Revenue Streams & Innovation Accounting

1-2 Startup Weekend, Yes!Deflt, 9th of June 2018

Intro

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1997-2002:	**Computer Science**
	TU Delft
2003-2010:	**Fox-IT**
	Founded / grew BU
2010- 2014:	**Founded Offspark**
	(Acquired by Arm)
2014-2017:	**Arm**

Types of Companies

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Which one do you want to emulate?

Revenue Streams

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Type of Stream

Transaction / Project based

- One off revenue per deal

- Dependent on continuous sales capabilities

- Often requires inventory / hour planning

- Less dependable cash-flow

Type of Stream

Recurring

- Revenue over time

- Typically Subscription or Services

- Dependable cash-flow

Image credit: SMBnation

Fixed vs Dynamic

Fixed

- List pricing

- Product Feature dependent

- Customer Segment dependent

- Volume dependent

Image credit: 24point0.com

Fixed vs Dynamic

Dynamic

- Bargaining

- Auctioning

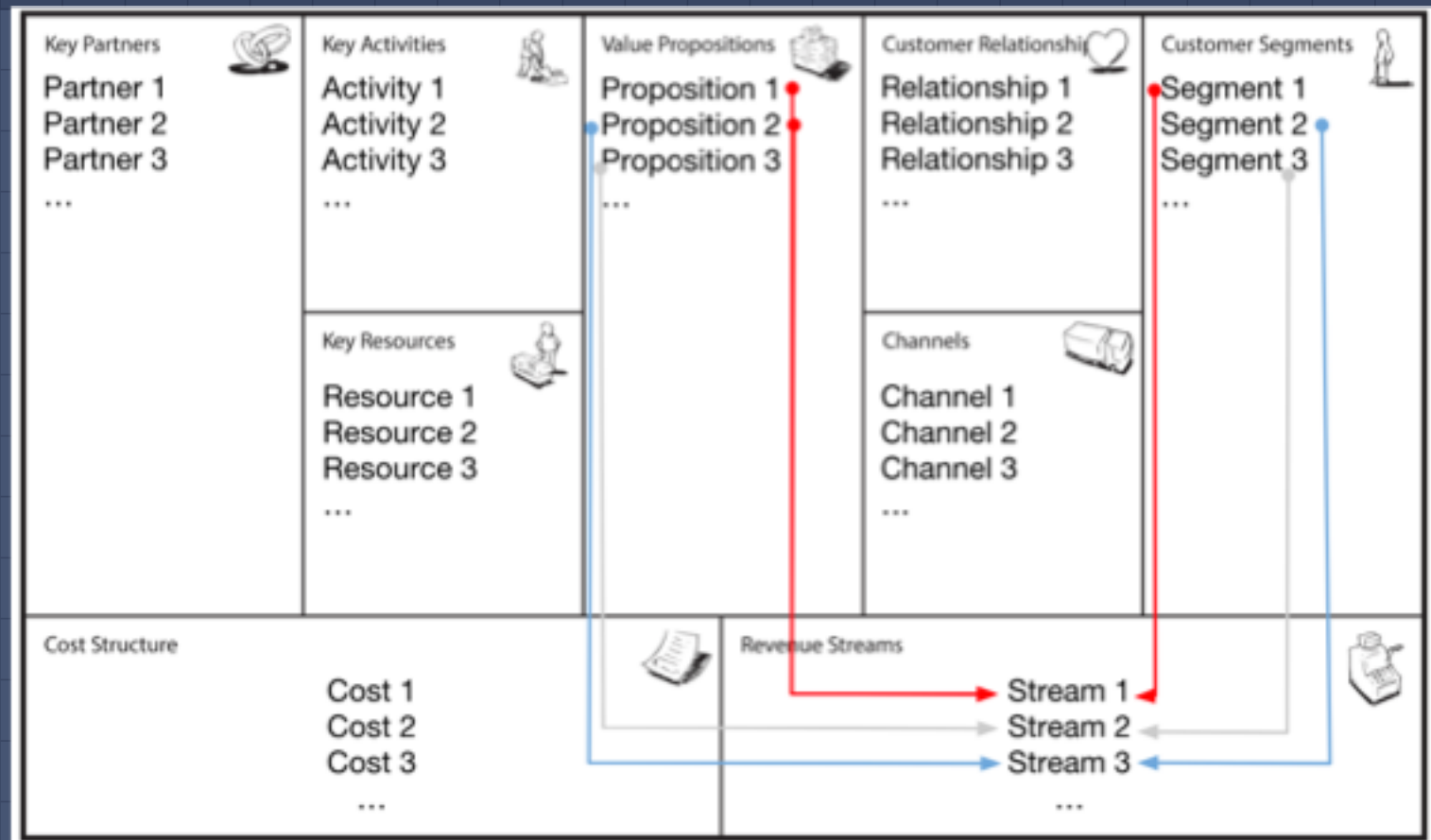- Yield

- Real-time

Type of Revenue

- Asset Sale

- Usage Fee

- Subscription Fee

- Lending / Renting / Leasing

- Licensing

- Brokerage Fee
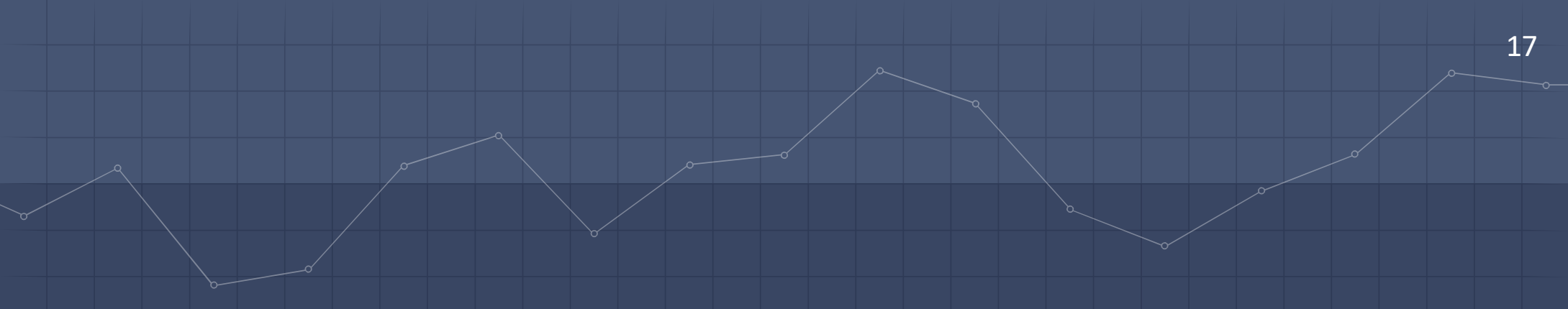
- Advertising

"It's easier to make money where
it's actually available."

Bert Hubert

Revenue streams are not isolated entities

"Don't make (risky) assumptions,

validate everything."

Revenue should trump costs

Revenue streams are dependent on associated costs.

So it's important to account for:

- Customer Acquisition Costs (CAC)
- Customer Lifetime Value (CLV, also called LTV)

Customer Acquisition Costs (CAC)

($) Total sales and marketing expenses

/

(#) new customers acquired

=

($) CAC

Customer Lifetime Value (CLV)

($) Average monthly revenue per customer (MRR)

/

Monthly Churn

=

($) CLV

Customer Lifetime Value (CLV)

($) Average monthly revenue per customer (MRR)

/

Monthly Churn

x

Gross Margin (%)

=

($) CLV

Biggest impact on CLV?

Churn: The attrition rate

Churn has the single biggest impact on CLV!
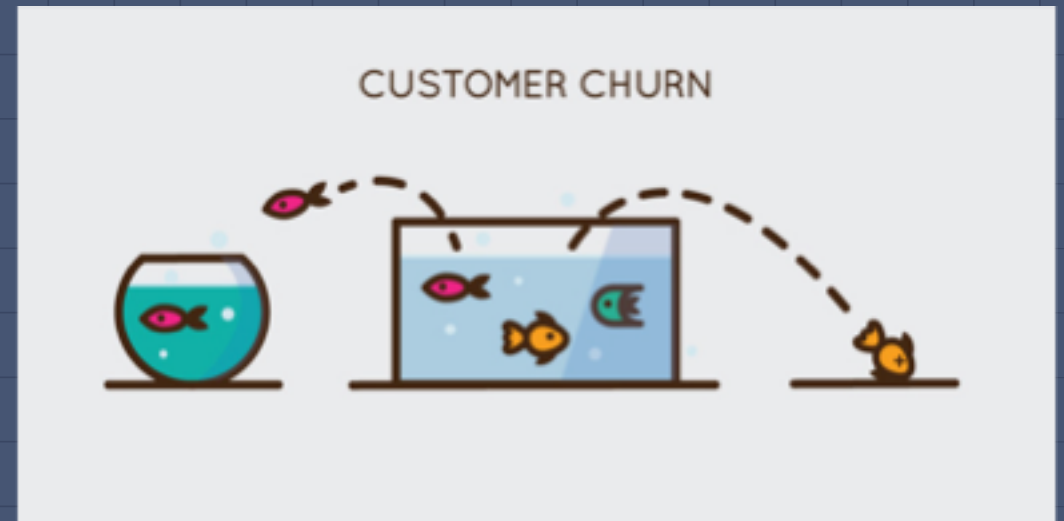
Churn is a lagging indicator!

CUSTOMER CHURN

Image credit: livechatservice.nl

Healthy values

Venture Capital firms often consider as a healthy ratio:

$$CLV >= 3x\ CAC$$
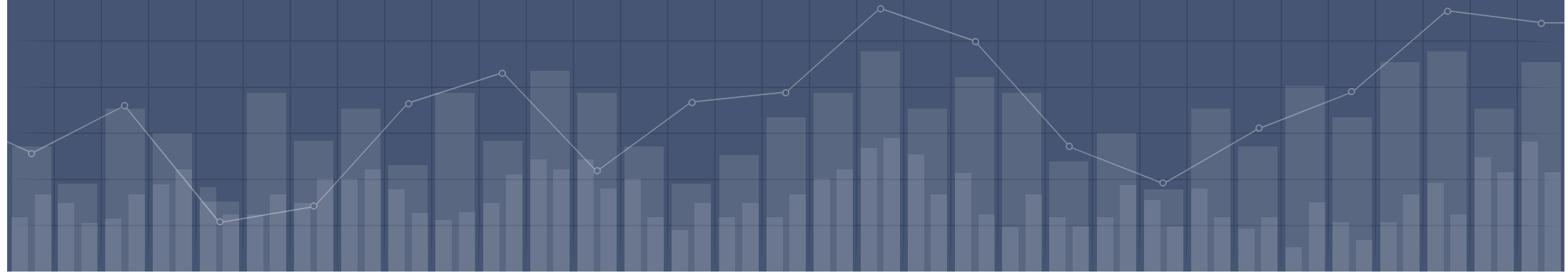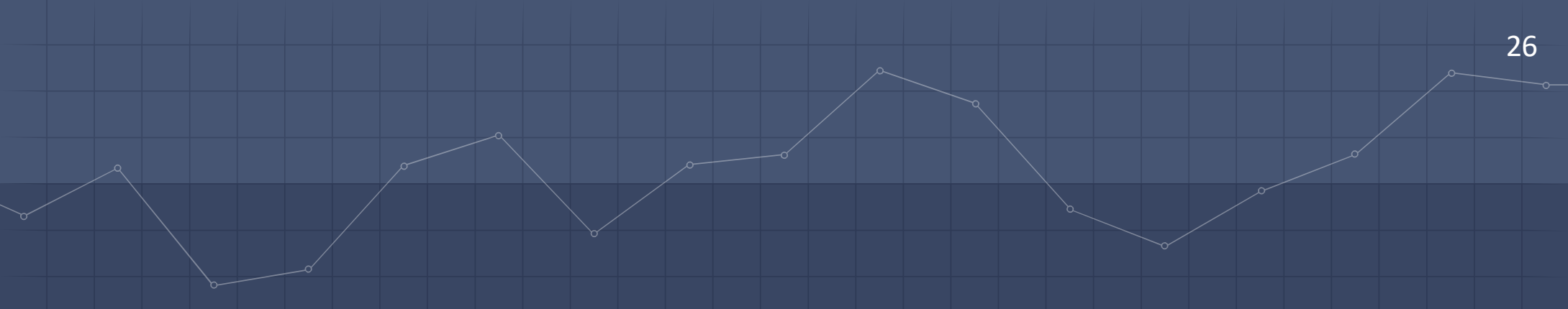
Innovation Accounting

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What is it?

Innovation Accounting is a way of evaluating progress when all the metrics typically used in an established company (revenue, free cash flow, customers, ROI, market share) are effectively zero.

"The only metrics that entrepreneurs should invest energy in collecting are those that help them make decisions."

Eric Ries

What makes a Good Metric?

- Simple

- Immediate

- Actionable

- Comparable

Vanity vs Actionable Metrics

Vanity Metrics

- Number of page hits/views

- Total signups

- Total active users

- Number of downloads

Actionable Metrics (Ratios)

- Percent of users who are active

- Activation

- Percent of users who register

- Percent of users who start subscription

- Churn percentage

Picking the right metrics

Metrics @ Problem / Solution

- Disciplined business modeling, customer development and iterations

- Small online and offline experiments

- You're probably looking for a handful of closed deals at this stage

There's a lot to learn at this stage. That's why most data and learnings are **qualitative**.

Metrics @ Product / Market

- Startup Metrics for Pirates

- The Sean Ellis Test

- Net Promoter Score

- Product usage metrics, UX, retention

Pirate metrics by Dave McClure

Acquisition

About getting potential users to your website.

- Focus on the journey of potential customers.

You want to keep an eye on which channels are generating the most high quality traffic.

- Best performing
- Largest by volume
- Lowest cost

Activation

Make sure users have:

- a happy first time visit
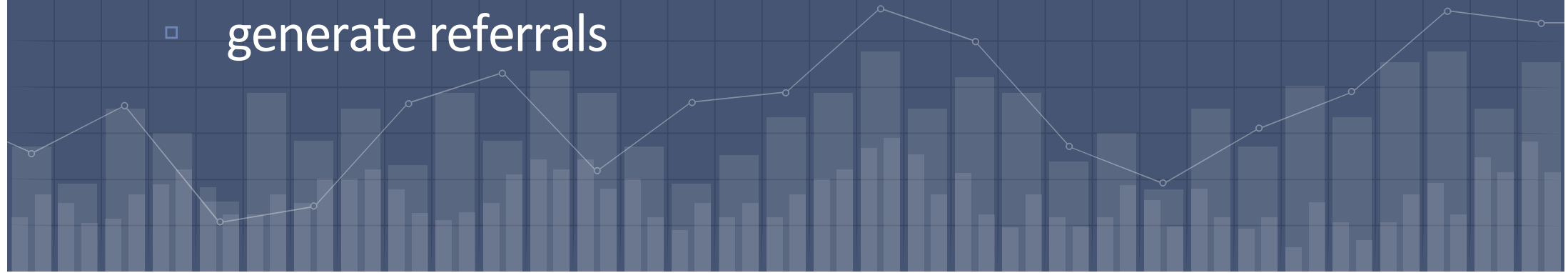- sign up for your product

Track with:

- Heat Mapping
- Click Tracking

Retention

Retention is about bringing people back to your product.
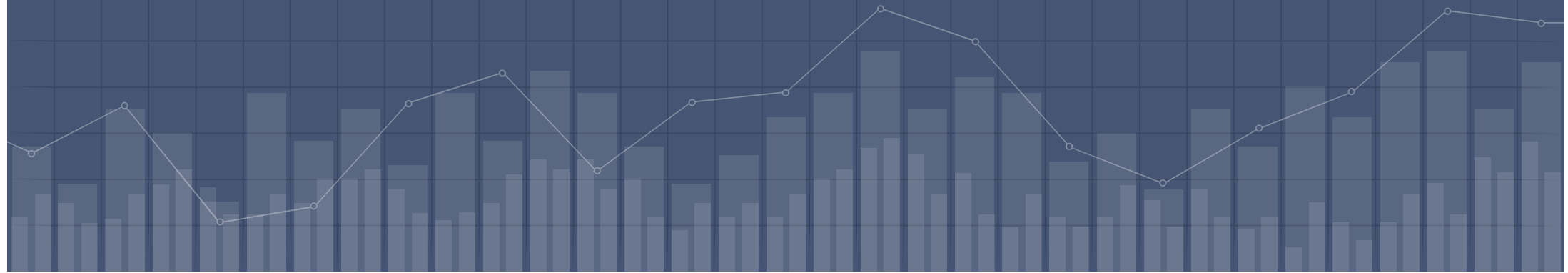
Should become a habit:

- minimize churn
- grow lifetime value
- generate referrals

Referral

Referrals are one of the most powerful forms of customer acquisition available.

- Only works at the right fit.

- Requires systematic process to incentivize

Revenue

If you get the other steps right, revenue becomes a lagging indicator. Revenue follows when:

- Acquiring a healthy percentage of quality people

- Activating a strong percentage

- Retaining the best users

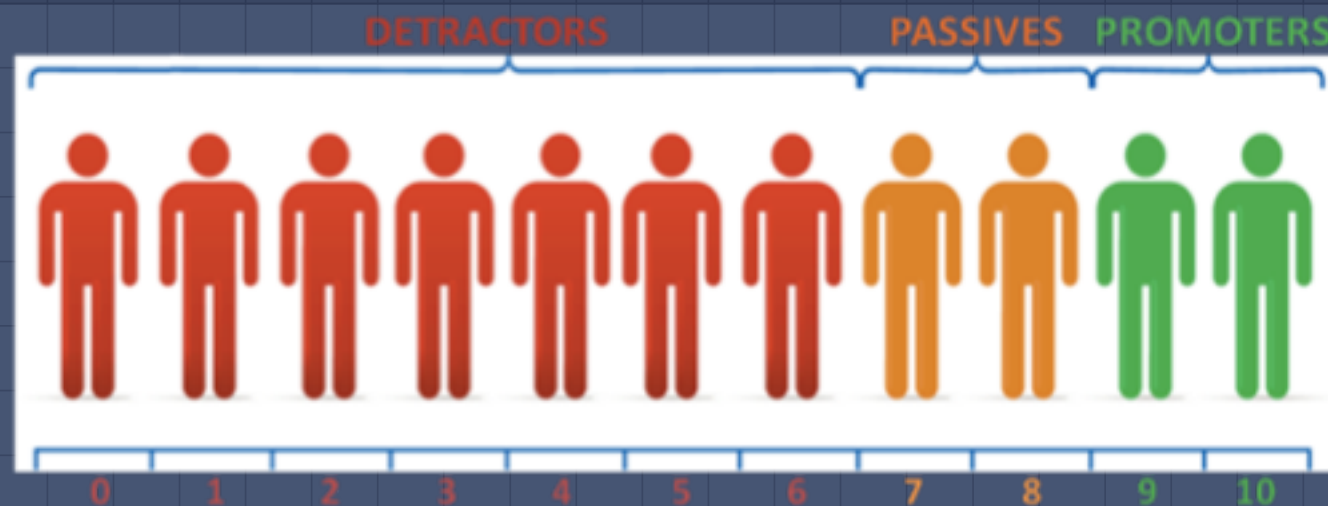- Consistently generating referrals

The Sean Ellis Test

How would you feel if you could no longer use [product]?

- Very disappointed

- Somewhat disappointed

- Not disappointed (it isn't really that useful)

- N/A - I no longer use [product]

Getting > 40% answers of 'Very disappointed' means you have a Product/Market Fit

Net Promotor Score

How would you judge this company?

	January	February	March	April	May
Total customers	1,000	2,000	3,000	4,000	5,000
Average revenue per customer	$5.00	$4.50	$4.33	$4.25	$4.50

Table 2-1. Average revenues for five months

Image credit: Lean Analytics

Cohort analysis

	Month of use				
Cohort	**1**	**2**	**3**	**4**	**5**
January	$5.00	$3.00	$2.00	$1.00	$0.50
February	$6.00	$4.00	$2.00	$1.00	
March	$7.00	$6.00	$5.00		
April	$8.00	$7.00			
May	$9.00				
Averages	$7.00	$5.00	$3.00	$1.00	$0.50

Table 2-3. Cohort analysis of revenue data

Image credit: Lean Analytics
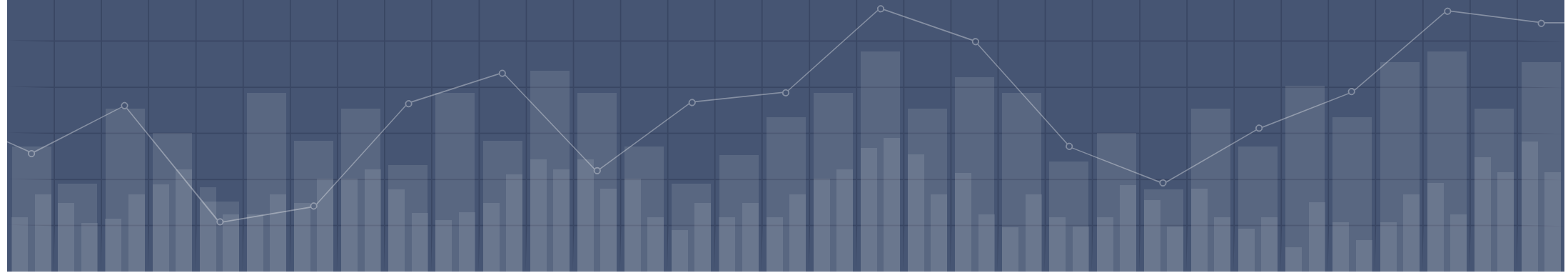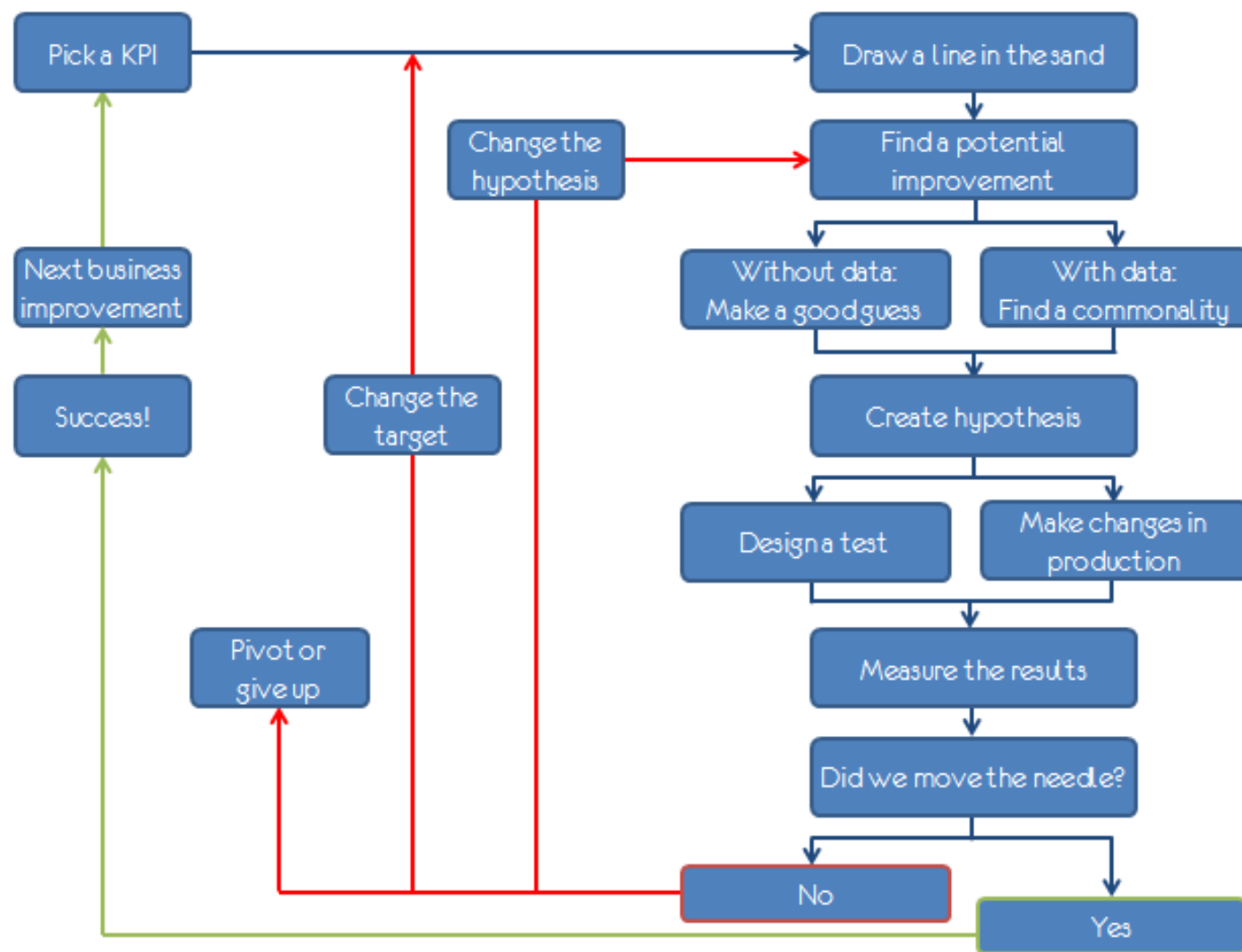
Lean Analytics

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So how do you improve your metrics?

- Figure out what metric to improve
- Find a potential improvement
- Form a hypothesis
- Create an experiment
- Measure Performance

Lean Analytics

Concluding remarks

- Choose wisely

- Don't make (risky) assumptions

- You can't get reliable revenue without getting the rest of the funnel right

- Do the boring accounting stuff

- Keep focus on the right metrics

THANKS!

Any questions?

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