

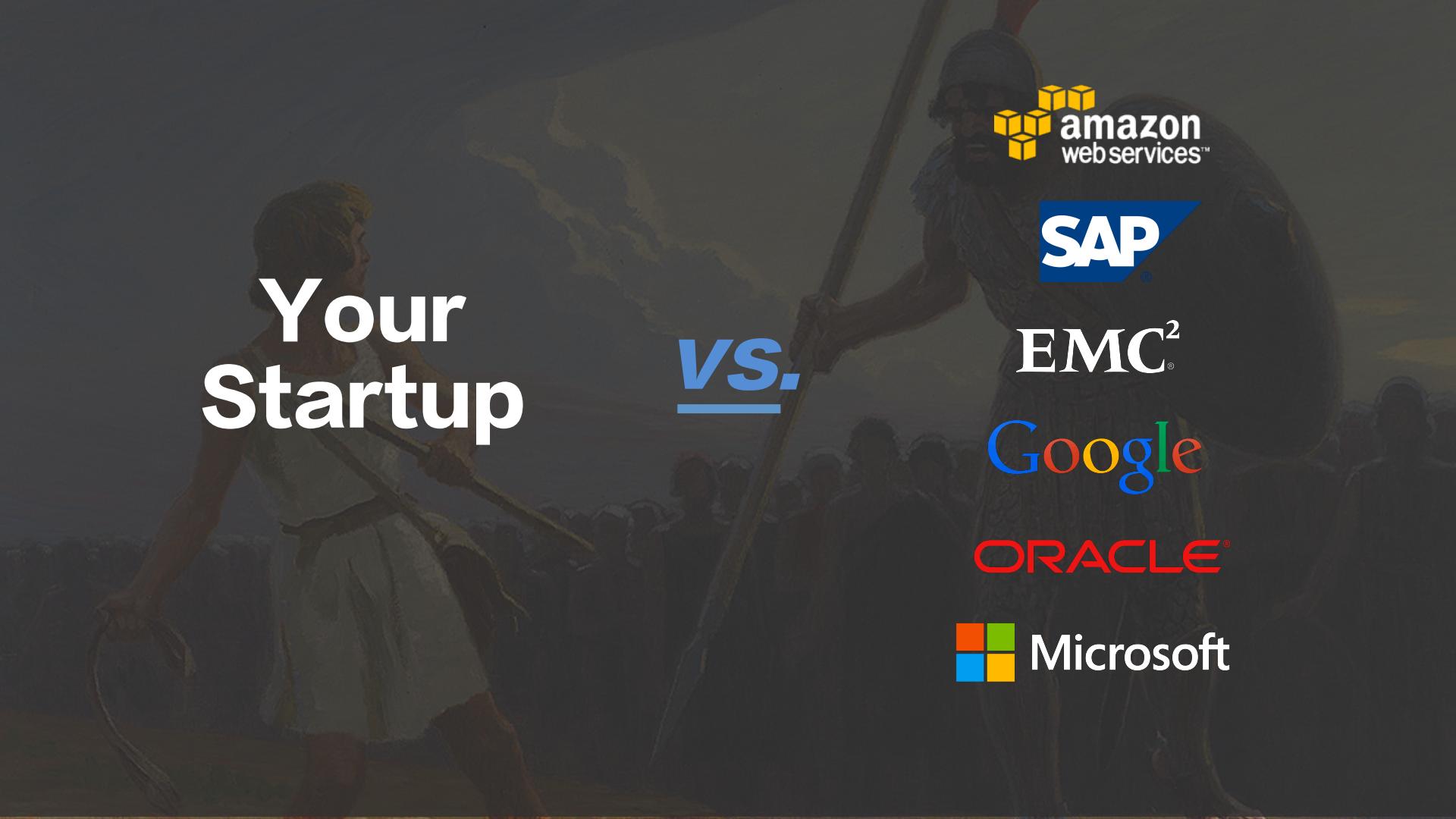
Unit of Value

A Framework for Scaling

Jerry Chen
greylock**partners.**



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



Your Startup

vs.

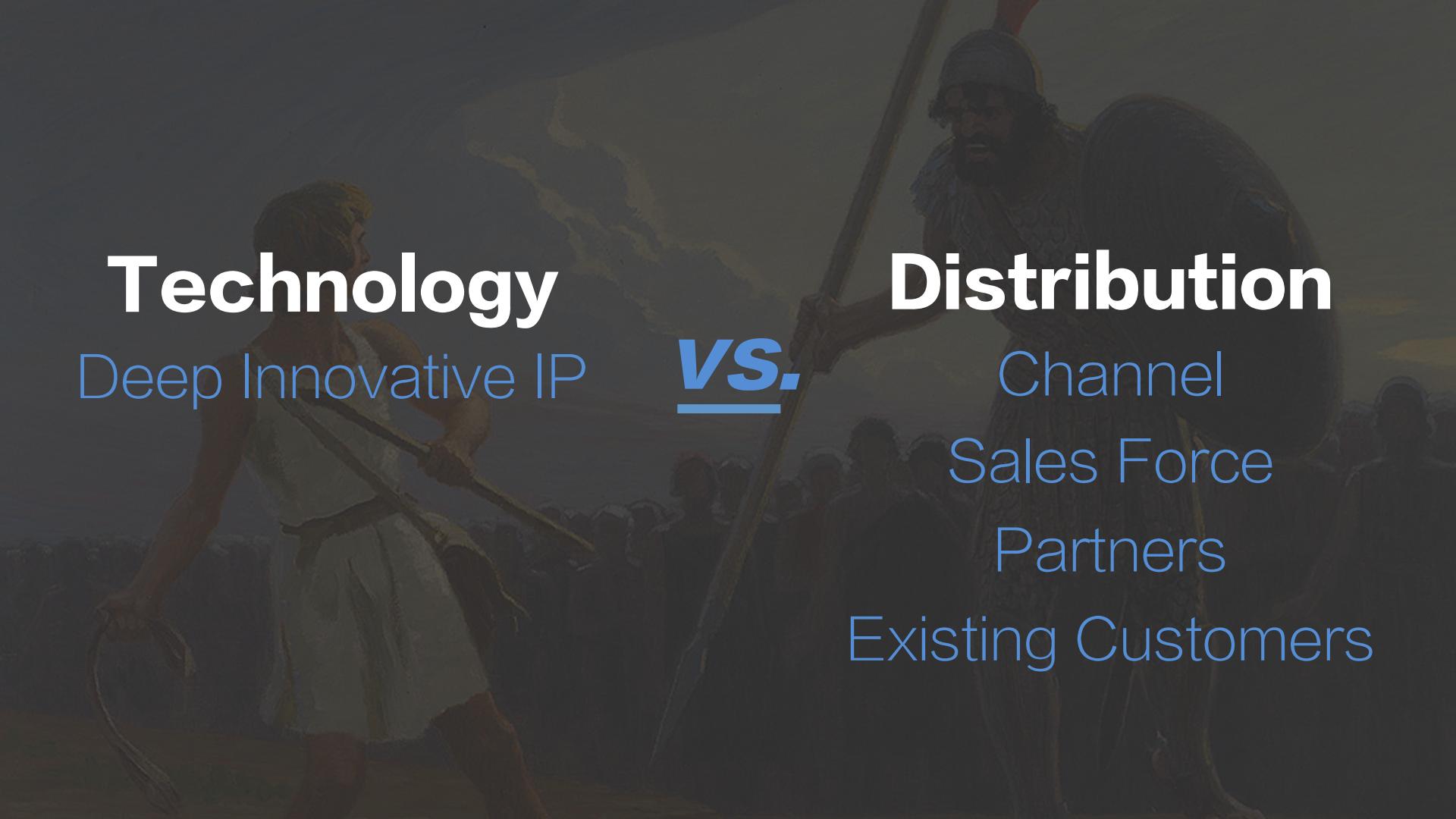


EMC²

Google

ORACLE®

The Microsoft logo, featuring four colored squares (red, green, blue, yellow) in a 2x2 grid next to the word "Microsoft".

The background of the slide is a dark, moody painting depicting a scene of conflict, likely a battle between Roman soldiers and gladiators. In the foreground, a soldier in a detailed helmet and armor is shown from the side, looking towards the right. Behind him, another soldier is visible, also in armor. In the upper right corner, a large, bearded figure wearing a helmet and holding a long spear stands prominently. The overall tone is dramatic and historical.

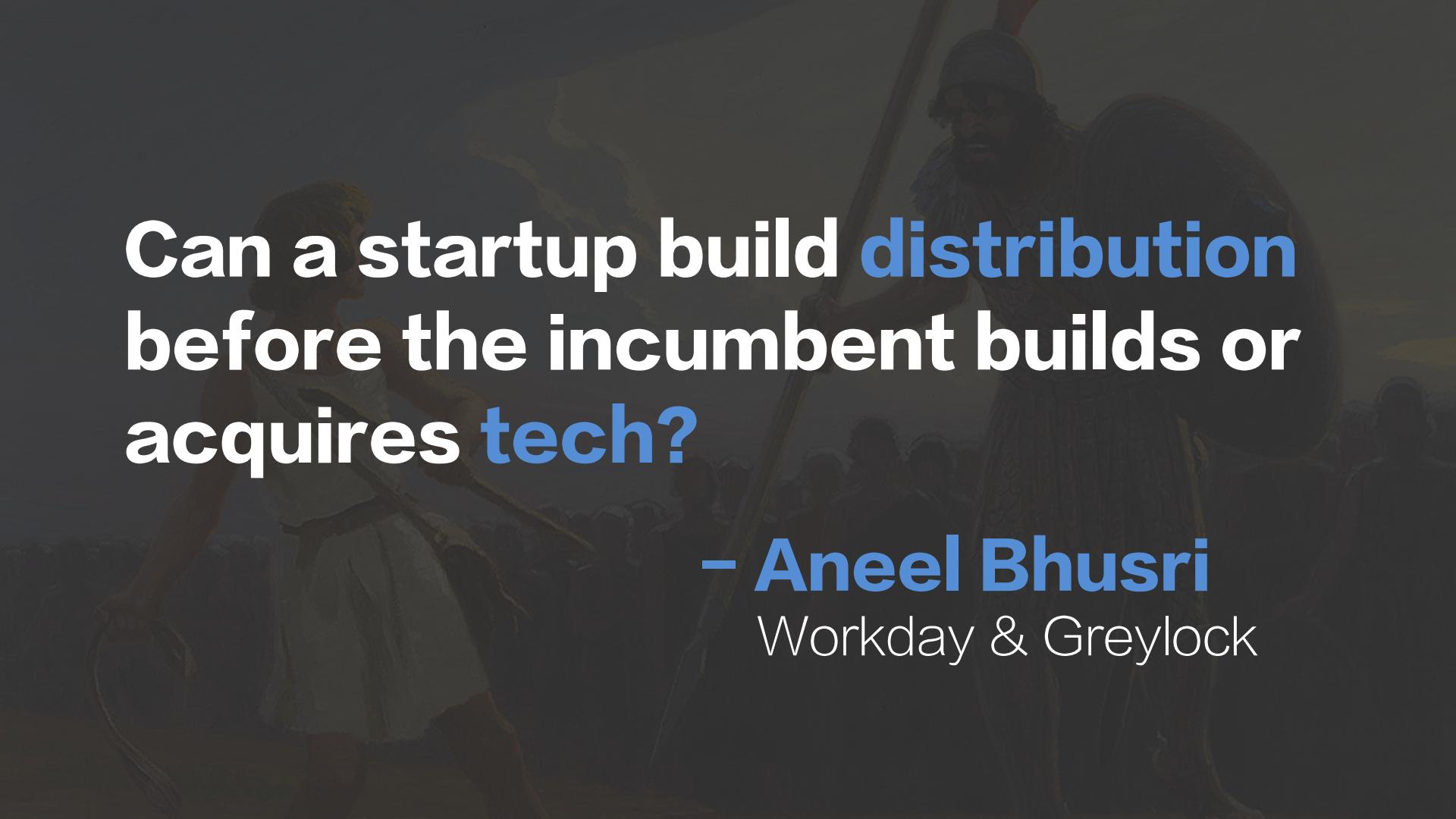
Technology

Deep Innovative IP

vs.

Distribution

Channel
Sales Force
Partners
Existing Customers

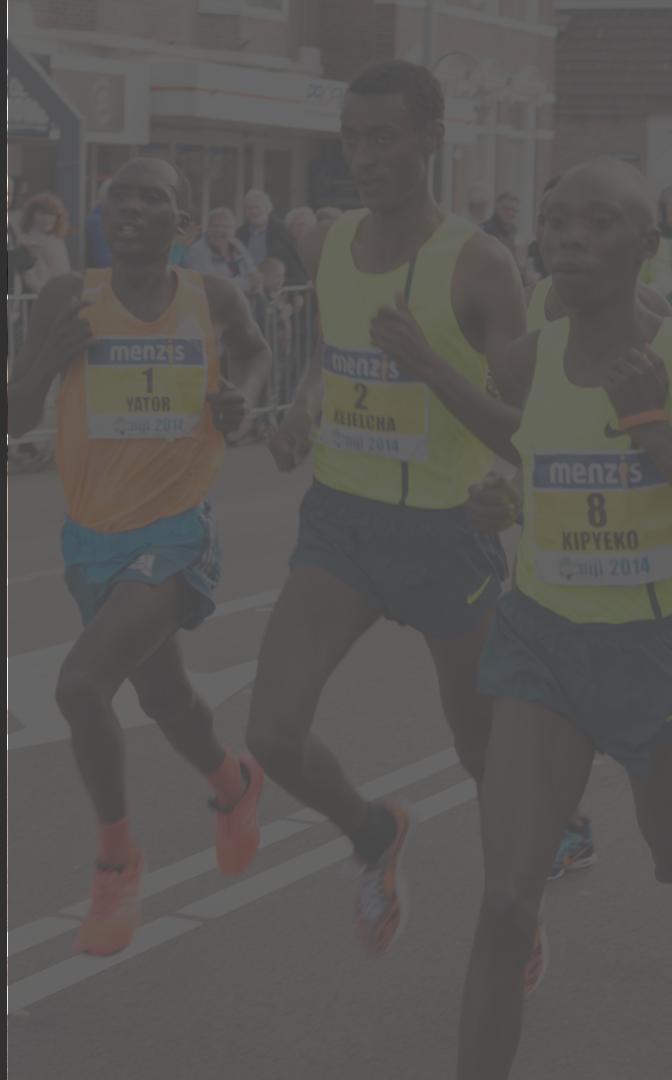
A dark, atmospheric painting of a scene from Beowulf. In the center, a warrior in full armor stands over another figure who appears to be lying on the ground. The lighting is dramatic, highlighting the metallic surfaces of the armor and the texture of the skin. The background is filled with other figures, some of whom are also in armor, suggesting a battlefield or a moment of victory.

**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.



GTM



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graph TD; GTM[GTM] --> PMF[Product - market fit]; PMF --> Q[How do you get your product to market?]; NIIT[New, innovative technology] --> Product[Product]; LMF[Large market fit] --> Product
```

Product – market fit

New, innovative
technology

Large market

How do you get your product to market?

Why does go-to-market matter?

(And why do investors care?)

GTM

Impacts how
much money
to raise

Determines
profit margins
at scale

Your cost of
distribution must
match what
customers are
willing to pay

GTM: Things to think about



Unit of Value

Unit of Value

noun

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

Unit of Value

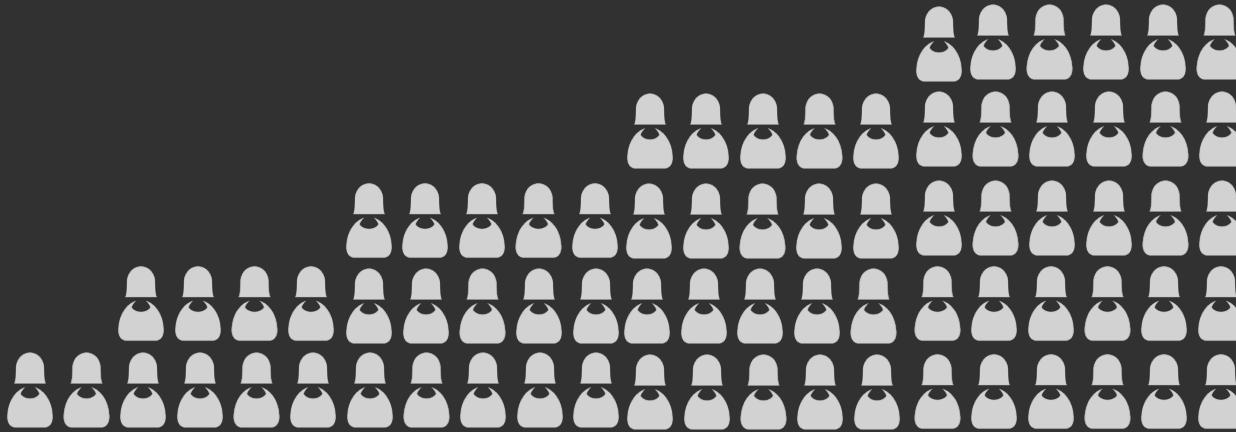
noun

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

**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

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

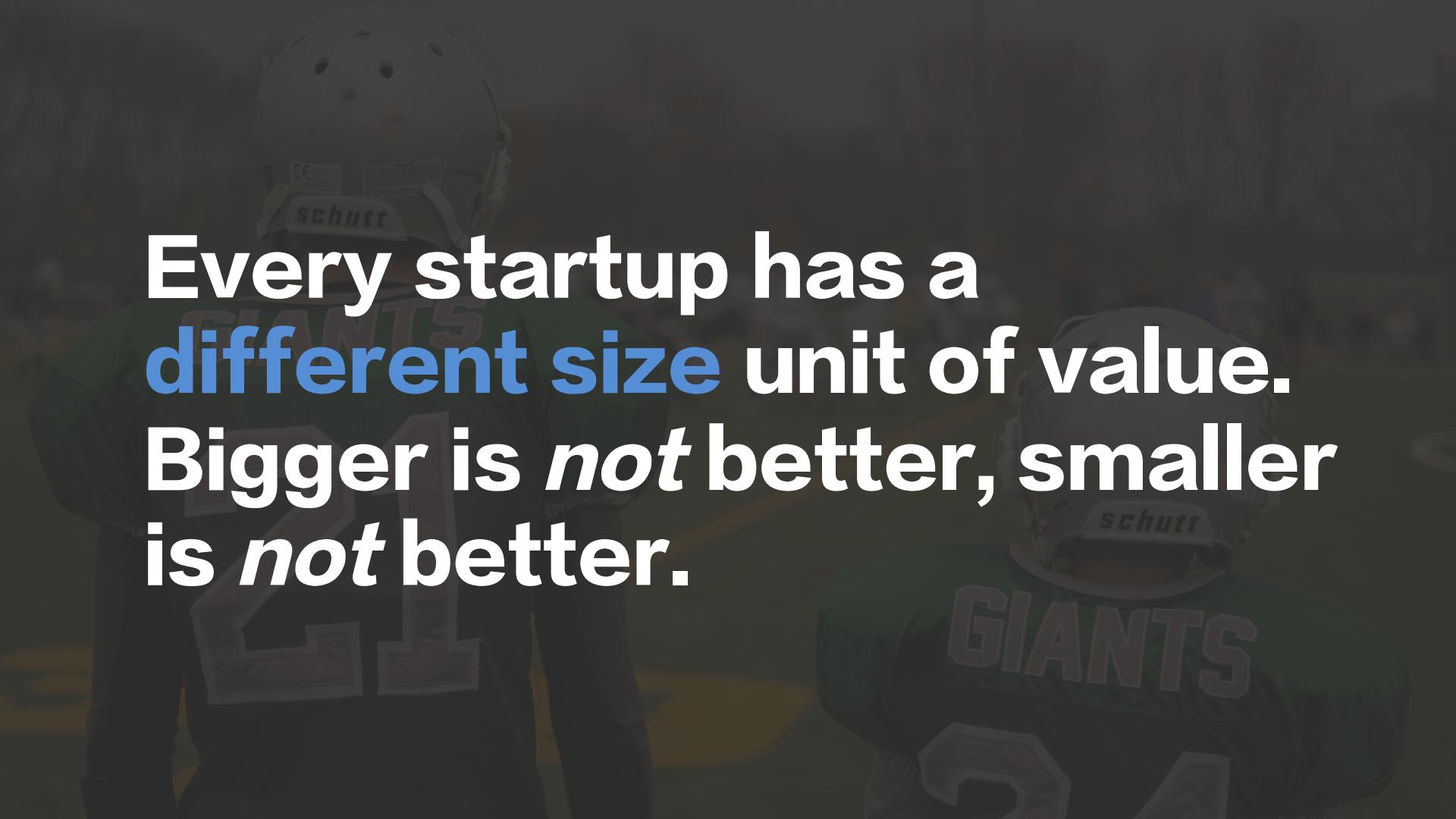


: HCM for entire company



: ERP for entire company or LOB

ORACLE® : Enterprise apps for entire company



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

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?

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?

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

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.

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.

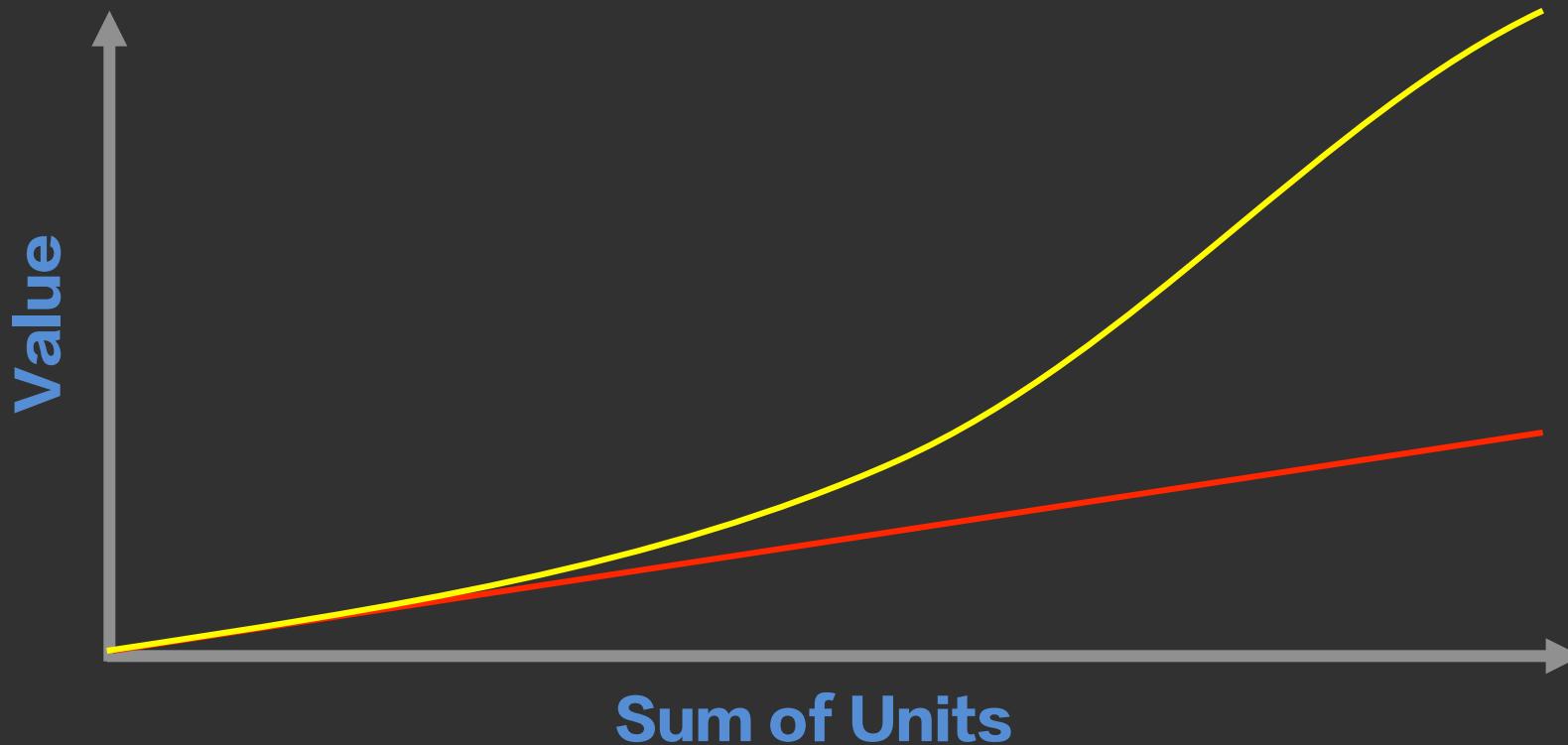
The Big Takeaway

A few customers can drive sales.

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

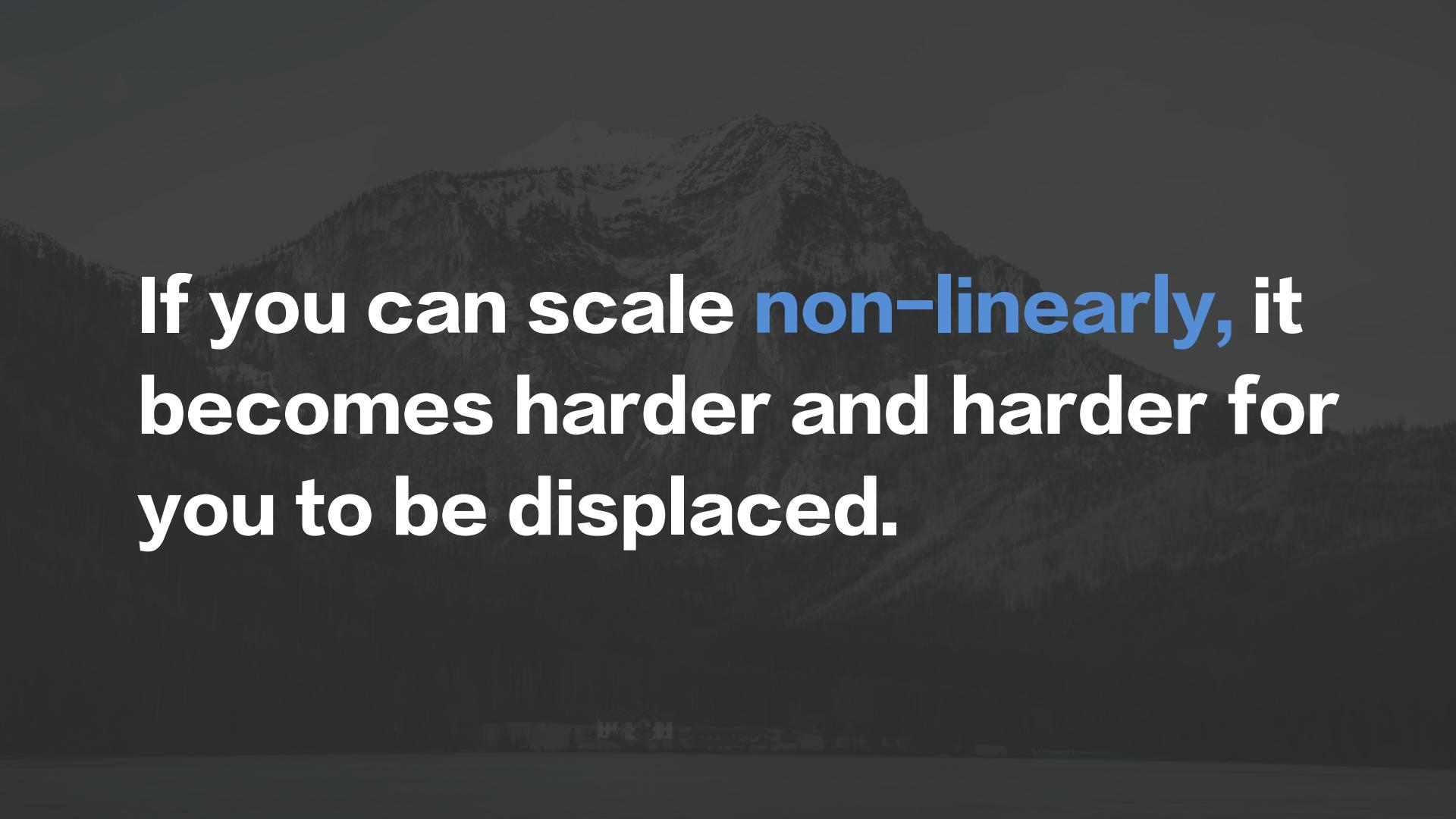
.. But *how*?

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)

A dark, grainy photograph of a mountain range. In the foreground, there are steep, rocky slopes covered with sparse vegetation. Behind them, several majestic peaks rise, their upper portions heavily laden with snow. The sky above the mountains is a uniform, dark grey.

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

Ways to Increase Value

1. Network effects

2. Standardization

3. Platforms

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

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.

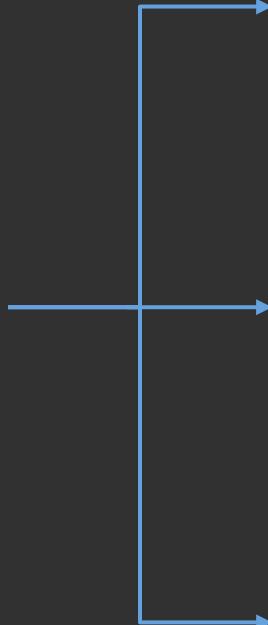
Ways to create non-linear value:

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.



Infrastructure

Storage

Networking

Monitoring

Management

Security

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

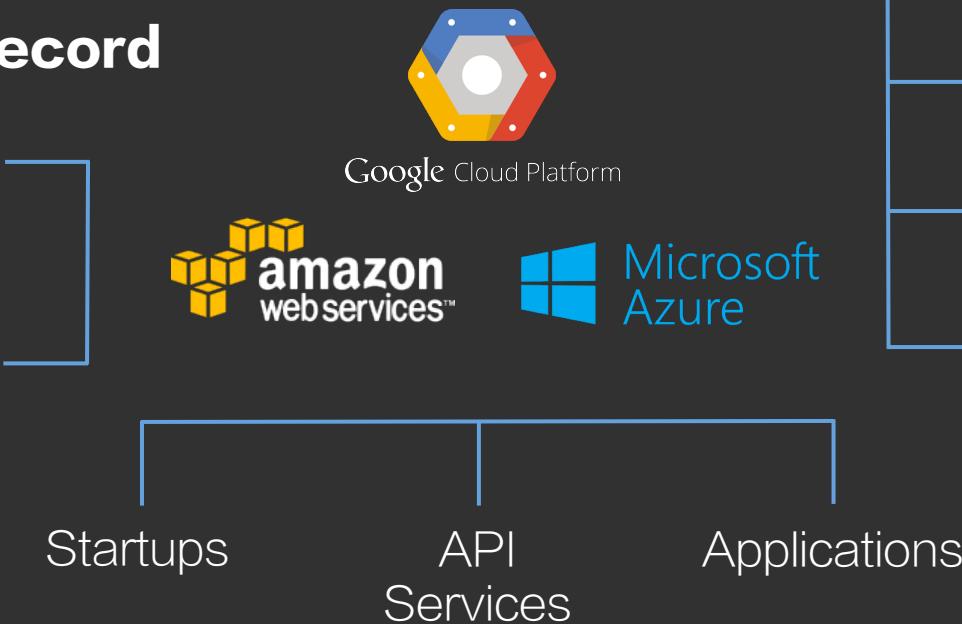


Cloud Platforms

System of Record

Data Storage

Database
as-a-service



Infrastructure

Middleware

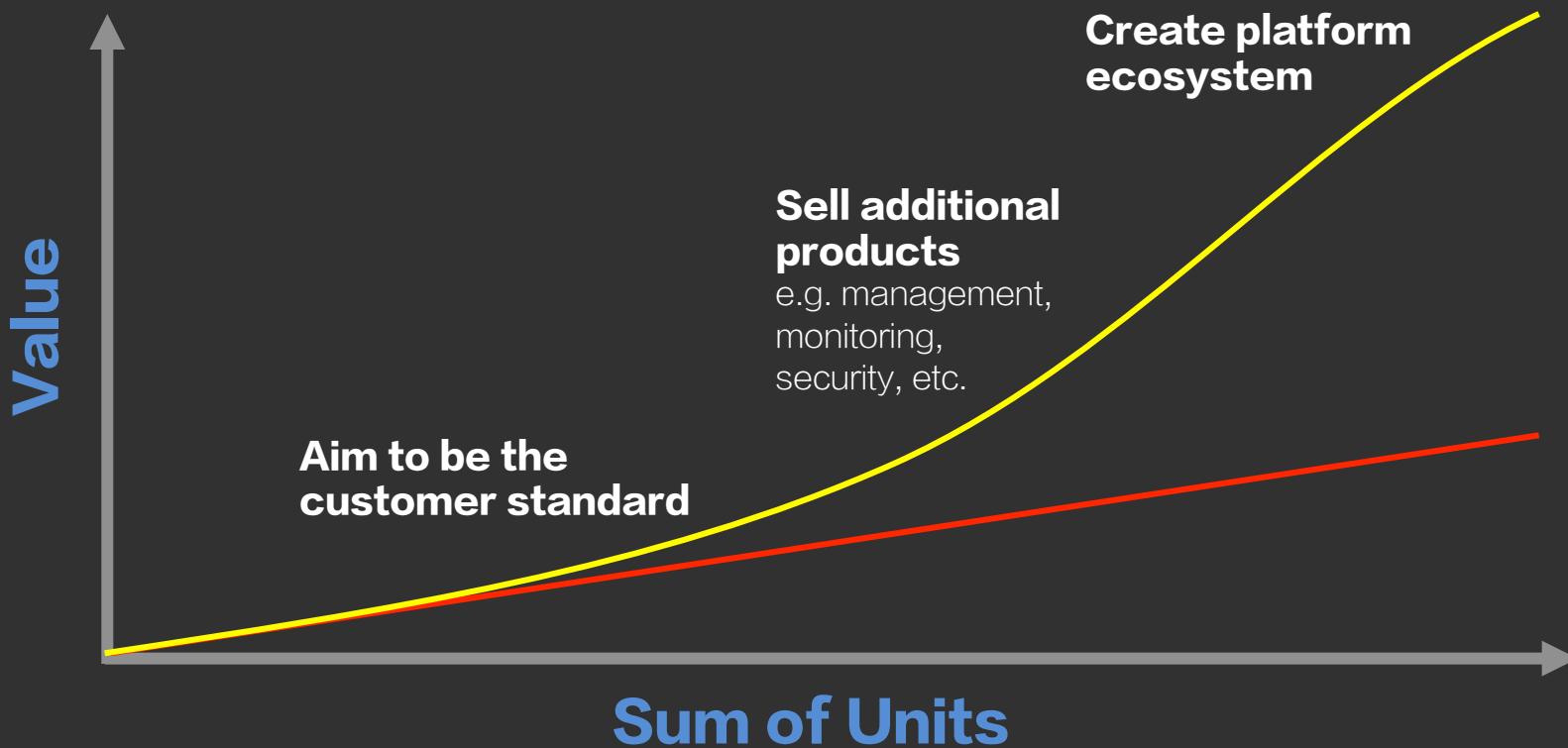
Messaging

Database
Systems

Monitoring

Broader Ecosystem

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.

For example:

	Cost	Unit of Value
 Office	\$ 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.

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

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.

* *Be honest about it.*

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.