

Revenue Models, Pricing, & Enterprise Value

Dave Parker

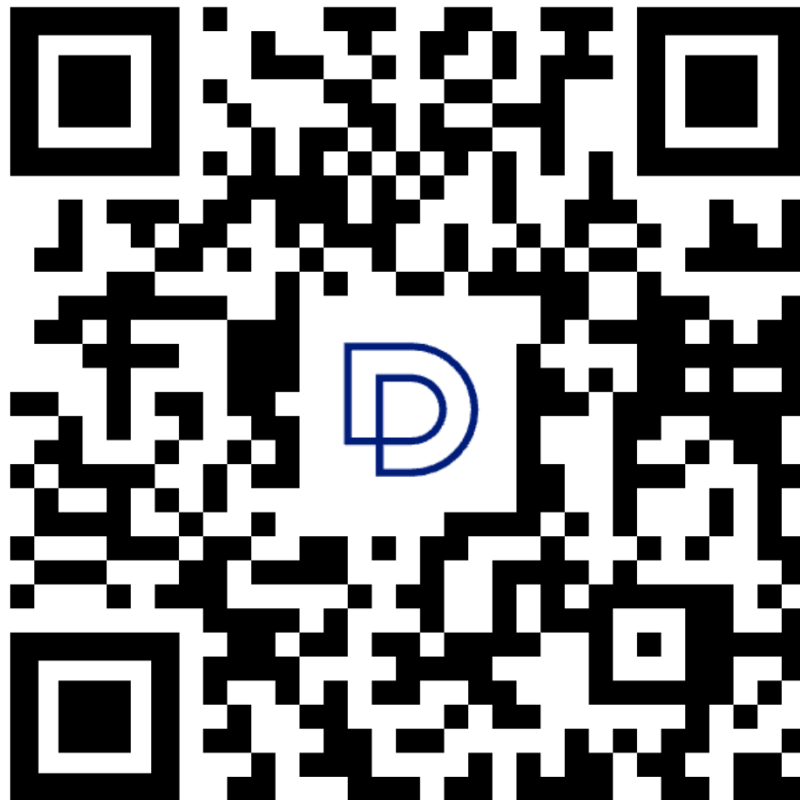
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A Founder's Guide Webinar

Founder Resources



Agenda

- About Dave
- Business/Revenue Model breakdown
 - Identify Key Inputs, Identify Unit Economics
 - Choose primary/secondary revenue models
- Pricing Mechanics (teaser)
- Enterprise Value

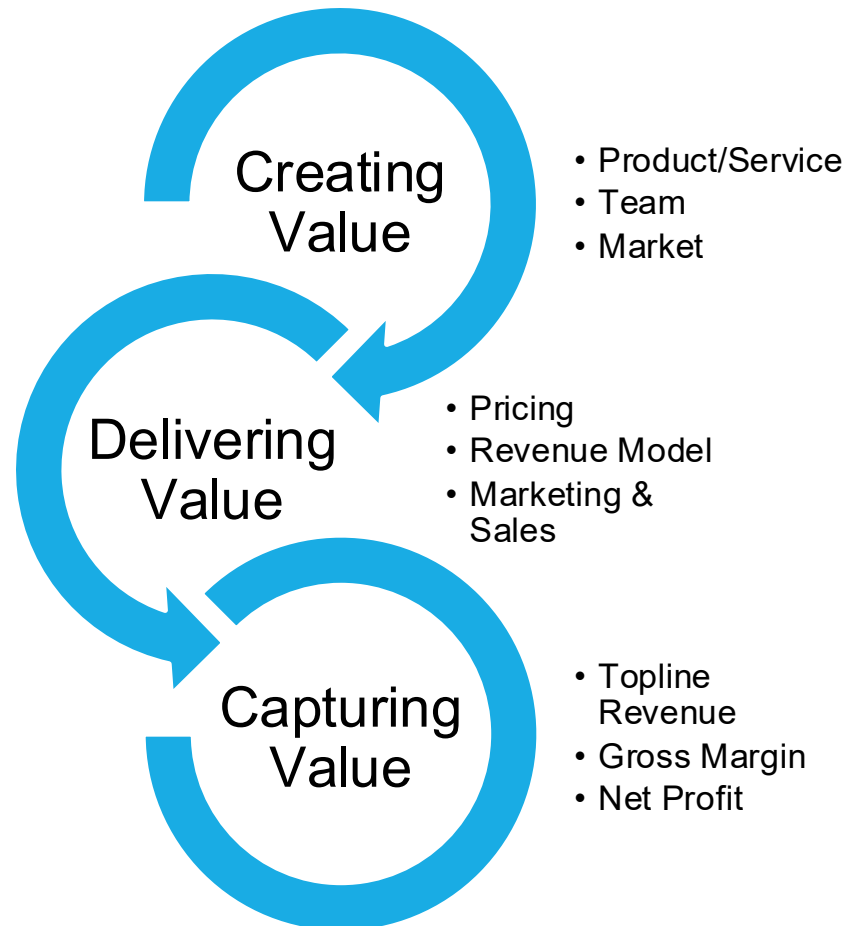


About Dave

- 5X founder, raised \$12M, exited \$85M
- Former CEO of The Entrepreneurs' Organization, COO/ SVP Programs at UP Global (Startup Weekend) sold to Techstars
- Author – "[Trajectory: Startup-Ideation to Product Market Fit](#)" -
- 3X VC (Angel) ~80 early-stage investments
- >20 transactions



Business Model Breakdown



Creating Value

- Product or Service
- Cost to Build – Team
 - Engineering
 - Design
 - Hosting
 - Manufacturing
- Cost to Support



Delivering Value

- Revenue Model – how you monetize
- Pricing
- Cost of Selling
 - Marketing Methods and Spend
 - Sales Models
 - Business Development



Capturing Value

- Is the outcome:
 - Topline Revenue
 - Gross Margins
 - Net Profit (EBITDA)
 - ROI

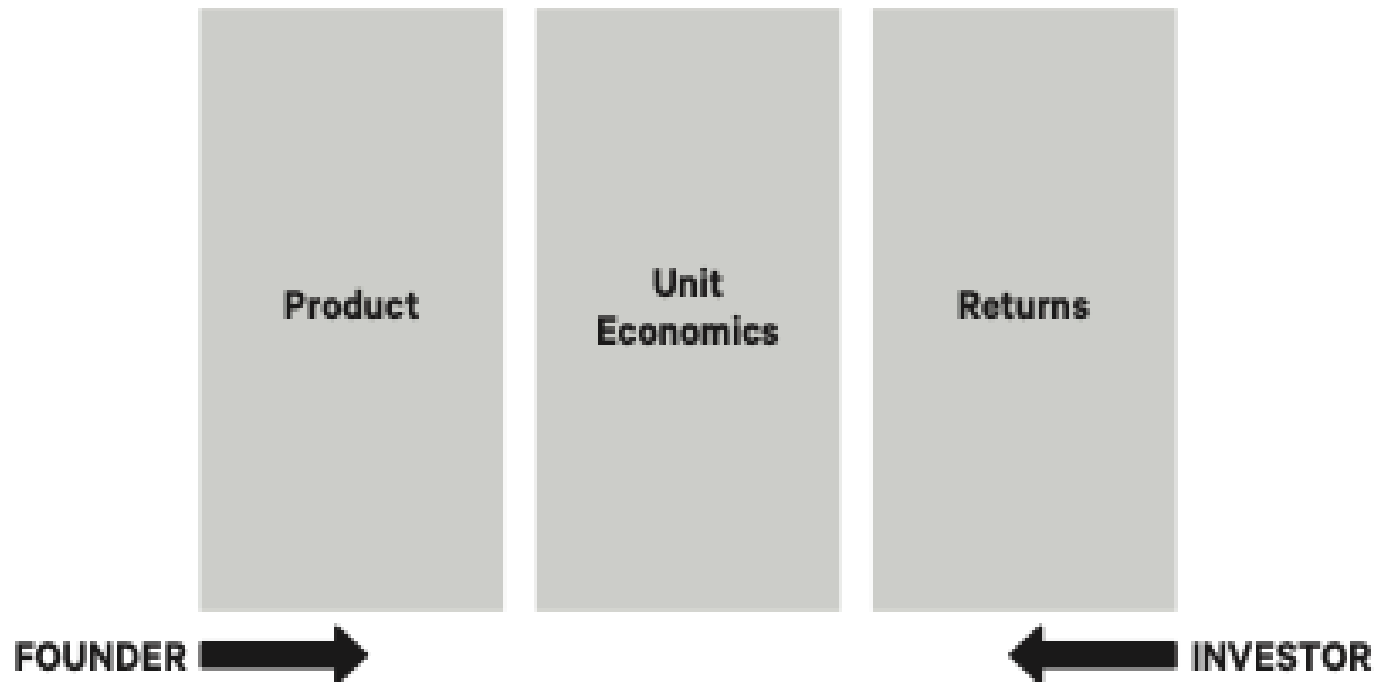


Product/Market Fit = Math

- 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



Two Views of Your Startup



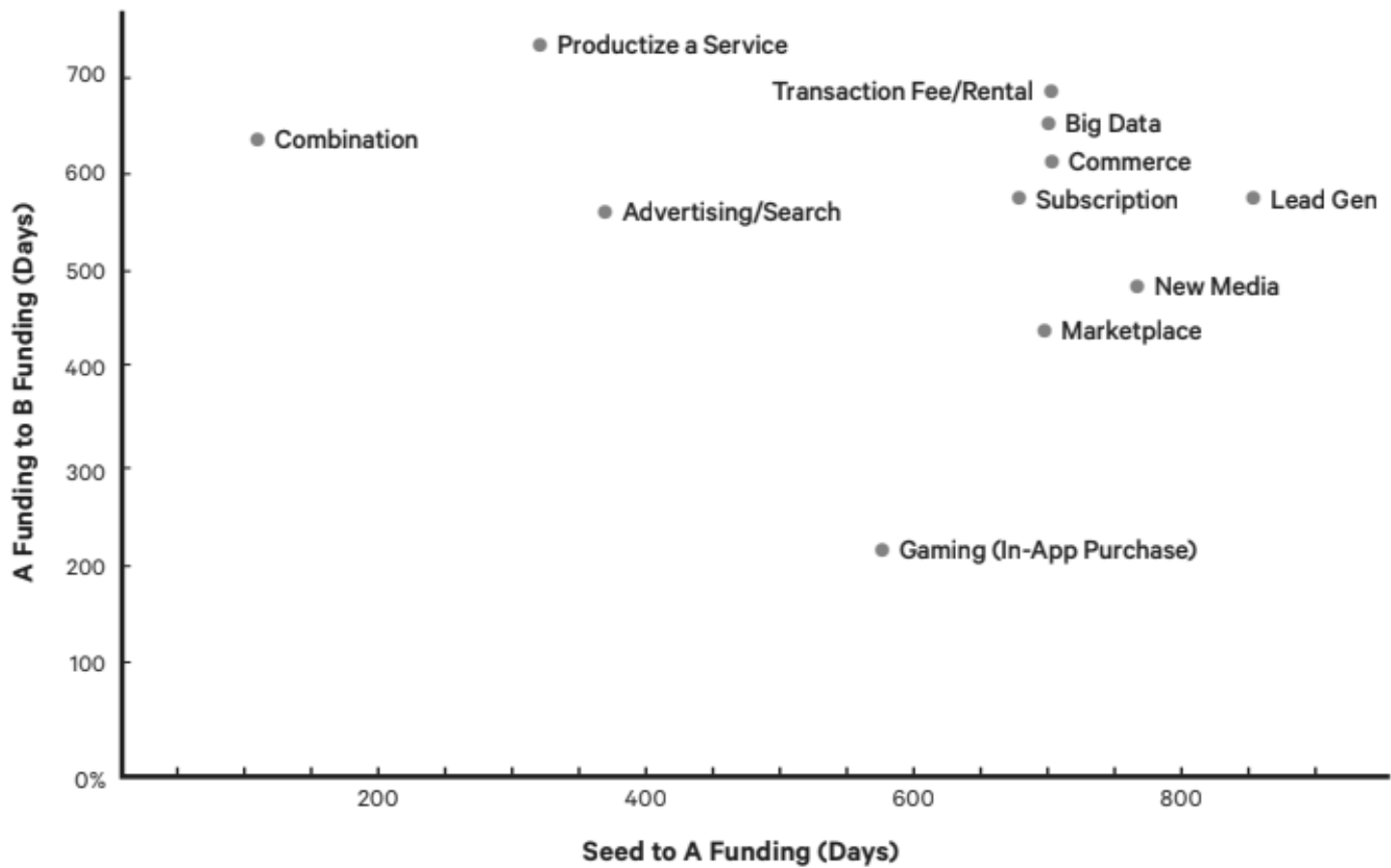
How to Monetize Your Startup: Revenue Models



The Data

- 2654 companies from Crunchbase
- 5+ year tracking
- Creates impact on valuation
- 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. Commerce

- Example: Amazon,
- 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



3. Subscription

- Example: [Spotify](#), [Salesforce](#)
- 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



4. 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



5. Transaction Fees/Rental

- Example: [Chugg, Stripe](#)
- 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



6. 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



7. Combinations

- Example: SmartSheet
- 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
- Mature faster



8. 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



9. Lead Generation

- Example: Mint.com, NetQuote
- 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%



10. Gaming

- Example: [King.com/Candy Crush](http://King.com/CandyCrush)
- 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
- Gamification isn't gaming




11. 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



12. 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



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– Primary/Secondary

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



Pricing



Pricing needs to cover

- Cost to Build
- Cost of Customer Acquisition
- Cost of Delivering
- Margin (Profits and Returns)
- Lifetime Value (LTV) is calculated at 12 or actual
- Pricing is not an afterthought
- What changes in first 10, 100, 1000 customers?



Pricing Mechanics



Art & Science of Pricing

- Is Your Company Transactional or after Long-Term Customer?
- Not About
 - Extracting maximum cash from your customer!
 - AI will allow you to do that
- Is About
 - **Delighting your customer**
 - Maximizing Net Promoter Score (NPS 3.0)



Example: Alaska Airline

10:23

Change seats Cancel

EWR 7:19 am 5h 59m SEA 10:18 am

6A David Parker Premium Class | +\$0

[View seat legend >](#)

Premium Class / Main Cabin					
A	B	C	D	E	F
DP	X	X	6	X	X
X	X	X	7	X	X
X	X	X	8	X	X
X	X	X	9	X	X

First Class from \$1401 USD. [Upgrade](#)
 Enjoy priority boarding and 9 extra inches of legroom.

Total due for seats: \$0 USD

[Save selection](#)

8:15

EWR - SEA

AS 299

Newark, NJ EWR
 7:19 am Tue, Aug 26 On time

Seattle, WA SEA
 10:18 am Tue, Aug 26

Confirm: YJRONP

- Seats 6A Paid Upgrade Available
- David Parker
- Waitlists
- Flight details
- Food View/Change order

Explore Trips Book Account More

8:15

Change seats Cancel

EWR - SEA

6A David Parker Premium Class

Premium Class

A	B	C	D	E	F
DP	X	X	6	X	X
X	X	X	7	X	X
X	X	X	8	X	X
X	X	X	9	X	X
X	X	X	10	X	X
X	X	X	11	X	X
X	X	X	12	X	X
X	X	X	13	X	X
X	X	X	14	X	X
X	X	X	15	X	X
X	X	X	16	X	X
X	X	X	17	X	X

Upgrade to First for \$440 per guest
[View First Class perks](#) [Upgrade](#)

Done



Example: Alaska Airline

8:16

Waitlist Done

Awaiting seats Upgrade requests

When you receive a seat, please see a gate agent for your boarding pass. Elites traveling on a Saver fare will be added to the upgrade list two hours before departure.

First Class seat assigned Premium Class seat assigned

Name	Seats
1 Par/D	--
2 Sta/R	--
3 Gil/C	--
4 Kuc/G	--
5 Ore/N	--
6 Ore/G	--
7 Sor/J	--
8 Dum/C	--
9 Lon/M	--
10 Gan/R	--
11 Gan/E	--

Last updated at 8:16 am. Pull down to refresh.

8:17

Change seats Cancel

EWR - SEA

6A

David Parker ★ Premium Class

First Class + \$440 ①

	A	C	D	F
Exit				
1	×	×	×	■
2	×	×	×	×
3	×	■	×	×
4	■	×	×	×

Next

8:56

1 MESSAGE Summarize

Alaska Airlines 8:32 AM

To: Dave Parker (DKParker) >
Reply To: Alaska Airlines ? >

David, you've been upgraded to First Class.

Confirmation code: YJRONP

NY-Newark → **Seattle**

Tue, Aug 26



Question:

- Does this turn an airline into a rental car service?
Aggregators win on price alone?
- Do loyal customers stay loyal? Why fly 100,000 miles on one carrier
- How would Alaska know I left? When it's too late?
- What story will I now tell my frequent traveler friends about Alaska Airlines?



Cost Based Pricing

- Services
 - Pay Rate, Bill Rate, Gross Margin
- Products
 - Price, COGs, Gross Margin
- Ranges




Value Based

BILL PENNEY'S
NIGHT & DAY
SERVICE

LATE NIGHT DROP-OFF
& EARLY BIRD PICKUP

Mon-Thurs | 7am-11pm



SCHEDULE TODAY!

Used 2020 Toyota GR Supra 3.0 Premium Launch Edition
2dr Car near Huntsville, AL

(256) 203-6188



No Haggle Price

\$167,000

Sign Up For Price Drop Alerts

\$ I'M INTERESTED!

\$ CONDITIONAL DISCOUNTS

Get Pre-Approved

Value Your Trade

Schedule Test Drive

Request Information

Vehicle Details

Mileage	182
Trim	3.0 Premium Launch Edition
Stock #	P3783
VIN	WZ1DB4C03LW023029
Exterior Color	White
Interior Color	Red
Gas Mileage	City:24 Hwy:31
Doors	2
Drivetrain	R

2018 Toyota Prius

Value Based

- Jobs to be done framework
 - Dominoes Pizza
- Perceived Value
 - Scarcity
 - Time
 - Prestige
- Value Range
 - Range customers are accustomed to paying
 - E.g. enterprise customers with Salesforce
- Product maturity
 - Value of innovation over time



Pricing Tiers

- Pricing should be appropriate for the stage/type of customer (ICP)
- Usage based – metered services
- Balancing friction, easy to start/say yes!
- Given cost of sales, what is the minimum user size



Hubspot's Complex Example

Grow better with the right plan.
Pay for what you need (when you need it).

Products & Plans Bundles

Free Tools Marketing CRM & Sales Customer Service CMS **NEW**

Marketing Hub™

Everything you need to capture leads and turn them into customers. [Calculate your price](#) ↓

NEW: Only pay for marketing contacts.
Enjoy transparent pricing by choosing the contacts you pay to market to (and store up to 1 million non-marketing contacts for free). [Learn more](#)

Your 90% discount is waiting. Use it today! You're still eligible for the HubSpot for Startups program discount. [Use my discount](#)

Plan	Starts at	Price	Marketing Contacts	Buttons
Starter	\$50	\$45/mo billed at \$400 \$540/yr	Starts at 1,000 marketing contacts	Buy now, Pay Monthly, Pay Upfront SAVE 10%
Professional	\$890	\$89/mo billed monthly	Starts at 2,000 marketing contacts	Talk to Sales, Start a free 14-day trial
Enterprise	\$3,200	\$320/mo billed monthly	Starts at 10,000 marketing contacts	Talk to Sales, Start a free 14-day trial

Free tools plus: Starter plus: Professional plus:



Competitive Analysis

- Using AI to do competitive analysis and competitive landscape
- Pricing Analysis
- Terms – duration, cancellation, etc.



Don't Forget to Look Backwards

- Use the [Wayback](#) Machine – Internet Archive

INTERNET ARCHIVE

WayBackMachine

Explore more than 362 billion [web pages](#) saved over time

BROWSE HISTORY

- Know the Market
- Price changes over time
- Service/Product Offerings
- Terms – duration, contract length



Hubspot Example



Hubspot example -



[Software](#) [Pricing](#) [Case Studies](#) [Partners](#) [About Us](#) [Blog](#)

The only marketing software you'll ever need. Pricing that scales with your business.

1 Choose your base package

Basic

\$200/mo

A complete marketing system for hosted small businesses.

Professional

\$600/mo

A fully integrated software system for professional marketers.

Enterprise

\$1,000/mo

Our most advanced system for pro marketing teams.

Don't know which package is the best for you?

[Compare Packages](#)

Feature	Basic	Professional	Enterprise
Website Hosting with HubSpot's CMS			
Blogging tools			
Landing pages			



Setup Your A/B Testing

High Fidelity

- Have a hypothesis – what will you test?
- Hide current pricing on site
- Drive traffic to landing pages
- Unbounce or other
- Squeeze Page – only CTA is to buy

Low Fidelity

- Have a hypothesis – what will you test?
- Each Sales call has an A/B test
- Start High - Settle for Low – (offer a promo)
- Set expectation prices will go back to “normal”



Promotions (are not pricing)

- Freemium
- Time based
- Early Adopter based
- Percentage Discount
- Grandfather early users



Common Errors

- Setting your pricing too low
- Not Addressing pricing systematically
- Too Opaque of a price will frustrate customers
- “Knowing the answer” vs testing
- Positioning as “me too” – just like my competitors but less
- Same price for all customers
- Free for Life!



Pricing Committee

- Meets twice a year – in the early years
- Meets quarterly as the product matures
- Founders, Marketing, Sales
 - Discount Sales Opinion – depending on maturity of the person and organization



Enterprise Value



Quiz

- You have a company with \$2.2M in revenue
 - \$1.5M in Services/Consulting
 - \$700k in Subscription
- Is your company a \$2.2M revenue company or is that a vanity metric?



REVENUE!

https://youtu.be/BzAdXyPYKQo?si=_94p4duAViPTRWrL



ENTERPRISE VALUE = long term
value.



Valuation is not a Formula – it's a set of Heuristics



Levers in Valuation

- Multiple of revenue or EBITDA for mature companies
 - Profit or Opportunity/People
 - Future 12 vs TTM
 - Aligns with Buyers multiple – Price to Sales (vs Earnings) ratio
- Other Factors
 - TAM size – Tesla
 - Nascent market/customer segment – AirBnB
 - Growth rate % - e.g. Viral Coefficient – B2C only
 - Churn or net negative churn
 - Customer concentration is a negative
 - Investment required



Enterprise Value Examples



Advertising/Search

Google 8.4X, FB 8.79
Only work at Scale



Metered Service

Microsoft* – subscription + metered (Azure) 12.02



Subscription

Netflix – 9.82
8-12X Revenue, if predictable future twelve vs. TTM



Transaction Fee

eBay – 4.33
4-6X Revenue



Services Revenue

Consulting, unless it shortens other revenue sales cycle. .75-1.5X Revenues



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



Data Set

