

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

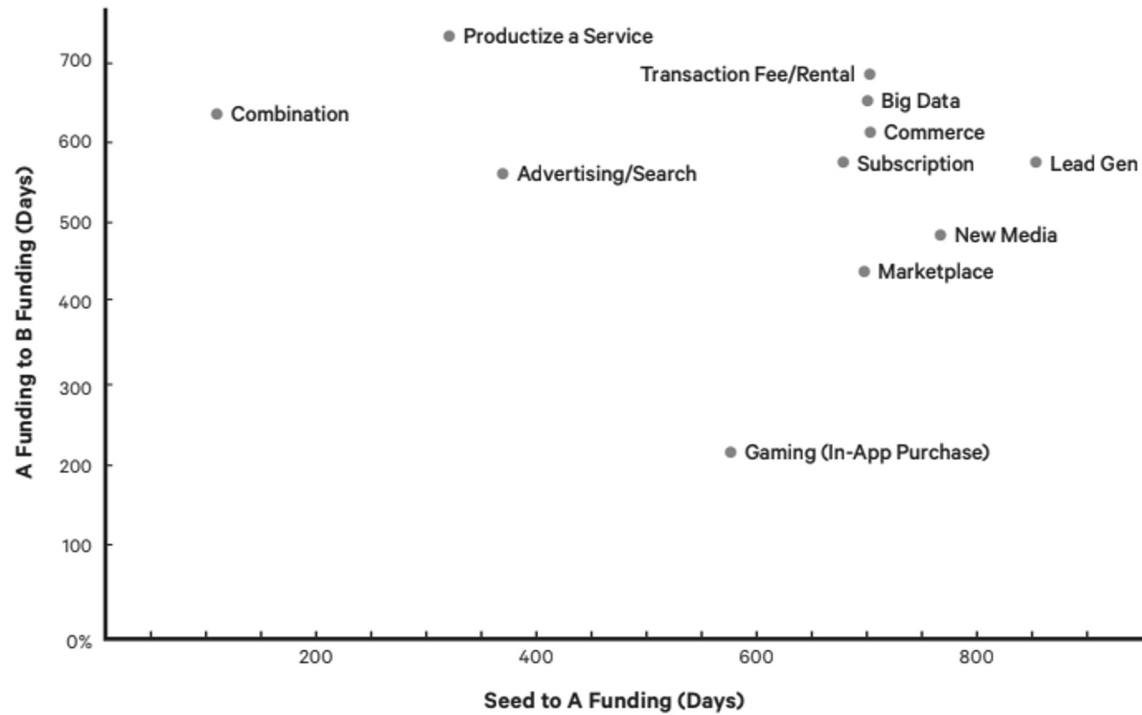
How to Monetize Your Startup: Revenue Models

Business and Revenue Models

- Business Models – abstract framework of Creating, Delivering and Capturing Value
- Revenue Models (part of business model) is the framework of revenue, pricing, who pay
- Models Lean toward Tech and Product

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

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