Truly

The Path to Profitable Startup Growth

Thank you for downloading this guide!

Startup growth, like any type of business growth, is fueled by resources. Money is needed to hire, develop a product, and to accelerate your growth. For startups, money often comes from investors instead of the revenue the core business generates. Time is another important resource. Money can buy you time to work on critical things, and you constantly need to balance the two to maintain a healthy runway.

The requirements investors have for the startups they invest in is rapidly changing. Startup founders that have been focused on building an investor story focused only on massive growth potential might be unpleasantly surprised when more and more investors start asking about sales pipeline transparency, personnel costs, customer insights and profitability.

Profitability is quickly becoming a major startup trend. Building a profitable path to growth is by no means a simple task and there are plenty of things to focus on, but reaching it can make your conversations with investors a lot easier. On the following pages you'll find the main focus areas on the path to profitable startup growth.

1

Is your business profitable?

The basic formula for calculating business profitability is quite simple:

Revenue – **Cost of Goods/Services Sold** = **Gross Profit**

Gross Profit – **Operating Costs** = **Profit**

For many early stage startups, most of the costs involved come from building the core product/service and keeping people on the payroll. If it comes down to cutting costs to be profitable, you only have a few viable options:

Improve sales

Find ways of improving your sales, whether it's improving customer volume, increasing customer LTV (lifetime value), or shortening your sales cycle.

Reduce overhead

Look at every part of your cost structure to find ways of lowering costs and reducing overhead, making whatever it is you deliver more efficient.

Outsource

Look for ways of using outside help to execute certain parts of your operation. Running a sizeable inhouse team might give you a sense of safety moving forward, but salaries can really eat into your profit margin, and specialized experts outside your organization might help you achieve more with less.

2

Pipeline visibility

Investors nowadays are likely to take an interest in the startup sales and marketing pipeline. Startups should too. One of the most common problems is the fact that the critical data for validating pipeline health (and ultimately profitability) is nowhere to be found.

Whether you have a physical product or a virtual SaaS service, creating the data acquisition setup with today's powerful analytics is not an overwhelming task. But you need to understand what are the key metrics you need to follow, either through a spreadsheet or an automated dashboard to keep your ship sailing towards revenue positive growth.

Customer Acquisition Cost (CAC)

CAC means the amount of money you invest in acquiring a customer. This cost should at least include marketing costs, like media spend, but it usually also includes costs like salaries, fees directly related to customer acquisition (personnel, tools, services).

CAC is one of the core metrics used in equations determining the financial health for a startup, but as a standalone metric, it doesn't necessarily reveal much.

The main thing is keeping your CAC below your customer lifetime value (LTV) by a healthy margin.

Customer Lifetime Value (LTV)

Customer LTV is the lifetime value that a customer generates for your startup over the lifetime of the relationship. You can increase LTV by either increasing their frequency of purchase (or retention), or by increasing the average purchase of your customers.

When you know exactly how much money you're making from a customer, it's very easy to calculate other critical things like future investments on marketing and sales.

Churn Rate

When customers stop buying, or cancel their order, they're churning. Healthy businesses keep their churn as low as possible.

Customer Retention

When customers like your product, buy more or opt in for another annual subscription, you're increasing your retention. Investors look for high retention rates in order to uncover companies that offer great added value.

Burn Rate

Burn rate is the rate at which a company is losing (ie. burning) money. A high burn rate means negative cash flow, which might be a strategic choice for many growth-hungry startups in the process of scaling, but is usually bad if you're aiming for revenue positive growth.

Runway

Runway is usually communicated in months, and refers to how long your business can keep operating before it runs out of money. The startup runway is a crucial tool for budgeting and forecasting.

3 The missing link between customer insight and profitability

What's your method for obtaining business critical information for your startup about your most valuable customers and their decision making? Is it a continuous process of learning, documenting and iterating? If not, it should be. Gathering and applying learnings about customers in your sales, marketing and product development is a key prerequisite for any healthy business, but again, the process doesn't have to be time consuming and cumbersome.

The easiest way to get started is to create a customer persona for each of your business critical customer use cases. Customer personas are not necessarily a tool designed to help the growth hacker. They're first and foremost tools that help spread valuable information about your customers throughout your team. When you start building customer personas, you might be positively surprised by just how much information you already have at hand.

Talk to your sales team. Do they already collect data or document their learnings? If not, get them started and use the information to create your customer persona. You want to understand why the customers contacted you in the first place, and what are their most critical barriers for purchase.

Talk to your marketing people. They can go and pull some interesting data from marketing platforms like Meta and Linkedin. Which industries engage with our marketing? Which demographics interact with our ads? By A/B testing our ads you can really drill down on these types of learnings to uncover valuable nuggets of information.

Most importantly. talk to your customers. We can’t stress this enough. If you already have paying customers, uncover what separates the ones with the best retention from the ones with the lowest. Why are some customers returning when some just buy once and never come back? What do the customers that refer your business to others like about you? Also try reaching out to people that visited your website but for some reason, didn’t end up buying. This could be done through a popup survey on your website.

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Improving sales and marketing profitability

When it comes to growth, marketing is one of the most powerful tools at your disposal, but it can also be one of the most expensive. Here's a few ways to bring down those costs, and increase your impact.

Build a reputation

No matter what you might've heard, brand building never goes out of style. Having a lot of awareness among your potential customers and a great brand image to boot makes customer acquisition easy. Hell, customers might even be kicking down your door hoping to get their hands on your product.

Building brand awareness can be super costly, but for startups there are some ways to do this without breaking the bank. One good way is getting free media exposure through targeted PR activities. We help many of our startup customers by creating story ideas and pitching them directly to potential writers and media. Getting a good article in the right media isn't always easy, but once you achieve one, you can usually see a direct impact in your sales funnel.

Also, don't underestimate the role your product development plays in building your brand. Your satisfied customers are your number one brand building tool – if you don't see customer referrals, ask yourself why and set out to understand how to fix this. Potential customers are always looking for testimonials and experiences from existing ones, make sure you have plenty of these on hand on your website.

100% Bang for buck on PPC

Acquiring customers through paid marketing on Google, Meta or Linkedin (PPC for short) can be a quick and easy way to get started and to learn quickly, but spending money on each customer can quickly add up. By paying close attention to customer acquisition costs (CAC) will help you determine how profitable your marketing is, and if it needs to be optimized.

By testing and iterating on paid channels you can find new audiences, formats, messages and tactics that will help you bring down your CAC and even increase your LTV.

Build a rock-solid sales process

Neglecting your sales process is a quick way to ruin your business growth and profitability. If you're using a CRM where your sales team is updating their sales progress, you can calculate your win rate. Your win rate = number of won deals / (number of won deals + number of lost deals). For B2B companies the average win rates hover around 45%, while top performers can achieve up to 60% or 70% win rates. If yours is way below 45%, e.g. 15-20% - your sales pipeline is probably not very efficient yet.

Create a CRM where you have a good pipeline set up and have Sales keep their progress updated and documented. Analyze pipeline conversions (the % of leads who move from one stage to the next). If you discover that many people drop off after a certain stage, you've found something to optimize for efficiency.

Most CRM's provide a field called 'lost reasons' where Sales can enter the reason for losing a deal. This informations can be used to enrich your customer personas.

Market to your existing customers as well

Many startups neglect the potential their existing customers have to grow their business and improve their profitability. Attracting a new customer costs five times as much as keeping an existing one. (Lee Resources 2010), but selling more to existing customers is much easier as well.

Start executing marketing and sales campaigns for existing customers alongside your new business activities, and measure their impact the same way you – you might be positively surprised.

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Should I build an inhouse growth team or outsource?

Building a capable inhouse growth team means you need to find, hire and retain several experts from different fields. A typical startup growth team needs to have the skills to develop, **lead and communicate** a growth-related testing and learning process, develop and maintain the **analytics and tracking** capabilities needed, and to plan and execute **marketing**, **sales** and **product development** tasks needed to actually get anywhere. To have all bases covered, building an inhouse growth team could potentially mean hiring 4-5 people.

Hiring comes with several types of costs, some of which might surprise you. We put together a calculation for hiring. The following calculation is just an example, but it can help understand the big picture of hiring costs.

1. Hiring activities

Hiring top talent can often require investing in headhunting services. There are also plenty of job sites and other services helping startup teams leverage their hiring.

Headhunting: Starting at 5000€/hire
Marketing campaign for recruiting: 1500€/hire

2. HR resources

If you have an inhouse HR team helping you recruit and retain employees, make sure you include the costs of running one into your hiring calculations.

HR resources: Starting at 5000€/hire

3. Onboarding and training

Onboarding and training can take months, and employees might resign during the onboarding period. You often need your best people to train new recruits to make sure best practices are handed down correctly.

Onboarding and training: Starting at 5000€/hire

4. Salary, Benefits & Bonuses

These costs depend on where you're hiring, the role and experience of the new hire, and the compensation model of your startup. Sharing stock options can feel like a free compensation tool, but if your company really takes off it might be the most expensive option.

Salary: Starting at 50 000 €/year

5. Tools and software

Growth team members need laptops, phones and various software subscriptions to do their work.

Tools and software: Starting at 2000 €/year/hire

Adding all these up you can realistically expect to invest anywhere from 280 000€ to 400 000€ into hiring and maintaining a 4 person growth team for a year.

So how about outsourcing?

Outsourcing is a viable option for cutting costs and still getting everything you need to run a growth operation. Truly is a team of 20+ startup growth experts. When you sign up for any of our subscriptions, you get the collective resources and expertise of our entire team at your disposal.

Our plans start at 3 840 €/month, so outsourcing would cost **46 080 €** annually. That's potentially an **88%** decrease in costs.

Truly

Growth hacking for Startups

Get everything you need to run systematic learning-based weekly growth sprints starting at only **3 840 €/month**.

Tap into the collective skills and experience of an entire +20 person growth team.

Select your package

“

Truly’s growth team helped us build sales more efficiently. Their data-driven process was just the thing we needed.”

Sanni Juoperi / Head of Growth / Howspace

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