

Day 2, Morning

TEC.startup-workshop.com

TECNOLÓGICO DE MONTERREY

Launch Path Workshop

Three days to take an idea to a Launch Path Canvas ready to be validated with real customers.

DATES

August 4-6, 2026

VENUE

Remote, via video.

PARTICIPANTS

34 people

[View participants and canvases](#)

Day 1 Ideas, innovation, and landscape

Day 2 Funnel, economics, and capital

Day 3 Storytelling and presentations

Ideas, innovation, and landscape

Explore where startup ideas come from, practice problem-framing techniques, and map the competitive landscape.

09:00

Course Introduction

Lecture

Launch Path Step 2: Listen to the Waves — Where do innovative startup ideas come from?

09:50

Group activity: Pet Peeves and Five Whys

Group Activity

10:40

Break

Break

11:00

Launch Path Step 2: Innovate and Iterate

Lecture

What is PMF and how do we get there?

11:50

Group activity: Crazy Eights

Group Activity

Materials

The core reading for the workshop, by Bret Waters, plus the Day 1 slides.



Slides from Day 1 morning

TEC Workshop · Day 1

 **Download PDF**



Slides from Day 1 afternoon

TEC Workshop · Day 1

 **Download PDF**



Participants

Search for your name and open your page to access your Launch Path Canvas.

34 of 34

NP

Nathaly Pinzón Rubio

Launch Path Canvas

PS

Pablo Salazar

Launch Path Canvas

BM

Bilal Mirza

Launch Path Canvas

MD

Maria de los Dolores González Saucedo

Launch Path Canvas

DI

Diana Ibeth Cruz Mar

Launch Path Canvas

MA

Moisés Aguirre Mar

Launch Path Canvas

LR

Linda Ruiz

EO

Eduardo Ochoa

EW

Edgar Williams Garcia

THE LAUNCH PATH CANVAS 2.0

 Copy link

 Leave

Your Startup Venture

NAME OF STARTUP VENTURE

e.g. Northwind Robotics

PREPARED BY

Your name

ONE-SENTENCE DESCRIPTION

What does your venture do, in one line?

THE WHY? The core reason your venture exists

Problem

One clear sentence that articulates the problem your startup solves.

Solution

How does your venture solve the problem you have articulated? Keep this short and concise.

Why it Matters

Why is this a problem worth solving?

COMPETITION How you stack up in the market

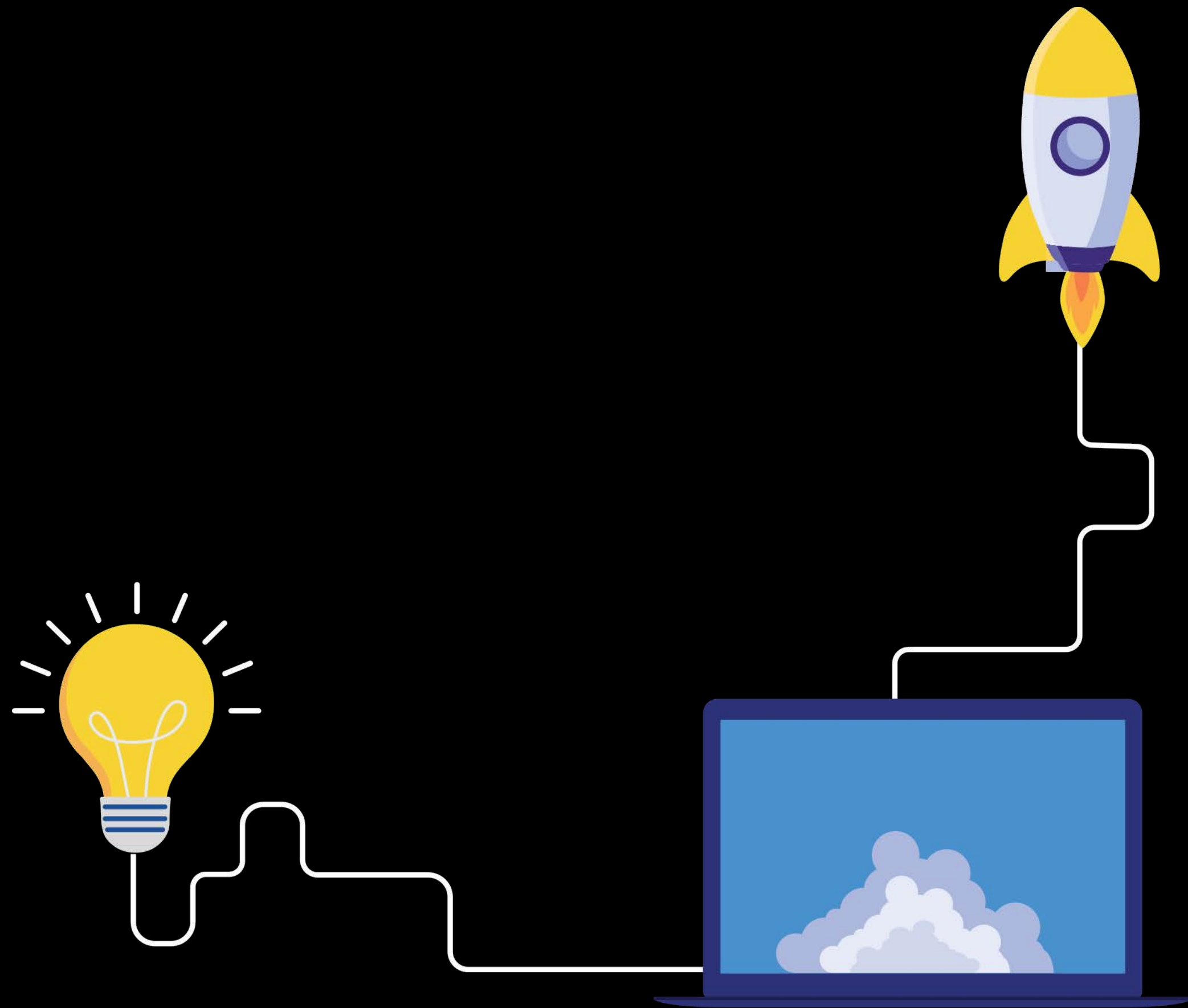
Landscape

Positioning

Unfair Advantage

The Launch Path.

Eight steps to a successful startup.



- 1) Listen to the waves.
- 2) Innovate, Iterate, Validate.
- 3) Get Uncomfortable.
- 4) Draw the landscape.
- 5) Frame a funnel.
- 6) Engineer an economic model.
- 7) Create a capital strategy.
- 8) Be a master storyteller.

The Launch Path Canvas 2.0

THE WHY

**Problem**
One clear sentence that articulates the problem your startup solves.

**Solution**
How does your venture solve the problem you have articulated? Keep this short and concise!

**Why it Matters**
Why is this a problem worth solving?

PM(D)F

**Path to PMF**
What is your plan for getting to Product-Market Fit?

**PMF Metrics**
As you work your way toward Product-Market Fit, what are the key metrics that matter?

**Distribution**
What are your distribution channels? Direct to consumer, or via resellers, or?

**Economics**
What are the Unit Economics for this venture, what do we expect the CAC:LTV to look like, and what are out capital needs?

Unit Economics: _____
Customer Economics (CAC:LTV goal): _____
Enterprise Economics (runway): _____
[Link to a full visualization.](#)

**Capital Strategy**
What source and structure of capital will best align interests between founders, employees, shareholders, and investors?

ECONOMICS

**Landscape**
This is a list of competitors and alternatives. When a customer looks at alternative ways to solve the problem your startup solves, what will they see?

[Link to a full visualization.](#)

**ICP**
What do you think your startup's Ideal Customer Profile will be?

[Link to a full visualization.](#)

**Positioning**
Within this landscape of competitors and alternatives, how is your venture positioned?

**Trigger**
What makes someone suddenly be in the market for what your startup provides?

**Unfair Advantage**
What unique advantage does your startup have that may help to defend from competitors?

**Top 3 Benefits**
What are the top 3 benefits that your product or services provides to customers?

COMPETITION

CUSTOMERS

The Launch Path Canvas 2.0

THE WHY



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PM(D)F



Path to PMF

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Link to a full visualization.



Capital Strategy

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Unfair Advantage

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Top 3 Benefits

What are the top 3 benefits that your product or services provides to customers?

ECONOMICS

COMPETITION

CUSTOMERS

Form groups for a 5-minute presentation tomorrow.

You have two choices:

(1) Prepare a pitch about a fictional startup; or

(2) Prepare a presentation about how you plan to apply some of the things we've discussed in this workshop to your own classroom.

The Launch Path, Step 5

Frame a Funnel

Top reasons startups fail:

1. Not enough customers.
2. Inability to get customers at a rational cost.
(CAC > LTV).

A common failure pattern is to spend many months just focused on building the product, then panic when it doesn't sell as expected.

Tonight I want to convince you to be developing the sales and marketing process early, with a focus on learning. If you do that, your eventual customer acquisition process will be much more successful.

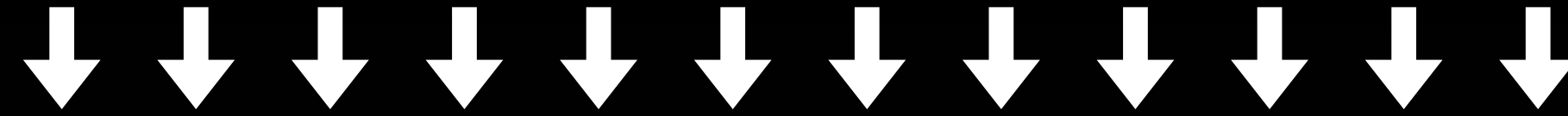
The customer acquisition process will look quite different for different kinds of businesses.

But I'm going to give you a few high-level concepts that are applicable to all.

The concepts that are applicable to all ventures:

- **It's always a funnel.**
- **Identify ICPs and Triggers.**
- **Pre-PMF, prioritize learning.**
- **Not all customers are created equal.**
- **Establish Beachheads.**
- **Founder-led Marketing.**

A bunch of leads come into the top of the funnel.



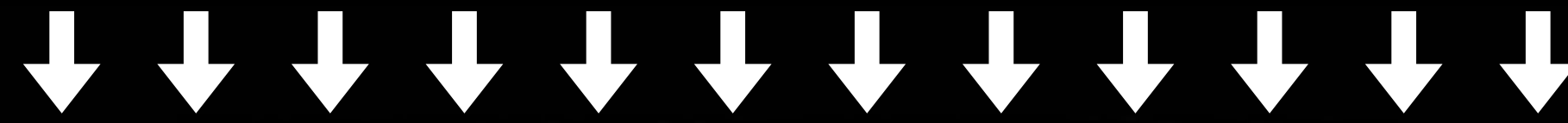
The Funnel

For any venture, the customer acquisition process can be visualized as a funnel.



And some of them become paying customers.

Knock on 100 doors.



10 of them invite you in. →

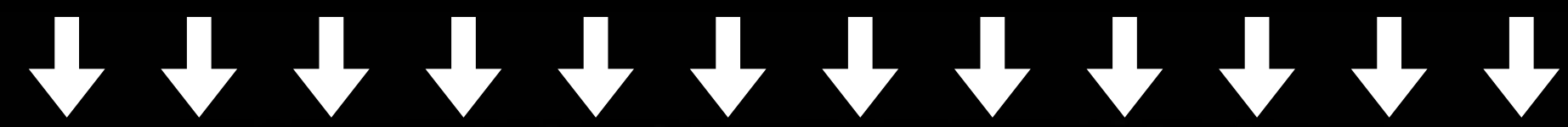
3 of them ask for a demo. →

1 of them makes a purchase.



Door-to-Door Salesman

100 inquiries from website.



Write proposals on 35 of them. →

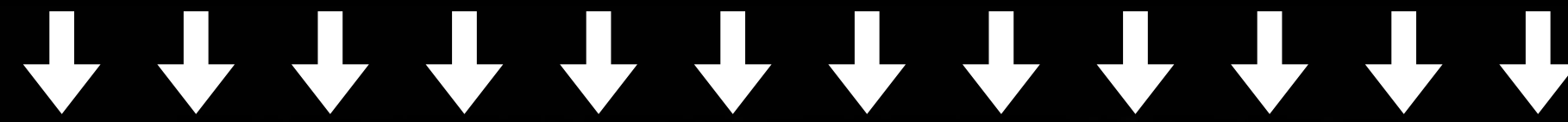
15 of them want to have a meeting. →



Consulting Firm

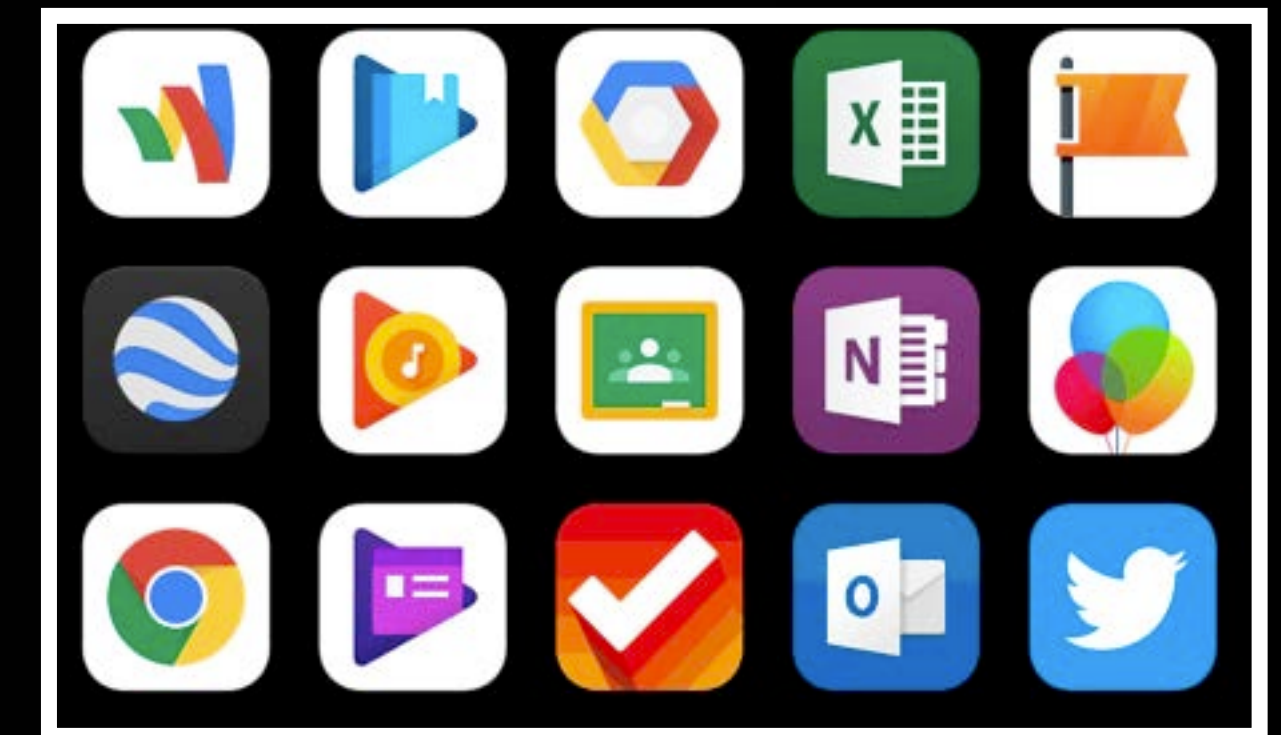
3 of them become clients.

1,000 App Store Searches



150 download the free version. →

15 activate the app and register. →



Mobile App

3 of them upgrade and pay for the premium version.

It's all about incremental optimization.

\$1,000 spent on social media ads
Ads are displayed 800,000 times.



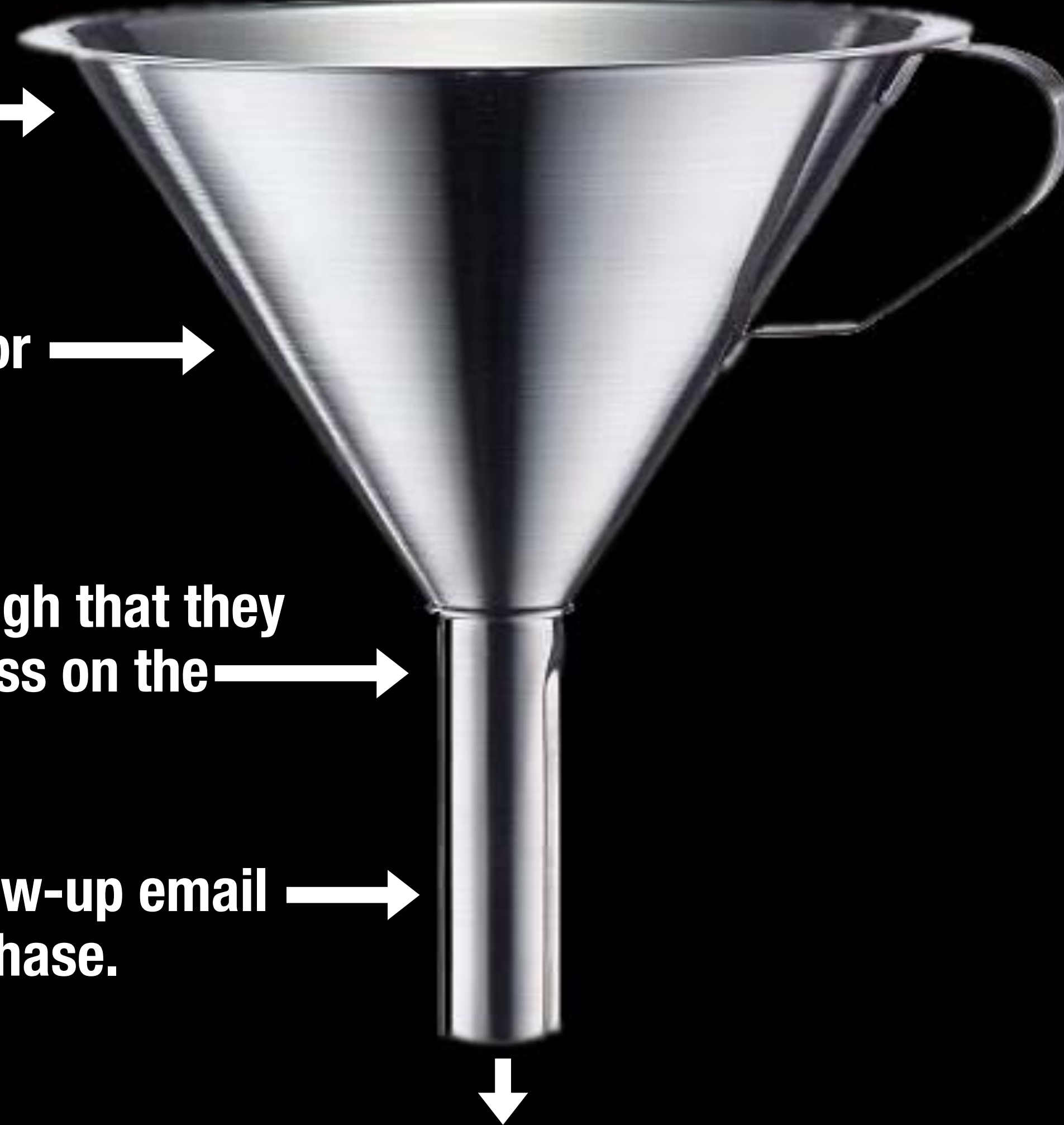
2% click on our ad and get taken →
to our landing page.

20% stay on the landing page for →
more than 5 seconds.

6% are interested enough that they →
enter their email address on the
landing page.

We send them a follow-up email →
and **3%** make a purchase.

6 new customers (CAC=\$167).



\$1,000 spent on social media ads
Ads are displayed 800,000 times.



Improve targeting on the ads.

3% ~~2%~~ click on our ad and get taken →
to our landing page.

New headline.

21% ~~20%~~ stay on the landing page for →
more than 5 seconds.

Move up on page.

7% ~~6%~~ are interested enough that they →
enter their email address on the
landing page.

Change subject line.

We send them a follow-up email →
and ~~3%~~ make a purchase.
4%

6 new customers (CAC=\$167).
14 new customers (CAC=\$71).

~~\$1,000 spent on social media ads~~

Ads are displayed 800,000 times.



\$500 on social media, \$500 on search.

Improve targeting on the ads.

6% ~~3%~~ ~~2%~~ click on our ad and get taken to our landing page.

New headline.

21% ~~20%~~ stay on the landing page for more than 5 seconds.

Move up on page.

7% ~~6%~~ are interested enough that they enter their email address on the landing page.

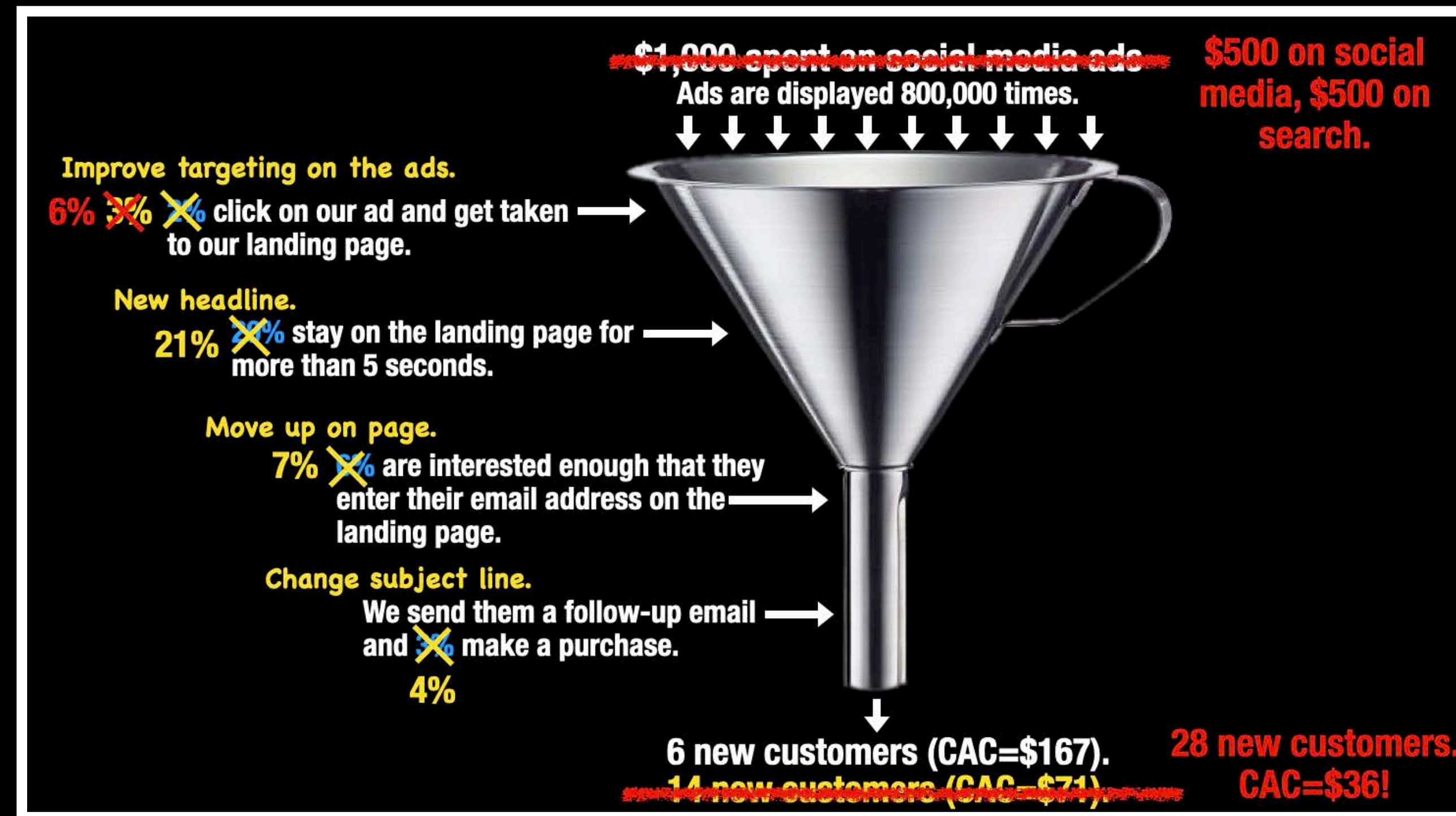
Change subject line.

We send them a follow-up email and ~~3%~~ make a purchase.
4%

6 new customers (CAC=\$167).

~~14 new customers (CAC=\$71).~~

28 new customers.
CAC=\$36!



In this example we brought the CAC from \$167 to \$36!

We optimized the funnel and learned some things.

Small experiments lead to big things.

In a previous edition of BUS-217 our fictional class venture was on-demand fresh-baked cookies delivered to your door.

We assumed men in their 20's would be our ICP.

To find out what flavor cookies people liked most we spent \$50 on a little A/B test on Facebook.

We didn't learn much about flavor choice, but we were surprised that **woman over 50 clicked on our ads more than than any other demographic.**



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We assumed men in their 20's would be our ICP.

To find out what flavor cookies people liked most we spent \$50 on a little A/B test on Facebook.

We didn't learn much about flavor choice, but we were surprised that woman over 50 clicked on our ads more than than any other demographic.

A very small hack (\$50 on two different FB Ads) gave us key insight into which demographic to target.



Ideal Customer Profile (ICP) and Triggers.

Who are your ideal customers?

What makes them suddenly look for a solution like yours?

The Launch Path Canvas 2.0

Name of Startup Venture: TacoBox

Name: Bret Waters

One Sentence Description: A subscription-based service delivering healthy meal kits (tacos!) for your friends and family.



Problem

One clear sentence that articulates the problem your startup solves.

Many consumers want to eat healthy, but the convenience of fast food drives Americans to buy \$300B/year in unhealthy fast food.



Solution

How does your venture solve the problem you have articulated? Keep this short and concise!

Fast food doesn't need to be unhealthy. Our startup is developing a new brand of health-conscious fast food (healthy tacos!), as family-friendly meal kits.



Why it Matters

Why is this a problem worth solving?

The National Institutes for Health say that today a fast food diet may kill more people prematurely every year than cigarette smoking.



Landscape

This is a list of competitors and alternatives. When a customer looks at alternative ways to solve the problem your startup solves, what will they see?

There are many food delivery services, from meal kits like Blue Apron and CookUnity to on-demand prepared food from Uber Eats to DoorDash to GrubHub.

Link to a full visualization.



ICP

What do you think your startup's Ideal Customer Profile will be?

Busy parents and professionals looking for an easy and healthy way to prepare meals for big gatherings.

Link to a more personas.



Path to PMF

What is your plan for getting to Product-Market Fit?

1. Farmers' markets where we can get input on our menu items and the price of our TacoBox kits.

2. Sign up 100 of our friends, relatives, and neighbors. Run it for two months, collecting feedback.

3. Scale slowly, adding customers in additional markets, continue to learn.



PMF Metrics

As you work your way toward Product-Market Fit, what are the key metrics that matter?

We will sell direct-to-consumer, via our mobile app and website.

In the future, we may be open to distribution partnerships, including potentially UberEats and the other on-demand players.



Distribution

What are your distribution channels? Direct to consumer, or via resellers, or?

We will sell direct-to-consumer, via our mobile app and website.

In the future, we may be open to distribution partnerships, including potentially UberEats and the other on-demand players.



Positioning

Within this landscape of competitors and alternatives, how is your venture positioned?

Our positioning can basically be summed-up in two words: healthy and delicious.

We serve delicious tacos designed by a nutritionist. That's our unique positioning within the landscape of competitors and alternatives..



Trigger

What makes someone suddenly be in the market for what your startup provides?

An upcoming family celebration might cause someone to be looking for a healthy-but-crowd-pleasing way to have a big dinner for family and friends.



Economics

What are the Unit Economics for this venture, what do we expect the CAC<LTV to look like, and what are our capital needs?

Unit Economics:

One box: \$50, cogs=\$28, GP = \$22.

Customer Economics (CAC:LTV goal):

\$18:\$105 (5.8x)

Enterprise Economics (runway):

Cash flow breakeven < 12 months.

Link to spreadsheet.



Capital Strategy

What source and structure of capital will best align interests between founders, employees, shareholders, and investors?

We will raise a \$200 revenue share note.

We believe we can get to profitability on that one financing.



Unfair Advantage

What unique advantage does your startup have that may help to defend from competitors?

The fact that we own the customer and customer data is a big part of our defensibility.

A restaurant selling through a 3rd-party like DoorDash owns neither the customer nor the data.



Top 3 Benefits

What are the top 3 benefits that your product or services provides to customers?

1. Convenience. A complete meal kit delivered to your door.

2. Healthy food, designed by a nutritionist.

3. Tacos. Everybody loves tacos!

The original Business Model Canvas was developed by Alexander Osterwalder and published in this great book: Osterwalder, Alexander; Pigneur, Yves; Clark, Tim (2010). Business Model Generation: A Handbook For Visionaries, Game Changers, and Challengers. Strategyzer series. Hoboken, NJ: John Wiley & Sons. ISBN 9780470876411 This version is to align with my book, The Launch Path: Getting from a startup idea to a launch-ready venture, ISBN 979-8989090402. Feel free to use, adapt, copy, and change.

Not all customers are created equal.

**You will eventually find that 20% of your customers are
creating 80% of your success.**

Founder Led Marketing

Thought Leadership: Educate your audience instead of pitching to them. Share your lessons, mistakes, and industry insights.

Choose Your Platform Wisely: Focus on one or two channels where your ideal customers hang out, such as LinkedIn, X (formerly Twitter), a niche podcast, or a personal newsletter.

Consistency over Perfection: You do not need viral hits. Regular, authentic, and insightful posts build authority and mental real estate over time.

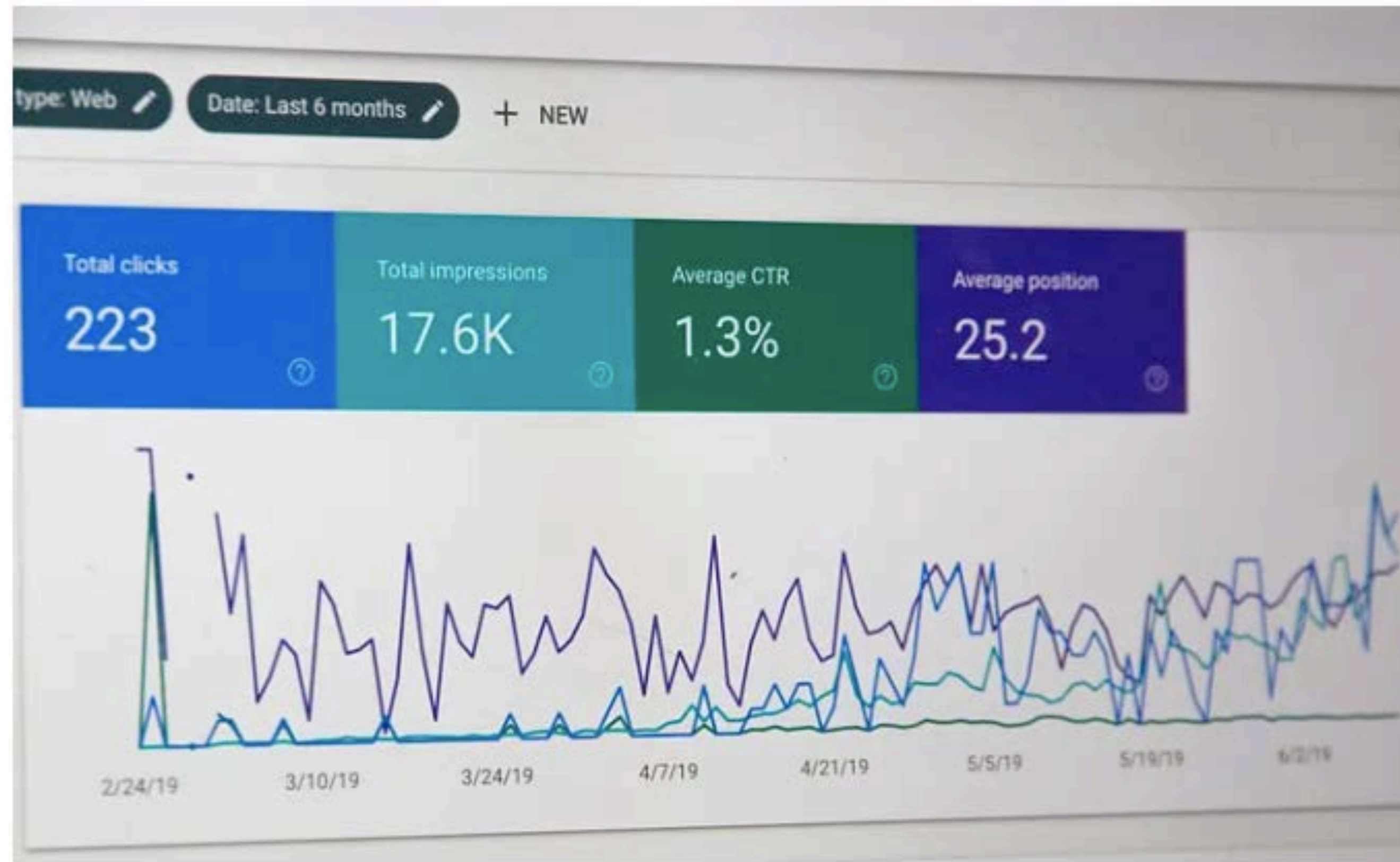


Photo by [Stephen Phillips](#) on [Unsplash](#)

Marketing your early-stage startup for free (do it now, not later).

Here is a list of free (and nearly-free) things you should be doing right now, even if your startup's product won't be ready for several months.

The concepts that are applicable to all ventures:

- **It's always a funnel.**
- **Identify ICPs and Triggers.**
- **Pre-PMF, emphasize learning.**
- **Not all customers are created equal.**
- **Establish Beachheads.**
- **Prioritize learning before prioritizing efficiency.**
- **Founder-led Marketing.**

Summary:

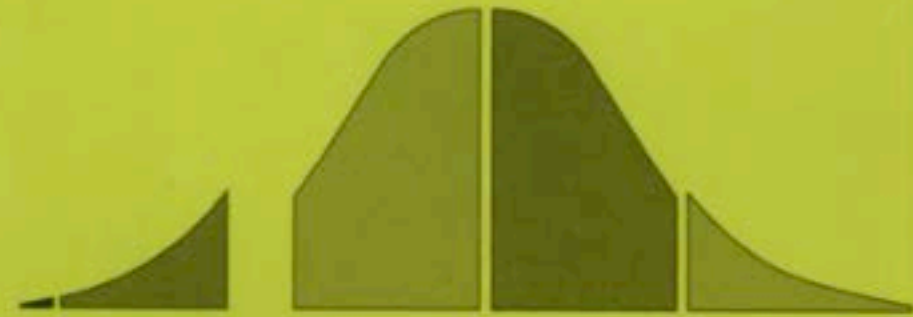
Small experiments lead to big things. Start now.

GEOFFREY A. MOORE

*Author of *Inside the Tornado* and *Living on the Fault Line**

A BusinessWeek Bestseller

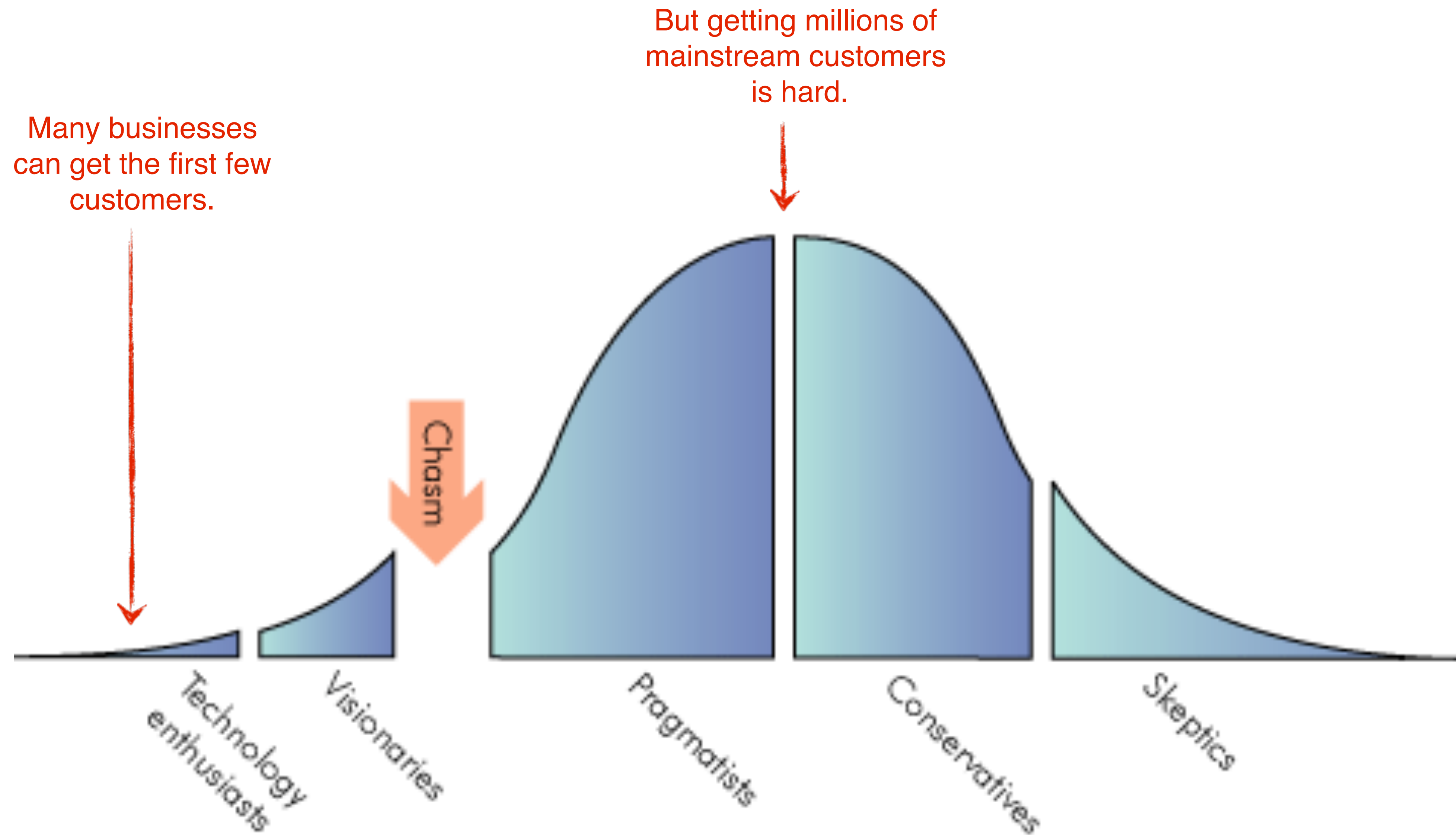
CROSSING THE CHASM



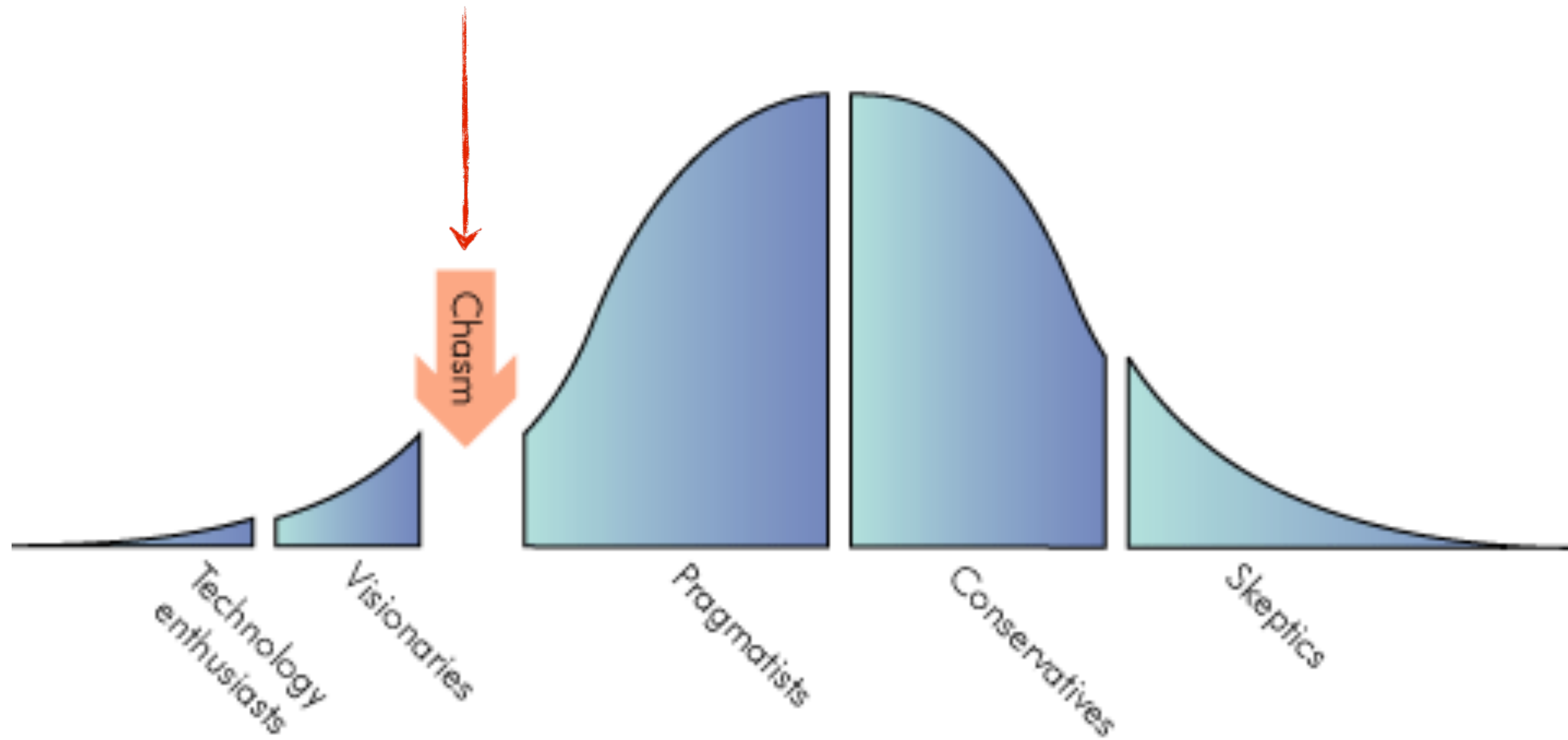
"For the most astute companies this book provides the blueprint for success, for the others it is a manual for their survival, and for all it is a great read."

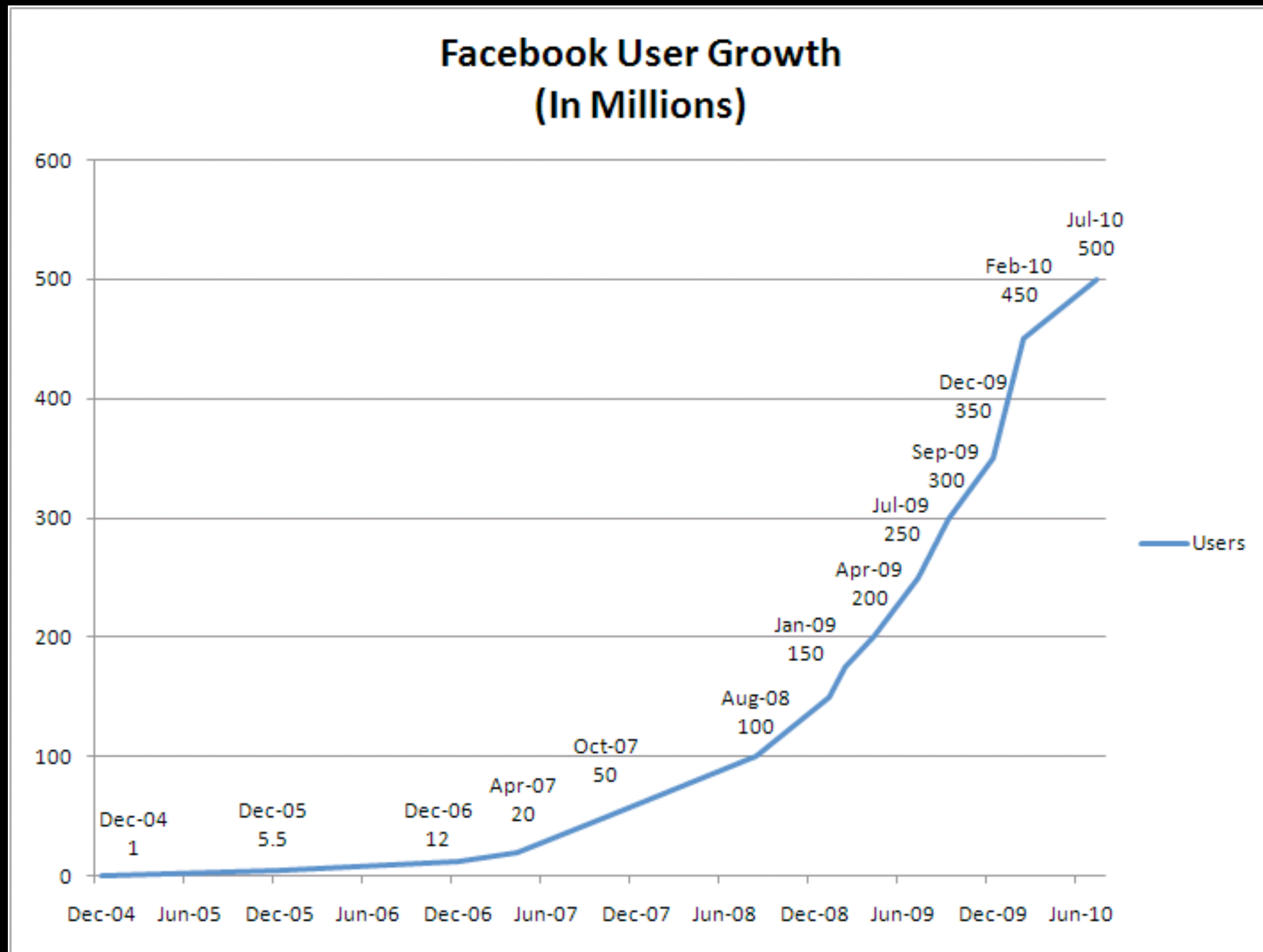
—William Davidow, general partner,
Mohr Davidow Ventures

MARKETING AND SELLING DISRUPTIVE
PRODUCTS TO MAINSTREAM CUSTOMERS



This is littered
with the dead bodies
of many promising startups.





At launch was restricted to one university.

Then to three universities.

Then restricted to just .edu email addresses.

Then targeted mass market.

Now has >2 billion users.

“

The marketer should focus on one group of customers at a time, using each group as a base for marketing to the next group.

Geoffrey Moore

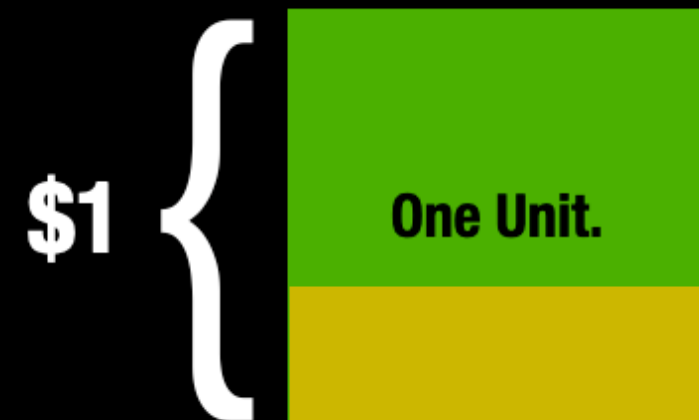
Crossing the Chasm

Dancing Man

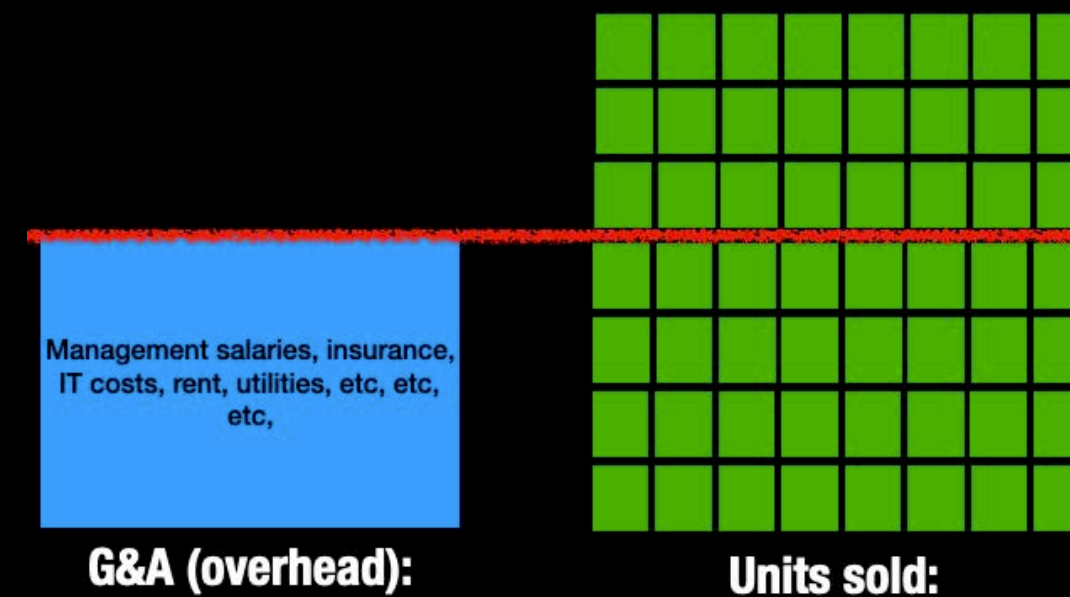
Sasquatch 2009

The Launch Path, Step 6
Engineer an Economic Model

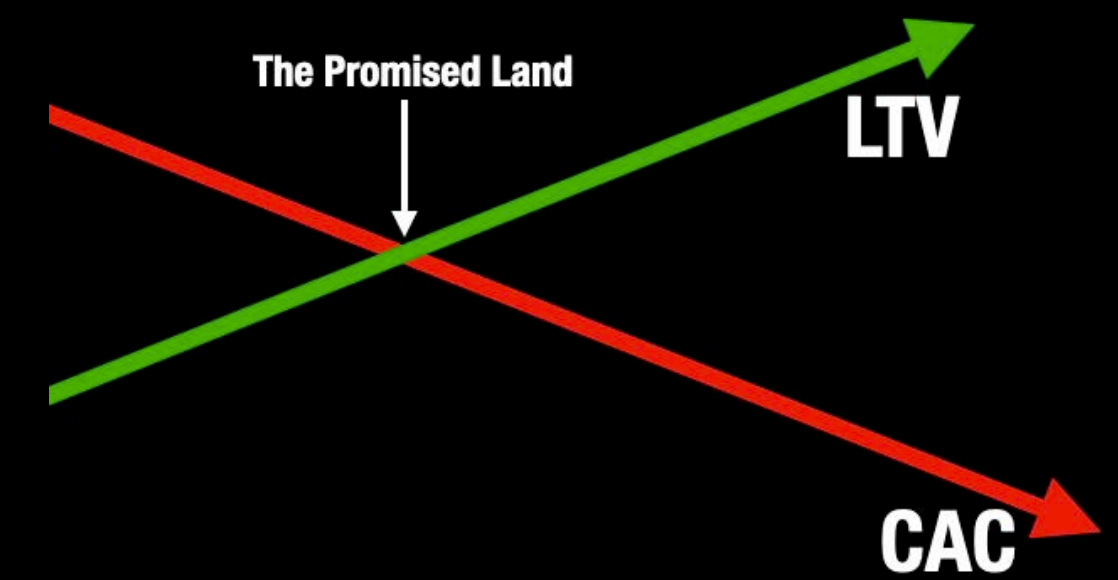
Economic Modeling Concepts



Unit Economics



Enterprise Economics



Customer Economics

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I am a .

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closed on a
funky amount of
funding (again)
for fund two
6 days ago



New York starts
accepting
applications for
autonomous
vehicle testing
5 days ago



Pattern
recognition
2 days ago



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Services get
customizable
models for
search, image
classification and
A/B testing
6 days ago



Trump's
cybersecurity
executive order
1 day ago

YC-Backed Tutorspree Is An Airbnb For Tutoring

Posted Jan 26, 2011 by [Alexia Tsotsis \(@alexia\)](#)



tutorspree

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Find great tutors for your kids.

Where do you live?

Example: "New York, NY" or "10021"

Find a tutor!

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- San Francisco Tutors
- Boston Tutors
- Washington, DC Tutors

- Math Tutors
- Language Tutors
- Judaic Studies Tutors

- Social Studies Tutors
- Science Tutors
- History Tutors

ts

ABOUT FAQ BLOG PRIVACY POLICY TERMS OF USE

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Launching today from the [YCombinator](#) Class of 2011, [Tutorspree](#) is a online marketplace for K-12 tutors along the lines of accommodations network [Airbnb](#), but specific to tutoring (yes I've made [this](#) comparison before). Founded by [Aaron Harris](#), [Josh Abrams](#) and [Ryan Bednar](#), the startup is disruptive in the sense that the tutoring space up until now has been monopolized by agencies like Sylvan and Huntington Learning Center or risky alternative Craigslist.

Tutoring is a business that is aching for change: Agency strongholds make tutor comparison difficult and Craigslist is a whole 'nother can of worms trustwise. So Tutorspree tries to combine the easy accessibility of the Internet with the quality vetting of an agency, at reduced cost. All you need to do as a parent to find a tutor is type in your location into the Tutorspree search box, and you'll get a listing replete with photos, credentials and price. Prospective tutors can sign up with the "sign up as a tutor" link at the top of the site.



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By BMW



How To Pitch Your Startup In 60 Seconds Flat (And Why You...



Obvious Ventures has closed on a funky amount of funding (again) for fund two 6 days ago



New York starts accepting applications for autonomous vehicle testing 5 days ago

YC-Backed Tutorspree Is An Airbnb For Tutoring

Posted Jan 26, 2011 by [Alexia Tsotsis \(@alexia\)](#)



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- Judaic Studies Tutors
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THE ALL-NEW ALL INNOVATIVE BMW 5 SERIES.

Learn More



tutorspree

- **Y-combinator class of 2011**
- **Huge opportunity - tutoring is a \$5 billion market.**
- **The economic model in their pitch deck showed they needed almost no marketing budget because the founders were SEO experts.**
- **Raised \$1.8M from Sequoia, YC, and other top venture investors.**
- **Signed-up 7,000 tutors in the first few months.**
- **Their revenue model was a 50% cut on each tutoring session, and they believed that each new customer would book an average of 6 tutoring sessions.**



tutorspree

**In March of 2013 Google changed its algorithm
and Tutorspree found their SEO traffic dropped by
80% overnight.**





After Raising \$1.8 Million, Y Combinator Startup Tutorspree Shuts Down



Alyson Shontell



 Sep. 8, 2013, 1:59 PM
  7,614



FACEBOOK



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PRINT

- [\\$200 Just For Using This Credit Card](#)
(NextAdvisor)

- [Build Open Source Apps At Hyper Scale With...](#)
(Microsoft)

- [The Most Addicting Shopping Site For Women](#)
(Tophatter)

- [We Tried Bombas Socks. Here's What Happened:](#)
(Business Insider | Bombas Socks)

Sponsored Links

The hardest decision a founder can make is knowing when to throw in the towel. Tutorspree, a company that was founded in 2011 and raised \$1.8 million, just did that.

Tutorspree was a platform that connected local tutors to students in need. It graduated from the prestigious startup accelerator program, Y Combinator and was founded by a [former Wall Street worker](#), Aaron Harris, along with







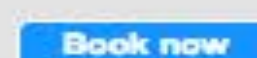
Brooklyn - 1 Hotel Brooklyn Bridge
Superb 9.3



Brooklyn - The Brooklyn
Fabulous 8.6



Brooklyn - Aloft Brooklyn
Very good 8.4





New York - Hotel Pennsylvania



Brooklyn - Wythe Hotel
Superb 9.2

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After Raising \$1.8 Million, Y Combinator Startup Tutorspree Shuts Down



Alyson Shontell

Sep. 8, 2013, 1:59 PM 7,614



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(Business Insider | Bombas Socks)

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The hardest decision a founder can make is knowing when to throw in the towel. Tutorspree, a company that was founded in 2011 and raised



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They failed in less than two years for two simple reasons:

- 1. Their economic model assumed they'd get customers for free via SEO.**
- 2. Their economic model assumed that a new customer would return for an average of 6 tutoring sessions. But tutors didn't like paying Tutorspree such a big cut so in the first session tutors would say "Next time just contact me directly rather than going through the platform".**



Homejoy

HOMEJOY

It's as easy as 1-2-3.

Our friendly, professional cleaners are all trained and certified,
and our online booking tool makes scheduling effortless.



BOOK

Tell us when and where you want us to clean.



CLEAN

A friendly, certified Homejoy Cleaning Professional arrives at your home.



JOY

Sit back and relax. Enjoy your clean home!

HOMEJOY

- **Went through Y Combinator.**
- **Huge opportunity - home cleaning is a \$400 billion market.**
- **Economic model was built around the idea that when they got a new customer, that customer would hire them over and over again.**
- **Raised \$38M from YC, a16z, Google Ventures, and Resolute.**
- **Paul Graham bragged that it was YC's "fastest-growing startup yet".**

HOMEJOY

Because they believed that a new customer would end up hiring them over and over and over again for housecleaning, Homejoy offered significant discounts to get new customers.

A standard 2.5 hour cleaning was normally \$85, but they offered an introductory offer of \$19, figuring they could lose money on the first one. They spent lavishly advertising this deal, plus offered deals through Groupon and other deep-discount coupon deals.

Despite having raised \$38M, they went bankrupt and shut down in two years.

Assignment: Growing Businesses in the...

Homejoy: A Silicon Valley darling's path to the grave

Homejoy was one of the first platform companies to disrupt the \$400 billion home cleaning market. The company aimed to create value by using algorithms to connect homeowners with cleaners and by scheduling cleanings, all of which could be done by homeowners from the comfort of an app. Homejoy had the potential to become Silicon Valley's next unicorn; it raised \$40 million from sources including Google Ventures and Max Levchin, PayPal's cofounder. Nevertheless, the company was shut down less than 2 years later and turned into a cautionary tale for other platform businesses.

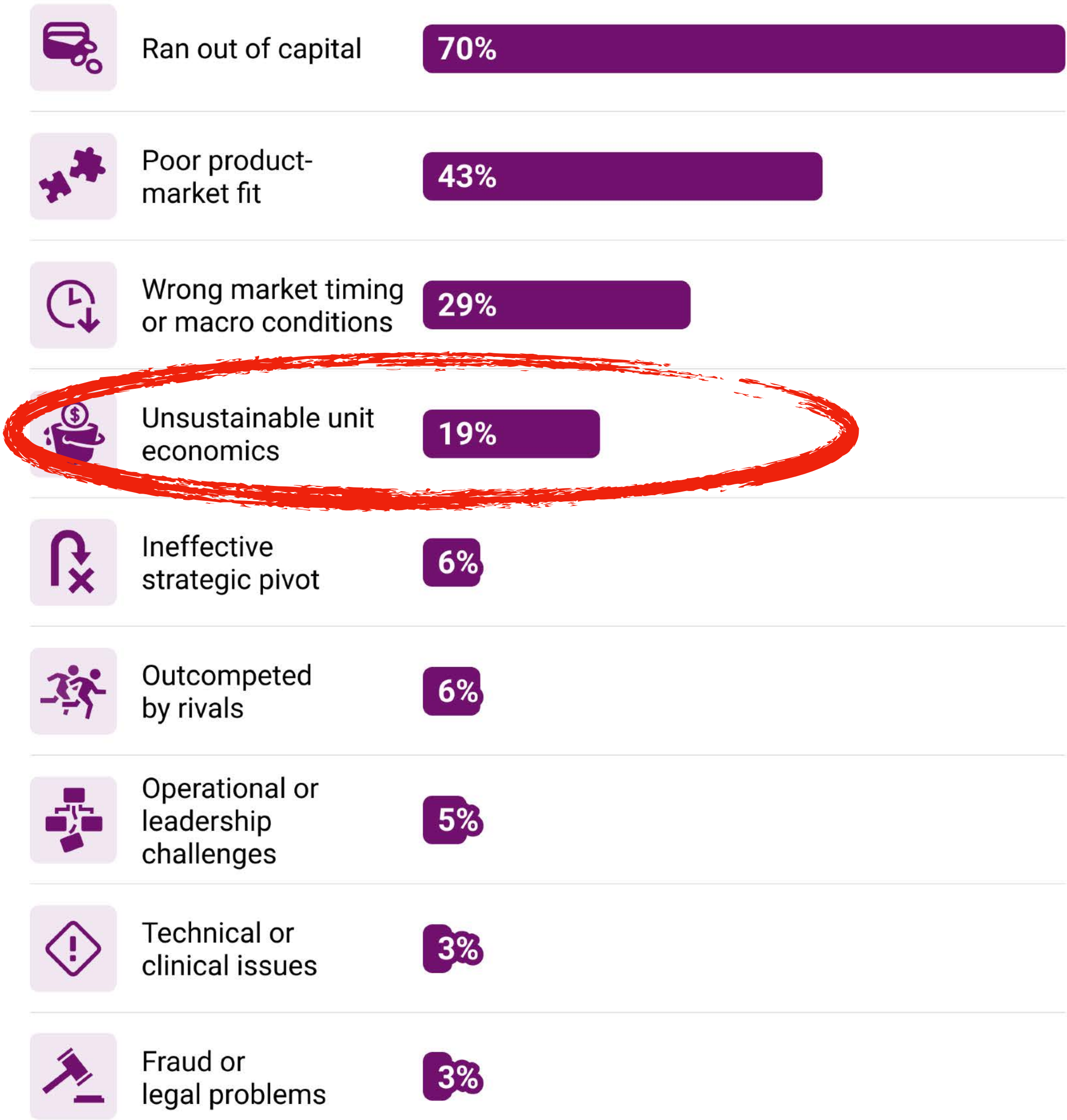
What killed Homejoy?

Adora Cheung, cofounder and CEO of Homejoy, claimed that the “deciding factor” that led to Homejoy's failure were worker classification lawsuits. According to the lawsuit, Homejoy treated cleaners as independent workers, thus depriving them of reimbursements and overtime wages. However, further research suggests that lawsuits were not the primary reason for the company's demise. Homejoy failure was attributed to mounting losses due to high customer acquisition costs, poor customer retention, a strategy focused exclusively on growth, competition, and poor worker retention.

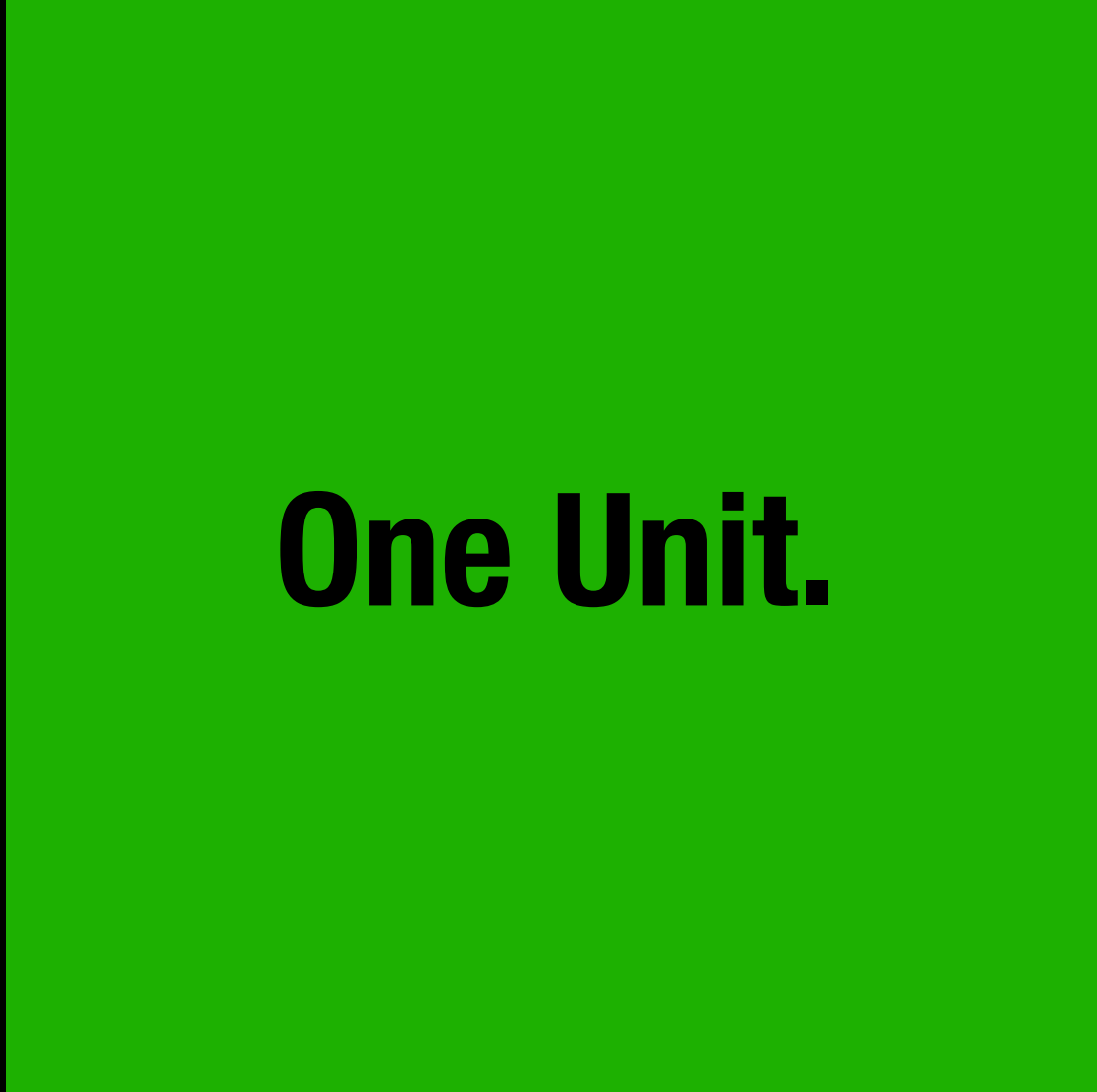
- High customer acquisition costs: A cleaning company typically charged at least \$85 for a 2.5-hour house cleaning, but Homejoy offered new customers a promotional price of \$19 per cleaning. While many platform companies have subsidized products and services (or offered them for free) to fuel growth, Homejoy's promotional price led to substantial losses since 75% of its booking came from discounts as opposed to referrals or organic traffic.[\[1\]](#)
- Poor customer retention: Homejoy's growth-focused strategy may have worked if Homejoy had been able to retain customers, but most customers never used the service again and did not stick around long enough to become profitable—in fact, a third-party analysis showed that only 25% of customers used the service after the first month, and fewer than 10% used it after 6 months.[\[2\]](#) This was attributed to several factors:
 - The promotional rates attracted the wrong customers: homeowners who were not willing to pay the full price of \$25-35 an hour.
 - The service was hit-or-miss. Since cleaners were independent contractors, Homejoy could not provide them with training, thus affecting the quality of the cleaning. Furthermore, Homejoy's focus on growth led it to deprioritize technical issues, such as a glitch in the algorithm that did not provide cleaners with sufficient time to transit from one house to another, thus causing them to arrive late to their appointments.

Top 9 reasons for startup failure

Based on an analysis of 385 startup failures since 2023



Unit Economics



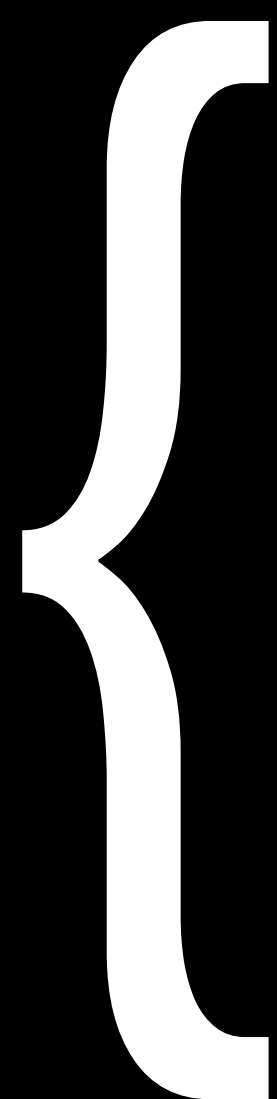
One Unit.

Unit Economics

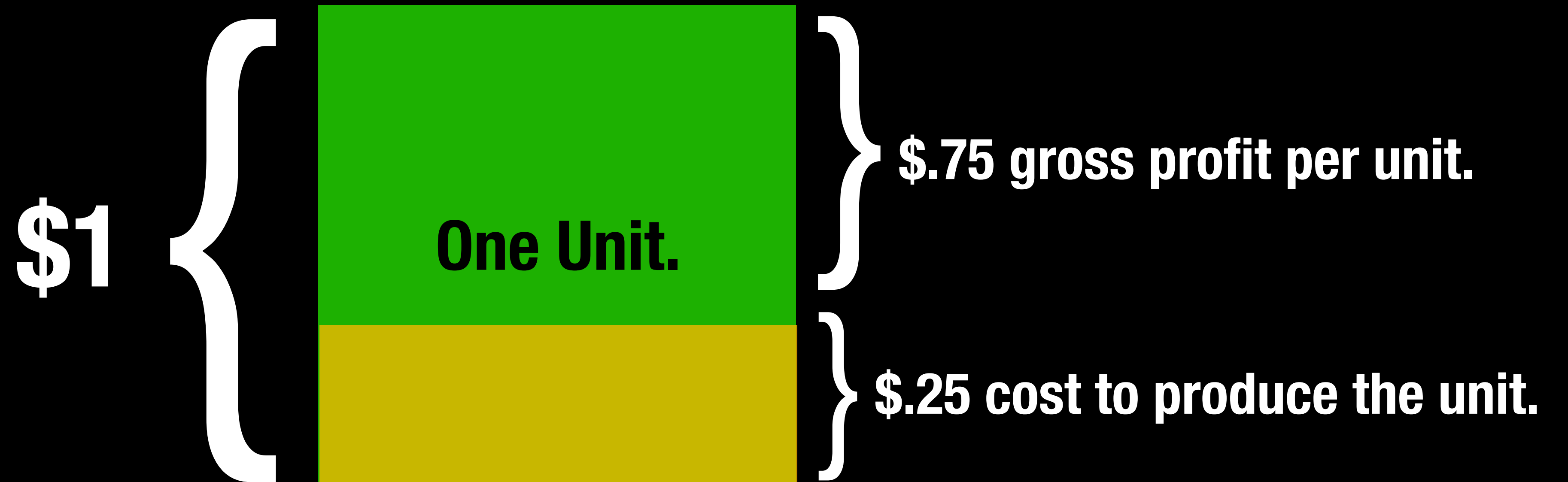
Every business distills down to unit economics.

Something we can produce for X, and customers will pay Y for it.

\$1



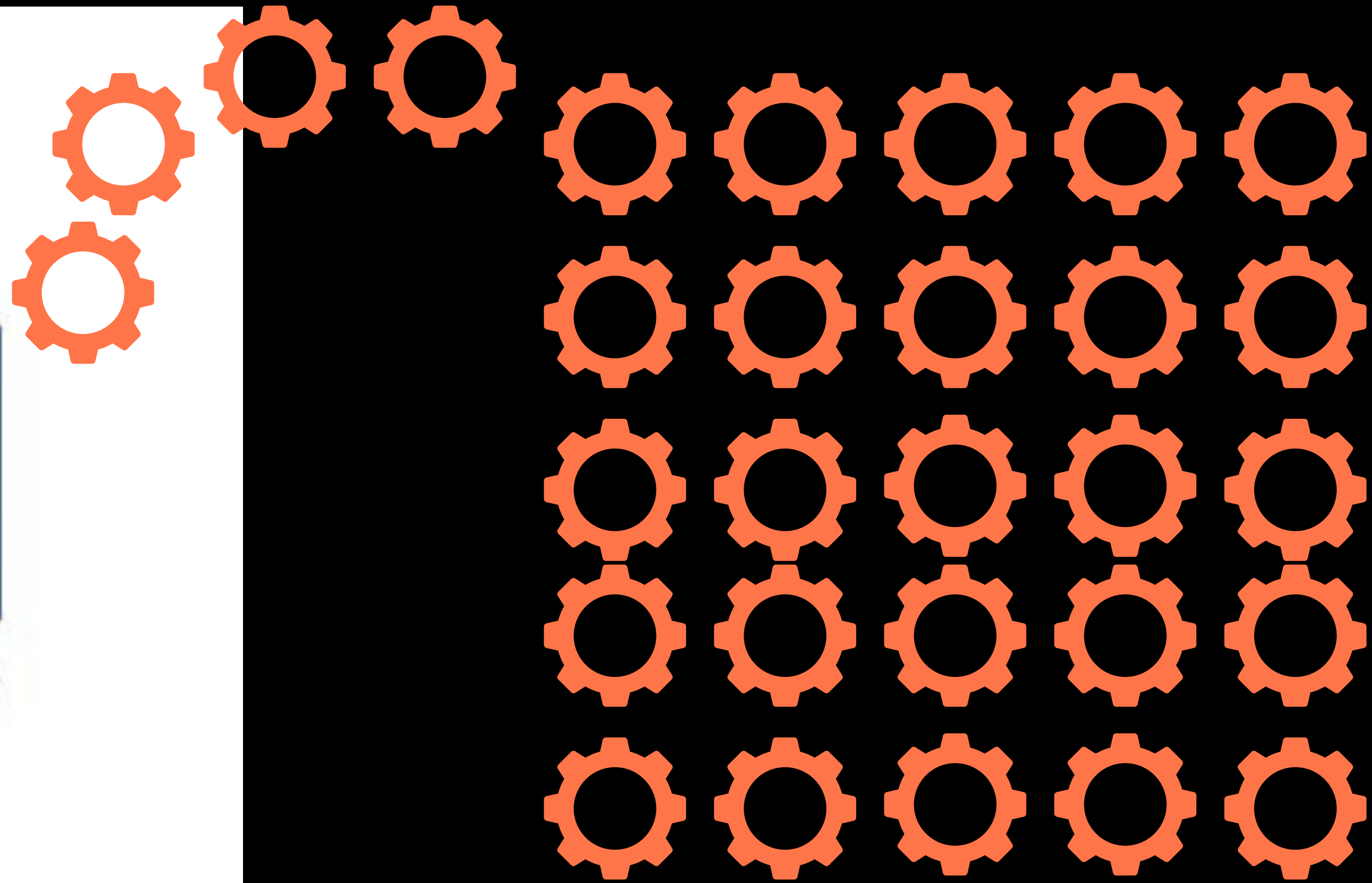
One Unit.



For a widget factory, one unit is one widget.



FACTORY



**One
Unit.**

**One
Unit.**

**For lemonade
stand, one unit
is one glass of
lemonade.**



A photograph of two women in white shirts with black polka dots sitting at a grey desk. They are looking at and pointing to documents. One woman is holding a pen. The background is slightly blurred, showing a plant and a chair.

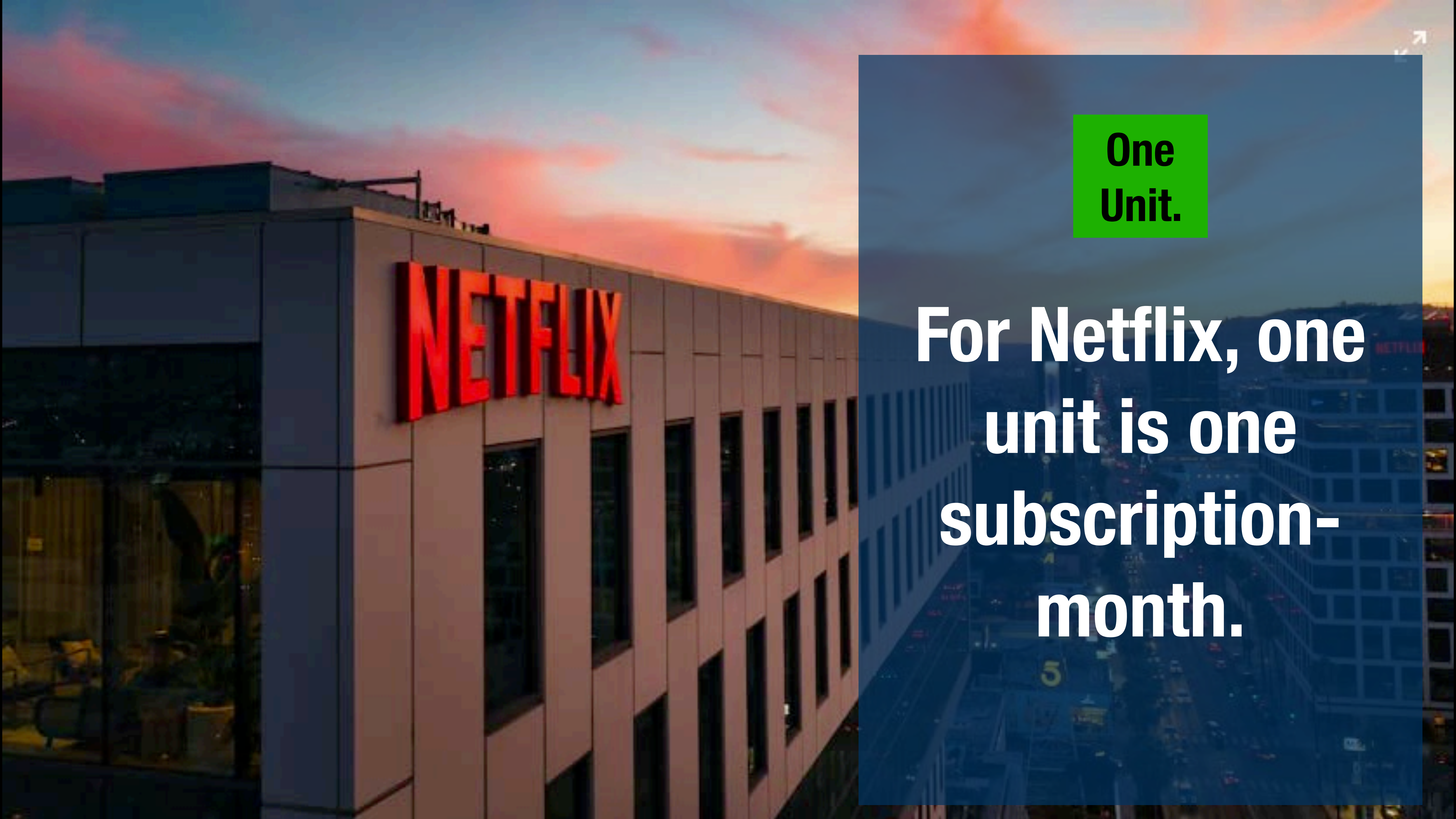
**One
Unit.**

**For a consulting
firm, one unit is
one hour of
billable time.**



**One
Unit.**

**For a bakery, one
unit is one loaf of
bread.**

A photograph of a modern, multi-story building with a prominent red 'NETFLIX' sign on its facade. The building is set against a dramatic sky with soft, colorful clouds in shades of orange, pink, and blue, suggesting a sunset or sunrise. The building's architecture features large windows and a clean, geometric design. A semi-transparent blue overlay covers the right side of the image, containing text.

**One
Unit.**

**For Netflix, one
unit is one
subscription-
month.**



**One
Unit.**

**For an airline,
one unit is one
seat-mile.**



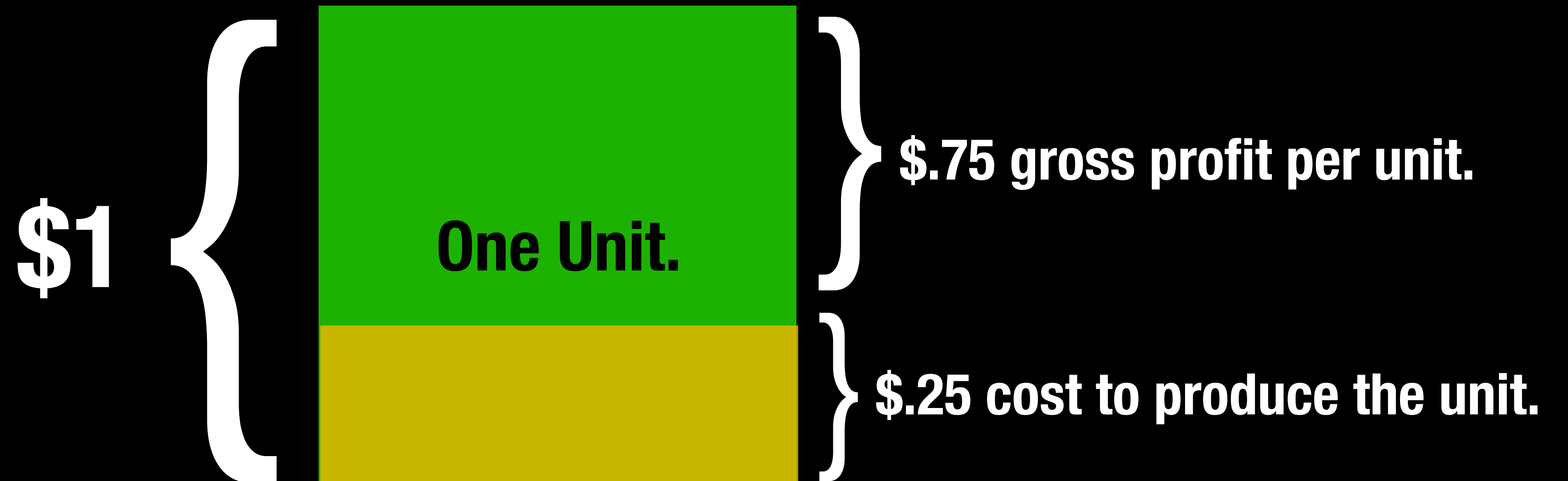
**One
Unit.**

**For Doordash,
one unit is one
average order.**

Unit Economics

Every business distills down to unit economics.

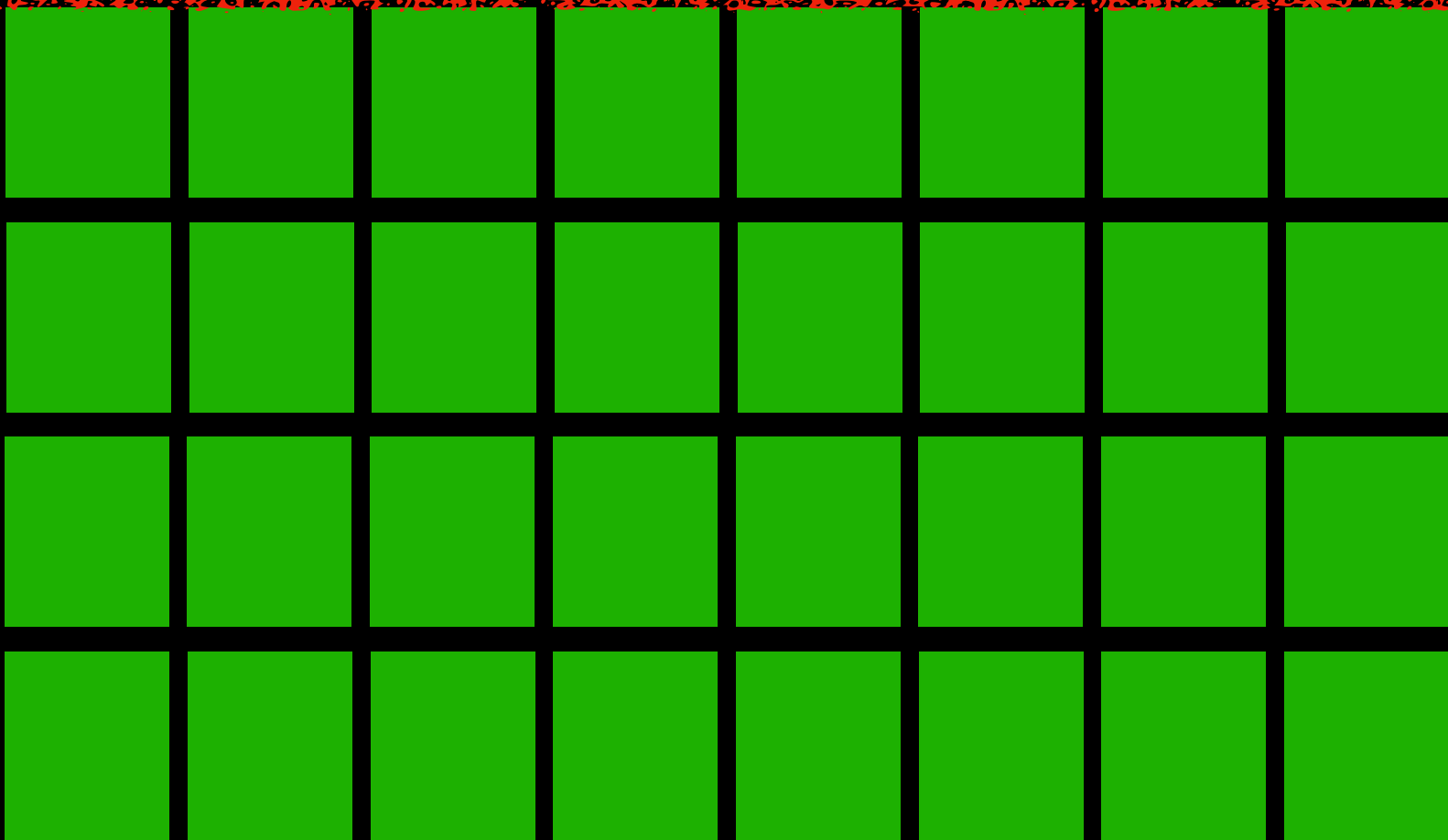
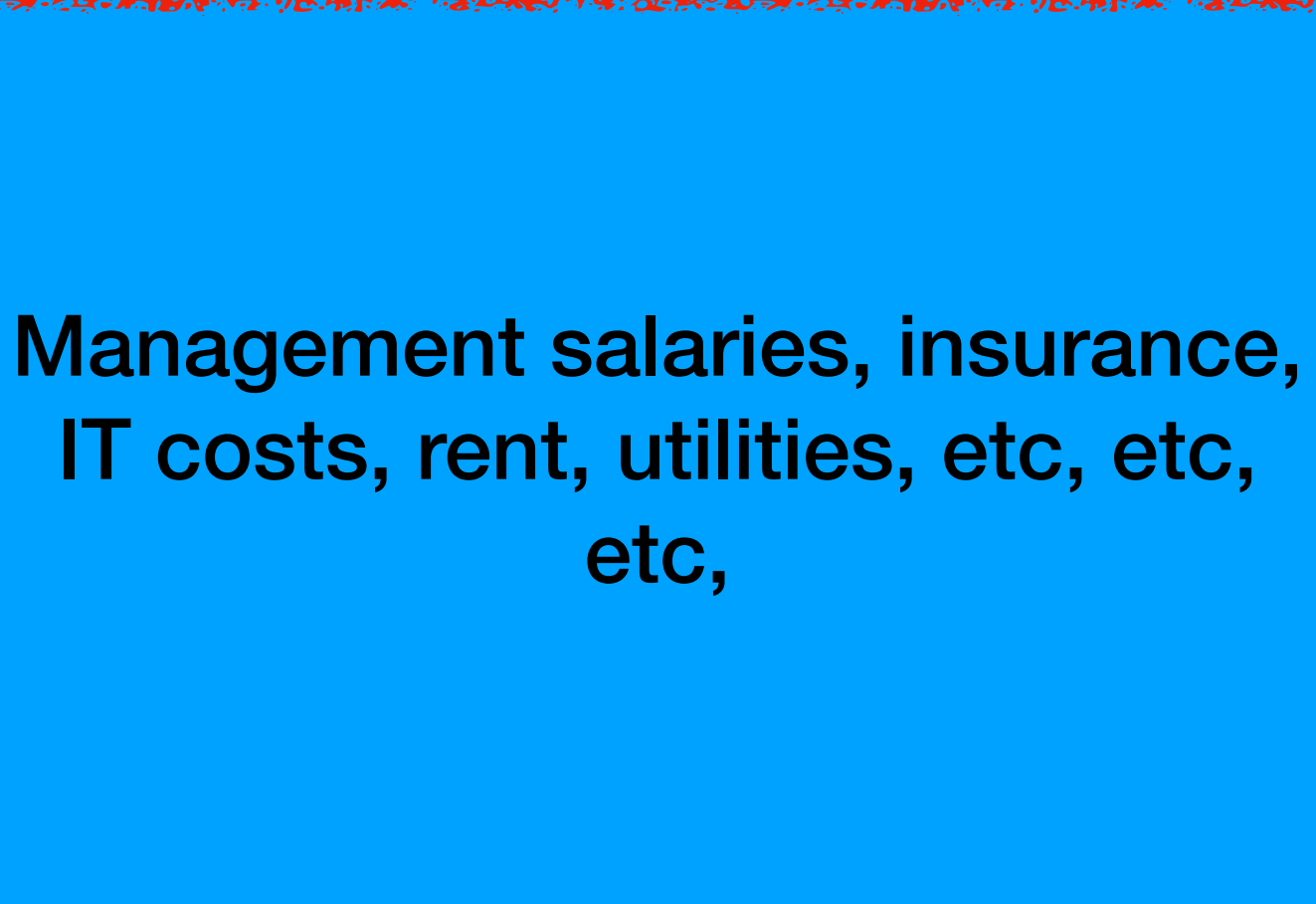
Something we can produce for X, and customers will pay Y for it.



Enterprise Economics

Fixed Overhead

Breakeven



G&A (overhead):

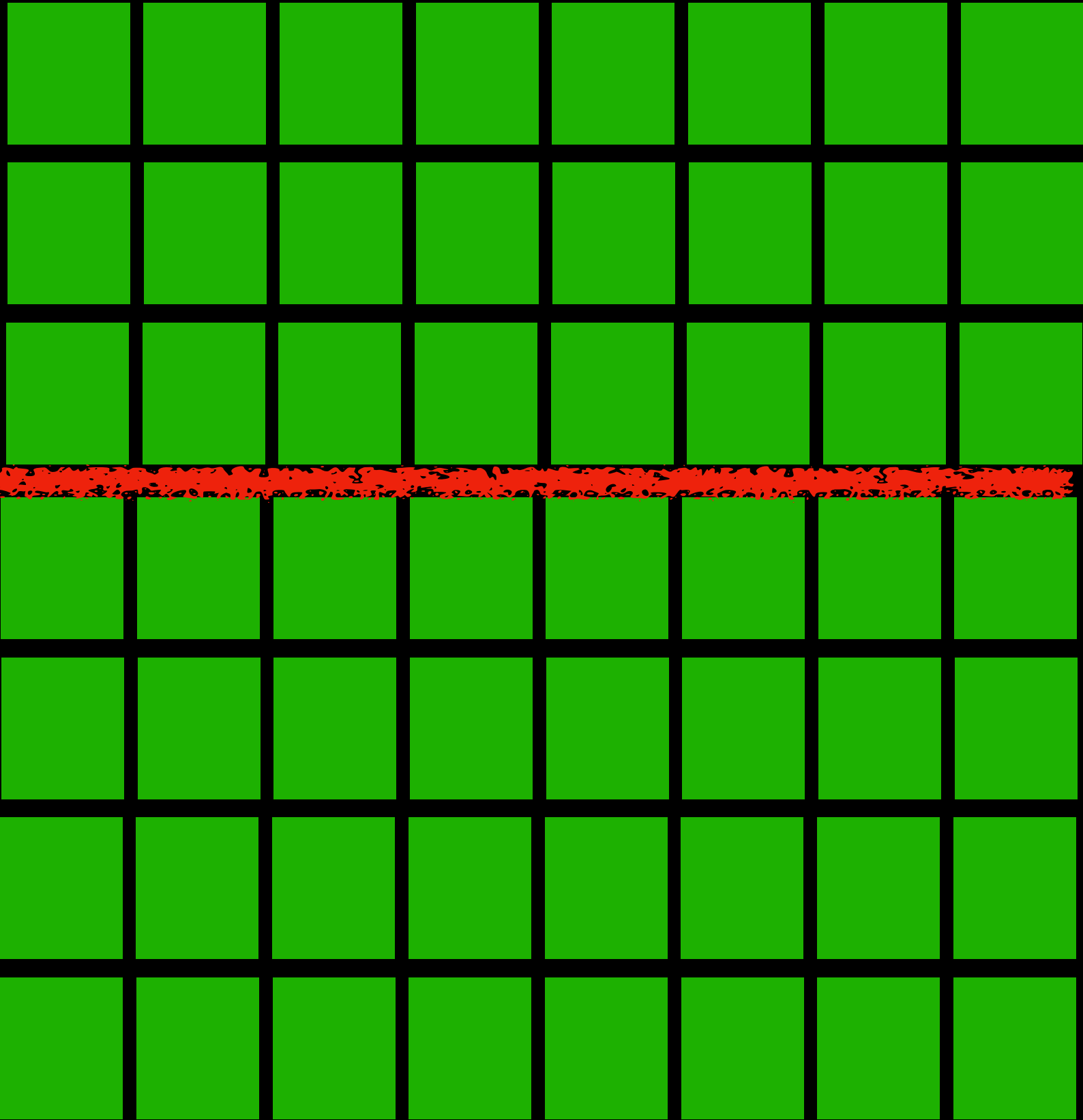
Units sold:

Enterprise Economics

Fixed Overhead

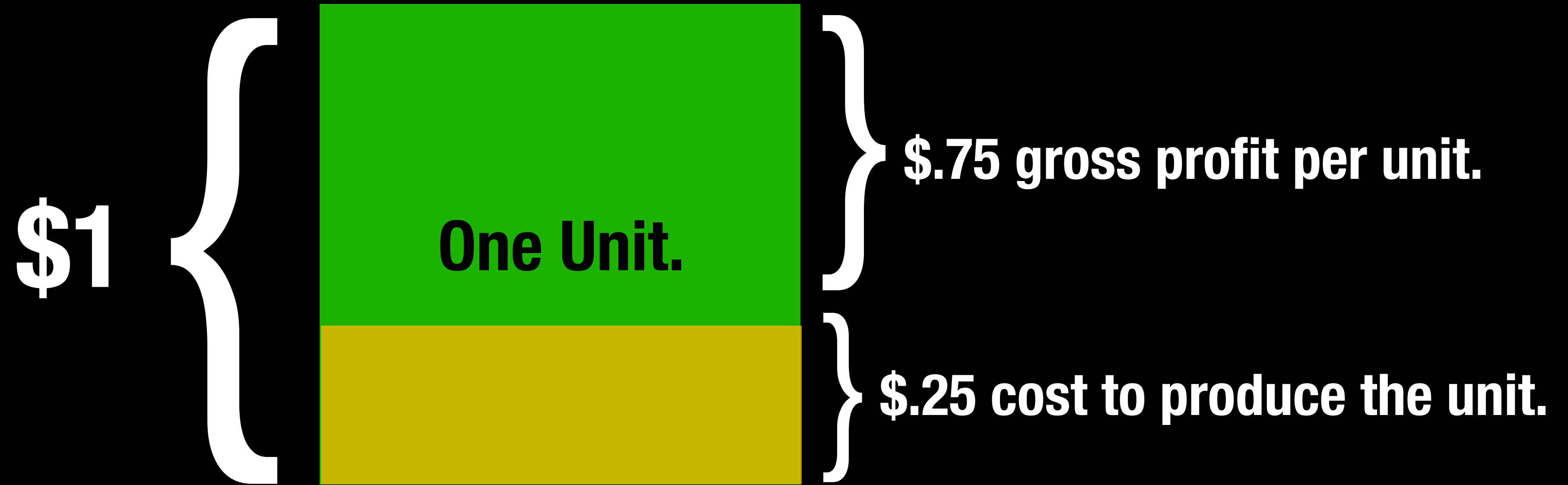
Management salaries, insurance,
IT costs, rent, utilities, etc, etc,
etc,

G&A (overhead):



Units sold:

} Operating
Profit



**Understanding Unit Economics leads us to
the most important equation of all,
Customer Economics.**

One equation to rule them all:

$$\text{CAC} < \text{LTV}$$

Customer Aquisition Cost must be less than the Lifetime Value of a customer.

It's fundamental economics. Having this equation wrong is a leading cause of startup death.

**Let's say we spend \$10,000
in the quarter and we get
1,000 new customers.**

$$\text{CAC} = \$10$$

**We make \$5 gross profit on
every widget we sell.**

**On average a new
customer ends up buying 2
widgets in their first order,
and then come back and
buy 3 more.**

$$\text{LTV} = \$25$$

Winner winner chicken dinner!

Let's say we spend \$10,000
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We make \$5 gross profit on
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On average a new
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widgets in their first order,
and then come back and
buy 3 more.

$$\text{LTV} = \$25$$

2.5x is an OK business.

3x is a good business.

4-5x is a great business.

This is the basic engine of any business.

$$\text{CAC} < \text{LTV}$$

If we can take \$10 off the balance sheet, invest it in customer acquisition activities, and have it come back to the balance sheet as \$30, we have a real business.

An average Netflix subscriber stays on board for 25 months and has a lifetime value of \$291.25.

Amazon Prime members spend \$1,340 annually, compared to roughly \$790 per year for non-Prime customers.

The average Starbucks customer spends \$24.30/week and remains a customer for 20 years. That's \$25,272, and Starbucks has an average margin of 21%, so the lifetime value of a customer is \$5,307.

“The purpose of a business is to create and keep a customer.”

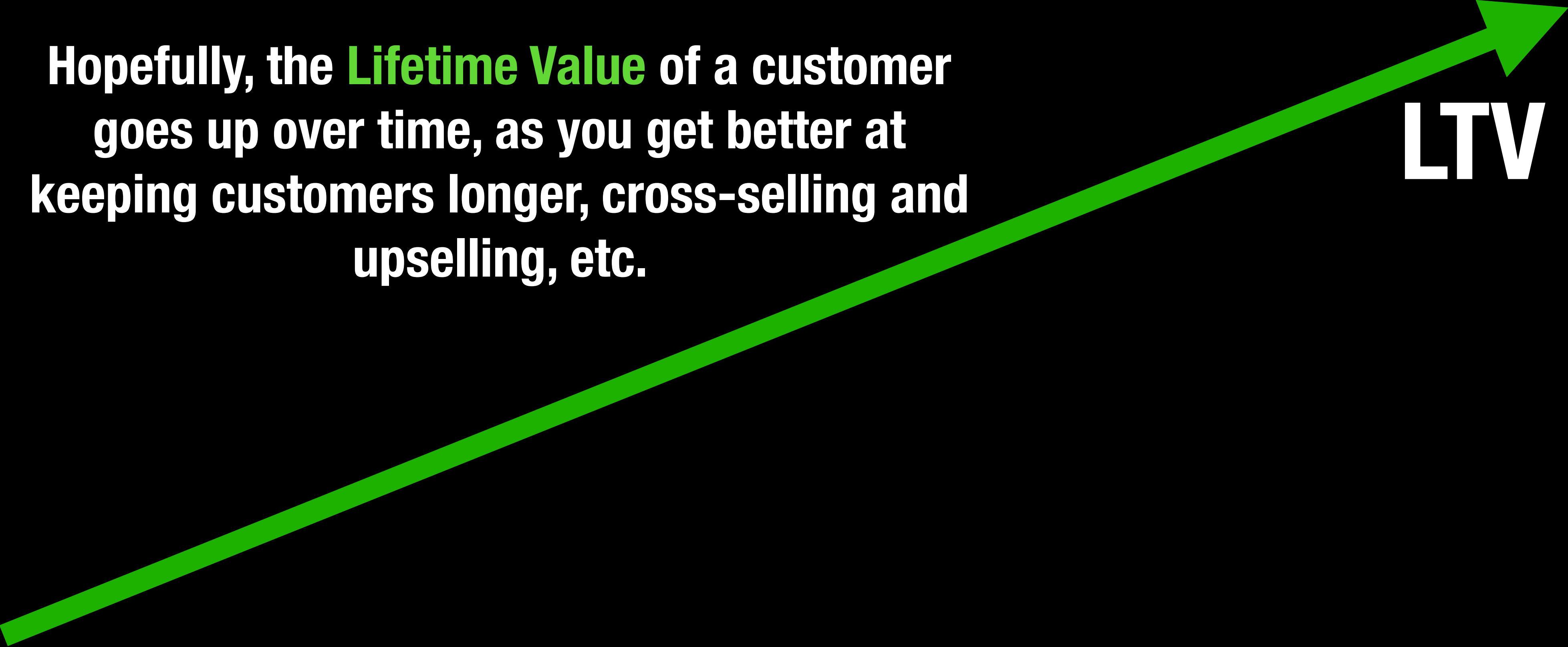
- Peter Drucker

“The purpose of a business is to create and keep a customer.”

- Peter Drucker

$$\text{CAC} < \text{LTV}$$

Hopefully, the **Lifetime Value** of a customer goes up over time, as you get better at keeping customers longer, cross-selling and upselling, etc.



LTV

$$\text{CAC} < \text{LTV}$$

Hopefully, your **Customer Acquisition Cost** goes down over time, as you optimize your marketing efforts, build brand equity, partnerships begin to pay off, and your word-of-mouth footprint grows.



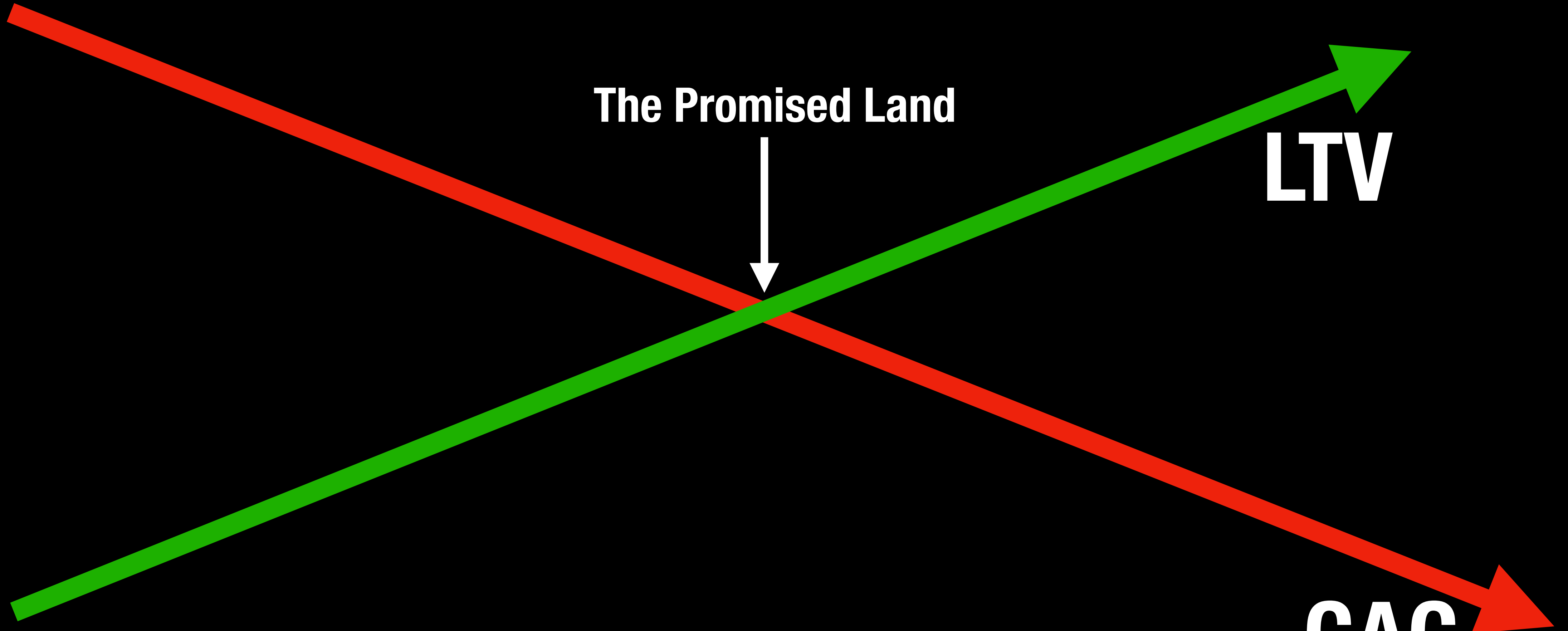
CAC

CAC < LTV

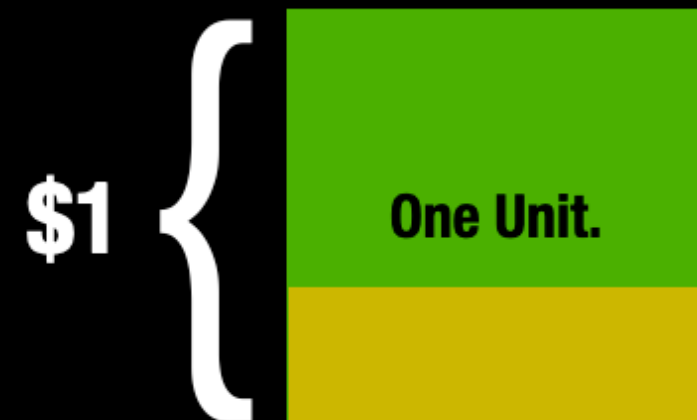
The Promised Land

LTV

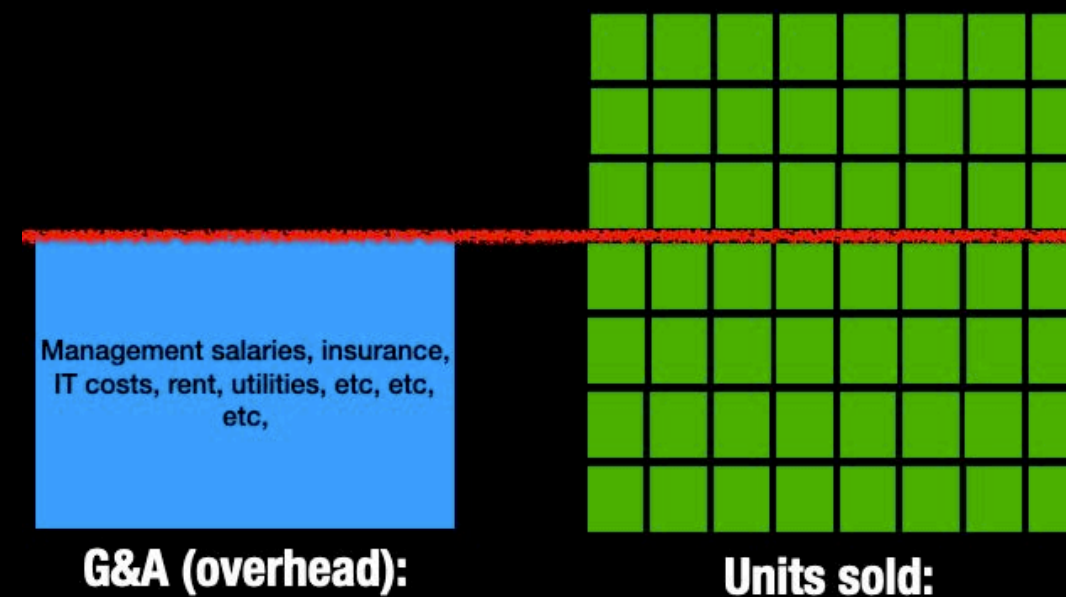
CAC



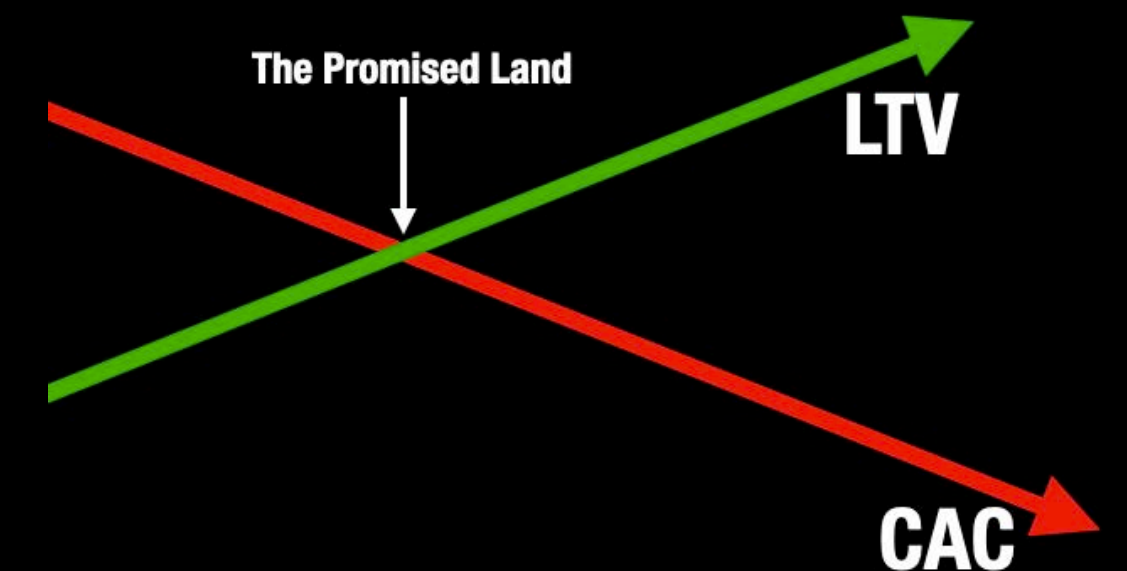
Economic Modeling Concepts



Unit Economics



Enterprise Economics



Customer Economics

The Launch Path, Step 7
Create a Capital Strategy

But first, we need to talk about Corporate Entities.

LLC, S-Corp, C-Corp, 501(c)3?

**Your capital strategy will influence
your choice of corporate structure.**

BUS-217: Legal Entities for Businesses in the US.

	Survivorship.	Liability Shield.	Tax Flow-Through	Shares of stock.	Classes of stock.	Notes
Sole Proprietorship	No.	No.	Yes.	No.	No.	Default. If you do nothing, this is what you are.
Partnership	No.	No.	Yes.	No.	No.	Same as sole proprietorship, but with multiple owners.
LLC	Yes.	Yes.	Yes.	No.	No.	Owners are called “members”; no shares of stock.
S-Corp	Yes.	Yes.	Yes.	Yes, limited to 100 Shareholders	No.	You create a C-corp and then make an “election” to be treated as an S-corp.
C-Corp	Yes.	Yes.	No.	Yes, unlimited.	Yes.	The “big daddy” option. Well-understood and preferred by VC investors.
501(c)3	Yes.	Yes.	Exempt.	No.	No.	Also called a “non-profit” organization. Except from taxes.
Benefit Corp	Yes.	Yes.	No.	Yes, unlimited.	Yes.	Not recognized in all states.

In choosing a legal entity for your business, there are three important concepts to understand:

- **Personal liability**. If the company is sued, can they come after your personal assets?
- **Tax flow-through**. Do the company profits get reported on your personal tax return?
- **Ownership Structure**. With multiple owners, is there a way to define who owns what percentage and what rights they each have?

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What's the deal with Delaware?

- **The majority of F500 companies are incorporated in Delaware.**
- **If you are going to solicit venture funding, investors will probably require it.**
- **Pro-company legal jurisdiction (CA is much more pro-shareholder).**
- **Special court system, experienced judges, lots of case law.**
- **Overall cost is slightly higher than California (and you are still subject to CA franchise tax and filings).**

The Big Question for Entrepreneurs.

“Should I do the legal formation myself, or hire a lawyer?”

- **It depends.**
- **You can do it yourself with filing fees less than \$1,000, or you can have a full-service law firm do it for ~\$5,000, or you can negotiate a flat-fee deal with many law firms for less (because they want your downstream business).**
- **Clerky, Nolo, and LegalZoom all offer do-it-yourself forms.**

Financing your startup.

Bootstrap? Angel Capital? Venture Capital?

Many ways to finance a business:

- Your own pocket.
- Your own friends and family.
- Supplier financing.
- Customer financing.
- Bank Loan
- Factoring
- Crowdfunding (Kickstarter, etc).
- Borrow from your 401(k).
- Pre-sales
- SBA Loan
- Angel List syndicates
- Angel Investors
- Venture Capital Funds
- Impact Funds
- Foundation Grants
- Buy a lottery ticket (not a recommended strategy).

Sources and Structures of Startup Capital

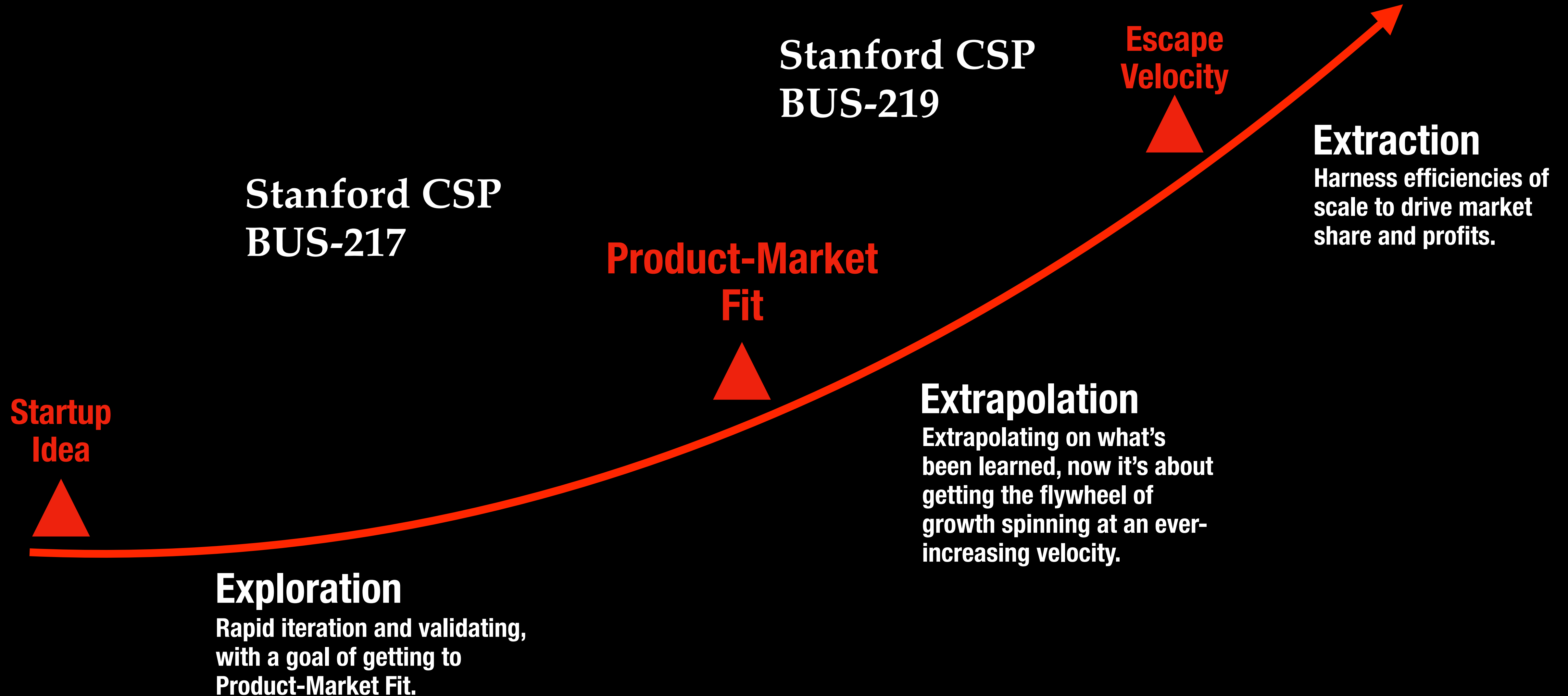
	Typical check size.	Typical investment structure.	Typical stage.	A good fit for:	Notes
Angel Investors	\$25K - \$500K.	SAFE or Convertible note.	From idea to PMF.	Very early stage ventures.	Because they are investing their own money, they can make a “leap of faith” investment decision.
Venture Capital Firms	\$1M - \$500M.	Equity.	Growth stage after PMF.	High-growth startups with billion dollar potential.	They have a fiduciary responsibility to make rational investment decisions, and a model that incentivizes them to do so.
Crowdfunding.	\$10K - \$1M.	Mixed.	Idea.	Creative projects, and also pre-sales of physical items.	There’s a lot of regulation around selling private stock that can make crowdfunding problematic.
Impact funds.	Wide range.	Debt, soft-debt, demand dividend, rev share, SIBs. General not equity, as	After PMF and after impact metrics proven.	Nonprofits and social ventures.	Need to have solid impact metrics plus enough cash flow that the capital can make a round trip back to the fund eventually.
Foundations.	Wide range.	Grant.	Wide range.	Nonprofit organizations.	Grants today are typically tied to impact metric goals.
PE Firms.	\$10M plus.	Equity.	Late, and /or distressed.	Founders wanting to sell control and get exit liquidity.	Not typically relevant in the startup world except during crazy times like 2020-23
Corporate Venture Capital.	Wide range.	Equity.	Early-ish.	Ventures where a strategic partnership is important to growth.	CVC firms have a variety of mandates. Make sure you ask what theirs is.
Non bank lenders	Wide range.	Debt or points, sometimes plus warrants.	Growth.	E-commerce ventures with a proven CAC:LTV.	Typically non-dilutive, which can make this very attractive.

There are lots of great ways to finance a new startup venture.

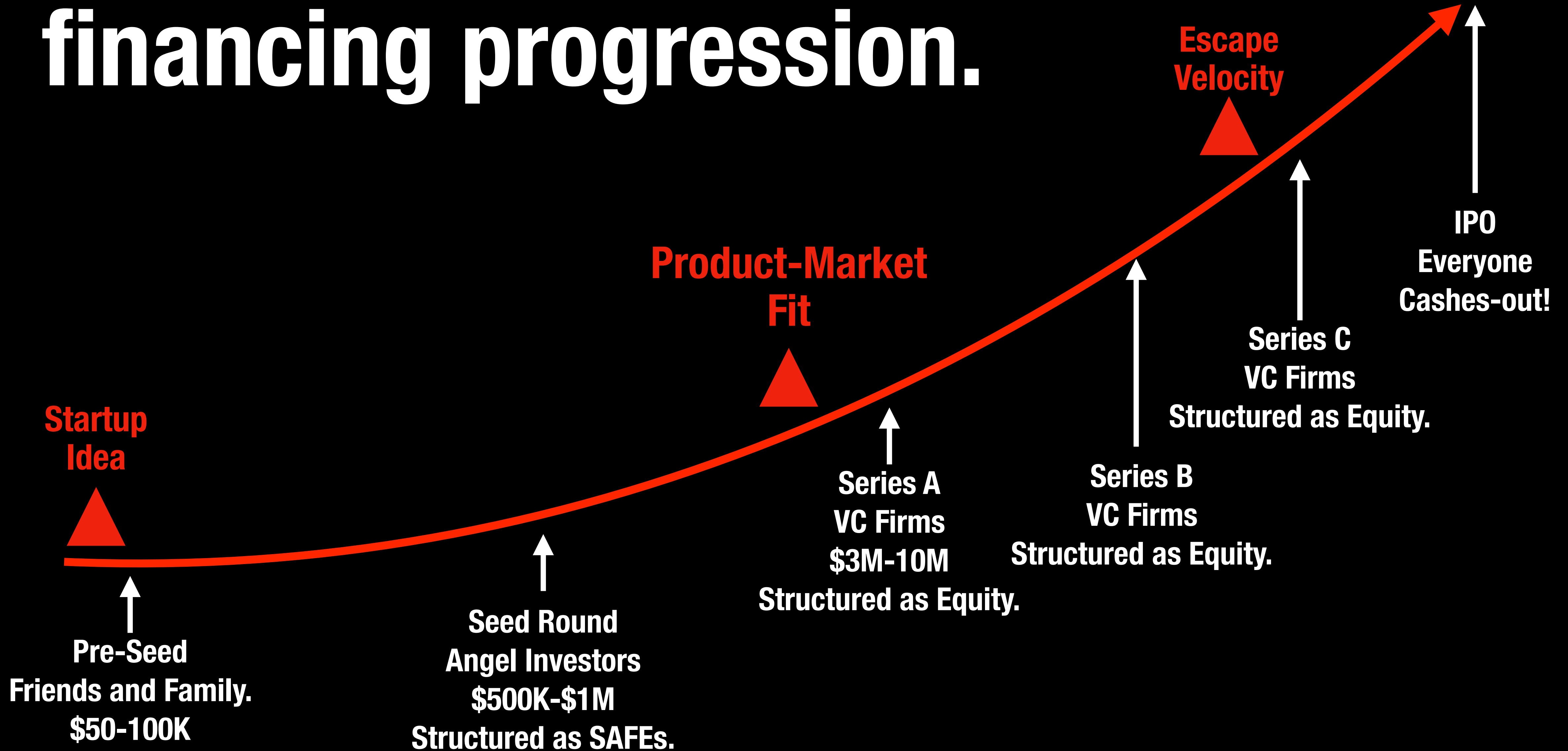
But here in Silicon Valley, many of you probably are in this course because you want to know the Silicon Valley Unicorn process.

So here we go....

Stages of a venture.



The typical Silicon Valley financing progression.



Angels

Individuals investing their own money. No fiduciary responsibility to anyone. Tend to invest early-stage where it is a “gut” investment decision. Typical check size \$25K-\$500K.

VS.

VC's

General Partners investing from a fund they have raised from Limited Partners (insurance companies, pension plans, university endowments). Tends to be at the growth stage (not the idea stage). Typical check size \$1M-\$100M.

Capital Comes in Two Flavors:

Debt

Has to be repaid (principal + interest) over some defined amount of time. Debt holder has no claim of ownership to the company, and is not entitled to any share of future profits.

vs.

Equity

No repayment obligation. Investor owns a percentage of the company and has a pro rata claim to future profits. Investor hopes to sell their equity in the company in the future at a profit.

Two exceptions: Grants and Contracts

Capital Comes in Two Flavors, Debt and Equity, but there are these two exceptions:

Grants

Grants are neither debt nor equity. They are “free money”, although often come with certain strings and expectations.

Contracts

A SAFE is a contract that offers the opportunity to buy equity in the future. A license or revenue share financing would also be examples of contract capital.

Capital Comes in Two Flavors:

Debt

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Two exceptions: Grants and Contracts

Pros and Cons of Debt vs Equity

ADVANTAGES OF DEBT COMPARED TO EQUITY

- Debt does not dilute the owner's ownership interest in the company.
- A lender has no direct claim on future profits of the business.
- Interest on the debt can be deducted on the company's tax return, lowering the actual cost of the loan to the company.
- Raising debt capital is less complicated because the company is not required to comply with state and federal securities laws and regulations.
- The company is not required to seek the vote of shareholders before taking certain actions.
- In liquidation debt is always senior to equity (meaning that debt holders get paid first, before equity holders).

DISADVANTAGES OF DEBT COMPARED TO EQUITY

- Unlike equity, debt must at some point be repaid.
- Cash flow is required for both principal and interest payments and must be budgeted for.
- Debt instruments often contain restrictions (covenants) on the company's activities.
- The larger a company's debt-equity ratio, the more risky the company is considered by lenders and investors
- The company is usually required to pledge assets of the company to the lender as collateral, and owners of the company are in some cases required to personally guarantee repayment of the loan.

**Your parents told you to avoid debt.
They're not wrong, but....**

“I’ll lend you \$500K for your startup, 6%, 5 years”

Total cost: \$79,984 in interest.

**“Psst - don’t take that! I’ll give you the same amount,
with zero payments! Just give me 20% equity. ”**

**20% of all future profits and eventual sale of your company
is hopefully worth way more than \$79,984!**

**It's difficult for startups to get debt capital, and
that's the reason the VC business exists.**

**You may well end up with equity capital, but don't
fool yourself into thinking it's cheaper than debt.
It's probably not.**

Capital Comes in Two Flavors:

Debt

Has to be repaid (principal + interest) over some defined amount of time. Debt holder has no claim of ownership to the company, and is not entitled to any share of future profits.

VS.

Equity

No repayment obligation. Investor owns a percentage of the company and has a pro rata claim to future profits. Investor hopes to sell their equity in the company in the future at a profit.

**Venture Capital transactions are
(nearly) always equity financings.**

In an equity financing, the investors are buying stock in the company.

So how does a venture capitalist get a return on their investment?

An IPO (selling their stock to the public), or M&A (selling their stock to the acquiring company).

Equity Financing Math:

Post-Money Valuation = \$3M

Founders own 66.7%
Pre-Money Valuation = \$2M

Investors own 33.3%
New Money \$1M

Every equity financing transaction follows this simple math.

**What the company is worth
before the financing.**

**The new capital going into the
company in this financing.**

Equity Financing Math:

Post-Money Valuation =



Founders own 66.7%
Pre-Money Valuation = \$2M

Investors own 33.3%
New Money \$1M

Equity Financing Math:

Post-Money Valuation = \$20M



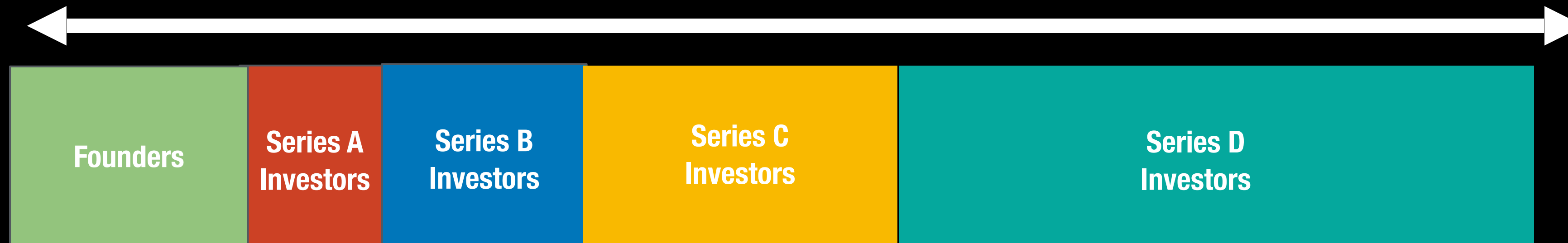
Equity Financing Math:

Post-Money Valuation = \$80M



Equity Financing Math:

Post-Money Valuation = \$900M



Key Terms in Equity Financing

Percentage of the company which investors will own.

Special preferences which investors have associated with their shares.

Two Flavors of Stock

COMMON SHARES

Typically held by founders and employees (often in the form of options).

PREFERRED SHARES

Typically held by the investors, and has certain “preferential rights” associated with those shares of stock.

The most important of which is liquidation preference.

If they invest \$1M with liquidation preferences of 1x, then upon liquidation of the company the first million out comes back to them.

Convertible Notes and SAFEs

Seed-stage startup investment instruments that turn into equity later.

Startup Convertible Note Agreement

1. THE PARTIES

This Startup Convertible Note Agreement ("Agreement") is made on [Month Day, Year] (the "Effective Date") by and between **[Your Company Name]** (hereinafter referred to as "Company"), located at [Your Company Name] and **[Second Party Name]** (hereinafter referred to as "Investor"), located at [Second Party Address]. The parties hereinafter may also be referred to individually as "Party" and collectively as "Parties."

2. INVESTMENT AMOUNT AND TERMS

2.1 Principal Amount and Payment Terms

The Investor agrees to purchase from the Company a Convertible Note in the principal amount of \$500,000. This principal amount represents the initial investment made by the Investor. The Convertible Note will be purchased in a cash amount equal to the principal amount, and payment shall be made within 30 days of the Effective Date.

2.2 Interest Accrual

The Convertible Note will accrue interest at a fixed rate of 5% per annum. Interest will begin accruing from the Effective Date and will be calculated based on the outstanding principal amount. The interest will be due and payable upon the occurrence of the conversion event or at the maturity date, which is set at 24 months from the Effective Date.

About ▾ Companies ▾ Library  Partners Resources ▾

By Carolynn Levy

Download the Safe

US companies

There are three versions of the post-money safe intended for use by US companies, plus an optional side letter.

- [Safe: Valuation Cap, no Discount](#)
- [Safe: Discount, no Valuation Cap](#)
- [Safe: "Uncapped MFN" \(no Valuation Cap, no Discount\)](#)
- [Pro Rata Side Letter](#)
- [Safe User Guide](#)

A SAFE is an instrument (contract) that for future purchase of stock (equity) in a startup.

I'll put \$100K in now, in return for being able to use that \$100K to buy stock in your future VC round of financing at whatever price those VCs are paying for their stock.

SAFE
(Simple Agreement for Future Equity)

THIS CERTIFIES THAT in exchange for the payment by [Investor Name] (the "**Investor**") of \$ [] (the "**Purchase Amount**") on or about [Date of Safe], [Company Name], a [State of Incorporation] corporation (the "**Company**"), issues to the Investor the right to certain shares of the Company's Capital Stock, subject to the terms described below.

This Safe is one of the forms available at <http://ycombinator.com/documents> and the Company and the Investor agree that neither one has modified the form, except to fill in blanks and bracketed terms.

The "**Post-Money Valuation Cap**" is \$[]. See **Section 2** for certain additional defined terms.

1. Events

(a) **Equity Financing.** If there is an Equity Financing before the termination of this Safe, on the initial closing of such Equity Financing, this Safe will automatically convert into the greater of: (1) the number of shares of Standard Preferred Stock equal to the Purchase Amount divided by the lowest price per share of the Standard Preferred Stock; or (2) the number of shares of Safe Preferred Stock equal to the Purchase Amount divided by the Safe Price.

In connection with the automatic conversion of this Safe into shares of Standard Preferred Stock or Safe Preferred Stock, the Investor will execute and deliver to the Company all of the transaction documents related to the Equity Financing; *provided*, that such documents (i) are the same documents to be entered into with the purchasers of Standard Preferred Stock, with appropriate variations for the Safe Preferred Stock if applicable.

Except that I want a slightly better deal than those VCs (the discount rate).

And I want a guarantee that I get to buy my stock at a valuation at no more than \$X (the valuation cap).

The reason SAFEs exist:

Post-Money Valuation = \$3M



They defer the question of valuation.

**TERM SHEET
FOR
SERIES A PREFERRED STOCK FINANCING**

This term sheet summarizes the principal terms of the Series A Preferred Stock Financing of [REDACTED] (the "*Company*"). This Term Sheet and any related correspondence are to be held in strict confidence and not disclosed to any party, other than the Company employees who reasonably need to know such information and professional advisors of potential investors.

OFFERING TERMS:

Company:	[REDACTED]
Security:	Shares of Series A Preferred Stock of the Company (" <i>Series A Preferred</i> " or " <i>Preferred Stock</i> ")
Amount of financing:	Up to \$1,000,000 in one or more closings
Price Per Share:	\$358182 (the " <i>Original Purchase Price</i> ")
Total Number of Shares to be issued:	2,791,875
Pre-Money Valuation:	\$2,000,000
Post-Money Valuation:	Up to \$3,000,000, including an unallocated option pool of 500,000 shares of Common Stock
Use of Proceeds:	Working capital and general corporate purposes

TERMS OF SERIES A PREFERRED STOCK:

DIVIDENDS: 8% of the Original Purchase Price per annum, if and when declared by the Board of Directors in preference to any dividend on Common Stock.

LIQUIDATION PREFERENCE: In the event of any liquidation, sale or winding up of the Company, the holders of Series A Preferred shall be entitled to receive prior and in preference to the holders of Common Stock an amount equal to the Original Purchase Price per share, plus any declared but unpaid dividends (the "*Liquidation Preference*"). After the payment of the Liquidation Preference the remaining assets shall be distributed ratably to the holders of Common Stock.

**TERM SHEET
FOR
SERIES A PREFERRED STOCK FINANCING (page 2)**

CONVERSION:	The holders of Preferred Stock shall have the right to convert the Preferred Stock, at any time, into shares of Common Stock at an initial conversion ratio of 1:1, subject to adjustment as provided below.
AUTOMATIC CONVERSION:	The Preferred Stock shall automatically convert into Common Stock, at the then applicable conversion price (i) upon election of a majority of the Preferred Stock or (ii) upon the closing of an IPO at a per share price not less than 3x the Original Purchase Price and for a total offering of not less than \$30 million (before deduction of commissions and expenses).
ANTIDILUTION PROVISIONS:	The conversion price of the Preferred Stock shall be subject to adjustment to prevent dilution on a broad-based weighted average basis in the event that the Company issues additional shares of Common Stock or securities convertible into or exercisable for Common Stock at a purchase price less than the then-effective conversion price, subject to customary exceptions.
VOTING RIGHTS:	The Preferred Stock will vote together with Common Stock and not as a separate class except as otherwise provided herein or as otherwise required by law. Each share of Preferred Stock shall have a number of votes equal to the number of shares of Common Stock then issuable upon conversion of Preferred Stock.
BOARD OF DIRECTORS:	The Board shall initially be fixed at three (5) directors. The Investors and the holders of Common Stock will enter into a voting agreement to provide for two directors to be elected by the Series A Preferred Stock, voting separately, and three directors to be elected by the Common Stock, voting separately, one of whom shall initially be [REDACTED].
INFORMATION RIGHTS:	The Company shall provide the Major Investors (a " <i>Major Investor</i> " is a holder of 125,000 or more of the shares of the Company's Preferred Stock) with customary information rights.
PREEMPTIVE RIGHTS:	In the event the Company proposes to offer equity securities to any person (subject to customary exceptions), Major Investors shall have the right to purchase their fully-diluted pro rata portion of such equity securities.

Capitalization Table for [REDACTED], Inc July, 2011

Stock Authorized	
Common Stock	10,000,000
Preferred Stock	2,875,625
Total Authorized Shares:	12,875,625

Issued/Reserved:		Shares	Percentage (fully-diluted):
Founders' Common Stock			
[REDACTED]		4,300,000	47.1%
[REDACTED]		450,000	4.9%
[REDACTED]		1,000,000	11.0%
Total Founders' Common Stock		5,750,000	63.0%
Series A Preferred Stock (on as-converted to Common Stock basis)		2,791,875	30.6%
Investors:			
[REDACTED]	\$25,000	69,797	0.8%
[REDACTED]	\$200,000	558,375	6.1%
[REDACTED]	\$50,000	139,594	1.5%
[REDACTED]	\$100,000	279,188	3.1%
[REDACTED]	\$25,000	69,797	0.8%
[REDACTED]	\$50,000	139,594	1.5%
[REDACTED]	\$50,000	139,594	1.5%
[REDACTED]	\$25,000	69,797	0.8%
[REDACTED]	\$50,000	139,594	1.5%
Totals	\$575,000	1,605,328	17.6%
Series A authorized but not issued	\$425,000	1,186,547	13.0%
Warrants to Purchase Series A Preferred Stock (on an as-exercised basis)	([REDACTED])	83,750	0.9%
Stock Option Plan*			
Reserved and Available for Issuance	500,000	500,000	5.5%
TOTAL:		9,125,625	100%

Mechanics of a Venture Fund

The firm decides to raise a fund, and goes looking for investors in that fund. Typically the investors are foundations, pension funds, and high net worth individuals who put money in and become Limited Partners (LPs) in the fund.

The firm charges the LP's a 2%/year management fee and 20% of the “carry” (profits).

Typical funds have 10-year horizons. At the end of ten years the fund is dissolved and capital is distributed.

Most VC firms have multiple funds under management, some with a particular investment focus (early stage biotech, or growth-stage consumer, etc).