Last 7 days

AUDIENCE OVERVIEW

Suggested google analytics facebook pixel gtm web analytics ga4

Results for "tag manager"

Search instead for tagmanager

- Category
- Service Options
- Seller Details
- Budget
- Delivery Time

Pro services Subscription services Online sellers

796 services available

Sort by Relevance

Ad by tracking_expert
Level 2 Seller
I will setup google analytics, tag manager, ad conversions, facebook...

★ 5.0 (6)

STARTING AT \$10

Ad by tracking_expert
Level 2 Seller
I will setup google tag manager, fb pixel, pinterest tracking, conversion tracking

★ 5.0 (92)

STARTING AT \$10

Google Analytics & Tag Manager

<https://analytics.google.com/>
<https://tagmanager.google.com/>

30/60/90 Plan

- Budget
 - Total spend per month

- Channels
 - Top channels

- Tracking
 - What are your key metrics?
 - Traffic
 - Conversion
 - How will you track time to close?

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

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

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 Machine”
 - 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

Go-to-market plan

Go-to-Market Plan

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

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

Break

Traction and PMF

Pre – PMF

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

PMF Leading Indicators

1. Traffic increases
2. Demo's/Downloads increases
3. Conversion rate increases
4. ACV increases
5. Time to close decreases

= Miracle of compound interest

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

Pivoting

What is a Pivot?

- When a startup shifts business strategy to accommodate industry, market, or customer
- The process of direct and indirect feedback changing your business model
- Iterations vs. Pivots
 - Iterations are course corrections
 - Pivots are painful – we were in the tire business, we're now in apps
- Odeo and Slack

When & Why

- ▣ When – 90-180 days
 - ▣ Get out of your head and get in front of the customer
 - ▣ 50-100 customer interviews
 - ▣ Build an email list
- ▣ Solid effort in Customer Development and no positive signals
 - ▣ Didn't find a pain point
 - ▣ Didn't find payment
 - ▣ Some exceptions – Enterprise is hard and slow... New Media model is about growth not cash

How to Pivot

- ▣ Are you staying in the same TAM?
- ▣ Is the product wrong?
- ▣ Is the brand wrong?

- ▣ Focus on problem first, solution second!

Post Pivot



Willingness to Pay

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Product

Product Vision

- ▣ Product vision is important
 - ▣ Long term features
- ▣ Startup with PROBLEM not product – pivot product/features around the problem
- ▣ It won't be what you ship first
- ▣ What the world looks like before your product
- ▣ What the world looks like after your product

Minimum Viable Product (MVP)

- ▣ Narrow and list features
- ▣ PowerPoint/Keynote first as your demo
- ▣ What screens do you need to show (e.g. do you need to really show registration – answer no)
- ▣ Have them rank the features
- ▣ Prioritize the build based on the feedback
- ▣ More Customer Development Interviews!

Product Roadmap

- ▣ What Features, When
- ▣ Quarterly targets based on
 - ▣ Budget
 - ▣ Available developers

Cost to Build

Estimating Costs

- Write specification
 - Required for launch
- Design & Flow
 - Post project on Fiverr.com
 - PPT/Keynote first with design
- Test design and flow
- Revise specification

MVP Mechanics

- MVP Series
 - [Blog 1](#) – Launching a product
 - [Blog 2](#) – Writing a spec
 - [Blog 3](#) – picking a vendor
 - [Blog 4](#) – Contracts, Monitoring Progress

- Cost to market and sell – Next Month!