Faculty Tech Venture Program
Market Strategy &
Customer Acquisition

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What is your identity?
If you build it, they will come.
If you keep doing it, the outcome will not become.
Niche Thyself!

From Guy Kawasaki

https://www.youtube.com/watch?v=mjkOQWObkJ8
Describe in detail how your Customer (meaning a person!) ...

- Determines they have a need
- Finds out about your product
- Acquires it
- Installs it
- Uses it
- Pays for it
- Receives service for it
- Buys more of it
- Tells others about it
Decision-Making Unit (DMU)
DMU

Roles

- Champion: Wants customer to purchase product but may not be the end user
- End user: The one who actually uses the product
- Economic Buyer: Primary decision maker ($)
- Primary and Secondary influencers
- Person with veto power
- Purchasing department
DMU Example

- The Champion
- Influencers
- Also the End User
- Veto Power
- Primary Economic Buyer
- Purchasing Department
DMU Example

Healthy Air

- Can be source of learning
- Technology: kills airborne germs
- Team member parent suggests Day Care centers
- Parents seen as champions
- But...
- Owners say decisions made locally
- And...
- Local owners don’t necessarily see sick kids (who stay home!) as a bad thing
Case Study

- Read the Mechanical Water Filtration Systems case
- Sketch out the key elements of the DMU:
  - Champion
  - End User
  - Primary Economic Buyer
  - Influencers (primary & secondary)
  - Veto Power
  - Purchasing Department
Your Turn

- Take a few minutes to sketch out the DMU for YOUR product/service. We will discuss.
- Champion
- End User
- Primary Economic Buyer
- Influencers (primary & secondary)
- Veto Power
- Purchasing Department
Process to Acquiring a Customer

- How to get your product/service into your customers hands and their money into yours
- Not just asking Champion to pressure the Primary Economic Buyer

Your objectives:
- Understand the length of the sales cycle
- Build foundation for cost of customer acquisition (more on that later)
- Identify hidden obstacles
- Demonstrate to key investors you understand your customers!
Sales Cycle

- How long does it take you to convert a sale?
- Believe it or not, customers not lining up at your door
- Will depend on industry...and product
- In banking, cycles different for refinancing credit facilities vs cash management systems
- Nor would you get ancillary business without participating in credit facility
- And remember these two things
  - People hate change
  - So it will take longer than you think!
Some considerations

- Are there approval limits?
- Which budgets does it come out of?
  - Yearly operating
  - Capital
- Are there legal/regulatory hurdles?
  - Campusdrank
  - Prosper.com
How do you communicate with and reach your customer segments to deliver your value proposition?

- Raise awareness
- Help customers evaluate
- Allow customers to purchase
- Deliver value proposition
- Provide post purchase support
### Sketch Out Your Channels

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<th>CHANNEL TYPES</th>
<th>CHANNEL PHASE</th>
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<tr>
<td>OWN DIRECT</td>
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- Sales Force
- Web Sales
- Own Stores
- Partner Stores
- Wholesaler
Add up the revenue you expect to receive from an individual customer
Discount this revenue based on your cost of capital
Why the discount?
LTV Inputs

- One-time revenue stream, if any
- Recurring revenue stream, if any
- Additional revenue opportunities (upselling)
- Gross margin of your revenue streams
  - Price of your product minus the production costs of making an individual product
  - More complicated for services
- Retention rate: for recurring revenues % who stick around
- Life of product: how long before need to repurchase
- New product repurchase rate: % who re-buy new one
- Cost of capital: what financial capital costs you. Any guesses?
- 35 – 50%
LTV Simple Example

The Pet Rock

- One-time revenue: $4.00
- Recurring revenue: None
- Additional revenue opportunities: None
- Gross margin: 25%
- Retention rate: Doesn’t matter
- Life of product: Infinite
- Next product purchase rate: 0%
- Cost of capital: 50%
- LTV?
- $1.00
Super Widget

- One time revenue: $10,000 (some widget!)
- Recurring revenue: Yearly maintenance fee of 15% of widget’s price after 6 month warranty
- Additional revenue opportunities: None
- Gross margin: 65% for widget; 85% for service
- Retention rate: service 100% in year 1, 90% after
- Life of product: 5 years
- Next product purchase rate: 75% of remaining service customers
- Cost of capital: 50%
### Where are the levers?

<table>
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<th>Year</th>
<th>Price of widget</th>
<th>Repurchase rate</th>
<th>Gross margin</th>
<th>Widget profit</th>
<th>Maintenance contract % of price</th>
<th>Price of contract</th>
<th>Retention rate</th>
<th>Cumulative retention</th>
<th>Next product purchase rate</th>
<th>Gross margin service</th>
<th>Profit from service</th>
<th>Sum of profits</th>
<th>Cost of capital (r)</th>
<th>Discount factor ((1 + r)^n)</th>
<th>Present value of profits</th>
<th>Sum of Net Present Value LTV</th>
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Learning with Purpose
Mapping the Sales Process

- Short term
  - Create demand and awareness
  - Probably mostly direct sales (and probably you!)

- Medium term
  - Start shifting focus to order fulfillment
  - Maybe take on distributors

- Long term
  - Continue fulfilling focus
  - Competition become more important
Example

Jesse Wolfe
Cost of Customer Acquisition (COCA)

- Remember: customers don’t just show up!
- Compare COCA to LTV
- Many a dotcom: COCA >> LTV
- When starting out, if you use “bottom up” will seem very low (think about Jesse)
- More realistic: tabulate aggregate sales & marketing expenses over time and divide by new customers

http://www.forentrepreneurs.com/startup-killer/
How can you lower COCA

- Use direct sales wisely
- Focus on conversion rates
- Balance quantity vs quality leads
- Evangelize (word of mouth)
“Homework”

- For Next Week, in the spirit of “get out of the building”...
- Validate your go to market strategy by asking key potential customers/users the following questions:
  1) How often do you buy similar products or services?
  2) How much do you spend each time you make a purchase?
  3) Where is the best place to buy products/services like these?
  4) Where do you get your information about products/services like these?