



ROCKET BUILDERS

Presented by
Steven Forth

CHOOSING A BUSINESS MODEL

Building from the Bottom Up



Rocket Builders

Vancouver consulting team

- ❑ Experienced in Venture Capital, Angel Investment, Start-Up Business, Growth Business and Corporate Strategy

Rocket Builders Programs

- ❑ Ready to Rocket (which BC companies are taking off)
- ❑ Go to Market (for early-stage companies with revenues)
- ❑ Consulting Projects
- ❑ Involved in management of the Canadian Financing Forum, Vantec Angel Network, and eFund



Tonight's themes

- ☐ **What is a business model?**
- ☐ **Business models are built around customer value**
- ☐ **Business models address the value chain**
- ☐ **Business models are built bottom up**
- ☐ **State your assumptions**
- ☐ **Focus on metrics that will test your assumptions**



What is a business model?





What is a business model?

How do I
provide value to my customers?



What is a business model?

How do I
provide value to my customers?

How do I
capture part of that value?



What is a business model?

How do I
provide value to my customers?

How do I
attract, convert, grow, support customers?
(And how much will this cost?)

How do I
capture part of that value?



What is value?

Value is always relative to an alternative

- A direct competitor
- What the customer does today
- Doing nothing

In B2B value is an economic gain

- How do you improve your customer's business model?

In B2C value address a need

- Begin with asking where I fit on Maslow's hierarchy of needs



Economic Value?

Compared to the best alternative, how do I

- Increase my customer's revenue"
- Decrease my customer's operating costs?
- Decrease my customer's operating capital?
- Decrease my customer's capital investment?
- Decrease my customer's risk?
- Increase my customer's options?



Value Metric & Pricing Metric

Value Metric = How your customer gets value

Pricing Metric = How your customer pays

The best pricing metrics link how you are paid to how your customer gets value.

Pricing metrics should also scale with your underlying costs (so you can stay in business)

Pricing metrics should work with your segmentation strategy and fences.



When you buy a jet engine
What need is being filled?



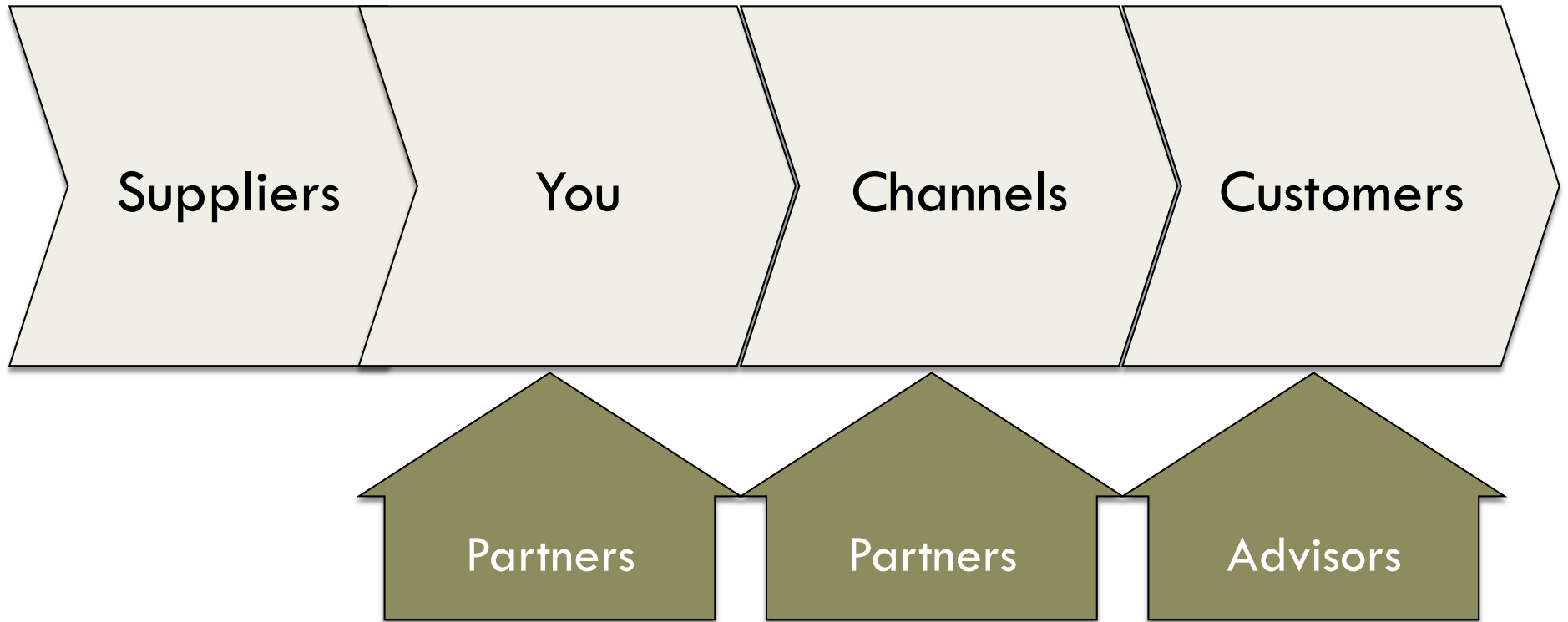
Innovate on your Pricing Metric

- ❑ Cloud software makes possible many new pricing metrics
- ❑ PPC is one example (Google stole this from Goto which had patented it)
- ❑ Pricing metrics can be patented
- ❑ What are some other innovative pricing metrics?
- ❑ What is your pricing metric?



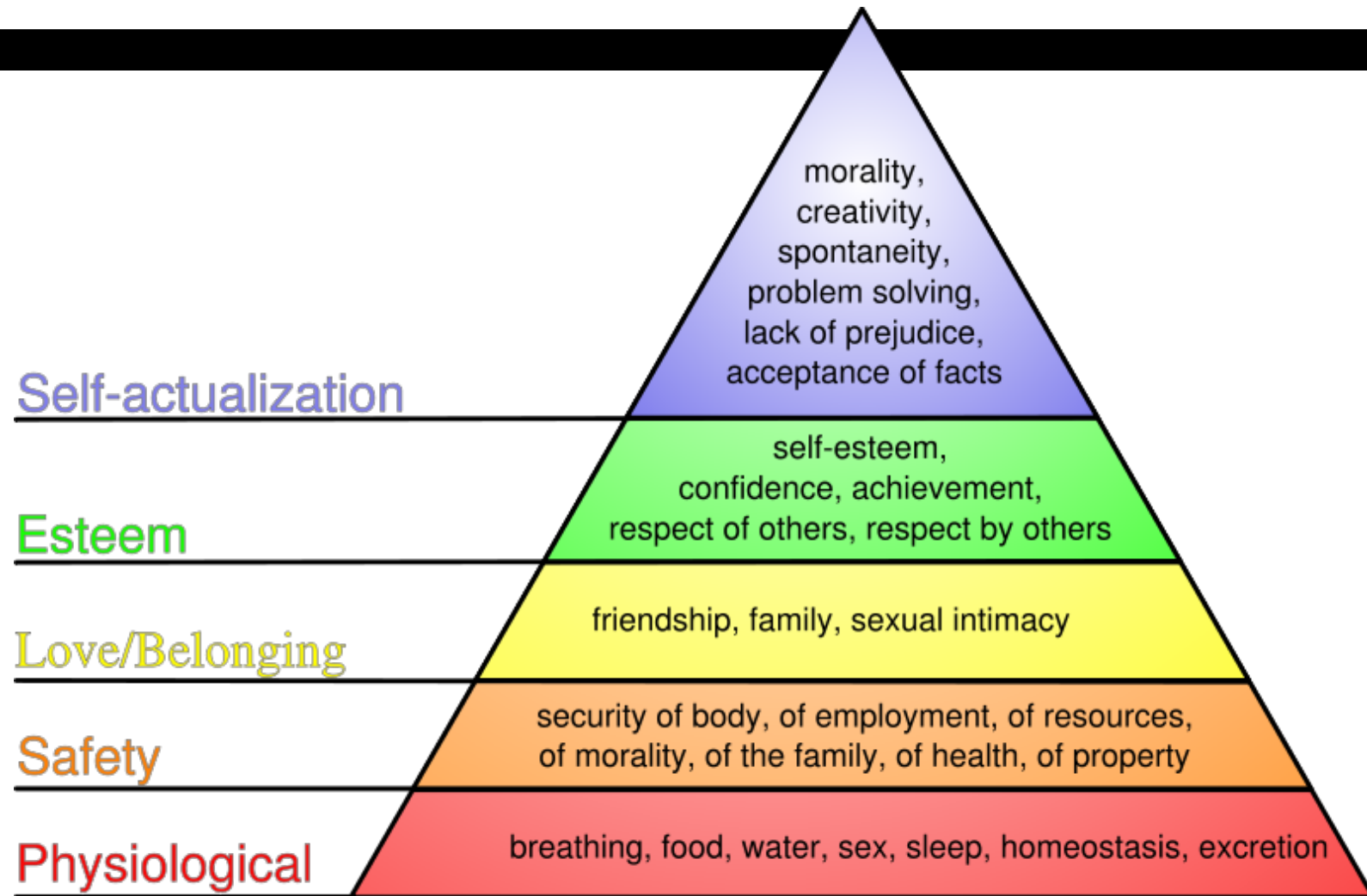


Create value across the value chain





Maslow's Hierarchy of Needs





Cascading Choices



Aspirations

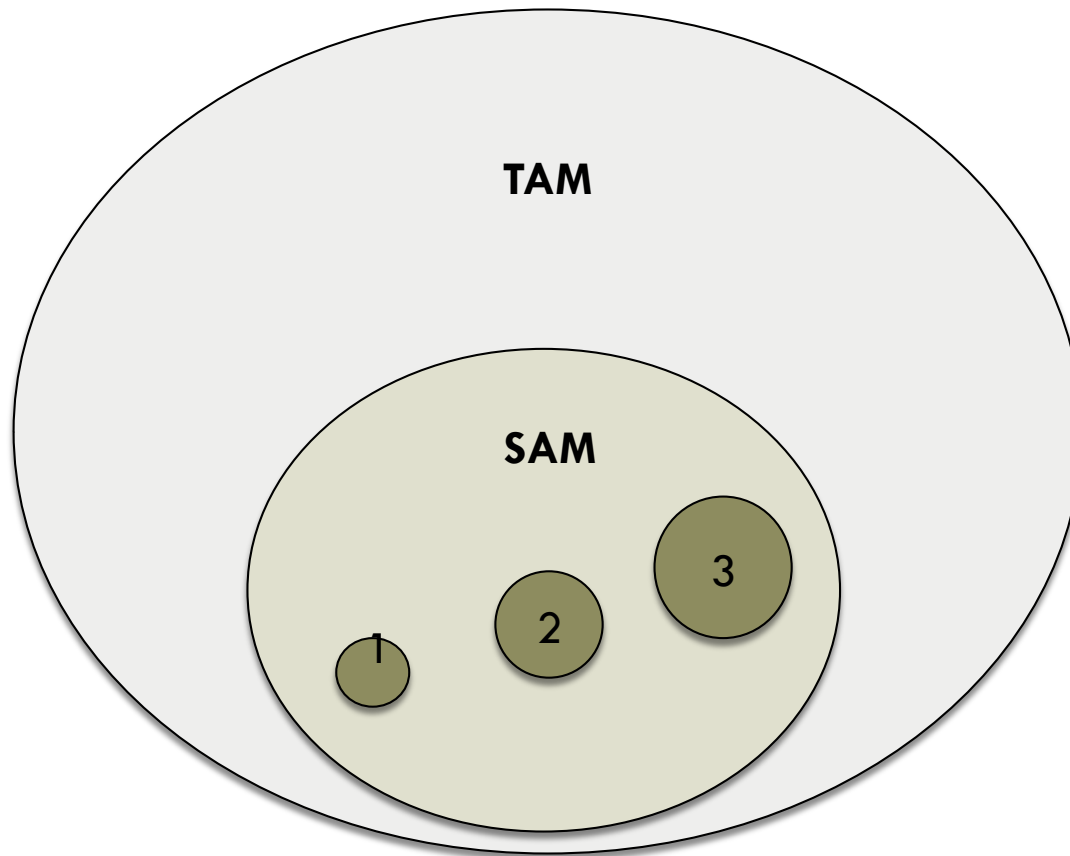
Where to Play

How to Win

Capabilities



Target Markets



TAM = Total Addressable Market
(Everyone who has the pain)

SAM = Service Addressable Market
(Everyone you can actually help)

1. 2. 3 = Your Target Markets
(Where you can win)



Segment Your Market

	Buying Process 1	Buying Process 2	Buying Process 3
Value Segment 1	Revenue Potential of Segment Chances of Winning 50%		
Value Segment 2			
Value Segment 3			

Segmentation Axes

- **How you provide value**
- **How much value you provide**
- **How customers buy**
- **Cost to serve**

- **Look for small segments**
- **Where you can win big (50%)**
- **Then go to the next segment**

Don't boil the ocean



Model From the Bottom Up

Revenue is **NOT** a function of market share, size, and penetration rates

(\$ 1 B market x 2% penetration = \$20 M)

Revenue **IS** a function of the leads you attract, conversion rates, price and individual customers

Leads x Conversion x Price = Revenue

Top Down or Bottom Up

□ Top Down:

- ▣ Develops a forecast of economic conditions and industry trends.
- ▣ Determines the market potential for a product.
- ▣ Determines the sales potential for the product.
- ▣ Measures the share of this market the firm is currently getting or plans to capture.
- ▣ Forecasts the firm's sales of the product.

□ Bottom Up:

- ▣ Generates estimates of future demand from customers or the company's salespeople.
- ▣ Combines the estimates to get a total forecast.
- ▣ Adjusts the forecast based on managerial insights into the industry, competition, and general economic trends.



Why Bottom Up?

- *A business plan with a bottom up forecast demonstrates an understanding of the potential market that investors love.*
- *It reduces perceived risk and produces assumptions that can be measured and improved.*
- *It welcomes feedback from potential customers and experts, reduces the cost and risk of the start-up and can potentially drive success quickly.*
- *It can also drive fast cheap failure which is a great second alternative.*

□ *Tim Keane, Angel*



How to Start: Price

Price

- ☐ Who gets value from my offer?
- ☐ How do they get value?
- ☐ How can I price to get a part of that value?
- ☐ Will my price create friction for my sales model?



How to Start: CAC & LTC

Customer Acquisition Cost

- ☐ Cost of a lead
- ☐ Conversion rate
- ☐ Time to convert

Lifetime Value of a Customer

- ☐ Monthly or Annual Value
- ☐ Cost to Serve
- ☐ Churn per Month or Year

$$\frac{LTC}{CAC} > ???$$



Example: Summer Camp 1

National Coaching Institute

Summer Sports Camp Example

Best Case Scenario

This example is for a summer sports camp which operates adult and kids programs from June to Aug. Set-up and promotion are scheduled during the three months prior to operations.

	March	April	May	June	July	August	Total
Marketing Schedule & Projection							
Kids Price				\$100	\$100	\$100	
Kids Repeat Price				\$90	\$90	\$90	
Adult Price				\$200	\$200	\$200	
Kid Repeat Enroll					5	10	15
Kid Enrollment	max 80			40	75	70	185
Adult Enrollment	max 60			60	60	30	150
Association Program Grant				\$2,500		\$2,500	\$5,000
Operations Information							
# Managers			1				
# Head Coach				1	1	1	
# Coaches				1	2	1	
Manager Salary /mo			\$3,000				
Head Coach Salary /mo				\$3,000	\$3,000	\$3,000	
Coach Salary /mo				\$2,000	\$2,000	\$2,000	
Registration Cost /person				\$2	\$2	\$2	
Kids Equipment Cost /person				\$8	\$8	\$8	
Adult Equipment Cost /person				\$10	\$10	\$10	

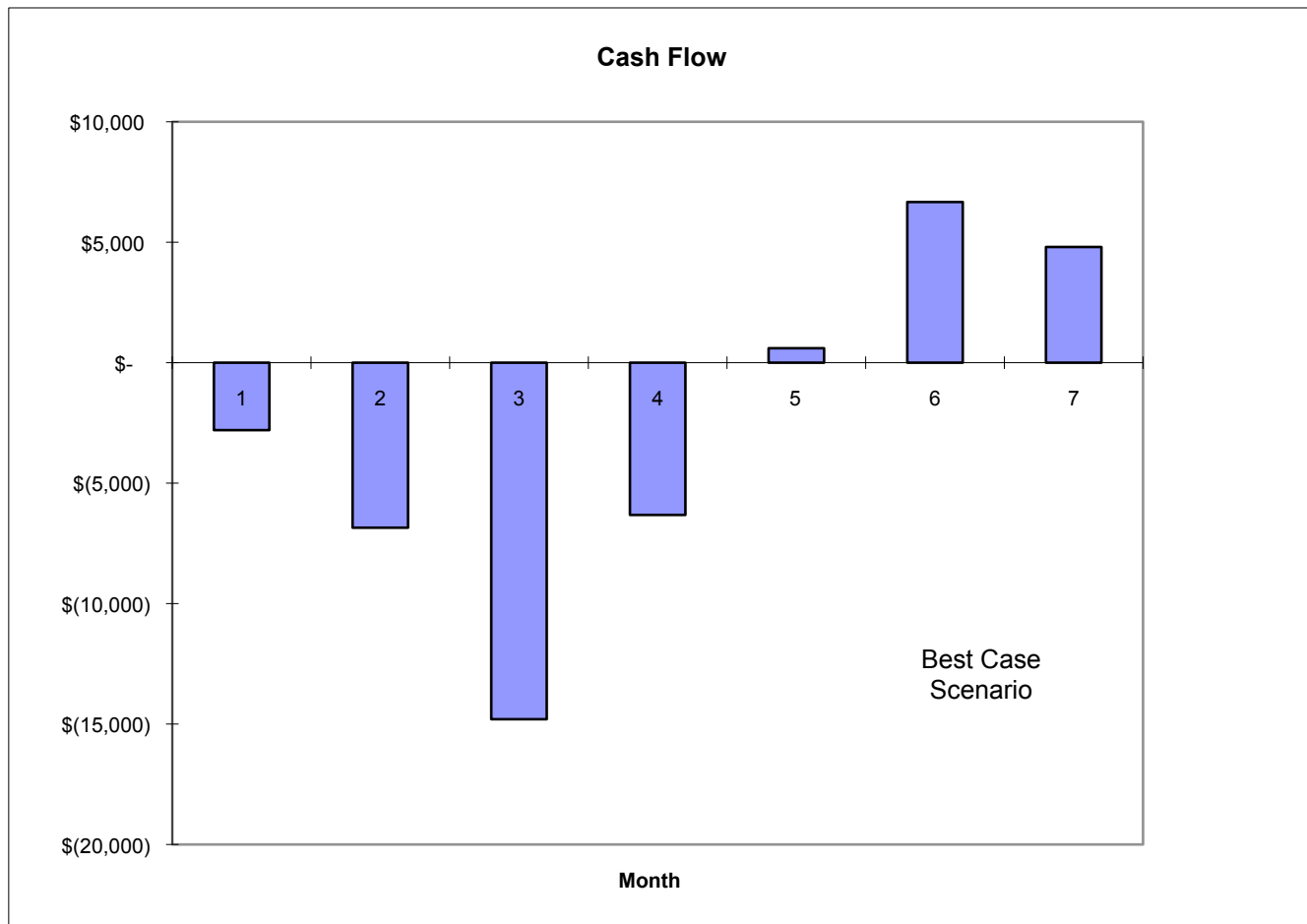


Example: Summer Camp 2

Income statement							
	March	April	May	June	July	August	Total
Income from Operations							
Kids program registrations				4,000	7,500	7,000	18,500
Kids repeat registrations				-	450	900	1,350
Adult program				12,000	12,000	6,000	30,000
Grant - Prov Association				2,500		2,500	5,000
Operating Income			0	18,500	19,950	16,400	54,850
Expenses from Operations							
Manager Salary	1,000	1,000	3,000				5,000
Head Coach Salary				3,000	3,000	3,000	9,000
Coaches Salaries				2,000	4,000	2,000	8,000
Employer Costs			450	750	1,050	750	3,000
Registration Fee				200	280	220	700
Kids Equip Expense				320	600	560	1,480
Adult Equip Expense				600	600	300	1,500
Repairs				100	500	1,000	1,600
Telephone	100	100	100	100	100	100	600
Operating Expenses	1,100	1,100	3,550	7,070	10,130	7,930	30,880
Net Operating Income	(1,100)	(1,100)	(3,550)	11,430	9,820	8,470	23,970
Fixed Cost of Operations							
Insurance		100	100	1,500	1,500	1,500	4,700
Facility Rental		500	1,000	1,000	1,000	500	4,000
Travel	200	200	200	150	100	100	950
Miscellaneous		100	200	100	100	100	600
Cleaning + Maintenance		50	50	200	200	200	700
Total Fixed Costs	200	950	1,550	2,950	2,900	2,400	10,950
Expense from Start-up							
Advertising	1,000	2,000	2,000				5,000
Business License	100						100
Building Reno's			250				250
Office Furniture			100				100
Phone, Fax	400						400
Rental Deposit			500				500
Total Start-up Costs	1,500	2,000	2,850				6,350
Earnings before Int. & Tax	(2,800)	(4,050)	(7,950)	8,480	6,920	6,070	6,670
Taxes @ 28%							1,868
Net Income							\$4,802
	March	April	May	June	July	August	Final
Net Cash Flow	\$(2,800)	\$(6,850)	\$(14,800)	\$(6,320)	\$600	\$6,670	\$4,802
	March	April	May	June	July	August	Final
Net Cash Flow	\$(2,800)	\$(6,850)	\$(14,800)	\$(6,320)	\$600	\$6,670	\$4,802



Example: Summer Camp 3





Revenue Models

- Subscription
 - ▣ Users, Locations, Transactions
 - ▣ Value, Number of
- License
 - ▣ Product, IP
- Embedded
 - ▣ Units, Access
- Two-Sided or Platform
 - ▣ Provide value by connecting two groups
 - ▣ Often transactional
 - ▣ Credit Cards, Google, Amazon are examples



Where to start

- Build your draft Profit and Loss Statement
- Figure out which assumptions matter
(you will be making lots of assumptions)
- Design your business to test those variables one at a time

Be Metrics Driven

You need metrics that help you make choices and test hypotheses

□ Forward Looking Metrics

- ▣ Market Presence
- ▣ Market Engagement
- ▣ Pipeline
- ▣ Customer Engagement



□ Business Performance Metrics

- ▣ Customer Acquisition Costs
- ▣ Lifetime Value of Customer



For example

- ☐ How many people will come to the website (where are they coming from and why?)
- ☐ How many sign up for a free version?
- ☐ How many use the free version?
- ☐ How many upgrade to a paid version?
- ☐ How long do they keep using it?
- ☐ Do they increase use?
- ☐ Do they recommend it?

 Focus on ONE Metric at a Time

Report that metric to
stakeholders everyday



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