BA 291 Introduction to Business
Introduction to Startups

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June 15, 2020

Digital Product Startup & Technology Company Overview

AGENDA

1. Startup overview
2. Stages Of High-tech Company
3. Product Market Fit
4. Startup Growth Framework
5. Startup Business Model Example

What’s startup by Paul Graham

A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of "exit." The only essential thing is growth. Everything else we associate with startups follows from growth.

Perks of doing startups

Financial Reward & Impact

A Real Company	Valuation	Employee #100's Upside (10bp)
Dropbox	$10B	$10M
Facebook	$200B	$200M

Your First Company	Theoretical Valuation	Founder's Upside (10%)
"Uber for Pet Sitting"	$100M	$10M
"Uber for Space Travel"	$2B	$200M

Investor(Venture capital)

Series A, Series B, and Series C funding rounds. These terms are referring to this process of growing a business through outside investment.

Similarity and Differences

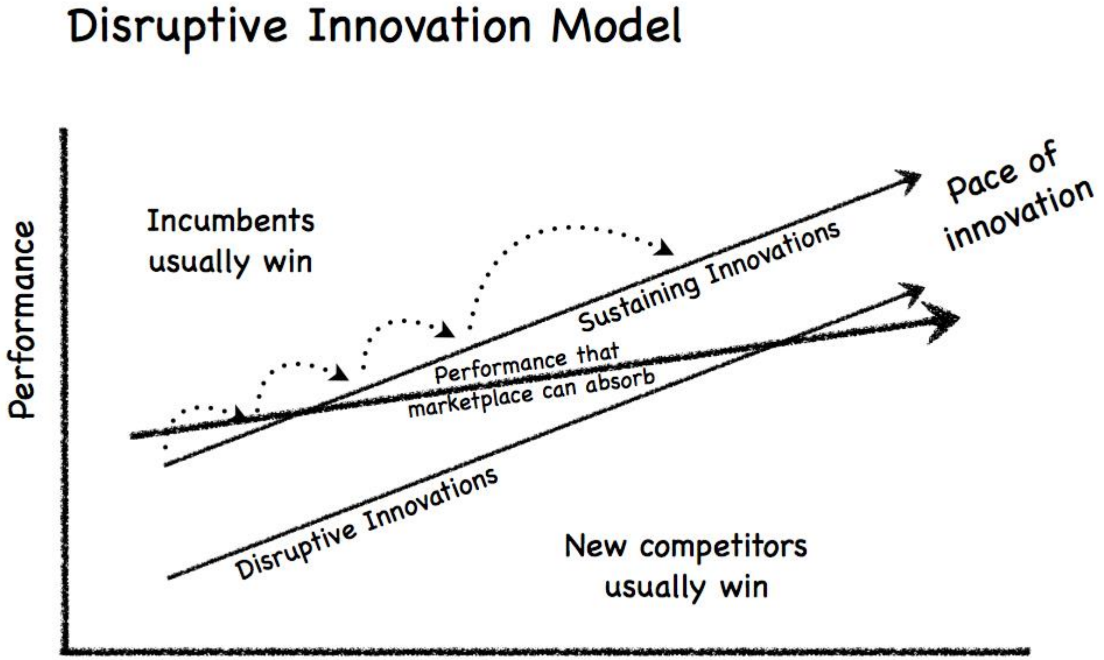
- What big tech companies & corporations are after?

- What startups are after?

Why startups have a chance when completing with big companies

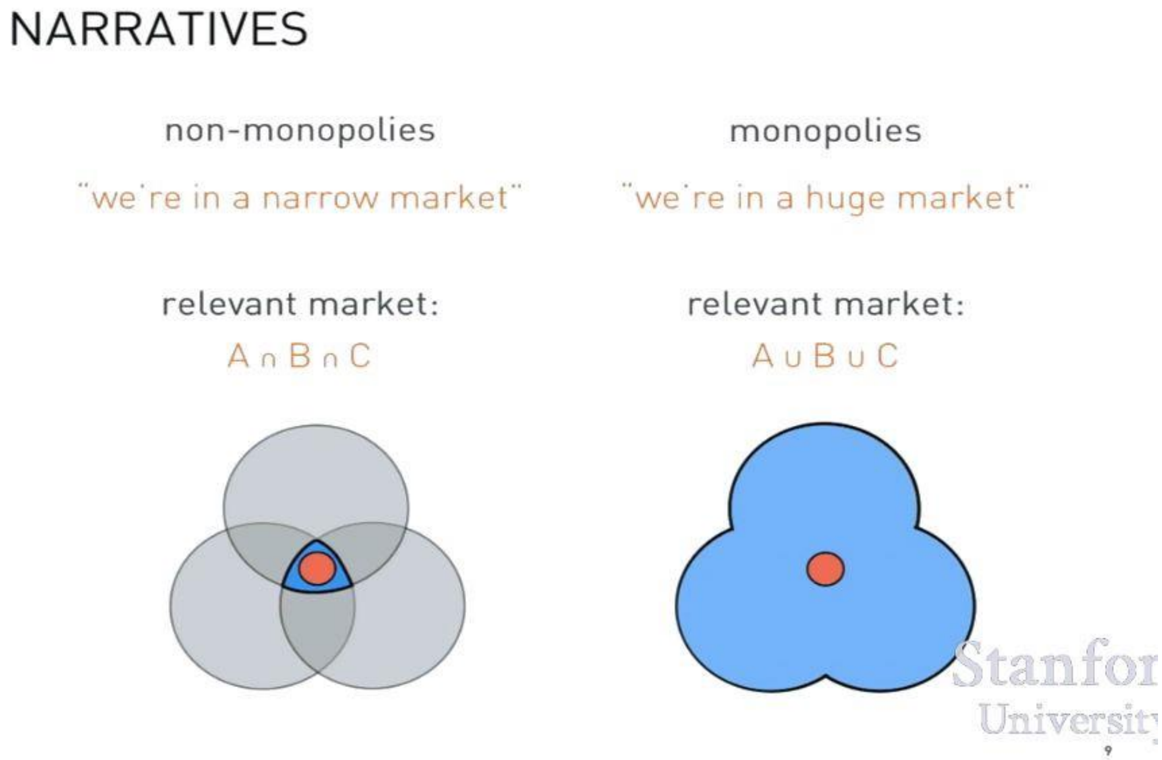
"Oh, that's the looming specter of dwindling profits.
Just ignore him."

Introduce disruptive technology model

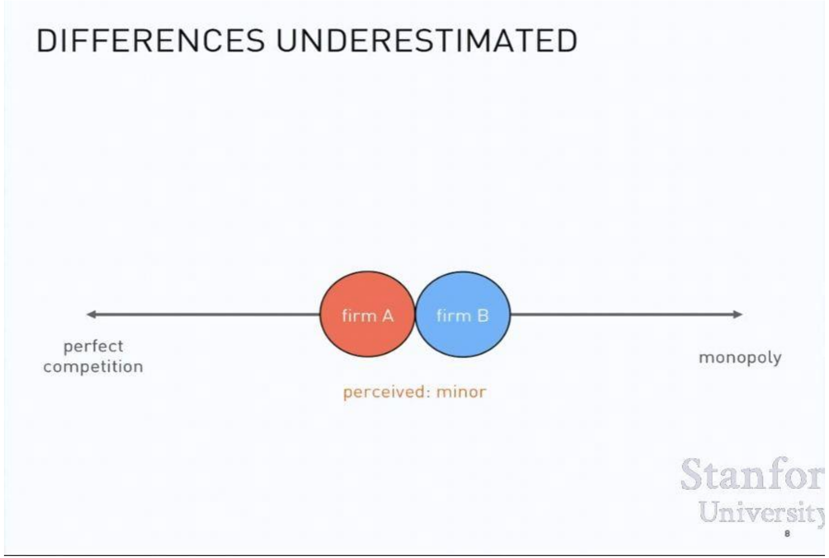


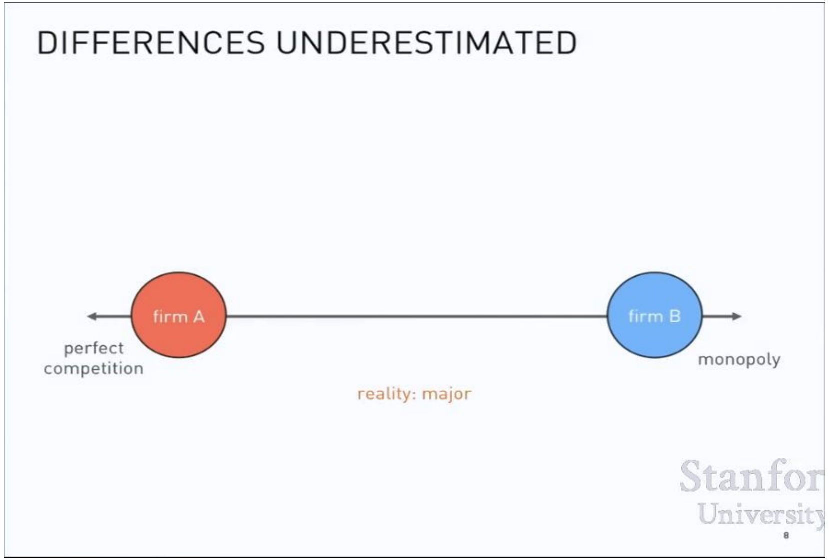
Source: Adapted from Clayton Christensen
The Innovator's Solution (HBS Press, 2003)

Introduce Peter Theil’s Monopoly theory



Introduce Peter Theil's Monopoly theory





BIG PIECE OF A SMALL PIE

All United States airline carriers combined

2012 revenue: $195.6B

2012 profit margin: 0.2%

Market capitalization: $112.4B

Google

2012 revenue: $50.2B

2012 profit margin: 21.0%

Market capitalization: $393.8B

How to build a monopoly

you need to start with a small market and take over it steadily. It is easier to dominate a small market than a large one. If you think that your initial market might be too big, it almost certainly is

Almost all the companies in Silicon Valley have started small and expanded: Amazon, eBay, PayPal, Facebook

Last mover advantage

Characteristics of monopolies:

- Proprietary technology (something that has never been done before, something unique). You want to have a technology that is better than the next best thing, some improvement in the key dimension. If you came with something totally new — that’s an infinite improvement.
- Network effects are extremely valuable, but there is always a tricky question: why it is valuable for the first person.
- Economy of scale (low fixed costs, high margins).
- Branding.

Why startups fail

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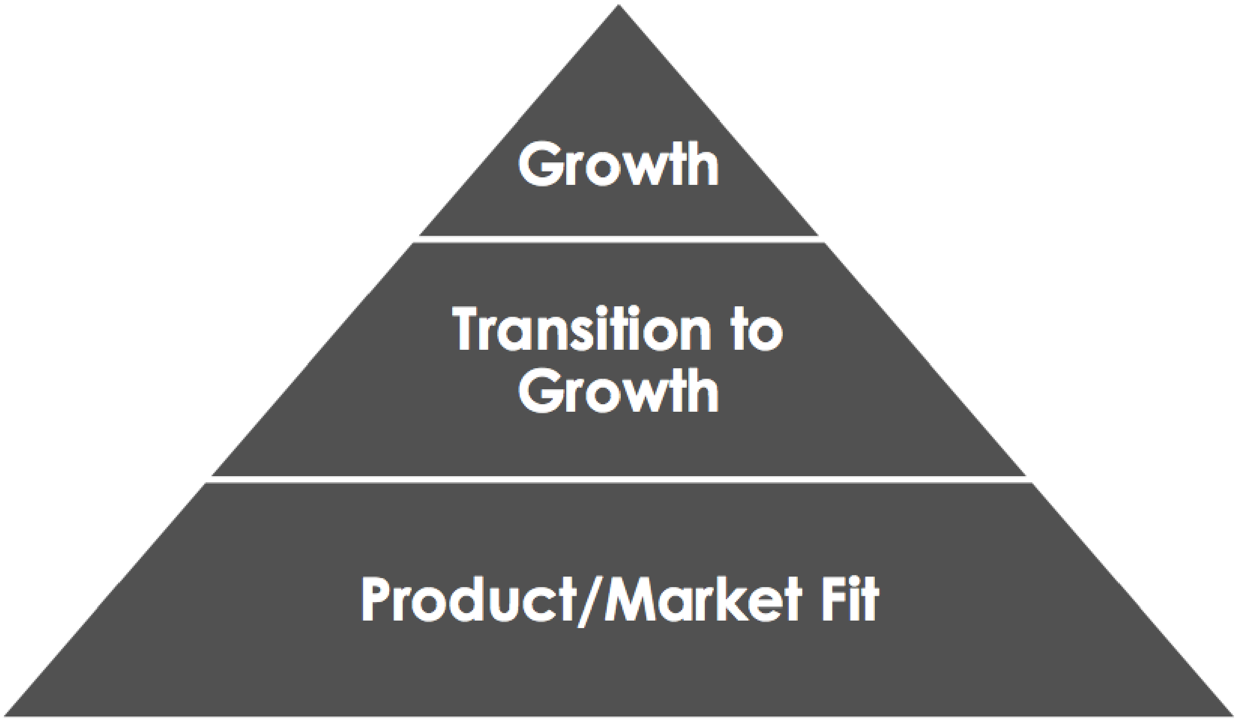
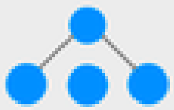
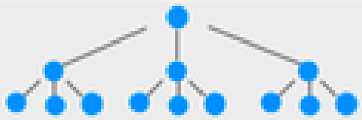
Startup Pyramid



	Traction	Transition	Growth
Goal	Product - Market Fit	Discovering Growth Levers	Turning Up Growth Levers
Metric	Retention	Growth Rate (CPA = LTV, Payback < 3 Months)	Growth Rate (CPA < LTV, Payback > 3 Months)
Volume	Turn On Faucet Find Steady Min Stream	Turn Up Faucet	Firehose
Channels	Experiment w/ 2- 3 In Order To Find/Focus On 1	1	1+
Optimization	Macro	Macro + Micro	Micro
Team			

Product > Strategy > Business Model

Idea > product > team > execution

The definition of the idea, as we talk about it, is very broad. It includes the size and the growth of the market, the growth strategy for the company, the defensibility strategy, and so on.

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Product market fit

A value hypothesis is an attempt to articulate the key assumption that underlies why a customer is likely to use your product. Identifying a compelling value hypothesis is what I call finding product/market fit. A value hypothesis identifies the features you need to build, the audience that's likely to care, and the business model required to entice a customer to buy your product. Companies often go through many iterations before they find product/market fit, if they ever do."

Why market matters more than anything

One way to look at venture capital investing and creating a valuable business is as an effort to build a stool with three legs: people, markets, and innovative products. All three legs are required for success, but different venture capitalists and entrepreneurs emphasize and weight each of the three core elements differently at different times.

Timing

The only thing harder than building a great product is timing a great market because there is an element of luck to right timing

Case study : Opsware vs Amazon web service

The process behind product-market fit

"You often stumble into your product/market fit. Serendipity plays a role in finding product/market fit but the process to get to serendipity is incredibly consistent. What we do is teach that incredibly consistent process." Andy Rachleff

There were four key market elements

- **Category**. What category of products does the customer put you in?
- **Who**. Who is the target audience within the category? There are always multiple personas within a single category, so this breaks it down further.
- **Problems**. What problems does your target audience have related to the category?
- **Motivations**. What are the motivations behind those problems? Why are those problems important to your target audience?

The four main product hypotheses

- **Core Value Prop**. What was the core value prop of the product? How did it tie to the core problem?
- **Hook.** How could the core value prop be expressed in the simplest terms?
- **Time To Value**. How quickly could we get the target audience to experience value.
- **Stickiness**. How and why will customers stick around? What are the natural retention mechanisms of the product?

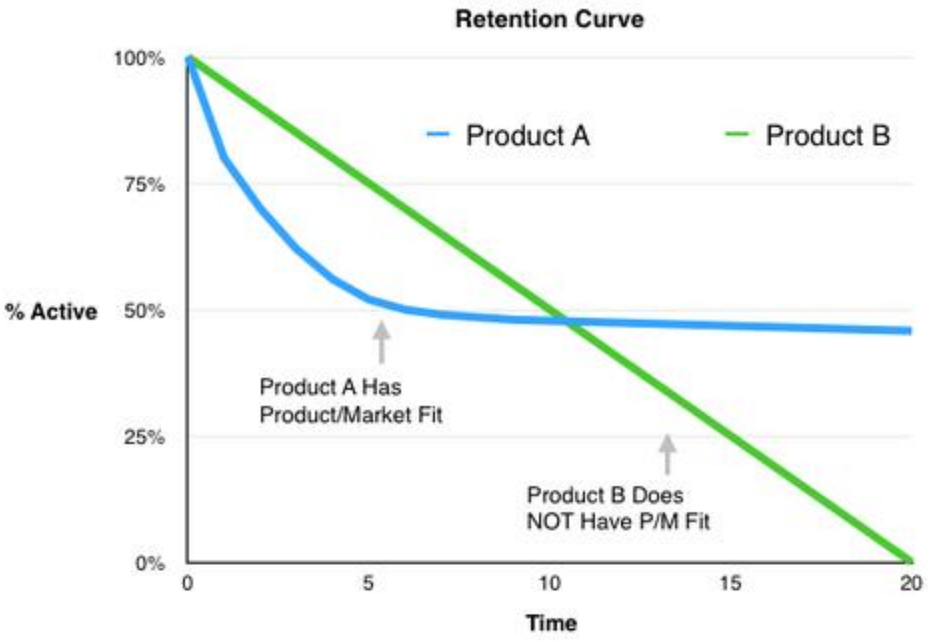
Do things that don’t scale

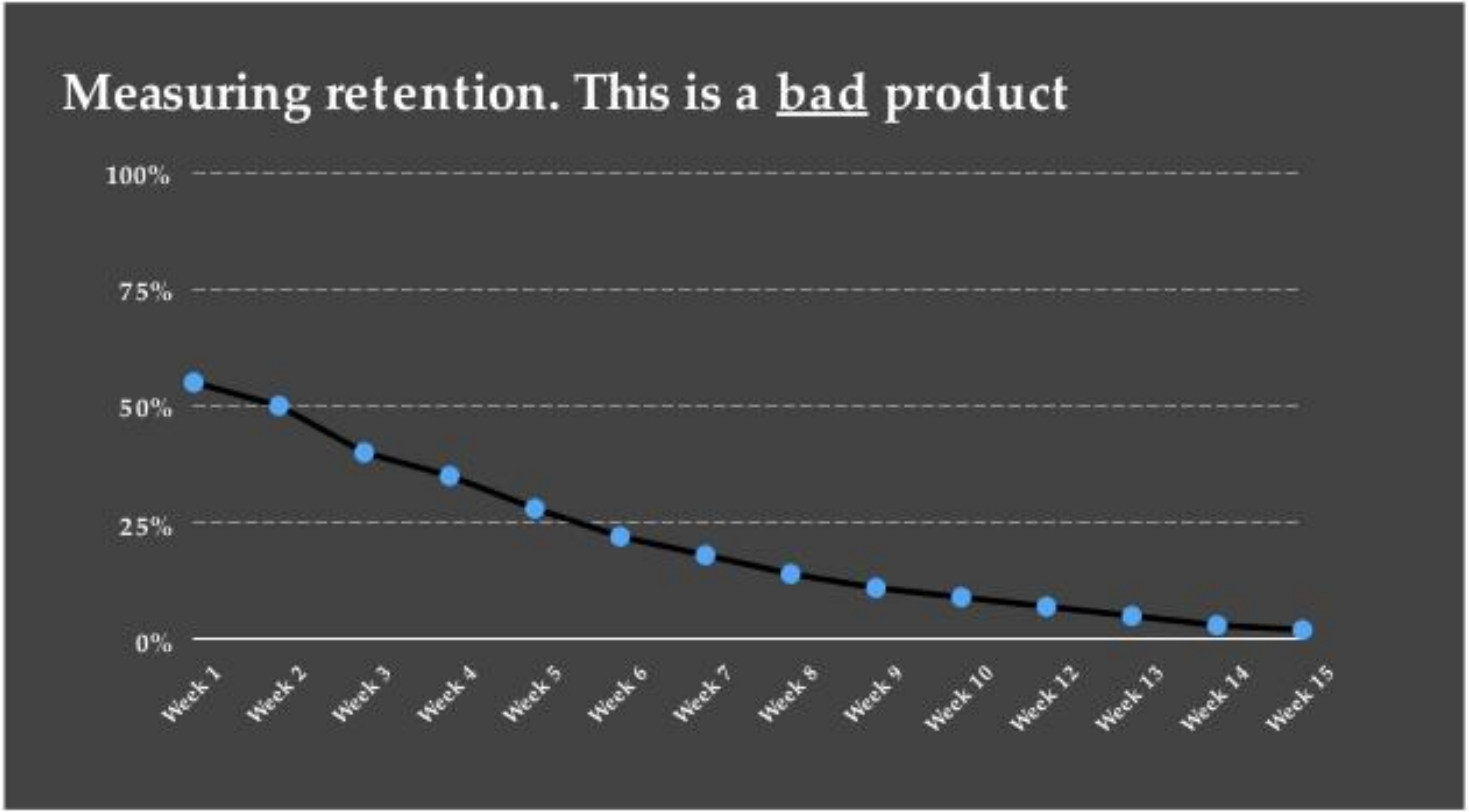
Case study

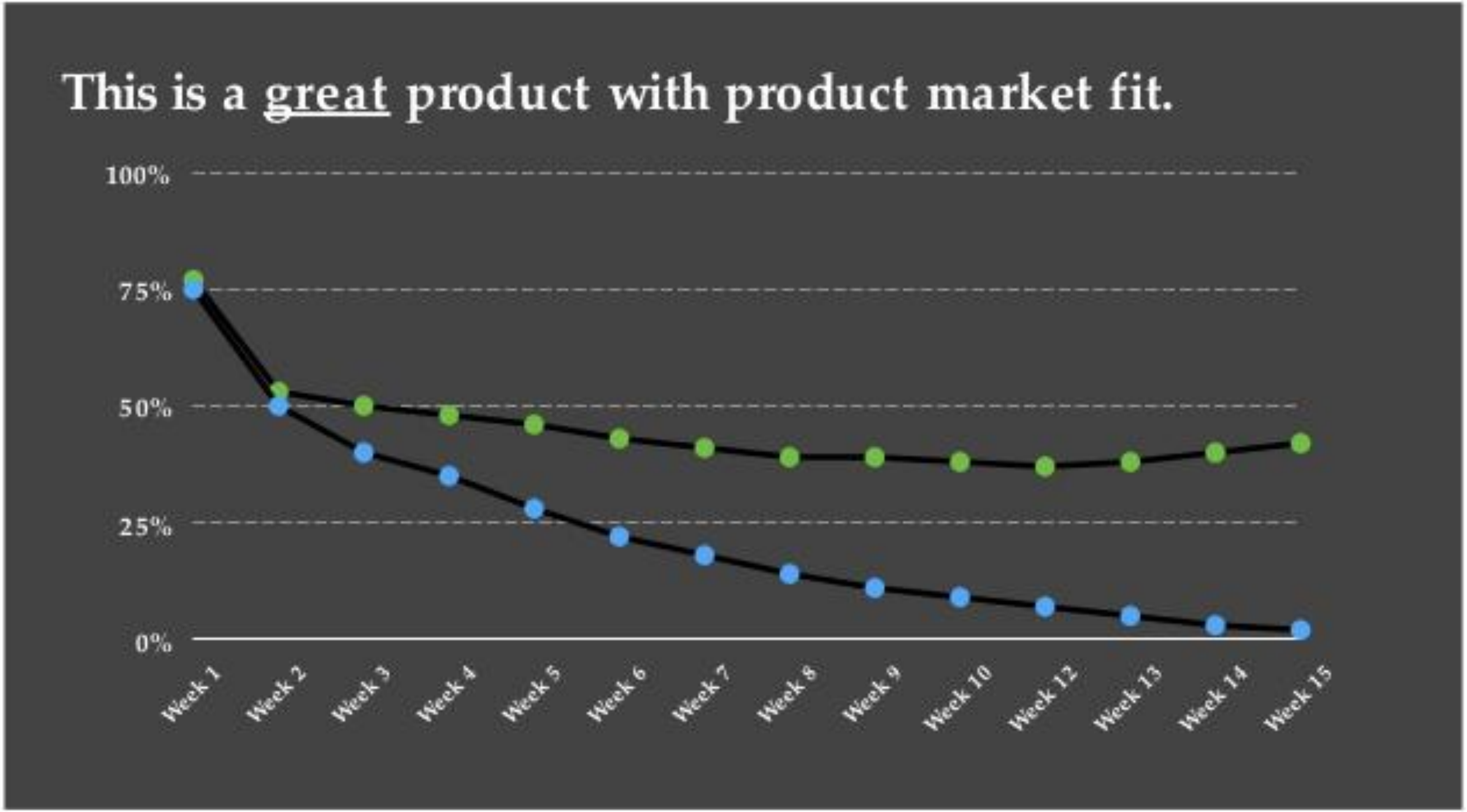
- Stripe
- Airbnb
- Facebook

Signals of product market fit

1. Qualitative
2. Quantitative
3. Intuition



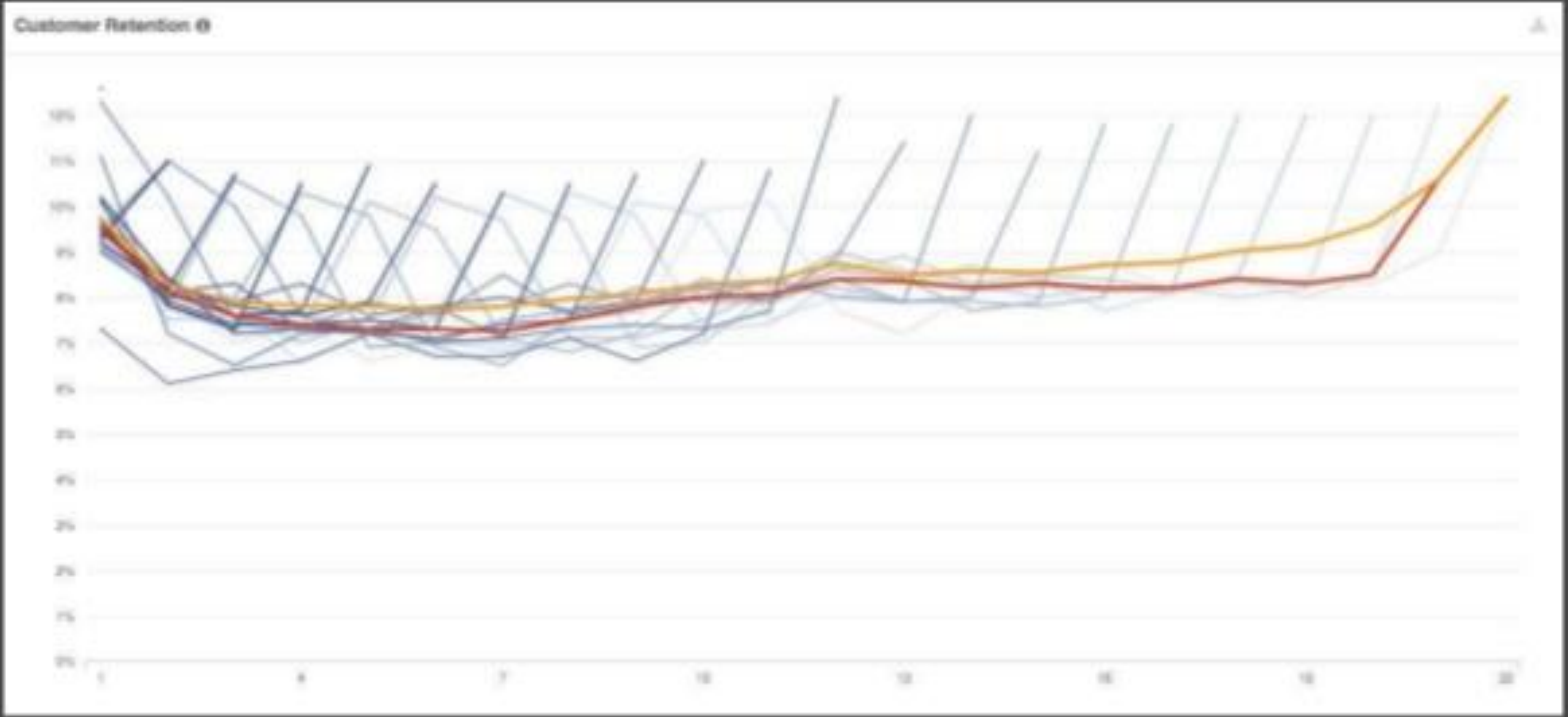

Measuring retention. This is a bad product
100%
75%
50%
25%
0%
Week 1
Week 2
Week 3
Week 4
Week 5
Week 6
Week 7
Week 8
Week 9
Week 10
Week 12
Week 13
Week 14
Week 15


This is a great product with product market fit.
100%
75%
50%
25%
0%
Week 1
Week 2
Week 3
Week 4
Week 5
Week 6
Week 7
Week 8
Week 9
Week 10
Week 12
Week 13
Week 14
Week 15

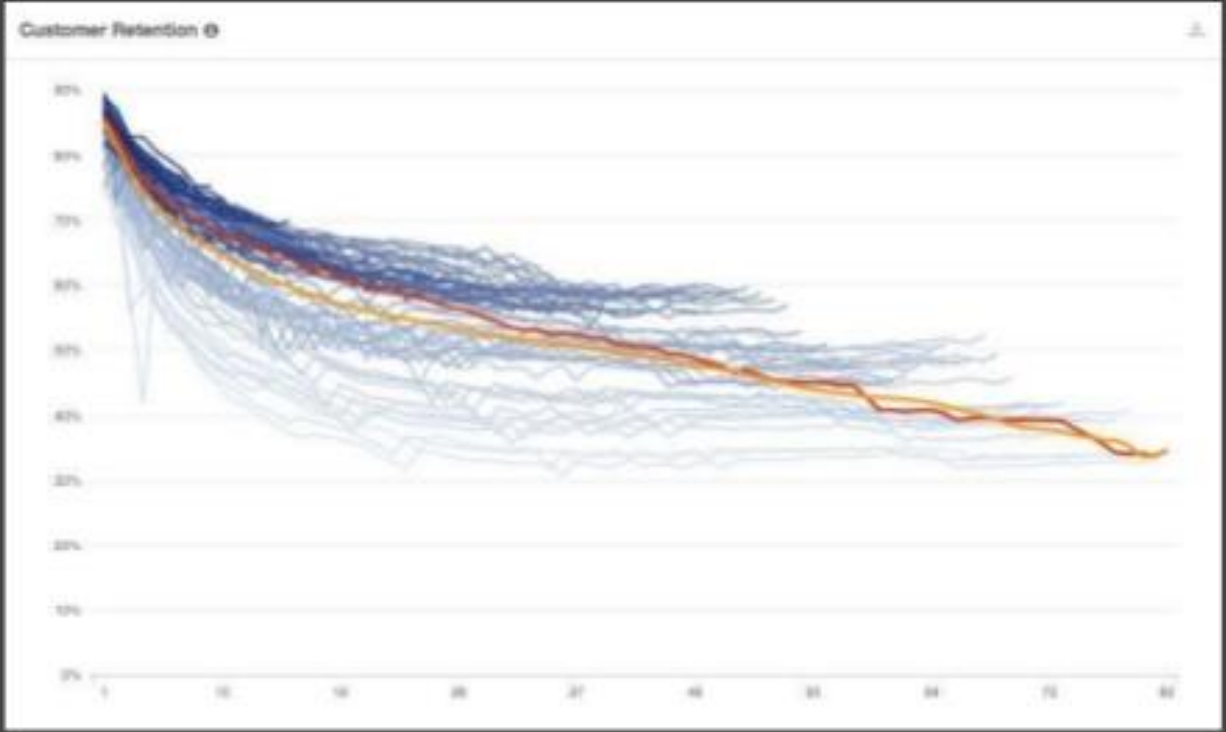
Measuring product market fit

Company	Metric that represent value	Ideal frequency
Airbnb	Bookings / Stays	Annual
Facebook	Active users	Daily/Monthly
Gusto	Running employee payroll	By-weekly/Monthly
Lyft	Rides	Weekly/Monhtly
Checkr	Background checks	Daily/Houly
Stripe	Transactions	Daily/Hourly

10% after 1 month. 12% after 12 months.



70% after 12 months. 30% after 7 years!



Why Retention Is The Silent Killer

Why retention is the silent killer

	Company A	Company B	Difference
New Users Per Month	1 million	2 million	2x!
Retention	85%	65%	-20%
MAU After 6 Months	4,152,337	5,283,321	1,130,984
MAU After 3 Years	6,647,480	5,714,285	-933,196

Product Market Fit Is Not Binary

There are two primary ways that the market changes for a startup.

1. EXPANDING MARKET DEFINITION

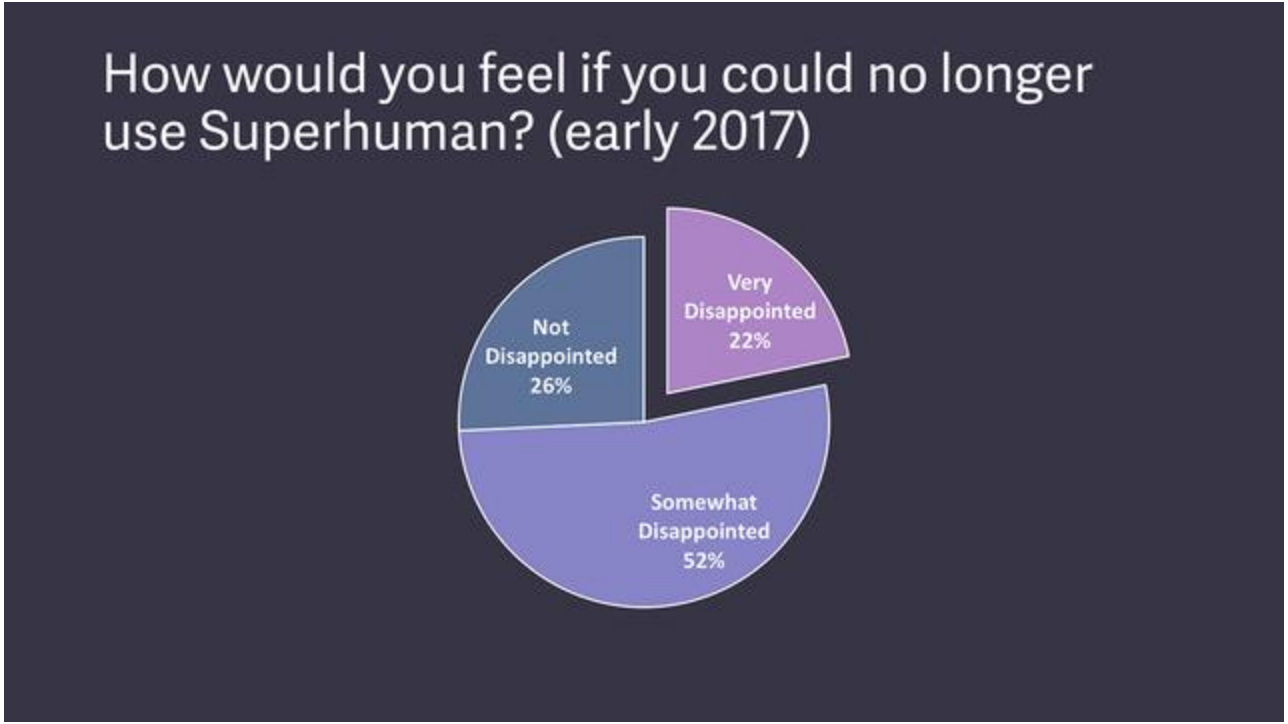
2. THE MARKET EVOLVES

Product-User Fit Comes Before Product-Market Fit

Product-user fit is an important step in the journey to product-market fit, in which nailing the product to win over the right user is essential.

- Who really wants this today?
- How many of those people are out in the wild?
- What else would it take in the product to turn non-users into users of our solution?
- What macro story must play out in the market to substantially shock market-wide

Case study : Superhuman



Case study : Superhuman

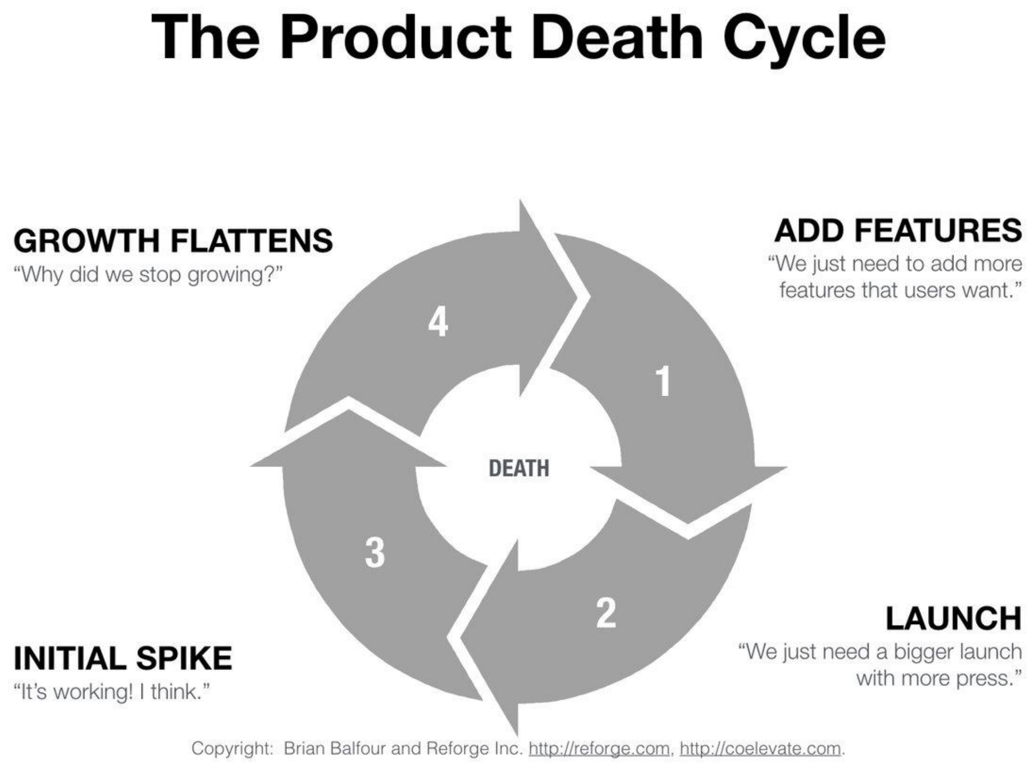
1) Segment to find your supporters and paint a picture of your high-expectation customers.

2) Analyze feedback to convert on-the-fence users into fanatics.

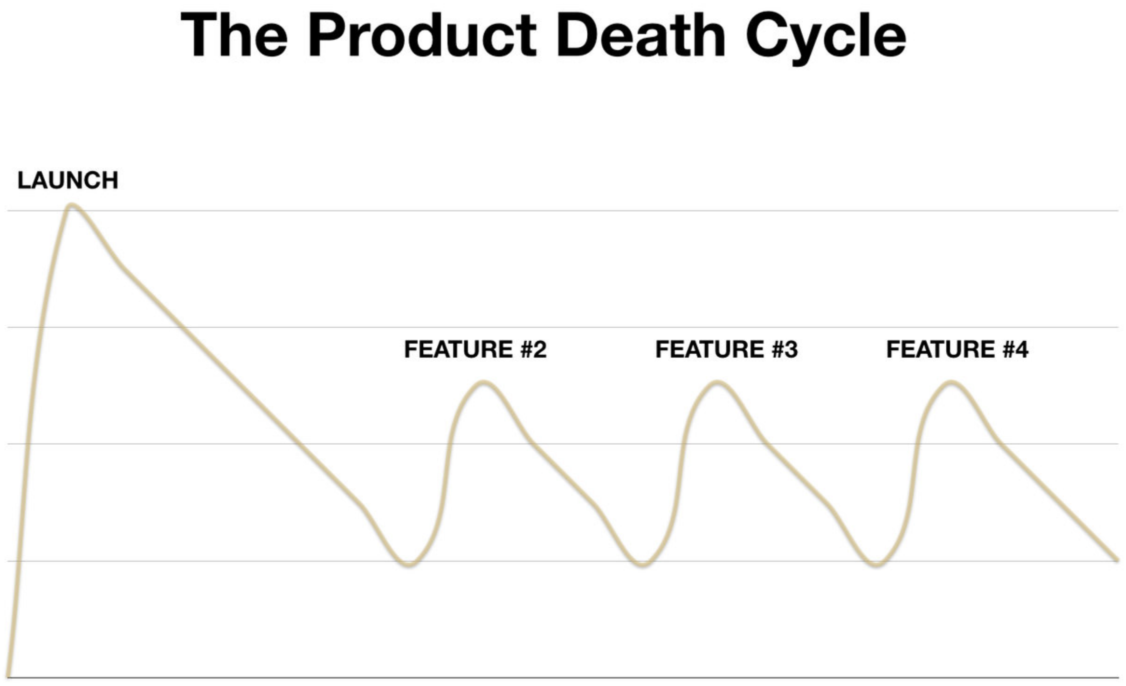
3) Build your roadmap by doubling down on what users love and addressing what holds others back.

4) Repeat the process and make the product/market fit score the most important metric.

It’s Not Just Product Market Fit

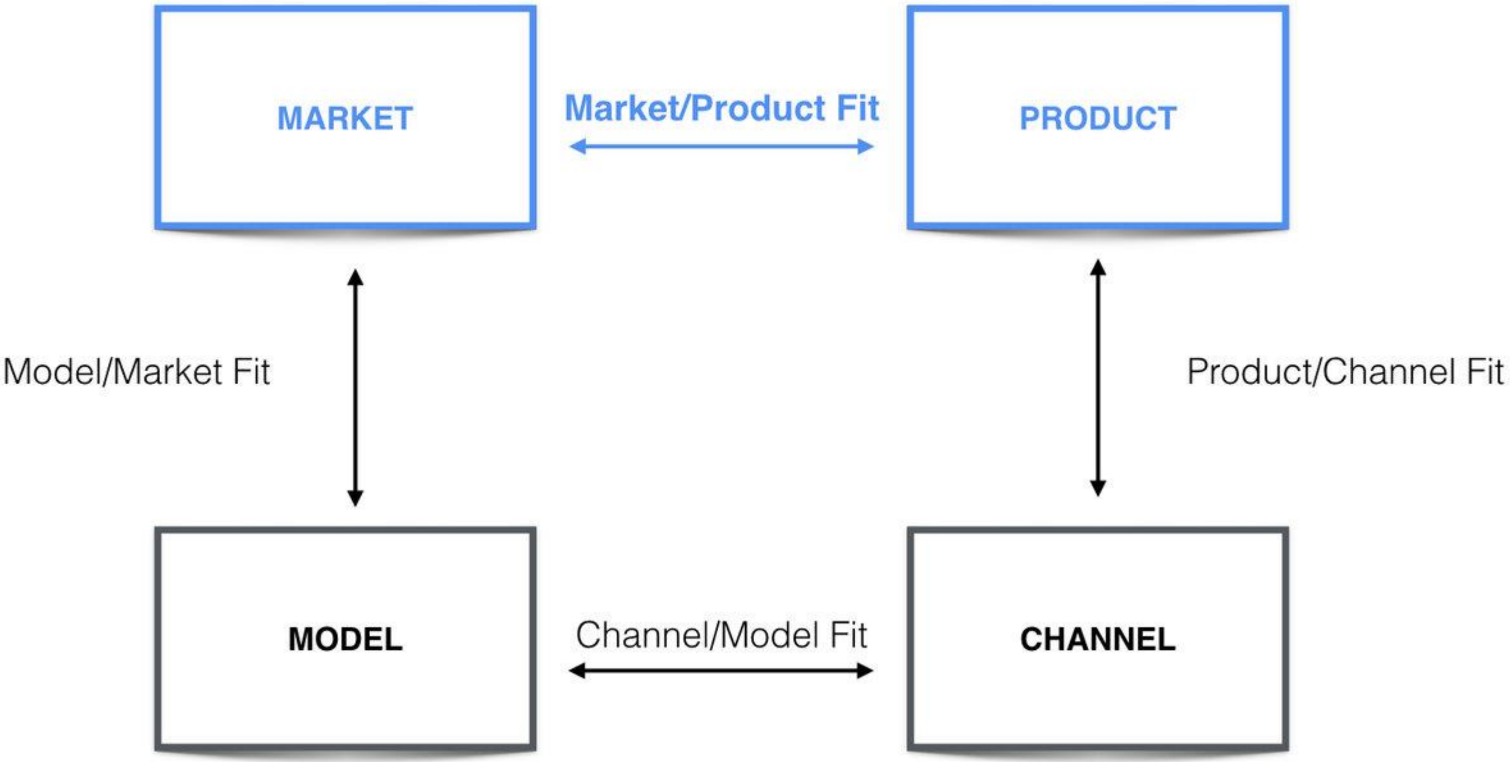


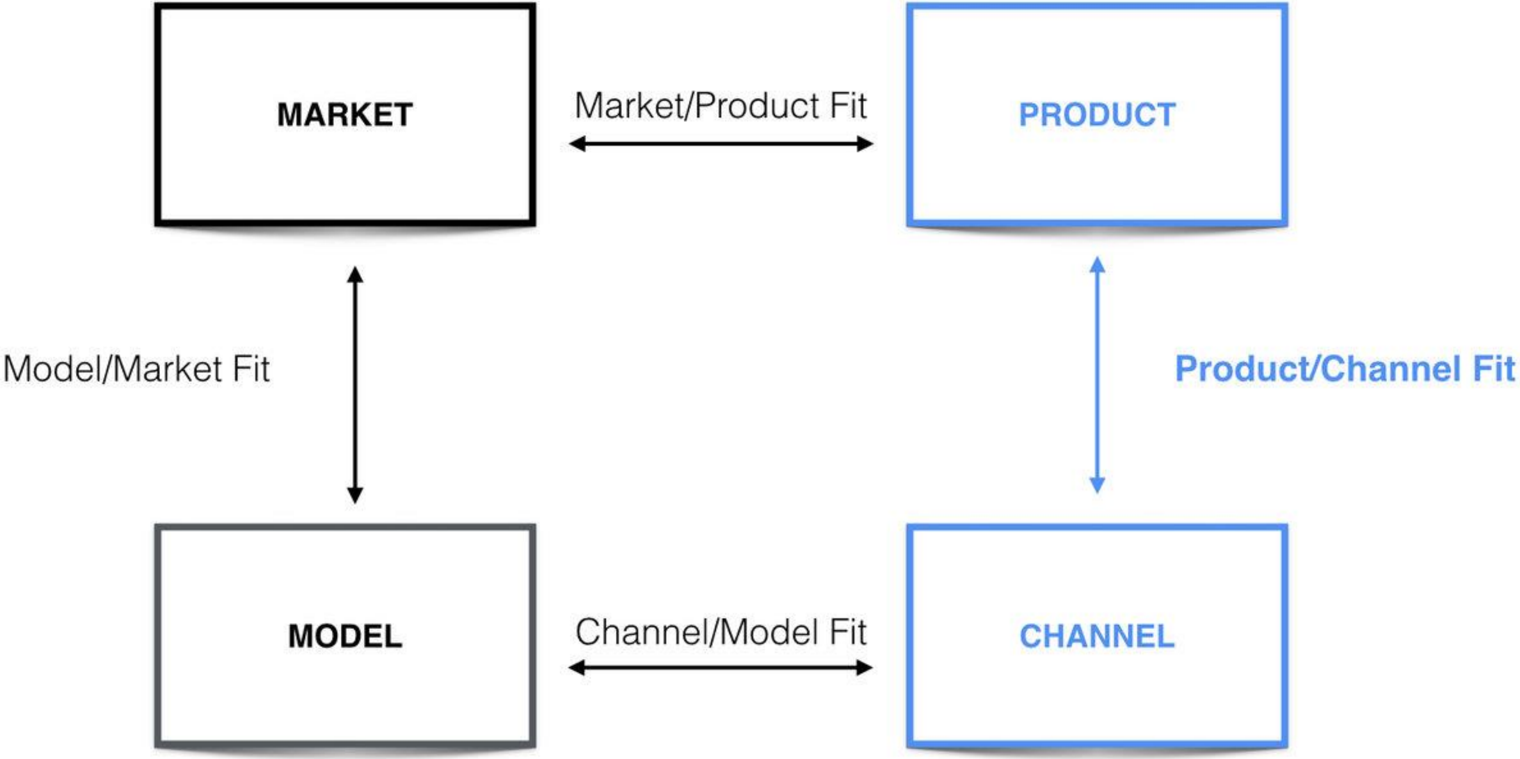
It's Not Just Product Market Fit



AGENDA

What’s Needed To Build $100M+




MARKET
Market/Product Fit
PRODUCT
Model/Market Fit
Product/Channel Fit
MODEL
Channel/Model Fit
CHANNEL

Product channel fit

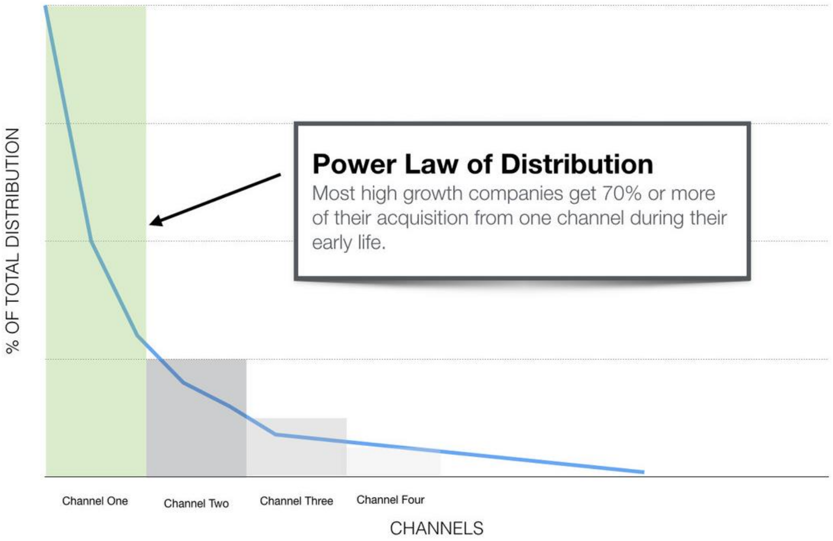
1. Products Are Built To Fit Channels, Not The Other Way Around

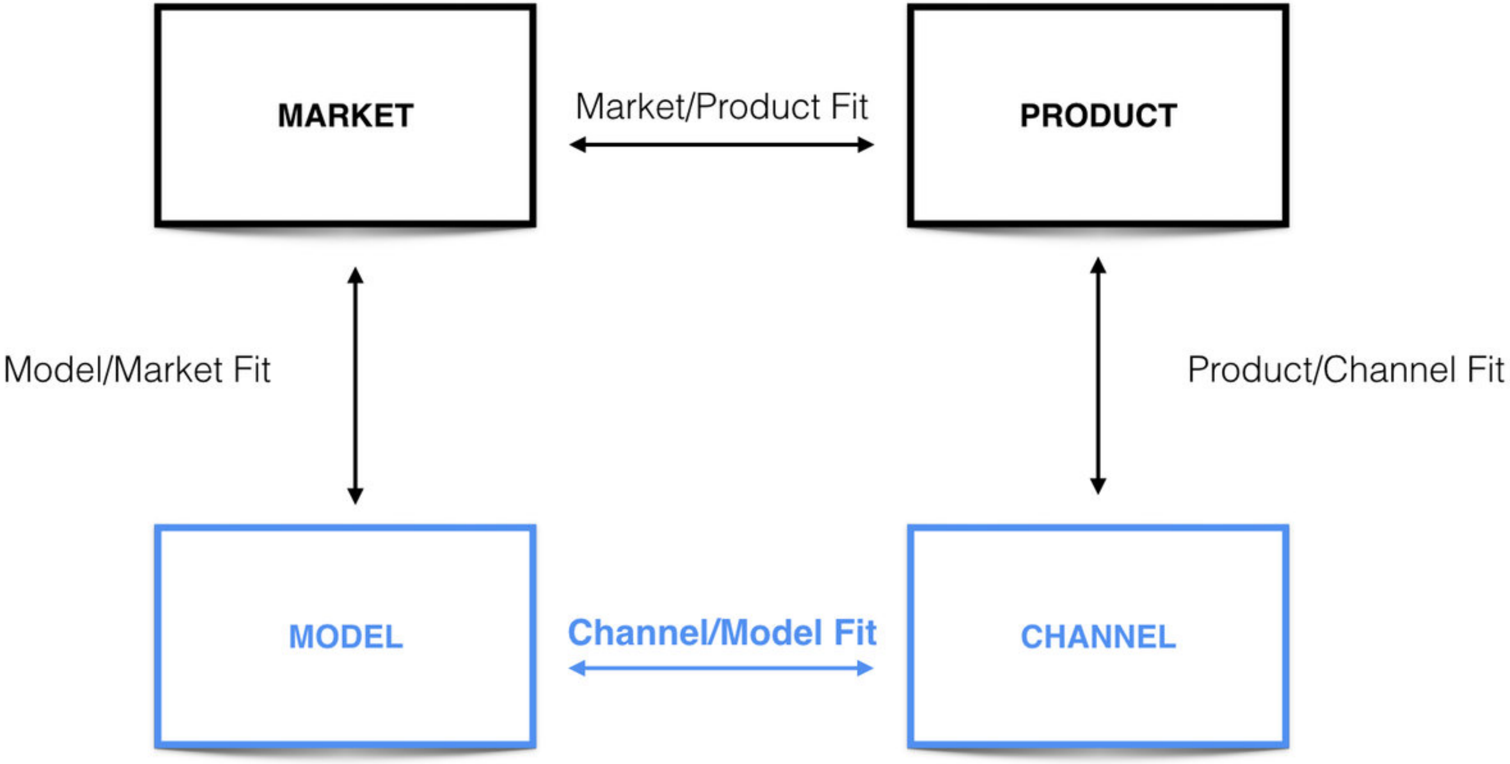
What are some general elements of products that fit with different categories of channels :

- Virality. For virality to be a high ceiling channel, a product at a minimum needs
- Paid Marketing. To have product channel fit with paid marketing
- UGC SEO. To have product channel fit with UGC SEO:

Product channel fit

2. The Power Law of Distribution

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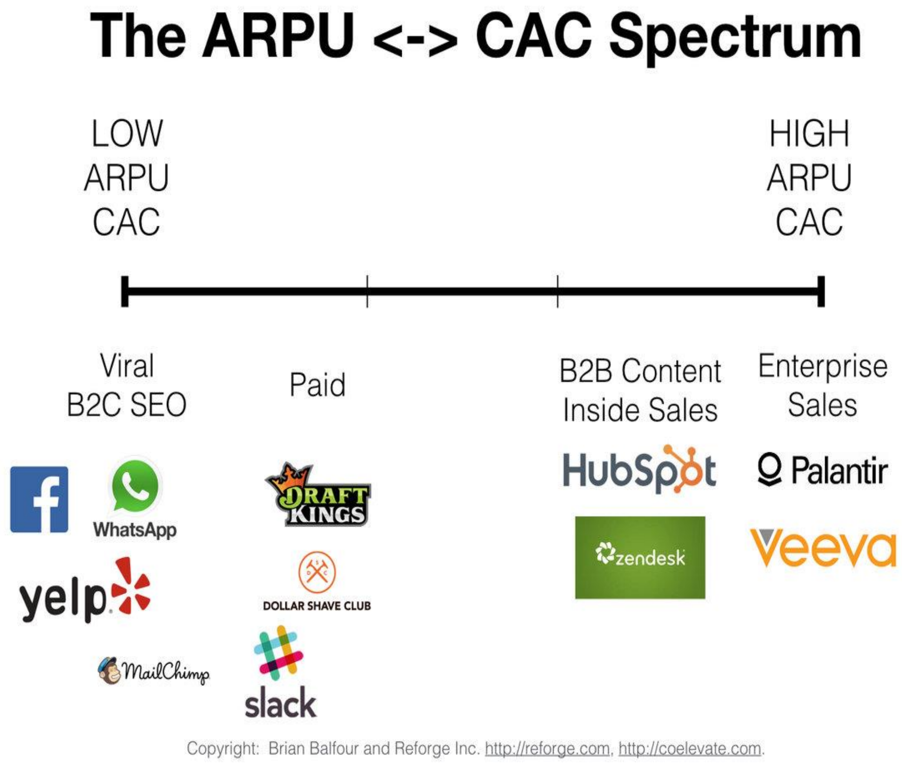
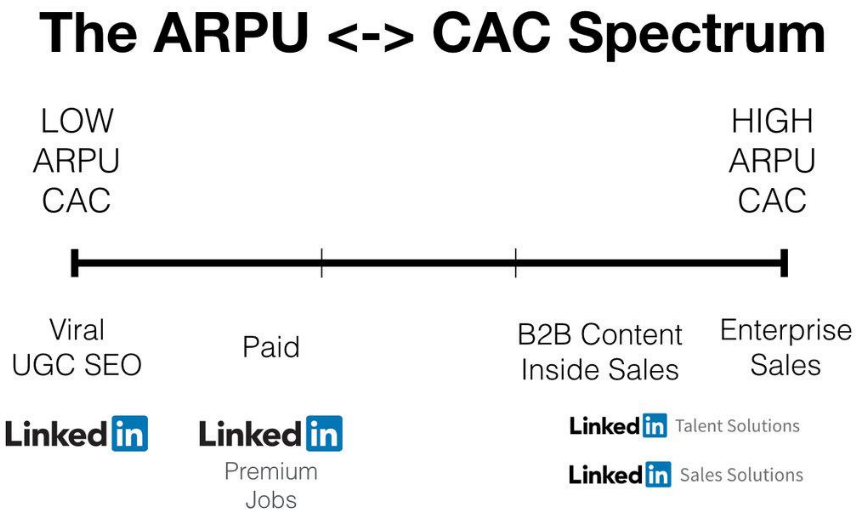
Channel model fit

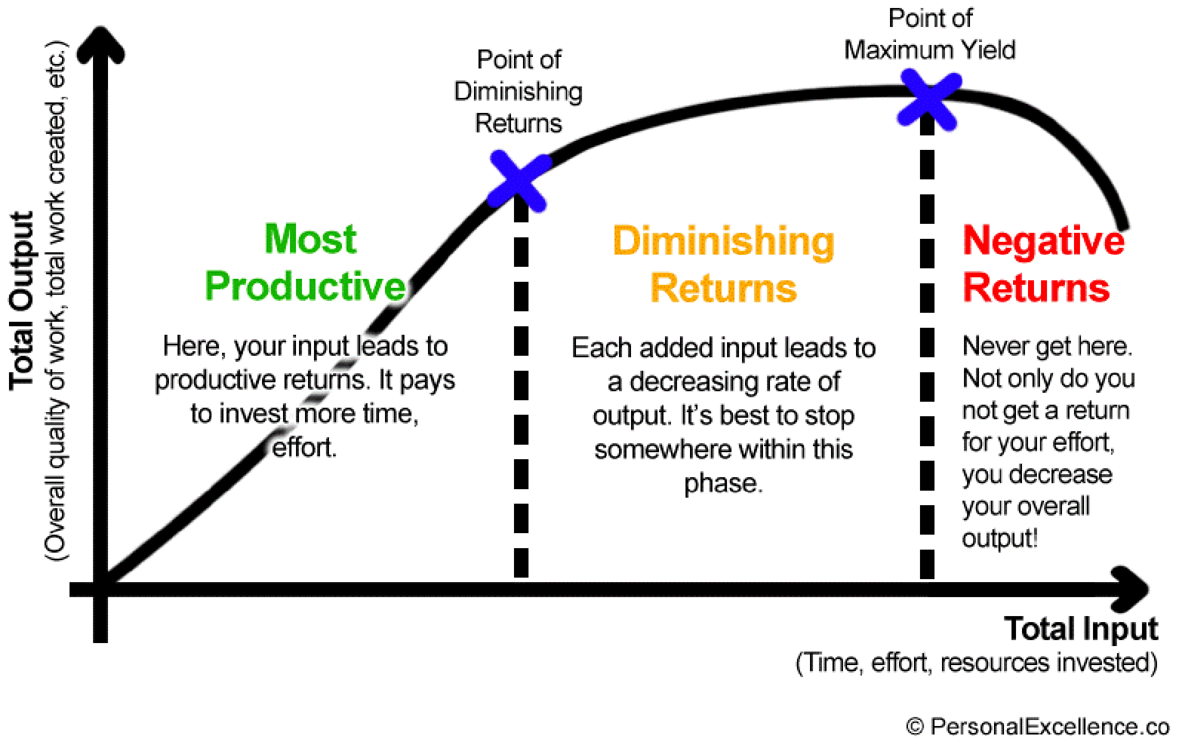


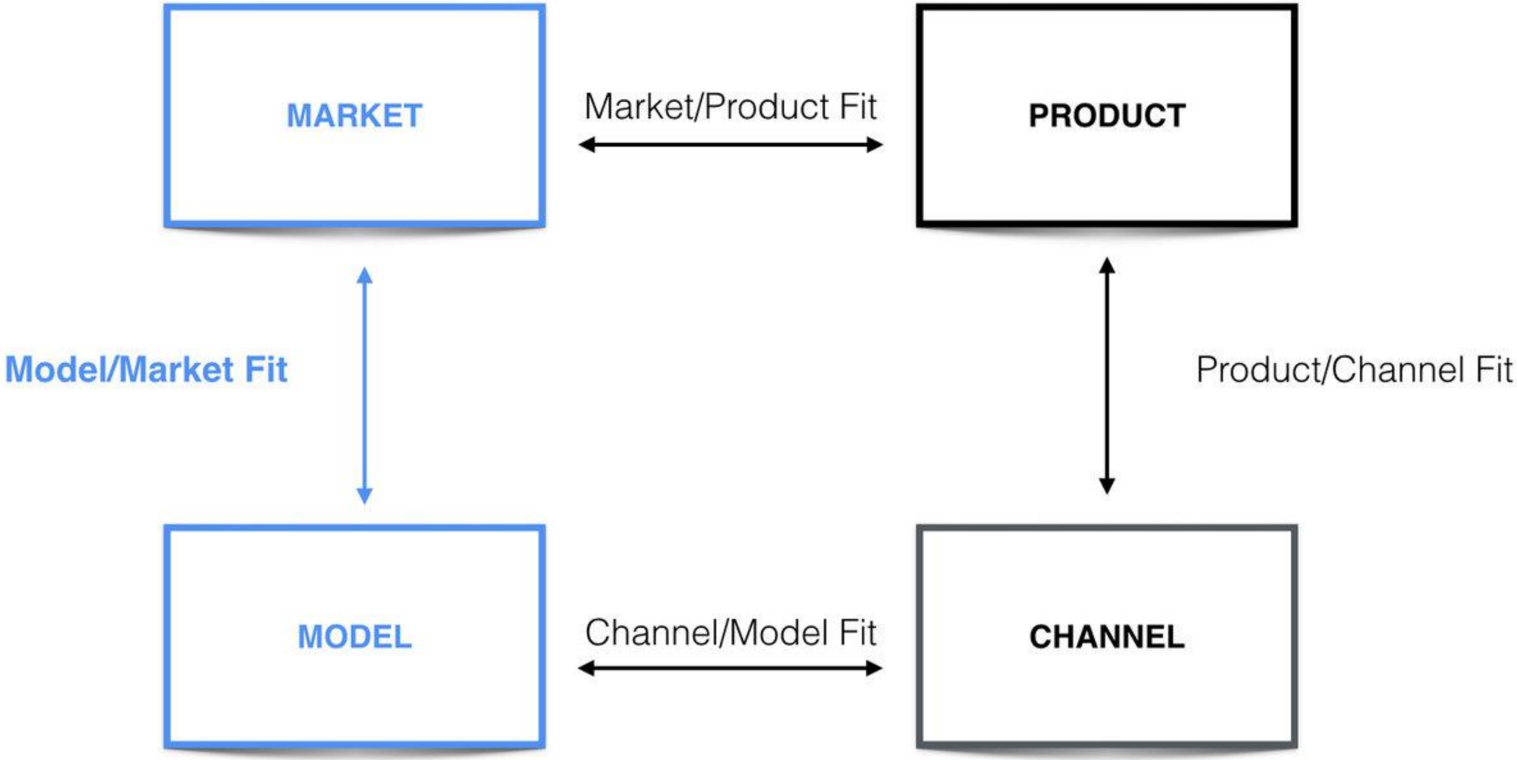
Channel model fit

Case study : Linkedin



How startups die from their addiction to paid marketing

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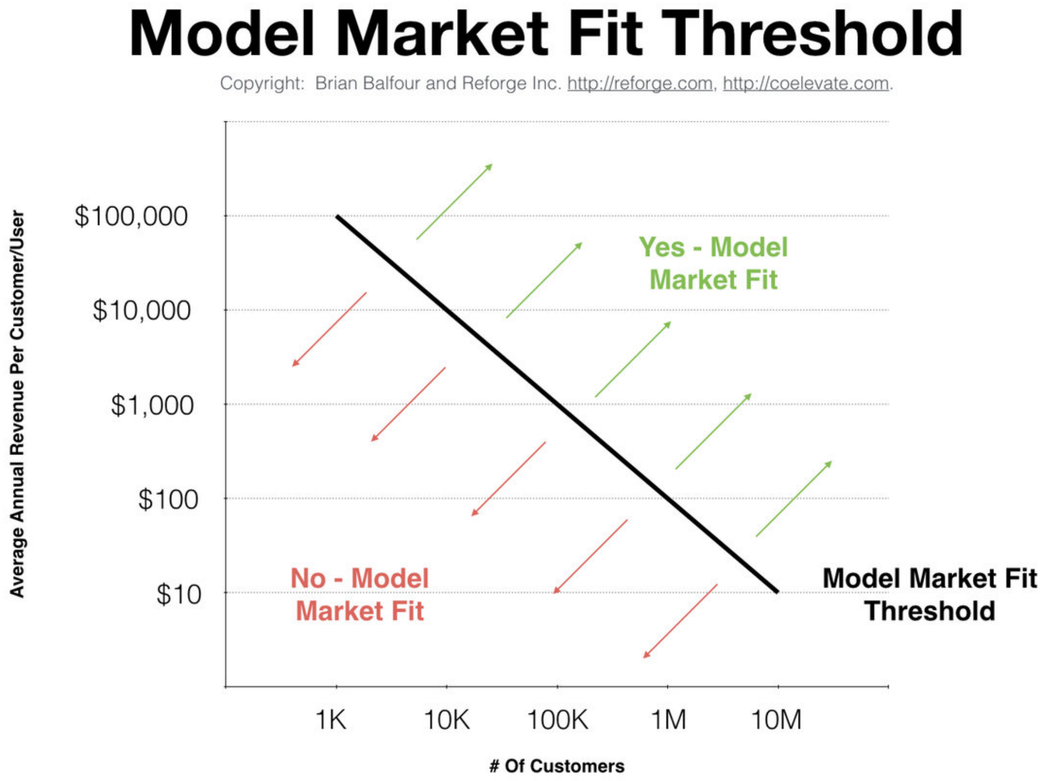
Model market fit



Unit economics

Unit Economics is broadly defined as the sum total of all economic activities belonging to one unit of any product or service, loosely calculated as Lifetime Value (LTV) divided by Customer Acquisition Costs (CAC).

Customer acquisition cost

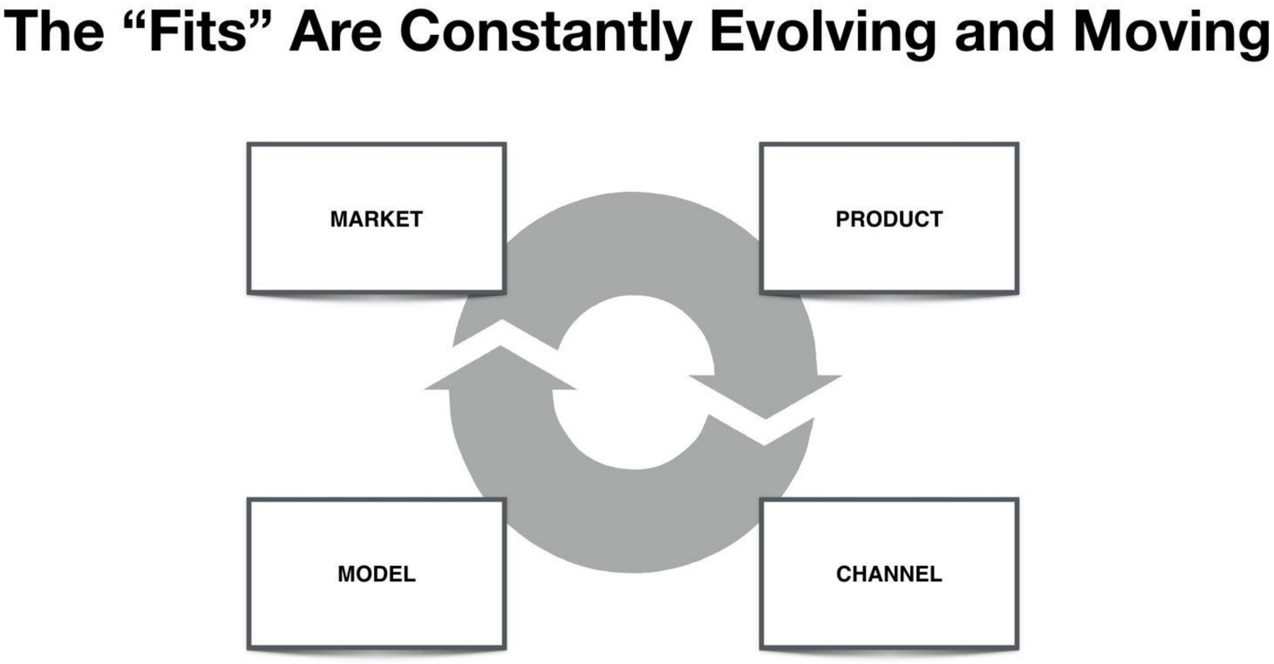
CAC is is the cost of convincing a customer to buy a licence for a product. This figure includes the cost of maintaining the product, as well as marketing and sales expenses. If the cost of maintaining the product is €2,000 and the sales and marketing costs are both €5,000 each, CAC will be €12,000.

Customer Lifetime Value & Average revenue per user

LTV represents the lifetime value of an individual customer. For example, if a licence for a product costs €1,000 per month and the average customer remains for three years before churning, the LTV of a customer will be €36,000.

Based on these sums the LTV:CAC would be 3:1. This is often given as a healthy ratio (a greater ratio is even better) at which to benchmark the LTV:CAC of your SaaS business. Importantly, this ratio is telling us that for every €1 it costs to acquire a customer the business gets €3 back. When a business knows it’ll get €3 back for every euro invested, their attention typically switches to scaling the business quickly and investing in growth.

Why Most Companies Fail At Moving Up or Down Market



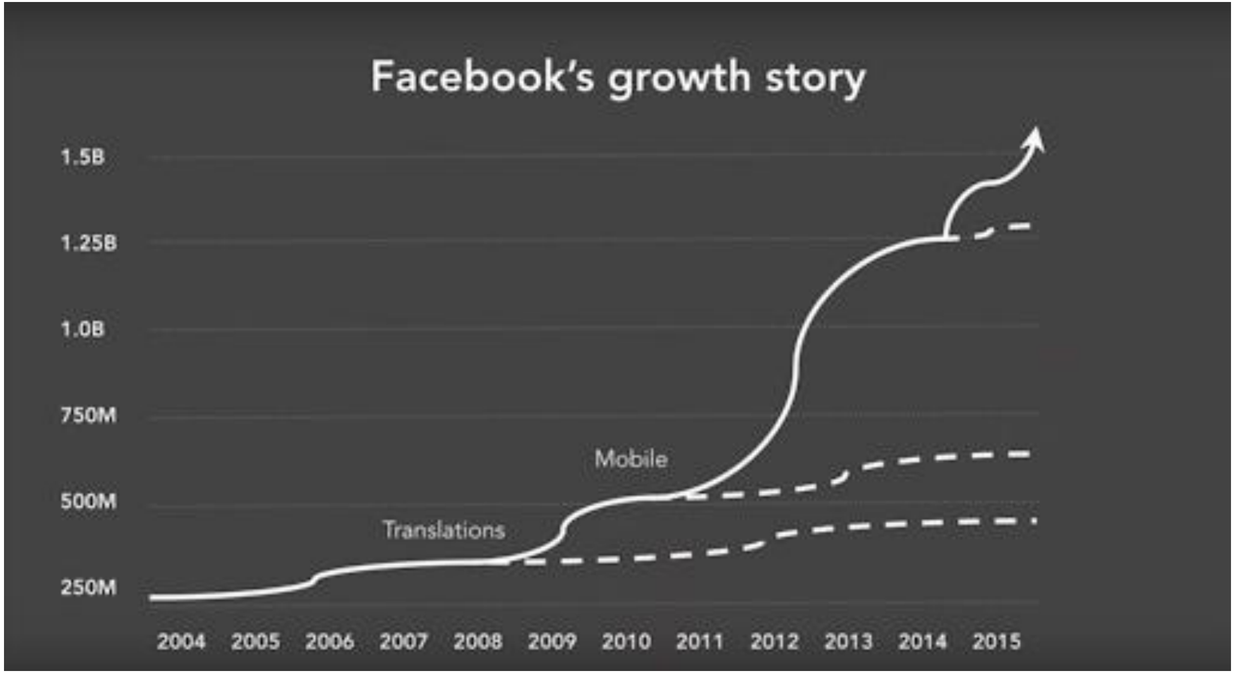
Three ways to grow at scale

1. Product Growth / Growth Engineering

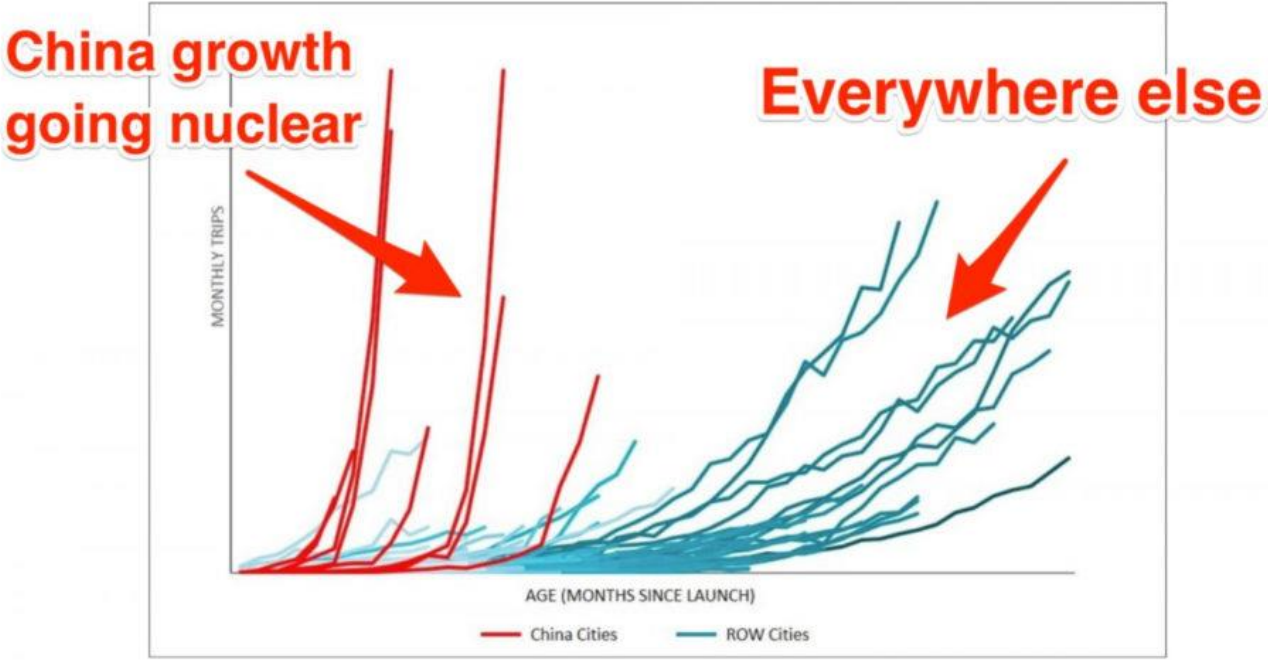
2. Performance Marketing

3. Brand Marketing

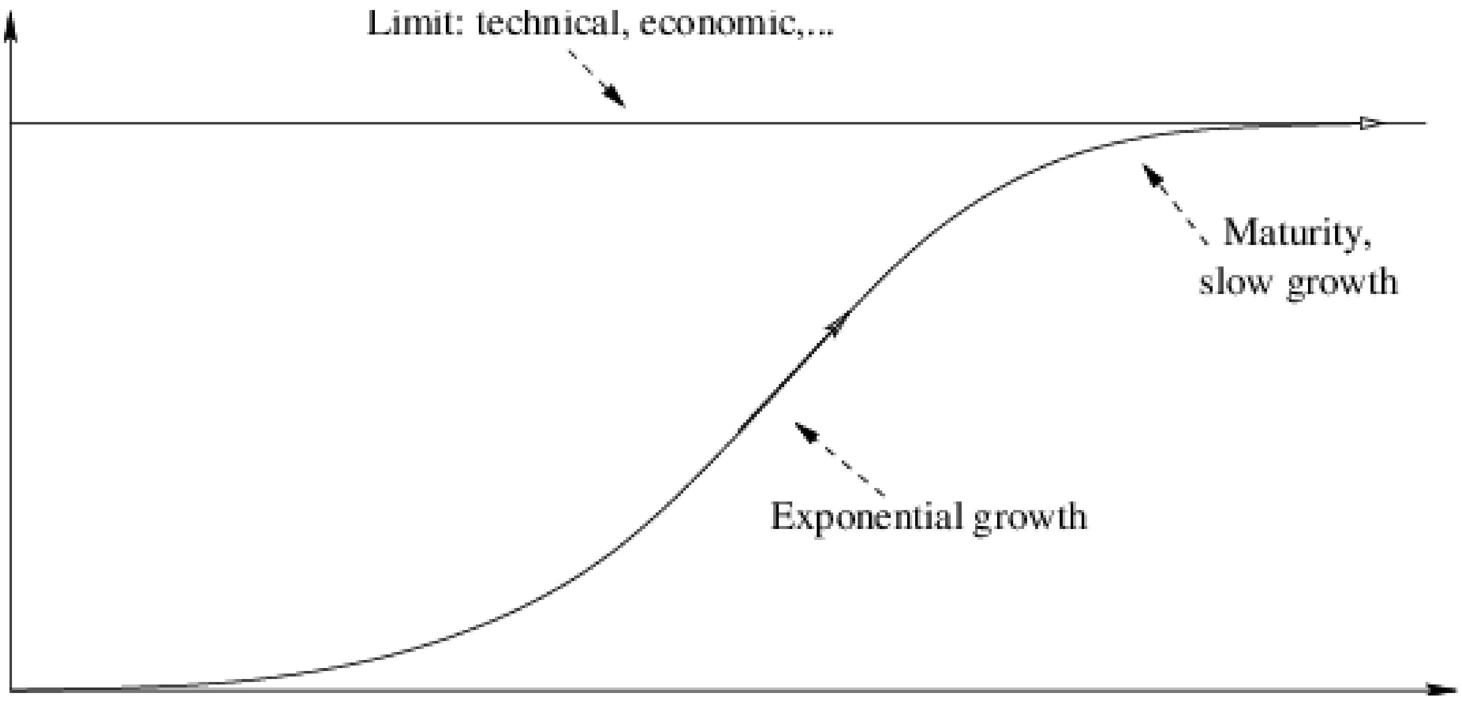
Facebook's growth story & Why growth



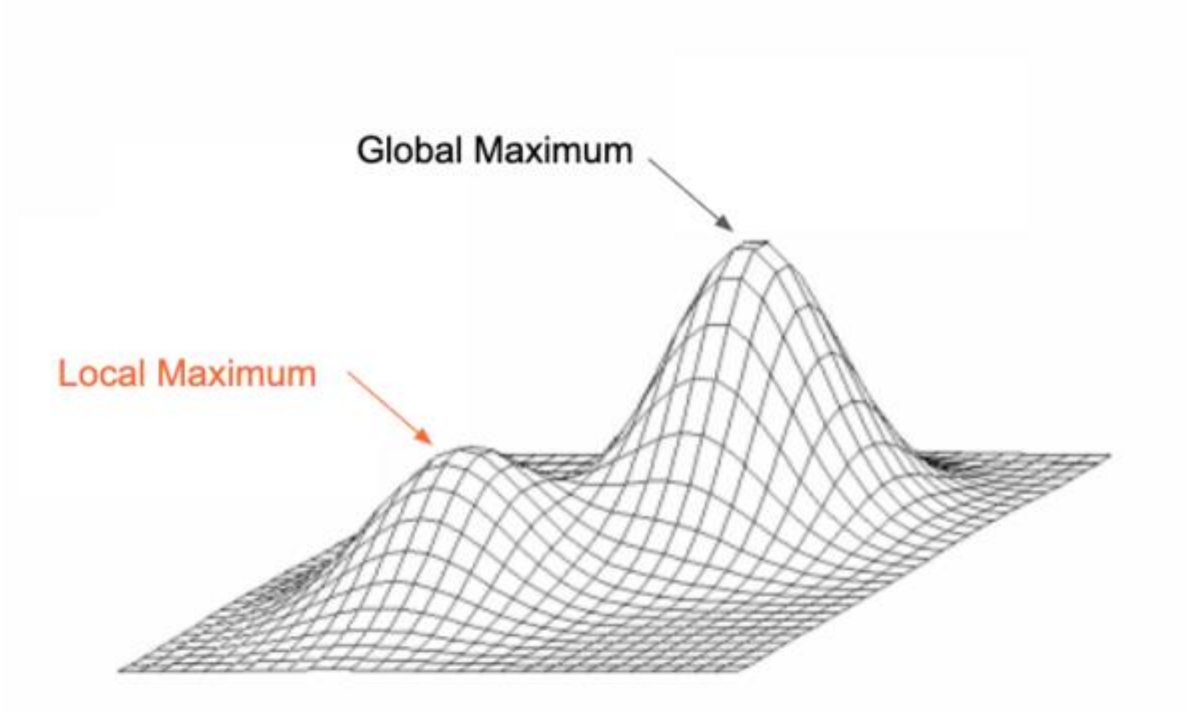
Growth & Why growth



S-curve


Limit: technical, economic,...
Maturity,
slow growth
Exponential growth

Local maximum & global maximum



How to break

Case study : Amazon Prime

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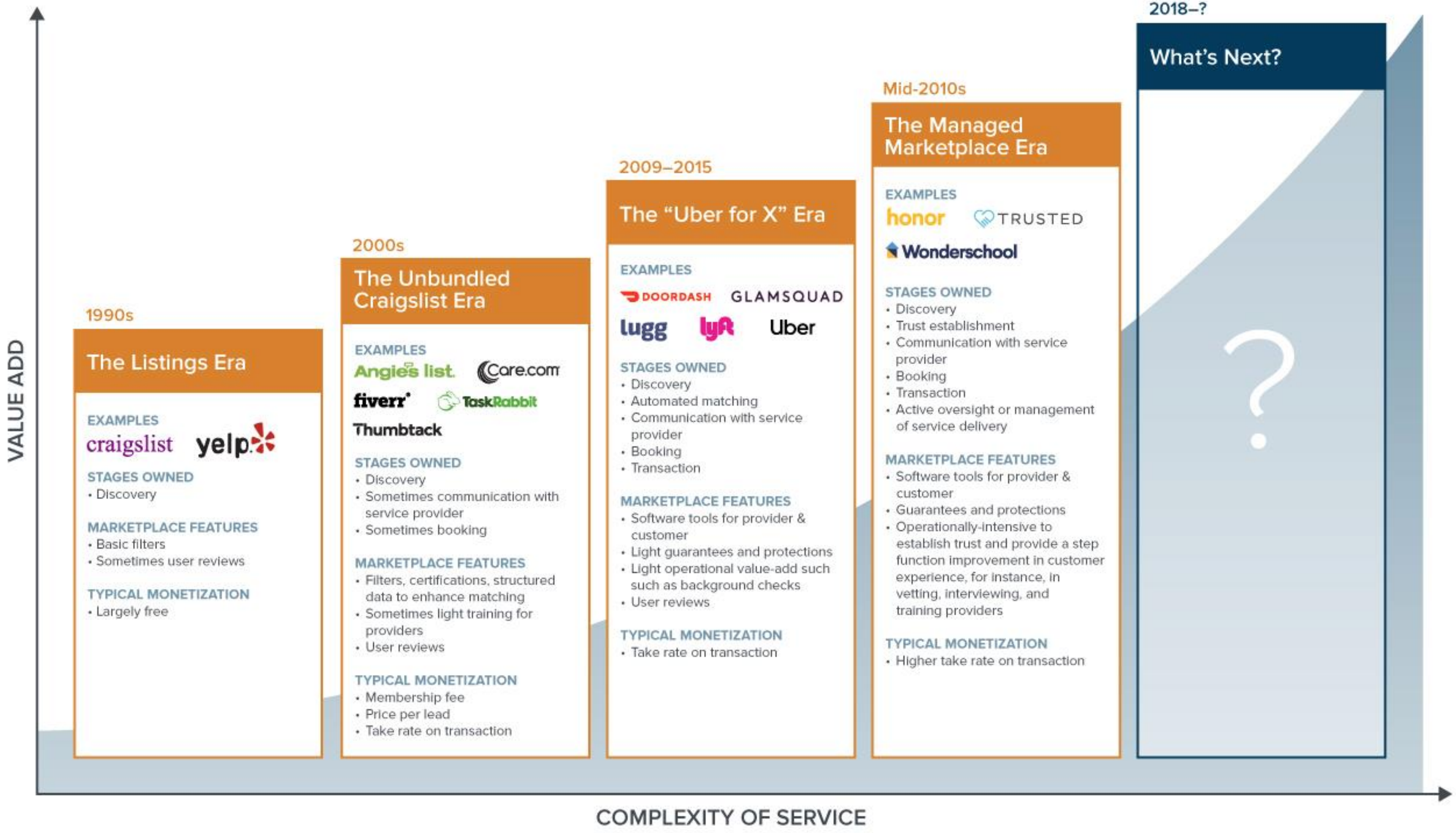
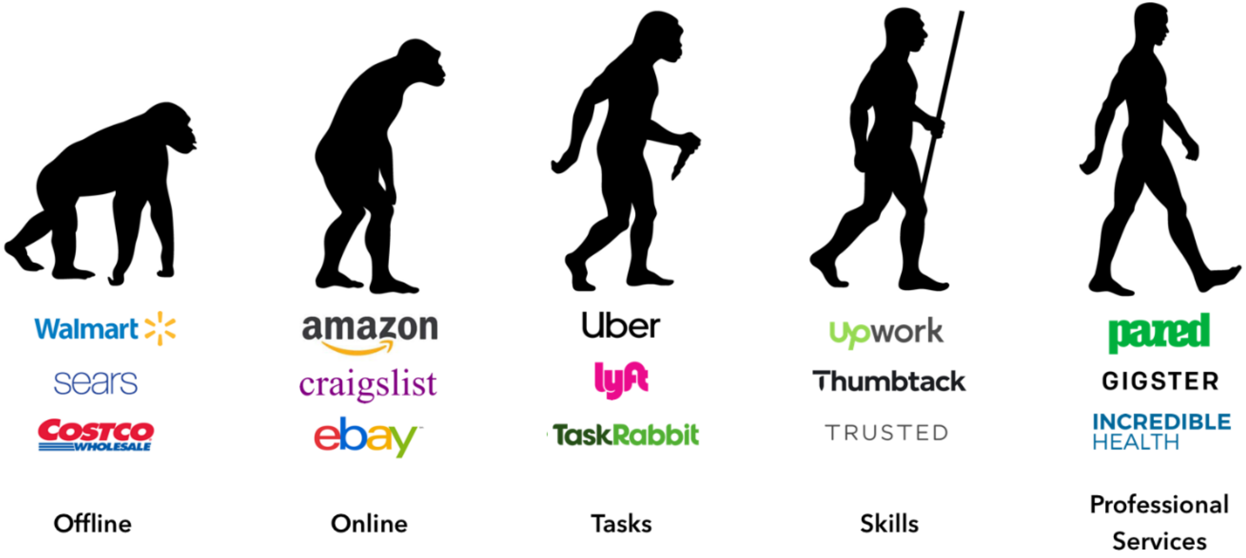
Evolution of Services Marketplaces



Money Out of Nowhere: How Internet Marketplaces Unlock Economic Wealth

All Markets Are Not Created Equal: 10 Factors To Consider When Evaluating Digital Marketplaces



Own the Demand

	Amazon	Ebay / Alibaba	Facebook	Google	Shopify	Magento / Prestashop	3PLs
Promotion	✓	✓	✓	✓			
Ecommerce Software	✓	✓			✓	✓	
Hosting Hardware	✓	✓			✓		
Logistics, inventory	✓						✓

Strategy of starting a new marketplace

A few examples:

1) Uber launched by going to black car companies and paying drivers to be available on Uber during certain hours, ensuring that riders would be able to find a ride.

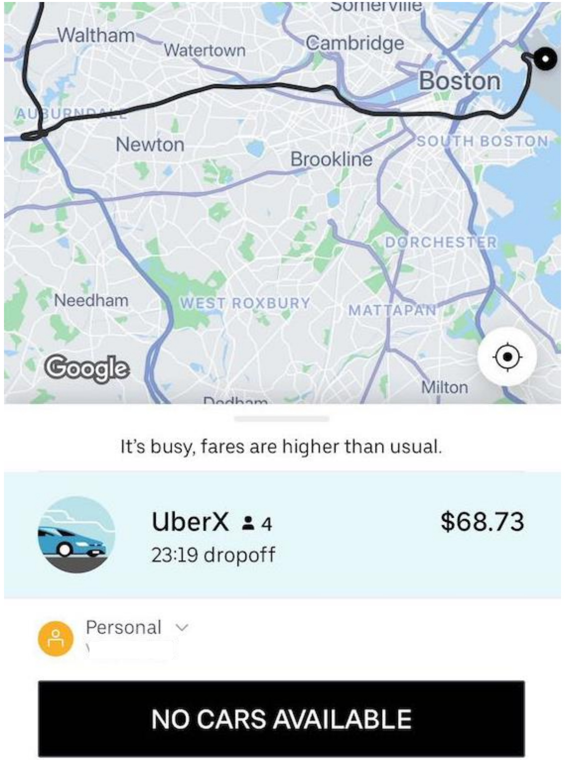
2) Relationship Hero, a relationship coaching marketplace, scaled to dozens of customers with just one coach--its cofounder! But the website listed 10 fake coaches, to give users the sense that it was a more active platform with diverse coaches who fit their particular situation.

3) Beepi, which was a used car marketplace, had a massive chicken and egg problem in attracting sellers and buyers initially. To solve this, the founders went out and purchased used cars to seed the supply side. After a few months, they moved to the marketplace model.

The best consumer marketplaces

“Chicken-and-egg” becomes “Supply, demand, supply, supply, supply.” Translation: identify a user problem, then bootstrap enough supply to make the marketplace valuable to initial users. Once there's product/market fit, focus on scaling the supply side to meet all the demand.

An important Marketplace Metric: Search to Fill



Distribution vs Innovation

The TiVo Problem

The Winning Strategy: Go Boring

Business strategy : Alibaba masterclass in SEA