

Revenues, Costs, Market Types, Acquisition Costs and Cash Flow

Due 5/18 EOD except Cash Flow Estimate (Due 5/25 EOD)

Overview

- The purpose of this assignment is to work through understanding your overall cost and revenue model for your venture.
- You will develop a hypothesis for the revenue from each segment; as well as the resource costs for the components.
- You will create a diagram that describes how the revenue and value flow from the customer through to your business.
- You will develop an initial estimate for your company's revenue and cost model

In the end, the team should be able to develop what the cost will be over the years of the business; as well as what the revenue potential is from customers that can be reached.

Point Distribution

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Customer Segment Potential Revenue Models

Breadcrumbs' potential is best understood when one notices the huge boost in the online display tactics commonly referred to as "retargeting". Retargeting is the practice of tracking product browsing activity on e-commerce sites only to later display to that same customer (or browser) ads for the exact same products, across most of their favorite media outlets, social networks, or webmail client. By now every Internet user is sort of familiar with this practice, and companies have seen click-through rates for this type of ads being significantly higher than for regular display ads. No wonder, since the fact that a consumer has browsed a product is positively correlated with this chances of ultimately buying it later. Usual first-visit-to-purchase conversion rates are in the 1-3% range, leaving the remaining 97-99% out there waiting to be reminded about a possible interest in finalizing the purchase later. Hence, retargeted ads are more effective than regular display ads, in

spite of the fact that many buyers may have actually already finished the purchase, or desisted from it altogether by the time they are ever served the retargeted piece. Retargeting ROI is said to be in the 900% range (\$10 returned per \$1 invested¹). For more on retargeting, please see:

<https://www.adroll.com/getting-started/faq> and <https://www.bannersnack.com/retargeting.html>

Breadcrumbs offers customers their own opt-in, multi-site stash for “retargeted ads”. In practice, after shopping on amazon and ebay for a while, what users see on their personal dashboard is VERY similar to the retargeted ads that Amazon and Ebay are throwing at them all over the Internet. To the team, this validates the existence of a revenue-generation opportunity in having

- 1) What are the **potential streams of revenue** that can be generated from the segment
 - a. SEGMENT: **e-commerce sites covered by our product**
 - i. REVENUE STREAM: **affiliate commissions** on sales generated for those sites. They currently have programs of this sort in place, which allow publishers to display retargeted ads served by the e-commerce sites. We’d be doing something similar but using our own product info tiles as “click generators”, leveraging the e-commerce sites’ APIs to implement the deep linking into the target product.
 1. Amazon Associates (<https://affiliate-program.amazon.com/>), and their Product Advertising API
 2. eBay Partner Network (<https://www.ebaypartnernetwork.com/files/hub/en-US/index.html>), and their Developers API
 - b. SEGMENT: **3rd party brands (as advertisers)**
 - i. REVENUE STREAM: **advertising fees**. We’d be reserving some real estate in our site for banner ads to be managed by a context-aware ad-serving platform. Thus we can show our end users ads that are relevant to the categories and products they are currently viewing on Breadcrumbs
- 2) What is the **pricing model** customers currently use to buy related services
 - a. Affiliates programs usually work under a revenue sharing model whereby the e-commerce store (Amazon, eBay...) shares a cut of sales generated by their affiliates (e.g. Breadcrumbs)
 - i. Amazon Associates:
<https://affiliate-program.amazon.com/gp/associates/help/operating/advertisingfees>

¹ On average, for every \$1 you invest in retargeting, you get \$10 return on investment

- ii. eBay Partner Network:

https://publisher.ebaypartnernetwork.com/PublisherProgramsDetail?program_id=1&isExternal=1&r=58620702.82455534

Market Type and Revenue Model

Is your product a “users first” or a “revenue first”. If in an existing or re-segmented market, how will you price relative to existing players. Is there a differentiated way to price?

Breadcrumbs can be both a users-first or a revenue-first product

- We could rely just on creating a large user base and an even larger product browsing history. Data so generated would be invaluable to many e-commerce stakeholders. The specific revenue streams would be unclear, though.
- Yet, by including either of the revenue-generating

At first, we see Breadcrumbs as a combination of the best of both worlds:

- A. We can certainly stick to a users-first mentality, building a solid customer experience and having the user base grow based on the sheer value Breadcrumbs delivers to end users.
 - User acquisition will be phased as:
 - i. A public beta stage for debugging and refining the MVP
 - ii. An early (soft) launch stage. Since our product serves a purpose that not many users are aware of on a permanent basis, it's better offered as a complementary product to the base e-commerce sites it covers - i.e. the sites that users are actually aware of and would like optimizing their experience with. This discourages 1) paid search advertising and 2) standalone advertising, for conversion will be minimal.
 - We'll rely on word-of-mouth, social media, and prescription by specialized influencers (think www.producthunt.com) to spread the word about us.
 - We might also look for opportunity to leverage partnerships with e-commerce sites as prescriptors of our product, at no cost for us, if they happen to share our view that Breadcrumbs is actually an opt-in retargeting tool

This stage is a product/market fit test in and of itself: if early users and influencers are not willing to recommend the product or even to use it themselves, then the product is doomed in terms of mass adoption and should be pivoted or discontinued

Stage ii. alone could take us to the 100k user milestone. There are records of highly upvoted products on ProductHunt accruing 150k downloads/registrations in just a few days - key is bringing those early upvotes home... Hence by the time we're in stage ii, it's either go big (50-100k users) or go home

- iii. Contingent on stage ii, if response by early customers and influencers is positive, we can think about raising capital to ramp up paid marketing efforts. At this point, if the intrinsic value of Breadcrumbs has been truly tested, it's time to consider standalone advertising tailored to our target initial audience. Current hypothesis is that those could be female professionals age 25-35 that lead busy life are active online shoppers. Further analysis on their watering holes would be needed to assess marketing ROI of different media (TV, social media, blogs, online news sites/ magazines, paper magazines...), potential partnerships with female-oriented e-commerce sites like Fab, Etsy...

Stage iii. would be necessary to reach the 1M user milestone.

- Having Breadcrumbs as a users-first product - even if partially - will come at the price of NOT BEING ABLE TO IMPLEMENT 3rd-PARTY BANNER ADS in our page, thus foregoing one of our immediate revenue generating streams
- B. Furthermore, we can still implement all our partners' affiliates programs without destroying value for our end users in any way. The UI would stay clean, just as it is now, with no banners or ads of any kind, but an underlying implementation of the store's API would allow us to deep-link into the product page at the store so that Breadcrumbs will be credited with generating the visit that (frequently) resulted in a purchase. It's a win-win-win for us, our end users and our partner stores

Customer Acquisition and Costs

Most of our beta and stage 1 customer acquisition costs have no direct costs - other than the economic opportunity cost of not conducting some more profitable actions.

1. Word-of-mouth

- a. How we measure awareness?
 - i. Links on the messages we'll be sending out to our peers will be tagged to identify the campaign, for web analytics purposes
 - ii. Links published by others (second and subsequent degrees in the social chain) cannot be tagged - WoM will be assigned all traffic that we cannot explain otherwise
- b. How to test?

- i. Visits per time period
 - ii. Conversion % to downloads
 - iii. Conversion % to registered user
 - iv. Recurrent use/life time for customers acquired this way
- c. Cost to test:
 - i. Opportunity cost of not investing in something else while we are testing

2. Social media

- a. How we measure awareness?
 - i. Links published on our own social media posts will be tagged to identify the social network and campaign, for web analytics purposes
 - ii. Links published by others cannot be tagged but we can still measure the source social network (e.g. traffic from facebook, twitter...)
- b. How to test?
 - i. Clicks per time period
 - ii. Conversion % to downloads
 - iii. Conversion % to registered user
 - iv. Recurrent use/life time for customers acquired this way
- c. Cost to test:
 - i. Opportunity cost of not investing in something else while we are testing

3. WikiHow

- a. How we measure awareness? Links from WikiHow will be tagged to identify ProductHunt as a referrer, for web analytics purposes
- b. How to test?
 - i. Clicks per time period
 - ii. Conversion % to downloads
 - iii. Conversion % to registered user
 - iv. Recurrent use/life time for customers acquired this way
- c. Cost to test:
 - i. Opportunity cost of not investing in something else while we are testing

4. Product Hunt

- a. How we measure awareness? Links from product hunt will be tagged to identify ProductHunt as a referrer, for web analytics purposes
- b. How to test?
 - i. Clicks per time period
 - ii. Conversion % to downloads
 - iii. Conversion % to registered user
 - iv. Recurrent use/life time for customers acquired this way
- c. Cost to test:
 - i. Opportunity cost of not investing in something else while we are testing

5. Featuring as “**recommended app**” by Amazon, eBay (<http://anywhere.ebay.com/>); this is a long shot and would require significant bargaining power + an extremely polished product.
 - a. How we measure awareness? Links from these sites will be tagged to identify them as referrers, for web analytics purposes
 - b. How to test?
 - i. Clicks per time period
 - ii. Conversion % to downloads
 - iii. Conversion % to registered user
 - iv. Recurrent use/life time for customers acquired this way
 - c. Cost to test:
 - i. Opportunity cost of not investing in something else while we are testing
 - ii. Likely this action would require a certain mass so that e-commerce sites took it seriously. Could clash with the affiliate business model: they have less of an incentive to send users to us, if they later have to give us a cut of the sales we generate.
6. (Alternative to 5): Mentions in other e-commerce “app recommendation” outlets like:
 - a. TechRadar
 - b. LifeHacks
 - c. Mashable
7. Positioning on the Chrome store under keywords like “e-commerce”, “Amazon” and “eBay”: we want our extension to be found when people look up the top-of-mind terms which Breadcrumbs is also relevant to (e.g. https://chrome.google.com/webstore/search/amazon?hl=en&_category=extensions)
 - a. How we measure awareness?
 - i. Links from the Chrome Store will be tagged to identify it as referrer, for web analytics purposes
 - ii. Downloads (and signups) by users whose journey with us started at the Chrome store, rather than at our own site, will be attributed to Chrome store positioning actions
 - b. How to test?
 - i. Clicks (and visits) per time period
 - ii. Conversion % to downloads
 - iii. Conversion % to registered user
 - iv. Recurrent use/life time for customers acquired this way
 - c. Cost to test:
 - i. Opportunity cost of not investing in something else while we are testing