

Refining Your Path to Profitability



— ARIZONA —
SMALL BUSINESS
BOOT CAMP

What's your biggest profit worry?
What would make today a big win?

Chat's where it's at

Put questions in whenever you have them
I'll answer them at the end of each section

Who am I?



Stephanie Sims

Building economic stories that make dollars
...and sense

- ✓ Capital strategist & startup advisor
- ✓ Over \$5B of investment banking transactions
- ✓ Over \$30M of early-stage funding
- ✓ Helped hundreds of entrepreneurs across 3 continents
- ✓ 2x startup entrepreneur
- ✓ Speaker, author, podcast host

LinkedIn: StephanieJSims

Today's Agenda

ARE YOU ON A PATH TO PROFITABILITY?



01

What making a profit means

Gross margin, EBITDA & net profit – and what they mean to your biz

02

Cash & profit are NOT the same

You need more than profit, you need enough cash to keep going

03

What's your (new) path to profitability?

A simple method for understanding what needs to change in your business

What Making a Profit Means

Profit is the Goal

01

Everything is an investment

Time, energy and money, as well as leveraging your reputation and network are ALL investments. Be aware of what you're investing!



What return are you getting?

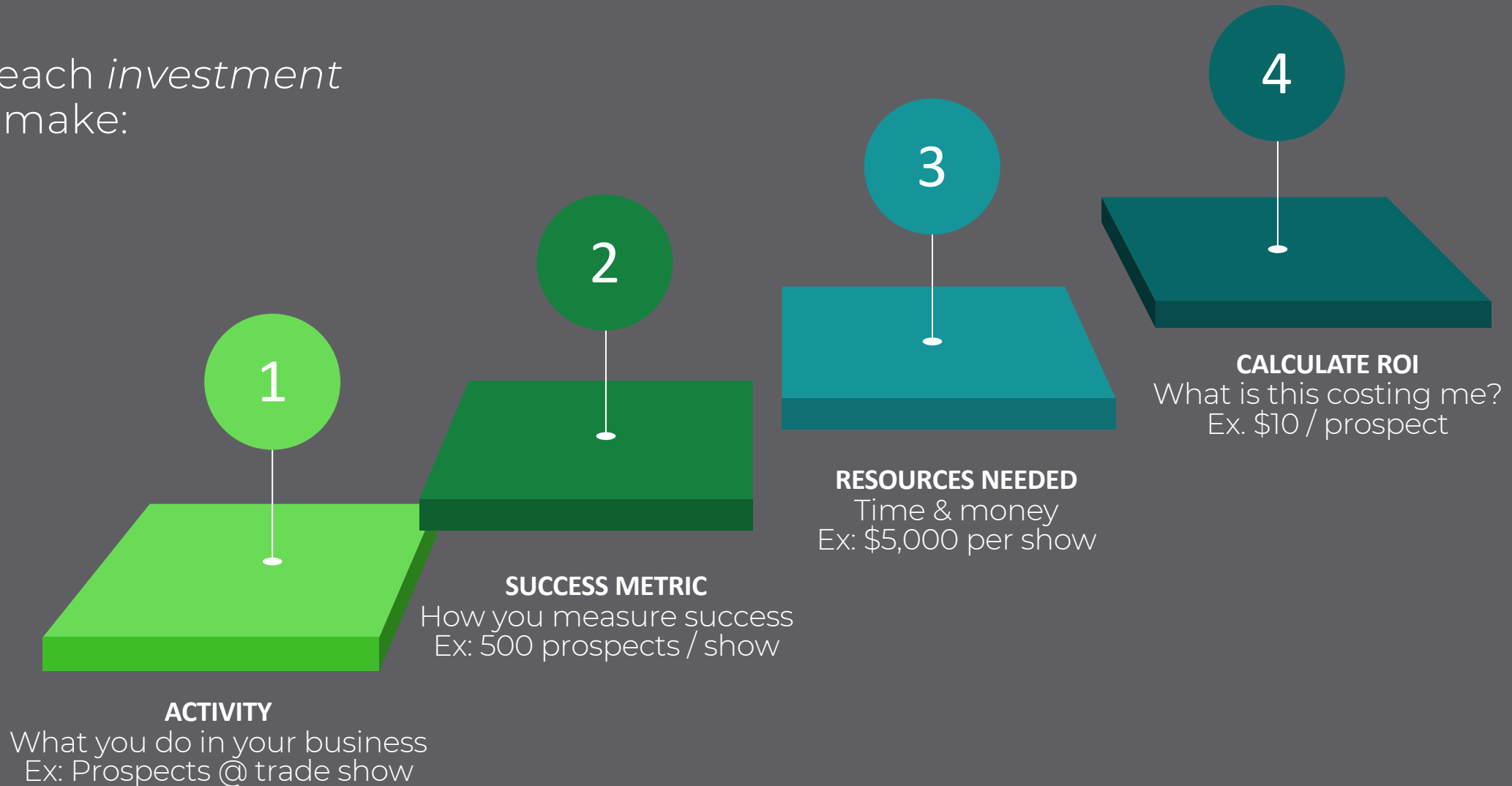
You need to demonstrate that you know how to get a good return on the investments you're making BEFORE you can convince anyone else to fund you!

02



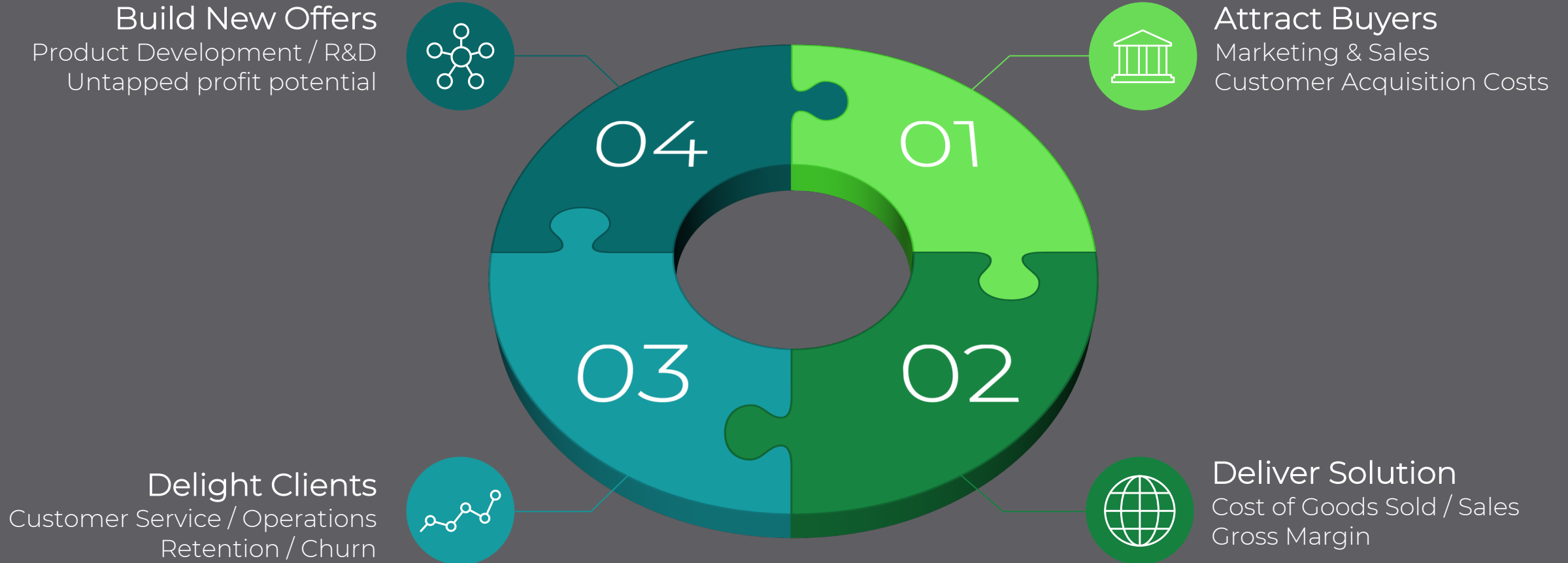
Numbers should provide insights

For each *investment* you make:



Focus on Your ACTIONS

Every business does 4 things:



What the numbers tell you

TODAY (monthly, in 000s)

Revenues	\$ 225
<u>Deliver</u>	<u>-160</u>
Gross Margin	\$ 65 (29% of revs)

Attract	\$ 50
Delight	\$ 20
Build	\$ 25
<u>Support</u>	<u>\$ 50</u>
Other Costs	\$ 145

Net LOSS (\$ 80)

IN 18 MONTHS (monthly, in 000s)

Revenues	\$675 (3x customers)
<u>Deliver</u>	<u>-400</u> (20% reduction)
Gross Margin	\$275 (41% of revs)

Attract	\$ 100 (33% reduction)
Delight	\$ 50 (17% reduction)
Build	\$ 25
<u>Support</u>	<u>\$ 50</u>
Other Costs	\$225

Net Profit \$ 50

What investments AREN'T providing good returns?

Know what to stop doing!

QUESTIONS?

Cash and Profit Are NOT the Same Thing

Profit is NOT the same as Cash

Profit & Loss (in 000s)

Revenues	\$ 225
<u>Deliver</u>	<u>-180</u>
Gross Margin	\$ 45 (20% of revs)

Attract	\$ 50
Delight	\$ 20
Build	\$ 25
<u>Support</u>	<u>\$ 50</u>
Other Costs	\$ 145

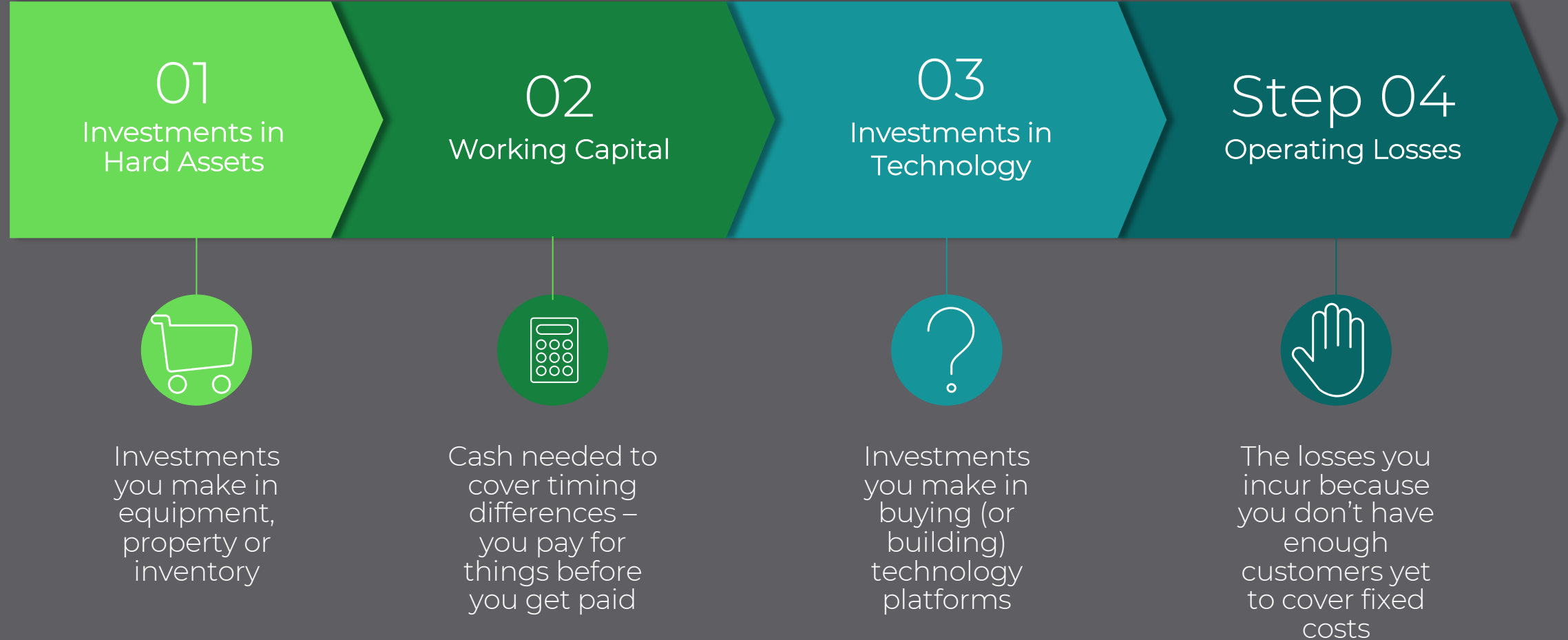
Net LOSS (\$ 80)

Cash (in 000s)

	<u>-60</u>	<u>-30</u>	<u>Sale</u>
Revenues			225
Deliver	180		
Attract	25	25	
Delight		10	10
Build	13	12	
<u>Support</u>	<u>4</u>	<u>4</u>	<u>4</u>

CASH FLOW 222 52 212

Watch out for cash drains



QUESTIONS?

Finding your (new) path to profitability

Let your unit economics show the way

What's Your Unit?

eCommerce (products)

Unit = Average Online Order

Order Value	\$225
<u>Deliver</u>	<u>-150</u> (incl shipping)
Gross Margin	\$ 75

Attract	\$ 30
Delight	\$ 10
Build	\$ 15
<u>Support</u>	<u>\$ 15</u>
Other Costs	\$ 70

Net Profit \$ 5

Services (consulting, development, etc.)

Unit = Project

Avg Revenues	\$50,000
<u>Deliver</u>	<u>-25,000</u> (250 hrs)
Gross Margin	\$25,000

Attract	\$ 5,000 (20 hrs + dues)
Delight	\$ 1,000 (CSR + meals)
Build	\$ 0
<u>Support</u>	<u>\$ 5,000</u> (staff)
Other costs	\$ 11,000

Net Profit \$14,000

When will EVERY sale be profitable?

TODAY

Order Value	\$225
<u>Deliver</u>	<u>-180</u>
Gross Margin	\$ 45

Attract	\$ 50
Delight	\$ 20
Build	\$ 25
<u>Support</u>	<u>\$ 30</u>
Other Costs	\$ 125

Net LOSS (\$ 80)

IN 24 MONTHS

Order Value	\$225
<u>Deliver</u>	<u>-150</u> (\$30 / unit)
Gross Margin	\$ 75

Attract	\$ 30 (CAC)
Delight	\$ 10 (Retention)
Build	\$ 10 (Maintenance)
<u>Support</u>	<u>\$ 15</u>
Other Costs	\$ 65

Net Profit \$ 10

SaaS Unit Economics Over Time

TODAY

1,000 Subscriptions

Monthly Sub	\$ 100
Deliver	<u>- 10</u>
Gross Margin	\$ 90
Attract (CAC)	\$ 250
Delight (Churn)	\$ 50
Build	\$ 75 (v 1.5)
Support	<u>\$ 20</u>
Other Costs	\$ 400

Net LOSS (\$ 310)

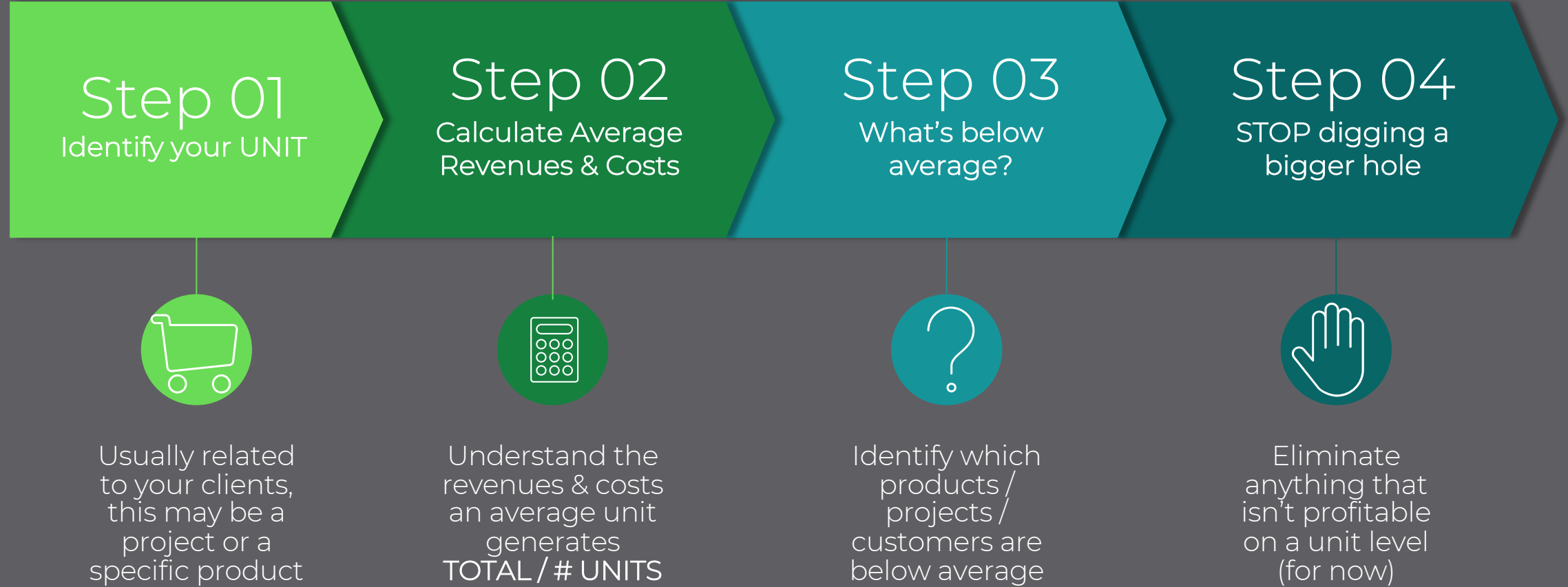
In 18 months

5,000 Customers

Sub Revs	\$1,200	(12 mo. Life)
Deliver	<u>-120</u>	
Gross Margin	\$1,080	
Attract (CAC)	\$ 150	(8:1 CAC/LTV)
Delight (Churn)	\$ 50	(4.2% / yr)
Build	\$ 100	(v 2.0)
Support	<u>\$ 220</u>	
Other Costs	\$ 520	

Net Profit \$ 560

Unit Economics Help You Decide



QUESTIONS?

Next steps (put it into action)

1. What unconscious assumptions are you making about your path to profitability?
2. What do I need to stop doing?
3. What should I do more of?

Use your unit economics to test the reasonableness of your assumptions AND identify what needs to change

Did you get your time's worth?



— ARIZONA —
SMALL BUSINESS
BOOT CAMP

How this series rolls out

Today (April 5th)
Path to profitability

Next week (April 12th)
Sanity-check your numbers

2 weeks from now (April 19th)
Navigate the ask / valuation negotiation

BE SURE TO REGISTER FOR EACH WEEK!

Group discussion questions

- What do you check more often – bank balance or your P&L? Why?
- Which quadrant are you making the biggest investment in? How will you measure the success of those investments?
- What's your “unit” for measuring the economics of your business?
- Will your current pricing support your business?

Unit Economics in Action

eCommerce (products)

WHAT TO STOP

- How many clients buy less than the average order?
- Where do those clients come from?
- Can I stop investing in those attraction methods?

WHAT TO DO MORE OF

- How quickly can I move to fully automated production?
- How can I encourage more existing clients to buy again?

Services (consulting, development, etc.)

WHAT TO STOP

- Which are the 20% of projects creating 80% of the headaches?
- How can I better identify these projects before I say “yes”?

WHAT TO DO MORE OF

- Can I automate parts of my project management?
- Could I outsource / delegate some of my work to lower cost resources?

Unit Economics Can Help You:

- *Raise prices*
 - Focus on value
- *Simplify your offerings*
 - Do you really need 25 products?
- *Sell what makes you money*
 - Get more people buying your most profitable offer
- *Pivot*
 - Identify a better opportunity

If the hole is growing, put down the shovel!