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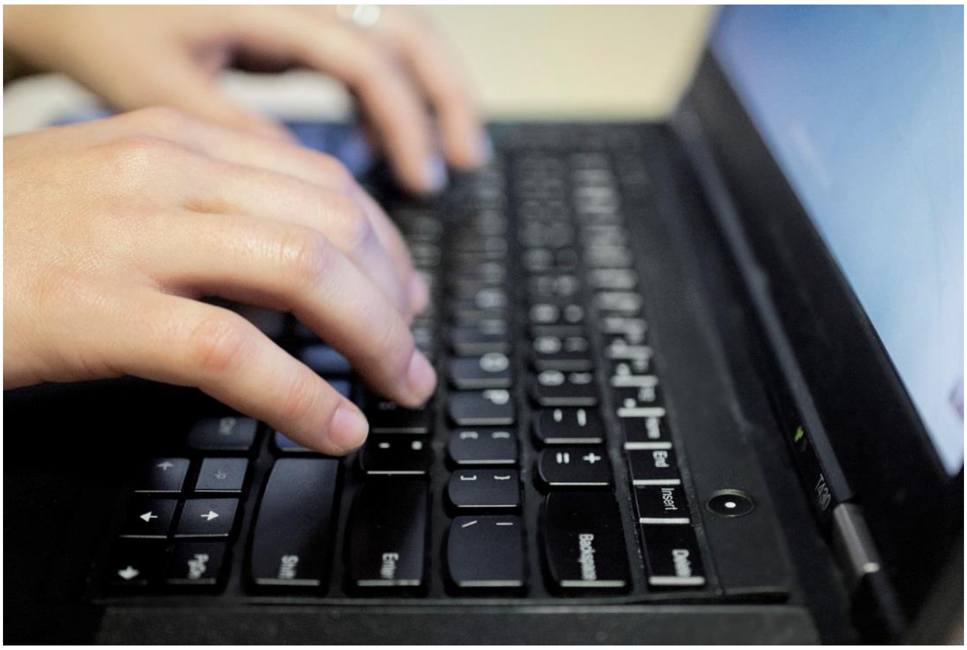
HOW TO START A STARTUP

A three part series on coming up with a business idea, evaluating it, acquiring customers for it, and raising funds for your startup dream!

Contents



Letter from the Author

Startups in India have completely changed the game. We're soon going to become the second largest startup nation in the world. And it is anticipated that by 2020, we will have nearly three times the number of startups we had in 2015.

While our nation is bustling with opportunities, there are multiple challenges. Poor business models and cash-starved businesses built on 'deals & discounts' are providing lessons for steering our future startups with the right business principles.

To help early-stage startups or those individuals who dream to have their own startup in the near future, we have put together this training series. The emphasis of the series is on the customer, not the investor; although the final part of the series does include investors as well.

The irony is that when you build a business which is great for customers, it is far easier to get investors to back you.

I encourage you to take this short series as a way to understand or reaffirm core business principles, in your endeavor to reach your startup and life goals.

Best regards,
Neeraj

THREE COMMON MISTAKES

One of the best ways to learn something is to study its opposite. When you want to learn how to run a successful startup, what better place to start than studying startup failures? Luckily there are hundreds of studies on this topic, and three of the most common reasons for startup failure are listed below:

1) **Making something the market doesn't need**
   By far the biggest reason for startup failure (42% startups fail due to this reason as per CB Insights, an authority on startups) is making a product or service for which there is no market demand. Way too often startup owners create something that seems interesting to them , even when the market doesn't need those things. This is especially a common mistake by first time entrepreneurs.

2) **A poor business model**
   Your CAC (Cost of Acquisition of Customer) must be less than the LTV (Lifetime Value of a Customer). Ideally CAC should be less then LTV calculated over a 3 to 12 month period for an average customer.

3) **Running out of funds**
   Many startups go bankrupt before they're able to actualize their vision or achieve their full market potential. A big reason for this is that a lot of times startup owners may be good in technology, or marketing, etc. but may not have the skill to raise funds. It is also often because of poor cash-management.

Basically, the *CAC* (Cost of Acquisition of Customer) can be calculated by simply dividing all the costs spent on acquiring more customers (marketing expenses) by the number of customers acquired in the period the money was spent. For example, if a company spent $100 on marketing in a year and acquired 100 customers in the same year, their CAC is $1.00.

***LTV* (Lifetime Value of Customer) is a prediction of the net profit attributed to the entire future relationship with a customer. It can also be calculated for specific periods, for example the LTV of a customer over 6 months is the net profit attributed to the future relationship with the customer over the next six months.**

A *business model* is a plan for the successful operation of a business, identifying sources of revenue, the intended customer base, products, and details of financing.

ANTIDOTE TO THE SECOND COMMON MISTAKE

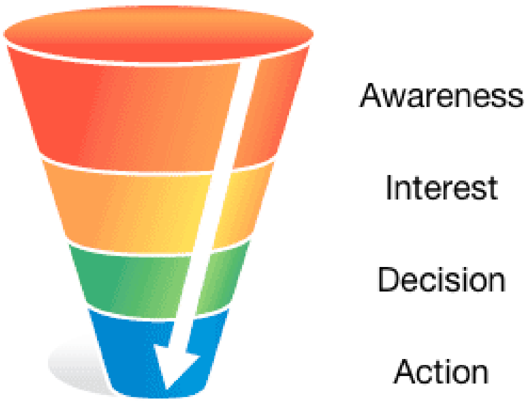
A big mistake startups make is rely on '*hope marketing*'. They create products and then just hope that customers will come. There is a myth in startups that if you create a good-enough product, customers will come by themselves. For most cases, this is far from the truth.

You need to have a plan in place to acquire customers. The best way is to avoid the 'perfect product' syndrome where you avoid going to the market with your product because you're insecure about it, or think it can be improved in minor ways. Once you overcome that mindset, here are three great ways to acquire customers:

1) Build an effective Sales Funnel
2) Word of mouth or Referrals
3) OPN (Other People's Networks)

Each of these can be used independently to get new customers, but the best part is that they can be used together to multiply the results. For example, you can use other people's networks and partnerships to drive people into your sales funnel, or you can use referrals and word-of-mouth to drive people into the funnel. Similarly, you can deliver your product in a way that people who buy through your sales funnel also end up talking about you to others, thus increasing word of mouth and referral conversions.

Lets look at some ways of driving people into your sales funnel.



What is a sales funnel?

- A sales funnel refers to the buying process that companies lead customers through when they are purchasing products. It is divided into several steps, which differ depending on the particular sales model.

- You can choose between becoming one of two types of companies - those which have a well-structured, well engineered way of getting customers (with a good sales funnel), and others that use 'hope marketing'.

THREE WAYS OF DRIVING PEOPLE INTO YOUR SALES FUNNEL

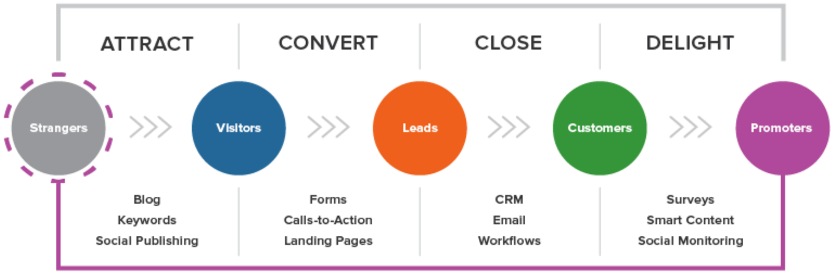
1) nbound Marketing/ Content Marketing

- Inbound marketing is the promotion of a company or other organization through blogs, podcasts, video, eBooks, newsletters, whitepapers, SEO, physical products, social media marketing, and other forms of content marketing which serve to attract customers through the different stages of the purchase funnel.

- By creating content specifically designed to appeal to your ideal customers (your 'customer avatar' we covered in the first session), inbound attracts qualified prospects to your business and keeps them coming back for more.

- The four steps of inbound marketing are:

1) Attract relevant people into your sales funnel
2) Convert them into leads
3) Close sales with them to make them customers
4) Delight them to make them repeat-customers and encourage brand advocacy/ word-of-mouth



Since 2006 it has been the most effective way of generating sales online has been **Inbound Marketing/ Content Marketing.** An interesting trend is that increasingly offline companies are also using it to generate sales via the internet.

THREE WAYS OF DRIVING PEOPLE INTO YOUR SALES FUNNEL

2) PR

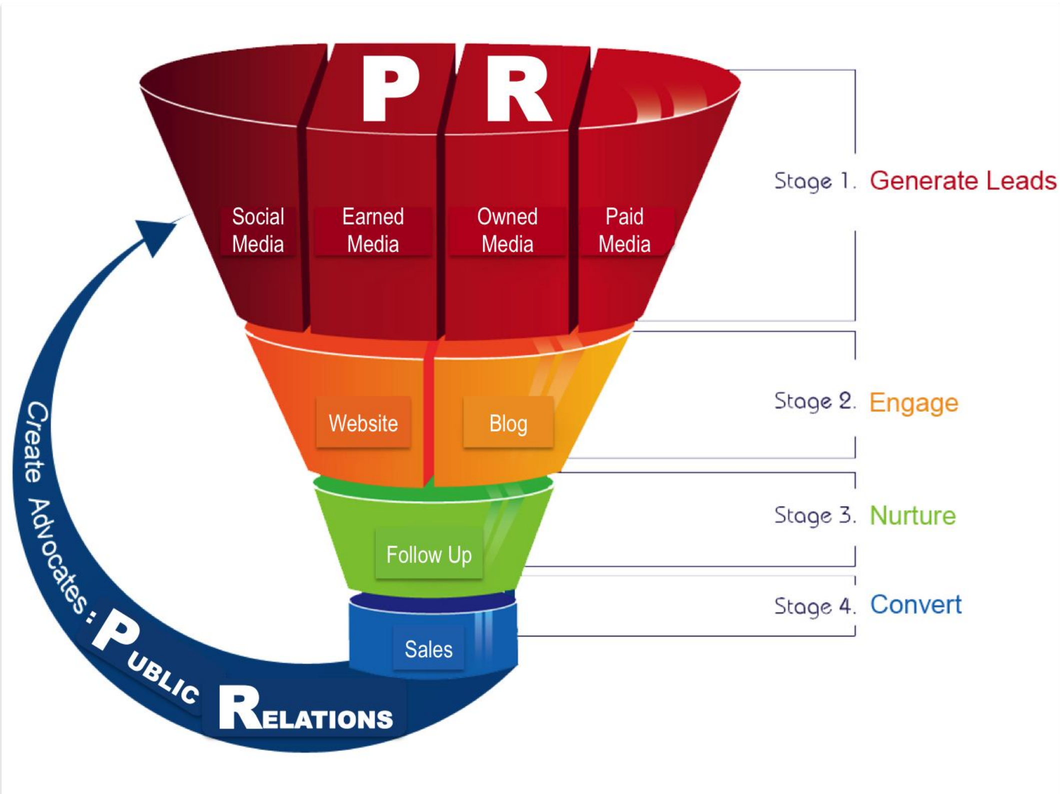
- When it comes to sales, PR (Public Relations) has always been thought of as a "top of funnel" contributor. While PR's impact on the top of the funnel cannot be denied, this association does not fully encapsulate the impact PR has throughout the buyer's journey in today's digitally-driven landscape.

- The most critical ingredient in virtually every sales funnel is content, which is something PR produces and owns in droves. From earned or owned media, to analyst relations and social media, PR has an arsenal of assets at their fingertips that can influence potential customers along every touchpoint in the funnel.

- For example, relevant PR can increase likelihood of someone becoming a serious lead, or of someone becoming a customer if they're just a prospect.

- PR is very effective in building trust., and hence can increase likelihood of getting sales drastically.

- One great way of getting PR for your business is to look for blogs or websites or newspapers which have recently published about other startups in your industry, and pursue them for PR.



THREE WAYS OF DRIVING PEOPLE INTO YOUR SALES FUNNEL

3) Paid Ads

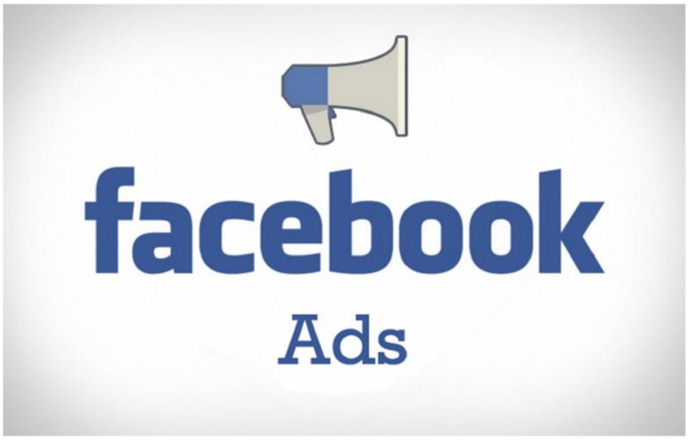
- Digital media and platforms like Google Adwords, Facebook, Twitter etc. make it very easy to target relevant people for your business.

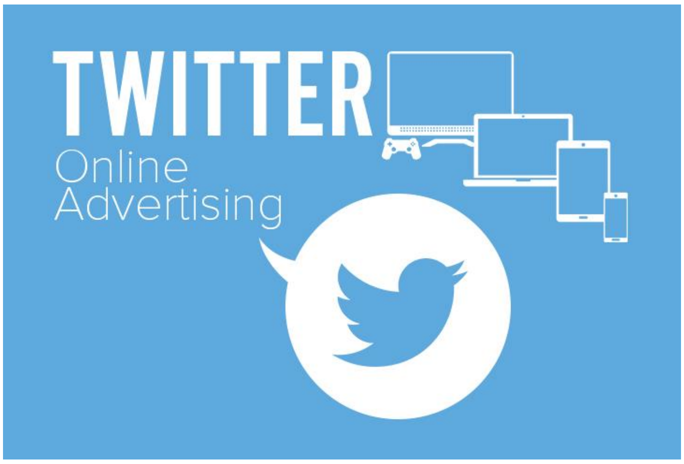
- If you're planning to rely on paid ads to generate the first step in your sales funnel, make sure you avoid the following:
  - Poor ad creative
  - with a weak value proposition
  - targeting a generic audience
  - on the wrong placement methods
  - while tracking the wrong metrics

- One big difference between ads on Google and Facebook is 'intent'. If I sell brown umbrellas and show an advertisement to someone who is searching for 'brown umbrellas' on Google, the person is already looking for my product. However, if I show it on Facebook I'm showing it to a random person who may or may not want the umbrella at this point. Nonetheless, it works great for Facebook as well.

- However, because of the low cost of experimentation and the easy way of testing conversions, online ads are a great tool for startups.

- The best approach with this is to try various strategies and platforms and test which one works best for your business.





WORD OF MOUTH OR REFERRALS

Traditional forms of marketing are dying. We are bombarded with so much of advertisement and selling that we don't notice them anymore.

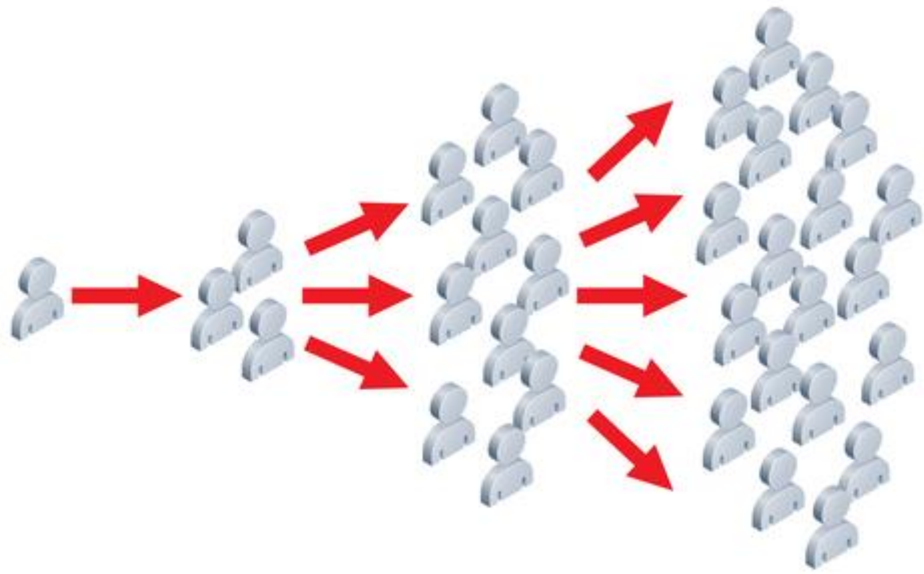
94% people skip pre-roll ads. 86% tv commercials are skipped. Customers don't trust brands talking about themselves. So what do they trust? Word-of-mouth! Word of mouth is by far the most trusted, with 86% customers trusting word-of-mouth from their friends or family.

90% people search for reviews or testimonials before making a purchse! more than 50% of the people enjoy telling others about new products! What's amazing is that customers acquired from word-of-mouth spend more, and also end up referring your brand even further! The best part about word of mouth is that it keeps spreading and multiplying if you have a product that is worthy of talking about!

Then why don't more startups and businesses focus on word-of-mouth?

The problem is that for the last few years, marketers have been focused on "collecting" instead of "connecting." In other words, brands are too caught up in collecting social media fans and they are forgetting to actually connect with them. Having 100 really passionate fans that love your brand or product is exponentially more effective than having 10,000 "fans" who signed up just to win a free iPad from you!

Word of mouth happens when brands feel a relationship with your products and services, or with you. And that can only happen when you deliver a unique connection and experience to them.



Source of data: referralcandy.com.

OPN (Other People's Networks)

The idea of OPN is that you have to figure out where your prospects hang out, and then make yourself available there. You can partner with other companies who cater to your potential customers. The only two requirements for such a partnership is:

1) another company which is serving your target market
2) but which is not your competitor

You can strike a deal with them and share a percentage of your profits. Ideally you should share a very large percentage of your profit in the initial phase, just to build a customer base and to make sure they promote your product.

You can track the source of any sale to provide the incentive to the partners via:

(a) Cookies
(b) Exclusive Discount Coupons

Some of the best startups in recent times have found such methods to 'climb' onto other companies' networks and expand their sales and reach immediately. A word of caution- don't rely on such partnerships alone for your sales, as you don't want to have the control of your entire sales in the hands of other companies.

QUESTIONS TO SET A PERSONAL SALES TARGET:

*WHAT IS THE TOTAL PERSONAL INCOME YOU DESIRE IN THE NEXT 12 MONTHS:*______________

DIVIDE IT BY 12 AND WRITE YOUR MONTHLY INCOME TARGET: ______________

WHAT IS THE PERCENTAGE OF PROFIT YOU RECEIVE PERSONALLY ON EVERY SALE IN YOUR BUSINESS? TAKE A ROUGH ESTIMATE IF IT IS NOT CLEAR: ______________

DIVIDE YOUR MONTHLY INCOME TARGET BY THIS SHARE-OF-PROFIT-PER-SALE TO DERIVE THE NUMBER OF SALES YOU NEED TO MAKE TO ACHIEVE YOUR TARGET: ______________

YOU CAN FURTHER DO ANOTHER EXERCISE TO NOTE THE VALUE OF YOUR TIME!

- *DIVIDE YOUR DESIRED MONTHLY INCOME BY THE NUMBER OF DAYS YOU DESIRE TO WORK IN A MONTH.*______________
- *DIVIDET HIS NUMBER BY THE NUMBER OF HOURS YOU WANT TO WORK ON AN AVERAGE WORKING DAY* ______________
- *DIVIDE THIS NUMBER BY 60 TO GET THE VALUE YOU MUST DERIVE OUT OF EVERY MINUTE OF YOUR WORKING DAY!*______________

This exercise is an interesting way of setting sales goals, and it is not a way of estimating potential sales of your business.

For any queries, feel free to reach out to neeraj@growthfoundation.in.
The last session is about 'how to reach investors and raise funds'.

Thank you, and look forward to seeing you in the next session.