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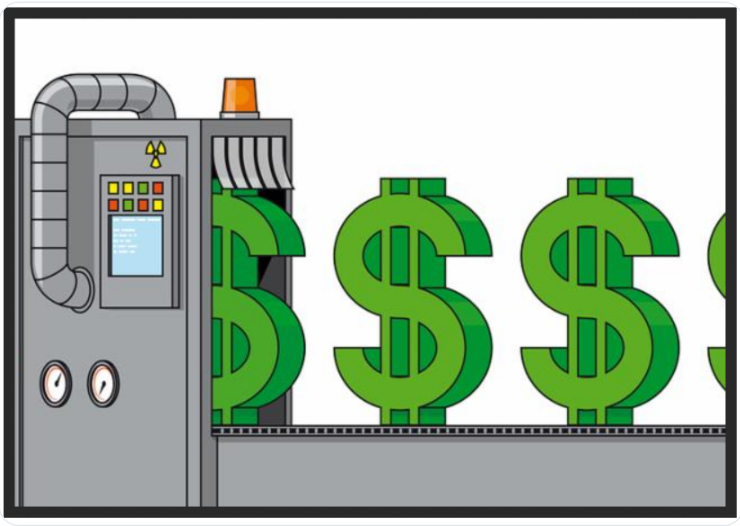
1/33: A common question Founders struggle with is “how to monetize”. Founders have strong thoughts on the product/service they want to build, but many are baffled when it comes to determining the best way of building a highly profitable business. A framework that might help:



2/33: Monetization models don’t exist in a vacuum. A raw dollar of revenue doesn’t mean anything without context. A healthy and durable business needs to get paid more than a dollar for every dollar it’s able to extract from its customers.

3/33: So the first step in designing any monetization model is to understand the major costs in the system. Customers need to be acquired. A product/service needs to be manufactured and maintained. Management needs to be hired to steer and grow the business.

4/33: Any healthy revenue model has to overcome Marketing and OpEx costs at a unit level and throw off enough margin to overcome SG&A at scale. And efficient revenue models have payback periods that allow excess cash flow to be reinvested in growth.

5/33: Once you have a rough idea of your costs you can back into how much revenue and at what cadence the revenue has to be generated to create an attractive business model. Asking a few very basic questions can provide insightful answers:

6/33: Unit economics: If one dollar were put into the marketing machine, how long does it take to pay back the dollar (net of costs) and over time how many multiples of that dollar flow back to the company?

7/33: Scale: How many units does it take to overcome OpEx and SG&A and how many multiples of this volume are reasonably accessible in the market? The first turn creates a break-even business and additional turns generate profit.

8/33: Many early-stage Founders don't like having the "business model" conversation. Some Founders are biased to "grow fast now and figure out how to make money later". These Founders focus on "more" rather than "durable" or "high-margin" or "repeatable" growth.

9/33: This can work, but all it does is delay the inevitable. You can't build a durable business selling dollars for seventy-five cents. This was tried in the dot-com bubble and produced a lot of dot-bombs. It's a great spectator sport but not fun if you're a participant.

10/33: Once the background work is done, the pros and cons of multiple monetization models should systemically be evaluated before locking in on the "answer". The analysis will surface critical "what you have to believe" drivers which will almost certainly eliminate options.

11/33: Direct Pricing: When a company delivers its product/service directly to the end customer it typically charges the customer directly. Pricing is relatively straightforward: "You get X and it will cost you Y".

12/33: The key to all direct pricing models is to make sure you're addressing problems that your target customers are willing to pay a healthy price to solve. If you're efficient you can afford to charge less. If you can make pain go away you can charge a premium.

13/33: The downside to direct pricing models is that price can easily be compared across solution providers and become a dimension of choice. You can easily price yourself out of the market if you charge too much and the economics of the market could collapse with competition.

14/33: Matchmaker Models: When you're not manufacturing the products you're selling, you're effectively building a matchmaker business. You need to figure out which side is more price sensitive: The customer who's buying the product or the customer who's selling the solution.

15/33: Solution providers pay to originate customers elsewhere so extracting revenue for delivering customers is normal. The more curation/work you do in the process the more you get paid. Occasionally you can even get paid directly by customers for matching them with solutions.

16/33: But not all matchmaker models are the same. Some companies become destinations/portals. Some companies grow up to become publishers. Some companies deliver a product/experience to their members. The drivers of success are very different in each of these models.

17/33: Destination/Portal: Some models are anchored around a "come directly to us to find great solutions" value proposition. Becoming a destination/portal requires building awareness within your target audience.

18/33: Destinations/portals intercept in-market customers and become logical places for customers to find solutions. Destinations/portals have to steer in-market customers away from going direct to the solution providers.

19/33: Intercepting signal can be expensive so destinations/portals need to be much better at funnel throughput than any individual solution provider. They also need to offer a value prop and crack open channels that result in low acquisition costs.

20/33: Remember: You're selling customers to the solution providers so your pricing power is capped at their direct acquisition costs. You need to generate margin at this cap which means your CAC has to be much better than that of any direct solution provider.

21/33: Publisher: At the core of most publisher models is some form of content that attracts customers at a low cost. High quality articles and educational content are examples of common draws. Volume and cost matter a lot because not all consumers of your content will monetize.

22/33: The key is attracting customers who are in-market now and receptive to buying from solution providers that you introduce them to. Once the customer digests your content they're typically gone and will need to be re-acquired. You usually only get one shot to monetize.

23/33: With only one shot to monetize, CAC and operational efficiency matter. These models are very susceptible to market conditions and changes in the competitive landscape. Enterprise value can quickly crash if costs rise and/or volume craters.

24/33: Product: Many product companies have at their core a disguised business model where the value proposition that's delivered is distinct from how the company monetizes. Products are designed to build ongoing relationships and deliver ongoing value to their customers.

25/33: Product companies with disguised business models can be incredibly powerful. Fine tuning the drivers of revenue matters because the core product might be free. Internalizing that disguised business models are "fraction of a fraction of a fraction" models is critical.

26/33: A fraction of your customers come back every day/week/month and engage with your product. A fraction of these customers are interested in learning about a product/service you make them aware of. And a fraction of these customers actually buy the product/service.

27/33: Building an attractive "product" business requires driving engagement with users who are receptive to buying what you recommend. It requires attracting the right customers, building the right brand permission, and offering contextually relevant products.

28/33: A big decision that needs to be made in all matchmaker models is whether you want to sell information on your customers to multiple solution providers or if your model allows customers to choose which solutions they're interested in.

29/33: Selling customer data to multiple solution providers can devolve into a crappy

lead-gen business if the customers aren't curated and the experience isn't controlled. If each buyer of the customer data thinks they "own" the customer it quickly becomes a free-for-all.

30/33: An alternative to lead-gen is to have your platform qualify customers and then match them to a single solution provider or have the customer choose a preferred solution. This isn't lead-gen. It's customer-gen which is typically a superior model across multiple dimensions.

31/33: When done right, customer-gen creates a less intrusive customer experience and you can usually extract more revenue downstream. But it takes work to perfect the experience and payback periods can be frustrating if you only get paid when a customer buys a product.

32/33: But alignment = Long-term durability which is why customer-gen models can create extremely valuable franchises. Well run product companies with disguised business models that get paid through customer-gen = Gold.

33/33: TL;DR: There are lots of ways to construct profitable and durable monetization strategies. Ignoring monetization until later isn't a strategy I'd recommend. Being thoughtful about the possibilities and letting the market ultimately speak is.

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