

# Unit of Value

## A Framework for Scaling

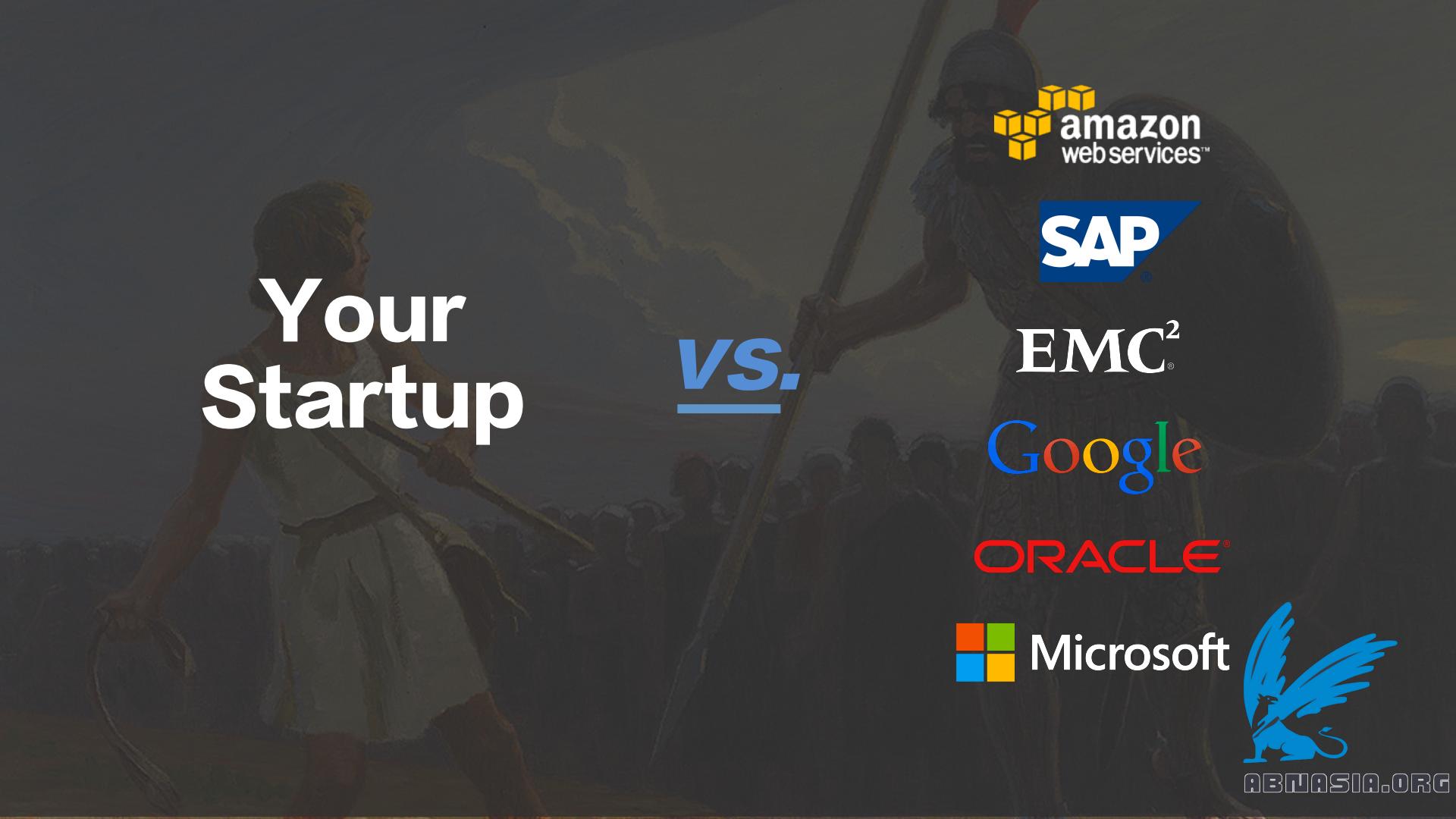
Jerry Chen  
greylock**partners.**





As a startup, you enter  
a **classic** battle of  
**David vs. Goliath.**





# Your Startup

**vs.**



EMC<sup>2</sup>

Google

ORACLE®



# Technology

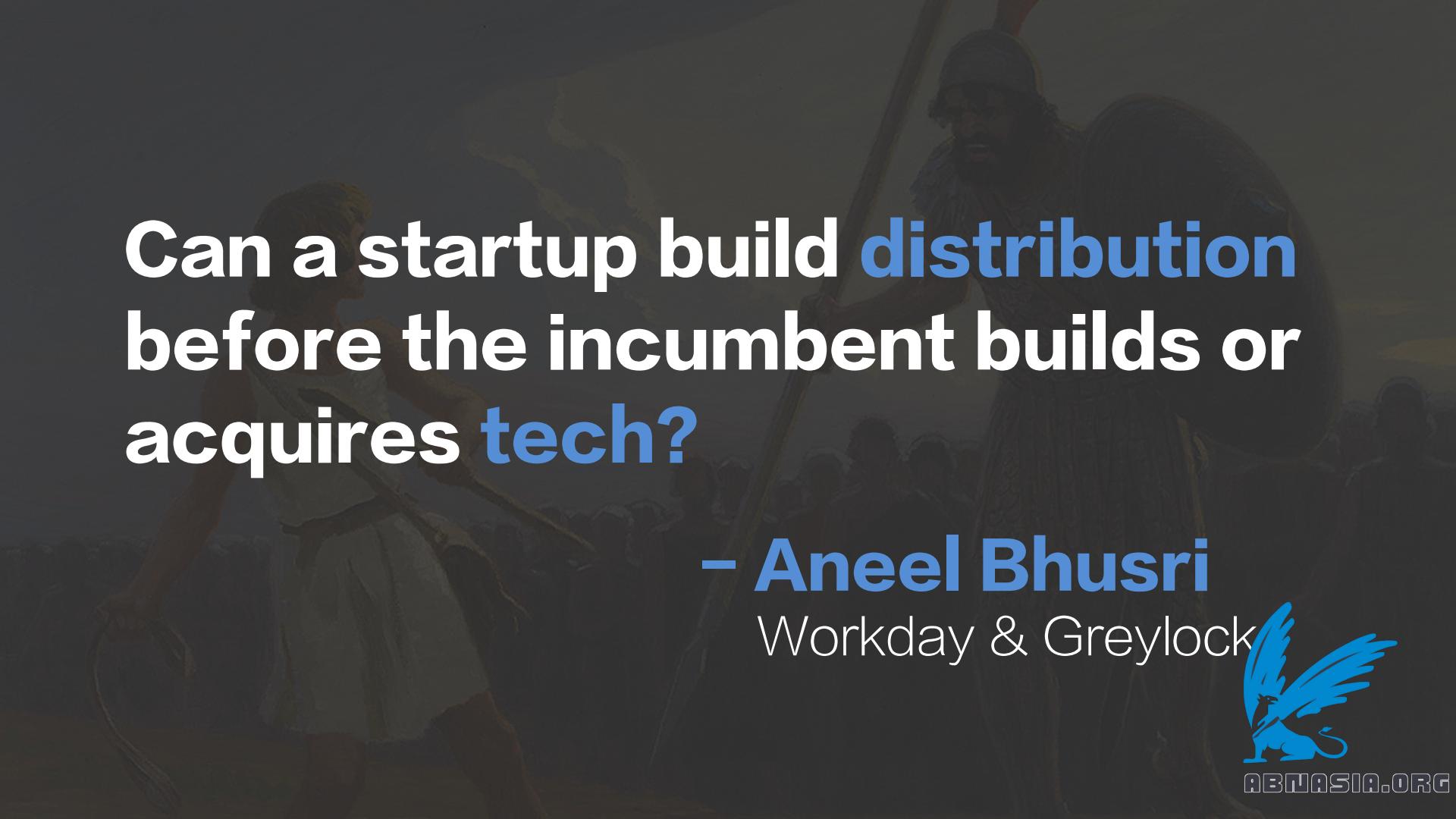
Deep Innovative IP

**VS.**

# Distribution

Channel  
Sales Force  
Partners  
Existing Customers





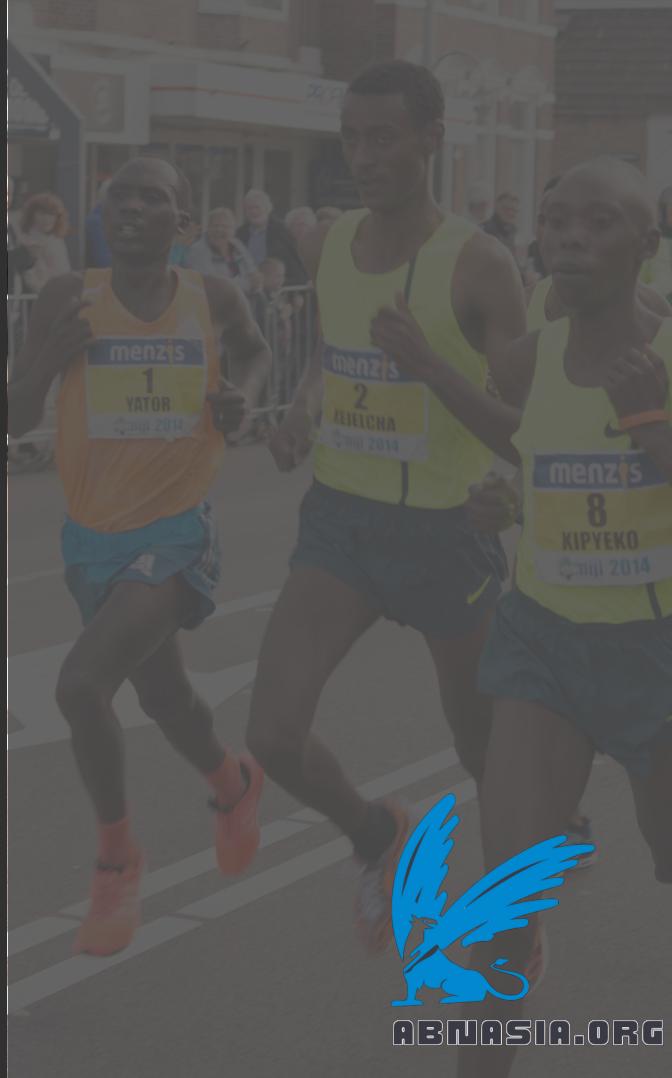
**Can a startup build distribution  
before the incumbent builds or  
acquires tech?**

**- Aneel Bhusri**

Workday & Greylock



To compete with  
giants, it becomes a  
race to scale and  
build go-to-market  
quickly enough with  
a product.



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# GTM



## Product – market fit

New, innovative  
technology



Large market

**How do you get your  
product to market?**



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# Why does go-to-market matter?

*(And why do investors care?)*



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# GTM



# GTM: Things to think about



# Unit of Value

noun

1. The smallest measurable unit at which your product or service delivers value.



# Unit of Value

noun

2. The unit of scaling used when increasing your product in pricing or services.
3. What your customers pay for.

*E.g. servers, TB of storage, API calls, users*



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**Your unit of value determines  
how you price, scale, and sell  
your product to your customers.**



# A unit of value can vary from:



small

*to*

large



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# Single Units of Value



 **Dropbox** : One User

 **vmware** : One Server

 **Office** : One User

 **docker** : One Container



# Medium/Team Units of Value



 : Team or Department

 Quip : Team or Department

 Atlassian |  GitHub : Dev Team

 : 3-4 Sales Reps



# Big Units of Value



: Big data *e.g. terabytes*



: Entire clusters of servers



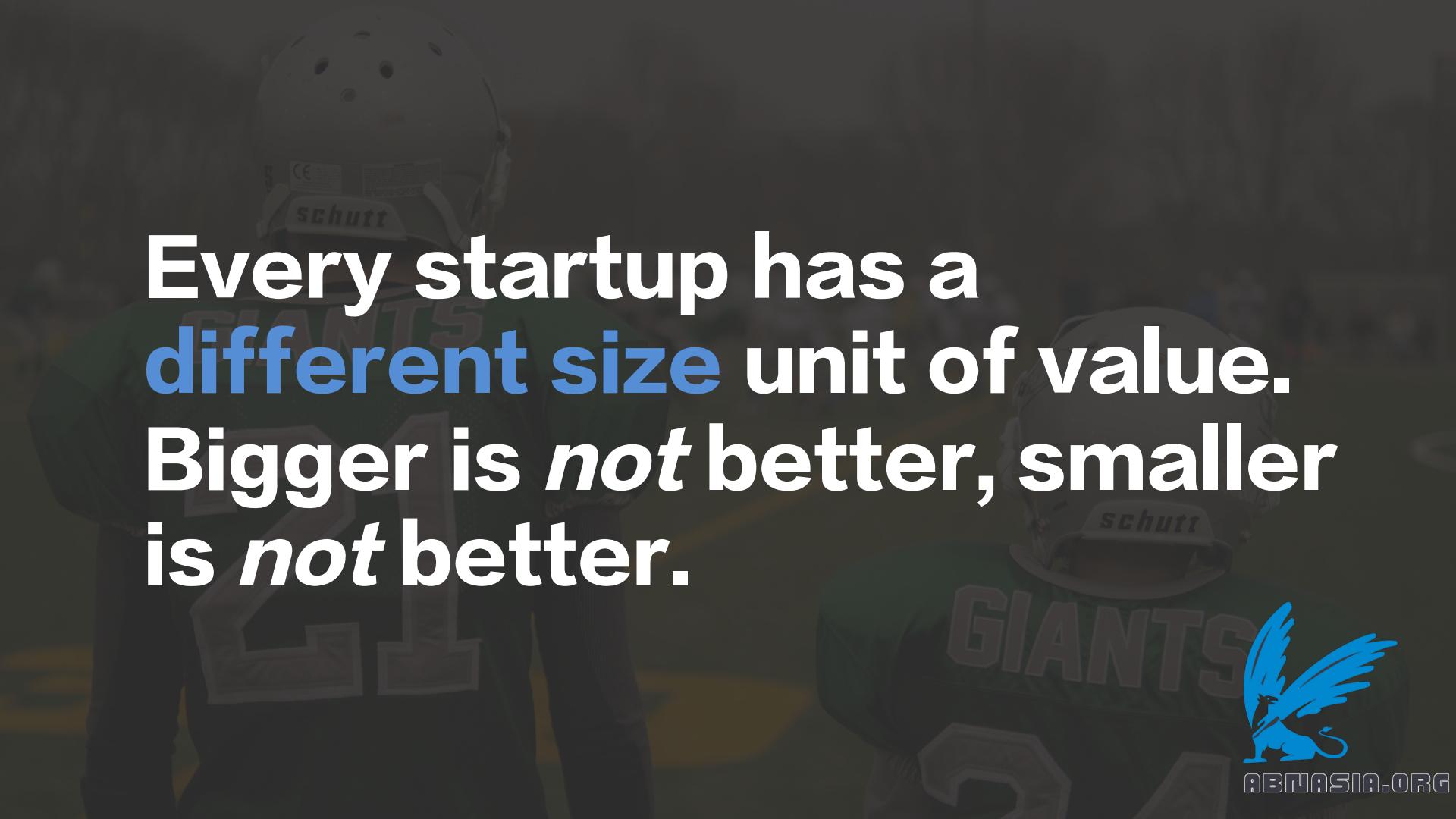
: HCM for entire company



: ERP for entire company or LOB



: Enterprise apps for entire company



**Every startup has a  
different size unit of value.  
Bigger is *not* better, smaller  
is *not* better.**



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# Bigger Units of Value

- Have bigger deals & longer sales cycles
- Big deals don't mean it's a big market.

## The Big Questions:

- How do I build a cost effective direct sales force?
- How do I build an advantaged go-to-market?



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# **Smaller Units of Value**



- Have smaller deals & shorter sales cycles

## **The Big Questions:**

- How do I create a cost effective channel?
- How do I scale up the value?



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To reach \$100M in revenue,  
there are a multiple unit of  
value paths to take.



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# Rules of thumb to reach \$100M





Companies on either the far left or right tend to work well. Companies in the “dead zone” don’t reach \$100M as easily.



# Case Study A:

## Company A (API Service)

Pricing: < \$0.10 per API call

*50% of bookings are from customer paying \$25k+*

## Takeaway:

Company A has a small unit of value, but has managed to scale up customers to do big \$25k+ deals.



\*Company name is kept anonymous for protection  
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# Case Study B:

**Company B** (Cloud app infra service w/ 50k users)

Pricing: avg monthly customer < \$50

*5% of customers drive 50% of monthly recurring revenue*

## Takeaway:

Company B also has a small unit of value, but has scaled up a handful of customers to drive half of their revenue



\*Company name is kept anonymous for protection

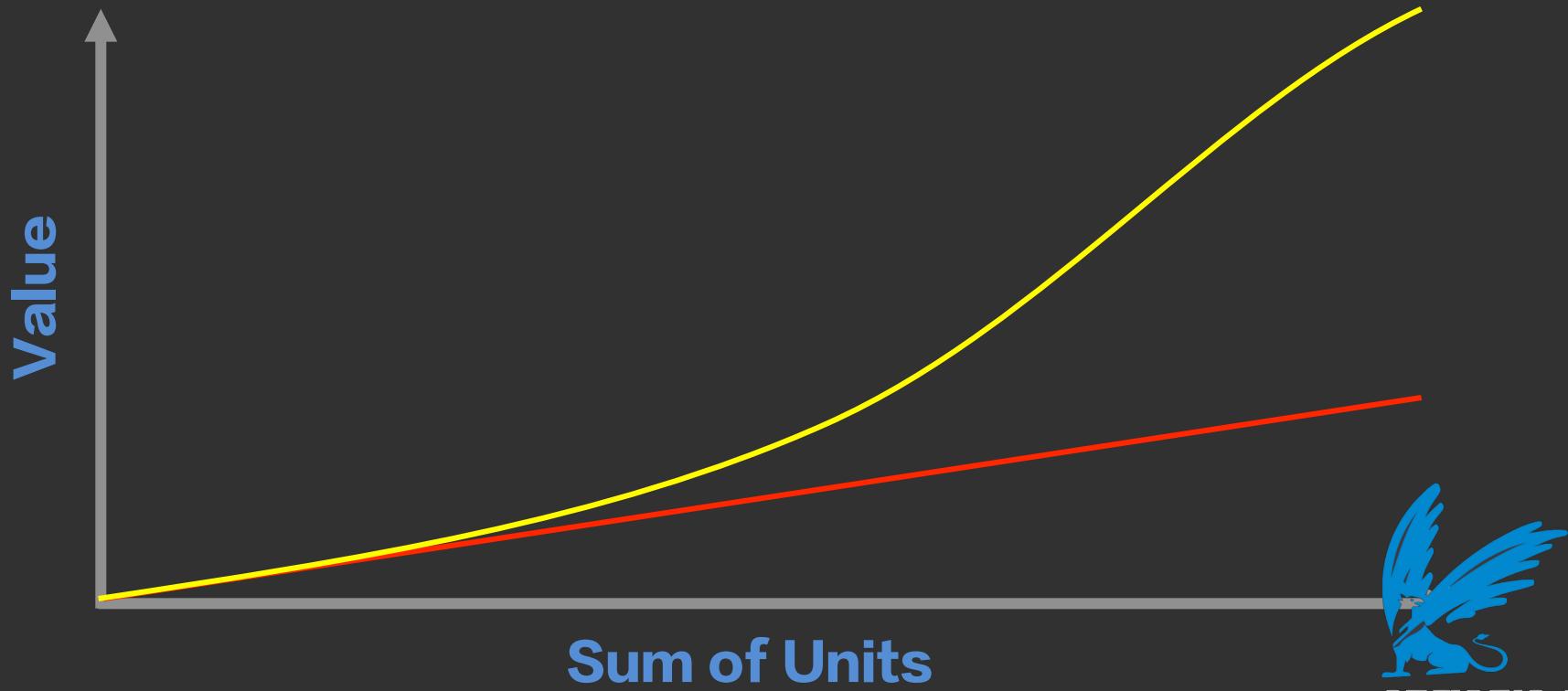
# The Big Takeaway

A few customers can drive sales.

Companies A & B scaled up a handful of customers to be very profitable.



# The goal is to create non-linear value.

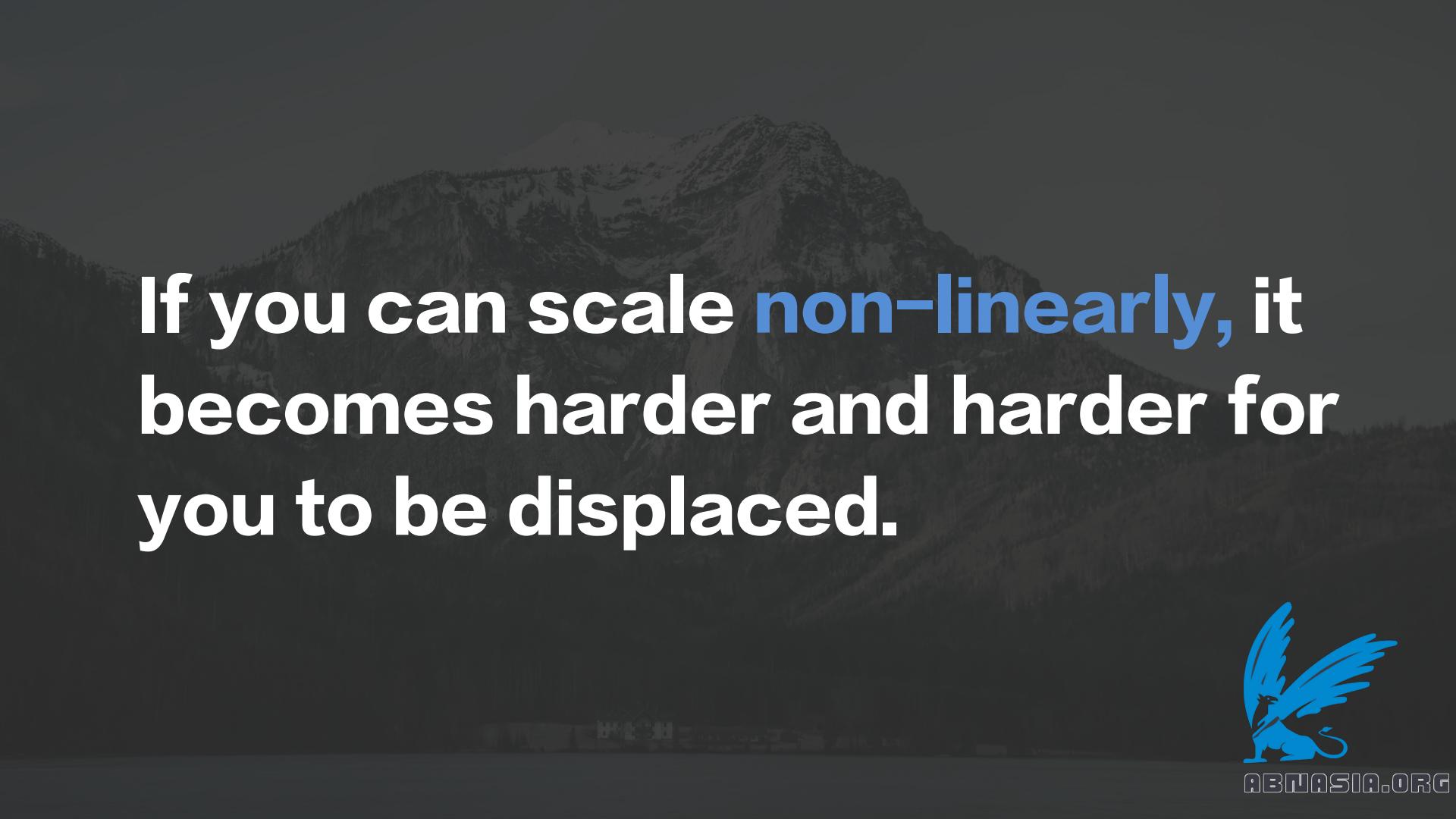


# Going Non-Linear

- You want to build out your offerings so the more your customers consume, the more value they receive
- Sell additional products at scale (e.g. management, monitoring, security)
- Sell to a different / additional buyer (CTO, CIO, CFO)



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If you can scale **non-linearly**, it becomes harder and harder for you to be displaced.



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# Ways to Increase Value

1. Network effects

2. Standardization

3. Platforms



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# Network Effects

## **Metcalf's Law:**

The value of a network is proportional to the square of the number of connected users on the system.

**More users = More value**



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# Network Effects

- Build a product or service that will enable network effects to create non-linear value for your customers/users.

## Examples:

- collaboration tools
- communication platforms



# Standards

## Ask yourself:

“Can this product be a de facto standard? Within a company, within a market, within an industry?”

# Standards are powerful

- They reduce complexity and costs for enterprises who standardize their apps.
- De facto standards + network effects often lead the winner of every industry to gain the majority of market share.

## Examples:

- Languages & frameworks
- MS .ppt & .doc formats



# .. but they can change

- The de facto standard within a company or even within an entire industry can change very quickly.

## Example:

- Browser wars



# Platforms

- Platforms take the longest to build but will yield massive economic benefits if built right.

## **Ways to create non-linear value:**

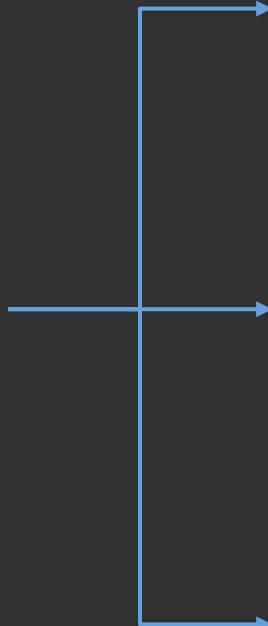
1. Build a “system of record” *e.g. a database*
2. Become the “glue layer” between layers of tech
3. Application and cloud platforms try to be both storage (data) and glue



# Platforms

**Create or find a system of record and build a platform on top of it.**

When you control that data, you can build analytics, third party apps, etc. to create non-linear value.



## Customer records



## Employer records



## Asset records



# Platforms

Become the  
**glue layer between  
technologies.**

As an intersection  
between **multiple layers** of  
tech, your product will  
become an important  
platform to build on top of.



vmware

Infrastructure

Storage

Networking

Monitoring

Management

Security



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# Platforms

**Applications and cloud platforms aim to be both a system of record and a glue layer by storing customer's data.**

They also connect the broader ecosystem of applications, API services, and other startups.



Google Cloud Platform



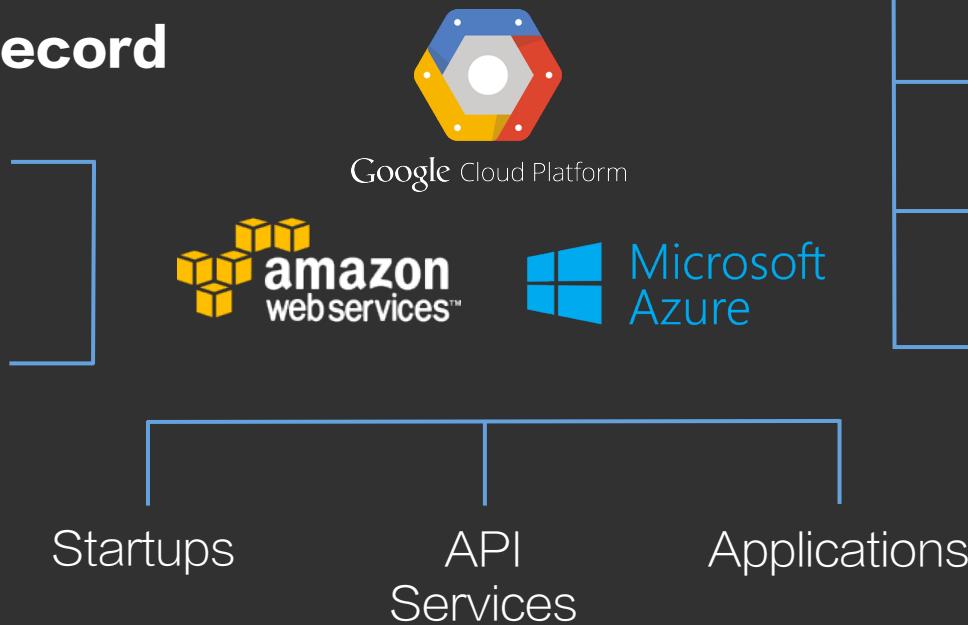
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# Cloud Platforms

## System of Record

Data Storage

Database  
as-a-service



## Broader Ecosystem

## Infrastructure

Middleware

Messaging

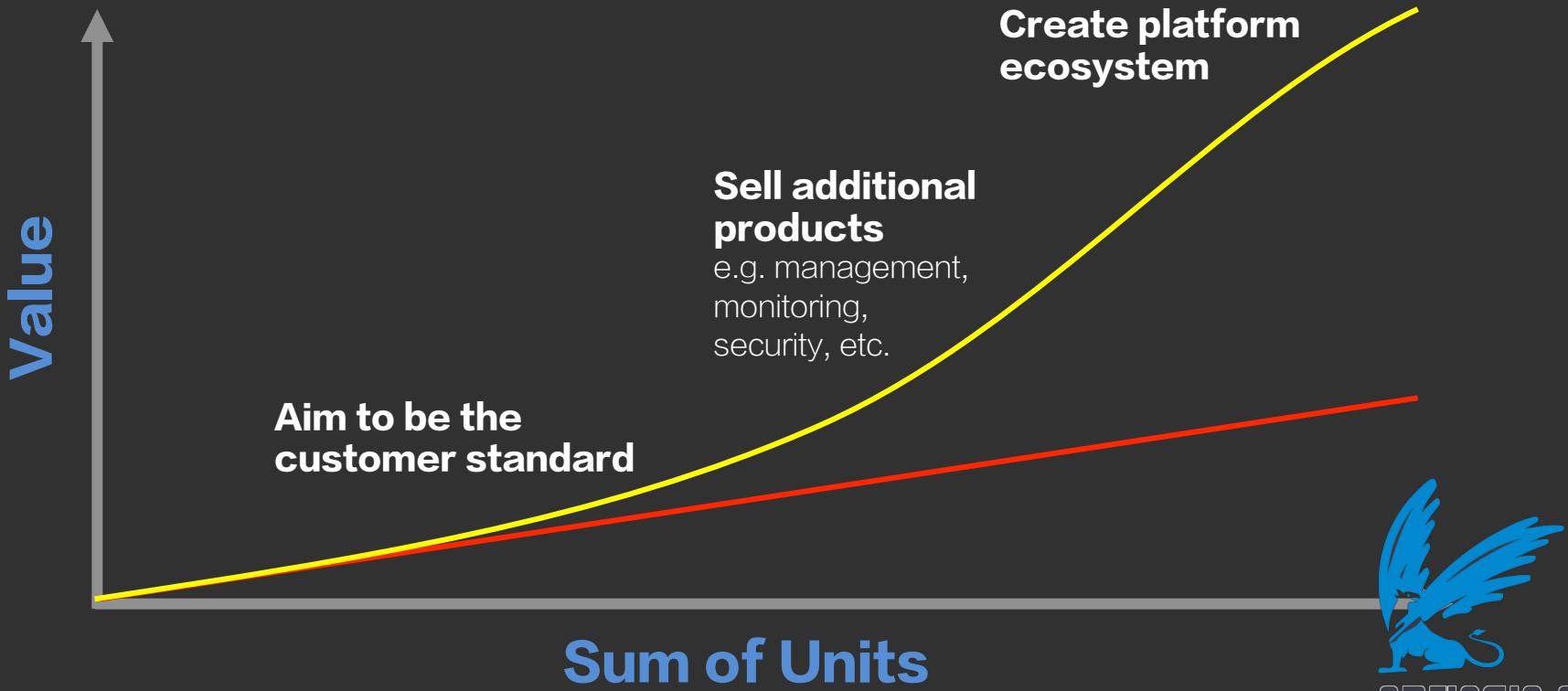
Database  
Systems

Monitoring



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# How to scale up your unit of value



# Make a conscious choice.

- Don't expect to fall into your go-to-market strategy.
- Don't be pushed into your unit of value by your customers, partners, or competitors.
- Be thoughtful about how to charge and go-to-market and you can be highly disruptive.



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# For example:

	<b>Cost</b>	<b>Unit of Value</b>
 <b>Office</b>	\$ per user	One User
	Free	Eyeballs (one user's attention)

With Google Docs, Google made a conscious choice to charge differently than Microsoft for the same unit of value (users) and monetized attention for ads and search.



# **Don't be afraid to iterate.**

When thinking about your go-to-market strategy: hypothesize, try new things, and don't be afraid to walk away if things aren't working.



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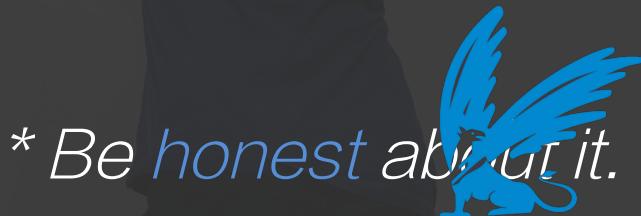
# How can I make this **actionable** for my team?



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# First, define your unit of value.

- \*Ask: What is the smallest unit of your product or service that's delivering value to your customers?
- Make sure your go-to-market strategy matches your unit of value.



# And then, create a road map to increase that value as you scale.

- Identify ways you can increase your value as you and your customers grow.
- Figure out how you can layer and stack your services and technology on top of each other to create non-linear value over time.



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