

Will Your Startup Make \$\$? Or be a bad debt account?

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Agenda

- About Dave
- Why Startup Fail and Your Clients Shouldn't
- Market Valuation Driver
- Company Valuation Drivers
 - Creating, Delivering, & Capturing Value
- Revenue Models
 - The Data
 - The 14

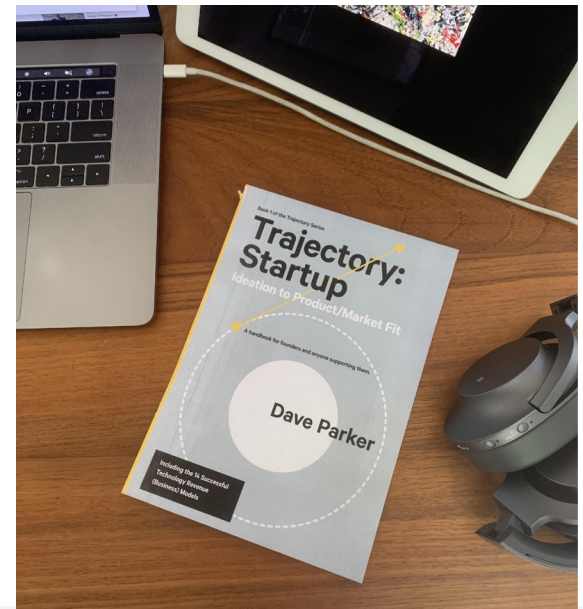
About Dave

- 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

- www.dkparker.com
- 14 Revenue Model Excerpt
 - <https://www.dkparker.com/trajectory-excerpt/>
- [Amazon Book Order](#) - your books



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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!

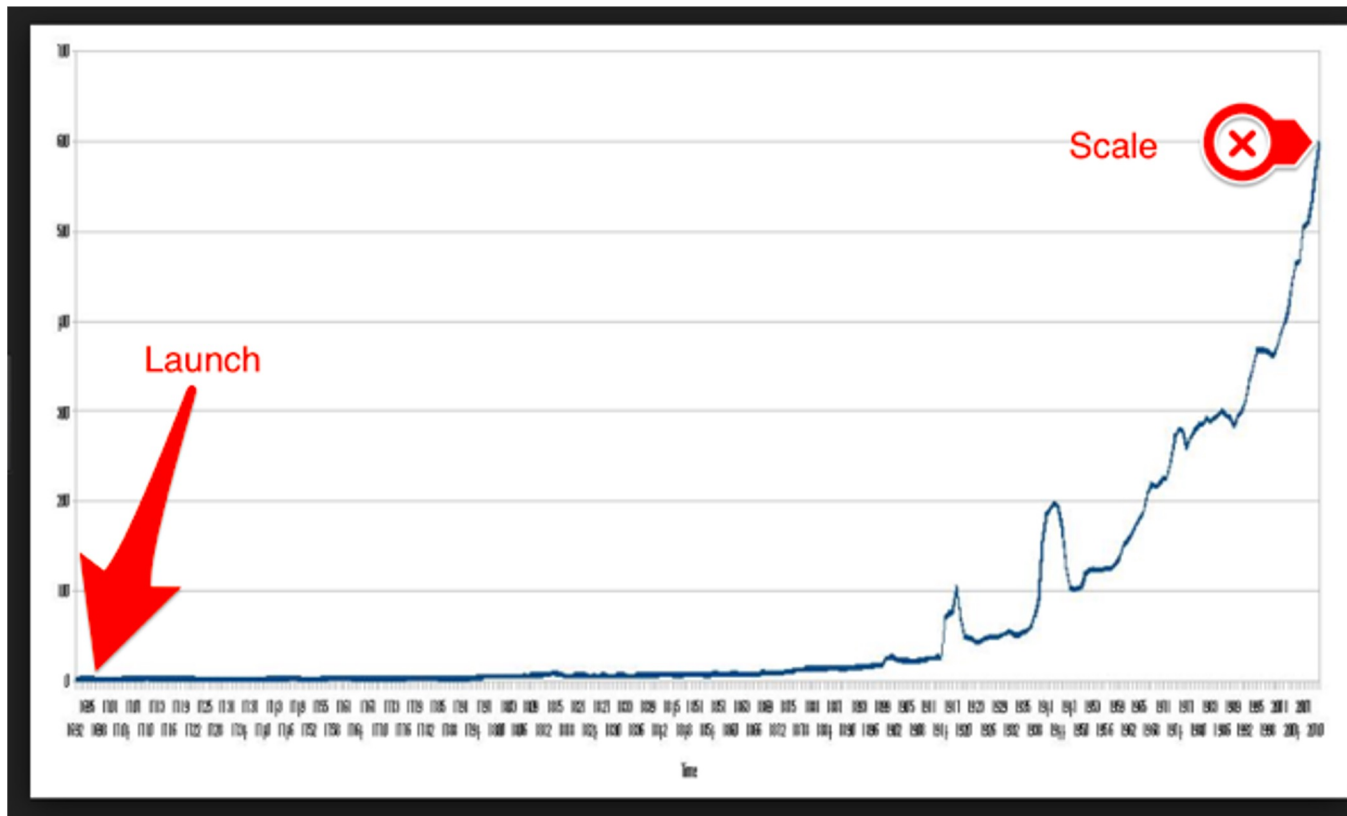
BASED ON ANALYSIS OF 101 STARTUP POSTMORTEMS
Top 20 Reasons Startups Fail



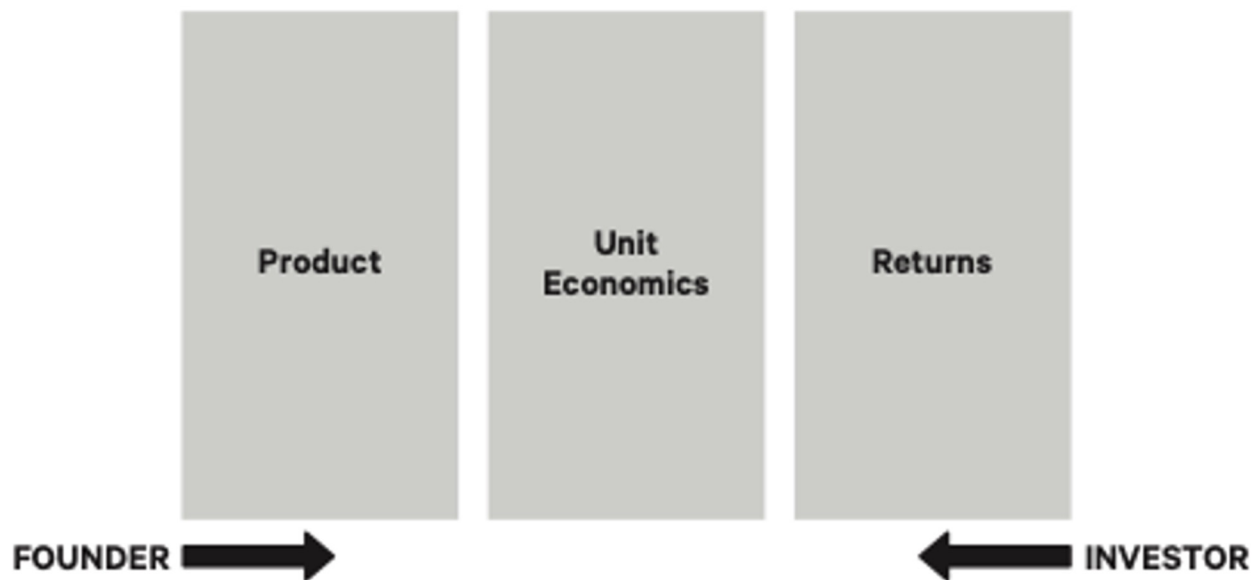
Categorizing the Solution

	Product	Service
B2B	Salesforce	Accenture
B2C	Spotify	For profit school

Stage: Launch & Scale



Two Views of Startups



Top Market Value Drivers

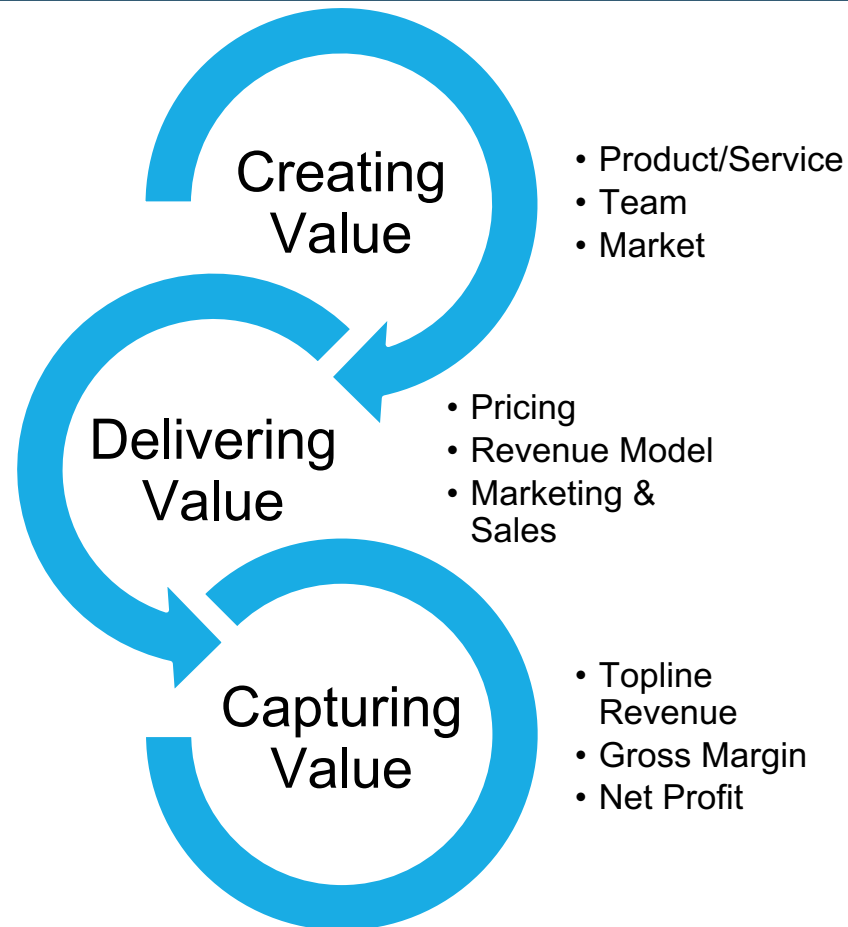
1. Market – big/nascent markets win
2. Team – subject matter experts, balanced team
3. Product – stickiness, problem solved or just fun
4. Timing – not in your control, only in retrospect
5. Competition – haven't the sucked oxygen out of the room
6. Traction – early indication of proof - Flywheel
7. Unit Economics – Revenue Model, Market & Sales
8. Efficient capital—Tesla vs Snap

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

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

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

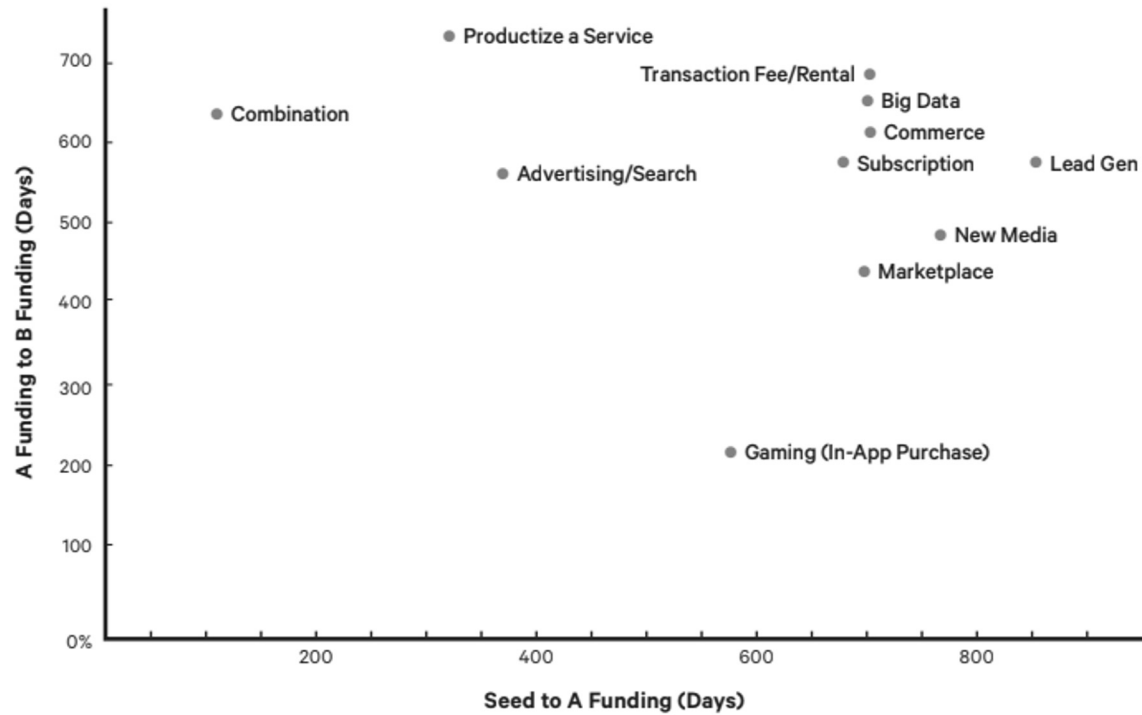
How to Monetize: Revenue Models

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

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



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 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

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)

Other Influences for Valuation

- Growth & Profitability
- P/E ratio vs. P/S ratio
- Rule of 40 – Growth or Growth and Profit >40%
- Logical and acquisitive up market buyers
- Create competition between buyers

Summary

- Dave did not say: This is not a method you can use to never have a write-off.
 - Too many variable at early revenue stage to calculate
- Do you need a valuation on pre-revenue?
 - See [Berkus Method](#) for a 20 year method
- Startup need to be amazingly creative, in product and marketing. Not revenue models



Q&A

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