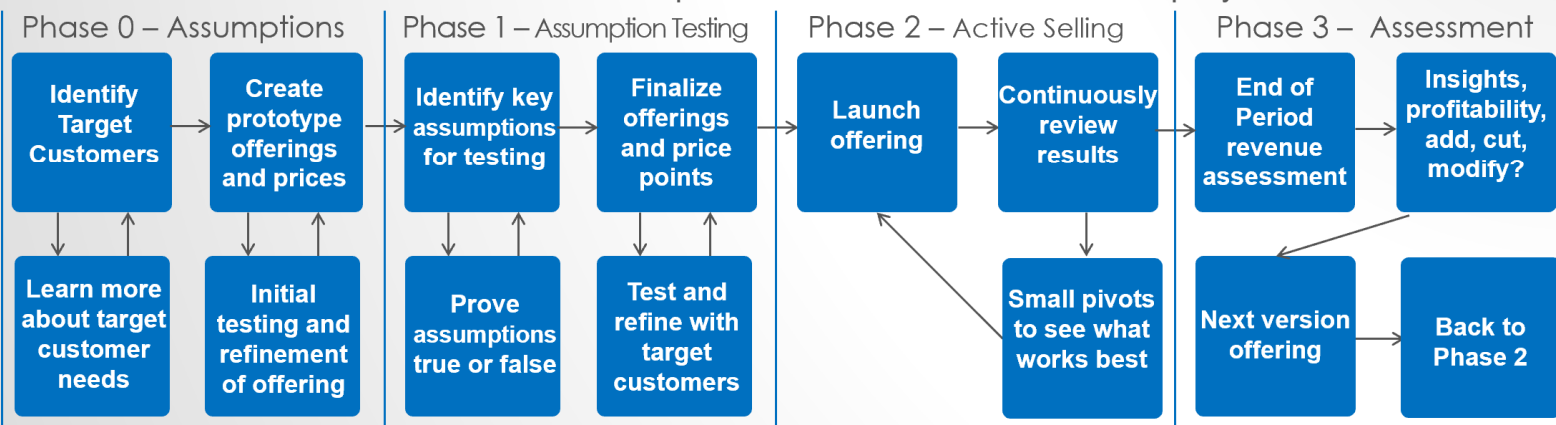
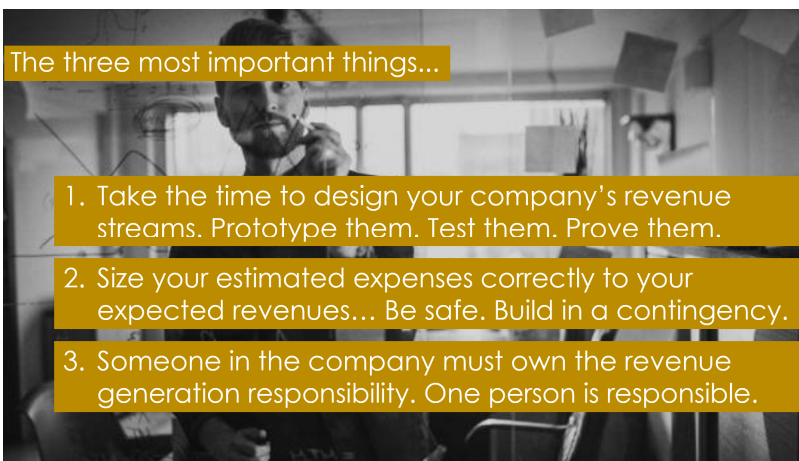


## STARTUP REVENUE DESIGN THE PHASES AND STEPS

**Objective:** Design, execute, and pivot a reliable revenue model sized to the company's expenses that will allow the company to grow and expand at a rate that will excite the company team and investors.



## Revenue Design - Tools, Tips, Tactics, Checklists and Strategies



### Goals, objectives, and deliverables

- Create, prototype, test, and perfect your revenue model.
- Create multiple reliable revenue streams.
- Be able to accurately and consistently estimate your revenue.
- Be sure your budgeted expenses are in line with your estimated revenues so you generate some profit.

### What customers really want – Four Things

1. Extreme value for their time and money.
2. A better, faster, cheaper, more convenient way to do what they are doing now... And to be delighted!
3. A consistent, simple, respectful, fun user experience.
4. Trust – A money back guarantee.

### Phase 0 – Revenue Assumptions

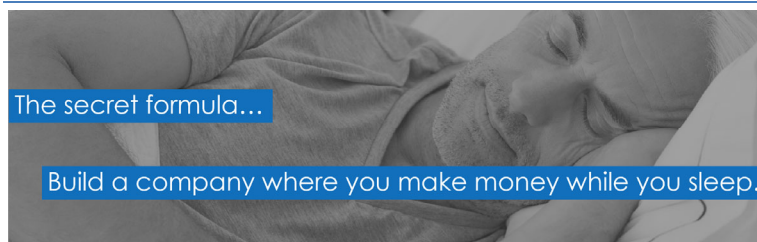
- Accurately determine your target users. Maybe more than one.
- Know everything about your target users.
- How many users and how much money do they have to spend?
- What essential assumptions (funnel, offering, price) must be true for you to generate revenue from these target users. List them all.
- Identify which critical assumptions relate to each target customer.
- Design your initial offerings, price points, and selling funnel based of the proven results from your prototype testing.
- Also design some variations to test in multiple channels to determine the optimal funnel, offering, and price.
- Be open to unexpected ideas from your target customers.

### PHASE 1 – Revenue Assumption Testing

- Identify the top three assumptions that must be true for your revenue model to work. (funnel, offering, price)
- Find ways to quickly and cheaply prove your assumption true of false.
- Try as many assumptions as possible. (hundreds?)
- Identify what is working then test them more.
- Finalize your launch revenue models. (funnel, offering, price)
- Best to have multiple discrete revenue models. (see the detailed **General Revenue Models** section on page 2)

### PHASE 2 – Active Selling (Launch)

- Launch your MVP offering using as many funnels and revenue models as possible. You just don't know what works yet.
- Use hourly, daily, weekly, monthly statistics to determine what is working best and what is not working.
- Tweak (pivot) working and non-working models as needed to improve revenue and profit results.
- Watch for unexpected outcomes. These can yield a secret formula for improving revenues.
- Listen to target customers. They will tell you how to improve your offering, pricing, and possible upgrades.
- Watch for competitors and learn from them.



### PHASE 3 – Revenue Model Assessment

- In addition top the rapid review and assessment in PHASE 2, plan for a set date when you will assess the entire offering.
- Along with your team, advisors and maybe even a few customer representatives look at the big picture data and results from PHASE 2.
- As a group try to identify any unexpected insights or consequences.
- Look for the most profitable revenue models.
- Look for ways to tweak your revenue model for improvement.
- Include those in your next version product/service update.
- NOTE: Constant changing, tweaking, pivoting, can seem like a waste of time but it is the best way to stay ahead of your competition.
- WARNING: Do not permanently change anything that is driving revenue and profit. Be ready to dial back if your tweaks cause a reduced or negative outcome.

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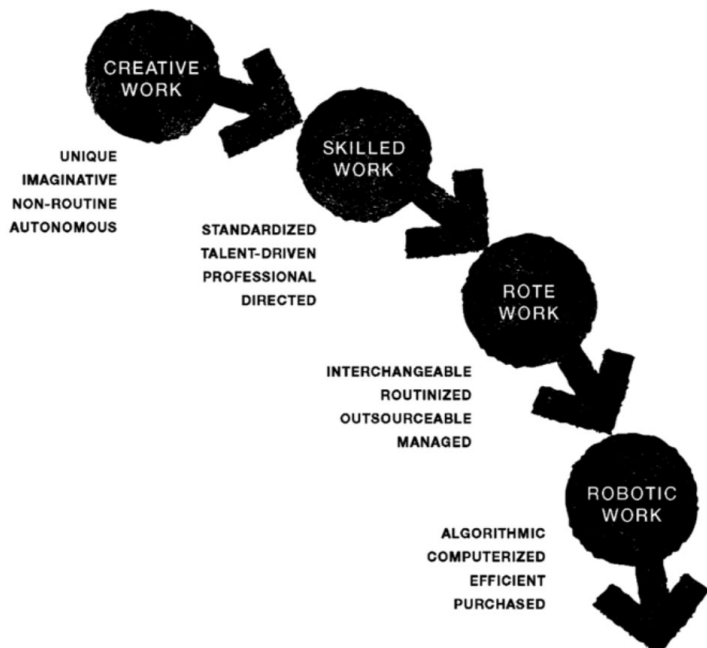
## Revenue Design Essentials

What Founders Need To Know About Revenue

## Bootstrapping your way to your first 1,000 customers

- Definition Version 1: Growing your business with little or no venture capital or outside investment.
- Definition Version 2: Relying on your own savings, company revenue, relationships, and business smarts to operate and expand.
- Why Bootstrap? – To maximize your valuation before going out to investors and expanding your company.
- From ninety days to one year maximum.
- Must-have one or more consistent, reliable, proven revenue streams to support minimal company operations.
- Go for the fastest revenue stream first.
- Start with a basic web site and grow it as you move forward. No need for a fully realized web site when you launch. Need a website roadmap.
- Use free channels first. Public Relations, social media, LinkedIn groups, twitter, Facebook, Meetup and other low/no cost user focused services.
- Need to have full support of your team, vendors, partners, and family.
- Plan and a few people doing all operational tasks. People will wear many hats. Expect long hours, no pay, mistakes, and bad days.
- Identify and use relevant free resources, advice service.
- Offer future company equity instead of cash payment for needed elements. But always put a reasonable cap on value.
- Use cashless swap and barter arrangements were possible. Free service, advertising, featured in newsletters, etc...
- Minimize all company and personal spending... No more expensive lattes, vacations, meals, etc. Every dollar must build the company.
- Avoid any type of debt. Try not to take out loans, use credit cards, or borrow from friends and family. This could come back to haunt you.
- Your Minimum Viable Product (MVP) must be truly the minimum needed to get you in the market. Be relentless on features.
- Manage your expense budget as tight as possible even when money starts coming in. Don't expand until you know the revenues will continue rolling in.
- Be careful but don't be too tight. Consider the right places to spend money to get your product/service to a competitive level quickly.
- Even though you are bootstrapping have at least a minimal advisory board in place as a sounding board and to help you make decisions.
- Don't give up. Perseverance and pivoting is how you find what works.

## The Commoditization Curve



	Disruptive Innovation Outcomes Focus	Sustaining Innovation Solutions Focus
Revenue Performance	<b>Zone 2: The Transformation Zone</b> Change Initiatives   Enhance Capabilities	<b>Zone 1A: The Performance Zone</b> Hit the number   Meet Objectives
Enabling Performance	<b>Zone 3: The Vision &amp; Incubation Zone</b> Invent the Future	<b>Zone 1B: The Enablement Zone</b> Optimize, Systemize & Programs

## Pre-Bootstrapping Checklist - Before you consider bootstrapping

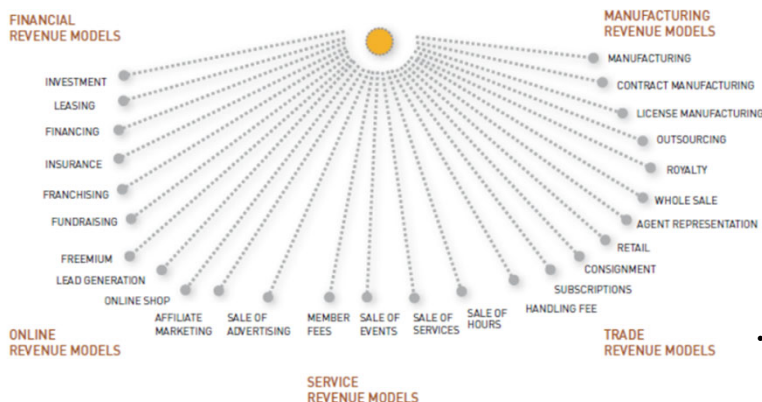
- Determine what type of company you have - Two primary types of companies. Lifestyle companies or Scalable companies.
  - o Lifestyle Company: Will provide enough revenue/profits for a small team but because of many internal and market factors the company will not be able to economically scale to a level that will attract sizable investors. If you have a lifestyle company it will probably not provide the 10x returns in under five years that most savvy investors seek. If you have a lifestyle company it is a waste of time to expect outside investment. Bootstrapping is the long term strategy for this type of company.
  - o Saleable Company: Has a clear business model that can expand into multiple markets a lower marginal cost per new user resulting in quickly expanding revenues and profits. This type of company is very attractive to outside investors. The Bootstrapping phase should focus on quickly proving the expandability of the business and revenue model.
- Every team member, partner, vendor, and advisor agrees with the bootstrapping strategy.
- You have a small team that can do multiple jobs and can dedicate all their time to the company.
- You have a definite target user who you have taken the time to understand completely. You must know their needs.
- You have identified at least one revenue model that can generate the cash you need to operate your company.
- You can get to MVP and revenue generation in less than six months. Three months would be better,
- You have a complete understanding of your competition and can explain why you should exist in the market.
- You have clearly created precise expense budgets for your bootstrap period and have identified critical expenses needed for the company that can not be delayed. Example: Incorporation fees.
- You have some type of cash reserve just in case things do not go as expected. Two months more than your expected bootstrap period.

## General Revenue Models – Pick one or more

- Revenue Model Definition: The end-to-end process of generating revenues for your company. Your funnel, offering, pricing model.
- Funnel definition: The discovery, exploration, delivery, purchasing and payment process a businesses lead their customers through when buying products or services.
- **Ad-Based Revenue Model** - Creating ads for a specific website, service, app, or other product, and placing them on strategic, high-traffic channels. Google's AdSense is one of the most common ad tools. AdSense will earn about \$5-10 per 1,000 page views.
  - o Advantages: Making money from ads is one of the simplest and easiest ways to implement revenue models, which is why so many companies use ads as a source of revenue.
  - o Disadvantages: To generate sufficient revenue to operate a business, you will need to attract millions of users. In addition, most people find ads annoying, which can lead to low clickthrough rates, and therefore, lower revenue.

## 26 Revenue Models

Various sources of income to choose and combine

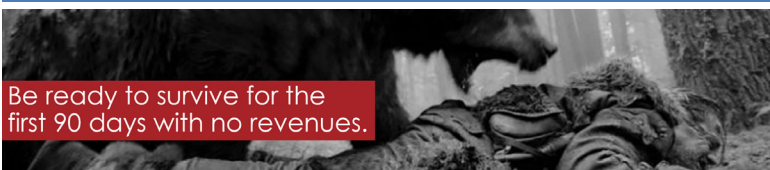


### General Revenue Models – Pick one or more (Continued)

- **Affiliate Revenue Model** - A popular web-based revenue model that works by promoting links to relevant products and collecting commission on the sales of those products. This can work separately or along website display ads.
  - Advantages: One the possible benefits of using an affiliate revenue model is that it can make more money than ad-based revenue models since you may get a percent of higher cost items.
  - Disadvantages: The amount of money you make is limited to the size of your industry, types of products you sell, prices of those products and your audience.
- **Transactional Revenue Model** - The most direct way of generating revenue. The company provides a service or product and customers pay them for it. This is a one time payment model. Think Amazon.
  - Advantages: Consumers are more attracted to this experience because of its simplicity and the wider set of choices.
  - Disadvantages: Because of the directness of this revenue model many companies use it themselves which means more competition and price deterioration. Resulting in less money to made for everyone who uses this model.
- **Subscription Revenue Model** - Offer your customers a product or service that customers pay for over a longer period of time, usually month to month, or even year to year.
  - Advantages: This model generates recurring revenue. It can benefit from customers who are too lazy to cancel their subscription to your company. The dirty little secret of this model.
  - Disadvantages: This model depends totally on having a large consumer/user base. It is critical to maintain a higher subscribe rate than an unsubscribe rate. You must always grow you base.
- **Web Sales** - This is a variation of the transactional revenue model in which a customer pays directly for a product or service. Except customers must first discover your company and offering via a web search or outbound marketing campaign. The transaction is solely done over the internet and may be delivered some other way.
  - Advantages: This works with a wide variety of offerings, including software, hardware, products and even subscription services.
  - Disadvantages: Relationship sales are incompatible with the web sales model, so if your company is related to consulting or big ticket items (high-value items such as houses, appliances, and cars), you should consider employing a model that's more suited to your type of offering.

### General Revenue Models – Pick one or more (Continued)

- **Direct Sales** - There are two types of direct sales: (1) inside sales where someone calls your company to place an order or one of your sales agents calls prospects; and (2) outside sales, which is a face to face sales transaction done outside your office possibly by an outside independent sale representative who is paid on a commission basis.
  - Advantages: This model works great with relationship sales cycles, enterprise sales cycles, or complex sales cycles that entail multiple buyers and influencers.
  - Disadvantages: This model often requires hiring a sales team. It isn't optimal for lower priced items. If your offering is priced below the \$500 range it will be difficult to scale the company.
- **Channel Sales (or Indirect Sales)** - This model consists of agents or resellers selling your product for you and either you or the reseller delivering the product. The affiliate revenue model is a good companion model to this one, especially if your offering is a virtual product and needs more pre/post-sale support.
  - Advantages: This model is ideal for companies who have a product that's an incremental sale for their channel and can produce incremental profit.
  - Disadvantages: This model is not a good choice if your product requires you to evangelize and promote it in your marketplace. It is also a problem if your product competes with something your channel partner sells. They will usually push theirs and not yours.
- **Retail Sales** - You set up relationships with traditional department stores or retail stores in where you offer physical goods to your customers. The retail sales model will require shelf space (you pay for this) at existing stores. This is best suited for products that require logistics (warehousing, shipping, shelving, etc...) to reach your target customers.
  - Advantages: This is a great way to offer deals and complimentary products to an existing customer base to help boost brand awareness, sampling, recommendations. use, and reuse.
  - Disadvantages: This is not ideal for early stage companies, or companies that offer digital products like software or apps.



- **Free product/paid for services** - You give your product away for free but require customers to pay for installation, customization, training, upgrades, refills, or other additional services.
  - Advantages: This model is great for building trust with your customer base and boosting brand awareness, as any company that offers anything for free will generate considerable buzz.
  - Disadvantages: Using this model means you are basically running a services business with the product as a marketing cost. A model like this may not be the best for scaling a company in the long term. Keep your eye on additional revenue models to utilize later on. This model may also require large up front expenses.
- **Freemium Model** - The company's basic services are free but users pay for additional premium features, extensions, functions, etc. One of the biggest companies to use this model is LinkedIn.
  - Advantages: Similar to the Free product/paid for services model, the freemium model offers something free to users, which is a great way to give them a taste of your product or service while simultaneously enticing them to pay for something later on.
  - Disadvantages: This model requires a considerable investment of time and money to reach out to your audience, and even more effort to convert free users into paying customers.

