

# Financial Sustainability & Fundraising

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# Agenda

- About Dave
- Startup Ecosystem Economics
- Path to Sustainability
- Backing Founders & Ideas
- Business Models – for you and your investments
- Q&A
  - Supporting Slides

# About Dave

- 6X founder, Board Member
- Former CEO of the Entrepreneur's Organization – 20k member non-profit. SVP Programs at UP Global (Startup Weekend + Startup America)
- Former Senior Partner, Fearless.fund
- Author – "[Trajectory: Startup – Ideation to Product Market/Fit](#)"
- >20+ transactions – most recently with [NextPath Advisors](#)
- WTIA Startup Programs Board Chair



# Ecosystem Building Experience

15 Years of Community Building



# The Ecosystem

## 5 Ingredients of a Startup Ecosystem

- Talent – University programs
- Density – Tech Hubs vs. distributed founders
- Culture – OK to Fail
- Access to Capital – VC, Crowdfunding Asset Class
- Regulatory Environment – recognition of startup vs. SMB

# Activities vs. Outcomes

- # of events
- # of attendees
- Completed programs
- Companies started
- # companies formed
- \$/Rs/€ raised
- Mentors recruited
- Revenue generated
- Follow on Rounds (FDI)

# Path to Sustainability

# Path to Sustainability

- Government funding is a catalyst – not sustainable model
- Lean teams matter – lower cost
- Sponsorships pay for events
- Partnerships require access to corporate customer
- Services – better economics than the startups can do themselves
- Returns are a long haul (7-10 years)

# 500 Global Model

- Part of the investment, is returned to the org for support.
  - \$150,000 investment includes a program fee of \$37,500 for a net check of \$112,500 and 6% investment
- \$150,000 investment with \$30-40,000 fee isn't out of market
  - Need to focus on value provided to the startups for that fee – post program
  - 2% warrant is not unusual – requires follow on investment

# Startup Studios

- Pioneer Square Lab and Ai2 are both studios in Seattle where the team is the co-founder with entrepreneurs. Antler and Alchemist
- Operating Fund
  - Ideation team, overhead
  - Ideas to to launch point and hire CEO
- Investment Fund
  - Follow on capital to launch CEO into the market

# The Estonia OS

- **Startup Estonia (Ecosystem Platform):** Initiated in 2015, this entity transitioned from using EU structural funds to becoming a **coordinating platform**. It focuses on "killing silly rules," educating local investors, and promoting foreign VC investment rather than direct funding.
- **Private-Led Growth:** Major local players like **Startup Wise Guys** (over 600 investments) operate primarily as private funds. The government's role is to provide the **Startup Visa** and digital infrastructure (X-Road) that lowers the cost of doing business to near zero.

# Moldova Success Story

Moldova jumped into the global top 100 by 2024 by simplifying the "Founder's burden".

- **Policy over Programming:** Replaced complex taxes with a **7% flat tax** on turnover for tech companies.
- **Radical Digitalization:** 86% of state-to-entrepreneur interactions are now digital, removing the "micromanagement" friction.
- **Success Signaling:** Successfully attracted FDI (doubled funding in one year) by showcasing proven exits.

# WTIA Association Model - GPO

## WTIA Service Area

## The "Uneconomical" Burden

## The Pakistani Learning

### Health Insurance

Negotiating as a small team is expensive.

Build a **Group Purchase Org (GPO)** to unlock Fortune 500-level premiums.

### Retirement/401(k)

Administrative compliance and audits are time-consuming.

Standardize **Provident Fund structures** to be "plug-and-play" for founders.

### Business Consulting

Specialized tech insurance (Cyber/E&O) is confusing.

Provide **Specialist Brokers** who understand tech risks (e.g., data corruption, SaaS outages).

### Back Office Tools

SaaS tools (CRM, HR) drain cash early on.

Use the association's **Collective Voice** to get 90% discounts for members.

# Tech Nation Failure

- **Tech Nation**, which helped create over a third of the UK's tech unicorns, was forced to cease operations and sell its assets in 2023 after the UK government reallocated its core grant to a commercial bank (Barclays). This highlights the risk of "Public Interest" companies that do not diversify into private revenue streams early enough.

# One other failure

- Legal time/cost
- Implement a SAFE or KISS for approval. We want the \$\$ to go to the startups not to the lawyers.
- Investor capital is mobile – it will go where friction and taxes are easier

# Backing Startups & Founders

# SME vs. High Growth

- Small and Medium Enterprise (SME)
- High **Service** revenue – scales with people
- Geographically constrained – local, regional national
- High Growth businesses, “6/50” rule from Seedstars, 6% of companies generate 50% of jobs
- High **Product** (make \$\$ when you sleep)
- Launching across geos
- Tech or tech enabled

# You have to get investments right

- Ultimately it's all busy work unless you get your investments right
- Solving Big Problems in Big Markets: if they really solve the problem, is it a disproportionate return?
- Backing the right founders. I like a “chip on their shoulder” something to prove. Solid team that can work through the pivots
- Copycats are a successful option in emerging markets
  - Eliminate product/market fit risk

# 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

# Categorizing the Solution

	Product	Service
B2B	Salesforce	Accenture
B2C	Spotify	For profit school

# Case Studies – Finding Margin

# Is Profit Required?

- NO, but Sustainability is required!
- The business model needs to work, or it's an intentional non-profit
- Innovation can happen in multiple areas:
  - Product
  - Business Model

*“You don't rise to the level of your goals, you fall to the level of your systems” – Adam Grant, Atomic Habits*

# Grameen Bank – Dr. Muhammad Yunus



- Poor Women couldn't loans w/o collateral (or loan sharks)
- Micro-credit (pay back models) were unproven
- Payback model was >97% - new sustainable model igniting capital markets

# TOMS Shoes – Blake Mycoskie

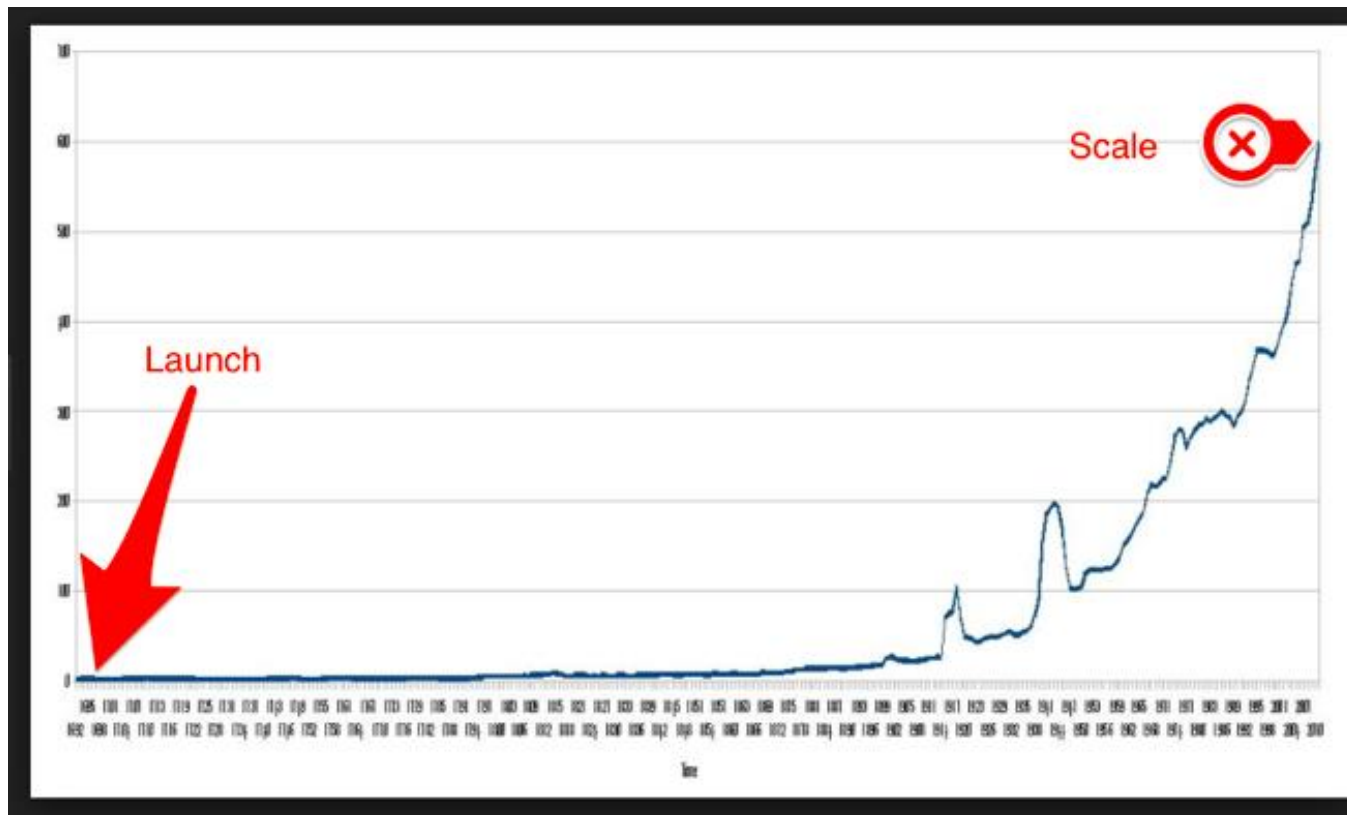


- Kids w/o shoes didn't attend school and suffered foot infections
- Charity of "One-for-One" Popularized "Conscious Consumerism"
- Business Model wasn't sustainable – 2019 gives 1/3 of profits to
- What scaled? What failed?

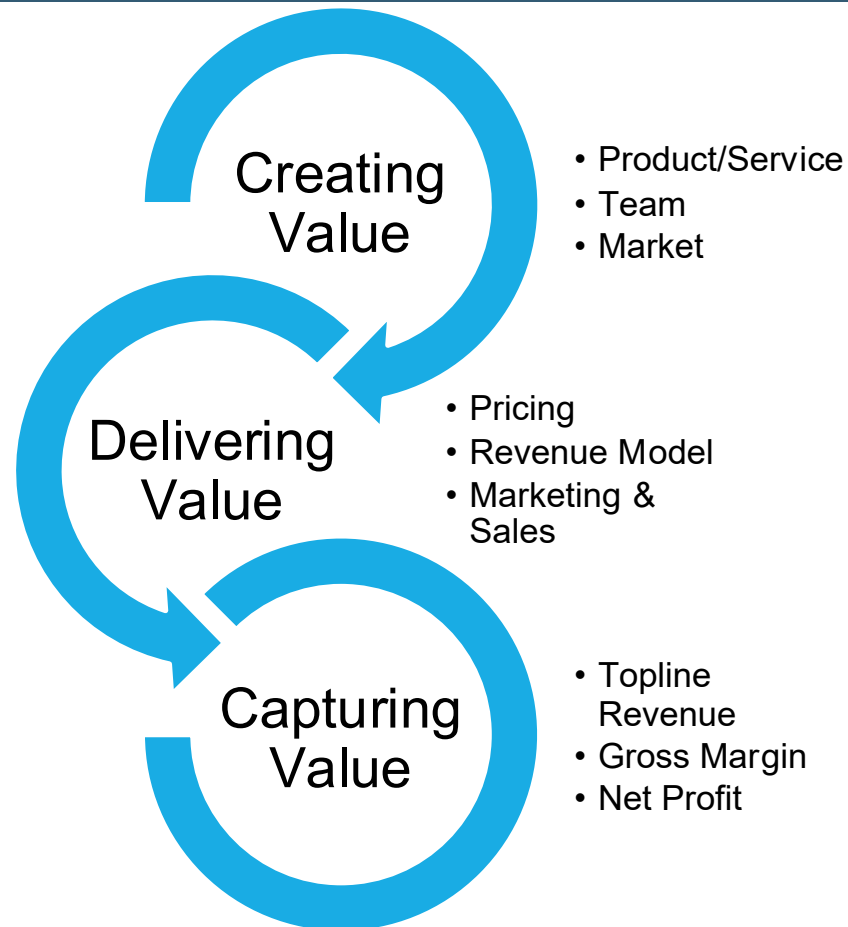
BASED ON ANALYSIS OF 101 STARTUP POSTMORTEMS  
Top 20 Reasons Startups Fail



# Stage: Launch & Scale



# 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

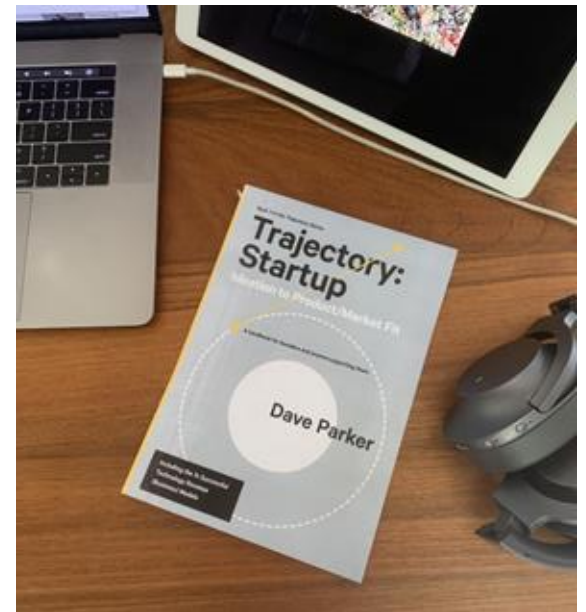
- What's left over!
- Topline Revenue
- Gross Margins
- Net Profit

# 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

# Resources

- [www.dkparker.com](http://www.dkparker.com)
- 14 Revenue Model [Excerpt](#)



# Q&A

# Supporting Slides

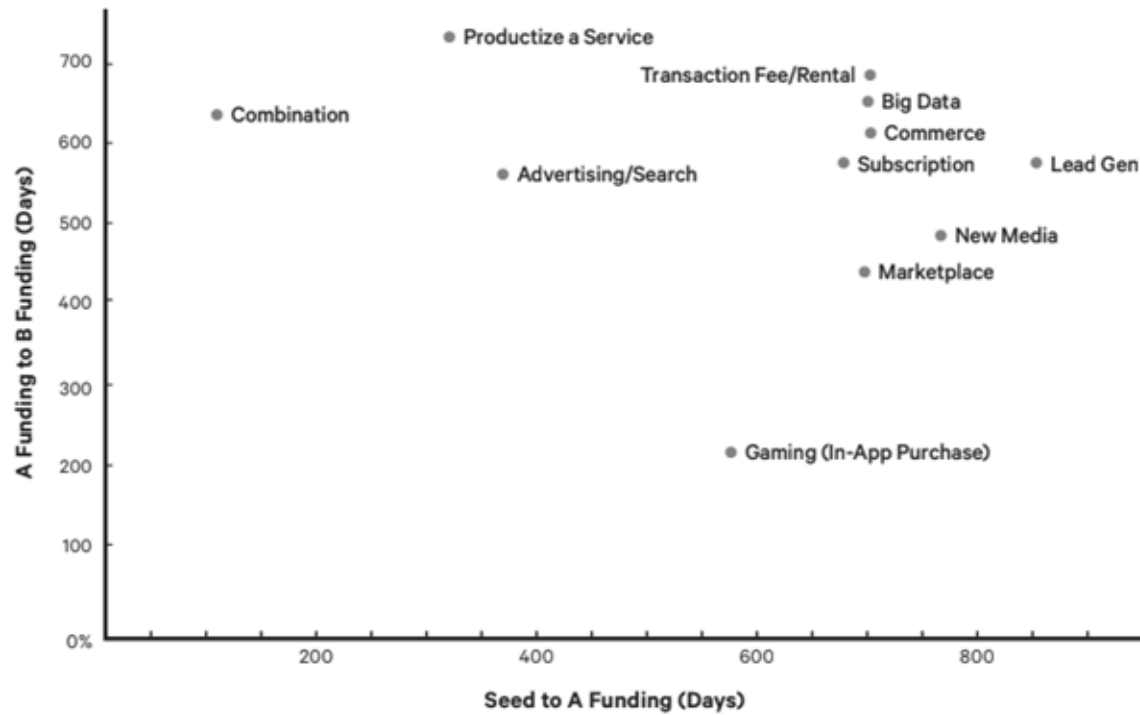
# How to Monetize: Revenue Models

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

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# 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

- 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